



Open joint-stock company

of power energy and electrification of Kuban

Kubanenergo JSC



Notes to Financial Statements for 2014

Krasnodar

2015

1. General Provisions

Kubanenergo JSC is the largest power grid company in the Krasnodar Region and the Republic of Adygea. It transmits and distributes electricity via 110 kV electrical grids and lower across the populated places, in the rural settlements, certain cities and towns as well as district centres of the Krasnodar Region and the Republic of Adygea, including Sochi.

Full name: Kuban Power and Electrification Open Joint-Stock Company.

Abbreviated name: Kubanenergo JSC.

The company was registered on February 10, 1993.

The company was entered into the Unified State Register of Legal Entities by Russian Federal Tax Service Inspection No. 3 for Krasnodar under No. 1022301427268 on September 17, 2002. Certificate 23 No. 001806938.

Taxpayer Identification Number (tax registration reason code): 2309001660 (997450001);

Form of incorporation/type of ownership of Kubanenergo JSC: Open Joint-Stock Company (code under the Russian Classifier of Forms of Incorporation is 47) / private ownership (code under the Russian Classifier of Types of Ownership is 16).

Location/registered address of Kubanenergo JSC: 2 Stavropolskaya str., Krasnodar, Russian Federation 350033.

The Company's main activities are:

- Services related to transmission and distribution of electricity in electrical grids;
- Services related to technological connection to electrical grids.

Table 1 - Licenses

Type of Activity	Issuing Authority	Details	Validity Period of License
1	2	3	4

For the right to use mineral resources (to extract fresh groundwater for utility and drinking water supply and process water supply in Krasnodar)	The Russian Ministry of Natural Resources	КРД (KRD) No. 03378 ВЭ (VA)	17.07.2007 – 20.07.2014
To execute works with the use of information constituting a state secret	Department of the Russian Federal Security Service (FSB) for the Krasnodar Region	GT 0062143, registration # 1223	06.08.2013 – 06.08.2018
Permit to works related to construction, reconstruction and overhaul	Self-regulatory Organization Energostroy, NP (non-for-profit partnership)	0212.03-2012- 2309001660-S-060	December 16, 2013, with no expiration date
Permit to works related to preparation of design documentation for external networks of 35kV and their installation	Self-regulatory organization Energostroy, NP (non-for-profit partnership)	P-0263-01-2010- 0274	03.02.2014, with no expiration date
For the right to use mineral resources (to extract fresh groundwater for utility and drinking water supply and process water supply in the Tverskaya village)	The Russian Ministry of Natural Resources	КРД (KRD) No. 03813 ВЭ	17.12.2009 – 01.01.2015
To operate fire explosive production facilities	The Russian Federal Service for Environmental, Technological and Nuclear Supervision	BP-30-003995 series AB No. 087343	From November 11, 2011, with no expiration date

The financial statements of Kubanenergo JSC include performance indicators of all the branches, representative offices and other subdivisions as stated below:

Table 2 – Kubanenergo JSC branches

#	Name	Location
1	Krasnodarskiye Elektricheskiye Seti (Krasnodar Electric Grids)	131 Pashkovskaya str., Krasnodar 350000
2	Sochinskiye Elektricheskiye Seti (Sochi Electric Grids)	42 Konstitutsii str., Sochi 354000
3	Armavirskiyе Elektricheskiye Seti (Armavir Electric Grids)	54 Vorovskogo str., Armavir 352900

4	Adygeyskiye Elektricheskiye Seti (Adygeya Electric Grids)	358 Shovgenova str., Maykop 385000
5	Timashevskiy Elektricheskiy Seti (Timashevsk Electric Grids)	176 Lenina str., Timashevsk 353760
6	Tikhoretskiye Elektricheskiye Seti (Tikhoretsk Electric Grids)	62 Dzerzhinskogo str., Tikhoretsk 352100
7	Leningradskiy Elektricheskiy Seti (Leningradskaya Electric Grids)	6 302-y Divizii str., Leningradskaya village 353740
8	Slavyanskiye Elektricheskiye Seti (Slavyansk Electric Grids)	49 Stroiteley str., Slavyansk-na-Kubani 353840
9	Yugo-Zapadnyye Elektricheskiye Seti (South-West Electric Grids)	1 Vostochny Mol, Novorossiysk 353902
10	Labinskiye Elektricheskiye Seti (Labinsk Electric Grids)	334 Mira str., Labinsk 352510
11	Ust-Labinskiye Elektricheskiye Seti (Ust-Labinsk Electric Grids)	4 Krasnodarskaya str., Ust-Labinsk 352300

Average annual number of employees in Kubanenergo JSC for the reporting period equaled to 8 364 employees, and 8 168 in the previous year (in 2013), in the year preceding the previous year (in 2012) there were 7 593 employees.

Registrar of the Company:

Name: Registrar R.O.S.T., JSC
Location: P.O. box 9, 18 Stromynka str., Moscow 107996, Russia.
Telephone/fax: (495) 771-73-35/771-73-34
Email: rost@rost.ru
Website: <http://www.rost.ru>

Number of license: 010-000-1-00264
Date of license issue: February 3, 2002
License issuing authority: Federal Financial Markets Service of Russia

Company's Auditor:

Name: Ernst & Young, Limited Liability Company

Registered address: 77/1 Sadovnicheskaya Naberezhnaya, Moscow 115035, RF
 Actual address: 77/1 Sadovnicheskaya Naberezhnaya, Moscow 115035, RF
 Individual Taxpayer
 Number (INN): 7709383532
 Primary State Registration
 Number (OGRN): 1027739707203
 Telephone/fax: (495)755-97-00

The Company's management bodies are as follows: the General Meeting of Shareholders, the Company's Board of Directors, the Company's Management Board (collective executive body), General Director of the Company (sole executive body).

General Director of the Company: Gavrilov Alexandr Ilyich

Chief Accountant of the Company: Skiba Inna Viktorovna.

Table 3 – Members of the Board of Directors (31.12.2014)

#	Name	Place of employment and position	Status in the Board of Directors
1.	Sergeyev Sergei Vladimirovich	Deputy Director General in charge of Capital Construction, Rosseti JSC	Chairperson of the Board of Directors
2.	Varvarin Aleksandr Viktorovich	Managing Director in charge of Corporate Relations and Legal Support, Russian Union of Industrialists and Entrepreneurs	Board of Directors member
3.	Gavrilov Aleksandr Ilyich	Director General of Kubanenergo JSC	Board of Directors member
4.	Kobelyan Ashot Mikhailovich	Head of Directorate of Planning, Statutory Regulation and Arrangement of Procurement Activity, Rosseti JSC	Board of Directors member
5.	Lavrova Marina Aleksanrdovna	Head of Directorate for Economy of Affiliated and Subsidiary Companies at Economic Planning and Budgets Department, Rosseti JSC	Board of Directors member
6.	Mezhevich Valentin Yefimovich	Deputy Director General in charge of Strategic Communications, Rosseti JSC	Board of Directors member
7.	Sukhov Oleg Aleksandrovich	Head of Situation Management and Analytical Centre, Rosseti JSC	Board of Directors member

8.	Kharin Andrei Nikolayevich	Deputy Head of Department of Corporate Governance, Price Environment and Auditing Activity in spheres of Fuel & Energy Complex, RF Ministry of Energy	Board of Directors member
9.	Khokholkova Kseniya Valerievna	Deputy Head of Directorate of Share Capital Issues, Head of Division of Shareholders' Rights Protection at Department of Corporate Governance and Interaction with Shareholders, Rosseti JSC	Board of Directors member
10.	Chermenteyeva Yulia Petrovna	Head of Directorate of Laws and Regulations Issues at Legal Department, Rosseti JSC	Board of Directors member
11.	Shatokhin Arseniy Grigorievich	Head of Department for Investments Planning and Reporting, Federal Grid Company of Unified Energy System JSC	Board of Directors member

Table 4 – Members of Management Board (31.12.2014)

#	Name	Place of employment and position	Status in the Board of Directors
1.	Gavrilov Alexander Ilyich	General director of "Kubanenergo" JSC	Chairperson of Management Board
2.	Armaganyan Edgar Garrieovich	Director of branch "Kubanenergo" Sochi Electric Networks	Member of Management Board
3.	Golov Andrey Valerievich	Deputy director general in charge of logistics and inventory, acting part-time deputy director general in charge of investment activity, Kubanenergo JSC	Member of Management Board
4.	Golovakha Dmitriy Nikolaevich	Director of branch South-Western electric grids	Member of Management Board
5.	Golovakha Lyudmila Alekseevna	Deputy director general, chief of staff, "Kubanenergo" JSC	Member of Management Board
6.	Konevets Kirill Sergeevich	Deputy General Director for Corporate Governance, "Kubanenergo" JSC	Member of Management Board
7.	Kostetskiy Vyacheslav Yurievich	Deputy director general in charge of development and selling of services "Kubanenergo" JSC	Member of Management Board
8.	Ocheredko Olga Vyacheslavovna	Deputy General Director for Economics and Finance, "Kubanenergo" JSC "	Member of Management

			Board
9.	Rud Evgeniy Viktorovich	Director of the branch "Kubanenergo" Krasnodar Electric Networks	Member of Management Board
10	Ryazancev Dmitry Yurievich	Deputy General Director for Technical Issues - Chief Engineer, "Kubanenergo" JSC	Deputy Chairperson of Management Board
11	Statuyev Vladislav Andreyevich	deputy director general in charge of security at KubanenergoJSC "Kubanenergo" JSC	Member of Management Board

The Company's Auditing Commission controls financial and business operations of the Company.

