

**OPEN JOINED STOCK COMPANY KUBANENERGO
CONSOLIDATED INTERIM CONDENSED
FINANCIAL STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014
(UNAUDITED)**

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OJSC Kubanenergo
Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income for the six months
ended 30 June 2014 (Unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Six months ended 30 June 2014 (Unaudited)	Six months ended 30 June 2013 (Unaudited)
Revenue	6	13,709,738	14,287,979
Operating expenses	7	(14,710,827)	(15,138,680)
Other operating income/(loss), net	8	156,553	52,057
Results from operating activities		(844,536)	(798,644)
Finance income		424,692	97,218
Finance costs		(144,681)	(294,570)
Net finance income/(costs)		280,011	(197,352)
Loss before income tax		(564,525)	(995,996)
Income tax (expense)/benefit		(143,115)	238,448
Loss for the period		(707,640)	(757,548)
Other comprehensive loss			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liability		24,007	(6,298)
Related income tax		(4,801)	1,260
Other comprehensive loss for the period, net of income tax		19,206	(5,038)
Total comprehensive loss for the period		(688,434)	(762,586)
Loss attributable to:			
Shareholders of the Company		(707,640)	(757,548)
Total comprehensive loss attributable to:			
Shareholders of the Company		(688,434)	(762,586)
Loss per share – basic and diluted (in Russian Roubles)	11	(2.50)	(4.76)

These consolidated interim condensed financial statements were approved by management on 28 August 2014 and were signed on its behalf by:

Deputy General Director for economic and financial affairs

O.V. Ocheredko

Chief Accountant

I.V. Skiba



OJSC Kubanenergo
Consolidated Interim Statement of Financial Position as at 30 June 2014 (Unaudited)
(in thousands of Russian Roubles, unless otherwise stated)

	Notes	30 June 2014 (Unaudited)	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	9	41,746,216	38,465,178
Intangible assets		274,323	280,850
Investments and financial assets		152,510	150,368
Trade and other receivables		19,335	17,880
Deferred tax assets		1,043,718	1,213,750
Total non-current assets		43,236,102	40,128,026
Current assets			
Inventories		1,524,632	1,360,419
Trade and other receivables		2,480,201	5,862,988
Income tax receivable		2,830	4,334
Cash and cash equivalents		9,612,669	12,624,404
Total current assets		13,620,332	19,852,145
Non-current assets held for sale		235	-
TOTAL ASSETS		56,856,669	59,980,171
EQUITY AND LIABILITIES			
Equity			
Share capital	10	28,286,813	28,286,813
Share premium		6,481,916	6,481,916
Reserves		(237,223)	(256,429)
Accumulated losses		(7,053,575)	(6,345,935)
Total equity attributable to owners of the Company		27,477,931	28,166,365
Non-current liabilities			
Loans and borrowings	12	15,637,000	17,237,000
Trade and other payables		805,443	591,091
Employee benefits		582,216	577,735
Total non-current liabilities		17,024,659	18,405,826
Current liabilities			
Loans and borrowings	12	2,003,988	402,725
Trade and other payables		9,713,717	11,919,405
Other provisions		636,374	1,085,850
Total current liabilities		12,354,079	13,407,980
TOTAL LIABILITIES		29,378,738	31,813,806
TOTAL EQUITY AND LIABILITIES		56,856,669	59,980,171

OJSC Kubanenergo
Consolidated Interim Statement of Cash Flows for the six months ended 30 June 2014 (Unaudited)
(in thousands of Russian Roubles, unless otherwise stated)

