

**PUBLIC JOINT STOCK COMPANY KUBANENERGO
CONSOLIDATED INTERIM CONDENSED
FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2015
(UNAUDITED)**

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PJSC Kubanenergo

Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income for the six months ended June 30, 2015 (Unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Six months ended June 30, 2015 (Unaudited)	Six months ended June 30, 2014 (Unaudited)
Revenue	6	15,378,439	13,709,738
Operating expenses	7	(14,145,972)	(14,714,528)
Other operating income	8	101,681	160,253
Results from operating activities		1,334,148	(844,537)
Finance income		377,304	424,692
Finance costs		(1,170,694)	(144,681)
Net finance (costs)/income		(793,390)	280,111
Profit/(loss) before income tax		540,758	(564,526)
Income tax expense		(157,587)	(143,114)
Profit/(loss) for the period		383,171	(707,640)
Other comprehensive income/(loss)			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liability		(2,498)	24,007
Related income tax		500	(4,801)
Other comprehensive (loss)/income for the period, net of income tax		(1,998)	19,206
Total comprehensive income/(loss) for the period		381,173	(688,434)
Profit/(loss) attributable to:			
Shareholders of the Company		383,171	(707,640)
Total comprehensive income/(loss) attributable to:			
Shareholders of the Company		381,173	(688,434)
Earnings per share - basic and diluted (in Russian Roubles)	11	1.35	(2.50)

These consolidated interim condensed financial statements were approved by management on August 26, 2015 and were signed on its behalf by:

Deputy General Director for economics and finance

O.V. Ocheredko

Chief Accountant

I.V. Skiba



The consolidated interim statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 8 to 21.

PJSC Kubanenergo
Consolidated Interim Statement of Financial Position as at June 30, 2015 (Unaudited)
(in thousands of Russian Roubles, unless otherwise stated)

	Notes	June 30, 2015 (Unaudited)	December 31, 2014
ASSETS			
Non-current assets			
Property, plant and equipment	9	40,338,889	39,397,334
Intangible assets		85,000	123,763
Investments and financial assets		145,395	142,556
Trade and other receivables		18,011	20,911
Deferred tax assets		2,075,515	2,232,601
Total non-current assets		42,662,810	41,917,165
Current assets			
Inventories		1,451,013	1,468,700
Trade and other receivables		5,394,410	4,335,665
Income tax receivable		2,416	4,407
Cash and cash equivalents		5,739,280	7,071,753
Total current assets		12,587,119	12,880,525
TOTAL ASSETS		55,249,929	54,797,690
EQUITY AND LIABILITIES			
Equity			
Share capital	10	28,286,813	28,286,813
Share premium		6,481,916	6,481,916
Reserves		(264,829)	(262,831)
Accumulated losses		(12,017,353)	(12,400,524)
Total equity attributable to owners of the Company		22,486,546	22,105,374
Non-current liabilities			
Loans and borrowings	12	12,790,798	14,900,000
Trade and other payables		232,902	1,020,677
Employee benefits		687,175	635,229
Government grants		83,146	89,719
Total non-current liabilities		13,794,021	16,645,625
Current liabilities			
Loans and borrowings	12	4,224,554	2,521,892
Trade and other payables		13,098,471	11,198,481
Other provisions		1,631,271	2,310,293
Government grants		15,065	16,025
Total current liabilities		18,969,362	16,046,691
TOTAL LIABILITIES		32,763,383	32,692,316
TOTAL EQUITY AND LIABILITIES		55,249,929	54,797,690

The consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 8 to 21.

PJSC Kubanenergo

Consolidated Interim Statement of Cash Flows for the six months ended June 30, 2015 (Unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