Table 5 – Members of the Auditing Commission (31.12.2014)

#	Name	Place of employment and position	Status in the Board of Directors
1.	Shmakov Igor Vladimirovich	Head of department for control and risks at Department "Russian Grids" JSC	Chairperson of the Commission
2.	Bunyaeva Maria Viktorovna	Leading expert of inspection activity and internal audit at Department of internal audit and control of "Rosseti" JSC	Member of the Commission
3.	Guseva Yelena Yurievna	Leading expert of inspection activity and internal audit at Department of internal audit and control of "Rosseti" JSC	Member of the Commission
4.	Malyshev Sergey Vladimirovich	Leading expert of inspection activity and internal audit at Department of internal audit and control of "Rosseti" JSC	Member of the Commission
5.	Udod Aleksandr Nikolaevich	Deputy head of division of territorial administration of Federal Property Management Agency in Krasnodar region	Member of the Commission

Table 6 – Company's Subsidiaries and Affiliates

Name	Share in the charter capital (%)	Location	Type of activities
Energetik Recreation Center JSC	100	4 Pionerskaya str., village of Divnomorskoye, Gelendzik, the Krasnodar Region, 353490	Provision of healthcare services, health and fitness services, services related to accommodation (temporary accommodation), catering and servicing to population

Energoservis of Kuban JSC	100	47 Novorossiyskaya str., Krasnodar, the Krasnodar Region, 350080	Implementation of the Programs for Energy Saving and Improvement of Energy Efficiency in the Regions of Responsibility by Implementing the Multilevel System of Energy Services
Plamya Recreation Center JSC	100	Novomikhaylovsky-2 settlement, Tuapse district, the Krasnodar Region, 352856	Provision of healthcare services, health and fitness services, services related to accommodation (temporary accommodation), catering and servicing to population

2. General Provisions of Accounting Policy

Kubanenergo JSC maintained its accounting records in accordance with the Federal Law dated 06.12.2011 No.402-FZ “On Accounting”, Regulation on Maintaining Accounting Records and Financial Statements in the Russian Federation approved by Order of the Russian Ministry of Finance dated July 29, 1998 No. 34n and other regulations on accounting.

The financial statements of Kubanenergo JSC were prepared based on the Accounting Standards applicable in Russia.

The figures in the financial statements are given in thousands of rubles (unless otherwise stated).

2.1. Assets and Liabilities in Foreign Currencies

At the beginning and the end of the reporting year, no assets and liabilities expressed in foreign currency were recorded in the Company’s accounting records.

2.2. Intangible Assets

The Company accounts for intangible assets in accordance with Accounting Standard 14/2007 “Accounting for Intangible Assets” approved by Order of the Russian Ministry of Finance dated December 27, 2007 No. 153n.

The intangible assets with definite useful life are amortized using the straight-line method.

2.3. Fixed Assets and Construction in Progress

The Company accounts fixed assets in accordance with Accounting Standard 6/01

“Accounting for Fixed Assets” approved by Order of the Russian Ministry of Finance dated March 30, 2001 No. 26n and Guidelines for Accounting for Fixed Assets approved by Order of the Russian Ministry of Finance dated October 13, 2003 No. 91n.

The Company accounts construction work in progress in accordance with the Russian Accounting Standard approved by Order of the Russian Ministry of Finance dated July 29, 1998 No. 34n as well as in accordance with the Regulation on Accounting for Long-Term Investments (Letter of the Russian Ministry of Finance dated December 30, 1993 No. 160) insofar as it does not conflict with any subsequent law or regulation in relation to accounting.

The assets, in relation to which the conditions of par.4 of this regulation are met and the value of which does not exceed 40.000 rubles per a unit, shall be recorded in the accounting records as inventories.

The fixed assets recorded in the Company’s accounting records include buildings, constructions, machinery, equipment, vehicles and other relevant objects with lifetime over 12 months.

The fixed assets recorded in the accounting records based on their initial value, which is to be determined based on the method of receipt/acquisition: for a fee, creation with the use of the company’s own resources, construction, receipt free of charge, etc.

Costs in relation to loans and credits received in relation to forming an investment asset (fixed assets, property complexes and other similar assets that require a lot of time and cost to purchase and/or build) shall be included in the value of the asset being depreciated.

Costs in relation to loans and credits that were incurred before the execution of works with regard to the creation of an investment asset shall not be included in the value of the investments into non-current assets; instead they shall be included in other expenses.

Fixed assets shall be recorded in accounting records based on their initial value.

The fixed assets were depreciated using the straight-line method based on their useful life. The fixed assets recorded in the accounting records before January 1, 2002 were

depreciated based on their useful life in accordance with the rates approved by Decree of the Government of the USSR dated October 22, 1990 No. 1072 “On the Uniform Rates of Depreciation for Complete Recovery of Fixed Assets of the USSR Economy”. These rate were applicable as at the date of commissioning such fixed assets.

To charge depreciation expense, the useful life of the fixed assets commissioned after January 1, 2002 was determined in accordance with Decree of the Russian Government dated January 1, 2002 No. 1 “On Classification of Fixed Assets Included in Depreciation Groups”.

Depreciation expense in relation to fully depreciated / worn-out fixed assets was not charged.

Income and expenses from retirement, writing-off, transfer without charge of the fixed assets were recorded in the Profit and Loss Statement as other income and expenses. The value of the fixed assets was not subject to change except as the objects were renovated, reconstructed or their construction was completed. Costs of the recovery of fixed assets shall be recorded in the accounting records of the reporting period to which they relate.

Property received under financial lease agreements shall be recorded in accounting records in accordance with the Federal Law dated October 29, 1998 No. 164-FZ “On Financial Lease”. The value of the property received by the lessee (Kubanenergo, OJSC) under the financial lease agreement, is recorded in the off-balance-sheet account 001 “Leased Fixed Assets”. After the Company makes all the payments stipulated in the agreement the lessor will convey title to the leased asset to the Company (lessee) under the sale and purchase agreement.

2.4. Inventories

The Company accounts its inventories in accordance with the Accounting Standard 05/01 Accounting for Inventories” approved by Order of the Russian Ministry of Finance dated June 9, 2001 No. 44n and Guidelines for Accounting for Inventories approved by Order of the Ministry of Finance dated December 28, 2001 No. 119n.

Inventories shall be accounted for with the use of account 16 “Materials Price

Difference”. Inventories shall be recorded in accounting records on the debit side of account 10 “Materials” based on valuation prices, which mean contract prices. At the same time, shipping and handling expenses shall be recorded in account 16 “Materials Price Difference”.

In entering inventories into the books of account, company shall value them as follows:

- if the inventories are purchased for a fee – as the amount of actual costs of their purchase, except for value-added tax and other taxes to be recovered from the budget (par. 6, 11 of Accounting Standard 5/01 (Order of the Russian Ministry of Finance dated June 9, 2001 No. 44n));
- if the inventories are produced with the use of the company’s own resources – based on actual costs related to the production of such inventories. Costs of the inventories production shall be recorded and formed in the books of account in the manner set forth to determine the prime cost of the relevant types of products (par.7 of Accounting Standard 5/01);
- if the inventories are received as a contribution to the charter capital – based on their estimated money value approved by the founders / members except as otherwise required by the law of the Russian Federation; for these purposes, the actual expenses for delivery of the inventories and making them suitable for use shall be taken into account, according to par. 6 of Accounting Standard 5/01 (par. 8, 11 of Accounting Standard 5/01);
- if the inventories are received without charge or under a deed of gift as well as remained after the retirement of fixed assets and other property, entering the inventories, which have been found as overstock based on the results of stock-taking, into the books of account – based on the current market value of the inventories as at the date of their entering into the books of account; the actual expenses for delivery of the inventories and making them suitable for use shall be taken into account (par. 9, 11 of Accounting Standard 5/01);
- if the inventories are received under the agreements, which stipulate that the

obligations shall be performed (payment shall be made) without use of money, - based on the price of the values passed or to be passed to the Company; such price shall be determined based on the price, under which the Company typically determines the price of similar values under comparable circumstances. If it is impossible to determine the value of the assets passed or to be passed to the Company, the value of the inventories received by the company under the agreements, which stipulate that the obligations shall be performed (payment shall be made) without use of money, shall be determined based on the price, by which similar inventories are normally purchased under comparable circumstances. The actual cost price of such inventories also includes the actual expenses for delivery of the inventories and making them suitable for use, according to par. 6, 10, 11 of Accounting Standard 5/01;

– the fixed price specified in the contract is considered to be the value of the inventories received under the contracts of exchange, in which the agreed price of the property being exchange is stated.

According to par. 16 of Accounting Standard 5/01 “Accounting for Inventories” and par. 3.13.14 of the Company’s Accounting Policy, if inventories are issued to production or are otherwise retired they shall be valued based on the average cost price of each type of the inventories.

Special clothing before it is put into use shall be recorded in the accounting records on account 10 “Materials”, separate sub-account “Special Gear and Special Clothing in Stock”. The value of special clothing with useful life over 12 months shall be amortized using the straight-line method based on the useful life of the special clothing stated in the standard industry norms for provision of special clothing, special footwear and other personal protective gear, as well as in the Rules for Provision of Employees with Special Clothing, Special Footwear and Other Personal Protective Gear approved by Decree of the Russian Ministry of Labor and Social Development dated December 18, 1998 No. 51. The average estimation of the actual cost price of the materials issued to production or written off for other purposes shall be made by determining the actual cost price of the

material at the moment of its issue (moving estimate).

At the end of the year the Company makes provision for diminution in value of the inventories out of the financial results. Such provision is to be applied to all inventories that have become obsolete, have absolutely lost their original quality.

2.5. Prepaid Expenses

Recognition of a cost incurred as a prepaid expense and its reporting on the books of account and financial statement as an asset is a principled approach accepted in the Company. This approach is based on the understanding of the temporary fact that the company is likely to receive economic benefits from this asset in the future and of its value assessment with a sufficient degree of reliability.

The Company has determined that balance of prepaid expenses shall be recorded on the rows “Other Non-Current Assets” and “Other Current Assets”.

For these purposes, distribution between sections I and II of the balance sheet shall be made based on the period of expensing relevant costs, i.e. costs with the period of expensing over 12 months shall be recorded in section I of the balance sheet, the rest of costs shall be recorded in section II.

