

**PUBLIC JOINT STOCK COMPANY KUBANENERGO
CONSOLIDATED INTERIM CONDENSED
FINANCIAL STATEMENTS
FOR THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2017
(UNAUDITED)**

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PJSC Kubanenergo
Consolidated Interim Condensed Statement of Profit or Loss and Other Comprehensive Income
for three and nine months ended 30 September 2017
(in thousands of Russian roubles, unless otherwise specified)

	Note	Nine months ended 30 September 2017 (Unaudited)	Three months ended 30 September 2017 (Unaudited)	Nine months ended 30 September 2016 (Unaudited)	Three months ended 30 September 2016 (Unaudited)
Revenue	6	31,009,381	12,123,476	31,290,260	12,230,578
Operating expenses	7	(28,652,708)	(10,111,534)	(26,324,752)	(9,136,106)
Other operating income	8	557,975	177,890	183,001	110,266
Results from operating activities		2,914,648	2,189,832	5,148,509	3,204,738
Finance income	9	49,422	9,262	87,719	13,008
Finance costs	9	(1,550,319)	(509,294)	(1,433,947)	(493,734)
Net finance costs		(1,500,897)	(500,032)	(1,346,228)	(480,726)
Profit before income tax		1,413,751	1,689,800	3,802,281	2,724,012
Income tax expense		(464,779)	(232,631)	(1,127,718)	(716,775)
Profit for the period		948,972	1,457,169	2,674,563	2,007,237
Other comprehensive income/(loss):					
<i>Items that will never be reclassified to profit or loss:</i>					
Remeasurements of defined benefit liability		11,434	17,362	(18,870)	(6,884)
Related income tax		(2,288)	(3,474)	3,774	1,377
Other comprehensive income/(loss) for the period, net of income tax		9,146	13,888	(15,096)	(5,507)
Total comprehensive income/(loss) for the period		958,118	1,471,057	2,659,467	2,001,730
Profit attributable to:					
Shareholders of the Company		948,972	1,457,169	2,674,563	2,007,237
Total comprehensive income attributable to:					
Shareholders of the Company		958,118	1,471,057	2,659,467	2,001,730
Earnings per share - basic and diluted (in Russian Roubles)	12	3.13	4.80	9.46	7.10

These consolidated interim condensed financial statements were approved by management on 22 November 2017 and were signed on its behalf by:

General director
 (by the power of attorney of 06 September 2017 No 119/10-509)

O.V. Ocheredko

Chief Accountant



I.V. Skiba

PJSC Kubanenergo
Consolidated Interim Condensed Statement of Financial Position
as at 30 September 2017

(in thousands of Russian roubles, unless otherwise specified)

	Note	30 September 2017 (unaudited)	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	10	50,019,656	48,228,069
Intangible assets	13	89,868	108,227
Investments and other assets		280,493	290,093
Trade and other receivables		26,796	15,192
Deferred tax assets		1,904,744	1,762,358
Total non-current assets		52,321,557	50,403,939
Current assets			
Inventories		1,453,582	1,408,336
Trade and other receivables		6,931,657	6,749,803
Income tax receivable		157,147	366,089
Cash and cash equivalents		2,311,480	1,254,098
Total current assets		10,853,866	9,778,326
Assets classified as held for sale		8,492	8,492
TOTAL ASSETS		63,183,915	60,190,757
EQUITY AND LIABILITIES			
Equity			
Share capital	11	28,286,813	28,286,813
Share issue reserve		2,072,166	2,072,164
Share premium		6,481,916	6,481,916
Capital reserves		(216,201)	(225,347)
Accumulated loss		(7,986,390)	(8,400,237)
Total equity attributable to owners of the Company		28,638,304	28,215,309
Non-current liabilities			
Loans and borrowings	14	21,014,923	18,912,239
Trade and other payables		2,572,304	1,428,181
Employee benefits		584,866	575,813
Government grants		40,534	52,569
Total non-current liabilities		24,212,627	20,968,802
Current liabilities			
Loans and borrowings	14	286,491	80,100
Trade and other payables		7,284,761	8,469,015
Provisions		2,728,166	2,446,329
Government grants		12,383	11,202
Current income tax liabilities		21,183	-
Total current liabilities		10,332,984	11,006,646
TOTAL LIABILITIES		34,545,611	31,975,448
TOTAL EQUITY AND LIABILITIES		63,183,915	60,190,757

