

OPEN JOINT-STOCK COMPANY KUBANENERGO

**NOTES TO FINANCIAL STATEMENTS FOR 2012**

Krasnodar  
2013

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## 1. GENERAL PROVISIONS

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

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

**Abbreviated name:** Kubanenergo, OJSC.

The company was registered on February 10, 1993.

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

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

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

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

**The Company's main activities are:**

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

### Licenses

Type of Activity	Issuing Authority	Details	Validity Period of License
1	2	3	4
For the right to use mineral resources (to extract fresh groundwater for utility and drinking water supply and process water supply in Krasnodar)	The Russian Ministry of Natural Resources	КРД (KRD) No. 03378 БЭ (VA)	From July 17, 2007 through July 20, 2014
To execute works with the use of information constituting a state secret	Department of the Russian Federal Security Service (FSB) for the Krasnodar Region	735	From March 4, 2008 through March 4, 2013
To take actions and/or provide services in relation to protection of state secrets that are associated with the functioning of a cryptographic device	Department of the Russian Federal Security Service (FSB) for the Krasnodar Region	735/1	From March 20, 2008 through March 20, 2013

Permit to works related to construction, reconstruction and major overhaul	Self-regulatory organization Energostroy, NP (non-for-profit partnership)	0212.02-2010-2309001660-S-060	From December 16, 2010, with no expiration date
Permit to works related to preparation of design documentation for infrastructure facilities	Self-regulatory organization Energostroy, NP (non-for-profit partnership)	P-0263-01-2010-0274	From September 1, 2011, with no expiration date
For the right to use mineral resources (to extract fresh groundwater for utility and drinking water supply and process water supply in the Cossack village of Tverskaya)	The Russian Ministry of Natural Resources	КРД (KRD) No. 03813 ВЭ (VA)	From December 17, 2009 through January 1, 2015
To operate fire explosive production facilities	The Russian Federal Service for Environmental, Technological and Nuclear Supervision	BP-30-003995 series AB No. 087343	From November 11, 2011, with no expiration date

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

No.	Name	Location
1	Krasnodarskiye Elektricheskiye Seti (Krasnodar Electrical Grids)	131 Pashkovskaya str., Krasnodar 350000
2	Sochinskiye Elektricheskiye Seti (Sochi Electrical Grids)	42 Konstitutsii str., Sochi 354000
3	Armavirskiyе Elektricheskiye Seti (Armavir Electrical Grids)	54 Vorovskogo str., Armavir 352900
4	Adygeyskiye Elektricheskiye Seti (Adygeya Electrical Grids)	358 Shovgenova str., Maykop 385000
5	Timashevskiyе Elektricheskiye Seti (Timashevsk Electrical Grids)	176 Lenina str., Timashevsk 353760
6	Tikhoretskiye Elektricheskiye Seti (Tikhoretsk Electrical Grids)	62 Dzerzhinskogo str., Tikhoretsk 352100
7	Leningradskiyе Elektricheskiye Seti (Leningradskaya Electrical Grids)	6 302-y Divizii str., the Cossack village of Leningradskaya 353740
8	Slavyanskiye Elektricheskiye Seti (Slavyansk Electrical Grids)	49 Stroiteley str., Slavyansk-na-Kubani 353840
9	Yugo-Zapadnye Elektricheskiye Seti (South-West Electrical Grids)	1 Vostochny Mol, Novorossiysk 353902
10	Labinskiye Elektricheskiye Seti (Labinsk Electrical Grids)	334 Mira str., Labinsk 352510

11	Ust-Labinskiye Elektricheskiye Seti (Ust-Labinsk Electrical Grids)	4 Krasnodarskaya str., Ust-Labinsk 352300
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**Average annual number of employees** in Kubanenergo, OJSC for the reporting period was equal to 7,593 persons, in the previous year (in 2011) the number was 7,624 persons, in the year preceding the previous year (in 2010) the number was 7,578 persons.

**Registrar of the Company:**

Name: Registrar R.O.S.T., OJSC  
 Location: P.O. box 9, 18 Stromynka str., Moscow 107996, Russia.  
 Telephone/fax: (495) 771-73-35/771-73-34  
 Email: [rost@rost.ru](mailto:rost@rost.ru)  
 Website: <http://www.rost.ru>  
 Number of license: 010-000-1-00264  
 Date of license issue: February 3, 2002  
 License issuing authority: Federal Financial Markets Service of Russia

**Company's Auditor:**

Name: Closed Joint Stock Company KPMG  
 Registered address: 18/1 Olimpiysky avenue, 3035, Moscow 129110  
 Actual address: 10 Presnenskaya embankment, Moscow 123317, Russia  
 Building complex "Tower at the embankment" ("Bashnya na naberezhnoy"), Block C  
 Individual Taxpayer  
 Number (INN): 7702019950  
 Primary State Registration  
 Number (OGRN): 1027700125628  
 Telephone/fax: (495) 937-44-77/937-44-00  
 Email: [Moscow@kpmg.ru](mailto:Moscow@kpmg.ru)  
 Website: [www.kpmg.ru](http://www.kpmg.ru)

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

**General Director of the Company:** Georgy Akhmedovich Sultanov

**Chief Accountant of the Company:** Ludmila Vladimirovna Loskutova.

**Members of the Board of Directors**

No.	Full Name	Primary Place of Employment and Position Held	Status in the Board of Directors
1	Oleg Mikhaylovich Budargin	Chairman of the Management Board of Federal Grid Company of Unified Energy System, OJSC (FGC UES, OJSC)	Chairman of the Board of Directors
2	Valery Anatolyevich Goncharov	Deputy Chairman of the Management Board of FGC UES, OJSC, Deputy Executive Director for Investment Activities of Inter-District Grid Company Holding, OJSC (IDGC Holding, OJSC)	Member of the Board of Directors

3	Aleksey Vladimirovich Demidov	Member of the Management Board, Deputy Executive Director for Economic and Financial Affairs of IDGC Holding, OJSC	Member of the Board of Directors
4	Fyodor Alekseyevich Dyakov	General Director of FGC UES, OJSC, Branch MPTL (Main Power Transmission Lines) of the South	Member of the Board of Directors
5	Aleksandr Sergeyeovich Yemelin	Up to September 2012 – Deputy Director of the Energy Department of NK-Rosneft, OJSC	Member of the Board of Directors
6	Andrey Yevgenyevich Murov	First Deputy Chairman of the Management Board of FGC UES, OJSC, Executive Director of IDGC Holding, OJSC	Member of the Board of Directors
7	Vasily Vladislavovich Nikonov	Director of Energy Department of NK Rosneft, OJSC	Member of the Board of Directors
8	Yegor Vyacheslavovich Prokhorov	Financial Director of FGC UES, OJSC, Financial Director of IDGC Holding, OJSC	Member of the Board of Directors
9	Dmitry Igorevich Romeyko	Deputy Executive Director for Special Projects of IDGC Holding, OJSC	Member of the Board of Directors
10	Khasan Mushtafayevich Likhov	Deputy Director of the Department for Economic Regulation of Property Relations in Fuel and Energy Complex, the Ministry of Energy of the Russian Federation	Member of the Board of Directors
11	Georgy Akhmedovich Sultanov	General Director of Kubanenergo, OJSC	Member of the Board of Directors

### Members of the Management Board

No.	Full Name	Place of Employment and Position Held	Status in the Management Board
1	2	3	4
1	Georgy Akhmedovich Sultanov	General Director of Kubanenergo, OJSC	Chairman of the Management Board
2	Vitaly Aleksandrovich Kocherga	Deputy General Director for Corporate Management of Kubanenergo, OJSC	Deputy Chairman of the Management Board
3	Aleksander Nikolayevich Galyaev	Deputy General Director for Economic and Financial Affairs of Kubanenergo, OJSC	Member of the Management Board
4	Mikhail Borisovich Bronnikov	Deputy General Director for Capital Construction of Olympic Facilities, Kubanenergo, OJSC	Member of the Management Board
5	Andrey Vladimirovich	Deputy General Director for Development and Sales of Services,	Member of the Management Board

