

**Open Joint Stock Company of
Power Industry and Electrification of Kuban**

**Regulations on
Accounting Policy in 2013
of Open Joint-Stock Company “Kubanenergo”**

П 030-2012

1. General Provisions

1.1 The present Regulations for 2013 have been developed according to requirements of accounting standard acts and also in consideration of requirements of tax and legal legislation in the Russian Federation.

1.2 "Kubanenergo", JSC (hereinafter referred to as "Company") organizes and holds the books, prepares accounting statements in accordance with the Federal law No.402-FZ (Federal Law) dated 06.12.2011 "On Accounting", Regulations on accounting and financial reporting procedure in the RF, approved by the order of the Ministry of Finance of the RF dated 29.07.98 No. 34n; Chart of accounts of business accounting approved by the order of the Ministry of Finance No.94n dated 31.10.2000 or other standard acts in the field of accounting.

1.3 The present Regulations should be applied to the Company, hereof branches and other territorially separate structural subdivisions. All persons connected with solving the questions determined by the Regulation policy should follow the present Regulation.

1.4 Branches of "Kubanenergo", JSC are not legal persons, should act regarding the Regulation, acts ex parte of legal person and their leaders act on the basis of power authority.

1.5. All associated joint stock companies of "Kubanenergo", JSC should keep separate accounts, prepare complete accounting reports and tax accounts, be taxpayers, respond for timely and complete settling with the budget in relation to all types of taxes, dues and fees.

1.6. Other order documents of the Company should not contradict the present Regulations.

2. Organizational and technical aspects of accounting policy

2.1. Principles of accounting organization and accounting objectives

2.1.1. Accounting and tax records in the Company are maintained by the structural subdivision – Accounting and Tax Department led by the head of department – the Chief Accountant.

2.1.2. The Chief Accountant – head of accounting taxation department (hereafter – the Chief accountant) should report directly to the head of the Company and respond for accounting policy determination, Accounting and timely accounts reporting. The requirements of the Chief Accountant in relation to documenting of business transactions and submission of necessary documents and data to the Accounting and Tax Department shall be obligatory for all employees of the Company.

2.1.3. The structure of "Kubanenergo" JSC includes executive body and branches.

2.1.4. Branches have internal accounting services headed by chief accountants of branches, who shall make up a separate balance with incomplete financial result and other accounting statements according to forms established by the Company.

2.1.5. A branch should prepare accounting and tax reports.

2.1.6. The functions of central accounting department are to be performed by the Executive bodies of the Company that form accounting statements concerning the Company including the data of all branches.

2.1.7. The composition and hierarchy, division of powers and responsibility, structure, functions and tasks of "Kubanenergo", JSC performing functions related to primary accounting and information processing for further registration hereof in accounting should be stipulated by the Regulations "On Accounting and Tax Department".

2.1.8. The degree of responsibility for completeness and accuracy of accounting and tax records maintenance and also the completeness of authorities of branches` chief accountants is determined by the Regulations "About Branches".

2.1.9. The head of the Company as well as directors of branches bear responsibility for

accounting organization in the Company, in compliance with the legislation in the course of business transactions effecting pursuant to “Regulations on Branches”.

2.1.10. Chief Accountants of branches should report to the Chief Accountant of the Company and from the position of organization to the heads of branches.

2.1.11. The Chief Accountant of the Company and Chief Accountants of branches should be appointed to the post and dismissed by the order of the General Director of the Company. It is necessary to discuss the appointments and dismissals with the Chief accountant.

2.1.12. Branches are financed according to the centralized order in compliance with the approved business plan.

2.2. The accounting policy determination, approval and change

2.2.1. Means of accounting elected while the present accounting policy determination should be applied from the first of January of the year following the year when the document was approved.

2.2.2. Any change in accounting policy should be approved by organizational-order documentation of the Company.

2.2.3. The changes should be disclosed by the Company in an explanatory note attached to accounting statements for the year preceding the year when they were made.

2.2.4. In case of revealing in Company’s economic activity of new facts of economic activity for which the means of accounting have not been determined by the accounting policy, addition to the accounting policy should be made up.

2.3. Standard working chart of accounts, accounting information processing technology.

2.3.1. The documents of the Company’s accounting policy should include the present regulations, the regulations on accounting policy for taxation purposes, standard working chart of accounts of business accounting, the schedule (rules) of document circulation, the list of forms of source accounting documents, the list of forms of working source accounting documents.

2.3.2. Working chart of accounts of the Company should be a target one and should be drawn up in accordance with the Chart of Accounts of business accounting approved by the order of the Ministry of Finance of the Russian Federation No.94n dated October 31, 2000 in consideration of functionality of integrated configuration of software suite to be introduced, used for keeping the records of the Company.

2.3.3. Registers of the Company should be prepared in format maintained by the software on the basis of which accounting is carried out in the Company with specifying obligatory indicators in accordance with paragraph 4 of article 10 of with the Federal law No.402-FZ (Federal Law) dated 06.12.2011 “On Accounting”.

2.3.4. Processing of source accounting documents irrespective of areas of business accounting should be carried out with the use of computer technology.

2.3.5. Accounting records should be made on the basis of source documents recording the fact of business transactions performance and also on the basis of calculations (certificates, sheets) of the Accounting and Tax Department.

2.3.6. The rules of documents circulation in the Company are determined by the schedule of documents circulation for the purposes of keeping accounting and tax report.

2.3.7. The schedule of documents circulation determines deadlines and volume of representing basic reporting and other documents to Account Department of Executive body by sectors and services of the Company, its branches. Deadlines and volumes of

representing accounting and tax reports in particular state controlling bodies are not defined by the schedule of the document circulation and are regulated by present legislation.

2.3.8. For forming the fact of economic activity the Company uses model forms of basic documents:

- fixed by State Committee of FR of statistics, Ministry of Finances and other authorized bodies of state executive power
- forms of basic report and other documents fixed by corresponding executive orders of the Company
- forms of primary accounting documents approved by Company's head or authorized representatives in accordance with paragraph 2.3.12 as annexes to the contracts
- signed by Company's head or authorized representatives in accordance with paragraph 2.3.12 primary accounting documents at their preparation

The primary accounting documents are accounted only in case of presence of all obligatory indicators in accordance with paragraph 4 of article 10 of with the Federal law No.402-FZ (Federal Law) dated 06.12.2011 "On Accounting". The list of forms of primary accounting documents is specified in annex 4.

2.3.9. Basic accounting documents drawn up in foreign languages should have line-by-line translation into Russian language.

2.3.10. The flow of basic documents in the Company (drawing up or receipt from other enterprises, institutions or organizations, the flow between structural subdivisions of the Company, including for business and tax purposes, processing, transfer to the archives) should be regulated by the Regulations on the Accounting and Tax Department and by a schedule of document circulation.

2.3.11. The Company should keep the basic accounting documents, accounting certificate containing information on the corrections made in accounting and reporting, registers and tax ledgers, accounting and tax statements within the terms specified in internal organizational and order documents of the Company but no less than terms fixed by the legislation.

2.3.12. The Company has a right to develop internal standards of accounting. The standards of accounting are the requirements, detailed instructive material of keeping accounting and organization of documentation and methods of particular accounting area.

2.3.13. Deputies director general have the power to sign basic report documents according to their functional responsibilities. The heads of branches and subdivisions have power to sign basic documents on the basis of authority granted by the Company or on the basis of order documents of the Company, heads of branches also have a right to sign other internal documents of the Company if it is prescribed to their duties.

2.3.14. Executive document of a branch (administration) of the Company determines the list of persons entitled to sign primary accounting documents, invoices and sets the schedule of document flow in the branch.

2.3.15. The original of basic documents and other documents of economic operations carried in branches and in separated subdivisions are accounted and kept in placing of dwelling of the subdivisions.

2.3.16. The responsibility for organization of the custody of accounting documents and registers should be imposed on the head of the Company, Chief accountant, head and chief accountant of the branch.

2.4. The order and timing of preparation of accounting statements

2.4.1. Accounting statements preparation should be based on the data of registers.

For the purpose of ensuring individual responsibility of the personnel the registers should be monthly unsealed and signed by the persons who have prepared them. The persons should respond for adequate recording of business transactions in storage registers.

2.4.2. Branches should submit accounting and other financial statements concerning the internal forms of accounting to the executive bodies to produce reports on the Company in tote. The responsibility for completeness and adequacy of figures of a branch's reported statements should be imposed on the head and chief accountant who have signed the statement. Control over the correctness of accounting statement preparation should be exercised by the Account department, by the Finance Department of the executive bodies.

2.4.3. Internal calculations should not be presented in Company's reporting prepared for external persons.

2.4.4. The accounts of the Company should be drawn up in thousands of rubles for a month, a quarter and a year with accrual character from the beginning of reporting year, if the diverse procedure is not stipulated by the RF legislation, in the amount and pursuant to forms specified in the Order of the Ministry of Finance of Russia No.124n dated 05.10.2011. The Company's accounts should be signed by the head and the chief accountant. Monthly and quarterly accounts should be regarded as interim statement.

2.4.5. Annual accounts of the Company should be examined and approved by the decision of the annual General meeting of shareholders of the Company and be submitted within the time limits and to addresses specified by federal laws.

2.4.6. The accounts should include

- Balance Sheet ;
- Profit and Loss Account ;
- Statement of Changes in Equity;
- Cash Flow Statement;
- Explanations;
- Auditor's Report.

2.4.7. Annual Company's account should be published no later than June 1 of the year following the reporting one.

2.4.8. Decision adopted by the annual meeting of Company's shareholders on the distribution of earnings of the reporting year should be recorded in the accounts in the period when the meeting was held, i.e. in the year following the reporting one.

2.5. Errors. Their materiality and order of making corrections

2.5.1. Errors made during accounting keeping and preparation of accounting report are to be corrected in accordance with Accounting Regulation 22/2010 "Correction of errors in balance sheet and report". The correction of an error is written in accounting note with specification if necessary the calculations, other primary accounting documents.

2.5.2. Error is considered as material if it amounts to 10% from currency of the balance sheet, if the errors are made in indicators of profit and loss then it should amount to 7% to be considered as material.

2.6. The order of the inventory of property and liabilities

2.6.1. Inventory of property and obligations should be carried out by the Company in accordance with art.12 of the Federal law dated No.402-FZ (Federal law) dd 06.12.2011 "On Accounting" and Methodological instructions on taking inventory of property and liabilities approved by the order of the Ministry of Finance of the RF No.49 dated 13.06.1995 for the purpose of ensuring the adequacy of accounting and reporting data.

2.6.2. All types of assets and obligations of the Company, including the property

(irrespective of location), possessed by the Company pursuant to the right of property, amounts of work in progress, investments in progress in current and non-current assets, accounts payable and asset items, property that is not owned by the Company but recorded in books on off-balance accounts (being on responsible storage, obtained for selling by contract of commission agency, rented etc.).

2.6.3. The procedure for taking inventories (number of inventories in the reporting year, dates of taking hereof, list of property and obligations subject to check during each of them) should be stipulated by orders of the “Kubanenergo”, JSC.

2.6.4. The procedure and terms for inventory are set by Internal company order , and in branches – by Internal branch order.

2.6.5. For the purpose of taking inventory working inventory commissions should be set up, the composition of which should be approved by the Company’s Order, and for the branches– by the order covering the branch) of the Company.

2.6.6. The inventory is obligatory in cases stipulated by law.

2.6.7. The discrepancy between the factual presence of property and accounting data revealed in the course of taking inventory should be recorded in the accounts in accordance with itm.28 of the Regulations on Accounting and Reporting of the RF approved by the order of the Ministry of Finance of the RF No.34n dated 29.07.1998.

3. Methodological aspects of accounting policy

The present section contains the ways of the adopted manners of accounting, substantially influencing the assessment and decision-making of the users of Company’s accounting.

3.1. General approaches to qualification of accounting at entities

3.1.1. Company’s assets are divided into the assets proper and costs (non-complete investments in the formation of assets).

3.1.2. Costs are divided into capital (noncurrent) and current (circulating) costs.

3.1.3. The Company recognizes those costs capital which aim is the formation of noncurrent assets, including the costs on the purchase of new entities, development, expansion, reconstruction, modernization and technical retooling. All other costs should be recognized by the Company as current costs.

3.1.4. The cost estimate of used recourses – costs – should be preliminarily calculated on calculation accounts:

- the costs on output of products, works, services (current) – account 20, 25;
- the costs of auxiliary production facilities – account 23;
- general economic costs – account 26;
- the costs of service production facilities and sectors – account 29;
- the costs on purchase (formation) of non-current assets (capital investments) - account 08.

3.1.5. On the accounts recording the costs on the purchase (formation) of noncurrent assets cost accounting should be carried out in relation to items.

3.1.6. On the accounts recording the purchased current assets cost-accounting should be carried out in relation to nomenclature numbers, lots, homogeneous groups of inventories.

3.1.7. At termination of the cost accrual period the Company states that carrying out of costs entails the formation of assets if the item of property has been formed, the usage or retirement of which is to provide a future economic benefit.

3.1.8. To take an item of property on discount, hereof value should be measured with sufficient degree of reliability. The Company recognizes the valuation reliable enough when the item of property is ready to be used according to the planned targets, and all the costs related to bringing hereof in this condition are accepted in the accounting statement and are evaluated on the basis of accounting documents, contractual or market quotations and tariffs.

3.1.9. If the cost performance has not led to asset formation, at the termination of the cost accrual period the Company should recognize the costs.

