

Open Joint Stock Company of Energy and Electrification of Kuban  
(OJSC Kubanenergo)

Approved by:  
Decision of the Board of Directors  
of OJSC Kubanenergo  
Minutes of May 8, 2015  
No. 210/2015

Resolution of the annual General Meeting of  
Shareholders of OJSC Kubanenergo  
Minutes of June 11, 2015  
No. 36

**Annual Report**  
**on the results of work of OJSC Kubanenergo in 2014**  
**to the annual General Meeting of Shareholders**

**General Director**  
**of OJSC Kubanenergo**

**A.I. Gavrilov**

**Krasnodar, 2015**

This annual report includes the results of the activities of Open Joint-Stock Company of Energy and Electrification of Kuban (hereinafter “OJSC Kubanenergo” or the “Company”) for the year 2014, as well as certain important developments in the Company’s activities, which took place after the reporting date - in the period from 01.01.2015 to the preliminary approval of this Annual Report by OJSC Kubanenergo Board of Directors on 07.05.2015.

### **Disclaimer**

This annual report (hereinafter the “Annual Report“) has been prepared with the use of information available to OJSC Kubanenergo and its subsidiaries at the time of its drafting.

The Annual Report also includes information relating to productive and economic activities of the Company in the future based on estimates and forecasts of the Company’s management and made on the basis of the current situation. Due to various objective factors, the actual results of the activities may differ from these forecasts and assessments.

The Annual Report contains certain forecasting statements in relation to economic activity, economic performance and financial status of the Company and its plans, projects and expected results. The Annual Report may also contain evaluations of trends in the changes of prices for services/products, volumes of production and consumption, costs, estimated expenditure, development prospects and other similar factors, as well as forecasts in respect of the development of the industry and markets, start and end dates of certain projects for the Company’s activities.

Words such as “intends”, “seeks”, “designs”, “expects”, “evaluates”, “plans”, “considers”, “supposes”, “may”, “should”, “will”, “will continue” and other similar words and words derived from them usually indicate the forecasting nature of a statement.

Forecasting statements, by their nature, are connected to inherent risks and uncertainties, both general and specific. There is a danger of forecasts, projects and other such statements not coming to fruition. In the light of these risks, uncertainties and assumptions, the Company warns that the actual results may significantly differ from the values valid only at the time of drafting the Annual Report, which are expressed directly or indirectly in forecasting statements.

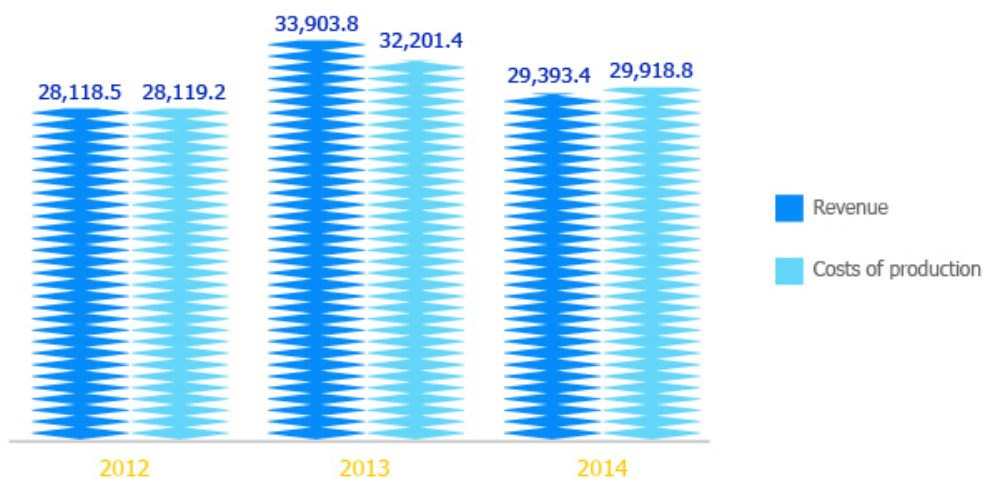
The Company does not definitely state and does not guarantee that the results indicated in the forecasting statements will be achieved. The Company does not bear any responsibility for any damages that may be incurred by physical or legal persons who relied on such statements. In each particular case, such forecasting statements constitute only one of the ways events can develop, and should not be seen as the most likely ones.

Except as expressly provided for by the law, the Company is not obligated to publish updates and changes in such statements, either on the basis of new information, or on the basis of subsequent events.

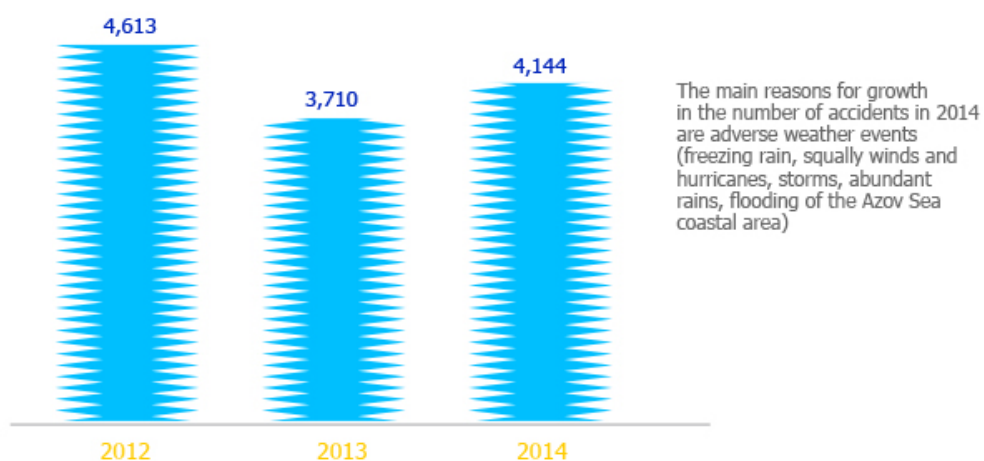
## Key Performance Indicators

	Units of Measurement	2012	2013	2014	Change of Indicators in 2014 as Compared to 2013, %
<b>Financial Results</b>					
Revenue	RUB mln	28,118.5	33,903.8	29,393.4	-13.3
<i>including:</i>					
- from electric power transmission services	RUB mln	27,194.3	30,505.3	28,464.2	-6.7
- from services of technological connection	RUB mln	843.4	3,336	847.8	- 74.6
Prime cost	RUB mln	28,119.2	32,201.4	29,918.8	-7.1
Net profit (loss)	RUB mln	- 1,901.5	-2,480.1	-3,632.3	+46.5
Return on equity	%	- 14.2	-9.95	-11.55	+16.1
Return on assets	%	- 4.42	-4.67	-5.92	+26.8
Cash at the end of the year	RUB mln	4,292.4	12,622.5	7,071.0	-44.0
Long term loans and borrowings at the end of the year	RUB mln	5,917.0	17,237.0	14,900.0	-13.6
Short term loans and borrowings at the end of the year	RUB mln	10,027.3	400	2,517.0	+529.3
<b>Deployment of Capital Investments</b>	<b>RUB mln</b>	8,522.9	10,438.9	9,177	-12.1
<b>Operating Indicators</b>					
Total length of overhead and cable power lines (circuit length)	km	89,002.1	89,026.18	89,793.8	+0.9
Installed capacity of 35–110 kV substations	MVA	8,931.9	9,079.70	9,166.10	+1
Installed capacity of 10–6 / 0.4 kV substations in distribution grid	MVA	4,228.96	4,259.99	4,556.83	+7
Average duration of power supply interruptions per one process upset	h	5.51	5.20	4.90	-5.8
Electric power supplies to the grid of OJSC Kubanenergo	mln kWh	20,767.39	20,841.86	21,572.6	+3.5
Volume of power transmission services rendered	mln kWh	16,525.73	16,483.19	17,081.7	+3.6
Electric power losses	mln kWh	2,674.78	2,792.93	2,852.7	+2.1
Consumers' connected capacity	MW	560	513	543	+5.9
<b>Actual Average Staff Headcount</b>	persons	7,593	8,168	8,364	+2.4