	Lyashko	Kubanenergo, OJSC	
6	Ludmila Vladimirovna Loskutova	Chief Accountant, Head of the Department for Accounting and Tax Records and Statements, Kubanenergo, OJSC	Member of the Management Board
7	Inver Yusufovich Natkho	Director of Krasnodarskiye Elektricheskiye Seti (Krasnodar Electrical Grids), the branch of Kubanenergo, OJSC	Member of the Management Board
8	Aleksey Vasilyevich Brizhan	Director of of Sochinskiye Elektricheskiye Seti (Sochi Electrical Grids), the branch of of Kubanenergo, OJSC	Member of the Management Board
9	Vyacheslav Aleksandrovich Belik	Head of the Department for Personnel Management and Organizational Design, Kubanenergo, OJSC	Member of the Management Board
10	Andrey Leonidovich Gerasko	Deputy Engineer-in-Chief for Electricity Distribution Grids of Sochinskiye Elektricheskiye Seti (Sochi Electrical Grids), the branch of of Kubanenergo, OJSC	Member of the Management Board
11	Pavel Vasilyevich Zinchenko	Deputy General Director for Technical Issues, Engineer-in-Chief of Kubanenergo, OJSC	Member of the Management Board
12	Aleksandr Anatolyevich Shevtsov	Deputy General Director for Security, Kubanenergo, OJSC	Member of the Management Board

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

#### Members of the Auditing Commission

No.	Full Name	Place of Employment and Position Held	Status in the Auditing Commission
1	2	3	4
1	Izumrud Aligadzhiyevna Alimuradova	Head of Internal Audit and Risks Management Department of IDGC Holding, OJSC	Chairman of the Auditing Commission
2	Vladimir Nikolayevich Arkhipov	Head of Security Department of IDGC Holding, OJSC	Member of the Auditing Commission
3	Aleksandr Evgenyevich Bogashov	First-Grade Specialist of the Management Agency, the Federal Agency for State Property Management (Rosimushchestvo)	Member of the Auditing Commission
4	Olga Sergeyeвна Sinitsyna	Chief Expert of the Audit and Expertise Division, the Internal Audit and Risks Management Department, IDGC	Member of the Auditing Commission

		Holding, OJSC	
5	Yakov Borisovich Yakubovich	Head of the Division for Risks Management and Internal Control Organization, the Internal Audit and Risks Management Department, IDGC Holding, OJSC	Member of the Auditing Commission

### Main Company's Subsidiaries and Affiliates

Name of Subsidiary	Share in the charter capital (%)	Location	Type of activities
Energetik Recreation Center	100	4 Pionerskaya str., village of Divnomorskoye, Gelendzik, the Krasnodar Region, 353490	Provision of healthcare services, health and fitness services, services related to accommodation (temporary accommodation), catering and servicing to population
Energoservis Kubani OJSC	100	47 Novorossiyskaya str., Krasnodar, the Krasnodar Region, 350080	Implementation of the Programs for Energy Saving and Improvement of Energy Efficiency of End Consumers in the Regions of Responsibility by Implementing the Multilevel System of Energy Services
Plamya Health Complex, OJSC	100	Novomikhaylovsky-2 settlement, Tuapse district, the Krasnodar Region, 352856	Provision of healthcare services, health and fitness services, services related to accommodation (temporary accommodation), catering and servicing to population

## 2. GENERAL PROVISIONS OF ACCOUNTING POLICY

Kubanenergo, OJSC maintained its accounting records in accordance with the Federal Law dated November 21, 1996 No. 129-FZ "On Accounting", Regulation on Maintaining Accounting Records and Financial Statements in the Russian Federation approved by Order of the Russian Ministry of Finance dated July 29, 1998 No. 34n and other regulations on accounting.

The financial statements of Kubanenergo, OJSC was prepared based on the Accounting Standards applicable in Russia.

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



## **2.1. Assets and Liabilities in Foreign Currencies**

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

## **2.2. Intangible Assets**

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

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

## **2.3. Fixed Assets and Construction in Progress**

The Company accounts for fixed assets in accordance with Accounting Standard 6/01 "Accounting for Fixed Assets" approved by Order of the Russian Ministry of Finance dated March 30, 2001 No. 26n and Guidelines for Accounting for Fixed Assets approved by Order of the Russian Ministry of Finance dated October 13, 2003 No. 91n.

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

The assets, in relation to which the conditions of par.4 of this regulation are met and the value of which does not exceed 40,000 rubles per a unit, shall be recorded in the accounting records as inventories.

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

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

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

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

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

The fixed assets were depreciated using the straight-line method based on their useful life. The fixed assets recorded in the accounting records before January 1, 2002 were depreciated based on their useful life in accordance with the rates approved by Decree of the Government of the USSR dated October 22, 1990 No. 1072 "On the Uniform Rates of Depreciation for Complete Recovery of Fixed Assets of the USSR Economy". These rate were applicable as at the date of commissioning such fixed assets.

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

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

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

Homogeneous fixed assets shall be revaluated based on the current / replacement value at most once a year (as at the end of the reporting year) in relation to all groups of the fixed assets, except for land plots. As at December 31, 2012, the assets were not revaluated.

Homogeneous groups of fixed assets shall be revaluated by direct recalculation of their values in accordance with documented market prices and based on relevant order document of the Company. Materiality level to decide whether to reevaluate assets is up to 5%.

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

## **2.4. Inventories**

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

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

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

- if the inventories are purchased for a fee – as the amount of actual costs of their purchase, except for value-added tax and other taxes to be recovered from the budget (par. 6, 11 of Accounting Standard 5/01 (Order of the Russian Ministry of Finance dated June 9, 2001 No. 44n));
- if the inventories are produced with the use of the company’s own resources – based on actual costs related to the production of such inventories. Costs of the inventories production shall be recorded and formed in the books of account in the manner set forth to determine the prime cost of the relevant types of products (par.7 of Accounting Standard 5/01);
- if the inventories are received as a contribution to the charter capital – based on their estimated money value approved by the founders / members except as otherwise required by the law of the Russian Federation; for these purposes, the actual expenses for delivery of the inventories and making them suitable for use shall be taken into account, according to par. 6 of Accounting Standard 5/01 (par. 8, 11 of Accounting Standard 5/01);

- if the inventories are received without charge or under a deed of gift as well as remained after the retirement of fixed assets and other property, entering the inventories, which have been found as overstock based on the results of stock-taking, into the books of account – based on the current market value of the inventories as at the date of their entering into the books of account; the actual expenses for delivery of the inventories and making them suitable for use shall be taken into account (par. 9, 11 of Accounting Standard 5/01);
- if the inventories are received under the agreements, which stipulate that the obligations shall be performed (payment shall be made) without use of money, - based on the price of the values passed or to be passed to the Company; such price shall be determined based on the price, under which the Company typically determines the price of similar values under comparable circumstances. If it is impossible to determine the value of the assets passed or to be passed to the Company, the value of the inventories received by the company under the agreements, which stipulate that the obligations shall be performed (payment shall be made) without use of money, shall be determined based on the price, by which similar inventories are normally purchased under comparable circumstances. The actual cost price of such inventories also includes the actual expenses for delivery of the inventories and making them suitable for use, according to par. 6, 10, 11 of Accounting Standard 5/01;
- the fixed price specified in the contract is considered to be the value of the inventories received under the contracts of exchange, in which the agreed price of the property being exchange is stated.

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

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

The average estimation of the actual cost price of the materials issued to production or written off for other purposes shall be made by determining the actual cost price of the material at the moment of its issue (moving estimate).

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

## **2.5. Prepaid Expenses**

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

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

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

## **2.6. Financial Investments**

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

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

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

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

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

## **2.7. Loans and Credits**

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

## **2.8. Estimated Liabilities**

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

## **2.9. Deferred Taxes**

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

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

## **2.10. Revenue and other income**

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

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

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

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

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

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

## **2.12. Government Assistance**

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

## **2.13. Related Parties**

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

## **2.14. Segment Information**

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

## **2.15. Information on Cash Flows**

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

## **3. CHANGES IN ACCOUNTING POLICY IN 2012**

No changes were made in the Company’s Accounting Policy during 2012.

## **4. CHANGES IN ACCOUNTING POLICY IN 2013**

Changes in the Accounting Policy for 2013 are associated with passing the Federal Law dated November 6, 2011 No. 402-FZ “On Accounting” coming into force from January 1, 2013. In particular, the changes will affect the rules for approving forms of primary accounting documents (Art. 9 No. 402-FZ), accounting registers (Art. 10 No. 402-FZ), content of financial statements (Art. 14 No. 402-FZ) and the rules for determining the reporting period, for which financial statements are prepared (Art. 15 No. 402-FZ). As at the date of the financial statements for 2012, no other changes are planned to be made in the Accounting Policy for the year following the reporting one.

## **5. ADJUSTMENTS AND OTHER CHANGES IN BOOKS OF ACCOUNT RELATED TO PRIOR PERIODS**

In 2012, the following corrections of materials errors were made:

### **As at December 31, 2010:**

The following loans and credits, which were received from several companies and bank institutions and which should be repaid by the Company within 12 months after the reporting date in accordance with the payment schedules provided for by these credit agreements, were recorded in Section “Long-Term Liabilities”:

## Kubanenergo, OJSC

- State Public Institution of the Krasnodar Region “Center of Energy Saving and New Technologies”, the amount is 55,670 thous. rubles;
- Bank Moskvyy OAO (the Bank of Moscow, OJSC), the amount is 1,100,000 thous. rubles;
- Branch of BSGV, CJSC, the amount is 400,000 thous. rubles.