	Notes	Six months ended 30 June 2014 (Unaudited)	Six months ended 30 June 2013 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		(707,640)	(757,548)
Loss for the period			
<i>Adjustments for:</i>			
Depreciation and amortisation	7	956,020	765,117
Allowance for impairment of accounts receivable	7	(3,940)	505,986
Allowance for obsolescence of inventories		(812)	(359)
Provision for unused vacation		124,304	(45,575)
Provision for legal processes	7	276,563	104,912
Finance costs		144,681	294,570
Finance income		(424,692)	(97,218)
Loss on disposal of property, plant and equipment		3,672	25,183
Income tax expense/(benefit)		143,115	(238,448)
Other non-cash transaction		(740)	-
Cash flows from operating activities before changes in working capital and provisions		510,531	556,629
Change in trade and other accounts receivable		3,199,387	(546,211)
Change in finance assets related to employee benefits fund		6,880	5,534
Change in inventories		(163,401)	(484,368)
Change in trade and other accounts payable		(1,881,208)	2,450,922
Change in employee benefit liabilities		5,174	(6,877)
Change in provisions		(726,039)	(3,388)
Cash flows from operations before income tax and interest paid		951,324	1,972,232
Income tax return / (paid)		23,101	1,073
Interest paid (including capitalized interest)		(846,064)	(765,698)
Net cash flows from operating activities		128,361	1,207,607
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment and intangible assets		(3,485,058)	(5,356,968)
Proceeds from disposal of property, plant and equipment		3,651	48,308
Interest received		340,123	90,870
Net cash flows used in investing activities		(3,141,284)	(5,217,790)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from loans and borrowings		1,188	1,500,000
Repayment of loans and borrowings		-	(1,516,500)
Repayment of finance lease liabilities		-	(15,557)
Proceeds from issue of share capital		-	7,937,312
Net cash flows from financing activities		1,188	7,905,255
Net (decrease)/ increase in cash and cash equivalents		(3,011,735)	3,895,072
Cash and cash equivalents at the beginning of the period		12,624,404	4,298,307
Cash and cash equivalents at the end of the period		9,612,669	8,193,379

OJSC Kubanenergo
Consolidated Interim Statement of Changes in Equity for the six months ended 30 June 2014 (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 1 January 2013	14,294,283	3,428,746	(42,267)	(5,709,075)	11,971,687
Loss for the period	-	-	-	(757,548)	(757,548)
Other comprehensive loss for the period					
Remeasurement of the defined benefit liability	-	-	(6,298)	-	(6,298)
Income tax on other comprehensive income	-	-	1,260	-	1,260
Total other comprehensive loss for the period	-	-	(5,038)	-	(5,038)
Total comprehensive loss for the period	-	-	(5,038)	(757,548)	(762,586)
Transactions with owners, recorded directly in equity					
Share issue (Note 10)	6,515,606	1,421,706	-	-	7,937,312
Total transactions with owners, recorded directly in equity	6,515,606	1,421,706	-	-	7,937,312
Balance at 30 June 2013 (Unaudited)	20,809,889	4,850,452	(47,305)	(6,466,623)	19,146,413

	Equity attributable to owners of the Company				Total equity
	Share capital	Share premium	Reserves	Accumulated losses	
Balance at 1 January 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					
Remeasurement of the defined benefit liability	-	-	24,007	-	24,007
Income tax on other comprehensive income	-	-	(4,801)	-	(4,801)
Total other comprehensive loss for the period	-	-	19,206	-	19,206
Total comprehensive loss for the period	-	-	19,206	(707,640)	(688,434)
Balance at 30 June 2014 (Unaudited)	28,286,813	6,481,916	(237,223)	(7,053,575)	27,477,931

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 05 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”.

The Company’s registered office is located at 2, Stavropolskaya St., Krasnodar, Krasnodar Region, Russia, 350033.

The Company’s principal activities are electric power transmission and technological connection services.

The Kubanenergo Group (hereinafter referred to as “the Group”) comprises OJSC “Kubanenergo” and its subsidiaries presented below:

Subsidiary	Principal activity	Ownership, %	
		30 June 2014	31 December 2013
OJSC “Ozdorovitelny kompleks “Plamya”	Recreation	100	100
OJSC “Pansionat otdyha “Energetik”	Recreation	100	100
OJSC “Energoservis Kubani”	Repair service	100	100

(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 Russian Grids in April of 2013.

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

As at 30 June 2014, the Government of the Russian Federation owned 86.32% of the voting ordinary shares and 7.01% of preference shares of JSC Russian Grids, which in 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.

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.

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 1 January 2011 that were measured at carrying amounts included in the consolidated IFRS financial statements of JSC Russian Grids as part of the Group’s first time adoption of IFRSs as at 1 January 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 following notes:

- Note 15 – commitments and contingencies.

3 SIGNIFICANT ACCOUNTING POLICIES

Except for the adoption of the new standards and interpretations effective as at 1 January 2014, 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 2013.