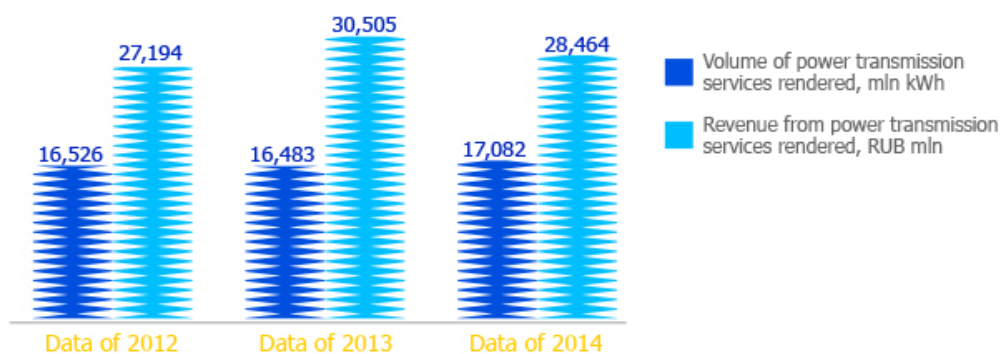
*Dynamics of Key Economic Indicators of OJSC Kubanenergo in 2012– 2014, RUB mln*



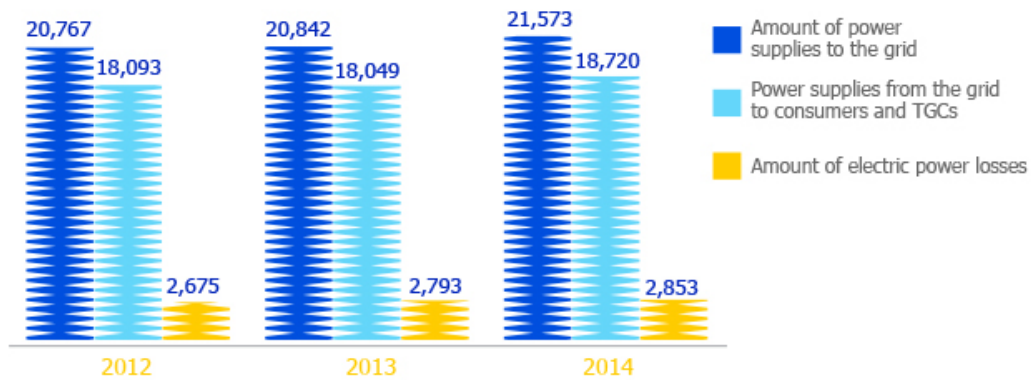
*Dynamics of the Number of Technological Failures (Accidents) in 2012-2014*



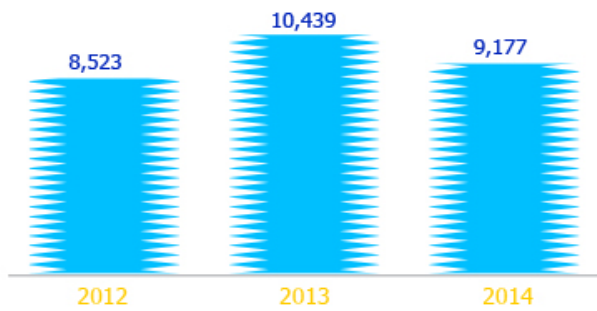
*Volume and Revenue from Power Transmission Services Rendered*



*Electric Power Supplies to the Grid of OJSC Kubanenergo and Losses During Electric Power Transmission, mln kWh*



*Volume of Capital Investments Deployment, RUB mln*



## Address to Shareholders by the Chairman of the Board of Directors

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The year 2014 was a significant milestone in the history of all of Russia, and of Kuban in particular. Holding the Winter Olympic Games and the Paralympic Games in the city of Sochi placed additional responsibility on the managers and employees of OJSC Kubanenergo, in whose district the Sochi energy region is located. Thanks to support from Rosseti group of companies, OJSC Kubanenergo completed large-scale reconstruction of its energy complex, and successfully managed the task of providing reliable power supplies to Sochi infrastructure facilities during the Olympic Games. Finally, OJSC Kubanenergo formed reserves of power reliability for the Sochi distribution grid complex for several decades to come.

The work of the Board of Directors of OJSC Kubanenergo during the reporting year was aimed at fulfilling the interests of the Company's shareholders, increasing the level of trust in the Company on the part of shareholders, creditors, and investors, and ensuring uninterrupted power supplies to consumers, while increasing energy efficiency, and modernizing and expanding electric power infrastructure.

The Board of Directors of OJSC Kubanenergo held 23 meetings in 2014, at which key questions of the Company's strategic development were examined. The Company's business plan for 2015 was approved (including the company's investment program), as was the program of electric supplies and increasing energy efficiency for 2015-2019 and the perspective development plan for 2014-2018. The Board of Directors also determined the Company's priority business directions. Moreover, the Board approved a series of documents in the fields of risk management, internal control, internal audit, lowering injury risk, innovational development, energy supplies, increasing energy efficiency, fighting corruption, and purchasing, technical, personnel, and social policies of the Company. Particular attention was given to reviewing reports of the General Director for all of the Company's business units.

Overall, the Company follows all corporate management principles recommended by the Code of Corporate Management of the Bank of Russia.

The implementation of distribution grid facilities of federal significance was completed in 2014. These facilities ensured the functioning of infrastructure for the 2014 Winter Olympic Games in the city of Sochi.

The Company also continued to implement large-scale projects for construction and reconstruction as part of the medium-term and long-term program of measures to improve the reliability of power grid facilities of the Black Sea coast of the Krasnodar Territory.

The Company plans to build large power facilities for the applicant LLC Gazprom Invest in 2015 as part of the construction project "Expansion of the unified gas supply system to ensure gas supplies to the "South Stream" gas pipeline".

In order to bring the Company to a breakeven level of financial and economic activities, particular attention has been paid for many years to work on optimizing the costs of OJSC Kubanenergo. In order to achieve these goals, the Company fulfills a Program of Cost Management. Thus, the Company's overall economized effect in 2014 was RUB 1,565 mln which was 16% better than planned.

Pursuant to the directives and instructions of the Government of the Russian Federation to reduce administrative and management costs during the period by not less than 15% of their actual value in 2013, the Company achieved savings of administrative expenses in the amount of RUB 92 mln which is 15.3% lower than the 2013 level.

The volume of electricity supplies to the Company's electric grids in 2014 amounted to 87% of the total supply in the region. The share of other grid organizations serving the region is small (13%), and these organizations do not have a significant impact on the Company. The share of the Company's electricity supply in 2014 was maintained at the previous year's level, while the total value of supplies in the region was higher than the 2013 level, and reached 25 billion kWh. The high rates of reconstruction and renovation of the Company's power grid facilities, as well as the dynamic growth in connections to the grid, suggest that the company will maintain a dominant position in the regional market for electric power transmission in the future.