Kubanenergo, OJSC has not performed its obligation to maintain a certain level of the liabilities / EBITDA ratio, which obligation is provided for by the agreement concluded with Nordea Bank, OJSC. The amount under the agreement is 1,500,000 thous. rubles. The written waiver of such breach covering the reporting date of December 31, 2010 was received on April 25, 2011.

As a result of this, adjustments were made in row 1411 “Credits of Banks to be Repaid beyond 12 Months after Reporting Date”, Section “Long-Term Liabilities”, and in row 1511 “Credits of Banks to be Repaid within 12 Months after Reporting Date”, Section “Short-Term Liabilities”. The amount was decreased and increased, respectively, by 3,000,000 thous. rubles.

As a result of this, adjustments were made in row 1412 “Loans to be Repaid beyond 12 Months after Reporting Date”, Section “Long-Term Liabilities”, and in row 1512 “Loans of to be Repaid within 12 Months after Reporting Date”, Section “Short-Term Liabilities”. The amount was decreased and increased, respectively, by 55,670 thous. rubles.

### **As at December 31, 2011:**

The following loans, which were received from several companies and bank institutions and which should be repaid by the Company within 12 months after the reporting date in accordance with the payment schedules provided for by these loan agreements, were recorded in Section “Long-Term Liabilities”:

- State Public Institution of the Krasnodar Region “Center of Energy Saving and New Technologies”, the amount is 33,000 thous. rubles.

As at December 31, 2011, the Company was in arrears of interest, which should be paid within 12 months. The amount of the arrears was 1,014 thous. rubles. The arrears of this interest were included by mistake in the figure of row “Borrowings”, Section “Long-Term Liabilities”.

Kubanenergo, OJSC has not performed its obligation to maintain a certain level of the liabilities / EBITDA ratio, which obligation is provided for by the agreement concluded with Nordea Bank, OJSC. The amount under the agreement is 1,500,000 thous. rubles.

As a result of this, adjustments were made in row 1411 “Credits of Banks to be Repaid beyond 12 Months after Reporting Date”, Section “Long-Term Liabilities”, and in row 1511 “Credits of Banks to be Repaid within 12 Months after Reporting Date”, Section “Short-Term Liabilities”. The amount was decreased and increased, respectively, by 1,501,014 thous. rubles.

As a result of this, adjustments were made in row 1412 “Loans to be Repaid beyond 12 Months after Reporting Date”, Section “Long-Term Liabilities”, and in row 1512 “Loans of to be Repaid within 12 Months after Reporting Date”, Section “Short-Term Liabilities”. The amount was decreased and increased, respectively, by 33,000 thous. rubles.

No other changes were made in the financial statements of Kubanenergo, OJSC.

## **6. DISCLOSURE OF INDIVIDUAL FIGURES IN THE ACCOUNTING STATEMENTS FOR 2012**

### **6.1. Fixed Assets**

When deciding on revaluation of homogeneous groups of fixed assets, the Company has analyzed the information on the inflation movements in accordance with the Forecast of the Social and Economic Development of the Russian Federation for 2013 and for the Planning Period of 2014-2015 published by the Ministry of Economic Development and Trade (Mineconomrazvitiya) of the Russian Federation in September 2012 (hereinafter - the Forecast). So, the deflator of fixed investment (capital investments) of 2012/2011 decreased by 1.1 percent as against that of 2011/2010, future years will show the decrease as well, and the growth of the index of change in the estimated cost of construction and assembling operations in the 4<sup>th</sup> quarter of 2012 as against the 1<sup>st</sup> quarter of 2012 was less than 5 %. It was also taken into the account that, according to the Ministry of Economic Development and Trade, the index of increase in the industrial producers' prices in 2012 as against 2011 would be 3.6 %. It was considered that in 2012, in order to keep inflation down, the Government of the Russian Federation made a decision to establish a moratorium in increase in housing and utilities tariffs, including in electricity tariffs, for the 1<sup>st</sup> half of 2012. In addition, since July, 2012, the tariffs of network organizations and the electricity prices in the wholesale market under regulation have been fixed with increment to the rate of December, 2011, which were below annual average due to the arrangements of the Government of the Russian Federation to ensure the electricity-price development in 2011. The results thereof have been as follows: the sloping price behaviour from mid-first half of 2011 till June, 2012, and the changes to the legislation in terms of cooperation between suppliers and consumers in the retail electricity market - Regulations of the Government of the Russian Federation No. 877 dd. November 4, 2011, "About the Amendments to Some Acts of the Government of the Russian Federation in order to Improve the Relationship between Electricity Suppliers and Consumers in the Retail Market". It is individually noted that long-term regulating parameters have been fixed for Kubanenergo, OJSC, for 2011-2012 using the method of Return on Invested Capital (RAB), which are not changeable over the long-term period of regulation, under the effective legislation. Based on internal and external factors investigated and in accordance with the Accounting Policies of the Company, the Company's management decided not to revalue the fixed assets.

For the period from 01/01/2012 till 31/12/2012, fixed assets acquired under the contracts, which would stipulate the fulfillment of obligations by non-monetary assets, are not available.



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For the period from 01/01/2012 till 31/12/2012, fixed assets acquired out of proceeds of loans and borrowings are not available.

Information on stocks and transactions of fixed assets is disclosed in Annexes 5.3.1, 5.3.2, 5.3.3, 5.3.4, 5.3.6.

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

The investment program of Kubanenergo, OJSC, for 2012 is formed in accordance with:

- Medium-term financial plan;
- Regulations on Investment Operations of Kubanenergo, OJSC;
- Regulations on Technical Policies in the Distribution Network Complex;
- The scenario of making the investment programs of Subsidiaries and Affiliates of Holding MRSK, OJSC.

In 2012, the sources of capital investment financing were as follows:

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

Based on the received sources of financing of utilization of capital investments, the Company formed the investment program for 2012 with key parameters, as follows:

<b>Figure</b>	<b>Units</b>	<b>Total Investment Program</b>	<b>Including the Olympic Program</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
Capital investments	'K RUR	8,630,650	6,611,760
Amount of financing	'K RUR	8,903,720	5,847,600
New fixed capital	'K RUR	4,416,990	2,130,010
Lead-in transformer capacity	MVA	502.70	212.04
Lead-in transmission line capacity	km	147.41	89.73

In fact, in 2012, Kubanenergo, OJSC, performed the construction, reconstruction and commissioning of transmission lines of 241.1 km, including:

- HVL of 110 kv – 35.343 km;
- HVL of 35 kv – 6.021 km;
- HVL of 10 kv – 46.985 km;
- CL of 3-10 kv – 85.117 km;
- HVL of 0.4 kv – 65.252 km.

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In 2012, Kubanenergo, OJSC, performed the construction and commissioning of 3 EPS of 110 kv in the Krasnodar Region, including:

- Pervomayskaya Electric Power Substation;
- Bytkha Electric Power Substation;
- Bocharov Ruchey Electric Power Substation.

In 2012, Kubanenergo, OJSC, performed the reconstruction of 10 EPS of 35-110 kv in the Krasnodar Region, including:

- ZTVS EPS of 110/6/6 kv;
- Severskaya EPS of 110/35/10 kv;
- Dinskaya EPS of 110/35/10 kv;
- Alpiyskaya EPS of 110 kv;
- Gelendzhik EPS of 110 kv;
- Olginka EPS of 110/10 kv;
- Nebug EPS of 110 kv;
- Matsesta EPS of 110 kv.

The amount of advances and pre-payment for services related to the construction and acquisition of fixed assets, excluding VAT, are recorded in the Company's balance sheet as the capital investments in progress. As of December 31, 2012, the amount of advances and pre-payment for services related to the construction and acquisition of fixed assets, amounted to kRUR 1,180,950; VAT on advances and pre-payment for services related to the construction and acquisition of fixed assets is recorded in Line 1260 "Other Current Assets" and amounts to kRUR 212,187.

Information on stocks and transactions of construction in progress is disclosed in Annex 5.3.5.

### 6.1.2. Leased Fixed Assets

Amounts of pending lease payments

(kRUR)

Organization / Agreement	Pending Payments for 2013
1	2
TEK Leasing, CJSC	28,412
No. 02/04-08/407/30-464-мрск dd. 07/04/2008	7,153
No. 03/04-08/407/30-539-мрск dd. 07/04/2009	21,259
<b>TOTAL:</b>	<b>28,412</b>

Subsequent years will not show any lease payments.