3.2. General approaches to valuation of accounting entities

3.2.1. For the purpose of taking the property and obligations on discount the Company should carry out the valuation in money terms. The valuation of property should be performed as follows:

- property, purchased for payment should be evaluated according to the sum of actually incurred charges on hereof acquisition;
- property produced by the subdivisions of the Company should be evaluated according to the manufacturing costs (actual costs connected with the production of property item);
- tangibles left after the write-off of fixed assets that are impossible to be restored or be used at a later date, spare parts coming out of restoring (reconstruction, modernization, repairing) of the fixed assets should be evaluated according to current market value on the date of fixed assets write-off or on the date of taking the spare parts on discount;
- property received without return or property revealed in the course of inventory of assets and obligations should be evaluated according to current market value on the date of taking the property on discount.

3.2.2. Current market value should be regarded as the sum of cash assets which can be received as a result of purchase of specified asset on the date of hereof including for accounting purposes.

3.2.3. Current market value should be calculated in consideration of prices established for this or similar type of property. At the same time the data on the established price should be documented or confirmed by the expert's report. The report of an independent expert or an authorized specialist (specialists) of the Company possessing special knowledge and skills should be understood as the expert's report.

3.2.4. The property received by the Company under the contract prescribing the fulfillment of obligations (payment) carried out by non-monetary assets (exchange contract in particular), should be estimated according to the cost of values transferred or subject to transfer by the Company. The cost of values transferred or subject to transfer by the Company should be calculated in consideration of the price according to which the Company usually calculates the cost of similar values under comparable circumstances.

3.2.5. In the course of estimation of property acquired by any reasons, the actual cost hereof should be calculated with the addition of costs incurred by the Company in relation to bringing the property in condition suitable for usage. State registration expenses of purchased property items and transportation facilities should be included in the actual cost of property item if they have been carried out prior to the moment of taking the item on discount as a fixed asset, they should be regarded by the Company as sundry expenses of the current term. Fixed assets evaluation the cost of which when purchased has been expressed in foreign currency should be carried out in rubles by means of conversion of sums in foreign currency at the Central Bank of Russia rate on the date of including the item for accounting purposes as investments in non-current assets.

3.2.6. The value of property, in which they are included for accounting purposes, should be no subject of alternation with the exception of cases stipulated by the Russian Federation legislation:

It is allowed for noncurrent assets (except for intangible assets) in case of completion, providing with additional equipment, reconstruction, modernization, partial liquidation and revaluation of items of fixed assets.

It is allowed for current assets in the event that inventories have been obsolescent, have lost completely or partially their initial quality.

The adjustment of net value to market one should be made for financial investments on the basis of which it is possible to determine current market value pursuant to the established procedure.

3.2.7. If the documents representing the cost of received items are not available by the moment of property receipt (fixed assets, inventories etc.) they should be taken on discount in a conditional judgment in consideration of agreed cost, delivery expenses determined according to the data of motor waybills and railway bills of lading and other transport documents.

3.3. Recording of capital investments in non-current assets

3.3.1. Capital costs are connected with:

- capital construction carried out in the form of development as well as reconstruction, expansion and technical retooling (hereinafter referred to as construction);
- acquisition of buildings, developments, equipment, transport facilities and other separate items (or the parts) of fixed assets;
- acquisition of plots of land and facilities of nature management;
- acquisition and formation of assets having non-physical nature.

3.3.2. In the course of regarding an item of immovable property as an item of fixed assets the sum of actual expenses on the formation hereof recorded as capital investments in this item should determine the initial value of a fixed assets item for:

- the items of immovable property purchased from previous owners by the sale contract, exchange contract, lease contract and others, – upon the registration of ownership to the item transfer at the body for the state registration of real estate activities;

- the items of immovable property constructed by the Company and the subdivisions hereof using non-contractual or contractual construction forms, - upon the submission of the package of documents necessary for ownership to the item registration;

- fixed assets included in the construction estimates (to be used in projects under construction), - upon setting the building project in operation;

- fixed assets that need assembly, - upon the assembly termination;

- fixed assets that do not need assembly, - upon the arrival of the item from the supplying subdivision into the exploiting subdivision. At the same time if the exploiting subdivision puts the received item in storage, it should be recorded in accounting as the fixed assets item in stock (in reserve).

3.3.3. Recording of investments in non-current assets should be kept regarding the construction in general, separate investment items, technological structure of costs on the building project.

3.3.4. Recording of costs connected with the building project should be kept with accrual character from the item construction commencement on the data of accounting periods till the setting of items in operation or complete performance of corresponding works. The developer (client) of the construction should maintain the records of costs in the account “Investments in Noncurrent Assets”.

3.3.5. Capital investments made in the form of construction (reconstruction, modernization) of items carried out on non-contractual basis should be recorded monthly in an accounting statement, as far as they have been formed. At the same time the subdivision (branch, operating development), that carries out capital investments, should record them monthly in the account “Investments in Noncurrent Assets”.

3.3.6. Current expenses connected with maintenance, branches performing controlling and current activity on objects construction in contractual and non-contractual manner, should be included monthly in the value of items being subject to capital investments in

proportion to the amount of planned capital expenses related to this item in the reporting year according to the plan of investments (investment program). In case the adjustment to the plan of investments has been made during the year, redistribution of costs of previous months should not be carried out.

3.3.7. Item-by-item distribution in percentage terms should be carried out monthly between the branches, is signed by deputy director for branch's direction and is to be submitted to the accounting service of branch.

3.3.8. The following should be meant by the current costs specified in itm.3.3.6: salary including all types of bonuses, emoluments, remunerations; salary UST; voluntary insurance and staff training costs; traveling expenses. The list of costs can be enlarged.

3.4. Recording of loan charges and interests on credits obtained to purchase and/or form non-current assets

3.4.1. For the purpose of establishment of the procedure for capitalizable costs accounting concerning the charges on obtained loans and credits the Company should assign investment assets among the investment items. Investment assets are defined as investment items the preparation of which for the intended use requires a great amount of time as well as great costs on acquisition and (or) construction (property complexes and other similar assets). The asset is considered as investment assets if its cost is more than 1 million rubles. The asset is considered as investment assets if one of the conditions is met.

3.4.2. Interests that are due to the loaner (creditors) on received loans and credits directly connected with the acquisition, construction and (or) manufacturing of the investment asset should be regularly included in the asset cost on the following conditions:

- expenses on the acquisition, construction and (or) manufacturing of the investment asset should be recognized in business accounting;
- expenses on loans connected with acquisition, construction and (or) manufacturing of the investment asset should be recognized in business accounting;
- the works on the acquisition, construction and (or) manufacturing of the investment asset have commenced.

3.4.3. The costs connected with the received loans and credits incurred before the commencement of works on the investment asset formation should not be included in the cost of investments in non-current assets but should be referred to sundry expenses.

3.5. Recording of fixed assets

3.5.1. Recording of Company's fixed assets should be maintained in accordance with the Regulations on accounting "Recording of Fixed Assets" (Accounting Regulation 6/01) approved by the Order of the Ministry of Finance of Russia No.26n dated 30.03.2001 with the ensuing changes and additions.

3.5.2. The Company should recognize as fixed assets the assets in connection of which the following conditions should be satisfied at a time:

- it is expected to use the output in the production, in the course of works performance or rendering the services or for administrative needs over a long period of time (useful life of more than 12 months duration or usual operating cycle if it exceeds 12 months);
- the capacity to provide economic benefits (profit) at a later date, and also the on-selling of these assets is not planned by the organization hereafter.

3.5.3. If in the moment of asset qualification the decision about hereof retirement for

benefit of other persons has been taken – on-selling, exchange etc. is planned, the item should be qualified as a commodity.

3.5.4. The assets, in relation to which the aforementioned conditions are applied to, at the cost of no more than 40000 rubles per unit, should be recorded as a part of inventories. For the purposes of safekeeping of these items when they are produced or while operation the quantitative record should be organized on off-balance account.

3.5.5. By the degree of usage the Company divides the fixed assets in storage on:

- fixed assets in reserve meant for permanent supplying of technological process in case of failure of equipment;
- fixed assets not demanding assembly purchased for future usage.

3.5.6. An inventory item should be regarded as an accounting unit of fixed assets. An inventory item of fixed assets should be understood as an item with all attachments and accessories or a structurally separate item meant for the performance of certain functions of its own. For the purpose of accession record of fixed assets the ledger card should be used. Records in ledger cards should be kept in electronic form and be printed out on paper as of the date of taking the item on discount.

3.5.7. Data on reconstruction, modernization, repair should be entered in the inventory card on the basis of act on the basis of acceptance report of repaired, reconstructed, modernized objects of fixed assets.

3.5.8. To keep the uniqueness of inventory numbers inside the Company it is not allowed to give one inventory number to a group of similar fixed assets items, even if they have been acquired from one supplier in the scope of one delivery.

3.5.9. If one or several objects used for the same or different purposes represent a separate complex of contractually linked objects having common implements and accessories, general management, assembled on the same foundation and as a result each object can perform the functions only being the part of the complex, the whole complex as a single entity should be taken on discount as an inventory item

3.5.10. In the event that one inventory item has several parts having substantially different useful life period, each such part should be recorded as an independent inventory item irrespective of the fact whether the specified part of the item can or cannot fulfill an independent function.

3.5.11. The following should be accepted as independent inventory items:

- capital investments in rented items of fixed assets;
- capital investments intended for radical improvement of lands (drainage, irrigation and other reclamation works);
- shares of fixed assets items, being in shared ownership of the Company and other owners;
- transformers meeting the demands of paragraph 4 of Accounting Regulation 6/01.

3.5.12. Fixed assets should be included for accounting purposes in consideration of original cost determined depending on the way of receipt – acquisition for payment, in-house asset formation (construction), gratis receipt etc.

3.5.13. Accounting record of immovable property registered as a part of one manufacturing complex of electric station or electric grids complex is carried out on one article (on balance of Executive body or branch's balance).

3.5.14. The transfer of fixed assets items between the branches of the Company and between the operating developments inside the branch of the Company should be recorded in subaccounts of account 79 "In-House Settlements". In this case accounting entries representing the replacement cost of fixed assets and the sum of cumulative amortization should be made.

3.5.15. The notice (aviso), the statement of transfer and acceptance of fixed assets between the branches, the plan-record card (FA-6) is considered to be the ground for

taking the fixed assets received from branches (operating developments) on discount.

3.5.16. If the Company makes a decision to cease the operation of separate items of basic funds, the accounting statement should reflect proceeding from the situation:

- laying-up of specified items – in this case the items should be separated in analytical accounting;
- write-off of items that are not used permanently (functional and/or physical depreciation) - in this case the Company should recognize sundry expenses.

3.5.17. The costs related to the fulfillment of all types of repairs of fixed assets (current and capital) should be included in the expenses on ordinary types of activities in the period in which repair works (stages of repair works) have been completed and accepted. Provision for basic funds repairing or repair fund should not be made.

3.5.18. Revaluation of objects of fixed assets is carried out by means of direct reappraisal by documented market prices and on the basis of corresponding order document of the Company. Revaluation of land plots is not performed. Level of materiality when adopting the decisions on revaluation is not less than 5%.

3.5.19. At writing-off of fixed assets material values that could be used further in economic activity are accepted by current market cost according to debit of account 10 “material assets” as other revenues. Information on accepted materials is indicated in act of writing-off the fixed assets (form No.FA-4).

3.5.20. Fixed assets the rights for which are to be state registered according to legislative of Russian Federation and for which capital investments are completed, the basic documents of acceptance and transmission are drawn up, documents are passed for state registration and are in fact in operation, are accepted for accounting as fixed assets on the account of fixed assets. For such objects depreciation is charged on general terms for n the first day of the month following the month of putting the object into operation. Receiving of completed assets if documented in primary accounting documents approved by order of State Statistics Committee of the Russian Federation dated 30.10.1997 No. 71a, which also approved the following documents:

- certificate of acceptance of a completed facility
- certificate of acceptance of a completed facility by the acceptance committee

3.5.21. Accounting of property received from lease contracts is carried out according to Federal Law “In Finance lease” No.164-FZ (Federal Law) dd 29 October 1998.

3.6. Change of fixed assets value

3.6.1. In case of partial liquidation of fixed assets items the amortization accumulated on them should be written off in the same ratio.

3.6.2. The acceptance of fixed assets after reconstruction and modernization should be formalized by the statement of acceptance of reconstructed and modernized items (form FA-3).

3.7. Lifetime of fixed assets items

3.7.1. Useful life of fixed assets items should be determined in consideration of expected physical deterioration, proceeding from operation conditions, natural conditions and corrosive medium influence, the system of carrying out repairs. Useful life of fixed assets items should be determined within the limits stipulated by the decree of the Russian Federation Government No.1 dated 01.01.2002, according to the list approved by the head of the Company or by an authorized person.

3.7.2. Useful life of fixed assets items should be determined when taking them on discount on the basis of item certificate, other technical documents or on the basis of appraisal made by Company’s technical services by a decision of permanently active commission. Useful life period should be recorded in the inventory card (FA-6).

3.7.3. Useful life of fixed assets items should be reconsidered in case of improvement (increase) of primarily accepted standard indices of item functioning as a result of

completion, providing with additional equipment, reconstruction or modernization. In this case the increase of useful life period is allowed to be carried out within the terms stipulated for amortization group in which this fixed asset has been included.

3.7.4. Useful life period of a modernized item should be calculated as a difference between the re-determined useful life period of an item after the restoration and the operation life by the moment of modernization completion.

3.7.5. Useful life of FA, received by the Company as a result of reorganization in the form of affiliation should be fixed as the difference between the useful life period of FA determined by an affiliated company and the amount of months of practical FA operation till the moment of affiliation.

3.7.6. Useful life period of a fixed assets item previously used by some other organization should be determined proceeding from the remaining service life period of fixed assets or any other supposed useful life period in the Company which should be determined taking into account:

- expected useful life period of the item being in operation in accordance with expected productivity and power;
- expected physical depreciation depending on operation conditions; natural conditions of corrosive medium influence , system of carrying out repairs;
- normative legal and other restrictions of using the item.

