OPEN JOINED STOCK COMPANY KUBANENERGO

CONSOLIDATED INTERIM CONDENSED

FINANCIAL STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2013

(UNAUDITED)

Contents

OJSC Kubanenergo
Consolidated Interim Condensed Statement of Profit or Loss and Other Comprehensive Income for the six months ended 30 June 2013 (Unaudited)
(in thousands of Russian Roubles, unless otherwise stated)

	Notes	Six months ended 30 June 2013 (Unaudited)	Six months ended 30 June 2012 (Unaudited)
Revenue	6	14,287,979	13,669,758
Operating expenses	7	(15,062,569)	(14,991,756)
Other operating, net		(34,604)	(13,594)
Results from operating activities		(809,194)	(1,335,592)
Finance income		97,215	232,026
Finance costs		(284,017)	(454,348)
Net finance costs		(186,802)	(222,322)
Loss before income tax		(995,996)	(1,557,914)
Income tax benefit		238,448	106,157
Loss for the period		(757,548)	(1,451,757)
Other comprehensive income			
Remeasurement of the defined benefit liability		(6,298)	323
Income tax on other comprehensive income		1,260	(65)
Total comprehensive loss		(5,038)	258
Total comprehensive loss for the period		(762,586)	(1,451,499)
Loss per share			
Loss per share - basic and diluted (in Russian Roubles)	10	(4.76)	(12.17)

These consolidated interim condensed financial statements were approved by management on 28 August 2013 and were signed on its behalf by:

General Director Gavrilov A.I.

Chief Accountant Sciba I.V.

(in thousands of Russian Roubles, unless otherwise stated)

	Notes	30 June 2013 (Unaudited)	31 December 2012
ASSETS			
Non-current assets			
Property, plant and equipment	8	31,805,813	27,411,467
Intangible assets		254,208	257,305
Investments and financial assets		155,610	154,799
Trade and other receivables		9,024	8,667
Deferred tax assets		1,817,270	1,576,578
Total non-current assets		**34,041,925**	**29,408,816**
Current assets			
Inventories		1,506,706	1,021,980
Income tax receivable		2,830	4,455
Trade and other receivables		4,082,955	4,206,661
Cash and cash equivalents		8,193,379	4,298,307
Total current assets		**13,785,870**	**9,531,403**
TOTAL ASSETS		**47,827,795**	**38,940,219**
EQUITY AND LIABILITIES			
Equity			
Share capital	9	20,809,889	14,294,283
Share premium		4,850,452	3,428,746
Reserves		(47,305)	(42,267)
Accumulated losses		(6,466,621)	(5,709,073)
Total equity attributable to equity holders of the Company		**19,146,415**	**11,971,689**
Non-current liabilities			
Loans and borrowings	11	6,717,000	5,917,000
Finance lease liabilities		-	3,853
Employee benefits		314,034	304,063
Trade and other payables		274,751	262,360
Deferred tax liabilities		985	-
Total non-current liabilities		**7,306,770**	**6,487,276**
Current liabilities			
Loans and borrowings	11	9,210,767	10,025,584
Finance lease liabilities		-	11,704
Trade and other payables ь		10,416,099	8,797,791
Provisions		1,747,480	1,645,956
Income tax liabilities		264	219
Total current liabilities		**21,374,610**	**20,481,254**
TOTAL LIABILITIES		**28,681,380**	**26,968,530**
TOTAL EQUITY AND LIABILITIES		**47,827,795**	**38,940,219**

The consolidated interim condensed statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 8 to 22.

(in thousands of Russian Roubles, unless otherwise stated)