PJSC Kubanenergo**Consolidated Interim Condensed Statement of Cash Flows for the nine months ended 30 September 2017***(in thousands of Russian roubles, unless otherwise specified)*

	Note	Nine months ended 30 September 2017 (Unaudited)	Nine months ended 30 September 2016 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		948,972	2,674,563
<i>Adjustments for:</i>			
Depreciation and amortisation	7	2,359,353	2,150,301
Allowance for impairment of accounts receivable	7	(43,230)	(120,301)
Allowance for obsolescence of inventories		(2,033)	(4,503)
Provision for legal processes		1,149,459	1,432,731
Finance costs		1,550,319	1,433,947
Finance income		(49,422)	(87,719)
Loss on disposal of property, plant and equipment and intangible assets		21,900	7,401
Loss on disposal of intangible assets		11,908	-
Income tax expense		464,779	1,127,718
Other non-cash transactions		(57,372)	(31,879)
Cash flows from operating activities before changes in working capital and provisions		6,354,633	8,582,259
Change in trade and other accounts receivable		(158,469)	(1,261,703)
Changes in financial assets related to employee benefits plan		30,324	9,967
Change in inventories		(38,625)	(53,208)
Change in trade and other accounts payable		309,428	(1,167,266)
Change in government grants		(10,854)	(9,991)
Change in employee benefit liabilities		(13,447)	(42,745)
Change in provisions		(867,622)	(1,525,899)
Cash flows from (used in) operations before income taxes and interest paid		5,605,368	4,531,414
Income tax (paid)/return		(379,330)	(1,181,981)
Interest paid (including capitalized interest)		(1,373,564)	(1,202,360)
Net cash flows used in operating activities		3,852,474	2,147,073

PJSC Kubanenergo**Consolidated Interim Condensed Statement of Cash Flows for the nine months ended 30 September 2017***(in thousands of Russian roubles, unless otherwise specified)***CASH FLOWS FROM INVESTING
ACTIVITIES**

Acquisition of property, plant and equipment and intangible assets	(4,390,115)	(3,086,436)
Proceeds from disposal of property, plant and equipment	404	988
Interest received	27,445	-
Net cash flows used in investing activities	(4,362,266)	(3,085,448)

**CASH FLOWS FROM FINANCING
ACTIVITIES**

Dividends paid	(535,112)	(1,144,797)
Proceeds from issue of shares	2	-
Proceeds from loans and borrowings	34,755,524	3,179,929
Repayment of loans and borrowings	(32,653,240)	(2,529,836)
Net cash flows from financing activities	1,567,174	(494,704)
Net increase in cash and cash equivalents	1,057,382	(1,433,079)
Cash and cash equivalents at the beginning of the reporting period	1,254,098	2,577,751
Cash and cash equivalents at the end of the reporting period	2,311,480	1,144,672

PJSC Kubanenergo**Consolidated Interim Statement of Changes in Equity for the nine months ended 30 September 2017***(in thousands of Russian roubles, unless otherwise specified)*

	Equity attributable to owners of the Company					Total equity
	Share capital	Share issue reserve	Share premium	Other provisions	Accumulated loss	
Balance at 01 January 2016	28,286,813.00		6,481,916.00	(165,233)	(10,110,930)	24,492,566
Profit for the reporting period					2,674,563	2,674,563
Other comprehensive income for the period						
Re-measurement of the defined benefit liability				(18,870)		(18,870)
Income tax on other comprehensive income				3,774		3,774
Total other comprehensive income for the period				(15,096)		(15,096)
Total comprehensive loss for the period				(15,096)	2,674,563	2,659,467
Transactions with shareholders recognised directly in equity						
Dividends					(1,144,797)	(1,144,797)
Total transactions with shareholders recognised directly in equity					(1,144,797)	(1,144,797)
Balance at 30 September 2016	28,286,813.00		6,481,916.00	(180,329)	(8,581,164)	26,007,236

PJSC Kubanenergo**Consolidated Interim Condensed Statement of Cash Flows for the nine months ended 30 September 2017***(in thousands of Russian roubles, unless otherwise specified)*