3.7.7. The expected useful life period of fixed assets on the basis of documentary confirmation of hereof importance should be fixed by a commission and be approved by the head of the Company, a corresponding branch or an operating development of the branch in which the item will be in operation when taking the item on discount as fixed assets.

3.7.8. Useful life of fixed assets items should be reconsidered in case of improvement (increase) of primarily accepted standard indices of item functioning as a result of completion, providing with additional equipment, reconstruction or modernization. In this case the increase of useful life period is allowed to be carried out within the terms stipulated for amortization group in which this fixed asset has been included.

3.7.9. Useful life period of a modernized item should be calculated as a difference between the re-determined useful life period of an item after the restoration and the operation life by the moment of modernization completion.

3.7.10. The accrual of amortizations starts from the 1st of January of the year following the year of changing the term of useful life.

3.8. Amortization of fixed assets

3.8.1. Amortization on each inventory item should be accrued monthly by means of appliance of established norms fixed depending on useful life period of the item.

3.8.2. Monthly amount of amortized deductions should be calculated according to the formula:

$$C_i = (DCost + C_m) / C^*$$

Where C_i – monthly amount of amortization,

$DCost$ - depreciated cost of a fixed asset,

C_m – modernization costs,

C^* - remaining useful life period after the increase hereof.

This formula should be applied in calculation of the amount of the modernized item amortization starting from the 1st date of the month following the month when the works related to modernization are completed.

3.8.3. Amortization should not be accrued:

- on assets used for implementation of legislation of Russian Federation on preparation and mobilization of fixed assets that are not used in products when performing works or rendering services, for administrative needs of organization or for provision by the organization for payment for temporal possession and use;
- in relation to units of housing facilities acquired during the period till 01.01.2006 (that do not make profit);
- in relation to fixed assets items the consumer properties of which do not change in the course of time (plots of land; nature management facilities; objects related to museum pieces and museum collections etc.).

3.8.4. The accrual of amortization should be suspended:

- in relation to the fixed assets transferred for laying-up. The Company should recognize the temporary cessation of item operation for the period of more than three months as laying-up. Expenses connected with laying-up of items (check-up, lubrication, booting, enclosing etc.) as well as concerning the temporary cessation of item operation for the period of less than three months should be regarded as sundry expenses;
- for the period of reconstruction and modernization, capital repairs of fixed assets items if the duration of works exceeds 12 months

3.8.5. In relation to the specified items the accrual of amortization should be stopped from the month following the month when they were transferred and should start from the month following the month when these items were brought into operation.

3.8.6. Depreciation of fixed assets in reserve meant for permanent technological operation in case of equipment failure is indicated in report in the same way the depreciation of operational equipment does.

3.8.7. Depreciation of fixed assets without assembly purchased for future usage is indicated in the report as a part of expenses on principal activities that do not reduce taxable income.

3.9. Recording of rental of fixed assets

3.9.1. Leased fixed assets should be recorded in the account 01 "Fixed Assets", but be separated in analytical accounting.

3.9.2. Fixed assets received on lease should be recorded in the off-balance account 001 "Rented Fixed Assets" according to inventory numbers of the lesser.

3.9.3. Obligations related to carrying out of current capital repair of the property rented by the Company or let on lease to third-party organizations by the Company should be stipulated by the terms of lease contract.

3.9.4. Revenues from leasing fixed assets are to be disposed in the count 90 "Sale"

3.10. Recording of equipment that needs assembly

3.10.1. Equipment that is brought into operation only after the assembly of the parts and attachment to the foundation or bearings, to the floor, to the inserted floors and other supporting structures of buildings and constructions and also sets of spare parts of this equipment should be referred to installation equipment. This equipment should include control instrumentation and other instruments intended for being mounted in the installed equipment.

3.10.2. Installation equipment should be taken on discount in the account 07 according to the actual cost of acquisition which is made up of the cost at the acquisition prices and the expenses on acquisition and delivery of this equipment to the Company's storehouses. The account 15 "Preparation and Procurement of Material Values" should not be used in case of equipment receipt.

3.10.3. Acceptance for registration the equipment requiring installation is executed by

the document FA-14 "The act of acceptance (admission) of equipment", the transfer to the contractor is specified in document FA-15 "The act of reception-transmission of equipment for the assembly."

3.10.4. At the time of transferring the equipment for installation and in the case of other disposal the evaluation is performed on the cost of each unit.

3.11. Intangible assets and their amortization

3.11.1. The recording of intangible assets of the Company should be kept in accordance with the Regulations on accounting "Recording of Intangible Assets" (RA 14/2007) approved by the Order of the Ministry of Finance of the RF No.153n dated 27.12.2007.

3.11.2. As intangible assets the Company recognizes the assets in respect of which at the same time the following conditions are met:

- it cannot be a tangible asset;
- possibility to identify (separate) by the company from other property;
- ability to bring economic benefits to the company (income) in the future, i.e. use in the manufacture of products, performance of work or provision of services or for administrative needs of the company;
- the use for a long time, i.e. useful life for more than 12 months, or the normal operating cycle, if it exceeds 12 months;
- the company does not intend to sell this property for 12 months or the normal operating cycle, if it exceeds 12 months;
- availability of proper documents proving the existence of the asset and the exclusive right of the public to the results of intellectual activity or means of individualization (patents, certificates and other documents of title, assignment contract (purchase) of patent, trademark, etc.), i.e. of the Company's control over the entity;
- actual (initial) cost of the object can be measured reliably.

3.11.3. Intangible assets do not include the costs associated with the formation of the legal entity (organization costs), intellectual and business staff quality of the company, their skills and ability to work.

3.11.4. Intangible assets are recorded at their actual (initial) cost. The value of intangible assets, in which they are accepted for accounting purposes, cannot be changed, except in cases provided for by the legislation of the Russian Federation. Not included in the actual cost of the acquisition, creation of intangible assets economic and other similar expenses, unless they are directly attributable to the acquisition of assets.

3.11.5. The revaluation of intangible assets should not be performed.

3.11.6. The term of useful usage of intangible assets is defined by the commission approved by the order of the Company at accepting the object for accounting report.

3.11.7. The definition of useful usage terms and other deadlines of usage of objects of intellectual property as per the legislative of Russian Federation are carried out in respect of:

- term of patent, certificate and other deadlines of using objects of intellectual property as per the legislation of Russia Federation;
- expected useful life of the object during which the Company can gain profit (revenue).

3.11.8 Depreciation and amortization of intangible assets is made in a linear mode. The monthly amount of depreciation is calculated on the basis of the actual (initial) value of intangible assets evenly over the useful life of the asset. During the useful life of the intangible asset amortization charge is not suspended.

3.11.9 Depreciation and amortization expenses on intangible assets begin with the first day of the month following the month of the asset for accounting purposes, and are awarded to full repayment of the value of the asset or asset write-off of accounting.

3.11.10 Depreciation on intangible assets is terminated from the first day of the month following the month in the full repayment of the value of the asset or asset write-off of accounting. Amortization of intangible assets is recognized in the accounting period to which they relate and are accrued regardless of the results of the company during the reporting period.

3.11.11 On disposal an intangible asset is written down its value in the respective period. In this case, the residual value of an intangible asset is formed by a separate sub-account "Disposal of intangible assets" to the account 04 "Intangible Assets".

3.11.12 The acquired goodwill of the Company is amortized over twenty years (but not more than the period of the Company).

3.11.13 Intangible assets with an indefinite useful life are not amortized.

3.11.14 Every year when making the inventory of intangible asset the terms of useful life are reviewed for necessary clarifications. In case of significant changes in the length of the period during which the Company expects to use the asset, its useful life is subject to change. Arising in connection with this adjustment the company reflects in the accounting records and financial statements as a change in the estimated values.

3.11.15 If during testing an intangible asset with an indefinite useful life it was determined that the factors on which the useful life of these intangible assets was recognized is uncertain, no longer exist, the company determines the useful life of these intangible assets and reflects arising adjustments to the accounting records and financial statements as a change in the estimated values prospectively.

3.12. Recording of financial investments

3.12.1. Accounting recording of financial investments was carried out as per the Accounting regulations 19/02, approved by the order of Minister of Finances of RF No. 126n dd. 10.12.2002.

3.12.2. The Company regards as financial investments the assets that do not have a physical nature and are capable to provide economic benefits (return) in the period ahead as interests, dividends or increment of value (as difference between the selling price (paying off) and the cost) as a result of their exchange, usage in repayment of obligations, increase of current market value.

3.12.3. As financial investments are regarded:

- Securities (state, municipal, securities of other organizations, including bills and bonds);
- Investments in authorized capitals of other organizations (including affiliated and subsidiary companies);
- Investments in partnership (joint activity);
- Loans granted to other organizations;
- Deposits in credit organizations;
- receivables acquired on the basis of assignment of claims, etc.;
- contributions by the partner organization under a partnership agreement;
- other types of investments the organization satisfying paragraph 2 of Accounting Regulation 19/02.

3.12.4. The value of financial investments is formed of actual costs directly connected with its acquisition. The initial value of investments made in the authorized (share) capital of the organization shall be their monetary value agreed with the founders (participants) of the organization. Acquisition costs of investments (except for amounts paid to the seller), regardless of their size compared to the amount paid to seller, included in the cost of investments.

3.12.5. Financial assets are divided into individually definable and indefinable. As an individually definable, investments are recognized, the unit which has its own individual features: series and number of securities, details of the organization, the authorized capital of which investments are made, details of the simple partnership agreements,

loan, deposit, purchase of receivables, etc. As an indeterminate individually recognized as investments, unit of which has not customized and generic features, details of the issue of book-entry shares, etc.

3.12.6. The unit of financial investments are:

- individually definable for financial investments - an individual attachment (security, contribution to the charter capital of a separate entity, a separate adventure agreement, loan or deposit account, issued a separate contract, claims acquired under a separate contract, etc.);
- for not individually definable financial investments - a package of securities. Securities portfolio is recognized set of securities of the same issue (one issuer, one species, maturity, rating, and so on), acquired by the Company as a result of a deal.

3.12.7. Recording of financial investments of the Company should be carried out based on centralized direction of Account department of the executive body of the Company. Analytical recording of financial investments should be performed in relation to short-term and long-term financial investments. Investments made with the intention to earn revenue from them in the period of more than a year should be referred to long-term financial investments. Other financial investments should be regarded as short-term ones

3.12.8. For the purpose of ensuing evaluation the financial investments are subdivided into:

- investments which make it possible to determine the current market value;
- investments which do not make it possible to determine the current market value.

3.12.9. Investments in securities traded on the stock market (stock exchange auction), which quotations are published on a regular basis, classified as financial assets, by which the current market value can be determined. All the rest belongs to investments for which market value is not defined

3.12.10. For financial investments for which the current market price, the adjustment of the carrying amount to the fair market value is made quarterly. The difference between the valuation of investments at fair market value at the balance sheet date and the previous valuation of financial investments is recognized as other income or expense.

3.12.11. On disposal of assets recorded in the books as investments for which the current market value is determined on the basis of the last evaluation.

3.12.12. On disposal of financial investments for which the market value is not determined, their value is determined as follows:

- contributions to the charter capital of other organizations (other than shares of joint stock companies) to other entities loans, deposits with credit institutions, accounts receivable acquired by assignment of the claim, are valued at original cost of each retired from the above units of financial investments;
- securities (stocks and bonds) are estimated at the average cost, which is determined for each type of securities;
- purchased bills are estimated (payment for work performed, (goods, works, services)) on the unit cost;
- other investments - at the original cost of each unit.

3.12.13. The Company shall establish a provision for impairment of financial investments in the event of sustained reduction in their value. The provision is as of 31 December of the year on the results of the check for impairment of financial investments "Kubanenergo".

3.12.14. Interest (coupon, discount) on securities are awarded for every last reporting period in accordance with the contractual terms.

3.12.15. Earnings from investments are recognized as other income.

3.12.16. The costs associated with the provision of loans to other organizations, with

service investments, payment of bank and/or custodian for storage investments, providing account statements depot, etc. recognized as other expenses.

3.13. Recording of inventory receipt

3.13.1. As inventories are recognized the following assets:

- used as materials for the provision of transmission services and transit of electricity, grid connection, the performance of work (production of products intended for sale), including special tools, special tools, special equipment, special clothing;
- for sale - products;
- used for administrative needs of the Company.

3.13.2. Unit of accounting for inventories is the item number or a homogenous group (depending on the type of inventories).

3.13.3. Inventories for the purpose of taking into account estimated depending on the cause of admission: the acquisition of a fee, making their own, free of delivery, etc.

3.13.4. Actual cost of materials purchased is the amount of actual expenses of the Company for the acquisition, excluding value added tax and other taxes payable.

3.13.5. Inventories the Company does not own on the right of property that were transferred to it by the contracts, storage, etc., are taken into account for the balance of the account 002 "Items accepted for safekeeping" in the assessment provided for in the Agreement and chain-of-documents (acts, invoices, etc.).

3.13.6. The cost of special clothing with useful lifetime for more than 12 months is paid off by line method based on the useful life determined in accordance with regulations. Depreciation starts from the month of the transfer of special clothing in operation.

3.13.7. The cost of special clothing which lifetime does not exceed 12 months is subject to a one-time write-off at the time of transmission (vacation) in operation.

3.13.8. Special clothing with useful life of more than 12 months and cost more than 40 000 rubles is accounted as fixed assets in accordance with Accounting Regulation 6/01.

3.13.9. Special clothing with useful life less than 12 months is taken into account as part of inventories and deducted at the time of the transfer to production (operation).