The Company provided reliable and uninterrupted power supplies overall to consumers in the reporting year. The target level of reliability and quality of service set by the regulator – the Regional Energy Commission-Department of Prices and Tariffs of the Krasnodar Territory – was fulfilled by the Company. The average duration of accidents involving a break in power supplies to consumers, despite growth in the total number of technological failures (accidents), remained at the same level.

The Company's priority directions for achieving the highest level of maturity of control functions by 2018 were defined as improving the system of internal control, risk management and internal audit. To this end, the Board of Directors approved the policies of internal control, risk management, and internal audit in 2014, and assessed the risks of primary and secondary business processes. The Company began integration of the risk management and business planning systems.

During the reporting year, by decision of the Board of Directors of OJSC Kubanenergo, the Company's organizational structure was amended. These changes are related to improvement of the Company's organizational and functional structure, bringing it in line with the standard organizational structure of an inter-regional network company with a two-level operational management system, thereby optimizing the number of administrative staff. The main organizational changes took place in the segment of development and implementation of services, the technical segment, and the public relations segment. This made it possible to create a more efficient chain of command, consistent with the Company's objectives and functions.

OJSC Kubanenergo confirmed its high level of corporate governance and information transparency in 2014. Taking part in the All-Russian open competition of annual reports of joint stock companies, OJSC Kubanenergo was awarded three first place awards: for "Best Annual Report in the Infrastructure Sector", "Best Electronic Annual Report", and "Best Annual Report from the Krasnodar Territory".

OJSC Kubanenergo's main goal for 2015 is a accident-free passage of the seasons of peak loads, timely receipt of a certificate of readiness, implementation of investment and maintenance programs, and minimizing excessive losses. It's no less important to address the issue of increasing accessibility and transparency of grid connections, and the reliability and quality of services provided. Particular attention is paid to management of the Company's business reputation, increasing its transparency, and social responsibility.

I'm sure that OJSC Kubanenergo has all of the necessary resources to achieve these goals. I sincerely thank the Company's management and all employees of the Company for their professional and effective work, which, with the support and trust of shareholders and the state, is the key to the success of sustainable development of the power distribution complex of the Krasnodar Territory and the Republic of Adygea in the future.

Chairman of the Board of Directors  
OJSC Kubanenergo

S.V. Sergeev



### **Dear Shareholders, Partners, and Colleagues!**

The absolute priority of OJSC Kubanenergo's industrial and economic activities in 2014 was to ensure reliable operation of the distribution grid complex of the region during the 2014 Olympic and Paralympic Winter Games in Sochi.

The Company complied with all its obligations for uninterrupted power supply of urban infrastructure in Sochi during the Games, as confirmed by numerous high awards and thanks letters for the Company's hard work and professionalism of its management and employees.

The year 2014 was marked by Company projects aimed at solving strategic tasks of improving the accessibility of energy infrastructure for consumers, development of customer service, reconstruction of the electric grid complex and the construction of new power facilities.

By the end of the reporting period, the Company mastered an investment program in the amount of RUB 9.177 bln. The volume of financing of design and survey, construction and installation, commissioning works, and acquisition of equipment and materials amounted to RUB 8.442 bln. The company commissioned more than 500.2 MVA of transformer capacity, and more than 1.5 thousand kilometers of power lines.

The volume of capital investments on Olympic power facilities amounted to RUB 6.301 bln without VAT, and for financing RUB 4.771 bln, including VAT. Altogether more than 374.8 MVA of capacity was implemented and 1.1 thousand kilometers of power lines.

Electricity supply to the Company's network amounted to 21.572 billion kWh in 2014. The increase from the previous year in the amount of 730.8 million kWh (3.5%) was due to an increase in demand for electricity due to the active development of the region, especially in the Sochi power district. The normative ratio of power losses for 2014 was fulfilled.

In the reporting year, the Company performed 16.8 thousand contracts for technological connection for a total capacity of 543 megawatts, which is 1.7% more than planned. The company connected the following applicants to the power grids: OJSC INTER RAO – Electric Power Plants (80 MW), CJSC PDK Apsheronk (22.8 MW), LLC Mobile Gas Turbine Power Plant (112.82 MW), LLC Novocity (8.7 MW), CJSC PIK-Kuban (4.3 MW). In 2014, the Company entered into more than 29,500 contracts for technological connection to electric networks for a total capacity of 591 megawatts, for a total value of RUB 1.187 bln (without VAT). The amount of money collected amounted to RUB 1.444 bln, which is 18% more than planned.

An important trend in the Company's industrial activity of is the implementation of the Program of energy saving and energy efficiency – reducing technological losses, reducing energy consumption for production and economic needs. In 2014, the Company obtained an effect in terms of reducing the loss of electricity to 75.925 million kWh, which is RUB 115.6 mln, and reducing costs for the purchase of energy resources for production and economic needs of RUB 0.506 mln.

In the context of the implementation of measures required to ensure reliable power supplies to the XXII Olympic Winter Games and XI Paralympic Winter Games in Sochi, the loss from the financial and economic activity of OJSC Kubanenergo in the reporting period amounted to RUB 3.633 bln.

During the reporting year, the Company continued implementation of the Innovation Development Program. The Company conducted industrial exploitation and implementation of innovative production activities and high-tech products, and conducted cooperation with universities, research organizations, and small and medium-sized businesses. As part of the RUGRIDS-Electro 2014 international electric power forum, the company was awarded 3<sup>rd</sup> place for the best innovative project implemented.

The Company carried out technical upgrading, reconstruction, repair and maintenance of power facilities within the established regulations and terms of volumes. The repair program for 2014 was carried out by more than 100%.

The Company spent RUB 142.8 mln on labor protection measures in 2014, which is RUB 17.9 mln more than in 2013. The unit costs for labor protection per employee in 2014 amounted to RUB 17.5 thou rubles, which is RUB 2.3 thou more than in 2013.

In order to improve the quality of customer service, the Company expanded the functionality of the "Personal Account" interactive service on the Company website in 2014. Using on-line services, consumers can apply for replacement and installation of electricity meters, and enter their current meter reading.

A priority activity of the Company during the reporting period was to work with staff to create conditions for improving workers' skills. The Company has 24 agreements on cooperation with educational institutions of vocational education. The Company's key vocational partners are NOU Kubanenergo Training Center, South-Russian State Technical University named after M.I. Platov, FGBOU VPO Azov-Black Sea State Agroengineering Academy (city of Zernograd), FGBOU VPO Russian Academy of National Economy and Public Administration under the President of the Russian Federation, FGBOU VPO Belgorod State Technological University in the name of V.G. Shukhov, Moscow State Technological University named after Bauman, and others.

The Company faces challenges for further development, modernization and expansion of electricity infrastructure in the region in 2015. The main focus will be on the Sochi, South-West and Central Power Districts. The priority areas in the field of grid connection are development of the Temryuk District and the Novorossiysk Industrial Zone. It will be necessary to carry out not only the timely commissioning of new and reconstructed facilities, but also to improve the efficiency of key business processes in the company and make them profitable.