(a) Changes in accounting policies

Several new standards and amendments apply for the first time in 2014. However, they do not impact financial position or financial results as at and for six months ended 30 June 2014:

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 *Impairment of Assets*. The amendments required additional disclosures about the measurement of impaired assets (or a group of assets) with a recoverable amount based on fair value less costs of disposal.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*. Under the amendments there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met.

Investment Entities - Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*, under which a mandatory consolidation exception for certain qualifying investment entities is introduced according to IFRS 10.

Levies (IFRIC 21). The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs.

As at 31 December 2013 the Group early adopted new amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*. The amendments clarify assets and liabilities offsetting rules and introduce new related disclosure requirements.

(b) 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 2014, and have not been applied in preparing these the consolidated interim condensed financial statements. The following standards and amendments will have an impact on the Group's operation. 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 *Constructions Contracts*, and the related interpretations on Revenue recognition. The standard is effective for annual periods beginning on or after 1 January 2017, with early adoption 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. The amendments are effective for annual periods beginning on or after 1 January 2016 with early adoption permitted.
- Amendments to IAS 19 *Employee Benefits*, entitled *Defined Benefit Plans: Employee Contributions*. The narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. 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. The amendments are effective for annual periods beginning on or after 1 July 2014 with early adoption permitted.
- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The third phase was issued in November 2013 and relates to general hedge accounting. 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 impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

(c) Change in the comparable information

Certain comparative amounts in the consolidated interim statement of Profit or Loss and Other Comprehensive Income and in the consolidated interim statement of Cash Flows for six months ended 30 June 2013 have been reclassified to conform to the current period's presentation.

Consolidated interim statement of Profit or Loss and Other Comprehensive Income

Six months ended 30 June 2013 (Unaudited)	As previously reported	Effect of changes in presentation	As restated
Operating expenses	(15 062 569)	(76 111)	(15 138 680)
Other operating income/(loss), net	(34 604)	86 661	52 057
Results from operating activities	(809 194)	10 550	(798 644)
Finance income	97 215	3	97 218
Finance costs	(284 017)	(10 553)	(294 570)
Net finance income/(costs)	(186 802)	(10 550)	(197 352)
Loss before income tax	(995 996)	-	(995 996)

The fines, penalties fee, penalties received, profit of non-contractual consumption of electricity and insurance compensation received in the amount of RUB 76,111 thousand were reclassified from operating expenses into the item "Other operating income/(loss), net".

Interest expense on defined post-employment benefits and other long-term benefits amounted to RUB 10,550 thousand have been reclassified from the item "Other operating income/(loss), net" to finance costs.

OJSC Kubanenergo**Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2014 (Unaudited)***(in thousands of Russian Roubles, unless otherwise stated)***Consolidated interim statement of Cash Flows**

Six months ended 30 June 2013 (Unaudited)	As previously reported	Effect of changes in presentation	As restated
<i>Adjustments for:</i>			
Allowance for impairment of accounts receivable	-	505,986	505,986
Allowance for obsolescence of inventories	-	(359)	(359)
Provision for unused vacation	-	(45,575)	(45,575)
Provision for legal processes	-	104,912	104,912
Finance costs	284,017	10,553	294,570
Finance income	(97,215)	(3)	(97,218)
Cash flows from operating activities before changes in working capital and provisions	(18,894)	575,514	556,620
Change in trade and other accounts receivable	(40,225)	(505,986)	(546,211)
Change in inventories	(484,727)	359	(484,368)
Change in trade and other accounts payable	2,401,959	48,963	2,450,922
Change in employee benefit liabilities	3,673	(10,550)	(6,877)
Change in provisions	104,912	(108,300)	(3,388)
Cash flows from operations before income tax and interest paid	1,972,232	-	1,972,232

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 30 June 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:

OJSC Kubanenergo

Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2014 (Unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

(i) Information about reportable segments

For the six months ended 30 June 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) / profit	(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)

For the six months ended 30 June 2013:

	Kubanenergo	Other	Total
Revenue from external customers	14,278,393	9,645	14,288,038
Inter-segment revenue	412	1,176	1,588
Total segment revenue	14,278,805	10,821	14,289,626
Segment operating loss	(172,162)	(16,078)	(188,240)
Finance income	90,857	1	90,858
Finance costs	(764,963)	-	(764,963)
Segment loss before income tax	(1,683,483)	(20,969)	(1,704,452)

As at 30 June 2014:

	Kubanenergo	Other	Total
Segment assets	60,701,133	74,195	60,775,328
<i>Including property, plant and equipment</i>	<i>44,888,542</i>	<i>52,629</i>	<i>44,941,171</i>
Segment liabilities	28,899,922	34,823	28,934,745
Capital expenditures	5,807,295	1,485	5,808,790

As at 31 December 2013:

	Kubanenergo	Other	Total
Segment assets	64,537,179	66,603	64,603,782
<i>Including property, plant and equipment</i>	<i>42,610,826</i>	<i>53,738</i>	<i>42,664,564</i>
Segment liabilities	31,283,747	14,764	31,298,511
Capital expenditures	11,299,972	4,085	11,304,057

(ii) Reconciliation of reportable segments loss before income tax

Reconciliation of reportable segment loss before income tax is presented below:

	Six months ended 30 June 2014 (Unaudited)	Six months ended 30 June 2013 (Unaudited)
Total segment loss before income tax	(1,521,157)	(1,704,452)
<i>Adjustments for:</i>		
Borrowing costs capitalised to property plant and equipment	727,740	487,551
Revenue from electricity transmission	298,142	104,610
Depreciation and loss from property plant and equipment disposal	220,366	232,553
Accrual of provision for unused vacations and bonuses	1,245	60,369
Impairment of accounts receivable	(350,964)	(105,104)
Recognition of long term employee benefits	(26,346)	(2,862)
Accrual of provision for legal claims	-	(104,912)

OJSC Kubanenergo**Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2014 (Unaudited)***(in thousands of Russian Roubles, unless otherwise stated)*

	Six months ended 30 June 2014 (Unaudited)	Six months ended 30 June 2013 (Unaudited)
Finance lease	-	21,713
Other adjustments	86,449	14,538
Loss before income tax for the period per Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income	(564,525)	(995,996)

The Group performs its activities in the Russian Federation.

For the six months ended 30 June 2014 the Group had two major customers - distribution companies in Krasnodarskiy area of the Russian Federation with individual turnover over 10% of the total Group revenues. The total amount of revenues for these major customers for the six months ended 30 June 2014 was RUB 11,461,881 thousand or 83.6% of the Group's total revenues (for the six months ended 30 June 2013: RUB 12,828,110 thousand or 89.7%).

6 REVENUE

	Six months ended 30 June 2014 (Unaudited)	Six months ended 30 June 2013 (Unaudited)
Electricity transmission	13,479,005	14,140,245
Connection services	181,453	110,264
Rental income	8,760	6,402
Other revenue	40,520	31,068
	13,709,738	14,287,979

7 OPERATING EXPENSES

	Six months ended 30 June 2014 (Unaudited)	Six months ended 30 June 2013 (Unaudited)
Electricity transmission	6,391,845	6,890,953
Personnel costs	2,686,169	1,867,508
Purchased electricity for compensation of technological losses	2,644,695	3,604,147
Depreciation and amortization	956,020	765,117
Raw materials and supplies	368,587	354,719
Repairs, maintenance and installation services	315,515	264,989
Legal claims	276,563	104,912
Business trip expenses	262,936	176,843
Security services	100,827	72,470
Electricity and heat power for own needs	47,045	41,037
Rent	44,209	36,043
Managing services	38,242	38,242
Insurance	21,965	22,159
Consulting, legal and audit services	19,758	132,802
(Recovery of impairment)/Impairment of trade and other receivables	(3,940)	505 986
Other expenses	540,391	260,753
	14,710,827	15,138,680

8 OTHER OPERATING INCOME / (EXPENSES), NET

	Six months ended 30 June 2014 (Unaudited)	Six months ended 30 June 2013 (Unaudited)
Non-contractual consumption of electricity	70,608	22,640
Insurance compensation received	57,207	2,201
Fines and penalties received/(paid)	25,474	51,270
Loss on disposal of property, plant and equipment	(3,672)	(25,183)
Other income	6,936	1,129
	156,553	52,057

OJSC Kubanenergo

Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2014

(Unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

9 PROPERTY, PLANT AND EQUIPMENT

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

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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 as at 1 January 2013	3,604,844	7,041,399	8,281,749	4,065,625	13,265,197	34,258,814
Additions	969	13,814	10,667	51,754	5,151,544	5,228,748
Transfers	26,674	96,047	74,645	17,417	(214,783)	-
Disposals	(1,978)	(42,673)	(2,261)	(229)	(46,317)	(93,458)
Balance as at 30 June 2013 (Unaudited)	3,630,509	7,108,587	8,364,800	4,134,567	18,155,641	41,394,104
Balance as at 1 January 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 30 June 2014 (Unaudited)	4,279,697	16,534,943	11,398,041	5,092,530	15,716,591	53,021,802