3.13.10. The materials include raw materials and consumables, purchased semi-finished products and components, fuel, container, spare parts, building and other materials, and special tools, special tools, special equipment, special clothing.

3.13.11. Evaluation of inventories in accounting is accounting prices using the account 16 "Deviation in the value of tangible assets."

3.13.12. Unbilled deliveries are material stocks received by the Company, but for which no settlement documents. Unbilled deliveries are accounted for in the analytical and synthetic accounting at discount prices. Used as book prices are negotiable.

3.13.13. Costs on Internal Displacement inventories (between units of the Company or its warehouses) in the value of the acquired tangible assets are not included, and included in the cost of services, works or products.

3.13.14. Inventories written off in production, sold on the side, retiring on other grounds, valued at the average cost of each type of stocks on the branch.

3.13.15. Average actual cost of materials is carried out by determining the actual cost of the material at the time of its release (moving estimate).

3.13.16 Under the release of materials for the production of means of their delivery from the warehouse directly for the provision of services (operations, product manufacturing), as well as the distribution of materials for the administrative needs of the Company.

3.13.17. Procedure for the release of materials from the warehouse of the branch head unit is installed material supply branch in consultation with the chief accountant of the branch.

3.13.18. In the primary accounting documents for the release of materials from the warehouses of the branch, on land, in the brigade, workplaces shall include:

- name of the material;
- number;
- price of the transferring;
- the amount and purpose - number (code), and (or) the name of the kind of service (maintenance, repair, commissioning, etc.), for which the materials are released, or the number (code) and (or) Name costs.

3.13.19. For actually expended unit the recipient of materials makes a document on writing off the spent material assets, which shall include the name, quantity, price and amount of each item, the name of the type of work (maintenance, repair, commissioning, etc. etc.), for which the materials are released, and the code (the code) cost element, the amount and the sum of the norms of flow and in fact, the number and amount of expense in excess of the norms and their causes (form number M-37) Write-off of spent stationery and consumables materials produced on demand-bill (form number M-11).

3.13.20. Write-off of materials with a report of the branch of the organization and classification of their value on the cost of production (depending on the purposes for which expended materials) is made on the basis of material report.

3.13.21. Inventories (including spare parts), credited as a result of withdrawals from fixed assets in the recovery stage are accounted separately from new parts, as separate nomenclature numbers.

3.13.22. Provision for impairment of inventories is created equal to the difference between the current market value and the actual cost of inventories.

3.14. Recording the expenses of future periods

3.14.1. Deferred expenses are the costs that are incurred by the Company in order to generate income for several periods (months):

- costs related to the acquisition of non-exclusive rights to intellectual property (copies of software products) under license agreements;
- expenses for the acquisition of licenses (certificates) for the implementation of certain activities;
- any other costs relating to future periods.

3.14.2. The term of write-off of deferred expenses is determined in accordance with terms specified in the contract (for software) or in document (license, certificate).

3.14.3. Intangible assets received for use on the basis of a license agreement are taken into account at off-balance account 012 "Intangible assets acquired for use". Cost of the facility, resulting in the use is determined based on the amount of remuneration licensor established for the duration of the contract.

3.14.4. Deferred expenses are written off monthly over the period to which they relate.

3.14.5. Balance of deferred expenses recognized in the balance sheet classified into short-term and long-term. Future expenses, which give income in more than 12 months are recognized in the line "Other current assets" and the rest - in "Other current assets".

3.14.6. The term for future expenses, for which the useful life is not defined, is established by the Company's Commission.

3.15 Accounting for Settlements

3.15.1. Accounts receivable – are the debts of individuals and entities to the Company for services rendered and goods delivered.

3.15.2. Accounts receivable are recognized as short-term if the maturity exceeds 12 months after the balance sheet date. The remaining receivables are presented as long-term. In this case, the calculation of this term is from the first day of the calendar month following the month in which the asset is recorded in the accounting books.

3.15.3. For accounts receivable, the Company uses the following groups:

- by type of payment;

- by counterparty;
- by contracts;
- by terms.

3.15.4. The Company establishes an allowance for doubtful accounts in the context of all relevant counterparties taking into account the probability of repayment of the debt for each of them. For these purposes as essential are recognized contractors, accounts receivable in excess of 200 000 rubles under one contract. The reserve is adjusted quarterly.

3.15.5. The Company establishes an allowance for the estimated liability due to the possibility of paying compensation for unused vacations. Reserve calculation is made in accordance with the methodology developed by the Company. Allowance shall be adjusted quarterly.

3.16 Provisions, contingent liabilities and contingent assets.

3.16.1. Accounting of provisions, contingent liabilities and contingent assets is conducted in accordance with Accounting Regulation 8/2010 "Provisions, Contingent Liabilities and Contingent Assets".

3.16.2. The estimated liability is recognized in the accounting records if the following conditions are simultaneously met:

- there is a duty, which was the result of past events, its economic activity, the fulfillment of which cannot be avoided. In the case where there is doubt in the presence of such a duty, recognized the estimated liability if the analysis of all the circumstances and conditions, including expert opinion, more likely than not that the obligation exists;
- reduction of the economic benefits required to settle the estimated liability is likely;
- the estimated liability can be reasonably estimated.

3.16.3 Estimated liabilities are recorded in the account of accounting reserves for future expenses. While recognizing the estimated liability, depending on the nature of the value of estimated liability to expenses from ordinary activities or other expenses, or part of the cost of the asset.

3.16.4. Contingent liability arises from past events and economic activity, when the existence of the obligation at the balance sheet date is dependent on the occurrence (non-occurrence) of one or more uncertain future events beyond the control of the Company.

3.16.5 Contingent asset arises from past events and economic life, when the existence of the asset at the balance sheet date is dependent on the occurrence (non-occurrence) of one or more uncertain future events beyond the control of the Company.

3.16.6. Contingent liabilities and contingent assets are not recognized in the accounting records. Details of contingent liabilities and contingent assets are disclosed in the Explanatory Note.

3.17 Accounting of income, operating costs and expenses. Common approaches to accounting for costs and revenues

3.17.1. The Company divides income into income from ordinary activities and other income.

3.17.2. As income from ordinary operations, the Company recognizes:

- revenue from electricity transmission services;
- revenue from technological connection to the network;
- revenue from the sale of other works and services:
- revenue of industrial character;
- revenue of non-industrial nature.

3.17.3. Revenue from electricity transmission services includes all revenues from the energy consumed by market participants in the service areas of the Company.

Transmission of electricity is a regulated activity.

3.17.4. Income from technological connection to the network includes the Company's income derived by him in the execution of works (actions) of organizational and technical measures aimed at enabling the transmission of electricity in the power receivers of legal and natural persons in accordance with their stated parameters, as well as ensuring of power electrical substations. Revenues from connection applicants are classified into groups depending on the voltage level of connected capacity and capacity of the applicant.

3.17.5. The income from the sale of other works and services includes all revenues associated with the implementation of the Company's other works and services (other than electric power transmission services, services for technological connection). This income is classified by type of works and services:

- Income from the sale of other works and services of "industrial" character: transportation services, telecommunications services, other services and "industrial" nature of property;
- Income from the sale of other works and services of "non-industrial" character: catering services, services of medical and health institutions, and other services and "non-industrial" character.

3.17.6. Revenue is recognized in the accounting records under the conditions set by paragraph 12 of Accounting Regulation /99. The Company recognizes revenues in the accounting of works and services, sales of products with long production cycle as soon as available work, services, products (paragraph 13 of Accounting Regulation 9/99).

3.17.7. Revenues of the Company in accordance with the principle of accrual recognized in the accounting period in which they occur, regardless of the actual time of receipt of funds related to these facts.

3.17.8. The Company divides the cost of expenses from ordinary activities and other expenses.

3.17.9. Expenses from ordinary activities are the costs associated with the provision of services, works with the manufacture of products and sale of products, the purchase and sale of goods.

3.17.10. Expenses from ordinary activities include the costs:

- for supply of electricity;
- for grid connection to the network, which does not require the provision of the Company's additional investment;
- the cost of other works and services:
- costs of industrial nature, including costs of the provision of property;
- costs of non-industrial nature.

3.17.11. The cost of electricity transmission services is a set of costs associated with the maintenance and operation of:

- transmission lines, switchgear, substations, and other facilities and equipment intended for the transmission and distribution of electricity.

3.17.12. Cost of services for technological connection to the network is a set of costs associated with the implementation of a set of works (actions) of organizational and technical measures aimed at enabling the transmission of electricity in the power receivers of legal and natural persons in accordance with the parameters declared by them, and also to ensure the power output of electric substations.

3.17.13. Cost of other works and services represents the total costs associated with the implementation of the Company's other works and services. These expenses are classified by type of works and services:

- spending on other works and services of "industrial" character;
- spending on other works and services of "non-industrial" character.

3.17.14. Expense are recognized by the Company in the following cases:

- when there is confidence that the implementation of expense is the reason for receiving the relevant income. Costs are recognized as expenses directly (for the sale of services, works and selling expenses) or via the disposal of assets, to create a company which previously carried out these costs (fixed assets, inventories, own production, etc.). Then expenses from ordinary activities or other costs (disposal of other assets other than the product) are recognized;
- when the implementation costs cannot be directly correlated with any income or it becomes apparent that the estimated costs for the relevant income will not be received. Then, in view of the recognized other expenses (payment of interest on loans, the costs of conservation, plant and equipment, etc.) or loss. Costs are also recognized in the case of liabilities without the fact of receipt of property.

3.17.15. Calculating the total cost of transmitting electricity is generated centrally, by summing up the costs, accounted affiliates. Branches of each month through the account 79 "Intra calculations" by discharge note (notifications) notify the Executive Board of JSC "Kubanenergo" on the amount of actual costs, which are reflected in the debit account 20 "primary production".

3.17.16. General and administrative expenses in the Company recorded in account 26 "General expenses". However, these costs are recognized as expenses from ordinary activities and form the cost of production, works and services.

3.18. Incomes and expenditures by type of activity.

3.18.1. Revenues from electricity transmission services are recognized on the basis of the Acts of the work performed on the volume of services provided for the transmission of electric energy under contracts with sales, distribution companies, and consumers of the wholesale electricity market. The certificate is made on the basis of monthly documents: Statement on the volume of electricity transmitted to, acts of balance, power flows, acts of productive compiled in physical gauges. The particular form and name of the document is defined by conditions of the contract for the transmission of electric power. Revenues for the transmission of electrical energy are recognized in the accounting records of the date of approval by the parties calculations Certificate of Completion on the volume of services provided for the transmission of electrical energy, and consideration of mutual flows of the Act. In the case of signing the provision of electricity transmission services to the differences in volume/value of services rendered, the Company in accounting recognizes the amount and value of the service rendered in the wording of the Company.

3.18.2. Revenue from services for technological connection to the network and from other services rendered by the Company are recognized on the basis of the Acts of works (services) on the date of signing by the parties of the Act.

3.18.3. The process of transmitting electrical power and services of technological connection to the network is characterized by the lack of work in progress. The costs incurred in the implementation of these activities are expensed in full.

3.18.4. Accounting of the costs for implementation of services for electric power transmission and technological connection to the network in the context of units and cost items carried by accounting branches that bear the costs associated with the maintenance and operation of transmission lines, switchgear, substations, and other facilities and equipment for the transmission and distribution of electric power and run the service grid connection to the network. At the end of the reporting period (month) information on the costs incurred, covered branch of accounting is transferred to the accounting department of the executive office, which is accounting financial result from the sale of services for electric power transmission and technological connection to the network.

3.18.5. Revenues and expenses from the sale of other works, services are accounted

by the accounts departments of the Company's subsidiaries (the places of their origin), by units and cost items.

3.19. Costs for research and development (R&D)

3.19.1. Accounting recording of scientific research costs, development works is carried out as per the Regulations of accounting 17/02, approved by the order of Minister of Finances of RF No.115n dd 19.11.2002.

3.19.2. The recording of costs for scientific research and development works which results are already used in production (fulfilling works, rendering services) or managing purposes is carried out by account 04 "Intangible assets" in corresponds with credit account 08 "investments in noncurrent assets" ..

3.19.3. Analytical recording is carried out for each inventory object: finished scientific research or development work or technological work the results of which are separately used in production.

3.19.4. Write-off of costs of each object of R&D is carried out by linear way.

3.19.4. The deadline of writing-off costs of objects of R&D that have given positive results is fixed by Company's commissions and the branches on the basis of possible term of usage R&D during which the Company can gain economically, but no less than 5 years.

3.20. Profit of future period

3.20.1. Accounting of profits of future periods is carried out according to the following items:

- granted fixed assets;
- budget funds for funding the expenses (paragraph 9 of Accounting Regulation 13/2000)
- the difference between the sum callable from the culpable persons and values included for accounting purposes when reveling the shortage;
- other profits for future period.

3.20.2. Profit of future period on granted property should be written-off to the account of other profits proportionally to cost of granted property accepted as revenue: from fixed assets in amount of charged depreciation, from current assets - at a the moment of writing-off as expenditures the cost of materials or writing-off for the account of recording the products costs.

3.21. Peculiarities of in-house settlements recording

3.21.1. Reflection of transactions on settlements with separate subdivision, on a separate sheet, is posted to the "In-house settlements" in the context of analytical groups.

3.21.2. Making entries of accounting transactions concerning the settlements with separate subdivisions entered on a separate balance sheet should be carried out in account "In-house Expenses" based on the information about the analytic groups.

3.21.3. All types of in-house settlements between the Company's branches should be shown in books of the Company's executive bodies. The notice of reciprocal payments changes of account 79 should be regarded as an internal document – aviso.