Overall, based on year-end results, OJSC Kubanenergo fulfilled its main task – to provide reliable, high-quality power supplies to consumers, and strengthen the company's image, which has great significance for the stable social and economic development of the Krasnodar Territory and the Republic of Adygea.

General Director  
OJSC Kubanenergo

A.I. Gavrilov

## About the Company

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### OJSC Kubanenergo and its market position

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OJSC Kubanenergo carries out transmission and distribution of electricity to consumers through the electric grids of 110 kV and less between settlements, and in rural areas, individual cities, and regional centers of the Krasnodar Territory, including the city of Sochi, and the Republic of Adygea.

OJSC Kubanenergo is a publicly-traded company, the shares of which are traded on the Russian MICEX Stock Exchange.

The territory serviced by OJSC Kubanenergo in the Krasnodar Territory and the Republic of Adygea has an area of 83,000 square km, and a population of more than 5.9 million people. The company's mission is to provide reliable and stable power supplies to consumers in the region and meet the growing needs of the region's economy for electricity. OJSC Kubanenergo is the largest taxpayer of the region, and actively participates in the region's socio-economic life, providing job creation and using services from companies in related industries while implementing various social programs and charity events.

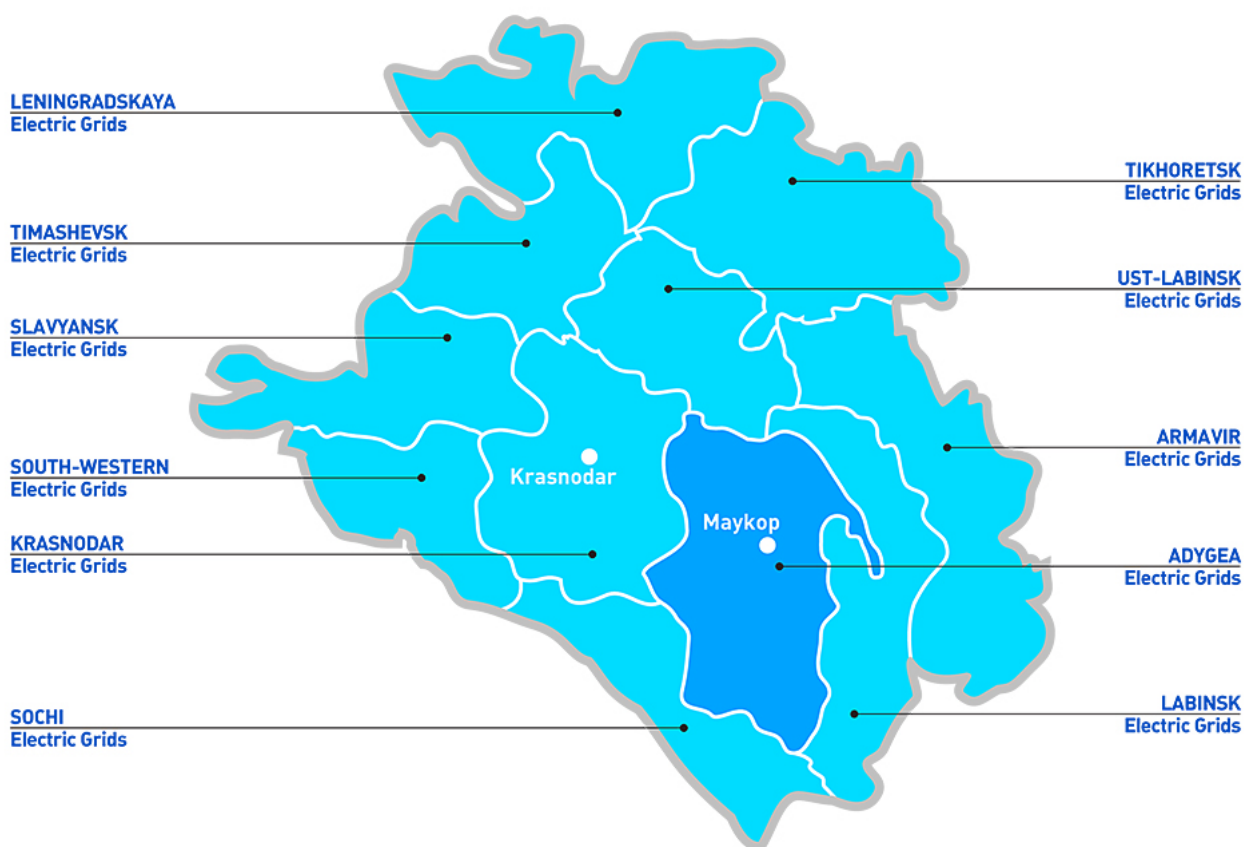
#### *OJSC Kubanenergo today: Key asset characteristics<sup>1</sup>*

Total length of transmission lines	<b>90,000 km</b>
Maximum allowable power grid capacity	<b>6,774.9 MVA</b>
Load level of the electric power system's design capacity in 2014	<b>60.95% of maximum capacity (4,129 MVA)</b> <small>incomplete use of total capacity was due to the need for making reserve power in case of a power failure or to carry out scheduled maintenance</small>
Total number of metering points for consumers connected to the grid of OJSC Kubanenergo in accordance with signed contracts for electricity transmission	<b>1,113,113</b>
Power grid branches	<b>11</b>

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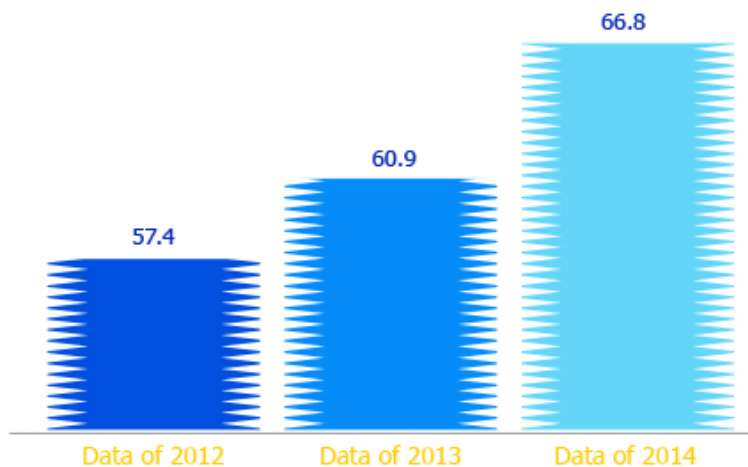
<sup>1</sup> A detailed description of the asset portfolio of OJSC Kubanenergo is contained in Appendix 4 of this annual report.

Power grid branches of OJSC Kubanenergo (regional electric grids)



OJSC Kubanenergo is the largest electric company in the Krasnodar Territory and the Republic of Adygea. The volume of electricity supply to the Company’s power grids makes up 87% of the total electricity supply in the region. The share of all other grid organizations serving the region is low (13%), and these companies do not have a material effect on the Company. The high rates of reconstruction and renovation of the electric grids of OJSC Kubanenergo, as well as the dynamic growth of technological connection to the Company’s network, suggest that in the future the Company will retain a dominant position in the regional market for electricity transmission.

Company share in the regional market for 110 kV and less power transmission services as a change in the years 2012–2014, %



The tendency of the Company's share growth in the regional market for power transmission services suggests that OJSC Kubanenergo remains the leader in the market for the services rendered.