OJSC Kubanenergo
Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2014 (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 1 January 2013	(896,551)	(2,464,272)	(2,293,697)	(1,893,609)	(1,299,218)	(8,847,347)
Reclassification	(1,369)	(10,536)	(2,494)	(2,888)	17,287	-
Charge for the period	(65,278)	(181,447)	(273,394)	(234,959)	-	(755,078)
Disposals	754	11,660	1,503	217	-	14,134
Balance as at 30 June 2013 (Unaudited)	(962,444)	(2,644,595)	(2,568,082)	(2,131,239)	(1,281,931)	(9,588,291)
<i>Balance as at 1 January 2014</i>						
Balance as at 1 January 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 30 June 2014 (Unaudited)	(1,133,263)	(3,663,544)	(3,317,759)	(2,649,149)	(511,871)	(11,275,586)
<i>Carrying amounts</i>						
At 1 January 2013	2,708,293	4,577,127	5,988,052	2,172,016	11,965,979	27,411,467
At 30 June 2013 (Unaudited)	2,668,065	4,463,992	5,796,718	2,003,328	16,873,710	31,805,813
At 1 January 2014	2,969,314	6,548,198	7,256,579	2,372,029	19,319,058	38,465,178
At 30 June 2014 (Unaudited)	3,146,434	12,871,399	8,080,282	2,443,381	15,204,720	41,746,216

OJSC Kubanenergo**Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2014****(Unaudited)***(in thousands of Russian Roubles, unless otherwise stated)***10 EQUITY**

	30 June 2014	31 December 2013
	(Unaudited)	
Par value	RUB 100	RUB 100
Number of ordinary shares authorised, issued and fully paid	282,868,130	282,868,130
Total share capital (in thousands of RUB)	28,286,813	28,286,813

Issue of additional shares

On 18 March 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 31 December 2013 139,925,300 shares were subscribed and paid. JSC Russian Grids 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 31 December 2013. Increase in Share capital was formally registered as at 17 January 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 LOSS PER SHARE

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

<i>In shares</i>	Six months ended	Six months ended
	30 June 2014	30 June 2013
	(Unaudited)	(Unaudited)
Issued shares at 1 January	282,868,130	97,460,933
Effect of shares issued	-	61,770,911
Weighted average number of shares for the six months ended 30 June	282,868,130	159,231,844

	Six months ended	Six months ended
	30 June 2014	30 June 2013
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the period (thousand of shares)	282,868	159,232
Loss attributable to the owners of the Company	(707,640)	(757,548)
Loss per share - basic and diluted (in RUB)	(2.50)	(4.76)

12 LOANS AND BORROWINGS

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

OJSC Kubanenergo**Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2014 (Unaudited)***(in thousands of Russian Roubles, unless otherwise stated)*

	<u>30 June 2014 (Unaudited)</u>	<u>31 December 2013</u>
Non-current liabilities		
Unsecured bank loans	17,237,000	17,637,000
Less current portion of unsecured long-term loans	(1,600,000)	(400,000)
	<u>15,637,000</u>	<u>17,237,000</u>
Current liabilities		
Current portion of unsecured long-term loans	2,000,000	400,000
Unsecured borrowings	3,988	2,725
	<u>2,003,988</u>	<u>402,725</u>

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

	<u>Nominal interest rate (fixed),%</u>		<u>Year of maturity</u>	<u>Carrying amount</u>	
	<u>30 June 2014 (Unaudited)</u>	<u>31 December 2013</u>		<u>30 June 2014 (Unaudited)</u>	<u>31 December 2013</u>
OJSC Sberbank*	9.33%-9.39%	8.80%-9.39%	2015-2016	8,600,000	8,600,000
OJSC Gazprombank*	9.80%-11.40%	9.455-10.50%	2015-2018	8,637,000	8,637,000
JSC Rosenergobank	9.70%	11.30%	2014	400,000	400,000
Other	0%-8.25%	8.25%	2014	3,988	2,725
Total				<u>17,640,988</u>	<u>17,639,725</u>