2.6. Financial Investments

The Company accounts financial investments in accordance with Accounting Standard 19/02 “Accounting for Financial Investments” approved by Order of the Russian Ministry of Finance dated December 10, 2002 No. 126n.

Investments into authorized capitals of other companies are recognized as financial investments of the company and shall be recorded in the books of account as actual costs of the investor, i.e. in accordance with the value of the contributed assets, based on which they were reported on the investor’s balance sheet.

Financial investments, in relation to which the current market value cannot be determined, shall be reported in the books of account and financial statements as at the reporting date in accordance with the initial value (par. 21 of Accounting Standard 19/02).

Financial investments, in relation to which it is possible to determine the current market value, shall be reported in the financial statements as at the end of the reporting year in accordance with the current market value by adjusting their valuation as at the previous reporting date (par. 20 of Accounting Standard 19/02).

Debt securities shall be recorded in the accounting records in accordance with the purchase price. The difference between the nominal purchase price and nominal value of the securities shall be included in “Other Income and Expenses”.

2.7. Loans and Credits

The Company accounts costs of loans and credits in accordance with Accounting Standard 15/2008 “Accounting for Costs of Loans and Credits” approved by Order of the Russian Ministry of Finance dated October 6, 2008 No. 107n.

2.8. Estimated Liabilities

The Company accounts estimated and contingent liabilities in accordance with Accounting Standard 8/2010 “Estimated Liabilities, Contingent Liabilities and Contingent Assets” approved by Order of the Russian Ministry of Finance dated December 13, 2010 No. 167n.

2.9. Deferred Taxes

The Company accounts for deferred taxes in accordance with Accounting Standard 18/02 “Accounting for Settlements in relation to Corporate Income Tax” approved by Order of the Russian Ministry of Finance dated November 19, 2002 No. 114n.

When preparing its financial statements company shall report on the amounts of deferred tax assets and deferred tax liabilities on the balance sheet in expanded form.

2.10. Revenue and other income

The Company accounts for its revenue and other income in accordance with Accounting Standard 9/99 “Income of Company” approved by Order of the Russian Ministry of Finance dated May 6, 1999 No. 32n.

Revenue shall be recognized in the Company’s books of account if the following conditions are met:

- 1) the company has the right to receive this revenue, which follows from a particular agreement or is otherwise confirmed;
- 2) the amount of the revenue can be determined;
- 3) it is sure that as a result of a particular transaction the number of the company's economic benefits will increase. Confidence that as a result of a particular transaction the number of the company's economic benefits will increase is in case where the company has received the asset in return or there is no uncertainty with regard to the receipt of the asset;
- 4) the title (including right, title and interest) to products / goods has passed from the company to the buyer or the work has been accepted by the client (the service has been rendered);
- 5) costs that has been incurred or will be incurred in connection with this transaction can be determined.

The Company's other income includes receipt related to the participation in charter capitals of other companies; receipts from the sale of fixed assets and other assets; fines, penalties (including interest-based penalties) for breach of contract conditions; receipt of assets without consideration; profit of previous years; accounts payable, in relation to which the limitation period has expired; foreign exchange differences and other income, according to par. 8 of Accounting Standard 9/99.

2.11. Cost of Sold Goods, Products, Works, Services, Selling and Administrative Expenses, Other Expenses

The Company accounts the expenses in accordance with Accounting Standard 10/99 "Expenses of Company" approved by Order of the Russian Ministry of Finance dated May 6, 1999 No. 33n.

2.12. Government Assistance

The Company accounts the funds received as government assistance in accordance with Accounting Standard 13/2000 "Accounting for Government Assistance" approved by Order of the Russian Ministry of Finance dated October 16, 2000 No. 92n.

2.13. Related Parties

The Company discloses information on related parties in accordance with Accounting Standard 11/2008 “Information on Related Parties” approved by Order of the Russian Ministry of Finance dated April 29, 2008 No. 48n.

2.14. Segment Information

The Company discloses segment information in accordance with Accounting Standard 12/2010 “Segment Information” approved by Order of the Russian Ministry of Finance dated November 8, 2010 No. 143n.

2.15. Information on Cash Flows

According to par. 16 of Accounting Standard 23/2011, cash flows shall be reported in the cash flow statement in short where they characterize the activities of the company’s contracting parties rather than the activities of the company and / or where receipts from some parties give rise to payments to other parties.

3. Changes in Accounting Policy in 2013

No changes were introduced in the Company’s Accounting Policy during 2014.

4. Changes in Accounting Policy in 2015

Substantial changes were not introduced in the Company’s Accounting Policy during 2015.

5. Adjustments and Other Changes in Accounting Related to Prior Periods

The Company made amendments to form 1 “Balance sheet” in 2014 in part of comparable data for previous reporting period (2013 - 2012), which was sent for adjustment of accounting raw materials and materials. Adjustments were introduced in accordance with requirements of Accounting Regulations (AR) 22/2010 “Correction of mistakes in accounting and reports”. The sum of adjustment amounted 682 814 thousand rubles as of 31.12.2014 and 742 904 thousand rubles as of 31.12.2012.

Table 7 – **Before adjustments:**

Line	Code	Balance as of 31.12.2013	Balance as of 31.12.2012
Raw materials, materials and similar values	1211	2 050 130	1 914 210

Raw materials, materials used for development of fixed assets	1156	-	-
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Table 8 - **After adjustments:**

Line	Code	Balance as of 31.12.2013	Balance as of 31.12.2012
Raw materials, materials and similar values	1211	1 367 316	1 171 306
Raw materials, materials used for development of fixed assets	1156	682 814	742 904

Other adjustments related to the previous periods were not made.

6. Disclosure of Individual Figures in the Accounting Statements for 2014

6.1. Fixed Assets

1. As of 31.12.2014 a revaluation of fixed assets (code 110 “Production buildings”, code 420 “Equipment for power conversion”) was carried out by “LAIR” LLC in accordance with contract No.250814/KЭ/OC110420/ДТ/407/30-1299 dated 22.09.2014. Results of revaluation of homogeneous groups of assets (code 110 “Production buildings”, code 420 “Equipment for power conversion”) were included in accounting report for 2014. The cost of fixed assets does not exceed the materiality level specified in paragraph 3.5.18 of Company’s Accounting Policy.

For the period from 01.01.2014 till 31.12.14, there are no fixed assets acquired under the contracts, which would stipulate the fulfillment of obligations by non-monetary assets.

For the period from 01.01.2014 till 31.12.14, there are no fixed assets acquired out of proceeds of loans and borrowings. Information on stocks and transactions of fixed assets is disclosed in Annexes 5.3.1, 5.3.2, 5.3.3, 5.3.4, 5.3.6.

6.1.1. Capital Investments in Progress (Construction in Progress; CIP)

The investment program of Kubanenergo JSC, for 2013 is formed in accordance with:

- Regulations on Investment Operations of Kubanenergo JSC;
- Regulation #170 on making amendments in investment programme and preparation

of report on its implementation introduced by Kubanenergo JSC on 29.02.2012.

Planned parameters of the investment programme 2014 were approved by the BoD together with business plan (minutes of meeting No.197/2014 dd 25.09.2014).

In 2014, the sources of capital investment financing were as follows:

- Depreciation expenses;
- Funds from additional share issue;
- Advance payments for grid connection.

Based on the received sources of financing of utilization of capital investments, the Company formed the investment program for 2014 with key parameters, as follows:

Table 9 – Parameters of actual implementation of investment programme in 2014

Indicator	Unit of measurement	Total Investment Program	Including the Olympic Program
1	2	3	4
Capital investments, VAT excluded	million rubles	9 177,2	6 301,1
Amount of financing, VAT included	million rubles	8 441,7	4 771,4
New fixed capital, VAT excluded	million rubles	22 080,1	19 282,6
Lead-in transformer capacity	MVA	500,2	374,8
Lead-in transmission line capacity	km	1 567,2	1 106,3

In fact, in 2014, Kubanenergo JSC, performed the construction, reconstruction and commissioning of 1567.2 km of transmission lines, including:

- HVL of 110 kv – 311.7 km;
- HVL of 10 kv – 172.4 km;
- CL of 3-10 kv – 309.7 km;
- HVL of 0.4 kv – 734.8 km.

In 2014 Kubanenergo reconstructed and commissioned the following facilities on the territory of Krasnodar region:

- 110kV “Anapskaya” substation (2nd start-up complex, 2nd phase);
- 110/35/6 kV “Eisk-1” substation with replacement of power transformers T2, T-3

from 16 MVA to 25MVA. Apart from it, in 2014 Kubanenergo commissioned 110/10kV “Sukhoi Port” substation with branch from 110kV line and installation of 2 power transformers.

The amount of advances and pre-payment for services related to the construction and acquisition of fixed assets as well as purchase of raw materials and materials, excluding VAT, are recorded in the Company's balance sheet as the capital investments in progress. As of December 31, 2014, the amount of advances and pre-payment for services related to the construction and acquisition of fixed assets, amounted to 248 252 thousand rubles; VAT on advances and pre-payment for services related to the construction and acquisition of fixed assets is recorded in line 1260 "Other Current Assets" and amounts to 44 4444 thousand rubles. As of 31.12.2014 sum of purchase of raw materials intended for construction of fixed assets amounted to 651 535 thousand rubles. Information on stocks and transactions of construction in progress is disclosed in Annex 5.3.5.

6.1.2. Leased Fixed Assets

As of 31.12.2014 that are no leased fixed assets. Lease payments are not planned in the nearest future.

6.2. Other Non-Current and Current Assets

As of December 31, 2014, the deferred expenses amounted to 137 346 thousand rubles; these expenses are recorded in the balance sheet depending on the writing-off period fixed as of the date of entry in the accounting records, as follows:

1) Non-exclusive rights to software programmes:

- Useful life is more than 12 months (Line 1190)

76 639 thousand rubles;

- Useful life is within 12 months (Line 1263)

47 005 thousand rubles;

2) Licenses:

- Useful life is more than 12 months (Line 1190)

689 thousand rubles;

- Useful life is within 12 months (Line 1263)

570 thousand rubles;

3) Other:

- Useful life is more than 12 months (Line 1190)

7 948 thousand rubles;

- Useful life is within 12 months (Line 1263)

4 495 thousand rubles.