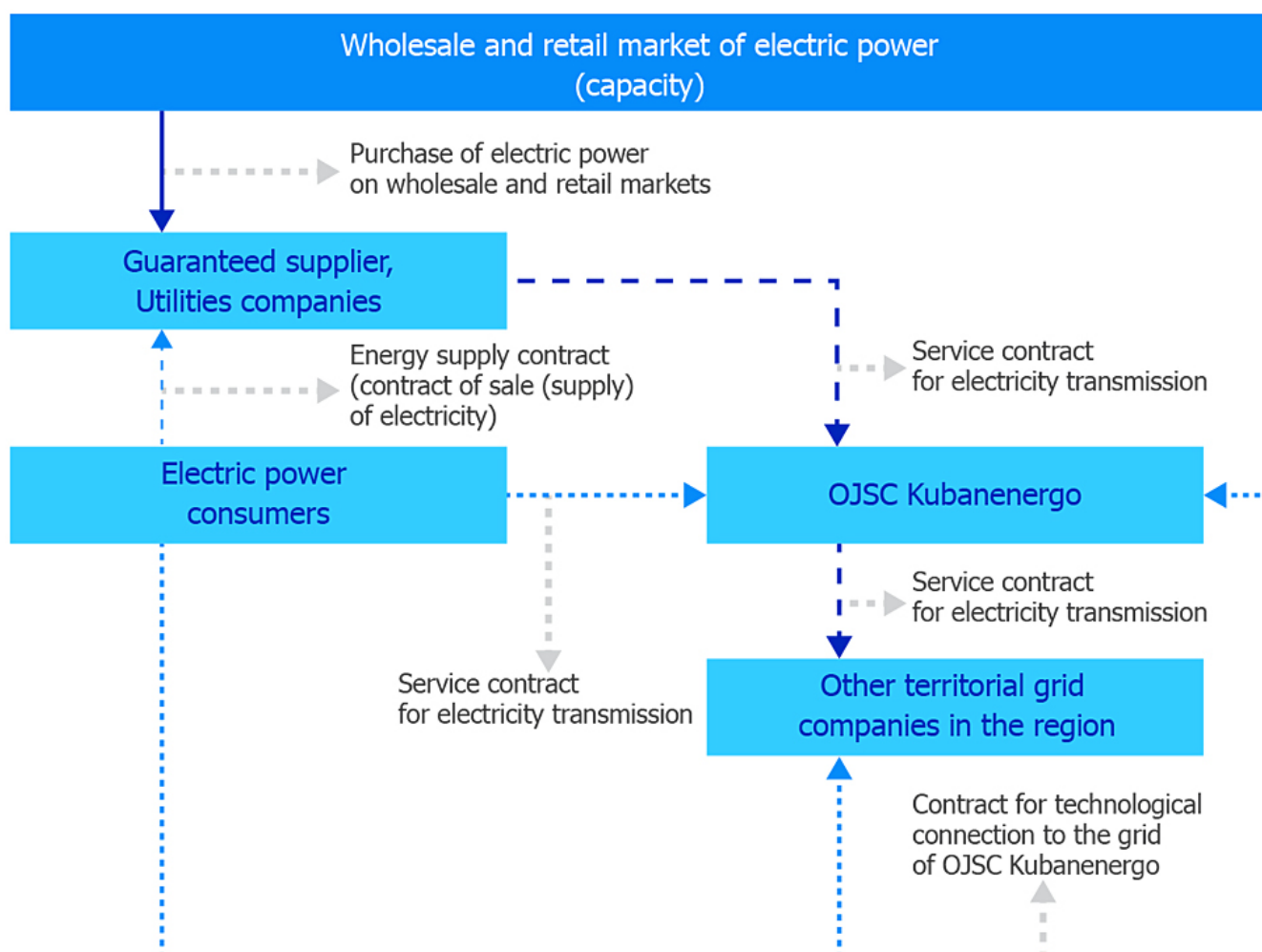
The largest companies engaged in similar activities in the Krasnodar Territory and the Republic of Adygea are: OJSC NESK Electrogrids, OJSC Oboronenergo, OJSC Russian Railways, and OJSC Neftegaztekhniya-Energiya.

### Consumers of Company services

Consumers of OJSC Kubanenergo services for the transmission of electric power include:

- Individuals and legal entities, the electrical installations of which are connected to the Company's power grids, and which have entered into agreements with energy supply companies<sup>2</sup>;
- Consumers who have concluded contracts for the provision of electric power transmission directly with the Company (OJSC Novoroscement, OJSC Tamanneftegas, OJSC RAMO-M, LLC EuroChem Belorechenskie Fertilizers, OJSC Kubanzheldormash, LLC Poultry Farm Primorskaya, OJSC AgroCompany Yuzhnaya, OJSC Agri-Breeding Plant Victory, LLC Formika-Yug, LLC Sad-Gigant, OJSC Novorossiysk Commercial Sea port, CJSC Abrau-Durso, OJSC Verhnebakansky Cement Plant and other users).

### Business scheme of OJSC Kubanenergo



<sup>2</sup> Supply companies, aiming to fulfill these energy supply contracts, in turn, entered into service contracts for electricity transmission with OJSC Kubanenergo. In 2014, the Company had contractual relationships with 18 supply companies, of which the largest are OJSC Kubanenergosbyt (47% of revenues from services factually rendered) and OJSC NESK (38% of revenue from services factually rendered).

## Regulation of Company business operations

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The main activity of the Company is carried out in conditions of natural monopoly regulated by the state in terms of:

- Setting tariffs for electricity transmission services and fees for grid connection of consumers to electric networks of the Company;
- Ensuring non-discriminatory access of consumers to these services of the Company under equal conditions.