	Equity attributable to owners of the Company					Total equity
	Share capital	Share issue reserve	Share premium	Other provisions	Accumulated loss	
Balance at 01 January 2017	28,286,813	2,072,164	6,481,916	(225,347)	(8,400,237)	28,215,309
Profit for the reporting period	–	–	–	–	948,972	948,972
Other comprehensive income for the period						
Re-measurement of the defined benefit liability	–	–	–	11,434	–	11,434
Income tax on other comprehensive income	–	–	–	(2,288)	–	(2,288)
Total other comprehensive income for the period	–	–	–	9,146	–	9,146
Total comprehensive income for the period	–	–	–	9,146	948,972	958,118
Transactions with shareholders recognised directly in equity						
Share issue reserve	–	2	–	–	–	2
Dividends	–	–	–	–	(535,125)	(535,125)
Total transactions with shareholders recognised directly in equity	–	2	–	–	(535,125)	(535,123)
Balance at 30 September 2017	28,286,813	2,072,166	6,481,916	(216,201)	(7,986,390)	28,638,304

PJSC Kubanenergo
Notes to the Consolidated Interim Condensed Financial Statements
for the nine months ended 30 September 2017 (unaudited)
(in thousands of Russian roubles, unless otherwise specified)

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, Krasnodar 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:

Subsidiaries	Principal activity	Ownership, %	
		30 September 2017	31 December 2016
OJSC “Pansionat ot dyha “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 September 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 2016, the Government of the Russian Federation owned 88.75% 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 September 2017, the Government of the Russian Federation owned 88.89% of the voting ordinary shares and 7.01% of preference shares of PJSC ROSSETI, which in its turn owned 92.77% 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.

PJSC Kubanenergo
Notes to the Consolidated Interim Condensed Financial Statements
for the nine months ended 30 September 2017 (unaudited)
(in thousands of Russian roubles, unless otherwise specified)

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 Nine months ended 30 September 2017 and in 2016, 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. As of 30 September 2017 the key rate was 9%. 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 PRESENTATION

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 September 2017.

The interim condensed financial statements should be read in conjunction with the financial statements for the year ended 31 December 2016 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 judgments

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 those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates 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 16 - commitments and contingencies.

e) Changes in financial reporting for previous periods

In accordance with the materiality principle and the requirements of IAS 34 *Interim Financial Statements* on disclosure of events that are significant for understanding of the changes in the Group's financial position and performance taken place after the previous year-end reporting date, a decision was made to change the scope of disclosures in the interim financial statements for the six months of 2017 ended 30 June 2017 as compared to the financial statements for the three months of 2017 ended 31 March 2017.

Certain amounts in the comparative information for the interim period have been reclassified in order to ensure comparability with the presentation manner of this period. The reclassification of the comparative information have had no impact on the Group's financial position.

3 SINGNIFICANT ACCOUNTING POLICIES

Except for the adoption of the new standards and interpretations effective as at 1 January 2017, 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 2016.

(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 01 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 the 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 of joint venture.

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

(6) Impact of new standards, interpretations and amendments

The amendments to the standards specified below became effective on 1 January 2017:

- Amendments to IAS 7 *Statement of Cash Flows*. The amendment requires that entities shall provide a reconciliation between the opening and closing balances for items of the statement cash flows except for equity.
- Amendments to IAS 12 *Income Taxes. Recognition of Deferred Tax Assets for Unrealised Losses*. This amendment clarifies the requirements to recognise a deferred tax assets arising from debt instruments carried at fair value.

Adoption of the amendments will not have a significant impact on the Group's financial position or its performance.

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 purposes.

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 first Nine months of 2017 or 2016.

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 Nine months ended 30 September 2017:

	Kubanenergo	Other	Total
Revenue from external customers	30,955,440	53,941	31,009,381
Inter-segment revenue	2,325	29,713	32,038
Total segment revenue	30,957,765	83,654	31,041,419
Segment operating profit / (loss)	3,220,098	(4,297)	3,215,801
Finance income	26,017	97	26,114
Finance costs	(1,465,241)	(43)	(1,465,284)
Segment profit/(loss) before income tax	1,023,254	(5,140)	1,018,114
Depreciation	2,812,327	3,589	2,815,916
EBITDA	5,300,822	(1,508)	5,299,314

For the three months ended 30 September 2017:

	Kubanenergo	Other	Total
Revenue from external customers	12,079,357	44,119	12,123,476
Inter-segment revenue	1,274	9,547	10,821
Total segment revenue	12,080,631	53,666	12,134,297
Segment operating profit / (loss)	1,821,906	2,020	1,823,926
Finance income	7,511	61	7,572
Finance costs	(466,956)	-	(466,956)
Segment profit/(loss) before income tax	1,703,207	1,670	1,704,877
Depreciation	944,792	1,167	945,959
EBITDA	3,114,955	2,837	3,117,792