*Loans and borrowings from the government - related entities

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

13 OTHER PROVISIONS

	<u>Six months ended 30 June 2014 (Unaudited)</u>	<u>Six months ended 30 June 2013 (Unaudited)</u>
Balance at 1 January	1,085,850	1,645,956
Provisions raised during the period	317,127	104,912
Provisions reversed during the period	(40,564)	-
Provisions used during the period	(726,039)	(3,388)
Balance at 30 June	<u>636,374</u>	<u>1,747,480</u>

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

14 FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2013.

15 COMMITMENTS AND CONTINGENCIES**Capital commitments**

As at 30 June 2014 the Group has outstanding commitments for the acquisition and construction of property, plant and equipment of RUB 6,012,792 thousand (31 December 2013: RUB 4,290,061 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

OJSC Kubanenergo**Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2014 (Unaudited)**

(in thousands of Russian Roubles, unless otherwise stated)

stations business interruption or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Litigation

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

As at 30 June 2014 and 31 December 2013 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 361,178 thousand (as 31 December 2013: RUB 1,085,850 thousand).

In May of 2014 OJSC FGC UES has appealed to the Arbitration court at the Russian Union of Industrialists and Entrepreneurs with the claim to OJSC Kubanenergo about the compensation for electricity losses payables in the amount of RUB 2,935,201 thousand and penalty in the amount of RUB 250,975 thousand for the period from on 01 January 2013 to on 31 March 2014. In the consolidated interim statement of financial position at as 30 June 2014 the debt is reported as Trade and Other payables in full sum and the penalty is reported as Other provisions in the amount of RUB 250,975 thousand.

Taxation contingencies

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

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

Environmental matters

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

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

Other contingencies

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

16 RELATED PARTIES TRANSACTIONS***Control relationship***

Related parties include shareholders, affiliates and entities under common ownership and control with the Group and members of the Board of Directors and key management personnel which comprised of General Director, Deputies General Director and Directors of the branches. The Company's parent as at 30 June 2014 and 31 December 2013 was JSC Russian Grids. 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 JSC Russian Grids.

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 JSC Russian Grids, its subsidiaries and associates, and were as follows:

Revenue

	Transaction value for the six months ended 30 June		Outstanding balance	
	2014 (Unaudited)	2013 (Unaudited)	30 June 2014 (Unaudited)	31 December 2013
Parent company				
Other	592	-	-	-
Transactions with other JSC Russian Grids' subsidiaries				
Rent	1,420	-	-	-
Other	-	1	210,370	212,309
Allowance for impairment of other receivables	-	-	(168,076)	(168,076)
	2,012	1	42,294	44,233

Expenses

	Transaction value for the six months ended 30 June		Outstanding balance	
	2014 (Unaudited)	2013 (Unaudited)	30 June 2014 (Unaudited)	31 December 2013
Parent company				
Managing services	38,242	38,242	-	-
Other	6,336	-	4,513	4,513
Transactions with other JSC Russian Grids' subsidiaries				
Electricity transmission	2,520,325	-	3,189,819	2,908,361
Rent	10,459	5,940	42,545	31,489
Connection services	2,549	-	54	54
Construction companies	-	-	29,601	29,601
Other	118,977	1,245	278,175	143,723
	2,696,888	45,427	3,544,707	3,117,741

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.

OJSC Kubanenergo**Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2014 (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 30 June 2014 (Unaudited)		Six months ended 30 June 2013 (Unaudited)	
	Board of Directors	Other key Management Personnel	Board of Directors	Other key Management Personnel
Salaries and bonuses	7,000	35,372	7,196	29,145

Transactions with government-related parties

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

Revenues from government-related entities for the six months ended 30 June 2014 constitute 1.0% (for the six months ended 30 June 2013: 0.84%) of total Group revenues. The electricity transmission revenue from government - related entities for the six months ended 30 June 2014 constitutes 0.83% (for the six months ended 30 June 2013: 0.61%) of total Group revenues.

Electricity transmission costs from government-related entities for the six months ended 30 June 2014 constitutes 3.09% (for the six months ended 30 June 2013: 24.68%) 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 JSC Russian Grids. Thus, share of operations with government-related companies decreased.

Significant loans and borrowings from government-related entities are disclosed in Note 12.

Pricing policies

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