6.3. Financial Investments

In accordance with Accounting Regulations "Financial Investment Accounting" PBU 19/02 approved by Decree of the Ministry of Finance of the Russian Federation No. 126Н dd. 10.12.2002 (hereinafter - PBU 19/02) and Regulations on the Accounting Policies of Kubanenergo JSC for 2014 approved by the Company's Decree No. 1578 dd. 27.12.2013, the Commission for Inspection of Available Devaluation of Financial Investments of Kubanenergo JSC, that has been formed by Decree of Kubanenergo JSC, No. 1142 dd. December 31, 2014 "On the Inspection of Available Devaluation of Financial Investments of Kubanenergo JSC" performed the inspection of available devaluation of financial investments of Kubanenergo JSC. According to the inspection results, the Commission as of December 31, 2013 ordered: reserve for possible losses from other financial interments is proposed to be left without changes. Information on stocks and transactions of financial investments is disclosed in Annexes 5.4.1, 5.4.2.

6.4. Government Aid

The Ministry of Energy of the Russian Federation provided to the Company a subsidy for reimbursement on expenses on emergency reserve of diesel generator sets which ensure reliability of energy supply to socially important consumers in the Russian Federation

during the cold season 2014-2015, in connection with the relocation of the relevant facilities in Crimean Federal District for the amount of 125 565 thousand rubles. The funds received are used in full for the purposes of the subsidy.

Local bodies of Social Insurance Fund of RF adopted resolutions on financial support of preventive measures for reduction of injuries with the total amount of support – 2 226 thousand rubles.

The accounting of the amounts received was made in accordance with Accounting Regulations "Government Aid Accounting" PBU 13/2000 approved by Decree of the Ministry of Finance of the Russian Federation No. 92H dd. 16/10/2000. Information is disclosed in Annex 5.9.

6.5. Accounts Receivable

Table 10 – Budget settlements

(in thousand rubles)

Indicator	Receivables		Accrued	Paid	Receivables	
	as of December 31, 2013		for 2014	for 2014	as of December 31, 2014	
	Debit	Credit			Debit	Credit
1	2	3	4	5	6	7
Value-Added Tax	806 312	9	129 078	-789 602	-	112 377
Property tax	128	30 626	186 117	204 212	21 985	34 388
Income tax	2 394	-	-	-	2 394	-
Land fee	41 051	2 243	35 981	14 185	18 980	1 968
Individual income tax	625	42 203	502 479	511 461	751	33 347
Transport tax	-	1 654	7 251	7 340	-	1 565
Effluent charge	78	145	78	145	-	-
Other taxes and dues	-	-	-	-	-	-
Total taxes:	850 588	76 880	860 984	-52 259	44 110	183 645
Fines	2	4 543	2	4 543		
Penalties	4 643	1	1 320	1 225	4 688	141
Total:	855 233	81 424	862 306	-46 491	48 798	183 786

In 2014, accounts receivable for taxes and dues have decreased by 806 435 thousand rubles.

Considerable reduction occurred in VAT receivables. VAT receivables has reduced by 806 312 thousand rubles as a result of paid tax declaration for the 4th quarter of 2104, for the same period of 2013 the VAT receivables amounted to 538 788 thousand rubles.

Property tax receivables increased by 21 857 thousand rubles due to increase of accruals on this tax. Tax obligations on property tax increased due additions to tax base that occurred after revaluation of fixed assets and commissioning of new fixed assets in accordance with investment programme. Also starting from 2014 tax rate 0.7% for transmission lines is used, in 2013 this tax rate amounted 0.4%.

Reduction of accounts receivable on land tax by 22 071 thousand rubles is explained by reduction of accruals in 2014 in the results of termination of right of unlimited use of land plots and signing of rent contracts.

Table 11 – Insurance contributions for compulsory social insurance

(in thousand rubles)

	Receivables		Accrued	Paid	Receivables	
	as of December 31, 2013		for 2014	for 2014	as of December 31, 2014	
	Debit	Credit			Debit	Credit
1	2	3	4	5	6	7
Insurance contributions - total:	2 076	120 178	1 117 624	1 172 240	2 876	66 362
including:						
Contributions to the Pension Fund	214	92 599	818 642	857 443	21	53 605
Compulsory Medical Insurance	34	18 917	181 071	188 818	-	11 136
Social Insurance	1 828	8 662	117 911	125 979	2 855	1 621
Fines - total:						
Penalties - total:	1	-	1	-	-	-
TOTAL:	2 077	120 178	1 117 625	1 172 240	2 876	66 362

Table 12 – Allocation of taxes, fines and penalties over the budget levels

(in thousand rubles)

Indicator	Receivables		Accrued	Paid	Receivables	
	as of December 31, 2013		for 2014	for 2014	as of December 31, 2014	
	Debit	Credit			Debit	Credit
Taxes - total:	850 588	76 880	860 906	-52 337	44 110	183 645
Federal budget	806 865	36	631 557	-319 709	1 286	145 723
Regional budget	2 318	58 928	193 368	237 882	23 856	35 952

Local budget	41 405	17 916	35 981	29 490	18 968	1 970
Fines - total:	2	4 543	2	4 543	-	-
Federal budget	-	4 543	-	4 543	-	-
Regional budget	2	-	2	-	-	-
Local budget	-	-	-	-	-	-
Penalties - total:	4 643	1	1 320	1 225	4 688	141
Federal budget	4 477	-	44	47	4 480	-
Regional budget	48	1	12	22	57	-
Local budget	118	-	1 264	1 156	151	141
Total:	855 233	81 424	862 228	-46 569	48 798	183 786

Accounts receivable from customers and clients and other accounts receivable are disclosed in Annexes 5.6.1 - 5.6.3.

6.6. Capital and Reserves

No changes occurred in the authorized capital of Kubanenergo JSC and as of 31.12.2014 it amounts to 28 286 813 000

There are no stated and unclaimed dividends to shareholders in the current period. Additional paid-in capital of the Company was formed due to increase in the fixed assets value as determined by revaluation and due to share premium.

The Company generates the reserve capital for covering losses that, although not specifically identified, but may be incurred during the economic operations. The reserve capital is created from net income of the Company.

6.7. Accounts Payable, Loans and Borrowings

Accounts payable for taxes and dues increased by 106 765 thousand rubles and was formed mainly by results of accruing taxes to corresponding levels of budget for the last tax period.

Table 13 – **Amounts and maturities of loans and borrowings of Kubanenergo JSC**

in thousand rubles

Bank	# of credit contract	Date of provision of loan/credit	Date of discharge of credit/loan	Sum of actual debt as of 31 December 2014
1	2	3	4	5

Bank	# of credit contract	Date of provision of loan/credit	Date of discharge of credit/loan	Sum of actual debt as of 31 December 2014
1	2	3	4	5
Sberbank of Russia JSC	№59/1	05.05.2011	30.04.2015	1 600 000
Total for Sberbank of Russia JSC		<i>x</i>	<i>x</i>	<i>1 600 000</i>
Gazprombank JSC	№0712-095	07.11.2012	06.11.2015	917 000
<i>Total for Gazprombank JSC</i>		<i>x</i>	<i>x</i>	<i>917 000</i>
Total for short-term credits		x	x	2 517 000
Gazprombank JSC	№ 0711-038	20.05.2011	20.05.2016	1 304 000
	№ 0711-044	11.07.2011	11.07.2016	1 000 000
	№0713-063	23.08.2013	22.08.2016	1 000 000
	№ 0711-054	05.09.2011	02.09.2016	696 000
	№0713-054	26.06.2013	25.06.2018	2 000 000
	№0713-085	08.11.2013	07.11.2018	1 500 000
<i>Total for Gazprombank JSC</i>		<i>x</i>	<i>x</i>	<i>7 500 000</i>
Sberbank of Russia JSC	№74	26.08.2013	25.08.2016	2 000 000
	№68	08.11.2013	07.11.2016	4 000 000
	№94	28.11.2013	27.11.2016	1 000 000
Total for Sberbank of Russia JSC		<i>x</i>	<i>x</i>	<i>7 000 000</i>
Rosenergo bank CJSC	№1071331	24.10.2014	21.10.2016	400 000
<i>Total for Rosenergo bank CJSC</i>		<i>x</i>	<i>x</i>	<i>400 000</i>
Total for long-term credits		x	x	14 900 000
Total for credits and loans:		x	x	17 417 000

6.7.1. Security for the Obligations

Pursuant to Decree of IDGC Holding JSC, No. 240 dd. 07.06.2011 and Decree of Kubanenergo JSC No. 617 dd. 21.07.2011 (with amendments dated 24.09.2012 order No.1058) and No.1058 dated 05.12.2011, the Contractors shall provide a security for the proper performance of the obligations under the contract agreements for construction and assembling operations and for design and exploration work in the form of an irrevocable and unconditional bank guarantee.

As of December 31, 2014, the bank guarantees received and recorded on off balance sheet account 008 "Securities for Obligations and Payments Received" amounted to 278 815 thousand rubles.

Property pledged under purchase contract – 929 thousand rubles. (Annex 5.8.)

6.7.2. Information on the Company's Capabilities to Raise Additional Funds as of the Reporting Date

Table14 – Unutilized credit lines of the Company

thousand rubles)

Creditor Bank	Agreement	Amount of unutilized limits	Interest Rate, %
1	2	3	4
Gasprombank JSC	#0713-085 dated 08.11.2013	3 500 000	25

6.8. Information on the Risks of Economic Operations

The Internal Control and Risk Management System of Kubanenergo JSC, (ICRMS) is based on interaction and delimitation of authorities of its regulatory bodies, departments and employees of the Company, which perform the development, approval, implementation and estimation of efficiency of the internal control procedures. The executives and experts of all levels of management of Kubanenergo JSC, involve in the risk management and internal control processes.