3.21.4. Aviso should be submitted by the party transferring the assets (liabilities) in triplicate with enclosed copies of accounting documents (bills, statements etc.) confirming the transaction when the settlement is carried out between two branches through executive bodies and in duplicate when the in-house settlements are performed

between a branch and executive bodies.

3.21.5. Aviso submission concerning all transactions of cash assets receipts and expenditure in settlement and special accounts of the Company's executive bodies on behalf of branches should be carried out by the Treasury of the Company's executive bodies.

3.22. The adopted manners of internal funds (capital) recording

3.22.1. The Company should not reduce the amount of Authorized capital recorded in hereof accounting statements, by the unpaid capital amount: the Authorized capital and founders' actual liabilities related to investments in the Authorized capital should be recorded in accounting statements separately.

3.22.2. All changes of the Authorized capital amount (including the forwarding of surplus funds to increase the Authorized capital) should be recorded in the Company's accounting statements only after making the corresponding adjustments to hereof article of association.

3.22.3. Capital reserves should be made by the Company from hereof income on the basis of constituent documents and founders' (shareholders') decision.

3.22.4. Company's surplus should consist of the increment of value of hereof property received from hereof revaluation and from additional paid-in capital.

3.22.5. Surplus expending should be carried out separately. The increment of property value received from revaluation should be used to write down those property items which have been earlier written up and only within the sums accumulated on each separate inventory item. At the moment of taking the item off the books (for any reasons) the writing up sums accumulated on the item should be attached to the account of Company's retained income. Additional paid-in capital should be used by a shareholders' meeting decision (at the year termination).

3.22.6. Following a rationality principle, recording of the surplus part made from the increment of property value should be carried out by the Company's branch in the balance of which this property is included.

3.22.7. Retained earnings should be expended to achieve the following purposes defined by the Company's founders (shareholders) including the payment of dividends, financial provision of production development and other analogous activities aimed at acquisition (producing) of new property etc.

3.23. Adopted manners of liabilities recording

3.23.1. Bills payable to suppliers of products, works, and services should be entered in the sum of accepted accounts and the amount of accrued liabilities according to the settlement documents.

3.23.2. Bills payable in relation to non-invoiced deliveries should be entered in the sum of received values calculated proceeding from the price and conditions stipulated by the contracts.

3.23.3. As a separate type of liabilities recorded in independent accounts the liability related to received borrowed current assets (loans and credits) should be recognized.

Recording of interest and borrowing charges should be kept in accordance with RA 15/2008.

3.23.4. Interest and borrowing charges should be recognized as other expenses of the corresponding accounting period. Loan charges and interests on credit that are subject to being included in the investment assets cost should be treated as the exception to the procedure.

3.23.5. Charges on loans and credits attracted to purchase the items of fixed assets and intangible assets which cannot be recognized as investment assets should be recorded along with other Company's expenses according to the general procedure

3.23.6. Extra interest and borrowing charges should be included in other expenses in the accounting period in which they have been incurred.

3.23.7. Bills payable when attracting the borrowed current assets by issuing the Company's own bill or bond placement should be made up in the following way:

- when attracting borrowed current assets by issuing the Company's own bill (bond), at par value of a security. The interests accrued afterwards are entered separately as accounts payable till the moment of their payment to a lender;
- when attracting an interest-free loan by issuing the Company's own bill - at par value of a security. During the life of a loan the amount of accounts payable does not change;
- when attracting borrowed current assets by issuing the Company's own discount bond – in the sum of discount and owing sum that equals the par value of a security. During the life of a loan the amount of accounts payable does not change as well.

3.23.8. When issuing the bonds to make cash loan the sum of interests due to be paid to a bondholder or a discount should be included in sundry expenses. These sundry expenses should be recognized by the Company at the moment of their accrual. The total sum of interests due to be paid should be charged for the past month on the last working day of each month. The Company should not recognize these expenses as deferrals.

3.23.9. Norms of living expenses during the business trip are determined by local regulations of the Company – “regulations on employee's business trips”.

3.24. Recording of profit tax accounts

3.24.1. Producing information about profit tax accounts in accounting statements and the procedure for disclosure of information about profit tax accounts in accounting statements should be specified as per RA 18//02 “Recording of Profit Tax Accounts”.

3.24.2. The difference between accounting profit (loss) and taxable income (loss) of reporting year made as a result of applying different rules of profit and loss recognition which are stipulated by regulatory legal acts on accounting and by the RF legislation on taxes-and-duties should consist of permanent and temporary differences.

3.24.3. Information on permanent and temporary differences subject to being entered in the accounts should be produced on the basis of basic accounting documents and tax ledgers. In analytical accounting temporary differences should be recorded differentially according to the types of assets and liabilities in the evaluation of which temporary difference has occurred.

3.24.4. Permanent differences (PD) should be regarded as receipts and expenditures that:

- generate accounting profit (loss) of the reporting year and are excluded from the tax base computation of the accounting period as well as of the following period and lead to occurrence of permanent tax liability (PTL) which is calculated as the product of permanent difference that has occurred in the accounting period and profit tax rate of the accounting period;
- are recorded when calculating the tax base on tax profit of the accounting period, but are not recognized for accounting purposes of accounting period as well as of ensuing accounting periods and result in formation of permanent tax asset (PTA) which is calculated as the product of permanent difference that has occurred in the accounting period and profit tax rate of the accounting period.

3.24.5. Recording of permanent tax differences should be carried out by centralized manner, by an accounting department of the Company's executive bodies on the basis of data of tax ledgers that are submitted by the Company's branches quarterly.

3.24.6. Temporary differences (TD) - receipts and expenditures generating accounting profit (loss) in one accounting period and the profit tax base – in the other or some other tax periods.

3.24.7. Temporary differences depending on the character of the influence on taxable profit should be subdivided into:

- deductible temporary differences (DTD) which lead to the formation of deferred

tax asset (DTA) reducing the tax profit that is to be paid at the budget during the ensuing accounting periods;

- taxable temporary differences (TTD) which lead to the formation of deferred tax liability (DTL) increasing the tax profit that is to be paid during the ensuing accounting periods.

3.24.8. Accounting of deferred tax liabilities and deferred tax assets should be carried out by the executive bodies and Company's branches in relation to each accounting item. Temporary differences formed during the accounting period should be accrued and recorded in the Company's branches in the accounts 09 "Deferred Tax Assets" and 77 "Deferred Tax Liabilities" in a developed form in correspondence with the account 68 "Profit Tax Calculation". At the end of each accounting period the data on the occurred temporary differences should be submitted by the branches through the subaccount of account 79 "In-House Settlements" in correspondence with the account 68 "Profit Tax Calculation" to the Company's executive bodies to compile the summary data on the Company and compute the profit tax of the Company in general, as well as in hard-copy form, signed by the chief accountant of a branch and an executive according to the form approved by the Company. The date of submitting the specified documents to the accounting department of the Company's executive bodies should be considered to be the date of record of receipt made by a corresponding specialist of an accounting department.

3.24.9. A detailed sum of a deferred tax asset and deferred tax liability should be recorded in accounting statements.

3.24.10. Records of tax profit calculations as per RA 18/02 should be maintained on the basis of software 1C: Enterprise and that is the reason why the Company has elaborated the chart of accounts of tax accounting and set up hereof correspondence to the chart of accounts of business accounting. Business transactions included for accounting purposes should be simultaneously recorded as tax accounting entries. Monthly reconciliation of data of account and tax ledgers should be carried out to confirm the equality:

BA data = data of TA + PD + TD

3.25. Information on segments

3.25.1. According to Accounting Regulation 12/2010 as the basis for segmentation in the Company is taken the management structure and decision-making in the organization, as well as internal reporting system.

3.25.2 The Company determined the composition of the reportable segments:

- transmission of electricity;
- grid connection to the electricity company.

3.25.3 The Company discloses information in the financial statements only for the reportable segments. The remaining segments are presented in the financial statements as other segments (paragraph 16 of Accounting Regulation 12/2010). In the notes to the financial statements disclose in accordance with sections specified in paragraph 22 of Accounting Regulation 12/2010. In "Other Information" the Company specifies the revenue by geographic region for each product type (power transmission, grid connection to the network) for each buyer (customer), the proceeds from the sale of which is not less than 10% of the Company's revenue from sales to external customers (customers).

3.26. Events after the reporting date

3.26.1. According to Accounting Regulation 7/98 "Events After the Reporting Date" the Company should record in the accounting statements the events after the reporting date which have exerted or can exert influence on the financial condition, cash Flow or on

the results of company's functioning and which took place in the period between the reporting date and the date of signing the accounts of a reporting year.

3.26.2. Events after the reporting date should be recorded in accounting statements by means of ascertainment of data on corresponding assets, liabilities, capital, receipts and expenditures of the Company and the corresponding information should be disclosed in the explanatory note.

3.26.3. To evaluate in money terms the consequences of an event after the reporting date the corresponding computation should be carried out and the evidence of such computation should be ensured. The calculation should be executed by a structural subdivision (department, service, section) to which, in accordance with the functions performed, this event refers.

3.27. Information on discontinued operation

3.27.1. The procedure for disclosure of information on discontinued operation including the information produced in consequence of Company's reorganization should be carried out in accounting statements as per Accounting Regulation 16/02 "Information on Discontinued Operation", approved by the order of the RF Ministry of Finance No.66n dated 02.07.2002.

3.28. Information on related parties

3.28.1. According to Accounting Regulation 11/2008 "Information on Related Parties" the Company should include information on related parties as a separate section in the explanatory note which is a part of accounting statements. Along with it the specified data should not be taken into account when preparing the accounts for internal purposes as well as accounts drawn up for the state statistical observation and for a lending agency or for other special purposes.

3.28.2. The list of related parties the information on which is disclosed in the accounting statements should be determined by the Company on an independent basis proceeding from the substance of relations between the Company and a related party in consideration of the substance over form requirement.

3.29. Recording of government assistance

3.29.1. According to Accounting Regulation 13/2000 "Recording of government assistance" the Company collects information on receiving and using public support in form grants, subvention, credit from budget and in other forms. The budgetary funds are divided into funds for financing capital expenditure and funds for financing current expenditures.

3.30. Consolidated financial statements

3.30.1. The Company prepares its consolidated financial statements in accordance with IFRS.

4. Tax Accounting

4.1. Organization of Tax Accounting

The Company shall calculate and pay taxes and dues in accordance with the laws of the Russian Federation on taxes and dues and the laws of the constituent entities of the Russian Federation on taxes and dues.

The formation of tax base, keeping of register (forms) of tax accounting, compilation of tax and duties report for taxes in respect of taxes and duties (paid centralized by the executive body) carries out accounting department on the basis of data presented by branches and other departments of the Company.

Calculation and compilation of the tax report of profit tax of private persons, payments in non-budget funds, payments in compulsory insurance form industrial accidents and industrial diseases, paid by Executive body, is carried out by accounting department of

Executive body.

Regarding taxes and dues of subjects of Russian Federation and local taxes and dues charged and paid by separated subdivisions of the Company by the location the formation of tax base report is carried out directly by corresponding branches and separated subdivisions.

Branches carry out the tax accounting, respond for correctness of tax and dues charges present in limits fixed by the law tax declaration signed by director and chief accountant. The order of compilation of tax accounts, form of register tax accounting and the order of keeping, the order of tax base formation, calculation and discharge of particular taxes and dues are regulated by the present Statue of regulation policy as well as internal documents of the order of calculation and discharge of taxes and dues.

Registers of tax accounting could be kept as special hard-copy forms, e-publishing and/or in other machine-readable medium.

The procedure of documents circulation related to tax accounting, deadlines of composing and presenting documents (register lists, references) necessary for collection of tax base and calculation of tax and dues as well the responsibility for correct and well-timed preparation of the mentioned documents is regulated by special internal documents of order of Company approved in accordance with established procedure.

Changes in taxation part of Company's regulative policy are introduced if occurred an alternation of order of recording particular economic operations and (or) objects with purpose of taxation in case of changing legislating law or using new methods of recording as well as if the Company has started bringing to life new type of activities.

Inventory of liabilities related to tax and dues accountings and verification of liabilities with tax authorities is fulfilled by Executive body, branches and separate subdivisions of Company respectively, regarding payments at the place of fulfillment taxpayer duties.

4.2. Responsibility for taxation keeping and compilation of tax accounting

Chief accountant of the Company bears the responsibility for correct accounting of taxes and dues, profit tax of private person, unified social tax, tax for obligatory insurance of accidents calculated and paid by Executive body.

Chief accountants of the branches bear responsibility for correct accounting of taxes and dues calculated and paid by branches and separated subdivisions.

To provide correct and full formation of tax payable bases of all taxes and dues, subdivisions should present the necessary information in terms fixed by the schedule of documents circulation, in forms and amounts approved by internal order documents.

4.3 Budget settlements

Recording of accountings of tax and dues is fulfilled on accounts permanently by progressive total separately for each tax and due in the context of levels of budget, and also on the context of type of liability (arrears of the basic sum of tax or due, fines, penalties, repackaged tax, due, fine, penalty).

The accounting of taxes and dues paid centralized by Executive body into budgets of subdivisions` locations is carried out in Executive body in the context of separated subdivisions, levels of budget and types of liability.

5. Recording of profit tax accounts

5.1. General information

The Company uses the system of organization, methods and forms of keeping the tax reporting on the basis of chapter 25 of Tax Code of Russian Federation and current

accounting policy.

The Company calculated the tax base by the results of each reporting (tax) period on the basis of data of tax accounting, if the chapter 25 of Tax Code of RF stipulates the order of classification and recording of economic operations for the purposes of taxation different from the order of classification and indicating in accounting.