	Notes	Six months ended June 30, 2015 (Unaudited)	Six months ended June 30, 2014 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/(loss) for the period		383,171	(707,640)
<i>Adjustments for:</i>			
Depreciation and amortisation	7	1,284,544	956,020
Allowance for impairment of accounts receivable	7	(12,056)	(3,940)
Allowance for obsolescence of inventories		(2,605)	(812)
Impairment of capital advances		(36,598)	(15,600)
Provision for unused vacation		30,488	124,304
Provision for legal processes		(395,274)	276,563
Finance costs		1,170,694	144,681
Finance income		(377,304)	(424,692)
Loss on disposal of property, plant and equipment		13,511	3,672
Income tax expense/(benefit)		157,587	143,115
Other non-cash transaction		(71)	(740)
Cash flows from operating activities before changes in working capital and provisions		2,216,087	494,431
Change in trade and other accounts receivable		(842,522)	3,199,387
Change in finance assets related to employee benefits fund		6,384	6,880
Change in inventories		20,293	(163,401)
Change in trade and other accounts payable		1,100,687	(1,865,608)
Change in government grants		(7,533)	-
Change in employee benefit liabilities		12,011	5,174
Change in provisions		(283,748)	(726,039)
Cash flows from operations before income tax and interest paid		2,221,659	951,324
Income tax return		1,989	23,101
Interest paid (including capitalized interest)		(1,176,571)	(846,064)
Net cash flows from operating activities		1,047,077	128,361
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment and intangible assets		(2,329,072)	(3,485,058)
Proceeds from disposal of property, plant and equipment		386	3,652
Dividends received		3	-
Interest received		356,033	340,123
Net cash flows used in investing activities		(1,972,650)	(3,141,283)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from loans and borrowings		1,194,798	1,188
Repayment of loans and borrowings		(1,601,698)	-
Net cash flows from financing activities		(406,900)	1,188

PJSC Kubanenergo

Consolidated Interim Statement of Cash Flows for the six months ended June 30, 2015 (Unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

Net (decrease)/ increase in cash and cash equivalents	(1,332,473)	(3,011,734)
Cash and cash equivalents at the beginning of the period	7,071,753	12,624,404
Cash and cash equivalents at the end of the period	5,739,280	9,612,670

PJSC Kubanenergo
Consolidated Interim Statement of Changes in Equity for the six months ended June 30, 2015 (Unaudited)
(in thousands of Russian Roubles, unless otherwise stated)

	Equity attributable to owners of the Company				Total equity
	Share capital	Share premium	Reserves	Accumulated losses	
Balance at January 1, 2014	28,286,813	6,481,916	(256,429)	(6,345,935)	28,166,365
Loss for the period	-	-	-	(707,640)	(707,640)
Other comprehensive loss for the period			24,007	-	24,007
Remeasurement of the defined benefit liability	-	-	(4,801)	-	(4,801)
Income tax on other comprehensive income	-	-	19,206	-	19,206
Total other comprehensive loss for the period			19,206	(707,640)	(688,434)
Total comprehensive loss for the period			19,206	(707,640)	(688,434)
Balance at June 30, 2014 (Unaudited)	28,286,813	6,481,916	(237,223)	(7,053,575)	27,477,931
	Equity attributable to owners of the Company				
	Share capital	Share premium	Reserves	Accumulated losses	Total equity
Balance at January 1, 2015	28,286,813	6,481,916	(262,831)	(12,400,524)	(22,105,374)
Profit for the period	-	-	-	383,171	383,171
Other comprehensive loss for the period			(2,498)	-	(2,499)
Remeasurement of the defined benefit liability	-	-	500	-	500
Income tax on other comprehensive income	-	-	(1,998)	-	(1,999)
Total other comprehensive loss for the period			(1,998)	-	(1,999)
Total comprehensive profit for the period			(1,998)	383,171	381,172
Balance at June 30, 2015 (Unaudited)	28,286,813	6,481,916	(264,829)	(12,017,353)	22,486,546

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 8 to 21.

(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 August 14, 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 August 15, 1992, with Decree No. 1334 of the President of the Russian Federation dated November 05, 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 August 14, 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 June 22, 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, %	
		June 30, 2014	December 31, 2014
OJSC "Ozdorovitelny kompleks "Plamya"	Recreation	100	100
OJSC "Pansionat otdyha "Energetik"	Recreation	100	100
OJSC "Energoservis Kubani"	Repair services	100	100

On March 3, 2015 the Arbitration Court of Krasnodar region at its session considered the case No A-32-31443/2014 - 37/71-B dated August 28, 2014 about the insolvency (bankruptcy) of OJSC "Ozdorovitelny kompleks "Plamya", opened according to the claim of OJSC "Pansionat otdyha "Energetik", and decided to start the supervision procedure. An interim administrator was appointed, and the next consideration of the case will be held on September 02, 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 July 1, 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 of 2013.

As at December 31, 2014 and at December 31, 2013, the Government of the Russian Federation owned 86.32% of the voting ordinary shares and 7.01% of preference shares of JSC ROSSETI, which in its turn owned 92.24% of the Company.