	Notes	Six months ended 30 June 2013 (Unaudited)	Six months ended 30 June 2012 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss for the period		**(757,548)**	**(1,451,757)**
Adjustments for:			
Depreciation and amortisation	7,8	765,117	637,984
Finance costs		284,017	454,348
Finance income		(97,215)	(232,026)
Loss on disposal of property, plant and equipment	8	25,183	4,163
Income tax benefit		(238,448)	(106,157)
Cash flows (used in) / from operating activities before changes in working capital and provisions		**(18,894)**	**(693,445)**
Change in trade and other accounts receivable		(40,225)	966
Change in finance assets related to employee benefits fund		5,534	10,120
Change in inventories		(484,727)	(143,997)
Change in trade and other accounts payable		2,401,959	683,524
Change in employee benefit liabilities		3,673	(2,542)
Change in provisions		104,912	(17,822)
Cash flows from / (used in) operations before income tax and interest paid		**1,972,232**	**(163,196)**
Income tax return		1,073	266,299
Interest paid (including capitalized interest)		(765,698)	(730,631)
Net cash flows from / (used in) operating activities		**1,207,607**	**(627,528)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment and intangible assets		(5,356,968)	(1,209,535)
Proceeds from disposal of property, plant and equipment		48,308	4,542
Interest received		90,870	231,820
Net cash flows used in investing activities		**(5,217,790)**	**(973,173)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from loans and borrowings		1,500,000	4,300,000
Repayment of loans and borrowings		(1,516,500)	(3,822,185)
Repayment of finance lease liabilities		(15,557)	(37,801)
Proceeds from issue of share capital		7,937,312	4,617,734
Net cash flows from financing activities		**7,905,255**	**5,057,748**
Net increase in cash and cash equivalents		**3,895,072**	**3,457,047**
Cash and cash equivalents at the beginning of the period		**4,298,307**	**5,698,530**
Cash and cash equivalents at the end of the period		**8,193,379**	**9,155,577**

The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 8 to 22.

Consolidated Interim Condensed Statement of Changes in Equity for the six months ended 30 June 2013 (Unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

	Attributable to owners of the Company				
	Share capital	**Share premium**	**Reserves**	**Accumulated losses**	**Total equity**
Balance at 1 January 2012, as previously reported	**9,746,094**	**3,272,288**	-	**(2,198,916)**	**10,819,466**
Effect of changes in accounting policies	-	-	(14,811)	(34,377)	**(49,188)**
Balance at 1 January 2012 (restated)	**9,746,094**	**3,272,288**	**(14,811)**	**(2,233,293)**	**10,770,278**
Loss for the period	-	-		(1,451,757)	(1,451,757)
Other comprehensive income					
Remeasurement of the defined benefit liability	-	-	323	-	**323**
Income tax on other comprehensive income	-	-	(65)	-	**(65)**
Total comprehensive loss for the period	-	-	**258**	**(1,451,757)**	**(1,451,499)**
Transactions with owners, recorded directly in equity					
Share issue (Note 9)	4,464,166	153,568	-	-	4,617,734
Total transactions with owners, recorded directly in equity	**4,464,166**	**153,568**	-	-	**4,617,734**
Balance at 30 June 2012 (Unaudited)	**14,210,260**	**3,425,856**	**(14,553)**	**(3,685,050)**	**13,936,513**

The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 8 to 22.

Consolidated Interim Condensed Statement of Changes in Equity for the six months ended 30 June 2013 (Unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

	Attributable to owners of the Company				
	Share capital	**Share premium**	**Reserves**	**Accumulated losses**	**Total equity**
Balance at 1 January 2013	**14,294,283**	**3,428,746**	**-**	**(5,690,061)**	**12,032,968**
Effect of changes in accounting policies	-	-	(42,267)	(19,012)	(61,279)
Balance at 1 January 2013 (restated)	**14,294,283**	**3,428,746**	**(42,267)**	**(5,709,073)**	**11,971,689**
Loss for the period	-	-	-	(757,548)	(757,548)
Other comprehensive income					
Remeasurement of the defined benefit liability	-	-	(6,298)	-	(6,298)
Income tax on other comprehensive income	-	-	1,260	-	1,260
Total comprehensive loss for the period	-	-	**(5,038)**	**(757,548)**	**(762,586)**
Transactions with owners, recorded directly in equity					
Share issue (Note 9)	6,515,606	1,421,706	-	-	7,937,312
Total transactions with owners, recorded directly in equity	**6,515,606**	**1,421,706**	**-**	**-**	**7,937,312**
Balance at 30 June 2013 (Unaudited)	**20,809,889**	**4,850,452**	**(47,305)**	**(6,466,621)**	**19,146,415**

The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 8 to 22.