ICRMS development and operation is based on the Internal Control Policies and the Risk Management Policies approved by the Board of Directors.

In order to ensure unified approaches to implementation of the risk identification, assessment and management procedures, the Company uses the Guidelines for Risk Management approved by the Audit Committee of the Board of Directors.

6.8.1. Strategic and environmental risks

Sovereign risks. Russia continues its economic reforms and development of its legal, tax and regulatory frameworks that meets requirements of market economy. Stability of the Russian economy largely depends on these reforms and the effectiveness of measures taken by the Government in the field of economic, financial and monetary policy.

In 2014, the negative impact on the Russian economy had a significant decline in oil prices and a significant devaluation of the Russian ruble as well as the sanctions imposed on Russia by some countries. In December 2014 interest rates in rubles have increased significantly as a result of the Bank of Russia raising the key rate to 17%. Together these factors led to a decrease in the availability of capital, an increase in the cost of capital, higher inflation and uncertainty about economic growth, which may in the future adversely affect the financial condition, results of operations and business prospects of “Kubanenergo”. The Company's management considers that it is taking appropriate measures to support the sustainability of the enterprise in the current environment.

Regional risks. Kubanenergo JSC is a major regional distribution network company carrying out its production work in Krasnodar Region and the Republic of Adygea.

To reduce the influence of regional risks on implementation of its own investment programme the Company constantly cooperates with state organs and develops actions agreed with them in relation to investment projects approved at the level of the Government of the Russian Federation. Work is also carried out on agreeing long term programmes for development of Kubanenergo JSC branch zones with regional and local organs of power.

The operating regions of Kubanenergo JSC are politically stable and the risk of internal military conflicts or a state of emergency arising is minimal. At the same time given the less stable neighbouring regions and in connection with construction of Olympic facilities in the Sochi energy district a risk of terrorist acts in regions where the Company works does exist. To minimise this risk Kubanenergo JSC works closely with the corresponding state authorities and applies the measures agreed with them on ensuring production safety. The Company also developed and implemented targeted actions on protecting energy facilities from sabotage or terrorist acts.

6.8.2. Regulatory risks

Industrial risks. As a result of reforming of the power industry a new business environment has evolved for its businesses. The level of development of the normative base, regulating relationships on the wholesale market was inadequate and, as a consequence, disagreements with retail suppliers in relation to volumes of electricity consumption are factors that make for a growth in the level of debt for the Company.

Minimising the above mentioned risk is done by developing a positive legal policy in relations with retail suppliers and involving municipal, regional and, in some cases, Federal authorities of executive power in resolving disputes with the aim of holding construction negotiations with debtor organisations, as well as by eliminating the causes of disputes with consumers.

Regulatory risks. In connection with the policy being carried out at the present time by the Government of the Russian Federation to control growth in tariffs in 2014 for natural monopoly services there is a risk that the regulating authorities will stipulate tariffs for electricity transmission services lower than the economically viable level. As the main type of activity at Kubanenergo JSC is electricity transmission services and technological connection of consumers to electricity networks, the tariff levels set by the regulating authorities have a direct effect on the Company's revenues. This risk could lead to the impossibility of full reimbursement of economically sound expenses and limit the volumes of investment in developing Kubanenergo electricity production and distribution.

As a subject of a natural monopoly, the Company is exposed to the risk of breaching antimonopoly legislation as it pertains to providing electricity transmission and technological connection services. To reduce this risk regulations and standards for consumer service have been drawn up and information about services is disclosed in accordance with the legislation of the Russian Federation.

6.8.3. Financial risks

Interest rate and currency exposure. Kubanenergo JSC carries out its main production

activities within the territory of the Russian Federation, and at the same time has no investments in foreign companies or income expressed in foreign currency. Therefore the risks relating to fluctuations in exchange rates do not have a direct effect on the financial and operating activities of the Company and are assessed as insignificant.

Kubanenergo JSC is engaged in short term and long term borrowing on the Russian finance market. A significant increase in interest rates on loans could lead to more expensive debt servicing. In order to optimise the structure of the loan portfolio and reduce expenditure on its servicing the Company aims to use loans with fixed interest rates, as a result of which the risk is significantly reduced. In addition the Company aims to make a selection of organisations offering financial services by holding an auction in accordance with procedures set by the legislation of the Russian Federation, as well as carrying out constant monitoring of the capital loans market and the possibility of restructuring debt.

Risks related to inflation. For Kubanenergo JSC the risk of inflation means faster devaluation of the ability of money received by the Company rather than nominal growth. This could be the result of devaluation of accounts receivable in conditions of inflation growing at a rate higher than expected and in connection with restrictions on altering tariff-balance decisions during the period for which they have been set.

In case of a significant growth in inflation the Company intends to pay particular attention to increasing turnover of working assets, mainly by reducing reserves, as well as re-examine existing contractual relations with consumers to reduce turnover of accounts receivable.

Inflation risks are considered as average.

Risk of obligation default by counteragents. As its activities mean the company enters into numerous contractual relationships with other businesses, Kubanenergo JSC is exposed to the risk of obligation default by counteragents and violation of property and personal non-property rights. This could lead to a growth in volume of receivables and payables. To prevent these risks from occurring the Company selects suppliers and

contractors on a competitive basis with obligatory inspection of their financial condition and the availability of sufficient resources to carry out works (services). Claims are made against counteragents for violation of contract conditions and fines (penalty fees) are imposed.

Risk of obligation default in bringing investment vehicles into operation. To provide the necessary level of renovation of fixed assets, uninterrupted network supply and renovation of electricity production holdings the Company carries out investments in the form of capital expenditure, which is accompanied by the risk of noncompliance with deadlines for bringing construction projects into operation. To reduce this risk Kubanenergo JSC takes the following actions:

- organises timely corrections to the investment programme;
- redistributes resources derived from economies made from tendering procedures between various investment projects;
- monitors the timeliness of holding tendering procedures for investment programme projects;
- monitors deadlines for concluding and executing investment contracts.

6.8.4. Operational and technological risks

Risks related to safe operation of production facilities and energy efficiency.

The Company's activities are potentially linked to violation of operating conditions and critical changes to the parameters of operating equipment, as well as the possibility of emergencies and critical situations at electricity network facilities. Among these risks the following stand out:

- system occurrences related to providing safe operation of production facilities and reliability of power supply;
- the risk of switching to a mode of operation with forced (allowable) power exchange;
- the risk of one-off sharp increase in load in excess of the plan in connection with natural disasters.

To minimise the chances of these risks the Company takes the following actions:

- analysing the situation in order to anticipate the occurrence of the risk in carrying out the production plan and taking measures to protect against its effects
- insuring property, vehicles, public liability, as well as accident insurance for employees;
- drawing up a programme for maintenance and repair works;
- taking actions to improve the reliability of the electricity network, including by monitoring procurement and the quality of equipment and materials delivered.

Risks related to personnel management. The energy sector is a high technology one and requires corresponding staff qualifications. At the current time the situation regarding labour resources is difficult, manifesting itself in a shrinking in the intake of qualified industrial staff into the electricity energy sector. If the current trend should continue Kubanenergo JSC could be confronted in the long term with a shortage of qualified industrial staff, so the Company assesses this risk as medium.

To minimise this risk the Company regularly holds meetings with students in specialised higher educational institutions offering them work placements at Kubanenergo JSC production facilities. In addition, work is being carried out in the Company to provide training and ongoing training to personnel, and a system for forming and development a personnel reserve has been adopted. To recruit and retain staff at the Company various social programmes are being carried out, medical insurance and supplementary pension are provided, and events in health and safety are carried out.

Procurement and logistics risks. The main risks related to procurement are risks of reduction in procurement transparency, failure to meet deadlines, and the cost of goods being higher than was planned.

To reduce these risks the Company has organised effective control to spend funds as per their intended purpose. This is carried out by competitive tendering involving the “b2b-energo” and “<http://zakupki.gov.ru>” information and analysis trading website. The transparency of purchases of the Company is confirmed by the large proportion of open trade procedures. Organisation of procurement management is provided by the Central

Procurement Office, which sets Kubanenergo JSC policy in the field of procurement.

6.8.5. Compliance risks

Corporate management risks. One of the main risks of corporate management is the risk of deterioration in its quality arising from changes in structure of those involved in corporate relations and the risk of conflict of interest between various groups of shareholders.

In order to reduce this risk the Company has adopted the following internal documents intended to ensure the balance between corporate management systems:

- Kubanenergo Rules of Corporate Management,
- the Regulations on insider information,
- the Regulations on information policy,
- the Regulations on dividend policy,
- the Regulations on management bodies.

To strengthen the trust of shareholders, potential investors, employees and the general public the Company has included in the Rules of Corporate Management not only the norms of Russian legislation but also additional statements based on accepted Russian and international corporate management standards.

The Company assesses the risks of deterioration in the quality of corporate management and conflict of interest between various groups of shareholders to be minimal at the current time.

6.8.6. Risks related to changes in tax or environmental legislation, customs and currency regulations.

The Company is building up its work on compliance with the standards of legislation in force in the Russian Federation and, in addition, constantly monitors changes made to it. Changes to the customs and currency legislation of the Russian Federation do not affect the Company's operations, and, consequently, do not give risk to compliance risk.

Tax risks. Risks related to the ambiguities of tax legislation norms capable of leading to incorrect calculation and payment of taxes, as a result of which fines could be imposed

by the tax authorities. Such actions as monitoring court practice in the field of tax legislation, ongoing staff training, as well monitoring the completeness of calculations of tax liabilities and payment deadlines make it possible to consider for the Company that this risk is minimal within context of the operations of a conscientious tax payer.

In addition, we cannot exclude the risk of changes in tax laws with regard to tax rates and/or change in the order and timing of the calculation and payment of taxes, which may lead to a decrease in net profit. This risk is minimised by monitoring future changes in tax legislation and timely tax planning.