## 6.2. Other Non-Current and Current Assets

As of December 31, 2012, the deferred expenses amounted to kRUR 316,057; these expenses are recorded in the balance sheet depending on the writing-off period fixed as of the date of entry in the accounting records, as follows:

1) Non-exclusive rights to computer programs:

- Useful life is more than 12 months

(Line 1190) kRUR

258,268;

- Useful life is within 12 months

(Line 1263) kRUR

29,842;

2) Licenses:

- Useful life is more than 12 months

(Line 1190) kRUR

2,243;

- Useful life is within 12 months

(Line 1263) kRUR

1,500;

3) Others:

- Useful life is more than 12 months

(Line 1190) kRUR

9,146;

- Useful life is within 12 months

(Line 1263) kRUR

15,058.

## 6.3. Financial Investments

In accordance with Accounting Regulations "Financial Investment Accounting" PBU 19/02 approved by Decree of the Ministry of Finance of the Russian Federation No. 126H dd. 10/12/2002 (hereinafter - PBU 19/02) and Regulations on the Accounting Policies of Kubanenergo, OJSC, for 2012 approved by the Company's Decree No. 1135 dd. 26/12/2011, the Commission for Inspection of Available Devaluation of Financial Investments of Kubanenergo, OJSC, that has been formed by Decree of Kubanenergo, OJSC, No. 22 dd. January 17, 2013,

"About the Inspection of Available Devaluation of Financial Investments of Kubanenergo, OJSC" performed the inspection of available devaluation of financial investments of Kubanenergo, OJSC, as of December 31, 2012. According to the inspection results, the Commission found out that as of December 31, 2012, it seems reasonable not to change the provision of kRUR 17,236 made as of December 31, 2011. Information on stocks and transactions of financial investments is disclosed in Annexes 5.4.1, 5.4.2.

#### 6.4. Government Aid

In accordance with Agreement No. 106/407/30-2072 dd. December 25, 2012, the partial compensation for the cost of hotel vouchers purchased for the children of the Company's employees of kRUR 406,350 was received from the regional budget of the Krasnodar Region. The calculation of the amount of compensation was made by the Ministry of Social Development and Family Policies of the Krasnodar Region. The accounting of the amounts received was made in accordance with Accounting Regulations "Government Aid Accounting" PBU 13/2000 approved by Decree of the Ministry of Finance of the Russian Federation No. 92H dd. 16/10/2000. Information on government aid is disclosed in Annex 5.9.

#### 6.5. Accounts Receivable

##### Budget settlements

(kRUR)

FIGURE	Receivables		Accrued	Paid	Receivables	
	as of December 31, 2011		for 2012	for 2012	as of December 31, 2012	
	Debit	Credit			Debit	Credit
1	2	3	4	5	6	7
Value-Added Tax	259,087	13	(402,684)	(332,511)	329,259	12
Property tax	100	16,546	74,692	72,566	99	18,671
Income tax	287,263	-	(64,047)	(348,916)	2,394	0
Land fee	16,286	22,277	(47,323)	29,742	72,297	1,223
Individual income tax	846	22,828	305,948	303,087	742	25,585
Transport tax	3	1,376	5,889	5,786	-	1,476
Effluent charge	179	143	757	636	76	161
Other taxes and dues	27,798	430	536	(26,832)	-	-
Total taxes:	591,562	63,613	(126,232)	(296,442)	404,867	47,128
Fines	37	-	(146)	(146)	37	-
Penalties	9,079	-	(2,025)	(518)	10,701	115
<b>Total:</b>	<b>600,678</b>	<b>63,613</b>	<b>(128,403)</b>	<b>(297,106)</b>	<b>415,605</b>	<b>47,243</b>

In 2012, accounts receivable for taxes and dues decreased by kRUR 185,073.

Accounts receivable for income tax decreased due to return of the excess amount of kRUR 371,031 to the Company's account. The excess amount arose from decrease in the income tax liability in the accounting by the amount of undistributed losses of prior years for 2008 and 2009.

Accounts receivable for Value-Added Tax increased by kRUR 70,172 due to the refunded tax return for the 4<sup>th</sup> quarter of 2012. The amount of tax to be refunded was kRUR 294,227. The cameral tax inspection is in progress with respect to VAT amounts claimed to be refunded from the budget, following which VAT amounts overpaid to the budget are going to be returned.

Increase in accounts receivable for land tax is subject to the redetermination of tax liabilities for the prior tax periods for the land plots, the right of use of which were terminated in a judicial proceeding.

#### Insurance contributions for compulsory social insurance

(kRUR)

FIGURE	Receivables		Accrued	Paid	Receivables	
	as of December 31, 2011		for 2012	for 2012	as of December 31, 2012	
	Debit	Credit			Debit	Credit
1	2	3	4	5	6	7
Insurance contributions						
- total:	3,831	53,012	686,963	682,157	3,327	57,314
including:						
Contributions to the Pension Fund	710	43,297	503,379	500,304	811	46,473
Compulsory Medical Insurance	2,205	7,825	111,228	107,444	46	9,450
Social Insurance	916	1,890	72,356	74,409	2,470	1,391
Fines - total:	-	-	1	1	-	-
Penalties - total:	-	-	179	180	1	-
<b>TOTAL:</b>	<b>3,831</b>	<b>53,012</b>	<b>687,143</b>	<b>682,338</b>	<b>3,328</b>	<b>57,314</b>

#### Allocation of taxes, fines and penalties over the budget levels

(kRUR)

FIGURE	Receivables		Accrued	Paid	Receivables	
	as of December 31, 2011		for 2012	for 2012	as of December 31, 2012	
	Debit	Credit			Debit	Credit
1	2	3	4	5	6	7
Taxes - TOTAL:	591,562	63,613	(126,232)	(296,442)	404,867	47,128

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Federal budget	360,929	45	(421,309)	(452,450)	329,784	41
Regional budget	206,852	31,757	226,724	18,813	2,362	35,178
Local budget	23,781	31,811	68,353	137,195	72,721	11,909
Fines - TOTAL:	37	0	(146)	(146)	37	-
Federal budget	-	-	-	-	-	-
Regional budget	37	-	(146)	(146)	37	-
Local budget	-	-	-	-	-	-
Penalties - TOTAL:	9,079	-	(2,025)	(518)	10,701	115
Federal budget	8,875	-	(2,583)	(779)	10,679	-
Regional budget	150	-	433	303	20	-
Local budget	54	-	125	(42)	2	115
<b>TOTAL:</b>	<b>600,678</b>	<b>63,613</b>	<b>(128,403)</b>	<b>(297,106)</b>	<b>415,605</b>	<b>47,243</b>

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

### 6.6. Capital and Reserves

As of 31/12/2011, the Authorized Capital of the Company amounted to RUR 9,746,093,300 divided into 97,460,933 ordinary shares with a par value of RUR 100 each and was fully paid-up.

On 10/10/2012, the state registration of amendments to the Charter of Kubanenergo, OJSC, related to the growth of the Authorized Capital of the Company was made. The total outstanding shares of additional issue amounted to RUR 4,548,189,700 at par value.

As of 31/12/2012, the Authorized Capital of the Company was fully paid-up, amounted to RUR 14,294,283,000 and consisted of 142,942,830 ordinary shares with a par value of RUR 100 each.

The decision to increase the Authorized Capital of the Company by placing of 97,478,760 additional ordinary registered shares with a par value of RUR 100 each in a public offering for a total of RUR 9,747,876,000 was made on 23/1/.2011 by the Extraordinary General Meeting of Shareholders (Minutes No. 30 dd. 30.11.2011).

The Federal Financial Markets Service of the Russian Federation (FFMS) made the state registration of the additional share issue and of the listing prospectus of Kubanenergo, OJSC, on 21/02/2012 (Issue No. 1-02-00063-A-003D).

The placing of shares of additional issue started on 26/03/2012 and ended on 19/07/2012. As a result of placing, 45,481,897 ordinary shares (or 46.66 % of the total shares of the issue) were sold at the offering price of RUR 103.44 per share that resulted in the cash inflow of mRUR 4,704.6 to Kubanenergo, OJSC.

On 20/09/2012, FFMS of Russia made the state registration of the report on the results of additional share issue. The state registration of amendments to the Charter of Kubanenergo, OJSC, related to the increase in the Authorized Capital of the Company by 1.47 was made on 10/10/2012 (see Annexes 2.1, 2.2, 5.11).

The Company did not issue any preference shares.

Stated and unclaimed dividends to shareholders are not available for the current period.

Additional paid-in capital of the Company was formed due to increase in the fixed assets value as determined by revaluation and due to share premium.