As at June 30, 2015, 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

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 July 21, 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 2015 and in 2014, 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 2015 the key rate was 11.5%. 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 consolidated interim condensed financial statements (hereinafter "financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations adopted by the International Accounting Standards Board ("IASB").

The Group additionally prepares IFRS consolidated interim condensed financial statements in Russian language in accordance with Federal Law No.208-FZ "On consolidated financial reporting".

(b) Basis of measurement

The consolidated interim condensed financial statements are prepared on the historical cost basis except for property, plant and equipment at January 1, 2011 that were measured at carrying amounts included in the consolidated IFRS financial statements of PJSC 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

Except for the adoption of the new standards and interpretations effective as at January 1, 2015, the accounting policies applied by the Company were consistent with those applied in the financial statements as at and for the year ended December 31, 2014.

(a) New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 30 June 2015, and have not been applied in preparing these consolidated interim financial statements. The Group has not yet analysed the likely impact of the new standards on its financial position or performance. The Group plans to adopt the following pronouncements when they become effective:

- IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 establishes a single framework for revenue recognition and contains requirements for related disclosures. The new standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and the related interpretations on Revenue recognition. The standard is effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
- Amendments to IAS 16 *Property, Plant and Equipment*, and IAS 38 *Intangible Assets*, entitled "Clarification of Acceptable Methods of Depreciation and Amortization". Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate, because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. These amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.
- IFRS 9 *Financial Instruments* was issued in phases and ultimately replaced IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 brings together the requirements for the classification and measurement, impairment and hedge accounting of financial instruments. In respect of impairment IFRS 9 replaces the 'incurred loss' model used in IAS 39, with a new 'expected credit loss' model that will require a more timely recognition of expected credit losses. The standard is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The Group is currently assessing the impact of the standard on the consolidated financial statements. The Group does not intend to adopt this standard early.
- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* entitled *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. These narrow scope amendments clarify, that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not), and a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.
- Amendment to IFRS 11 *Joint Arrangements*, entitled *Accounting for Acquisitions of Interests in Joint Operations*. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business and requires the application of IFRS 3 *Business Combinations*, for such acquisitions. The amendment is effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

(b) Changes in accounting policies

In 2015 the Group applied several other new standards and amendments for the first time. However, they do not significantly impact the consolidated financial statements:

- *Defined Benefit Plans: Employee Contributions* – Amendments to IAS 19 *Employee Benefits*. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.
- Various improvements to IFRSs which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning on or after 1 January 2015.

(c) Change in the comparable information

The item grouping principle and their contents in the area of Operational expenses and Other operating income has been restated by the Group by December 31, 2014, as the Group considers this format of presentation is more relevant and provides the users with more opportunities to estimate the trends in financial information for forecasting and taking economics decisions.

The following comparative amounts in the consolidated interim statement of Profit or Loss and Other Comprehensive Income for six months ended June 30, 2014 have been reclassified to conform to the current period's presentation.

(in thousands of Russian Roubles, unless otherwise stated)

Consolidated interim statement of Profit or Loss and Other Comprehensive Income

Six months ended June 30, 2014 (Unaudited)	As previously reported	Effect of changes in presentation	As restated
Operating expenses	(14,710,827)	(3,701)	(14,714,528)
Other operating income	156,552	3,701	160,253
Results from operating activities	(844,536)	-	(844,536)

Six months ended June 30, 2014 (Unaudited)	As previously reported	Effect of changes in presentation	As restated
Impairment of capital advances	-	(15,600)	(15,600)
Change in trade and other accounts payable	1,881,208	15,600	(1,865,608)
Cash flows from operations before income tax and interest paid	951,324	-	951,324

Loss on disposal of property, plant and equipment in the amount of RUB 3,672 thousand and Expenses on disposal of property, plant and equipment in the amount of RUB 29 thousand reclassified from the item "Other operating income" to item "Operating expenses".

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 maintenance services. None of them meets any of the quantitative thresholds for determining reportable segments in the six months ended June 30, 2014 or 2013.