Information on permanent and temporary differences subject to being entered in the accounts should be produced on the basis of basic accounting documents and tax ledgers. In analytical accounting temporary differences should be recorded differentially according to the types of assets and liabilities in the evaluation of which temporary difference has occurred

At forming up the accounting report the Company indicates in details in Balance Sheet the sum of deferred tax assets and deferred tax liabilities (paragraph 19 of the Accounting Regulation 18/02).

The Company determines the amount of current profit tax on the basis of information formed in accounting report as per the paragraphs 20 and 21 of Accounting Regulation 18/02.

5.2. The order of revenue and expenditure recognition

For the purposes of taxation is used an order of recognition revenues and expenditures by the method of charging (article 271 and 272 Tax Code of RF)

5.3. Recording of expenses connected with production and realization of goods, works and services

5.3.1 Composition of the direct costs

Direct costs include:

- material costs provided for in subparagraphs 1 and 4 of paragraph 1 of article 254 of the RF Tax Code;
- expenses for salary paid to the personnel involved in the production of goods, works and services, the costs of compulsory pension insurance for financing the insurance and funded part of the pension, compulsory insurance against temporary disability and maternity, compulsory health insurance, mandatory social insurance against industrial accidents and occupational diseases, chargeable to the cost of labor;
- depreciation of fixed assets used in the production of goods (works, services).

5.3.2. Depreciable property

Depreciable property is the property, results of intellectual activity and other objects of intellectual property that taxpayer possess and uses for deriving an income and cost of which is discharged by means of depreciation. Depreciable property is the property with useful lifetime more than 12 months and primary cost more than 40 000 rubles.

Expenses for purchasing the objects of fixed assets with price no more than 40 000 rubles per unit and also with price of purchased editions (books, booklets and other similar objects) are indicated as other expenditures related to production and sale in full amount by the moment of purchasing the mentioned objects.

Depreciable property is also:

- capital investment in leased fixed assets in the form of permanent improvements made by the lessee to the lessor's consent;
- capital investment provided under the contract of gratuitous use of fixed assets in the form of permanent improvements made by the organization, with the consent of the borrower-lender.

The initial cost of the asset is determined as the sum of the cost of its acquisition, construction, manufacturing, and bringing to the state in which it is suitable for use with the exception of value added tax and excise duties, except as provided by the Tax

Code.

For tax purposes is provided a separate accounting of the expenses included in the cost of depreciable assets for accounting and tax purposes, and costs not involved in the formation of the original cost of depreciable property under tax accounting rules:

- interest on borrowed funds (to be included in non-operating expenses);
- payment for the registration of rights to immovable property and land, paid after commissioning, transactions with these entities, payments for the provision of information on registered rights, payment for services authorized agencies and specialized organizations to assess the property, preparation of documents and technical accounting inventory (inventory) real estate (to be included in other expenses associated with the production and sale);
- Foreign exchange and sum differences (Clause 5, paragraph 5.1. article 265 of the Tax Code).

The initial cost of the asset if the primary means obtained free of charge, or found during the inventory, defined as the amount at which the property is assessed (but not below the net book value) in accordance with clauses 8 and 20 of article 250 of the Tax Code, construction, manufacturing, and bringing to the state in which it is suitable for use with the exception of taxes to be deducted or accounted for as an expense in accordance with the Tax Code. Pricing information must be documented or through an independent evaluation.

The initial cost of property obtained as the object of the concession agreement is defined as the market value of the property determined at the time of its receipt, and increased the amount of expenditure for the completion, retrofit, renovation, modernization, technical re-equipment and bringing such property to the state in which it is suitable to use, except for the amounts of taxes to be deducted or accounted for as an expense in accordance with the Tax Code.

The original value of fixed assets varies in cases of completion, retrofit, renovation, modernization, technical re-equipment, elimination of facilities and other similar grounds.

The initial cost of the fixed assets received as a contribution to the charter capital is measured as the residual tax value according to the transferor at the time of the transfer.

Primary cost of fixed assets objects of in-house production is determined as cost of final product calculated according to paragraph 2 article 319 of Tax Code of RF.

Start date of any depreciation of depreciable property shall be determined in accordance with paragraph 4 of article 259 of the Tax Code - from the 1st date of the month following the month of commissioning.

Useful lifetime of fixed assets is determined independently by the date of putting into operation the object on the basis of classification of fixed assets fixed by the Regulation of Government of Russian Federation No. 1 "On Classification of Fixed

For all types of fixed assets that are not mentioned in amortization groups in accordance with Regulation of Government of Russian Federation No. 1 "On Classification of Fixed Assets Included in Amortization Group" dd. 01.01.02, useful lifetime is defined considering the technical conditions or recommendations of organization-producer.

For property, plant and equipment were in use, the useful life is reduced by the number of years (months) of operation of the property by the previous owners. Such properties are included in the depreciation groups (subgroups), in which they were included with the previous owner.

If the period of actual use of the acquired property, plant and equipment from the previous owners equals or exceeds its useful life determined by the classification of fixed assets approved by the Government of the Russian Federation, the useful life is

determined independently on the basis of safety requirements and other factors.

For all objects of objects of fixed assets is used a linear method of calculating the depreciation on the basis of standards, calculated according to terms of useful lifetime as per the article 259 of Tax Code of RF and Regulation of Russian Federation No. 1 "On Classification of Fixed Assets Included in Amortization Group" dd. 01.01.02.

The Company does not include the expenses of the reporting (tax) period, capital expenditures in the amount of not more than 10 percent of the original value of fixed assets (with the exception of fixed assets received free of charge), and (or) the costs incurred in the event of completion, equipping, upgrading, technical modernization, partial liquidation of fixed assets, the amounts of which are determined in accordance with Article 257 of this Code.

Raising and lowering factors accelerated depreciation does not apply.

If, after the rehabilitation, upgrading or modernization of the fixed assets have increased the cost and its estimated useful life, the depreciation is calculated in the usual way, and the useful life is increased on the basis of administrative documents of the Company within the time limits established for the group to which was included earlier this asset.

Capital investments in rented objects of fixed assets listed in first paragraph item 1 article 256 of chapter 25 of Tax Code of RF are depreciated in the following order:

- capital investments, which cost is compensated by lessee to lesser, should be depreciated in order set by the chapter 25 of Tax Code of RF;
- capital investments made by lessee with agreement of lesser which costs is not to be returned by lesser is depreciated by lessee during the term of rent contract on the basis of sum of depreciation calculated with consideration of useful lifetime determined for rented objects fixed assets as per the Classification of fixed assets (approved by Government of Russian Federation).

Expenses for selling the depreciated property are fixed as per the article 268 of Tax Code of RF. If the residual value of depreciated property exceeds the revenue from its selling than the difference between the two values is recognized as loss in the following way: the loss is included in expenses in equal shares during the term defined as difference between term of useful lifetime and actual term of operation before the moment of selling. In case if for the moment of selling of fixed assets the actual term of object operation exceeds the set time-limit of usage, the loss from selling of such fixed assets is included in other expenses at a time directly at the moment of selling the object .

Intangible assets are purchased and (or) created by taxpayer results of intellectual activity and other objects of intellectual property (exclusive rights for it) used in production (fulfilling works, rendering services) or for managing needs of organization during the long period of time (more than 12 months).

Primary cost of depreciated intangible assets is determined as sum of actual expenses for the purchasing (creation) and fitting to the state proper for usage minus the value added tax and excises except case stipulated by Tax Code of RF (Paragraph 3 article. 257 of Tax Code of RF).

The value of intangible assets by the Company, is defined as the sum of the actual costs of their creation, production, except for the amount of taxes taken into account as an expense.

Is set independently useful lives, but not less than two years in respect of the following intangible assets:

- The exclusive right to an invention, industrial design, utility model;
- The exclusive right to the use of computer programs, databases;
- The exclusive right to use the topography of integrated circuits;

- The exclusive right for selection achievements;
- Know-how, secret formulas or processes, information in respect of industrial, commercial or scientific experience.

For other types of intangible assets useful life is set based on the term of the patent, and (or) of the other limitations on the use of intangible assets in accordance with the legislation of the Russian Federation or the law of a foreign country, and based on the useful lives of intangible assets in the respective agreements. If, in respect of intangible assets is impossible to determine its useful life, the depreciation rate should be set to the calculation of ten years.

To all objects of intangible assets a linear method of charging depreciation is used.

5.3.3 Accounting of R&D

If as a result of research or development the exclusive rights on results of intellectual activity referred to in paragraph 3 of article 257 of the Tax Code were obtained, the cost for creating them are evenly accounted for two years as part of other costs associated with the production and sale.

The amount of expenses previously included in the tax base (at the end of the individual stages of the work) is not to be recovered.

The reserve for future R&D spending is not created.

5.3.4 Accounting of Inventories

Tangible assets are recorded at the price stated in the contract.

In order to determine the amount of material costs for cancellation of all kinds of commodities and materials used in the production of goods, performance of work, rendering of services used method for estimating the average cost of each type of inventory is identical to the write-off of inventories in accounting. The date of payment of these expenses shall be the date of their production in accordance with their distribution on the remains work in progress.

5.3.5 Accounting of labor costs

In the labor costs include any payments to employees in cash and (or) natural forms that stimulate accruals and allowances, compensation charges related to operating and working conditions, bonuses and lump-sum incentive accruals, expenses associated with the maintenance of these workers provided for under legislation of the Russian Federation, the labor contract concluded with the employee, and (or) the collective agreement, in accordance with the requirements established by article 255 of the Tax Code and paragraphs 21-29, 37-38 of article 270 of the Tax Code.

Labor costs, including vacation pay, in accordance with paragraph 7 of article 255 of the Tax Code refer to the period of accrual and are recorded monthly.

The provision for future expenditures on vacation allowance, annual awards for years of service and at the end of the year is not created.

Costs are under mandatory and voluntary insurance contracts in favor of the employees to be considered for tax purposes in accordance with the requirements of articles 255, 272 of the Tax Code.

5.3.6. Tax Accounting for Production and Sale-Related Expenses

Expenses for property insurance are recognized in accordance with the order stipulated by article 263, paragraph 6 of article 272 Tax Code of RF.

Insurance costs are recognized under obligatory and voluntary insurance (private pensions), made for a term of one year or more in the case of payment of the fee:

one-off payment - over the period of the contract in proportion to the number of calendar days of the contract in the period;

in installments - for each payment evenly over the period corresponding to the period of contribution (year, half-year, quarter, month), in proportion to the number of calendar days of the contract during the period from the date of the reporting period.

At prolongation the insurance contract stipulating bonus as onetime payment and/or making changes in such contract that stipulate alternations of the amount of insurance, such alternation for the taxation purposes are recorded by the following way: reappraisal of previous periods for which was presented a report of expended sums for insurance is not be carried out. From the beginning of the validity of contract with new conditions, the sum of insurance fee to be paid for the rest period of validity of contract is calculated as difference between sum of payment according to new terms and payable sum for the previous contract with prior terms.

Representation expenses are acknowledged for the purposes of taxation considering requirements subparagraph 22 paragraph 1, paragraph 2 article 264 of Tax Code of RF; paragraph 42 article 270 Tax Code RF; subparagraph 5 paragraph 7 article 272 Tax Code of RF and Regulation on representation expenses.

Expenses for publicity for taxation purposes with consideration of requirements subparagraph 28, paragraph 1, 4 article 264 of Tax Code of RF, subparagraph 5, paragraph 7, paragraph 2 article 272 Tax Code of RF.

Expenses for purchasing (producing) the prizes handed to winners of victories held at promotional campaigns, expenses for producing souvenirs holding the samplings of promoted products , as well as expenses for other types of promotion that are not mentioned in paragraphs 2-4 as per 4 article 264 of Tax Code of RF carried out during the reporting (tax) period for purposes of taxation are recognized in amount that does not exceed 1% from sale revenue determinable according to article 249 of Tax Code of RF.

Expenses for repair of fixed assets are recognized for purposes of taxation in sum of actual expenses in that reporting (tax) period in which they were carried out. Expenses for repair of fixed assets are recognized on the basis of information indicated in registers of accounting balance. The repair fund is not stipulated.

Expenses for purchasing parts of land being in state or municipal property, as well expenses for acquisition of right for concluding a lease contract of lands, are included in other expenses connected with production and sale in the following order:

- are recognized as expenses of the reporting (tax) period gradually during 5 years from the moment of documented fact of filing documents for state registration of mentioned right;
- are recognized as expenses of the reporting (tax) period gradually during the term of fixed by the contract, in case of acquisition of lands in credit with term exceeding 5 years from the moment of documented fact of filing documents for state registration of mentioned right;
- are recognized as expenses of the reporting (tax) period gradually during the term of fixed by the lease contract or contract of land rent in accordance with legislative of RF should not be state registered.

Indirect expenses are not distributed for tax accounting by types of activities, but are fully written-off to lessen profits of the reporting period.

Direct expenses are written-off during the current month for fulfilled services in full volume. When selling the purchased goods the revenues from such actions reduce for the cost of purchasing the goods that is determined by method of evaluation by average product costs.

For taxation purposes a separate recording of profits and losses of servicing productions (housing and social and cultural sphere) is carried out in accordance with article 275.1 of Tax Code of RF.

5.4. Tax Account of Other Revenues and Expenditures

For taxation are taken into consideration differences of currency accounted according the principle of accounting and indicated in registers of accounting with the regard of regulations of item 11 cl. 250 and subitem 5 cl. 265 of Tax Code of RF.

Revenues and expenditures from currency purchase and sale are accounted for taxation on the basis of accounting report.

For taxation purposes, expenditures in form of interests of credit and other similar contracts are accounted within limits of refinancing rate (increased as per the legislation) of Central Bank of Russian Federation.

Additional expenditures directly connected with receiving and servicing loans and credits, placing loan assets, are included in expenditures of the reporting period in which the expenditures occurred.

Reserve of doubtful debts is not to be made.