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

## 6.7. Accounts Payable, Loans and Borrowings

Accounts payable for taxes and dues decreased by kRUR 16,370, including for land tax by kRUR 21,054, due to re-registration of the right of perpetual use in land plots to the tenant right.

Kubanenergo, OJSC, did not have any drawn bills, or outstanding bonds, as of December 31, 2012.

### Amounts and maturities of loans and borrowings of Kubanenergo, OJSC

(kRUR)

Name of Bank	Loan Agreement No.	Date of Provision of Loans / Borrowings	Date of Repayment of Loans / Borrowings	Amount of Actual Payables as of December 31, 2012
1	2	3	4	5
Astrakhanskoye Branch No. 8625 of Sberbank of Russia, OJSC	No. 130/2	22/02/2012	22/08/2013	1,000,000
	No. 130/3	27/02/2012	27/08/2013	1,000,000
	No. 12-39	10/05/2012	09/11/2013	500,000
	No. 182/1	10/12/2010	09/12/2013	800,000
	No. 183/1	10/12/2010	09/12/2013	700,000
	No. 197/1	22/12/2010	18/12/2013	1,500,000
	No. 198/1	29/12/2010	27/12/2013	500,000
	No. 202/1	30/12/2011	30/12/2013	1,000,000
<b>Total of Astrakhanskoye Branch No. 8625 of Sberbank of Russia, OJSC</b>		<b>X</b>	<b>X</b>	<b>7,000,000</b>
NOTA-Bank, OJSC	No. 004/12-KJI	27/03/2012	26/09/2013	500,000

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	No. 005/12-KJI	29/03/2012	29/09/2013	500,000
<b>Total of NOTA-Bank, OJSC</b>		<b>X</b>	<b>X</b>	<b>1,000,000</b>
Gasprombank, OJSC	No. 0710-015	27/12/2010	27/12/2013	2,000,000
<b>Total of Gasprombank, OJSC</b>		<b>X</b>	<b>X</b>	<b>2,000,000</b>
<b>TOTAL Short-Term Bank Loans:</b>		<b>X</b>	<b>X</b>	<b>10,000,000</b>
Energy Saving and New Technologies Center, GKU	No. 71- Э/09/407/30- 822	29/09/2009	30/09/2013	27,267
<b>Total of Energy Saving and New Technologies Center, GKU</b>		<b>X</b>	<b>X</b>	<b>27,267</b>
<b>TOTAL Short-Term Loans and Borrowings:</b>		<b>X</b>	<b>X</b>	<b>10,027,267</b>
CB RAB (CJSC)	No. 1071009	29/10/2012	28/10/2014	400,000
<b>Total of CB RAB (CJSC)</b>		<b>X</b>	<b>X</b>	<b>400,000</b>
Gasprombank, OJSC	No. 0711-038	20/05/2011	20/05/2016	1,304,000
	No. 0711-044	11/07/2011	11/07/2016	1,000,000
	No. 0711-054	05/09/2011 30/11/2011	02/09/2016	696,000
	No. 0712-095	07/11/2012	06/11/2015	917,000
<b>Total of Gasprombank, OJSC</b>		<b>X</b>	<b>X</b>	<b>3,917,000</b>
Astrakhanskoye Branch No. 8625 of Sberbank of Russia, OJSC	No. 59/1	05/05/2011	30/04/2015	1,600,000
<b>Total of Astrakhanskoye Branch No. 8625 of Sberbank of Russia, OJSC</b>		<b>X</b>	<b>X</b>	<b>1,600,000</b>
<b>TOTAL Long-Term Loans and Borrowings:</b>		<b>X</b>	<b>X</b>	<b>5,917,000</b>
<b>TOTAL LOANS AND BORROWINGS</b>		<b>X</b>	<b>X</b>	<b>15,944,267</b>

*6.7.1. Security for the Obligations*

Pursuant to Decree of Holding MRSK, OJSC, No. 240 dd. 07/06/2011 and Decree of Kubanenergo, OJSC, No. 617 dd. 21/07/2011, the Contractor shall provide a security for the proper performance of the obligations under the contract agreements for construction and assembling operations and for design and exploration work in the form of an irrevocable and unconditional bank guarantee. As of December 31, 2012, the bank guarantees received and recorded on off balance sheet account 008 "Securities for Obligations and Payments Received" amounted to kRUR 2,620,441. (See Annex 5.8.)



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

**Undisbursed credit lines of the Company**

(kRUR)

<b>Creditor Bank</b>	<b>Agreement No. and Date</b>	<b>Amount of Undisbursed Limit</b>	<b>Interest Rate, %</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
Gasprombank, OJSC	No. 0712-095/407/30-72-κ dd. 07/11/2012	233,000	12.5

**6.8. Information on the Risks of Economic Operations**

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

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

In order to ensure unified approaches to implementation of the risk identification, assessment and management procedures, the Company uses the Guidelines for Risk Management approved in 2011 by the Audit Committee of the Board of Directors.

*6.8.1. Strategic and environmental risks*

**Sovereign risks.** The economic environment of the country to a large extent depends on the effectiveness of decisions made and implemented by organs of power in the Russian Federation in the fields of the economy, finance and monetary policy, on the development of civil, tax and administrative legislation and practices in applying it. Therefore a risk for OJSC “Kubanenergo” might be a general deterioration in the socio-economic situation in the country and/or the regions it operates in. At the current time the Company assesses the risk of changes which could lead to negative consequences for the sector and the economy as a whole to be low.

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

To reduce the influence of regional risks on realising its own investment programme the Company constantly cooperates with state organs and develops actions agreed with them

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in relation to investment projects approved at the level of the Government of the Russian Federation. Work is also carried out on agreeing long term programmes for development of Kubanenergo, OJSC branch zones with regional and local organs of power. Work is also conducted in regards to the long-term programs of Kubanenergo, OJSC subsidiaries development zones, their coordination with the regional and local authorities.

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

### *6.8.2. Regulatory risks*

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

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

At the current time there is an unresolved question on unconditional restitution on a rental contract for the ‘last mile’ between FSK UES OJSC and Kubanenergo, OJSC. As the cross subsidisation period has been extended to 2014 means this problem will not go away. Despite the notification by OJSC FSK UES OJSC to consumers of the non-extension of direct contracts the latter have a chance via judicial proceedings of rejecting Kubanenergo, OJSC services. Management of this risk is being carried out by ensuring the timely manner of annual submission of documents on transfer of facilities by lease to Kubanenergo, OJSC to the Ministry for Energy of Russia, as well as by monitoring deadlines for extending rental contracts for the ‘last mile’ and compliance with the conditions of contracts with FSK UES OJSC .

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

In order to attract long-term investments, and in accordance with the decision of the Government of the Russian Federation No. 663 from 30.06.2012 The Company has relaunched long-term parameters of tariff regulation. The Federal Tariff Service of Russia agreed on electricity transmission services tariffs regulation transition using a return on invested capital method.

However, as the previously approved rates of growth in tariffs compared to the preceding period were lowered but the date of the next readjustment was postponed from 1 January to 1 July, Kubanenergo, OJSC has been obliged to temporarily cut down its investment activities.

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

### *6.8.3. Financial risks*

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

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

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legislation of the Russian Federation, as well as carrying out constant monitoring of the capital loans market and the possibility of restructuring debt.

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

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

The level of inflation in existence at the current time and predicted in the short term demonstrates no significant effect on the financial condition of Kubanenergo, OJSC.

**Risk of obligation default by counteragents.** As its activities mean the company enters into numerous contractual relationships with other businesses, Kubanenergo, OJSC is exposed to the risk of obligation default by counteragents and violation of property and personal non-property rights. This could lead to a growth in volume of receivables and payables. To prevent these risks from occurring the Company selects suppliers and contractors on a competitive basis with obligatory inspection of their financial condition and the availability of sufficient resources to carry out works (services). Claims are made against counteragents for violation of contract conditions and fines (penalty fees) are imposed.

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

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

### *6.8.4. Operational and technological risks*

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

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

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

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

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

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

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

To reduce these risks the Company has organised effective control to spend funds as per their intended purpose. This is carried out by competitive tendering involving the "b2b-energo"

information and analysis trading website. The transparency of purchases made by the Company is confirmed by the large proportion of open trade procedures. Organisation of procurement management is provided by the Central Procurement Office, which sets Kubanenergo, OJSC policy in the field of procurement.

#### *6.8.5. Compliance risks*

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

In order to reduce this risk the Company has adopted the following internal documents intended to ensure the balance between corporate management systems: Kubanenergo Rules of Corporate Management, the Statement on insider information, the Statement on information policy, the Statement on dividend policy, the Statement on management bodies, as well as the Order for cooperation with subsidiaries and affiliates.