For the nine months ended 30 September 2016:

	Kubanenergo	Other	Total
Revenue from external customers	31,215,832	74,428	31,290,260
Inter-segment revenue	1,814	12,411	14,225
Total segment revenue	31,217,646	86,839	31,304,485
Segment operating profit / (loss)	5,141,028	13,642	5,154,670
Finance income	73,246	249	73,495
Finance costs	(1,403,140)	(26)	(1,403,166)
Segment profit/(loss) before income tax	3,228,891	14,441	3,243,332
Depreciation	2,702,938	3,421	2,706,359

PJSC Kubanenergo
Notes to the Consolidated Interim Condensed Financial Statements
for the nine months ended 30 September 2017 (unaudited)
(in thousands of Russian roubles, unless otherwise specified)

EBITDA	7,334,969	17,888	7,352,857
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For the three months ended 30 September 2016:

	Kubanenergo	Other	Total
Revenue from external customers	12,171,012	59,566	12,230,578
Inter-segment revenue	1,147	10,387	11,534
Total segment revenue	12,172,159	69,953	12,242,112
Segment operating profit / (loss)	3,494,593	27,257	3,521,850
Finance income	11,827	249	12,076
Finance costs	(486,232)	-	(486,232)
Segment profit/(loss) before income tax	2,470,197	28,092	2,498,289
Depreciation	896,987	3,421	898,143
EBITDA	3,853,416	17,888	3,882,664

As at 30 September 2017:

	Kubanenergo	Other	Total
Segment assets	69,894,665	61,363	69,956,028
<i>Including property, plant and equipment</i>	57,242,559	30,022	57,272,581

As at 31 December 2016:

	Kubanenergo	Other	Total
Segment assets	67,288,201	54,048	67,342,249
<i>Including property, plant and equipment</i>	55,910,737	32,550	55,943,287

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

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

	Nine months ended 30 September 2017 (Unaudited)	Three months ended 30 September 2017 (Unaudited)	Nine months ended 30 September 2016 (Unaudited)	Three months ended 30 September 2016 (Unaudited)
EBITDA of reportable segments	5,299,314	3,117,792	7,352,857	3,882,664
Less depreciation and amortisation	2,815,916	945,959	2,706,359	898,143
Less interest expense	1,465,284	466,956	1,403,166	486,232
Total segment (loss)/profit before income tax	1,018,114	1,704,877	3,243,332	2,498,289
<i>Adjustments for:</i>				
Capitalization	(42,442)	(24,908)	9,307	4,081
Revenue from electricity transmission	49	-	25,290	14
Depreciation and loss from disposal of property, plant and equipment	504,735	164,700	581,284	183,145
Accrual of provision for unused vacations and bonuses	100,921	505	(12,125)	2,499
Impairment of accounts receivable	206	208	(30,844)	(1,086)
Recognition of pension liabilities	(30,086)	(15,930)	1,641	(1,752)
Recognition of expenses	(118,951)	(115,350)	(54,071)	(27,571)
Elimination of intercompany dividends	(277)	(277)	-	-
Other adjustments	(18,518)	(24,025)	38,467	66,393
Profit before income tax for the period per Consolidated Interim Statements of Profit or Loss and Other comprehensive Income	1,413,751	1,689,800	3,802,281	2,724,012

The Group performs its activities in the Russian Federation.

For the three months ended 30 September 2017 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 Nine months ended 30 September 2017 was RUB

PJSC Kubanenergo
Notes to the Consolidated Interim Condensed Financial Statements
for the nine months ended 30 September 2017 (unaudited)
(in thousands of Russian roubles, unless otherwise specified)

25,440,534 thousand or 82.0% of the Group's total revenues, for the three months ended 30 September 2017: RUB 10,053,378 thousand or 82.9% (for the Nine months ended 30 September 2016: 24,578,261 thousand or 78.5%, for the three months ended 30 September 2016: RUB 9,296,878 thousand or 76.0%).