## Organizational structure

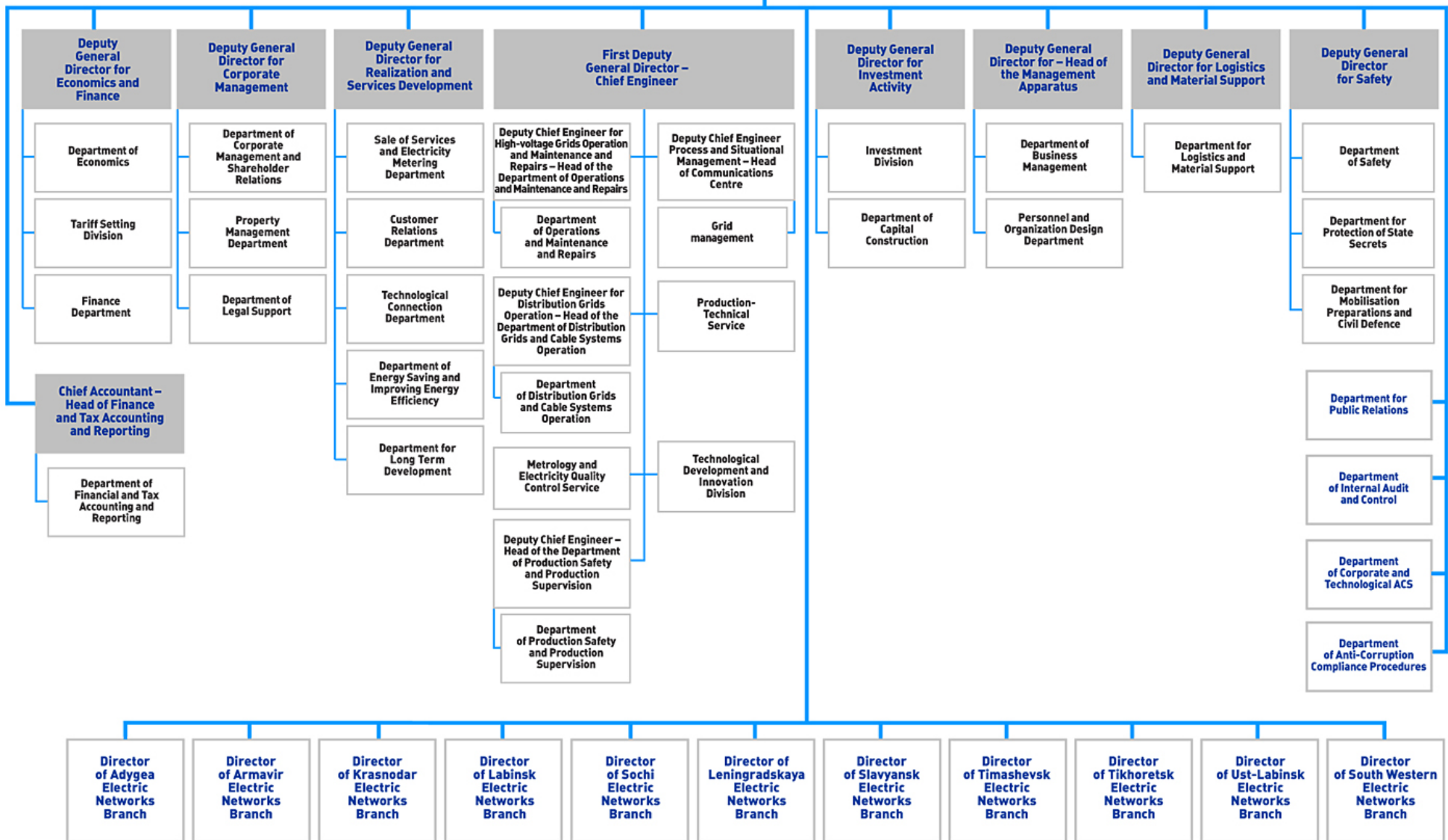
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In the reporting year changes in the corporate structure of the Company has been made with regard to improvement of the corporate and functional structure of OJSC Kubanenergo by bringing it to a standard corporate structure of inter-regional network company with a two-level operational control circuit and an optimized number of administrative and managerial staff. Basic changes in the corporate structure apply to the services implementation and development unit, industrial unit in “public relations”.

The current corporate structure of OJSC Kubanenergo shall serve its purposes and objectives approved by the Board of Directors of OJSC Kubanenergo (Minutes No. 195/2014 of 28.08.2014).

*OJSC Kubanenergo Executive Organizational Structure*

# General Director



## History of establishment of the Kuban Energy System and OJSC Kubanenergo

XIX century	The beginning of the Kuban electric power system – construction of small substations in the region.
1920	Soviet power established in Kuban, all industrial businesses nationalised.
1921	Establishment of the Electric Department under the Kuban-Black Sea Council of National Economy to manage power facilities in the Kuban. In total, there were 353 electricity stations operating in the Kuban, with a total capacity of 13.7 MW; 16,200 electric lamps and 621 electric motors were connected to the network. The Vodetram association, which included urban and utility services for water supply, transport (trams) and electricity support of the Krasnodar city was founded. There were 45 km of transmission lines, and the electrical grids were rated for voltage of 2 kV.
1930s	North Caucasus Energy Department (Sevkavenergo) was set up to manage power facilities in the Kuban. In 1934, Sevkavenergo was divided into two independent departments – Azcherenergo (Rostov-on-Don) and Sevkavenergo (Pyatigorsk).
1944	Separation from Azcherenergo of Krasnodarenergo District Energy Department, whose main areas of activity were production, distribution and sales of electricity and thermal energy, restoration and development of energy systems, monitoring energy use and overseeing operation of power plants of organisations in the Kuban. Electricity stations, substations, districts of electrical grids, power sales, a repair and engineering works, central warehouse, environmental survey bureau, and a production and research laboratory were under the jurisdiction of Krasnodarenergo as independent self-supporting organisations.
Late 1950s – early 1960s	Construction of 110 and 220 kV main transmission lines for connection with electric power systems in southern Russia and Transcaucasia, electrification of the railway system in the Krasnodar Territory, construction of electricity distribution grid facilities, electrification of rural centres of population.
1963	Urban and rural electric grid organisations of the Kuban were transferred from the Regional Department for Public Utilities to Krasnodarenergo.
1972 – 1975	Assembly of the first two gas turbine installations in the USSR, each of 110 MW, in the Krasnodarskaya CHPP. The total capacity of the CHPP, block portion and the two gas turbines was 959 MW.
1970 - 1980	Significant increase in the volume of construction of new electricity transmission lines related to the explosive growth in electricity consumption. The total length of lines grew up to 90,000 km, and the number of 35-500 kV substations exceeded 700.
1988	Krasnodarenergo was abolished and its assets were used to set up Krasnodar Production Association of Power Supply and Electrification (Krasnodarenergo).
1993	During privatization, Krasnodarenergo was reformed into the joint stock company Krasnodarenergo. In addition to electric grid organisations it included as branches the Krasnodar CHPP, Energonadzor, repair and construction organisations, a training complex, a holiday hotel, and a Pioneer camp. 49% of shares in the Company were transferred as payment of equity capital to UES of Russia and the remaining 51% were acquired by members of the labour collective and others with the right to concessions in accordance with the State Programme for Privatisation.
2004 -2005	During restructuring of the electricity sector in Russia, Kubanenergo disengaged from service and non-core operations and dispatch functions by splitting them off into separate organisations: operating and dispatch management was transferred to SO UES; Krasnodarenergoremont, Krasnodarenergoretremont, the recreation centre hotel Energetik and the health complex Plamya were founded, and the non-profit non-governmental educational institution Kubanenergo training centre was set up.
2006	As part of restructuring of the sector, the following were separated from Kubanenergo: Kuban Generation Company (generating capacity), Kuban Transmission Networks (network facilities), Kuban Power Sales Company (guaranteed electricity supplier, purchase of electricity on the wholesale market and its supply to end users).
2008	From 1 July, Kubanenergo became a dependent company in IDGC Holding, which received a block of voting shares in the Company as succession to title according to the spin-off balance sheet as the result of structuring of RAO UES of Russia. In 2012, in connection with the acquisition by IDGC Holding of a block of additional shares in Kubanenergo, the Company became a subsidiary of IDGC Holding. The main function of the Company within IDGC Holding is to take part in the development of the electricity sector in Russia with regard to the distribution grid complex.
2013	Using JSC Russian Grids as a base, a single management company for the grid complex was formed, including transmission and power distribution networks, designed to ensure coordination of the actions of all network organizations in Russia in the field of tariffs, technical policy and investment planning, ensuring transparency of financial and economic activities, as well as in the field of anti-corruption policy. The share of JSC Russian Grids in the Company's authorized capital increased in 2013 to 92.24%.

## Key Company events in 2014

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### *January*

#### *Power workers restored electric power to consumers in the Krasnodar Region and Adygea*

Power workers of OJSC Kubanenergo restored electricity to the majority of consumers who lost their power as a result of the natural disaster that hit the Krasnodar region and Adygea Republic in January, 2014. Priority was given to life support facilities – boilers, water stations, medical institutions and other. In those places where it was not possible to quickly restore electricity supplies under the normal scheme, reserve power supplies were used.