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

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

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

In the near future Kubanenergo does not perceive any significant risk related to changes in legislation to its financial and operating activities.

The Company is building up its work on compliance with the standards of legislation in force in the Russian Federation and, in addition, constantly monitors changes made to it.

That said it is impossible to exclude the risk of changes to tax legislation relating to increases in tax rates and/or changes to the payment systems and deadlines which could lead to a decrease in net profit for the Company, as well as a reduction in the size of dividend payments.

Changes to the customs and currency legislation of the Russian Federation do not affect the Company's operations, and, consequently, do not give rise to compliance risk.

**Tax risks.** Risks related to the ambiguities of tax legislation norms capable of leading to incorrect calculation and payment of taxes, as a result of which fines could be imposed by the tax authorities. Such actions as monitoring court practice in the field of tax legislation, ongoing staff training, as well as monitoring the completeness of calculations of tax liabilities and payment

deadlines make it possible to consider for the Company that this risk is minimal within context of the operations of a conscientious tax payer.

**Risks related to court cases.** Changes in court practice related to changes in the position of supervisory agencies could have an effect on Kubanenergo, OJSC operating activities. To minimise these risks Kubanenergo, OJSC is developing a positive court practice on disputed issues related to inconsistencies in implementing legislative norms.

## 6.9. Deferred taxes

Current income tax is measured by using an amount of a provisional expense (provisional income) of an income tax adjusted for the amount of the constant tax liability (asset), increase or decrease of a deferred tax asset and deferred tax liability of a reporting date.

Provisional income of an income tax for the reporting date comprised 433,465 thousand rubles.

Differences appeared during the reporting date which caused an adjustment of a provisional income for the income tax in order to define a tax losses for the reporting date comprised:

- constant – 1,141,282 thousand rubles;
- temporary – 465,445 thousand rubles.

There were no temporary differences taken a place in past reporting dates which caused an adjustment of a provisional income for the income tax of a reporting date.

The amounts of a constant and deferred tax liability/asset for the reporting date are given below:

- constant tax liability – 242,691 thousand rubles;
- constant tax asset – 14,435 thousand rubles;
- deferred tax liability – (6,250) thousand rubles;
- deferred tax asset – 86,839 thousand rubles;
- deferred tax asset from the tax loss – 112,120 thousand rubles.

The most significant amounts of a constant tax liability / asset, taken place during the reporting date:

- constant tax asset, appeared as a result of incomes detected in prior periods 13,874 thousand rubles;
- constant tax liability, appeared as a result of losses detected in prior periods 78,457 thousand rubles;
- constant tax liability, appeared as a result of differences in fixed assets recording – 58,813 thousand rubles:

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- constant tax liability, appeared as a result of creating a provision for estimation liabilities – 41,352 thousand roubles.

The most significant temporary differences are given below:

- differences in recording impairment of accounts receivable and provision for unused vacations;
- differences in calculation of impairment of property, plant and equipment.

Differences between the business accounting and tax accounting and tax raised during the creation of impairment of accounts receivable caused a deferred tax asset generation, including:

- raised 364,411 thousand roubles;
- redeemed 295,419 thousand of roubles/

Deferred tax assets dynamics as a result of differences in provision for unused vacations for 2012:

- raised 43,203 thousand roubles;
- redeemed 43,280 thousand roubles.

Deferred tax assets dynamics as a result of differences and calculations of impairment of property, plant and equipment in terms of taxation and financial reporting for 2012:

- raised 23,244 thousand roubles;
- redeemed 7,636 thousand roubles;

Deferred tax liabilities dynamics as a result of differences and calculations of impairment of property, plant and equipment in terms of taxation and financial reporting for 2012:

- raised 10,187 thousand roubles;
- redeemed 21,025 thousand roubles.

Reasons for changing the applied tax rates compared to the prior period absented.

During the reporting period a deferred tax liability in the amount of 4,203 thousand of roubles and a deferred tax asset in the amount of 8,888 thousand roubles were written off due to an asset's elimination. Information on income taxing and deferred taxes dynamics is represented in Appendixes 2.3 and 5.7.2.

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

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

**"Other costs" transcript**



(Thousand of roubles)

Indicator		As of 31.12.2012	As of 31.12.211
Name	Code		
Cost of goods sold, including	6510	28,119,207	29,630,163
Other expenses	6515	15,851,612	17,133,759
Including Electricity distribution companies services		9,696,190	10 ,017,798
OJSC “FSK UES” services		4,462,234	4,618,500
Other expenses		1,693,188	2,497,461

6.10.1 Information on the expenses of energy resources usage

No.	Approved target indicators	Measurement unit	2011	2012
1	2	3	4	5
1.1.	Electric energy losses, including	Mln roubles, including VAT	9,948.581	8,764.449
		Mln kilowatt- hour	2,783.715	2,674.777
1.1.1.	Energy for own needs	Mln roubles, including VAT	47.764	44.957
		Mln kilowatt- hour	13.9998	13.720
1.2.	Energy purchased for operational and household needs, by resource types	Mln roubles, including VAT	99.739	82.409
1.2.1.	Fuel and energy, including	Mln roubles, including VAT	97.611	79.694
		Tons of fuel	12,876.023	12,273.531
1.2.1.1.	Electric energy	Mln roubles, including VAT	85.500	69.574
		Thousands	33,731.799	32,697.375

		kilowatt-hour		
		Thousands kilowatt-hour per square meter of premises	0.102	0.099
1.2.1.2.	Thermal energy	Mln roubles, including VAT	10.844	9.303
		gCal	6,849.380	5,467.566
		gCal per square meter of premises	0.020	0.017
1.2.2.	Hot water supply	Thousands of cubic meters	0	1.928
		Mln roubles, including VAT	0	0.253
1.2.3.	Cold water supply	Thousands of cubic meters	78.290	77.519
		Mln roubles, including VAT	2.128	2.462
1.2.4.	Natural gas	Thousands of cubic meters	252.250	170.542
		Mln roubles, including VAT	1.267	0.818
1.3.	Electric power metering devices equipment consumed for the Company's household needs	%	100	100
1.4.	Electric power metering devices equipment by retail market's consumers	%	63	71

### 6.11. Cash flow dynamics information

The Company's Cash Flow Report concludes a brief calculation of a VAT including incomes from customers and receivers, payments to suppliers and payment to a budget system of a

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Russian Federation or reimbursement from it in a row 4119 “Other payments” of Appendix 4 “Cash flow dynamics report” in the amount of 1296161 thousand of roubles, including:

VAT included in received amounts	5,586,550
VAT included in amounts transferred	(5,790,821)
VAT payed to a budget	(158,926)
VAT reimbursed from the budget	492,358
<b>Total</b>	<b>129,161</b>

Highly liquid investments (cash equivalents) that can be readily converted into previously known amounts of cash and which are subject to insignificant risk of changes in value for the period from 01.01.2012 to 31.12.2012 did not materialize.

**Minimum amount of minimum balance of funds on current accounts of the Company as of 31.12.2012**

(thousand of roubles)

<b>Base (additional agreement, confirmation of the transaction)</b>	<b>Start date of the transaction</b>	<b>End date of the transaction</b>	<b>Interest rate</b>	<b>The minimum amount of minimum balance</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Gazprombank, OJSC</b>				<b>1,487,000</b>
Confirmation of the transaction No. 134	24.12.2012	04.02.2013	6,00%	200,000
Confirmation of the transaction No. 137	29.12.2012	25.02.2013	6,00%	200,000

1	2	3	4	5
Confirmation of Transaction No. 138	29/12/2012	18/02/2013	6.00 %	200,000
Confirmation of Transaction No. 139	29/12/2012	11/02/2013	6.00 %	200,000
Confirmation of Transaction No. 140	29/12/2012	29/01/2013	6.00 %	200,000
Confirmation of Transaction No. 141	29/12/2012	21/01/2013	4.75 %	200,000
Confirmation of Transaction No. 142	29/12/2012	14/01/2013	3.75 %	200,000
Confirmation of Transaction No. 143	29/12/2012	09/01/2013	2.00 %	87,000
<b>Krasnodarskoye Branch No. 8619 of Sberbank of Russia, OJSC</b>				<b>1,558,000</b>
Supplementary Agreement No. 180 dd. 24/12/2012	24/12/2012	04/02/2013	6.05 %	280,000
Supplementary Agreement No. 183 dd. 29/12/2012	29/12/2012	18/02/2013	6.19 %	200,000
Supplementary Agreement No. 184 dd. 29/12/2012	29/12/2012	11/02/2013	6.10 %	200,000
Supplementary Agreement No. 185 dd. 29/12/2012	29/12/2012	21/01/2013	5.69 %	200,000
Supplementary Agreement No. 186 dd. 29/12/2012	29/12/2012	28/01/2013	5.91 %	200,000
Supplementary Agreement No. 187 dd. 29/12/2012	29/12/2012	14/01/2013	5.54 %	178,000
Supplementary Agreement No. 188 dd. 29/12/2012	29/12/2012	09/01/2013	4.69 %	120,000
Supplementary Agreement No. 189 dd. 29/12/2012	29/12/2012	09/01/2013	4.69 %	180,000
<b>Atrakhanskoye Branch No. 8625 of Sberbank of Russia, OJSC</b>				<b>254,000</b>
Notification No. 7	29/12/2012	09/01/2013	5.12 %	95,000
Notification No. 8	29/12/2012	09/01/2013	5.12 %	95,000
Notification No. 9	29/12/2012	09/01/2013	5.12 %	64,000
<b>Total:</b>				<b>3,299,000</b>

The Company has not received any monetary funds under overdraft.