6 REVENUE

	Nine months ended 30 September 2017 (Unaudited)	Three months ended 30 September 2017 (Unaudited)	Nine months ended 30 September 2016 (Unaudited)	Three months ended 30 September 2016 (Unaudited)
Electricity transmission	30,491,902	11,935,123	28,902,473	10,992,205
Connection services	395,778	119,508	2,251,758	1,158,209
Rental income	17,999	8,761	15,578	8,416
Repairs and maintenance	4,795	2,343	3,876	1,296
Other revenue	98,907	57,741	116,575	70,452
	31,009,381	12,123,476	31,290,260	12,230,578

Other revenue comprises generally revenue from rendering services related to restriction of electricity use conditions, assembly and disassembling of electrical meters, rendering services related to electricity metering.

Government grants to compensate low electricity tariffs are recognised in the periods when the revenue related with them was recognised in revenue. Other types of grants granted to cover incurred expenses are systematically recognised in other income in the periods when related expenses are recognised.

7 OPERATING EXPENSES

	Nine months ended 30 September 2017 (Unaudited)	Three months ended 30 September 2017 (Unaudited)	Nine months ended 30 September 2016 (Unaudited)	Three months ended 30 September 2016 (Unaudited)
Electricity transmission	12,419,402	5,117,932	11,004,818	4,051,372
Purchased electricity for compensation of technological losses	5,191,748	1,588,341	5,085,661	1,339,029
Personnel costs	3,941,273	1,436,503	3,913,794	1,329,122
Depreciation and amortisation	2,358,293	795,000	2,150,301	723,627
Legal claims	1,149,459	331,185	1,432,731	390,416
Raw materials and supplies	783,719	333,388	672,808	266,434
Taxes other than income tax	507,069	165,850	483,698	155,749
Other services of third-party organizations	422,918	149,672	187,494	72,983
Repairs, maintenance and installation services	334,691	132,709	299,880	121,795
Rent	178,986	59,720	161,625	64,600
Security services	146,870	66,520	145,444	48,754
Business trip expenses	117,787	59,899	83,430	27,584
Consulting, legal and audit services	88,347	33,686	16,069	10,764
Insurance	57,140	19,083	56,964	18,973
Recovery of impairment of trade and other receivables	(43,230)	(496,192)	(120,301)	318,541
Other expenses	998,235	318,237	750,336	196,365
	28,652,708	10,111,534	26,324,752	9,136,105

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8 OTHER OPERATING INCOME

	Nine months ended 30 September 2017 (Unaudited)	Three months ended 30 September 2017 (Unaudited)	Nine months ended 30 September 2016 (Unaudited)	Three months ended 30 September 2016 (Unaudited)
Fines and penalty received from contractors for contractual breaches	439,073	166,688	46,722	46,553
Insurance compensation received	76,564	4,036	56,528	11,105
Income from property, plant and equipment received free of charge	42,030	8,065	43,749	34,234
Non-contractual consumption of electricity	17,190	6,529	38,308	15,153
Write-off accounts payable	12,254	3,487	1,126	355
Income from inventories received free of charge	4,672	2,253	5,162	2,907
Income from inventories received from liquidation of property, plant and equipment	4,588	2,291	4,031	1,144
Income from sale of property, plant and equipment	229	-	14,743	12,090
Loss on disposal of intangible assets	(11 908)	(11 908)	(1 193)	-
Write off of property, plant and equipment, including prepayments for property, plant and equipment	(26 717)	(3 551)	(26 175)	(13 275)
	557,975	177,890	183,001	110,266

9 FINANCE INCOME/COSTS

	Nine months ended 30 September 2017 (Unaudited)	Three months ended 30 September 2017 (Unaudited)	Nine months ended 30 September 2016 (Unaudited)	Three months ended 30 September 2016 (Unaudited)
Recognised in profit and loss				
Financial income				
Interest income on loans, Bank deposits, bills and balances in Bank accounts	25,837	7,295	73,495	12,076
Interest income from assets related to employee benefits payable	20,724	-	12,769	-
Effect of initial discounting of financial liabilities	1,864	970	1,301	822
Amortization of discount on financial assets	997	997	154	110
Other financial income	49,422	9,262	87,719	13,008
	25,837	7,295	73,495	12,076

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	Nine months ended 30 September 2017 <u>(Unaudited)</u>	Three months ended 30 September 2017 <u>(Unaudited)</u>	Nine months ended 30 September 2016 <u>(Unaudited)</u>	Three months ended 30 September 2016 <u>(Unaudited)</u>
Financial costs				
Interest expense on financial liabilities recorded at amortized cost	1,507,726	491,864	1,393,859	482,151
Interest expense on long-term employee benefits payable	33,934	10,416	31,137	9,749
Effect of initial discounting of financial assets	6,935	6,892	3,518	-
Amortization of discount on financial liabilities	1,724	122	5,433	1,834
	<u>1,550,319</u>	<u>509,294</u>	<u>1,433,947</u>	<u>493,734</u>