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:

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Notes to the Consolidated Interim Condensed Financial Statements for the six months ended June 30, 2015 (Unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

(i) Information about reportable segments

For the six months ended June 30, 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) / profit	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

For the six months ended June 30, 2014:

	Kubanenergo	Other	Total
Revenue from external customers	13,744,067	13,819	13,757,886
Inter-segment revenue	667	655	1,322
Total segment revenue	13,744,734	14,474	13,759,208
Segment operating loss	(107,701)	(14,880)	(122,581)
Finance income	340,123	-	340,123
Finance costs	(846,064)	(108)	(846,172)
Segment loss before income tax	(1,506,244)	(14,913)	(1,521,157)

As at June 30, 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>

As at December 31, 2014:

	Kubanenergo	Other	Total
Segment assets	61,714,585	71,759	61,786,344
<i>Including property, plant and equipment</i>	<i>47,499,351</i>	<i>50,410</i>	<i>47,549,761</i>

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

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

	Six months ended June 30, 2015 (Unaudited)	Six months ended June 30, 2014 (Unaudited)
Total segment profit/(loss) before income tax	270,366	(1,521,157)
<i>Adjustments for:</i>		
Borrowing costs capitalised to property plant and equipment	42,380	727,740
Revenue from electricity transmission	76,182	298,142
Depreciation and loss from property plant and equipment disposal	291,094	220,366
Accrual of provision for unused vacations and bonuses	(5,833)	1,245
Impairment of accounts receivable	(88,930)	(350,964)
Recognition of long term employee benefits	(46,609)	(26,346)
Other adjustments	2,108	86,449
Profit/(loss) before income tax for the period per Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income	540,758	(564,525)

PJSC Kubanenergo**Notes to the Consolidated Interim Condensed Financial Statements for the six months ended June 30, 2015 (Unaudited)***(in thousands of Russian Roubles, unless otherwise stated)*

The Group performs its activities in the Russian Federation.

For the six months ended June 30, 2015 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 June 30, 2015 was RUB 12 897 693 thousand or 84% of the Group's total revenues (for the six months ended June 30, 2014: RUB 11,461,881 thousand or 83.6%).

6 REVENUE

	Six months ended June 30, 2015 (Unaudited)	Six months ended June 30, 2014 (Unaudited)
Electricity transmission	15,120,186	13,479,005
Connection services	199,810	181,453
Government grants	7,533	-
Rental income	7,480	8,760
Other revenue	43,430	40,520
	15,378,439	13,709,738

7 OPERATING EXPENSES

	Six months ended June 30, 2015 (Unaudited)	Six months ended June 30, 2014 (Unaudited)
Electricity transmission	6,586,290	6,391,845
Personnel costs	2,319,045	2,686,170
Purchased electricity for compensation of technological losses	2,981,813	2,644,695
Depreciation and amortization	1,284,544	956,020
Raw materials and supplies	369,950	368,599
Repairs, maintenance and installation services	173,277	309,179
Consulting, legal and audit services	118,203	2,413
Security services	96,213	100,827
Electricity and heat power for own needs	55,309	47,045
Business trip expenses	52,011	262,936
Managing services	38,242	38,242
Insurance	38,079	21,965
Rent	19,499	44,209
Legal claims	(395,274)	276,563
Recovery of impairment of trade and other receivables	(12,056)	(3,940)
Other expenses	420,827	567,760
	14,145,972	14,714,528

8 OTHER OPERATING INCOME

	Six months ended June 30, 2015 (Unaudited)	Six months ended June 30, 2014 (Unaudited)
Insurance compensation received	40,748	57,207
Non-contractual consumption of electricity	32,359	70,608
Income on donated inventory stocks	20,424	438
Income on donated property, plant and equipment	3,602	-
Write-off accounts payable	3,613	6,526
Fines and penalties received	935	25,474
	101,681	160,253

9 PROPERTY, PLANT AND EQUIPMENT

The cost of property, plant and equipment at January 1, 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.

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<i>Cost/Deemed cost</i>	Land and production	Transmission	Equipment for	Other	Construction in	Total
	buildings	network	electricity transmission		progress	
Balance as at January 1, 2014	4,020,557	9,478,027	10,166,585	4,752,928	20,402,291	48,820,388
Additions	436	-	17,069	59,345	4,157,559	4,234,409
Transfers	268,866	7,071,215	1,174,945	328,143	(8,843,169)	-
Disposals	(12,743)	(4,724)	(9,975)	(4,969)	(90)	(32,501)
Reclassifications	3,075	(9,575)	49,417	(42,917)	-	-
Transfer to non-current assets for sale	(494)	-	-	-	-	(494)
Balance as at June 30, 2014	4,279,697	16,534,943	11,398,041	5,092,530	15,716,591	53,021,802
Balance as at January 1, 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 June 30, 2015 (Unaudited)	6,987,405	28,051,295	12,615,400	6,050,160	4,969,833	58,674,093