As of December 31, 2012, third-party guarantees received and not used by the Company to raise a credit with specification of the amount of monetary funds that can be raised by the Company are not available.

Cash (or cash equivalents) that cannot be used by the Company (e.g., letters of credit opened for the benefit of other organizations for transactions in progress as of the reporting sheet date) is not available as of December 31, 2012.

The cash flows allocated by the Company to maintain the operations at the current level (repair and maintenance) amounted to kRUR 363,981, VAT excluded. For 2012, the cash flows allocated by the Company to expand the operations amounted to:

- kRUR 6,115,071 for re-equipment and reconstruction of production facilities;
- kRUR 1,746,768 for new construction of production facilities.

As of December 31, 2012, the funds of letters of credit opened for the benefit of the Company are not available.

## 6.12. Segment Information

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

### The Company determined the structure of the reportable segments:

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

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

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

(kRUR)

No.	Name of Consumer (Customer)	Total Revenue	Including Electricity Transmission	Including Other Services
1	2	3	4	5
1	Independent Power Sales Company, OJSC	10,566,938	10,566,933	5
2	Kubanskaya Power Sales Company, OJSC	14,034,473	14,029,940	4,533

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

## 6.13. Information on Related Parties

### 6.13.1. List of Related Parties

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

- The largest shareholders of the Company - Holding MRSK, OJSC, (owns 63.01 % of the Authorized Capital of the Company); the Russian Federation represented by the Federal Agency for State Property Management (14.57 % of the Authorized Capital); Tyumenenergo, OJSC, (19.07 % of the Authorized Capital);
  - The persons, which are members of the management bodies of the Company.
- Kubanenergo, OJSC, supervises the operations of its subsidiaries.

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In accordance with the Federal Law No. 208-Ф3 dd. 26/12/1995 "About Joint-Stock Companies", the transactions concluded between the Company and the above persons will be deemed interest-party transactions.

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

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

**Income and related receivables for 2012**

(kRUR)

Counterparty	As of December 31, 2011	Accrued	Repaid	As of December 31, 2012
1	2	3	4	5
MRSK Yuga, OJSC*	4	3	-	7
FSK EEC, OJSC*	56	167	(84)	139
P/o Energetik, OJSC***	1,700	549	(755)	1,494
Reserve	(1,700)	(1,000)	1,700	(1,000)

**Income and related receivables for 2011**

(kRUR)

Counterparty	As of December 31, 2010	Accrued	Repaid	As of December 31, 2011
1	2	3	4	5
FSK EEC, OJSC*	-	1,037	(981)	56
P/o Energetik, OJSC***	1,700	-	-	1,700
Reserve	(1,700)	(1,700)	1,700	(1,700)

**Expenses, other transactions and related payables for 2012**

(kRUR)

Counterparty	As of December 31, 2011	Accrued	Repaid	As of December 31, 2012
1	2	3	4	5
MRSK of the South, OJSC*				
- Trading Transactions	(6,887)	(2,004)	4,936	(3,955)
- Other payables	(90,385)	(15,009)	20,990	(84,404)
Holding MRSK, OJSC**				

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- Share acquisition	-	(4,702,460)	4,702,460	-
- Other payables	-	(4,513)	-	(4,513)
- Advance payment	3,008	90,252	(93,260)	-
Kubanskiye Transmission Networks, OJSC*				
- Other payables	(17,422)	-	11,087	(6,335)
- Other payables	14,747	(1,276)	(13,471)	-
Reserve	(14,747)	-	14,747	-
MOESK, OJSC*				
- Advance on fixed assets	-	9,585	(9,585)	-
FSK EEC, OJSC*				
- Trading Transactions	(430,975)	(5,295,037)	5,307,072	(381,940)
- Other payables	(267,771)	(1,837)	268,764	(844)
- Advance on fixed assets	-	37,037	(37,037)	-
- Other payables	173,397	30,259	(869)	202,787
Reserve	(169,486)	(169,037)	169,486	(169,037)
NIIC MRSK, OJSC*				
- Other payables	-	(1,491)	-	(1,491)
P/o Energetik, OJSC***				
- Other payables	-	(9,991)	9,991	-
Yuzhny ICE, OJSC*				
- Trading Transactions	(7,139)	(278,619)	165,998	(119,760)
- Other payables	-	(273)	273	-
- Advance on fixed assets	26,734	320	(26,052)	1,002
Energoservis of Kuban, OJSC***				
- Other payables	612	15,281	(15,893)	-

**Expenses, other transactions and related payables for 2011**

(kRUR)

Counterparty	As of December 31, 2010	Accrued	Repaid	As of December 31, 2011
1	2	3	4	5
MRSK of the South, OJSC*				
- Trading Transactions	(40,158)	(31,698)	64,969	(6,887)
- Other payables	(154,012)	(13,112)	76,739	(90,385)
Holding MRSK, OJSC**				
- Share acquisition	(2,384,042)	(57,707)	2,441,749	-
- Other payables	-	85,739	(82,731)	3,008
- Other payables	(5,310)	-	5,310	-

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Kubanskiye Transmission Networks, OJSC*				
- Other payables	38,746	(23,999)	-	14,747
Reserve	(12,855)	(20,410)	18,518	(14,747)
- Other payables	(1,696)	(17,422)	1,696	(17,422)
FSK EEC, OJSC*				
- Trading Transactions	(950,660)	(5,459,638)	5,979,323	(430,975)
- Other payables	(625)	(454,394)	187,248	(267,771)
- Other payables	171,938	1,596	(137)	173,397
Reserve	(169,486)	(338,973)	338,973	(169,486)
NIIC MRSK, OJSC*				
- Other payables	-	(1,671)	1,671	-
P/o Energetik, OJSC***				
- Other payables	-	(10,799)	10,799	-
Yuzhny ICE, OJSC*				
- Trading Transactions	(247,623)	(22,183)	262,667	(7,139)
- Other payables	(1,539)	-	1,539	-
- Advance on fixed assets		30,354	(3,620)	26,734
Energoservis of Kuban, OJSC****				
- Other payables	-	6,549	(5,937)	612

\* - A person belongs to the same group of persons, which the Company belongs to;

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

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

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

### 6.13.3. *Compensations Payable to Key Management Personnel*

By Resolution of the Board of Directors dd. 23/11/2010 (Minutes No. 100/2010 dd. 24/11/2010), Georgy Akhmedovich Sultanov has been elected to be General Director of the Company since 01/12/2010. By Resolution of the Board of Directors (Minutes No. 122/2011 dd. 30/11/2011), the powers of G.A. Sultanov, General Director of Kubanenergo, OJSC, have been extended till and including 30/11/2012. By Resolution of the Board of Directors (Minutes No. 146/2012 dd. 30/11/2012), the powers of G.A. Sultanov, General Director of Kubanenergo, OJSC, have been extended till and including 30/11/2013.