10 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
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	Land and production buildings	Transmission network	Equipment for electricity transmission	Other	Construction in progress	Total
<i>Cost/Deemed cost</i>						
Balance at 01 January 2016	7,150,299	34,640,288	13,336,956	6,496,358	3,158,744	64,782,645
Additions	3,506	30,725	52,839	27,747	3,114,985	3,229,802
Transfers	178,444	726,231	674,948	7,071	(1,586,694)	-
Disposals	(158)	(25,746)	(7,460)	(17,213)	(7,924)	(58,501)
Reclassifications	(7,127)	(14,787)	(135,391)	157,305	-	-
Balance at 30 September 2016 (unaudited)	7,324,964	35,356,711	13,921,892	6,671,268	4,679,111	67,953,946
Balance at 01 January 2017	7,447,938	36,165,526	14,402,824	7,173,374	5,369,204	70,558,866
Additions	2,015	3,904	96,275	63,711	3,962,654	4,128,559
Transfers	136,137	1,002,273	696,592	105,703	(1940 705)	-
Disposals	(1,721)	(14,004)	(20,348)	(14,360)	(4,789)	(55,222)
Reclassifications	235	(106)	(122)	(7)	-	-
Balance at 30 September 2017 (unaudited)	7,584,604	37,157,593	15,175,221	7,328,421	7,386,364	74,632,203

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	Land and production buildings	Transmission network	Equipment for electricity transmission	Other	Construction in progress	Total
<i>Accumulated depreciation and impairment</i>						
Balance at 01 January 2016	(2,123,229)	(8,067,995)	(5,421,686)	(3,785,005)	(145,519)	(19,543,434)
Reallocation of impairment charge	(11,264)	(5,540)	(4,008)	(1)	20,813	-
Charge of impairment loss on property, plant and equipment	(1)	-	(21)	-	-	(22)
Charge for the period	(180,674)	(931,219)	(574,362)	(425,390)	-	(2,111,645)
Disposals	107	9,110	4,598	15,820	12	29,647
Reclassifications	27,012	(1,732)	82,913	(108,193)	-	-
Balance at 30 September 2016	(2,288,049)	(8,997,376)	(5,912,566)	(4,302,769)	(124,694)	(21,625,454)
Balance at 01 January 2017	(2,350,190)	(9,323,005)	(6,109,542)	(4,438,517)	(109,543)	(22,330,797)
Reallocation of impairment charge	(107)	(3,148)	(2,104)	-	5,359	-
Charge for the period	(195,012)	(1,026,652)	(640,370)	(449,481)	-	(2,311,515)
Disposals	938	3,466	11,084	14,247	30	29,765
Reclassifications	(132)	4	123	5	-	-
Balance at 30 September 2017 (unaudited)	(2,544,503)	(10,349,335)	(6,740,809)	(4,873,746)	(104,154)	(24,612,547)
<i>Carrying amount</i>						
At 01 January 2016	5,027,070	26,572,293	7,915,270	2,711,353	3,013,225	45,239,211
At 30 September 2016 (unaudited)	5,036,915	26,359,335	8,009,326	2,368,499	4,554,417	46,328,492
At 01 January 2017	5,097,748	26,842,521	8,293,282	2,734,857	5,259,661	48,228,069
At 30 September 2017 (unaudited)	5,040,101	26,808,258	8,434,412	2,454,675	7,282,210	50,019,656

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11 EQUITY

Share capital

	<u>30 September 2017</u>	<u>31 December 2016</u>
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)	<u>28,286,813</u>	<u>28,286,813</u>

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 20 June 2017 the decision was made to pay dividends for the year ended 31 December 2016 in the amount of RUB 535,125 thousand (RUB 1.762658 per ordinary share). No dividends were declared for 2017.