(in thousands of Russian Roubles, unless otherwise stated)

1 BACKGROUND

(a) The Group and its operations

In 1993 the Krasnodar Production Association of Power and Electrification "Krasnodarenergo" was reorganized into Kuban Power and Electrification Open Joint Stock Company (hereinafter referred to as OJSC "Kubanenergo" or "the Company") in accordance with Decree No. 922 of the President of the Russian Federation "On Particular Features of Transformation of Public Enterprises, Associations, Organizations of Fuel and Energy Complex into Joint Stock Companies" dated 14 August 1992, with Decree No. 923 of the President of the Russian Federation "On Organization of Management of the Electric-Power Complex of the Russian Federation under Privatization Conditions" dated 15 August 1992, with Decree No. 1334 of the President of the Russian Federation dated 05 November 1992 "On Implementation in the Electric-Power Industry of Decree No. 922 of the President of the Russian Federation "On Particular Features of Transformation of Public Enterprises, Associations, Organizations of Fuel and Energy Complex into Joint Stock Companies" dated 14 August 1992".

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

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

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

		Ownership, %	
Subsidiary	**Principal activity**	**30 June 2013**	**31 December 2012**
OJSC "Ozdorovitelniy kompleks "Plamya"	Recreation	100	100
OJSC "Pansionat otdyha "Energetik"	Recreation	100	100
OJSC "Energoservis Kubani"	Energy audit services	100	100

(b) Group formation

In the past few years the Russian electric utilities industry has gone through a reform designed to introduce competition into the electricity sector and to create an environment in which the companies can raise the capital required to maintain and expand current capacity.

In January 2011 OJSC "Energoservis Kubani" was founded as a subsidiary of OJSC "Kubanenergo" with share capital amounted to RUB 100 thousand. The principal activity of OJSC "Energoservis Kubani" is energy audit services.

On 1 July 2008 the Unified Energy System of Russia (hereinafter referred to as "RAO UES") ceased to exist as a separate legal entity and transferred shares of the Company to Open Joint Stock Company Interregional Distribution Grid Companies Holding, a newly formed state-controlled entity, which was renamed to Joint Stock Company Russian Grids (hereafter, JSC Rugrids) in April of 2013.

As on 30 June 2013 and 31 December 2012 the Group is controlled by JSC Rugrids, which ultimate controlling party is the Russian Governement.

(c) Relations with the state and current regulations

The Group's business is a natural monopoly which is under the influence of the Russian government. The government of the Russian Federation directly affects the Group's operations through state tariffs.

In accordance with legislation, the Group's tariffs are controlled by the Federal Service on Tariffs and the Regional Energy Commissions.

Currently, the system of tariff setting of the Russian electric utilities industry is undergoing a reform process. The Regulatory Asset Based (RAB) tariffs setting system is being implemented in the Russian Federation.

(d) Russian business environment

The Group's operations are located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the

Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 BASIS OF PREPARATION

(a) Statement of compliance

These consolidated interim condensed financial statements have been prepared in accordance IAS 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2012.

(b) Basis of measurement

The consolidated IFRS financial statements are prepared on the historical cost basis except for property, plant and equipment at 1 January 2011 are measured at carrying amounts included in the consolidated IFRS financial statements of JSC Rugrids as part of Group's adoption of IFRSs as at 1 January 2011 (Note 8)

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand, except when otherwise indicated.

(d) Use of estimates and judgements

The preparation of consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these consolidated interim condensed financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2012.

3 SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied by the Group in these consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2012.

Changes in accounting policies

The Group applies, for the first time, certain standards and amendments that require restatement of previous financial statements. These include IAS 19 (Revised 2011) *Employee Benefits*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 13 *Fair Value Measurement* and amendments to IAS 1 *Presentation of Financial Statements*. As required by IAS 34, the nature and the effect of these changes are disclosed below.

Several other new standards and amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

The nature and the impact of each new standard or amendment is described below:

Amendment to IAS 1 Presentation of items of other comprehensive income

The Amendment requires an entity to present separately items of other comprehensive income that could be reclassified in the future to profit or loss from those items that will never be reclassified to profit or loss. In addition, according to the Amendment the title of statement of comprehensive income was changed to statement of profit or loss and other comprehensive income. However, use of other titles is permitted.