Risks related to court cases. Changes in court practice related to changes in the position of supervisory agencies could have an effect on Kubanenergo JSC operating activities.

To minimise these risks Kubanenergo JSC is developing a positive court practice on disputed issues related to inconsistencies in implementing legislative norms.

Environmental risks.

Environmental risks are defined as insignificant due to the fact that “Kubanenergo” observes the rules and regulations of environmental legislation, monitors the upcoming regulatory changes and promptly reacts to them. In addition, an environmental management system of “Kubanenergo” was certified and proved to comply with the international standard ISO 14001: 2004.

6.9. Deferred taxes

In order to recognize income and expense when calculating the income tax the Company applies accrual method of accounting. The company accounts and includes in the report deferred tax assets and obligations on income tax. Deferred tax assets and obligations are accounted for temporary differences that are incomes and expenditures, which form the profit (loss) in one reporting period, and taxable base on income tax in other reporting periods.

Current income tax is tax for taxation purposes defined in accounting on the basis of the amount of conditional tax, adjusted sum of permanent tax assets and liabilities as well as

deferred tax assets and liabilities of reporting period.

Current income is recognized as obligation to budget equal to non-paid sum of income tax.

Provisional profits tax expense (income) is accounted as multiplication of accounting income (loss) with rate of the income tax set by the RF legislation on taxes and levies.

In 2013 the Company defined the following components of income tax, in thousand rubles:

Table 15 – **Income tax**

thousand rubles

Indicators	Sum	Tax rate	Sum	Tax component
Profit/loss before the taxation	(3 736 140)	20%	(747 228)	Provisional profits tax income
Taxable temporary difference	(6 443)	20%	(1 289)	Deferred tax obligations
including				
- difference appeared	88 992	20%	17 798	Deferred tax obligations were accrued
- difference was discharged	95 435	20%	19 087	Deferred tax obligations were discharged
Deductible temporary difference	324 005	20%	64 801	Deferred tax asset
including				
- difference appeared	3 148 957	20%	629 791	Deferred tax assets were accrued
- difference was discharged	2 824 952	20%	564 990	Deferred tax assets were discharged
Taxable permanent difference	4 384 599	20%	876 920	Permanent tax obligation
Deductible permanent difference	429 308	20%	85 862	Permanent tax asset
Tax base	549 600	20%	109 920	Current tax

Таблица –16 **Flow of permanent and temporary differences**

(thousand rubles)

Indicator	sum
Permanent tax liabilities (assets), resulting in adjustment of contingent income for income tax, total thousand rubles	791 058
including:	
permanent tax asset arising from the revealed revenue of previous years	(24 587)
permanent tax asset arising from the revealed loss of previous years	161 656
permanent tax liabilities resulting from differences in accounting for depreciation of fixed assets for tax purposes and financial reporting	57 376

Indicator	sum
permanent tax liabilities resulting from the creation of the provision for estimated liabilities	415 171
permanent tax asset arising from the recovery of provision for estimated liabilities	(58 308)
miscellaneous permanent tax liabilities (assets)	239 750
Recognition of deferred tax assets for the amount of deductible temporary differences, total in thousand rubles	765 054
including:	
recognition of a deferred tax asset for the amount of the difference in accounting for allowance for doubtful accounts	446 160
recognition of a deferred tax asset for the amount of the difference in accounting for the provision for unused vacation	130 137
recognition of a deferred tax asset for the amount of the difference in accounting for depreciation of fixed assets for tax purposes and financial reporting	28 937
recognition of a deferred tax asset for the amount of the difference in accounting of donated property	22 646
the recognition of deferred tax assets for the amount of adjusted tax liabilities of previous periods	135 263
the recognition of deferred tax assets for the amount of other deductible temporary differences	1 911
Repayment of deferred tax assets for the amount of deductible temporary differences, total in thousand rubles	686 366
including:	
repayment of the deferred tax asset for the amount of the difference in accounting for allowance for doubtful accounts	488 984
repayment of the deferred tax asset for the amount of the difference in accounting for the provision for unused vacation	69 723
repayment of the deferred tax asset for the amount of the difference in accounting for depreciation of fixed assets for tax purposes and financial reporting	4 237
repayment of the deferred tax asset for the amount of the difference in accounting for losses to be carried forward	109 920
disposal of deferred tax assets, asset retirement	11 456
repayment of the deferred tax asset in the amount of other deductible temporary differences	2 046
Recognition of deferred tax liabilities in the amount of taxable temporary differences, total in thousand rubles	17 798
including:	
recognition of a deferred tax liability for the amount of the difference in accounting for depreciation of fixed assets for tax purposes and financial reporting	15 584
recognition of a deferred tax liability for the amount of the difference in accounting for other taxable temporary differences	2 214

Indicator	sum
Repayment of deferred tax liabilities in the amount of taxable temporary differences that resulted in adjustment of contingent income for income tax, total in thousand rubles	19 450
including:	
repayment of the deferred tax liability for the amount of the difference in accounting for depreciation of fixed assets for tax purposes and financial reporting	16 445
disposal of deferred tax liabilities related to asset retirement	364
repayment of the deferred tax liability for the amount of the difference in the account of other taxable temporary differences	2 641

The Company has reduce the tax base of the current tax period by 549 600 thousand rubles, which is the part of sum of losses incurred in previous tax periods. Write-off of deferred tax amounted 190 920 thousand rubles.

There were no grounds to change the tax rate.

During the reporting period due to disposal of assets (sale, transfer on free of charge basis, dissolution) the differed tax obligation in amount 730 thousand rubles, deferred tax assets in amount of 11 456 thousand rubles were written-off on account of profit and losses. Information on taxation of profit, cash flow is disclosed in annexes 2.3 and 5.7.2.

6.10. Cost of goods sold, commercial expenses, administrative expenses and other expenses

Administrative expenses are calculated on a Company's Account No.26 "Administrative expenses". At the same time they are acknowledged as expenses from ordinary activities and generate cost of goods, works and services

Table 17 – **"Other costs" transcript**

(thousand rubles)

Indicator		2014	2013
Name	Code		
Cost of goods sold,	6510	29 918 777	32 201 425
including			

Other expenses	6515		
Including		16 694 429	17 636 452
Electricity distribution companies services			
JSC “FSK UES” services		7 778 157	10 024 337
Other expenses		5 036 790	4 877 739

6.10.1 Information on the expenses of energy resources usage

Table 18 – Information on the expenses of energy resources usage

No.	Approved target indicators	Measurement unit	2013(fact)	2014 (fact)
1	2	3	4	5
1.1.	Electric energy losses, Including	Mln rubles, including VAT	9 792,183	6 568,388
		Mln kilowatt-hour	2 792,930	2 852,724
1.1.1.	Energy for own needs	Mln rubles, including VAT	66,986	31,949
		Mln kilowatt- hour	19,106	16,437
1.2.	Energy purchased for operational and household needs, by resource types	Mln rubles, including VAT	5	
1.2.1.	Fuel and energy, including	Mln rubles, including VAT	95,855	108,498
		Tons of fuel	91,557	103,307
1.2.1.1.	Electric energy	Mln rubles, including VAT	12 613,494	12 911,000
		Thousands kilowatt-hour	81,754	91,702
		Thousands kilowatt-hour per square meter of premises	34 062,561	34 393,421
1.2.1.2.	Thermal energy	Mln roubles, including VAT	0,102	0,102
		gCal	8,746	10,374
		gCal per square meter of premises	4 548,899	5 568,190
1.2.2.	Hot water supply	Thousands of cubic meters	0,013	0,016
		Mln roubles, including VAT	3,040	1,030
1.2.3.	Cold water supply	Thousands of cubic meters	0,242	0,246
		Mln roubles, including VAT	101,929	141,159
1.2.4.	Natural gas	Thousands of cubic meters	4,056	4,945
		Mln roubles,including VAT	176,056	203,272
1.3.	Presence of metering devices of electric energy consumed for the Company’s household needs	%	1,047	1,231
1.4.	Electric power metering devices equipment by retail	%	100	100

	market's consumers			
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6.11. Cash flow dynamics information

In accordance with Accounting Regulations 23-2011 the Company's Cash Flow Report concludes a brief calculation of a VAT including incomes from customers and receivers, payments to suppliers and payment to a budget system of Russian Federation or reimbursement from it in line 4119 "Other payments" in form "Cash flow dynamics report" in the amount of 1 105 141 thousands rubles, including:

VAT included in received amounts	5 452 209 thousands rubles
VAT included in amounts transferred	5 139 457 thousands rubles
VAT paid to a budget	250 691 thousands rubles
VAT reimbursed from the budget	1 043 080 thousands rubles
Total	1 105 151 thousands rubles

Highly liquid investments (cash equivalents) that can be readily converted into previously known amounts of cash and which are subject to insignificant risk of changes in value for the period from 01.01.2014 to 31.12.2014 were not performed.