#### *An OJSC Kubanenergo employee developed a program for accounting for personal protective equipment*

The work of information technology specialist Alexander Kuznetsov of Adygeyskiye Electric Networks of OJSC Kubanenergo was the best in the corporate competition "Innovation of the Year" in the category "information technologies". The young innovator developed a program of automated registration of personal protective equipment, the economic effect of which will be more than RUB 600 thou per year.

### *February*

#### *OJSC Kubanenergo conducted major maintenance of three large power facilities of the power Kurganinsky Energy Region*

In order to improve the quality of power supplies to consumers of the Kurganinsky Energy Region, OJSC Kubanenergo experts conducted maintenance of three substations of the 35/10 kV voltage class: “Vodozabor”, “Mikhailovskaya”, and “Stepnaya”. These power facilities provide power supplies to 10 thousand consumers and 27 socially important facilities in the village of Mikhailovskaya, and the farms Veseliy, Southern, Red Flag, and Sower, and the towns of Stepnoy and Luchezarny in the Kurganinsky Energy Region of the Krasnodar Territory.

#### *OJSC Kubanenergo replaces 60 km of grounding wire in the northern areas of the province*

OJSC Kubanenergo conducted activities to improve the reliability and quality of power supplies in the Krasnodar Territory in order to implement the repair program in 2014.

### *March*

#### *OJSC Kubanenergo celebrated its 70<sup>th</sup> anniversary*

OJSC Kubanenergo, the largest electricity distribution company of the Southern Federal District, celebrated the 70th anniversary of its founding on March 14, 2014. Over several decades of its business activity, OJSC Kubanenergo has established itself not only as a reliable electricity supplier for consumers of the Krasnodar Territory and the Republic of Adygea, but also has become one of the leading enterprises in southern Russia, having the status of a company with a high level of social responsibility.

#### *The head of JSC Russian Grids thanked OJSC Kubanenergo for the preparation of the energy system of the city of Sochi for the Winter Olympic and Paralympic Games*

The General Director of JSC Russian Grids, Oleg Budargin, thanked the Company staff for their active participation in the preparation of Sochi power grid infrastructure and for their responsible work during the XXII Olympic Winter Games and XI Paralympic Winter Games in Sochi.

### *April*

#### *OJSC Kubanenergo completed construction of cable lines for power supplies of the Krasnodar International Airpor*

OJSC Kubanenergo completed the construction of two cable lines of 10 kV from the “Airport” 110 kV substation to Krasnodar International Airport. The energy artery is designed to provide electricity to the new airport terminals.

#### *Managers and employees of OJSC Kubanenergo were awarded pins “For contribution to the construction of Olympic venues”*

The General Director of OJSC Kubanenergo, Alexander Gavrilov, the Deputy General Director for Technical Issues – Chief Engineer Paul Zinchenko, the acting First Deputy Director General, Edgar Armaganyan, and more than 35 other employees were given corporate awards of JSC Russian Grids for their

significant contribution to the construction of Olympic facilities of the Sochi power grid complex: the badge “For contribution to the construction of Olympic venues”.

*The mayor of the resort town of Anapa praised the work of the South-West branch of OJSC Kubanenergo*

In his speech at the 60th session of the Board of the Municipal Formation Resort Town of Anapa, Mayor Sergei Sergeyev noted the unprecedented scale of reconstruction of the town’s power grid complex, done by OJSC Kubanenergo in 2013 to improve the quality and reliability of power supplies to residents and guests of the resort.

*May*

*OJSC Kubanenergo completes construction of the 110 kV substation "Tuapse-Terminal"*

OJSC Kubanenergo completed construction of a new 110 kV substation “Tuapse-Terminal” with capacity of 80 MVA, which will provide electricity to an oil refinery, and to almost half the population of the city of Tuapse with more than 63 thousand people.

*OJSC Kubanenergo opens new Customer Service Center in Sochi*

The largest and most modern Customer Service Center of the Rossetti Group in Southern Russia was opened in Sochi. The main activities of the new center are accepting applications for and issuance of documents for technological connection, additional services, working with customer claims, and providing advice on all energy supply issues.

*OJSC Kubanenergo provided power to an apartment building built for orphans*

OJSC Kubanenergo’s specialists completed construction of an outdoor transformer substation with a capacity of 400 kVA for the grid connection of a 30-apartment house built within the framework of the municipal program for providing housing to orphans in the village of Rodniki in the Belorechensk District of the Krasnodar Region.

*OJSC Kubanenergo connects new consumers in the tourist area of the Republic of Adygea*

As part of the contracts for technological connection, as well as to improve the quality and reliability of electricity supplies, OJSC Kubanenergo’s experts constructed and reconstructed five transformer substations of 10 kV voltage class and seven off-overhead power lines of 10-0.4 kV in the settlements of Pobeda, Timiryazev, Tulskey, Udobny, and Proletarian in the Maikop District and the village of Khan in the Maikop City District of the Republic of Adygea.

*Since the beginning of 2014, OJSC Kubanenergo specialists recorded 939 facts of unregistered and non-contractual electricity consumption*

During the course of regular raids to identify cases of illegal use of electricity, OJSC Kubanenergo’s experts made up 939 acts of unregistered and non-contractual electricity consumption in the first quarter of 2014 for a total amount of 50,172 thousand KWh for a sum of more than RUB 189,873 thou.

*June*

*OJSC Kubanenergo improves the quality of power supplies to the Black Sea coast*

Power workers of OJSC Kubanenergo completed the comprehensive renovation of four substations of 35 kV voltage class on the Black Sea coast of the Krasnodar Region. Thanks to these measures, the Company improved the reliability and quality of electricity supplies to consumers in the city-resorts of Gelendzhik and Anapa, and to the suburbs of Novorossiysk.

*OJSC Kubanenergo's annual general meeting of shareholders was held, and the Company's 2013 business results were reported*

The annual general meeting of shareholders of OJSC Kubanenergo was held on June 23, 2014 in Krasnodar. At the meeting, the Company’s operational and financial results for 2013 were announced, a new Board of Directors and Audit Committee were elected, and the new edition of the Company’s Charter was approved.

*OJSC Kubanenergo connected one of the largest factories in the south of Russia to the power grids*

OJSC Kubanenergo completed the technological connection of power devices of one of the most modern Russian plants – the plant for production of MDF tiles and laminate flooring, in the Apsheron District of the Krasnodar Region.

*OJSC Kubanenergo modernized the equipment of one of the most important substations on the Azov coast*

OJSC Kubanenergo's specialists modernized the equipment of one of the most important substations on the Azov coast, the 35 kV Golubitskaya substation, which provides electricity to the famous resort in the Golubitskaya Village of the Temryuk District.

*OJSC Kubanenergo's General Director was awarded the pin "For reliable operation of power facilities of the Olympic Games."*

The JSC Russian Grids award "For reliable operation of power facilities of the Olympic Games" was awarded to Alexander Gavrilov, General Director of OJSC Kubanenergo. The corporate award was given to Gavrilov in Sochi by Oleg Budargin, General Director of JSC Russian Grids.

*OJSC Kubanenergo recognized as the best company in Krasnodar*

OJSC Kubanenergo was recognized as the best company in the city of Krasnodar for the results of the first quarter of 2014 in the Energy Industry sector. The contest organizers were the Administration of the City of Krasnodar and the Krasnodar City Duma.