IAS 19 (2011) Employee Benefits:

The standard has been significantly amended in relation to defined benefits plans, including the following:

- the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur;

(in thousands of Russian Roubles, unless otherwise stated)

- remeasurements of the net defined benefit obligation (asset) are recognised only in other comprehensive income, the current ability to recognise all changes in the defined benefit obligation and plan assets in profit or loss is eliminated;
- the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation.

Besides, new disclosures, such as quantitative sensitivity analysis, are now required.

The Group applied IAS 19 (2011) to its pension plan which is a defined benefit plan retrospectively beginning from 1 January 2012. As a result, past service costs are recognised in full amount as expense as at the earlier of the following dates: (a) the date of plan amendment or plan curtailment, and (b) the date when the related restructuring costs or termination benefits are recognised. Previously the entity recognised past service costs as an expense on the straight-line basis over the average period until the benefits become vested.

According to IAS 19 (2011) remeasurements of the net defined benefit obligation (asset) are recognised in other comprehensive income. Previously the Group applied the corridor method.

The application of the revised standard had the following impact on the financial position and comprehensive income of the Group:

Consolidated statement of financial position

1 January 2012

	As previously reported	Effect of changes in accounting policies	As restated
Employee benefits	(210,798)	(41,126)	(251,924)
Deferred tax assets related to employee benefits	42,160	8,225	50,385
Total liabilities related to employee benefits	**(168,638)**	**(32,901)**	**(201,539)**
Reserves	-	(14,811)	(14,811)
Accumulated losses related to employee benefits	(168,638)	(18,090)	(186,728)
Total equity related to employee benefits	**(168,638)**	**(32,901)**	**(201,539)**

31 December 2012

	As previously reported	Effect of changes in accounting policies	As restated
Employee benefits	(227,463)	(76,600)	(304,063)
Deferred tax assets related to employee benefits	45,493	15,320	60,813
Total liabilities related to employee benefits	**(181,970)**	**(61,280)**	**(243,250)**
Reserves	-	(42,267)	(42,267)
Accumulated losses related to employee benefits	(181,970)	(19,013)	(200,983)
Total equity related to employee benefits	**(181,970)**	**(61,280)**	**(243,250)**

(in thousands of Russian Roubles, unless otherwise stated)

Consolidated statement of profit or loss and other comprehensive income:

For the six months ended 30 June 2012

	As previously reported	Effect of changes in accounting policies	As restated
Operating expenses related to employee benefits	(13,614)	11,505	(2,109)
Financial expense related to employee benefits	-	(10,167)	(10,167)
Income tax expense related to employee benefits	(2,723)	268	(2,455)
Total profit for the year related to employee benefits	**(16,337)**	**1,606**	**(14,731)**
Remeasurements of the defined benefit liability / Defined benefit plan actuarial gains	-	323	323
Income tax expense	-	(65)	(65)
Total other comprehensive income for the period, net of tax	-	**258**	**258**
Comprehensive income for the period	**(16,337)**	**1,864**	**(14,473)**

For the six months ended 30 June 2013

	Effect of changes in accounting policies
Operating expenses related to employee benefits	15,787
Financial expense related to employee benefits	(10,550)
Income tax expense related to employee benefits	1,047
Total profit for the year related to employee benefits	**6,284**
Remeasurements of the defined benefit liability / Defined benefit plan actuarial gains	(6,298)
Income tax expense	1,260
Total other comprehensive income for the period, net of tax	**(5,038)**
Comprehensive income for the period	**1,246**

IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements

IFRS 10 introduces a single control model that applies to all entities including special purpose entities. IFRS 10 supersedes a part of previously effective IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. The new standard changes the definition of control such that an investor controls an investee when:

- it has power over the investee;
- it is exposed, or has rights, to variable returns from its involvement with the investee, and
- it has the ability to affect those returns through its power over the investee (i.e. there is a link between power and returns).

This standard had no impact on the consolidation of the Group's investees.

IFRS 13 Fair Value Measurement supersedes the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. Comparative disclosure information is not required for periods before the date of initial application.

The application of IFRS 13 has not had a significant impact on the fair value measurements carried out by the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4 DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

In preparing these consolidated interim condensed financial statements, the methods for determination of fair values were the same as those applied to the consolidated financial statements for the year ended 31 December 2012.