Table 19 – Minimum amount of minimum balance of funds on current accounts of the Company as of 31.12.2014

Ground (additional agreement, confirmation of transaction)	Transaction starting date	Transaction ending date	Interest rate	Sum of minimum required balance
1	2	3	4	5
Gazprombank JSC				4 813 578
Confirmation of transaction # 528	30.12.2014	12.01.2015	16,50	2 541 691
Confirmation of transaction # 530	31.12.2014	12.01.2015	10,00	118 200
Confirmation of transaction # 524	03.12.2014	02.02.2015	9,80	1 336 700
Confirmation of transaction # 864	31.12.2014	12.01.2015	10,00	1 700
Confirmation of transaction # 829	02.12.2014	14.01.2015	9,50	15 700
Confirmation of transaction # 852	19.12.2014	15.01.2015	20,00	30 000
Confirmation of transaction # 850	18.12.2014	16.01.2015	19,00	58 300
Confirmation of transaction # 834	04.12.2014	19.01.2015	9,50	10 000
Confirmation of transaction # 859	26.12.2014	20.01.2015	19,25	37 900

Ground (additional agreement, confirmation of transaction)	Transaction starting date	Transaction ending date	Interest rate	Sum of minimum required balance
1	2	3	4	5
Confirmation of transaction # 855	23.12.2014	21.01.2015	23,00	62 700
Confirmation of transaction # 863	30.12.2014	21.01.2015	18,00	17 200
Confirmation of transaction # 839	08.12.2014	26.01.2015	9,50	7 800
Confirmation of transaction # 843	10.12.2014	28.01.2015	9,50	36 200
Confirmation of transaction # 862	30.12.2014	29.01.2015	18,00	66 000
Confirmation of transaction # 803	12.11.2014	11.02.2015	9,70	45 000
Confirmation of transaction # 806	14.11.2014	13.02.2015	9,70	35 900
Confirmation of transaction # 808	17.11.2014	16.02.2015	9,70	50 000
Confirmation of transaction # 810	18.11.2014	18.02.2015	9,70	48 200
Confirmation of transaction # 812	19.11.2014	20.02.2015	9,70	17 100
Confirmation of transaction # 817	24.11.2014	24.02.2015	10,20	34 900
Confirmation of transaction # 819	25.11.2014	25.02.2015	10,20	23 100
Confirmation of transaction # 821	26.11.2014	27.02.2015	10,20	35 900
Confirmation of transaction # 823	27.11.2014	02.03.2015	10,20	49 500
Confirmation of transaction # 826	01.12.2014	06.03.2015	10,20	22 000
Confirmation of transaction # 828	02.12.2014	10.03.2015	10,20	20 000
Confirmation of transaction # 833	04.12.2014	12.03.2015	10,20	15 700
Confirmation of transaction # 837	05.12.2014	16.03.2015	10,20	20 000
Confirmation of transaction # 841	09.12.2014	18.03.2015	10,20	38 200
Confirmation of transaction # 47	30.12.2014	12.01.2015	16,50	9 248
Confirmation of transaction # 39	15.12.2014	15.01.2015	10,50	8 739
Krasnodar branch #8619 Sberbank of Russia JSC				23 700
Additional agreement #648	30.12.2014	13.01.2015	8,65	23 700
Astrakhan branch #8625 Sberbank of Russia JSC				471 900
Notification #2	12.09.2014	12.03.2015	7,90	86 900
Notification #62	31.12.2015	12.01.2015	7,74	73 200
Notification #379	31.12.2014	12.01.2014	8,30	311 800
Total				5 309 178

The Company has not received any monetary funds under overdraft.

As of December 31, 2014, third-party guarantees received and not used by the Company to raise a credit with specification of the amount of monetary funds that can be raised by the Company are not available.

Cash (or cash equivalents) that cannot be used by the Company (e.g., letters of credit opened for the benefit of other organizations for transactions in progress as of the reporting sheet date) is not available as of December 31, 2014.

6.12. Segment Information

According to Accounting Regulations 12/2010, the management and decision-making structure of the organization and the internal reporting system were taken as bases of segmentation in the Company.

The Company determined the structure of the reportable segments:

- 1) Electricity transmission;
- 2) Grid connection to the power supply networks.

The Company discloses the information in the accounting statements only by the reportable segments. The remaining segments are presented in the accounting statements as other segments.

Table 20 – Consumers, the sales revenue from which is not less than 10 % of the total revenue of the Company

(thousand rubles)

#	Consumer (Customer)	Total Revenue	Including Electricity Transmission	Including Other Services
1	Independent Power Sales Company JSC	10 895 592	10 895 592	-
2	Kubanskaya Power Sales Company JSC	13 329 693	13 308 717	20 976

In addition, information by the reportable segments is presented in Annex 5.13.

6.13. Information on Related Parties

6.13.1. List of Related Parties

The operations of Kubanenergo JSC are strongly affected by the following persons/entities, which are affiliated to the Company:

- the largest shareholders of the Company – Russian Grids JSC (owns 92.24 % of the Authorized Capital of the Company); the Russian Federation represented by the Federal Agency for State Property Management (7,36 % of the Authorized Capital);
- persons, that are members of the management bodies of the Company.

Kubanenergo JSC supervises the operations of its subsidiaries.

In accordance with the Federal Law No. 208-Φ3 dd. 26.12.1995 “On Joint-Stock Companies”, the transactions concluded between the Company and the abovementioned persons/entities will be considered as interest-party transactions.

Within the legislation of the Russian Federation, Kubanenergo JSC publishes the lists of affiliates on its website at <http://www.kubanenergo.ru> in Section "For Shareholders and Investors" / "Lists of Affiliates", as well as at <http://www.e-disclosure.ru/portal/company.aspx?id=2827>.

6.13.2. Transactions Made with the Related Parties and Related-Party Transactions in Progress

Table 21 – Income and related receivables for 2013

thousand rubles

Counterparty	As of 31 December 2012	Accrued	Paid	As of 31 December 2013
FGC UES JSC*	139	3 435	(3574)	-
IDGC of the South JSC*	7	3		10
P/o Energetik JSC***	1 494	1 795	(1 371)	1 918
Reserve	(1000)	-	-	(1000)
Russian Grids JSC***	-	6	(6)	-
Mobile GTES JSC*	-	54	(54)	-
GruzRosenergo JSC*	-	68	(68)	-
Energoservis Kuban JSC	6	68	(68)	6

Table 22 – Income and related receivables for 2014

thousand rubles

Counterparty	As of 31 December 2013	Accrued	Paid	As of 31 December 2014
IDGC of the South JSC*	10	4	-	14
P/o Energetik JSC***	1 918	2 189	(2 058)	2 049
Reserve	(1 000)	-	-	(1 000)

Russian Grids JSC***	6	68	(23)	51
Energoservis Kuban JSC	-	3 949	-	3 949
Mobile GTES JSC*	-	1 573	(1 573)	-

Table 23 – Expenses and other transactions and related to it payables for 2013

(thousand rubles)

Counterparty	As of December 31 2012	Accrued	Repaid	As of December 31 2013
1	2	3	4	5
IDGC of the South JSC*				
- Trading Transactions	(3 955)	(2 565)	4 837	(1 683)
- Other payables	(84 404)	(15 193)	5 767	(93 830)
Holding IDGC, JSC**				
- Other payables	(4 513)	-	4 513	-
Russian Grids JSC				
- Share acquisition	-	(17 045 700)	17 045 700	-
- Other payables	-	(90 852)	86 339	(4 513)
Kubanskiye Transmission Networks JSC*				
- Other payables	(6 335)	-	1 584	(4 751)
FGC UES JSC*				
- Trading Transactions	(381 940)	(5 755 732)	3 199 710	(2 937 962)
- Other payables	(844)	(140)	110	(874)
- Other payables	202 787	760 219	(750 708)	212 298
Reserve	(169 037)	(168 076)	69 037	(169 076)
IDGC Scientific and Research Centre JSC*				
- Other payables	(1 491)	-	1 491	-
P/o Energetik JSC***				

- Other payables	-	(8428)	8428	-
Mobile GTES JSC*				
- Trading Transactions	-	(127)	54	(73)
- Other payables	-	(1 232)	-	(1 232)
IT Energy Service JSC				
- Other payables	-	(1 133)	850	(283)
IDGC of Volga JSC				
- Other payables	-	(71 984)	-	(71 984)
Energoservis of Kuban JSC***				
- Other payables	-	(11)	11	-

Table 24 – Expenses and other transactions and related to it payables for 2013

(thousand rubles)

Counterparty	As of December 31 2013	Accrued	Repaid	As of December 31 2014
1	2	3	4	5
IDGC of the South JSC*				
- Trading Transactions	(1 683)	(29 857)	4 728	(26 812)
- Other payables	(93 830)	(26 719)	6 248	(114 301)
IDGC of Centre and Volga region JSC				
- Other payables	-	(33 679)	2 275	(31 404)
Rosseti JSC***				
- Other payables	(4 513)	(90 252)	90 252	(4 513)
Kubanskiye Transmission Networks JSC*				
- Other payables	(4 751)	-	4 751	-
FGC UES JSC*				
- Trading Transactions	(2 937 962)	(6 053 423)	5 657 477	(3 333 908)
- Other payables	(874)	(769)	1 643	-
- Other payables	212 298	751 128	(754 842)	208 584
Reserve	(168 076)	-	-	(168 076)
IDGC of North Caucasus JSC				
- Other payables	-	(7 716)	-	(7 716)
Recreation Centre “Energetik” JSC ***				
- Other payables	-	(10 937)	10 937	-
Mobile GTES JSC*				
- Trading Transactions	(73)	-	73	-
- Other payables	(1 232)	(27 339)	1 647	(26 924)
IT Energy Service JSC				
- Other payables	(283)	(4 788)	4 624	(447)

1	2	3	4	5
IDGC of Volga JSC *				
- Other payables	(71 984)	(24 134)	2 400	(93 718)
Energoservice of Kuban JSC ***	-			
- Other payables	-	(7 046)	1 741	(5 305)
IDGC of Centre JSC*				
- Other payables	-	(10 460)	-	(10 460)
IDGC of Ural JSC*				
- Other payables	-	(52 265)	-	(52 265)
IDGC of Siberia JSC*				
- Other payables	-	(45 302)	-	(45 302)
IDGC Scientific and Research Centre JSC*				
- Other payables	-	(1 834)	1 834	-
IDGC of North-West JSC*				
- Other payables	-	(6 842)	-	(6 842)
Lenenergo JSC *				
- Other payables	-	(34 137)	-	(34 137)
Tyumenenergo JSC*				
- Other payables	-	(18 799)	-	(18 799)
Yantarenergo JSC*				
- Other payables	-	(5 605)	-	(5 605)
TRK JSC *				
- Other payables	-	(7 722)	-	(7 722)
Scientific centre of FGC UES *				
- Other payables	-	(90)	90	-
Moskabelenergoremont JSC *				
- Other payables	-	(484)	-	(484)
MOESK JSC*				
- Other payables	-	(42 239)	-	(42 239)

*- the entity belongs to the same group as the Company

** - the has the right to dispose of more than 20 % of the Company's shares

***- The Company has the right to dispose of more than 50 % of the total votes of the shares in the Authorized Capital of the person

Write-off of accounts receivable, the limitation period of which has expired, of other bad debts, including out of provision for doubtful debts, has not been made.