5.5. Expenditures for conversion (disposal) of securities

To expenditures related to acquisition and conversion (disposal) of securities belong:

- expenditures for payment for services of specialized bodies and other persons for consulting, informational and registration services;
- remunerations paid to intermediary (including payment for depositary services related to transfer of property right) and compensations paid to organizations providing contract conclusion and fulfillment;
- other documented expenditures directly connected with acquisition and conversion of securities.

Expenditures for conversion (or disposal) of securities are determined on the basis of price of security acquisition, expenditures for acquisition, expenses for selling (other disposal), realization of sum of accumulated interest (coupon) rate paid by the Company to seller of the securities. Along with it sums of accumulated interest (coupon) yield are not included in expenses previously accounted at taxation.

Expenses for selling (or other disposal) of securities are determined on the basis of price of purchasing the security, expenses for acquisition and realization.

At selling or other disposal of securities the Company writes-off for expenses the cost of disposed securities on the basis of one security price.

At selling or other disposal of securities the expenses related to the acquisition are recorded for taxation purposes in share meant for sold (disposed) securities.

Determination of securities price non-circulating in equity market is carried out in accordance with the order of determined by paragraph 6 of article 280 of Tax Code of RF. At the same time settlement price of a share can be determined independently or using the evaluator`s services. While defining the settlement price independently the Company uses method of evaluation of net assets price of the Issuer meant for one share.

5.6. The order of recognition expenditures and revenues from sale

Revenues from sale of goods (works, services) are accepted at the day of transfer right of property for goods to buyers, results of fulfilled works or rendering services to customers determined in accordance with conditions of concluded contracts.

In case of selling goods via agent, revenues from sale are accepted at the date of sale indicated in agent`s notice on sale or (and) agent`s report.

Revenues from rent of property are indicated in tax accounting in sum supposed for payment for the reporting (tax) period in accordance with conditions of concluded contract, considering principle of gradual proportional forming of revenues and expenses. The mentioned revenues are accepted in tax accounting at the day of the

indicating in accounting report, but not later than the last day of the month to which they refer.

At receiving revenues during several reporting (tax) periods and when the connection between revenues and expenses cannot be determined directly or is determined by implication, the expenses should be distributed considering principle of gradual recognition of revenues and expenses.

Expenses related not only to revenues of the reporting period but also to revenues of the following periods are distributed between the reporting and following periods. Particularly to such expenditures refer to:

- buying a licence for using software programs and data base by contracts with right holder (by licence agreements);
- expenses for purchasing sole rights for PC software on the amount not less than 40 000 rubles and software and data base update;
- expenses on licences for particular business activities

Distribution of expenses is carried out as a rule in order used for accounting report on the basis of terms stated in special associated documentation, and in case of absence such the term is fixed the organization itself by act of special commission and is approved by the chief.

Expense in form of rent (lease) payments for rented property and other similar expenses are indicated in tax accounting according to the date of signing of acts of rendering such services, in case if the contract does not stipulate the formation of mentioned acts than by the date of drawing up the invoice.

5.7. The order of accounting the profit tax

The tax period for income tax is the calendar year. The reporting period for income tax is recognized as quarter. The Company provides reporting for income tax on a quarterly basis. Tax on income and advance payments shall be paid centrally.

Calculation and payment of monthly advance payments shall be made at the rate of one-third actually paid the advance payment for the previous quarter.

In accordance with paragraph 2 item 2 of Article 288 of the Tax Code, the Company shall pay the corporate income tax through a separate unit responsible for the transfer of the tax for all subdivisions that are registered for tax purposes in the territory of one subject of the Russian Federation.

When creating (liquidating) the separate units within 10 days after the end of the reporting period, the Company shall notify the tax authorities at the location of the separate units responsible for choosing a separate division, which will be implemented through the payment of income tax in the regional budget. Payment of tax is carried out, starting with the reporting (tax) period, the next period, which is a separate division was created (liquidated).

The payment of advances and also taxes meant for accounting to revenues of the budget of territorial subjects of Russian Federation, is carried out via one selected responsible subdivision of the Company in each territorial subject of RF from the combined profit share accounted for separate subdivisions on the books in each territorial subject of RF. Profit share of each separated subdivision is determined as average value of percentage of average number of employees and percentage of depreciated cost of property of the separated subdivision accordingly to average number of employees and depreciated cost of property.

6. Value Added Tax

6.1. General provisions

The Company considers the following documents at value added tax charging and

discharging:

- Tax Code of Russian Federation part 1 No.146-FZ dd July 31 1998 No.146-FZ (Federal Law) and part 2 No.146-FZ 117-FZ (Federal Law) dd 5 August 2000;
- Federal Law No.119 -FZ (Federal Law) dd 22 June, 2005 “On making alternations to item 21 of Tax Code of RF and on acknowledgment invalid particular regulations of legislative law on taxes and dues” with the subsequent additions;
- Federal Law No.172 -FZ (Federal Law) dd 13 October 2008 “On alternation to the article 174 of part 2 of Tax Code RF”;
- Federal Law No.224-FZ (Federal Law) dd 26 November 2008 “On alternations in item, item 2 of tax Code of RF and certain legislative acts of RF”; approved by Russian Federation Government No.914 dd December 12, 2000 Orders of keeping the register of received and submitted invoice, sales books while accounting value added tax (with alternation sand additions);
- Federal Law No.245-FZ date d19.07.2011 “On changes in the first and second parts of Tax code of the Russian Federation and particular legal documents of RF on taxes and levies”;
- Order of RF Government dated 26.12.2011 No. 1137 “On forms and rules for filling-in the documents used for calculation of income tax”
- Order of RF Government dated 15.10.2009 No. 104n (edition of 21.04.2010)
- other regulations.

When calculating and paying the value added tax the Company is guided by written recommendations of the Ministry of Finance of the Russian Federation, the Federal Tax Service of the Russian Federation, information letters and definitions of the Supreme Arbitration Court ruling of the Federal Arbitration Courts.

6.2. Objects of taxation.

The following operations are considered as objects of taxation on VAT:

- selling of goods (works, services) on the territory of Russian Federation including selling of objects of pledge and transfer of goods (works, services) according to agreements on providing compensation and innovation, as well as transfer of property rights. Transfer of property right for goods, results of fulfilled works, services gratuitously is regarded as realization of goods and services;
- transfer on the territory of Russian Federation of goods (works, services) for home needs expenses for which are not supposed for deduction (including via depreciation charges) at accumulating profit tax;
- building and assembly works for in-house usage;
- import of goods on the custom territory of Russian Federation.

6.3. Determination of tax base for realization of products (works, services)

While determining the tax base income from realization of products (works, services), transmission of property rights is estimated on the basis of all incomes connected with payments for mentioned products (works, services), property rights granted in cash and (or) in-kind payment, including payment in securities.

Tax base at realization of products (works, services) as per item 1 cl. 154 of Tax Code of Russian Federation is determined as cost of the products (works, services) calculated on the basis of prices fixed in accordance with cl. 40 Tax Code of Russian Federation and considering excise (for excisable goods) excluding VAT.

According to item 1 cl. 154 of Tax Code of Russian Federation while realizing products (works, services) by gratuitous barter transactions the tax base is determined as cost of indicated products (works, services) on the basis of prices fixed in accordance with item

40 Tax Code of Russian Federation and considering excise (for excisable goods) excluding VAT.

Gratuitous transfer of property is regarded as non-sale expenses that is why the sum of accumulated VAT is indicated as well in non-sale expenses.

Receiving payments in account of future supplies of goods (fulfilling works, rendering services) are included in tax base by VAT (paragraph 1 article 167 Tax of RF).

During five calendar days after receiving from customer upfront money (partial or full) seller had to invoice to customer for this sum (item 3 cl. 168 Tax Code) of RF, along within VAT is calculated according to rate (cl. 1 article 168 Tax Code of RF). In conformity with item 5.1 cl. 169 Tax Code of RF in invoice should be mentioned:

- serial number and date of invoice statement;
- name, address and TIN of customer and seller;
- number of payment and accounts documents;
- description of goods and property rights, description of works, services;
- currency
- sum of upfront money;
- tax rate;
- amount of tax determined with consideration of tax rate.

By the time of shipment of goods (fulfilling of works, rendering services, transfer of property rights) the invoice is issued by seller for the total sum, VAT is accumulated in budget form the total sum of shipment, and the previously paid tax deducts.

6.4. Determination of tax base at transfer of goods (fulfilling works, rendering services) for domestic purposes.

According to article 159 Tax Code of RF the tax base from part of operations of transfer of goods (fulfilling works, rendering services) for domestic purposes, which expenses are not to be charged-off, is determined as cost of received goods (works, services) , reckoned on the basis of prices of selling similar goods (similar works and services) actual in previous tax period and at the absence of latter – on the basis market costs with consideration of excise (for excisable goods) minus tax.

In case of absence of information about market prices the cost of transferred goods, works, services is valuated from the cost in accounting report.

6.5. Tax base for fulfilling construction and assembly works for internal consumption.

At fulfilling construction and assembly works for internal consumption the tax base is determined as cost of finished works calculated on the basis of all actual expenses of the Company for the fulfillment. In the cost are included depreciation, wages, unified social tax in part of wages, and also payments for accidents insurance, obligatory retirement insurance expenses of the section of capital construction (at fulfilling works in economic or mixed way), other corresponding expenses.

Tax base for fulfilling construction and assembly works for internal consumption is determined in the following order:

In the part of CAR (Construction All Risks) fulfilled till January the 1st of 2005 the tax is calculated by the moment of accepting for the account the object of finished capital construction (fixed assets) for the whole volume of actual costs fulfilled till 01.01.2005 included in tax base.

VAT sum accrued from the total of construction and assembly works for internal consumption are indicated as per the credit of account 68 in correspondence with

account 19 in case if the objects of construction should be used in future for the operations taxable by VAT. If the object of finished construction should not be used in future for operations taxable by VAT the sum of VAT should be directed to debit of account 08.

6.6. The moment of determining the tax base

The moments of determining the tax base are the following dates:

day of shipment (transfer) of goods (works, services), rights of property;

at transfer of goods (results of works, services) on free of charge basis, and also transfer for internal purposes – the day of shipment (transfer) of goods (works, services).

In cases if the goods are shipped or transported, but there is a transfer of ownership of the product, this transfer of ownership is equal to its shipment.

When selling by the taxpayer of the goods transferred to them in storage under the contract storage with delivery of warehouse receipt, the time for determining the tax base for such goods is defined as the day of the warehouse receipt.

When sending goods (results of work, services) at no charge, as well as the transfer to their own needs - day delivery (transfer) of goods (works, services).

In accordance with the paragraph 14 article 167 of Tax Code of RF, in case if the moment of determination of tax base was the day of payment, partial payment of future supplies of goods (fulfilling of works, rendering services), transfer of property rights, then for the day of shipment of goods (fulfilling of works, rendering services) or transfer of property rights towards the previous payment also appears the moment of determination of tax base.

6.7. Calculations and payment of VAT to one tax agency

According to article 161 of Tax Code of RF while selling goods (works, services), which place of selling is territory of RF by the taxpayers – foreign persons that are not in books of Tax bodies as taxpayers, the tax base is determined by tax agent – the buyer of goods (works, services) as sum of revenue from selling the goods (works, services) including tax.

According to paragraph 4 of article 174 of Tax Code of RF in cases of selling works (services), which place of selling is territory of Russian Federation by the taxpayers – foreign persons that are not in books of Tax bodies as taxpayers the tax payment is carried out by the Company appearing for tax agent, simultaneously with payment

(transfer) cash assets by the taxpayer. At partial payment of liability the sum of VAT should be paid in budget in sum corresponding the carried out partial payment.

The liability of payment in budget the sum of tax occurs at the moment of discharging the liability to foreign supplier and for this day should be made a notification on transfer of the corresponding sum of payment of the part of liability from the account 60 (76) to account 68.2 according the rate of Central Bank for this date.

By the moment of accepting for recording the goods (works, services) the Company participating as tax agent makes up an invoice in one copy for the whole sum of revenue meant for to be transferred to foreign person as per the conditions of contract with minus the sum of tax. Along with it in the invoice should be done a note “Payment for Foreign Person”. The invoice is registered in sales ledger for each date of discharging the liability to foreign supplier. In purchase ledger of invoice made by the Company payments of corresponding sum of tax in budget are registered

When providing on the territory of Russian Federation by bodies of state administration and government of local government the rent of federal property, property of territorial subjects of Russian Federation and municipal property the tax base is determined by

the Company lesser of the property (tax agent) separately for each object of property as sum of rent fee plus tax. The Company is obliged to calculate, keep form the revenues paid to lesser and pay into budget the corresponding sum of tax.

Along with it the obligation of payment of tax into budget appears by the end of the tax period in generally established terms (20th day of the following month).

6.8. The usage of tax withholding

If in the tax period the share of total cost of production of goods (works, services), property rights transactions of sale, does not exceed 5 per cent of the total value of the total cost of production, the Company uses the right not to keep separate records and all tax amounts, the sellers of used goods (works, services) shall be deductible under the general procedure (paragraph 4 of Art. 170 of the Tax Code).

To determine the proportion of total cost of production of goods (work, services, property rights) the operations of sale is not subject to tax, for a total value of total cost of production is determined by the Company as follows:

	Indicator	Indicators, in thousand rubles		
		Total	including related to operations	
			subject to VAT	not subject to VAT
	2	3	4	5
1.	Revenue from sale	A	B	C
2.	Ratio	100%	$(B/A) * 100$	$(B/A) * 100$
3.	Total expenses for purchase, production and selling	D	E	F
3.1	Including general domestic expense accounted by debt of account 26 without VAT	for reference	for reference	for reference
4.	Ration	100%	$(D/E) * 100$	$(E/F) * 100$

6.9. Application of tax deductions

The Company has the right to reduce the total amount of tax calculated in accordance with the requirements of the Tax Code, provided by the Tax Code of the Russian Federation tax deductions.