5 OPERATING SEGMENTS

The Group has one reportable segment, as described below, which is the Group's strategic business unit. This strategic business unit offers electricity transmission services including technological connection services in separate geographical regions of the Russian Federation (Krasnodar region and Republic of Adygeya) and is managed in common. The "other" segment includes insignificant operating segments such as rent services and repair and maintenance services. None of them meets any of the quantitative thresholds for determining reportable segments in the six months ended 30 June 2013 or 2012.

Segment reports are based on the information reported in statutory accounts, which differ significantly from the consolidated financial statements prepared under IFRS. Reconciliation of items measured as reported to the Management Board with similar items in these consolidated financial statements includes those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

Segment capital expenditures are the total cost incurred during the period to acquire property, plant and equipment.

(in thousands of Russian Roubles, unless otherwise stated)

Information about reportable segments

For the six months ended 30 June 2013:

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

For the six months ended 30 June 2012:

	Kubanenergo	Other	Total
Revenue from external customers	13,630,373	11,398	13,641,771
Inter-segment revenue	29	14,722	14,751
Total segment revenue	**13,630,402**	**26,120**	**13,656,522**
Segment operating loss	**(1,113,632)**	**2,279**	**(1,111,353)**
Finance income	231,820	5	231,825
Finance costs	(710,425)	(14)	**(710,439)**
Segment loss before income tax	**(1,840,435)**	**1,942**	**(1,838,493)**

As at 30 June 2013:

	Kubanenergo	Other	Total
Segment assets	**51,196,496**	**77,171**	**51,273,667**
Including property, plant and equipment	*32,765,311*	*56,350*	*32,821,661*
Segment liabilities	**35,980,975**	**33,833**	**36,014,808**
Capital expenditures	**4,085,811**	**3,792**	**4,089,603**

As at 31 December 2012:

	Kubanenergo	Other	Total
Segment assets	**42,974,070**	**72,678**	**43,046,748**
Including property, plant and equipment	*31,207,441*	*54,869*	*31,262,310*
Segment liabilities	**26,392,807**	**12,281**	**26,405,088**
Capital expenditures	**9,289,933**	**2,339**	**9,292,272**

(in thousands of Russian Roubles, unless otherwise stated)

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

	Six months ended 30 June 2013 (Unaudited)	Six months ended 30 June 2012 (Unaudited)
Total segment loss before income tax	**(1,704,452)**	**(1,838,493)**
Adjustments for:		
Borrowing costs capitalised to property plant and equipment	487,551	276,848
Depreciation and loss from property plant and equipment disposal	232,553	82,263
Finance lease	21,713	50,437
Accrual of provision for unused vacations and bonuses	60,369	(487)
Impairment of accounts receivable	(105,104)	(147,452)
Accrual of provision for legal claims	(104,912)	17,823
Revenue from electricity transmission	104,610	-
Recognition of long term employee benefits	(2,862)	(7,372)
Other adjustments	14,538	8,519
Loss before income tax for the period per Consolidated Statement of Profit or Loss and Other Comprehensive Income	**(995,996)**	**(1,557,914)**

6 REVENUE

During the six months ended 30 June 2013 revenue amounted to RUB 14,287,979 thousand (six months ended 30 June 2012: RUB 13,669,758 thousand) and included revenue from electricity distribution services in the amount of RUB 14,140,245 thousand (six months ended 30 June 2012: RUB 13,342,400 thousand) and revenue from technological connection services in the amount of RUB 110,264 thousand (six months ended 30 June 2012: RUB 277,118 thousand).

7 OPERATING EXPENSES

During the six months ended 30 June 2013 operating expenses amounted to RUB 15,062,569 thousand (six months ended 30 June 2012: RUB 14,991,756 thousand) and included electricity transmission expenses in the amount of RUB 6,890,953 thousand (six months ended 30 June 2012: RUB 7,528,275 thousand), cost of purchased electricity for compensation of technological losses in the amount of RUB 3,604,147 thousand (six months ended 30 June 2012: RUB 4,414,942 thousand), personnel costs in the amount of RUB 1,857,463 thousand (six months ended 30 June 2012: RUB 1,513,952 thousand), depreciation and amortisation expenses in the amount of RUB 765,117 thousand (six months ended 30 June 2012: RUB 637,984 thousand) and allowance for impairment of trade and other receivables in the amount of RUB 505,986 thousand (six months ended 30 June 2012: RUB 120,334 thousand).