12 EARNINGS PER SHARE

The calculation of earnings per share is based upon the profit 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>	<u>Nine months ended 30 September 2017 (Unaudited)</u>	<u>Three months ended 30 September 2017 (Unaudited)</u>	<u>Nine months ended 30 September 2016 (Unaudited)</u>	<u>Three months ended 30 September 2016 (Unaudited)</u>
Issued shares at the beginning of the period	282,868,130	282,868,130	282,868,130	282,868,130
The number of unregistered shares	20,721,660	20,721,660	-	-
Weighted average number of shares as at 30 September	<u>303,589,790</u>	<u>303,589,790</u>	<u>282,868,130</u>	<u>282,868,130</u>
<i>In shares</i>	<u>Nine months ended 30 September 2017 (Unaudited)</u>	<u>Three months ended 30 September 2017 (Unaudited)</u>	<u>Nine months ended 30 September 2016 (Unaudited)</u>	<u>Three months ended 30 September 2016 (Unaudited)</u>
Weighted average number of ordinary shares for the period (thousand of shares)	303,590	303,590	282,868	282,868
(Loss)/earnings attributable to the holders of ordinary shares (thousands of RUB)	948,972	1,457,169	2,674,563	2,007,237
(Loss)/Earnings per share - basic and diluted (in RUB)	<u>3.13</u>	<u>4.80</u>	<u>9.46</u>	<u>7.10</u>

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13 INTANGIBLE ASSETS

	Software	Certificates and licenses	R&D	Other intangible assets	Total
<i>Cost</i>					
Balance at 1 January 2016	212,826	5,295	15,741	11,541	245,403
Additions	18,863	-	5,792	-	24,655
Reclassification	4,700	-	(4,700)	-	-
Disposals	(3,406)	-	-	-	(3,406)
Balance at 30 September 2016	232,983	5,295	16,833	11,541	266,652
Balance at 1 January 2017	280,722	5,295	14,511	11,541	312,069
Additions	29,132	-	6,747	5,509	41,388
Disposals	-	-	(11,908)	-	(11,908)
Balance at 30 September 2017	309,854	5,295	9,350	17,050	341,549
<i>Amortisation</i>					
Balance at 1 January 2016	(144,107)	(4,010)	-	(1,221)	(149,338)
Charge for the period	(37,074)	(1,062)	-	(2,736)	(40,872)
Disposals	2,213	-	-	-	2,213
Balance at 30 September 2016	(178,968)	(5,072)	-	(3,957)	(187,997)
Balance at 1 January 2017	(193,678)	(5,295)	-	(4,869)	(203,842)
Charge for the period	(44,281)	-	-	(3,558)	(47,839)
Balance at 30 September 2017	(237,959)	(5,295)	-	(8,427)	(251,681)
<i>Carrying amount</i>					
At 1 January 2016	68,719	1,285	15,741	10,320	96,065
At 30 September 2016	54,015	223	16,833	7,584	78,655
At 1 January 2017	87,044	-	14,511	6,672	108,227
At 30 September 2017	71,895	-	9,350	8,623	89,868

14 LOANS AND BORROWINGS

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

	30 September 2017 (Unaudited)	31 December 2016
Non-current loans and borrowings		
Unsecured bank loans	14,014,923	11,912,239
Bonds issued	7,000,000	7,000,000
	21,014,923	18,912,239
Current loans and borrowing		
Current portion of unsecured long term loans	-	-
Unsecured loans	622	1,022
Interest payable	285,869	79,078
	286,491	80,100

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

	Nominal interest rate (fixed), %			Carrying amount	
	30 September 2017 (Unaudited)	31 December 2016	Year of maturity	30 September 2017 (Unaudited)	31 December 2016
PJSC Sberbank*	8,70-10,25%	9.90%	2020	7,717,866	2,000,000
PJSC "ROSSETI"*	10,44-12,63%	10.44-12.63%	2025	7,000,000	7,000,000
Gazprombank (JSC)*	8,71-9,80%	10.00-10.80%	2020	5,950,335	9,912,239
Bank VBRR (JSC)	8,45-10,20%	-	2019	346,722	-
Other	Interest free	Interest free	2017	622	1,022
Total				21,015,545	18,913,261

*Loans and borrowings from the government - related entities.

The Group's loans and borrowings are denominated in Russian Roubles.

15 OTHER PROVISIONS

	Nine months ended 30 September 2017 (Unaudited)	Nine months ended 30 September 2016 (Unaudited)
Balance at 1 January	2,446,329	1,907,775
Provisions raised during the period	1,289,349	1,503,210
Provisions reversed during the period	(139,890)	(70,479)
Provisions used during the period	(876,789)	(1,525,899)
Capitalized	9,167	-
Balance at 30 September	2,728,166	1,814,607

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.