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Notes to the Consolidated Interim Condensed Financial Statements for the six months ended June 30, 2015 (Unaudited)
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	Land and production buildings	Transmission network	Equipment for electricity transmission	Other	Construction in progress	Total
<i>Depreciation and impairment</i>						
Balance as at January 1, 2014	(1,051,243)	(2,929,829)	(2,910,006)	(2,380,899)	(1,083,233)	(10,355,210)
Reallocation of impairment charge	(15,150)	(486,792)	(54,238)	(15,182)	571,362	-
Charge for the period	(73,278)	(245,664)	(370,252)	(251,220)	-	(940,414)
Disposals	5,705	2,989	6,515	4,570	-	19,779
Reclassifications	444	(4,248)	10,222	(6,418)	-	-
Transfer to non-current assets for sale	259	-	-	-	-	259
Balance as at June 30, 2014	(1,133,263)	(3,663,544)	(3,317,759)	(2,649,149)	(511,871)	(11,275,586)
<i>Carrying amounts</i>						
Balance as at January 1, 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	246	7,555
Reclassifications	(747)	(131)	3,969	(3,091)	-	-
Balance as at June 30, 2015 (Unaudited)	(2,009,535)	(7,544,159)	(5,029,418)	(3,502,024)	(250,068)	(18,335,204)
<i>Carrying amounts</i>						
At January 1, 2014	2,969,314	6,548,198	7,256,579	2,372,029	19,319,058	38,465,178
At December 31, 2014	3,146,434	12,871,399	8,080,282	2,443,381	15,204,720	41,746,216
At January 1, 2015	5,047,155	20,746,204	7,678,560	2,724,558	3,200,857	39,397,334
At June 30, 2015 (Unaudited)	4,977,870	20,507,136	7,585,982	2,548,136	4,719,765	40,338,889

PJSC Kubanenergo

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10 EQUITY

	June 30, 2015 (Unaudited)	December 31, 2014
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

Issue of additional shares

On March 18, 2013 the Extraordinary General Meeting of Shareholders of the Company approved an increase in share capital through issuance of additional 214,877,270 ordinary shares with a par value of RUB 100 each under an open subscription. The approved offering price was RUB 121.82. During the year ended December 31, 2014 139,925,300 shares were subscribed and paid. PJSC ROSSETI had purchased 139,922,020 shares and 3,280 shares were purchased by 3rd parties. The amounts of RUB 13,992,530 thousand and RUB 3,053,170 thousand were recognized as share capital and share premium within equity for the year ended December 31, 2014. Increase in Share capital was formally registered as at January 17, 2014. The additional shares were issued to raise capital for investment project of Sochi resort development as well as for energy saving and efficiency increase programs.

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.

During the reporting periods and up to the date of approval of the consolidated interim condensed financial statements the Company declared no dividends.

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.

	Six months ended June 30, 2015 (Unaudited)	Six months ended June 30, 2014 (Unaudited)
<i>In shares</i>		
Issued shares at January 1	282,868,130	282,868,130
Weighted average number of shares for the six months ended June 30	282,868,130	282,868,130
	Six months ended June 30, 2015 (Unaudited)	Six months ended June 30, 2014 (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	383,171	(707,640)
Earnings per share - basic and diluted (in RUB)	1.35	(2.50)

12 LOANS AND BORROWINGS

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

PJSC Kubanenergo

Notes to the Consolidated Interim Condensed Financial Statements for the six months ended June 30, 2015 (Unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

	<u>June 30, 2015 (Unaudited)</u>	<u>December 31, 2014</u>
Non-current liabilities		
Unsecured bank loans	12,790,798	14,900,000
	12,790,798	14,900,000
Current liabilities		
Current portion of unsecured long-term loans	4,221,000	2,517,000
Unsecured borrowings	3,554	4,892
	4,224,554	2,521,892

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>June 30, 2015 (Unaudited)</u>	<u>December 31, 2014</u>		<u>June 30, 2015 (Unaudited)</u>	<u>December 31, 2014</u>
OJSC Sberbank*	8.80%-9.39%	8.80%-9.39%	2015-2016	7,000,000	8,600,000
OJSC Gazprombank*	15%	12.20%-20%	2015-2018	8,461,000	8,417,000
JSC RosenergoBank	16.25%-17.50%	9.70%-11%	2016-2017	550,798	400,000
PJSC Sovcombank	16.50%	-	2017-2017	1,000,000	-
Other	0%-8.50%	0%-8.50%	2015	3,554	4,892
Total				17,015,352	17,421,892