8 PROPERTY, PLANT AND EQUIPMENT

(in thousands of Russian Roubles, unless otherwise stated)

	Land and production buildings	Transmission network	Equipment for electricity transmission	Other	Construction in progress	Total
Cost/Deemed cost						
Balance as at 1 January 2012	2,680,076	5,784,761	6,017,436	3,580,878	9,026,925	27,090,076
Additions	6,757	4,118	7,580	872	1,994,099	2,013,426
Transfers	358,737	121,117	333,599	72,485	(885,938)	-
Disposals	(204)	(4,985)	(263)	(12,522)	(416)	(18,390)
Balance as at 30 June 2012 (Unaudited)	**3,045,366**	**5,905,011**	**6,358,352**	**3,641,713**	**10,134,670**	**29,085,112**
Balance as at 1 January 2013	3,604,844	7,041,399	8,281,749	4,065,625	13,265,197	34,258,814
Additions	969	13,814	10,667	51,754	5,151,544	5,228,748
Transfers	26,674	96,047	74,645	17,417	(214,783)	-
Disposals	(1,978)	(42,673)	(2,261)	(229)	(46,317)	(93,458)
Balance as at 30 June 2013 (Unaudited)	**3,630,510**	**7,108,587**	**8,364,800**	**4,134,567**	**18,155,641**	**41,394,104**
Depreciation and impairment						
Balance as at 1 January 2012	(450,536)	(1,708,438)	(1,130,506)	(1,291,624)	-	(4,581,104)
Charge for the period	(60,652)	(165,151)	(195,520)	(214,564)	-	(635,887)
Disposals	107	1,217	225	4,721	-	6,270
Balance as at 30 June 2012 (Unaudited)	**(511,081)**	**(1,872,372)**	**(1,325,801)**	**(1,501,467)**	**-**	**(5,210,721)**
Balance as at 1 January 2013	(896,551)	(2,464,272)	(2,293,697)	(1,893,609)	(1,299,218)	(8,847,347)
Reclassification	(1,369)	(10,536)	(2,494)	(2,888)	17,287	-
Charge for the period	(65,278)	(181,447)	(273,394)	(234,959)	-	(755,078)
Disposals	754	11,660	1,503	217	-	14,134
Balance as at 30 June 2013 (Unaudited)	**(962,444)**	**(2,644,595)**	**(2,568,082)**	**(2,131,239)**	**(1,281,931)**	**(9,588,291)**
Carrying amounts						
At 1 January 2012	**2,229,540**	**4,076,323**	**4,886,930**	**2,289,254**	**9,026,925**	**22,508,972**
At 30 June 2012 (Unaudited)	**2,534,285**	**4,032,639**	**5,032,551**	**2,140,246**	**10,134,670**	**23,874,391**
At 1 January 2013	**2,708,294**	**4,577,127**	**5,988,052**	**2,172,016**	**11,965,979**	**27,411,467**
At 30 June 2013 (Unaudited)	**2,668,065**	**4,463,992**	**5,796,718**	**2,003,328**	**16,873,710**	**31,805,813**

(in thousands of Russian Roubles, unless otherwise stated)

9 EQUITY

Share capital

Number of shares	Ordinary shares	
	For the six months ended 30 June 2013 (Unaudited)	For the year ended 31 December 2012
Par value	RUB 100	RUB 100
In issue at 1 January	142,942,830	97,460,933
Issued during the period	65,156,055	45,481,897
In issue at the end of the period – fully paid	**208,098,885**	**142,942,830**
Authorised at 1 January	142,942,830	194,939,693
Authorised at 30 June/31 December	142,942,830	142,942,830

Issuance of additional shares

On 25 October 2010 the Extraordinary General Meeting of Shareholders of the Company approved an increase in share capital through issuance of additional 31,732,913 ordinary shares with a par value of RUB 100 each under an open subscription. The approved offering price was RUB 184.92. This share issuance was registered by the Federal Service for Financial Markets on 14 December 2010. During 2010 12,892,289 shares were subscribed and paid by JSC Rugrids and were in process of registration as at 1 January 2011. During 2011 312,064 shares were subscribed and paid by JSC Rugrids and 6,949,343 shares by 3rd parties. The amounts of RUB 726,141 thousand and RUB 616,639 thousand were recognised as share capital and share premium within equity for the year ended 31 December 2011, respectively. The additional shares were issued to raise capital for investment project of Sochi resort development.