16 FINANCIAL RISKS 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 2016.

17 CONTINGENCIES AND COMMITMENTS

Capital commitments

As at 30 September 2017 the Group has outstanding commitments for the acquisition and construction of property, plant and equipment of RUB 8,392,644 thousand (31 December 2016: RUB 2,092,294 thousand).

Insurance

The insurance industry of the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet 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 September 2017 and 31 December 2016 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 2,728,166 thousand (at 31 December 2016: RUB 2,446,329 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 consolidated 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.

18 RELATED PARTY 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 September 2017 and 31 December 2016 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:

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Revenue

	Transaction value for the Nine months ended 30 September		Transaction value for the three months ended 30 September		Outstanding balance	
	2017 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2016 (Unaudited)	30 September 2017 (Unaudited)	31 December 2016
Parent company						
Other	889	889	297	297	–	–
Transactions with other PJSC ROSSETI's subsidiaries						
Rent	37	37	13	13	5	9
Services on technological connection	9	–	–	–	–	–
Other	28,716	23,311	28,715	3,509	215,505	255,909
Reversal of allowance	27,777	22,364	–	22 364	–	–
Allowance for impairment of other receivables	561	–	–	–	(168 409)	(167 116)
	57,989	46,601	29,025	26,183	47,101	88,802

Expenses

	Transaction value for the Nine months ended 30 September		Transaction value for the three months ended 30 September		Outstanding balance	
	2017 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2016 (Unaudited)	30 September 2017 (Unaudited)	31 December 2016
Parent company						
Managing services	57,364	57,364	19,122	19,122	5,297	5,297
Other	16,285	16,285	5,428	8,649	–	–
	73,649	73,649	24,550	27,771	5,297	5,297
Electricity transmission	4 458480	3 634222	1 665079	1 375377	714,664	371,979
Rent	55	8,911	19	2,971	325	31,063
Connection services	1,852	400	139	151	–	–
Other	190,059	96,117	14,766	52,169	70,259	135,224
	4 650446	3 739650	1 680003	1 430668	785,248	538,266
Capitalized installation and construction activities	1,673	25,121	966	25,121	64,310	122,170
	4 725768	3 838420	1 705519	1 483560	854,855	665,733

Borrowings

	Transaction value for the Nine months ended 30 September		Transaction value for the three months ended 30 September		Outstanding balance	
	2017 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2016 (Unaudited)	30 September 2017 (Unaudited)	31 December 2016
Parent company						
Bonds issued	–	–	–	–	7,000,000	7,000,000
Interest on bonds issued	602,218	604,556	202,834	203,008	276,484	75,814
	602,218	604,556	202,834	203,008	7,276,484	7,075,814

For more details about bonds repurchased by PJSC “ROSSETI” see Note 13.

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.

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	Nine months ended 30 September 2017 (Unaudited)		Three months ended 30 September 2017 (Unaudited)		Nine months ended 30 September 2016 (Unaudited)		Three months ended 30 September 2016 (Unaudited)	
	Board of Directors	Other key managemen t personnel	Board of Directors	Other key management personnel	Board of Directors	Other key management personnel	Board of Directors	Other key management personnel
Salaries and bonuses	-	116,653	-	70,215	-	132,376	-	78,334

As at 30 September 2017 current amount of liabilities of post-employment defined benefit plan, provided in the Consolidated statement of financial position, includes the liabilities related to key management personnel amounting to RUB 1,306 thousand (as at 31 December 2016: RUB 1,140 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 Nine months ended 30 September 2017 constitute 0.39%, for the three months ended 30 September 2017: 0.25% (for the Nine months ended 30 September 2016: 7.42%, for the three months ended 30 September 2016: 9.91%) of the total Group revenues. The electricity transmission revenue from government - related entities for the nine months ended 30 September 2017 constitutes 0.37%, for the three months ended 30 September 2017: 0.25% (for the nine months ended 30 September 2016: 0.78%, for the three months ended 30 September 2016: 0.93%) of total Group revenues.

Electricity transmission costs from government-related entities for the nine months ended 30 September 2017 constitutes 3.90%, for the three months ended 30 September 2017: 2.32% (for the nine months ended 30 September 2016: 3.47%, for the three months ended 30 September 2016: 4.46%) of total transmission costs.

Pricing policies

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

19 EVENTS SUBSEQUENT TO THE REPORTING DATE

The facts of economic activity after reporting date of 30 September 2017, which have impacted or can impact the Group's financial position or performance in the future, are not revealed.