16.13.3. Compensations Payable to Key Management Personnel

By Resolution of the Board of Directors dd. 18.03.2013 (Minutes No. 155/2013 dd. 18.03.2013), term of office and labour contract of General Director of the

Company - Georgy Akhmedovich Sultanov has been terminated since 18.03.2013. Starting from 19.03.2013 Gavrilov Alexandr Ilyich became acting General Director of the Company. By Resolution of the Board of Directors (Minutes No. 165/2013 dd 05.06.2013) Gavrilov Alexandr Ilyich was appointed Director general of Kubanenergo JSC for 3 years.

Table 25 – Information on the compensations payable to key management personnel

thousand rubles

Payments	Director general		Deputies, directors of branches		Members of the Board of Directors		Members of Auditing Committee		Members of Management Board	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Short-term compensations, incl.:	8042	7070	63519	66509	5580	5255	653	2084	1765	2100
1.1. Salaries for the reporting period (vacation bonus excl.)	6139	5900	43512	47578	4274	4030	500	1598	1404	1600
a) premiums	275	1093	4568	13512	0	0	0	0	0	0
b) bonuses	0	0	0	0	0	0	0	0	0	0
c) other incentive payments, the bases for which are the indices of labour or performance	0	0	0	0	0	0	0	0	0	0
1.2. Annual paid holidays for operations in the reporting period	929	400	3810	5893	0	0	0	0	0	0
1.3. Total other payments for the benefit of key management personnel (not depending on the respective terms in the labour contract), incl.:	0	0	6837	4054	0	0	0	0	0	0
a) the Company's payment for public services	0	0	0	0	0	0	0	0	0	0
b) the Company's payment for medical care, incl. treatment	0	0	0	0	0	0	0	0	0	0
c) one-off pecuniary aid payments for vacation	0	0	3491	2294	0	0	0	0	0	0
d) full or partial vacation bonus	0	0	0	6	0	0	0	0	0	0
e) full or partial payment for education in the private interests	0	0	0	0	0	0	0	0	0	0
f) others (please, specify), incl.:	0	0	0	0	0	0	0	0	0	0
compensation for residential premises lease	0	0	3346	1754	0	0	0	0	0	0
material aid for mortgage repayment	0	0	0	0	0	0	0	0	0	0
1.4. Taxes payable and other compulsory payments into the respective budgets and extrabudgetary funds	974	770	9360	8984	1306	1225	153	486	361	400
2. Long-term compensations, incl.:	0	0	0	0	0	0	0	0	0	0
2.1. Compensations upon withdrawal, incl.:	0	0	0	0	0	0	0	0	0	0
a) payments under the voluntary insurance contracts concluded with the insurance companies	0	0	0	0	0	0	0	0	0	0
b) payments under the non-governmental retirement insurance contracts concluded with the non-governmental pension funds	0	0	0	0	0	0	0	0	0	0
c) other pension and social safety net payments upon withdrawal	0	0	0	0	0	0	0	0	0	0
2.2. Other long-term compensations	0	0	0	0	0	0	0	0	0	0
2.3. Long-term compensation charges	0	0	0	0	0	0	0	0	0	0
3. TOTAL (short-term and long-term) compensations, charges excl.	7068	6300	54159	57525	4274	4030	500	1598	1404	1600
4. TOTAL (short-term and long-term) compensation charges	974	770	9360	8984	1306	1225	153	486	361	400

6.14. Going Concern Principle

Accounting (financial) statements of Kubanenergo JSC for 2014 have been prepared on a going concern basis, which assumes that the Company is able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As reflected in the accounting (financial) statements the Company's net loss in 2014 amounted to 3,632,333 thousand rubles (2013 - net loss amounted 2,480,136 thousand rubles) and a working capital deficit (excess of current liabilities over current assets) as of December 31, 2014 amounted to 3,115,637 thousand rubles. Short-term liabilities of the Company as of 31 December 2014 amounted to 16,046 927 thousand rubles, including the obligations on borrowed funds in the amount of 2,517,000 thousand rubles.

Short-term liabilities of the Company in connection with borrowings as of December 31, 2014 include the outstanding loans of Sberbank of Russia JSC, Gazprombank JSC and Rosenergobank CJSC. More information on loans and borrowings is provided in paragraph 5.6.7.

Also, as of December 31, 2014 the Company has signed a loan agreement with AB Gazprombank on revolving credit facility with a limit of 5 000 000 thousand rubles (of which the unused portion of the credit line is 3,500,000 thousand rubles).

In view of the planned refinancing of short-term loans in the amount of 2,517,000 thousand rubles in 2015, we forecast net cash flow from operating activities of the Company in 2015 will be sufficient to meet our obligations to be paid in 2015.

Thus, despite the shortage of working capital, the Company's management believes that the Company will be able to meet all its current obligations during 2015.

6.15. Estimated Liabilities, Contingent Assets and Liabilities

In 2014, the Company recognized in the accounting the estimated liabilities related to possible compensation for unused vacation in the amount of 387,770 thousand rubles, partly the written off previously formed a provision in the amount of 361,630 thousand rubles, the balance as of the end of the reporting period amounted 201 981 thousand rubles. A provision related to the possible payment of

remuneration for the year was recognized in the amount of 275,014 thousand rubles.

The Company signed the certificates of acceptance of electric power losses and electricity transmission services with disagreements regarding the unadjusted electric power losses and electricity transmission services and, at the same time, executed the objections to the certificates. Assessing the probability of fulfilling the disputed claims of suppliers within twelve months of the courts as high, the Company made a decision to recognize liabilities. The amount of liabilities on outstanding claims at the beginning of reporting period is reflected in the financial statements in the amount of 1,080,850 thousand rubles, including 1,080,252 thousand rubles in part of inconsistent volume of losses 5,598 thousand rubles in terms of electricity transmission services. Charges totaled 871,024 thousand rubles, including 624,225 thousand rubles in part of inconsistent volume of losses 246 799 thousand rubles in terms of electricity transmission services. The magnitude of the estimated liability for outstanding claims providers at end of period is 1,189,064 thousand rubles, including 938,127 t thousand rubles in part of inconsistent volume of losses 250 937 thousand rubles in terms of electricity transmission services.

As of 31.12.2014 a provision for tax disputes in the amount of 139,406 rubles was made. Disagreements with the tax authority arose in part of determining the person who is the payer of the land tax for the land transferred under the spin-off balance sheet, spin-off company, since the reorganization of the Company.

The Company creates a reserve for litigation in the amount of 706,490 thousand rubles for the suit of FGC (recovery of damages and penalties for violation of terms of payment under the contract).

On other economic contracts reserve was created in the amount of 275,333 thousand rubles (Appendix 5.7.1.).

There is no formed contingent liabilities and contingent assets as of December 31, 2014.

6.16. Events Occurring After the Reporting Date

The Company maintains accounting of the events occurring after the reporting date and makes disclosure thereof in the statements in accordance with the Accounting Regulations "Events Occurring after the Reporting Date" PBU 7/98 approved by Decree of the Ministry of Finance of the Russian Federation No. 56Н dd. 25.11.1998.

There are no facts of economic operations, which have, or in the future may have, an impact on the financial condition or the performance of the Company and which occur from the reporting date (December 31, 2014) till the date of signing of the accounting statements for 2014.

Deputy Director General in charge of
economics and finances of Kubanenergo JSC
Chief accountant - head of department for
accounting, tax accounting and reports,
Kubanenergo JSC

Ocheredko O.V.

Skiba I.V.

___ March 2015

Annexes to the Balance Sheet and to the Income Statement

Annex 5.1.1 "Stocks and Transactions of Intangible Assets"
Annex 5.2.1 "R&D Stocks and Transactions"
Annex 5.2.2 "R&D in Progress, Unexecuted R&D and Intangible Assets Acquisition Transactions in Progress"
Annex 5.3.1 "Stocks and Transactions of Fixed Assets"
Annex 5.3.2 "Useful Lives and Depreciation Methods"
Annex 5.3.3 "Changes in the Fixed Assets Value as a Result of Completion of Construction, Extra Fitting, Reconstruction and Partial Liquidation"
Annex 5.3.4 "Other Use of Fixed Assets"
Annex 5.3.5 "Capital Investments in Progress"
Annex 5.3.6 "Advances for Capital Construction and Fixed Assets Acquisition"
Annex 5.4.1 "Stocks and Transactions of Financial Investments"
Annex 5.4.2 "Adjustments of Financial Investment Estimates"
Annex 5.5.1 "Stocks and Transactions of Inventories"
Annex 5.6.1 "Stocks and Transactions of Accounts Receivable"
Annex 5.6.2 "Provision for Doubtful Debts"
Annex 5.6.3 "Overdue Accounts Receivable"
Annex 5.6.4 "Disagreements with the Sales Companies"
Annex 5.6.5 "Stocks and Transactions of Accounts Payable"
Annex 5.6.6 "Overdue Accounts Payable"
Annex 5.6.7 "Loans and Borrowings"
Annex 5.6.8 "Cost of Loans and Borrowings"
Annex 5.7.1 "Estimated Liabilities"
Annex 5.7.2 "Deferred Taxes"
Annex 5.8 "Security"
Annex 5.9 "Government Aid"
Annex 5.12 "Statement on Valuables on Off-Balance-Sheet Accounts"
Annex 2.1 "Cost of Sales, Works and Services by Cost Elements"
Annex 2.2 "Earnings per Share, Diluted Earnings per Share"
Annex 2.3 "Taxation of Profit"
Annex 5.11 "Other Income and Expenses"
Annex 5.13 "Information by the Reportable Segments"
Annex 2.1. Cost of goods, services and works sold
Annex 2.2 Profit per share, diluted profit per share
Annex 2.3. Profit taxation