*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 June 30, 2015 (Unaudited)</u>	<u>Six months ended June 30, 2014 (Unaudited)</u>
Balance at January 1	2,310,293	1,085,850
Provisions raised during the period	204,062	317,127
Provisions reversed during the period	(599,336)	(40,564)
Provisions used during the period	(283,748)	(726,039)
Balance at June 30	1,631,271	636,374

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 December 31, 2014.

15 COMMITMENTS AND CONTINGENCIES

Capital commitments

As at June 30, 2015 the Group has outstanding commitments for the acquisition and construction of property, plant and equipment of RUB 2,045,576 thousand (December 31, 2014: RUB 2,069,006 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 June 30, 2015 and December 31, 2014 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 1,574,573 thousand (as December 31, 2014: RUB 2,170,887 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.

As at June 30, 2015 the Group recognized a provision on tax disputes in the amount of RUB 56,698 thousand. The disagreements with tax authority arose regarding a definition of the taxpayer of a land tax for the land plots which according to dividing balance were transferred to the allocated company from the moment of reorganization of the Group's Parent Company in prior periods.

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.

(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 June 30, 2015 and December 31, 2014 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 June 30		Outstanding balance	
	2015 (Unaudited)	2014 (Unaudited)	June 30, 2015 (Unaudited)	December 31, 2014
Parent company				
Other	12,649	592	18,292	3,949
Transactions with other PJSC ROSSETI's subsidiaries				
Rent	634	1,420	788	-
Other	37	-	205,932	208,598
Allowance for impairment of other receivables	-	-	(168,076)	(168,076)
	<u>13,320</u>	<u>2,012</u>	<u>56,936</u>	<u>44,471</u>

Expenses

	Transaction value for the six months ended June 30		Outstanding balance	
	2015 (Unaudited)	2014 (Unaudited)	June 30, 2015 (Unaudited)	December 31, 2014
Parent company				
Managing services	38,242	38,242	-	-
Other	7,636	6,336	5,414	-
Transactions with other PJSC ROSSETI's subsidiaries				
Electricity transmission	2,347,897	2,520,325	4,351,828	3,194,300
Rent	6,004	10,459	101,075	86,549
Connection services	1,981	2,549	90	133
Construction companies	-	-	-	29,601
Other	5,874	118,977	623,540	553,015
	<u>2,407,634</u>	<u>2,696,888</u>	<u>5,081,947</u>	<u>3,863,598</u>

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.

PJSC Kubanenergo**Notes to the Consolidated Interim Condensed Financial Statements for the six months ended June 30, 2015 (Unaudited)***(in thousands of Russian Roubles, unless otherwise stated)*

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 June 30, 2015 (Unaudited)		Six months ended June 30, 2014 (Unaudited)	
	Board of Directors	Other key Management Personnel	Board of Directors	Other key Management Personnel
Salaries and bonuses	6,291	39,227	7,000	35,372

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 June 30, 2015 constitute 0.75% (for the six months ended June 30, 2014: 1.0%) of total Group revenues. The electricity transmission revenue from government - related entities for the six months ended June 30, 2015 constitutes 0.46% (for the six months ended June 30, 2014: 0.83%) of total Group revenues.

Electricity transmission costs from government-related entities for the six months ended June 30, 2015 constitutes 2.42% (for the six months ended June 30, 2014: 3.09%) of total transmission costs.

The Company disclosed operations with JSC FSK as operations with subsidiaries and associates of the Parent Company after 14 June 2013. At this date, Russian Federation transferred its share of JSC FSK (79.64%) to PJSC ROSSETI. Thus, share of operations with government-related companies decreased.

Pricing policies

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

17 EVENTS AFTER THE REPORTING PERIOD***Bonds issue***

On July 29, 2015 the Board of Directions of the Company approved issuance of interest-bearing non-convertible certificated bearer bonds, for total nominal amount of all bond issues placed for public offer up to RUB 7,000,000 thousand. Maturity period of the bonds is 3,640 days after the start date of placement of separate issue of bonds placed within the program of exchange bonds.