### Information on the compensations payable to key management personnel

(kRUR)

Types of Compensations	General Director		Deputy General Directors, Branch Directors		Members of the Board of Directors		Members of the Audit Commission		Members of the Management Board	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
1	2	3	4	5	6	7	8	9	10	11
<b>Short-term compensations, incl.:</b>	<b>3,488</b>	<b>5,943</b>	<b>53,735</b>	<b>74,659</b>	<b>2,292</b>	<b>2,612</b>	<b>528</b>	<b>833</b>	<b>2,136</b>	<b>1,884</b>
<b>1.1. Salaries for the reporting period (vacation bonus excl.)</b>	<b>3,159</b>	<b>5,260</b>	<b>42,871</b>	<b>53,084</b>	<b>1,705</b>	<b>2,183</b>	<b>393</b>	<b>638</b>	<b>1,632</b>	<b>1,478</b>
a) premiums	341	933	10,324	18,418	0	0	0	0	0	0
b) bonuses	0	0	0	0	0	0	0	0	0	0
c) other incentive payments, the bases for which are the indices of labour or performance	0	0	0	0	0	0	0	0	0	0
<b>1.2. Annual paid holidays for operations in the reporting period</b>	<b>217</b>	<b>127</b>	<b>3,941</b>	<b>4,112</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>1.3. Total other payments for the benefit of key management personnel (not depending on the respective terms in the labour contract), incl.:</b>	<b>0</b>	<b>0</b>	<b>2,817</b>	<b>8,627</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
a) the Company's payment for public services	0	0	0	0	0	0	0	0	0	0
b) the Company's payment for medical care, incl. treatment	0	0	0	0	0	0	0	0	0	0
c) one-off pecuniary aid payments for vacation	0	0	2,761	3,016	0	0	0	0	0	0
d) full or partial vacation bonus	0	0	56	0	0	0	0	0	0	0
e) full or partial payment for education in the private interests	0	0	0	0	0	0	0	0	0	0
f) others (please, specify), incl.:	0	0	0	0	0	0	0	0	0	0
compensation for residential premises lease	0	0	0	3,684	0	0	0	0	0	0
pecuniary aid for mortgage repayment	0	0	0	1,927	0	0	0	0	0	0
<b>1.4. Taxes payable and other compulsory payments into the respective budgets and extrabudgetary funds</b>	<b>112</b>	<b>556</b>	<b>4,106</b>	<b>8,836</b>	<b>587</b>	<b>429</b>	<b>135</b>	<b>195</b>	<b>504</b>	<b>406</b>
<b>2. Long-term compensations, incl.:</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1. Compensations upon withdrawal, incl.:	0	0	0	0	0	0	0	0	0	0
a) payments under the voluntary insurance contracts concluded with the insurance companies	0	0	0	0	0	0	0	0	0	0
b) payments under the non-governmental retirement insurance contracts concluded with the non-governmental pension funds	0	0	0	0	0	0	0	0	0	0
c) other pension and social safety net payments upon withdrawal	0	0	0	0	0	0	0	0	0	0
2.2. Other long-term compensations	0	0	0	0	0	0	0	0	0	0
2.3. Long-term compensation charges	0	0	0	0	0	0	0	0	0	0
<b>3. TOTAL (short-term and long-term) compensations, charges excl.</b>	<b>3,376</b>	<b>5,387</b>	<b>49,629</b>	<b>65,823</b>	<b>1,705</b>	<b>2,183</b>	<b>393</b>	<b>638</b>	<b>1,632</b>	<b>1,478</b>
<b>4. TOTAL (short-term and long-term) compensation charges</b>	<b>112</b>	<b>556</b>	<b>4,106</b>	<b>8,836</b>	<b>587</b>	<b>429</b>	<b>135</b>	<b>195</b>	<b>504</b>	<b>406</b>

#### **6.14. Going Concern Assumption**

In 2011 and 2012, the Company incurred losses of kRUR 1,861,782 and kRUR 1,901,466, respectively. As of December 31, 2012, the current liabilities exceeded the current assets by kRUR 9,663,405 for the most part due to short-term loans to be repaid within 12 months following the reporting date.

In 2013, the Company's management is going to take the actions aimed at the recovered current ratio, the improved financial position and the increased operating efficiency, as follows:

- To reach an agreement with a number of Russian banks to refinance short-term debt of about kRUR 9,850,000;
- To optimize costs and working capital.

The Company's accounting statements are prepared in accordance with going concern concept.

#### **6.15. Estimated Liabilities, Contingent Assets and Liabilities**

In 2012, the Company recognized in the accounting the estimated liabilities arising from possible leave compensations and from litigious suppliers' claims in terms of unadjusted electricity purchases in order to compensate for electric power losses and electricity transmission services. The estimated liabilities of the Company due to the creation of vacation privileges of the employees are recorded in the amount of kRUR 103,397 at the beginning of the reporting period. The charges for 2012 amounted to kRUR 228,653, the estimated liabilities, which have been previously fixed, were written off in the amount of kRUR 225,216, and the balance at the end of the reporting period amounted to kRUR 106,834.

During 2012, the Company signed the certificates of acceptance of electric power losses and electricity transmission services with disagreements regarding the unadjusted electric power losses and electricity transmission services and, at the same time, executed the objections to the certificates. The Company estimated the probability of settlement of the litigious suppliers' claims in a judicial proceeding within 12 months to be high and made a decision to recognize the estimated liabilities. The estimated liabilities for unsettled suppliers' claims are recorded in the amount of kRUR 1,439,210 at the beginning of the reporting period, including kRUR 1,435,688 in terms of unadjusted electric power losses and kRUR 3,522 in terms of electricity transmission services. The charges for 2012 amounted to kRUR 206,758, including kRUR 205,678 in terms of unadjusted electric power losses and kRUR 1,080 in terms of electricity transmission services. The estimated liabilities for unsettled suppliers' claims amounted to kRUR 1,645,956 at the end of the reporting period, including kRUR 1,641,354 in terms of unadjusted electric power losses and kRUR 4,602 in terms of electricity transmission services (Annex 5.7.1).

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As of the reporting date, the Company disagreed with guaranteeing supplier of Kubanskaya Power Sales Company, OJSC, in terms of settlements under the contract on compensation for electric power losses of kRUR 535,000. The disagreement arose in the 4<sup>th</sup> quarter of the reporting year and, as of December 31, 2012, was not recorded in the accounting statements of the Company. The Company's management estimated the probability of settlement of the disagreement for the Company's benefit to be high.

As of December 31, 2012, the fixed contingent assets and liabilities are not available.

## **6.16. Events Occurring After the Reporting Date**

The Company maintains accounting of the events occurring after the reporting date and makes disclosure thereof in the statements in accordance with the Accounting Regulations "Events Occurring after the Reporting Date" PBU 7/98 approved by Decree of the Ministry of Finance of the Russian Federation No. 56H dd. 25/11/1998.

On March 18, 2013, the Extraordinary General Meeting of Shareholders decided to increase the Authorized Capital of the Company by placing of additional issue of 214,877,270 ordinary shares at a par value of RUR 100 per share. The offering price of the ordinary registered uncertificated share amounts to RUR 121.82 per share.

Other facts of economic operations, which have, or in the future may have, an impact on the financial condition or the performance of the Company and which occur from the reporting date (December 31, 2012) till the date of signing of the accounting statements for 2012 are not available.

General Director

Kubanenergo, OJSC

*/ Signature /*

G.A. Sultanov

Chief Accountant

*/ Signature /*

L.V. Loskutova

*/ Round Seal /*

## **Annexes to the Balance Sheet and to the Income Statement**

Annex 5.1.1 "Stocks and Transactions of Intangible Assets"

Annex 5.2.1 "R&D Stocks and Transactions"

Annex 5.2.2 "R&D in Progress, Unexecuted R&D and Intangible Assets Acquisition Transactions in Progress"

Annex 5.3.1 "Stocks and Transactions of Fixed Assets"

Annex 5.3.2 "Useful Lives and Depreciation Methods"

Annex 5.3.3 "Changes in the Fixed Assets Value as a Result of Completion of Construction, Extra Fitting, Reconstruction and Partial Liquidation"

Annex 5.3.4 "Other Use of Fixed Assets"

Annex 5.3.5 "Capital Investments in Progress"

Annex 5.3.6 "Advances for Capital Construction and Fixed Assets Acquisition"

Annex 5.4.1 "Stocks and Transactions of Financial Investments"

Annex 5.4.2 "Adjustments of Financial Investment Estimates"

Annex 5.5.1 "Stocks and Transactions of Inventories"

Annex 5.6.1 "Stocks and Transactions of Accounts Receivable"

Annex 5.6.2 "Provision for Doubtful Debts"

Annex 5.6.3 "Overdue Accounts Receivable"

Annex 5.6.4 "Disagreements with the Sales Companies"

Annex 5.6.5 "Stocks and Transactions of Accounts Payable"

Annex 5.6.6 "Overdue Accounts Payable"

Annex 5.6.7 "Loans and Borrowings"

Annex 5.6.8 "Cost of Loans and Borrowings"

Annex 5.7.1 "Estimated Liabilities"

Annex 5.7.2 "Deferred Taxes"

Annex 5.8 "Security"

Annex 5.9 "Government Aid"

Annex 5.12 "Statement on Valuables on Off-Balance-Sheet Accounts"

Annex 2.1 "Cost of Sales, Works and Services by Cost Elements"

Annex 2.2 "Earnings per Share, Diluted Earnings per Share"

Annex 2.3 "Taxation of Profit"

Annex 5.11 "Other Income and Expenses"

Annex 5.13 "Information by the Reportable Segments"