On 23 November 2011 the Extraordinary General Meeting of Shareholders of the Company approved an increase in share capital through issuance of additional 97,478,760 ordinary shares with a par value of RUB 100 each under an open subscription. The approved offering price was RUB 103.44. This share issuance was registered by the Federal Service for Financial Markets on 21 February 2012. During 2012 year 44,620,505 shares were subscribed and paid by JSC Rugrids and 21,151 shares by 3rd parties. The amounts of RUB 4,548,189 thousand and RUB 156,458 thousand were recognized as share capital and share premium within equity for the year ended 31 December 2012, respectively. The additional shares were issued to raise capital for investment project of Sochi resort development as well as for energy saving and efficiency increase programs and to decrease the Group's loans and borrowings.

On 18 March 2013 the Extraordinary General Meeting of Shareholders of the Company approved an increase in share capital through issuance of additional 214,877,270 ordinary shares with a par value of RUB 100 each under an open subscription. The approved offering price was RUB 121.82. During the six months ended 30 June 2013 65,153,710 shares were subscribed and paid by JSC Rugrids and 2,345 shares by 3rd parties. The amounts of RUB 6,515,606 thousand and RUB 1,421,706 thousand were recognized as share capital and share premium within equity for the six months ended 30 June 2013, respectively. The additional shares were issued to raise capital for investment project of Sochi resort development as well as for energy saving and efficiency increase programs and to decrease the Group's loans and borrowings.

Dividends

The Company's statutory financial statements form the basis for the distribution of profit and other appropriations. Due to differences between statutory accounting principles and IFRS, the Company's loss in the statutory accounts can differ significantly from that reported in the consolidated financial statements prepared under IFRS.

During the reporting periods and up to the date of approval of the consolidated financial statements the Company declared no dividends.

(in thousands of Russian Roubles, unless otherwise stated)

10 LOSS PER SHARE

	Six months ended 30 June 2013 (Unaudited)	Six months ended 30 June 2012 (Unaudited)
Weighted average number of ordinary shares (thousand of shares)	159,232	119,295
Loss attributable to the owners of the Company	(757,548)	(1,451,757)
Loss per share - basic and diluted (in RUB)	**(4.76)**	**(12.17)**

11 LOANS AND BORROWINGS

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

	30 June 2013 (Unaudited)	31 December 2012
Non-current liabilities		
Unsecured bank loans	6,717,000	5,917,000
	6,717,000	**5,917,000**
Current liabilities		
Unsecured bank loans	9,200,000	10,000,000
Current portion of unsecured long-term borrowings	10,767	25,584
	9,210,767	**10,025,584**

(in thousands of Russian Roubles, unless otherwise stated)

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

	Nominal interest rate (fixed),%			Carrying amount	
Name of lender	**30 June 2013 (Unaudited)**	**31 December 2012**	**Year of maturity**	**30 June 2013 (Unaudited)**	**31 December 2012**
OJSC Sberbank*	8.50-9.79%	8.50-9.79%	2013-2015	7,600,000	8,600,000
OJSC Gazprombank*	9.60-11.00%	9.60-11.00%	2013-2016	6,917,000	5,916,998
JSC NOTA-Bank	10.22-10.52%	10.22-10.52%	2013	1,000,000	1,000,000
JSC Rosenergobank	11.30%	11.30%	2014	400,000	400,000
SGI Centre for Energy Efficiency and New Technologies*	Interest free	Interest free	2013	10,767	25,586
Total				**15,927,767**	**15,942,584**

The Group raised the following bank loans during the six months ended 30 June 2013:

Name of lender	Amount	Interest rate	Maturity
OJSC Gazprombank*	1,500,000	10.10%	2016

The Group paid RUB 1,500,000 thousand on bank loans* and RUB 16,500 thousand on borrowings for the six months ended 30 June 2013.

*- Loans and borrowings from government - related entities

All loans and borrowings of the Group are denominated in RUB.