The following amounts of VAT are subject to deductions (the list of possible deductions is specified in article 171 of the Tax Code):

The provided to the suppliers (contractors) for the purchase of goods (works, services), as well as property rights on the territory of the Russian Federation, or paid for goods imported into the customs territory of the Russian Federation under the customs regimes of release for domestic consumption, temporary import and processing outside the customs territory or the importation of goods, transported across the customs border of the Russian Federation without customs control and customs clearance in respect of:

- goods (works, services), as well as the property rights acquired for transactions that are recognized subject to taxation in accordance with the Tax Code, with the exception of the goods covered by paragraph 2 of article 170 of the Tax;
- goods (works, services) purchased for resale.
- paid under the tax collection agency for the supplier (contractor) in the performance of duties of the taxpayer in accordance with article 161 of the Tax Code:
- when leasing the federal property, property of the subjects of the Russian Federation and municipal property from the state authorities and local self-government;
- for goods, works and services sold in the territory of the Russian Federation by foreign

organizations not registered with the tax authorities as taxpayers.

Sums of Vat are subject to deductions are payments or partial payments for the future delivery of goods (works, services), property rights upon receipt from the seller an invoice (paragraph 12 of article 171 of the Tax Code). The condition for the deduction in accordance with paragraph 9 of article 172 of the Tax Code is the presence of:

- invoices;
- documents confirming the transfer payment;
- contract providing for the transfer of these amounts.

In this case, there is the obligation of the buyer to recover the amount of tax in the tax period, where the amount of tax on purchased goods (works, services), property rights are deductible in the manner prescribed by this Code, or in the tax period in which the change in conditions or termination the treaty and the return of the corresponding amounts of payment, partial payment received by the taxpayer for the future delivery of goods (works, services), transfer of property rights.

The charges against contractors (-developers) when they undertake major construction, assembly (mounting) of fixed assets, as well as charges against the goods (works, services) purchased for the performance of construction work on the projects of construction in progress.

Paid for the costs of travel (for travel to the place of business trip and back, including the costs for the use of the trains bedding, as well as the costs of hiring premises) and the representation costs are deductible in calculating corporate income tax.

The tax amounts that were recovered by a shareholder (partner, shareholder) on the property, intangible assets and property rights in the transmission of the taxpayer as a contribution (contribution) to the authorized (share) capital (fund), when used for transactions that are recognized objects VAT.

According to the requirements of the Tax Code, the deduction is possible in the general case, the time of the registration of goods, works and services (including the acquired fixed assets) upon presentation of the amount of tax by the supplier (contractor) and a VAT invoice.

If the exchange of commodities, mutual-settled securities are carried on 01.01.2009, but the goods (works, services, property rights) were taken into account before this date, the VAT be deducted in accordance with the previous order, that is to deduct the amount of VAT received listed a separate payment order.

VAT paid in the tax collection agency, the importation of goods into the customs territory of the Russian Federation.

In accordance with paragraph 4 of article 170, the VAT on goods and services acquired for transactions that are not subject to taxation, are included in the price of these goods and services.

The amount of tax charged on the acquisition of goods (works, services) or actually paid for goods imported into the territory of the Russian Federation, included in the cost of goods (works, services) in the following cases:

- purchase (import) of goods (works, services) used for production operations, and (or) sale (as well as the transfer, implementation, providing for their own needs) of goods (works, services) that are not subject to taxation (tax-exempt);
- purchase (import) of goods (works, services) used for production operations, and (or) the sale of goods (works, services), the place of sale is not recognized as the territory of the Russian Federation;
- purchase (import) of goods (works, services), property rights, for the production and (or) the sale (transfer) of goods (works, services), operations on the sale (transfer) are not recognized by the sale of goods (works, services) in accordance with paragraph 2 of article 146 of the Tax Code.

The amount of tax charged to sellers of goods (works, services), used for the operations

of taxable and non-taxable for tax deductible or recognized as cost in the proportion in which they are used for production and (or) the sale of goods (works, services), property rights transactions of sale are subject to taxation - the goods (works, services), property rights, used to carry out both taxable and non-taxable transactions, in accordance with the accounting policies adopted for tax purposes.

This proportion is determined by reference to the value of shipped goods (works, services), property rights transactions of sale are subject to taxation (tax-exempt), the total value of goods (works, services), property rights, shipped for the tax period.

If the share of expenditure on activities subject to preferences, does not exceed 5% of the total expenses of the Company, all of the VAT is deductible, subject to the conditions set forth in article 172 of the Tax Code.

The acquisition of goods, other property (other than fixed assets, intangible assets), which are designed for operation as subject to VAT, and for operations that are not subject to VAT, or at the time of posting inventory data, we cannot say definitely, what operations they will be connected - with operations subject to VAT, or operations are not subject to VAT - in this case, the amount of input VAT on them is reflected in the purchase ledger and is deductible in full at the end of the reporting period.

Then, at the end of the reporting period is determined by the proportion of the costs incurred in implementing operations not subject to VAT, the total costs for the period. If the share of total production costs for operations not subject to VAT, more than 5% of the total value of the total cost of production, the calculated ratios by which to determine the amount of VAT to be restored in all relevant purchases.

6.10. Recovery of previously reckoned VAT

According to paragraph 3 article 170 and paragraph 6 article 171 of Tax Code of RF the recovery of previously reckoned sums of VAT is carried out in following cases:

- transfer of property, intangible assets and property rights as a contribution in authorized (share) capital of economic organizations and partnerships or shares in mutual funds of cooperatives (month of transfer);
- transfer to simplified system of taxation or system of taxation as a unified tax for imputed profit (in month previous to transfer to mentioned systems);
- further usage of such goods (works, services) including fixed assets and intangible assets and property rights for nontaxable operations (month of transfer);
- sum received from the buyer as payment or partial payment for the future delivery of goods (works, services), property rights in accordance with the Tax Code);
- changes in the value of shipped goods (works, services), property rights transferred downward, including in the case of reduction of prices (tariffs) and (or) reduce the amount (volume) of shipped goods (works, services) received property rights
- in case of subsidies from the federal budget for the reimbursement of costs associated with the payment of purchased goods (works, services) including tax, as well as reimbursement of expenses to pay tax on goods imported into the territory of the Russian Federation.

Recovery of VAT of goods, materials, works and services is indicated at the transfer in case mentioned above in full sum for the moment of transfer.

In general case at transfer of fixed assets for nontaxable by VAT operations in authorized capital to legal successor when reorganizing or at transfer to simplified tax system or to unified tax for imputed revenue the recovery of VAT is carried out proportionally to residual (balance) value without revaluation.

The sum of recovered VAT is recorded to debit of account of other expenses (by fixed

assets and intangible assets) or to debit of accounting expenses (for account of financial expenditures) for other inventory depending on the way of the writing-off.

If the property, by which the reckon was made on the basis of supposition that it is meant for operations taxable with VAT, is transferred in future for synchronous usage in operations taxable with VAT and operations nontaxable by VAT then the proportion is determined according to rules mentioned above, but with consideration of share of participating of property in nontaxable with VAT operations.

6.11. Making corrections revealed in current tax period, in tax declaration of the previous years.

The corrections revealed in current tax period indicated in the accounting and referring to previous tax periods are indicated in specified tax declarations of VAT for the corresponding periods.

Changes into calculation of tax are formed in the way of additional calculation to corresponding tax period. At the same time should be formed and presented additional sheets to sales and purchase books, tax declaration with alternations, aviso, copies of basic documents, copies of invoices, memorandums, explanatory note on the reasons of changes certified in by the signature of chief accountant of the branch (separated subdivision); in part of information about Executive body by the head of the accounting department in which a particular accounting is carried put. On the basis of presented additional calculations in accounting department of the Executive body, the specified tax declaration of VAT for the corresponding period is formed..

6.12. Taxation period. The order of VAT tax payment.

The tax period for VAT tax payment is considered as a quarter. The tax payment to budget is fulfilled by equal parts during three months following the past tax period. Deadline for tax payment no later than 20th day of each month (paragraph 1 article 174 Tax Code of RF).

Accounting department of the executive body carries out a centralized payment of both VAT and tax of fulfilling functions of fiscal agent (in general for enterprise, including all territorially separated structural units) by the location of the enterprise.

6.13. The order of calculating VAT, compiling and execution of invoices, bought day book, sale book

Invoices, registers of received and submitted invoices are kept directly in places submitted by customers and received from suppliers, invoices, i.e. correspondingly to location of Executive body, branches or separated subdivisions of the Company.

Sales and purchase books of "Kubanenergo", JSC are kept by branches and separated subdivisions in form of chapters of one book of purchase and sale. Quarterly in accordance with the Schedule of document circulation branches and separated subdivisions pass to Executive body originals of the chapters of purchase and sale books, VAT tax declaration with filled information about branch and attested by signature of chief accountant of the branch (separated subdivision)..

Calculation of value added tax sum subjected for payment into budget for the tax period is carried out centralized by the accounting department of the Executive body.

Numbers of invoice submitted to customers of Executive body and each separated subdivision present the following combination:

Adygeiskiye Electrical Grids	1/n
Armavirskiye Electrical Grids	2/n
Executive body	3/n
Krasnodarskiye Electrical Grids	4/n
Labinskiye Electrical Grids	8/n
Leningradskiye Electrical Grids	9/n
Bulk power systems	10/n
Slavyanskiye Electrical Grids	11/n
Sochinskiye Electrical Grids	12/n
Timashevskiye Electrical Grids	13/n
Tikhoretskiye Electrical Grids	14/n
Ust-Labinskiye Electrical Grids	15/n
South-Western Electrical Grids	17/n

Where n has solid numbering both in Executive body and in every branch.

7. Property tax

Tax accounting of property levy is carried out by decentralized way on the basis of article 30 of Tax Code "Corporate Property Tax" and the law of territorial subject of Russian Federation that determines the tax tariff of Tax Code of RF "Tax for organization's property" and law of territorial subject of Russian Federation that determines the tax rate, deadlines, form of reporting, additional tax remissions and reasons for the usage. Sum of property tax (advance payment of tax) is indicated in expenses for principal types of activities using financial accounting of expenses depending on the usage of taxable property.

Average annual cost of taxable property is determined on the basis of its balance cost for the 1st day of each month of the tax period and for the last day of the last month of tax period (paragraph 4 of article 376 of Tax Code of RF).

The tax base is determined by the results of tax or reporting period on the basis of average annual cost of the property that refers to objects of taxation.

All branches have a separate balance and liability to pay the property tax. Calculating, providing declaration and discharge of property tax form the part of Company by the attorney carries out the branch at which balance the property is by the location of mentioned branch.

Calculating, providing declaration and discharge of real estate tax situated out of location of branch at which balance it is, carries out the corresponding branch by the

location of each mentioned objects of real state, considering the tax remissions (article 381 of Tax Code of RF, paragraph 3 article 383, article 384, 385 of Tax Code of RF).

In tax base by the location of branch is included the cost of fixed assets referring both to real estate of branch's location and personal estate the branch is provided with.

In order to correctly apply the property tax rate (paragraph 3 of article 380 of Tax Code), as well as exclude from the tax base the movable property accepted for registration as fixed assets from 01.01.2013 (paragraph 8 of article 374 of Tax Code), in the preparation of tax returns for the property tax by the Executive Office and branches of the Company used in the report in programme 1C for selection at each balance sheet date of the residual value of the property in the context of movable and immovable property, movable property accepted for registration fixed assets from 01.01.2013, in of the property in respect of power supply lines and facilities, which are an integral part of these technological facilities, public railways, in accordance with the laws of property tax.

In accordance with paragraph 3 of article 380 of the Tax Code in respect of property power supply lines and facilities, which are an integral part of these technological facilities, public railways in 2013 the applied tax rate is 0.4%.

The taxable base at the location of the branch is included net book value of fixed assets related to real property, as well as movable property, on account of the accepted as fixed assets from 01.01.2013, which is endowed with a branch.

Division of property in real estate and personal estate is carried out according to principles of article 130 Civil Code of RF.

To properly use the tax remissions a special recording of property subjected to be granted preferences as per the present legislative of property tax is kept.

8. Insurance fees in Pension Fund of Russian Federation , Social Security of Russian Federation, Federal Fund of Compulsory Health Insurance and territorial funds of compulsory health insurance.

Calculation and payment of insurance fees in abovementioned funds are carried out in accordance with Federal Law of Russian Federation No.212-FZ (Federal Law) dd. 24.07.2009.

The objects of insurance fee are payments and other remunerations paid to favour of private persons (citizens of RF) by labour and civil law contracts which subject is fulfilling of works, rendering services and also other remunerations and payments to insurable private persons in accordance with federal law on particular types of compulsory social insurance.

Accounting period for insurance fee is a calendar year. Reporting period is first quarter, half-year, nine months of calendar year, calendar year.

Usage of rate for calculating the insurance fee to each non-budget fund for every private person is regulated by paragraph 4 article 8 and 57 of Federal Law No.212-FZ (Federal Law).

Accounting and payment of insurance fee to each non-budget fund as well as compilation and presentation of corresponding report is carried out by executive body of the Company and branches with separate balance, settlement account and reckoning payments and other remunerations to private persons. Calculations are presented to non-budget funds of location of separate subdivision.

9. Other taxes

Calculating and payment of tax private persons, land tax, transport tax and also other taxes and dues is carried out by the Executive body and branches in accordance with tax code regulating the order of calculating and payment of taxes and dues to budgets of corresponding levels of the territory at which the Company functions.