12 FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2012.

13 COMMITMENTS AND CONTINGENCIES

Capital commitments

As at 30 June 2013 the Group has outstanding commitments for the acquisition and construction of property, plant and equipment of RUB 23.3 billion (31 December 2012: RUB 17.3 billion).

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not generally available. The Group does not have full coverage for its stations business interruption or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Litigation

The Group was involved in the number of court procedures (both as a plaintiff and as a defendant) arising in the course of business. In the opinion of management there are no current legal proceedings or other claims outstanding which could have a material adverse effect on the results of operation financial position or cash flows of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Taxation contingencies

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

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

Environmental matters

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

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

Other contingencies

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

(in thousands of Russian Roubles, unless otherwise stated)

14 RELATED PARTIES TRANSACTIONS

Control relationship

Related parties include shareholders, affiliates and entities under common ownership and control with the Group and members of the Board of Directors and key management personnel. The Company's parent as at 30 June 2013 and 31 December 2012 was JSC Rugrids. The party with the ultimate control over the Company is the Government of the Russian Federation which held the majority of the voting rights of JSC Rugrids.

In the normal course of business the Group enters into transactions with other entities under common government control including Federal Grid Company, Russian railways, state-controlled banks and various governmental bodies. Prices for electricity, electricity transmission and connection services are based on tariffs set by federal and regional tariff regulatory bodies. Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

The Group's parent company produces publicly available financial statements.

Transactions with the Company's Parent, its subsidiaries and associates

Transactions with the Company's Parent, its subsidiaries and associate include transactions with JSC Rugrids, its subsidiaries and associates, and were as follows:

Expenses

	Transaction value for the six months ended 30 June		Outstanding balance	
	2013 (Unaudited)	2012 (Unaudited)	30 June 2013 (Unaudited)	31 December 2012
Parent company				
Managing services	38,242	38,242	-	-
Other	-	-	-	4,513
Fellow subsidiaries				
Rent	5,940		11,442	11,442
Electricity transmission	2,374,143	2,208,426	1,289,123	352,339
Construction companies	-	-	29,601	29,601
Other	1,245	216	98,303	79,393
	2,419,570	**2,246,884**	**1,428,469**	**477,288**

Revenue

	Transaction value for the six months ended 30 June		Outstanding balance	
	2013 (Unaudited)	2012 (Unaudited)	30 June 2013 (Unaudited)	31 December 2012
Parent company				
Fellow subsidiaries				
Rent	1	72	-	-
Other	-	-	204,626	34,193
	1	**72**	**204,626**	**34,193**

Management remuneration

The Group identifies members of Board of Directors, members of Management Board and top managers of the Company and all its subsidiaries as key management personnel.

There are no transactions with key management personnel and close family members except their remuneration in the form of salary and bonuses which were as follows:

(in thousands of Russian Roubles, unless otherwise stated)

	Six months ended 30 June 2013 (Unaudited)		Six months ended 30 June 2012 (Unaudited)	
	Board of Directors	**Other key management personnel**	**Board of Directors**	**Other key management personnel**
Salaries and bonuses	7,196	29,145	11,604	38,157

Transactions with government-related parties

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

Revenues from government-related entities for the six months ended 30 June 2013 constitute 0.8% (for the six months ended 30 June 2012: 0.6%) of total Group revenues. Electricity transmission revenue from government - related entities for the six months ended 30 June 2013 constitute 0.6% from total revenue (for the six months ended 30 June 2012: none).

Electricity transmission costs from government-related entities for the six months ended 30 June 2013 constitute 2.1% (for the six months ended 30 June 2012: 1%) of total transmission costs.

Significant loans and borrowings from government-related entities are disclosed in Note 11.

Pricing policies

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

15 EVENTS AFTER THE REPORTING PERIOD

As on 30 June 2013 the share issue was not completed. During the period from the reporting date till the date of approval of this consolidated interim condensed financial report 70,247,694 shares were additionally subscribed by JSC Rugrids and 935 shares by the third parties.

In July 2013 the Group raised the bank loan amounted to RUB 500 million at interest rate of 10.5% to be repaid in July 2016 of the credit line which was opened in June 2013 in OJSC Gazprombank.

In August 2013 the Group opened the credit line in OJSC Gazprombank and raised bank loan amounted to RUB 1 trillion at interest rate 9.45% to be repaid in August 2016.