#### *July*

*OJSC Kubanenergo to install 2.2 thousand modern insulators at the most important 220 kV transit line*

As part of the repair campaign for 2014, specialists of OJSC Kubanenergo began to overhaul the Krasnodar-Tver transit overhead line of 220 kV. In the course of the works, power workers replaced 2.2 thousand worn out insulators and 17.4 km of grounding wire, and also repaired earth wire supports.

*OJSC Kubanenergo increased the reliability of the substation node of the Slavyansky power district*

Specialists of OJSC Kubanenergo completed the planned overhaul of equipment at the 110 kV substation Khankovskaya, which is one of the most important substations in the power supply system of the Slavyansky and Temryuk Districts of the Krasnodar Territory.

*OJSC Kubanenergo's call-center accepted 170 thousand requests since the beginning of 2014*

Since the beginning of 2014, call-center employees of OJSC Kubanenergo have answered questions and given advice to about 170 thousand residents of the Krasnodar Territory and the Republic of Adygea. Most often, consumers turn to hotline specialists with questions about the time needed to fix power supplies during planned and accidental electricity outages, as well as on the procedure for grid connection.

#### *August*

*About 5 thousand young residents of Sochi attended lessons on electric safety during their summer vacation*

As part of the summer prevention campaign "Safe Energy – Happy Summer", OJSC Kubanenergo's experts together with the Department for Education and Science, and the Sochi City Administration, conducted more than 60 lessons for child on preventing electrical injuries in summer camps with day stays of children and at work and rest camps on the basis of educational institutions of the city of Sochi. About 5 thousand children participated in these sessions.

*The electric grid complex of OJSC Kubanenergo reached a new historical maximum load*

The distribution grid complex of OJSC Kubanenergo had a historically high summer load, which was recorded in the Kuban energy system on 08.15.2014 – 4,129 MW. OJSC Kubanenergo's grid equipment functioned in the normal mode in this period.

*The Mayor of Sochi praised the work of OJSC Kubanenergo's specialists*

During a meeting with Sochi power workers, the mayor of Sochi, Anatoly Pakhomov, noted the fruitful work of the OJSC Kubanenergo's team during the period of training for and conducting the 2014 Winter Olympic Games and in the post-Olympic period.

#### *September*

*Alexander Tkachev, the Governor of the Krasnodar Territory, thanked the power engineers of OJSC Kubanenergo for their coordinated work in the aftermath of the natural disaster in the Yeisk District*

Alexander Tkachev, the Head of the Administration of the Krasnodar Territory, upon visiting the flood-hit village of Dolzhanskaya in the Yeisk District on 09.26.2014, familiarized himself with the restoration work on distribution complex facilities and talked with OJSC Kubanenergo's experts. During the meeting with the power workers, the Governor thanked the power engineers for their coordinated work.

*Residents of Kuban thank power industry workers for their professionalism and efficiency in the aftermath of the hurricane*

Several residents of the Krasnodar Territory called OJSC Kubanenergo's hotline to express their gratitude for the quality and speed of the Company's work at restoring power after a hurricane hit on September 24-25, 2014.

*OJSC Kubanenergo's annual report was recognized as the best in three categories in the contest of annual reports of the Krasnodar Territory.*

The annual report of OJSC Kubanenergo won first place in three categories: "Best annual report of the Krasnodar Territory", "Best Annual Report of the Infrastructure sector", and "Best Electronic Annual Report" in the open competition of annual reports of joint stock companies in 2014. The contest was organized by the Department of the Financial and Stock Markets of the Krasnodar Region.

*Senator Vitaly Ignatenko praised the work of OJSC Kubanenergo in preparing the Sochi Energy Region for the winter*

During a meeting with the labor collective of OJSC Kubanenergo in Sochi, Vitaly Ignatenko, a member of the Federation Council of the Krasnodar Territory, noted the high level of preparation of electricity infrastructure of the resort for the upcoming autumn-winter period. Alexander Gavrilov, the General Director of OJSC Kubanenergo, spoke of the 100% readiness of the energy complex in Sochi for the winter peak loads.

*OJSC Kubanenergo participated in the meeting of the CIS Electric Power Council in Sochi*

A delegation of OJSC Kubanenergo, headed by the Company's General Director Alexander Gavrilov, took part in the 46th meeting of the CIS Electric Power Council, which was held on October 24 in the city of Sochi. As part of this event, Russian Energy Minister Alexander Novak gave Alexander Gavrilov, the General Director of OJSC Kubanenergo, a Diploma of the Ministry of Energy of the Russian Federation for his great personal contribution to the development of the fuel and energy complex.

*November*

*OJSC Kubanenergo topped the rating of the largest power companies of the Southern Federal District*

Within the framework of the VIII Inter-Regional Forum of the largest companies in the Southern Federal District, held in the city of Krasnodar, awards were given to the leaders of the rating of the magazine "Expert South" – the largest enterprises in the region in 2013. OJSC Kubanenergo was recognized as the largest company in the energy sector of the Southern Federal District.

*OJSC Kubanenergo's General Director received an award from the Federation Council*

Alexander Gavrilov, General Director of OJSC Kubanenergo, was awarded a diploma and a badge of the Federation Council of the Russian Federation for many years of hard work, and his great personal contribution to the development of the energy complex of the Krasnodar Region, preparation of facilities for the XXII Olympic Winter Games, and his work for the good of society.

*OJSC Kubanenergo increased the reliability of electricity supplies to a tea factory in Sochi*

OJSC Kubanenergo completed modernization of power supplies to the Krasnodar Tea plant in the town of Dagomys in the city of Sochi. The power workers laid a new cable-air line with voltage of 10 kV stretching over 3.5 km.

*December*

*OJSC Kubanenergo built a transmission line to supply power to the Novotitarovsky water intake pipe*

OJSC Kubanenergo's specialists built an overhead power line to connect one of most socially important facilities in the region to the power grid – a new water intake pipe in the village of Novotitarovsky in the Krasnodar Region.

*OJSC Kubanenergo completed repair of a substation providing power supplies to customers in the central part of the Krasnodar Territory*

Integrated repairs of the Caucasus 35 kV electrical substation were completed by the power workers of the Ust-Labinsk Branch of OJSC Kubanenergo. The power facility is a key source of electricity for dozens of social and industrial enterprises, as well as for 24 thousand consumers of the housing and communal sector in the central part of the Krasnodar Territory.

## **Company events after the reporting date**

### *January*

#### *The Kuban electric grid complex set a new maximum high load level in January*

The distribution grid complex of OJSC Kubanenergo set a new historical winter peak load. The record was recorded on 09.01.2015 and totaled 4,163 MW. The Company's equipment functioned normally.

#### *OJSC Kubanenergo put its new substation Tuapse-Terminal into commission*

OJSC Kubanenergo has commissioned its new 110 kV power substation Tuapse-Terminal with capacity of 80 MVA. The new power center is designed to provide electricity to almost half the population of the city of Tuapse, as well as to the oil refinery located there.

*OJSC Kubanenergo connected about 10 agro-industrial complex objects to the power grid facilities in the Tikhoretsk power district*

In 2014, OJSC Kubanenergo concluded more than 1.1 thousand contracts for technological connection of households and legal entities, as well as 10 objects of the agro-industrial complex in the Tikhoretskiy, Pavlovskiy, Krylovskiy, Beloglinskiy and Novopokrovskiy Districts of the Krasnodar Territory. The total volume of connected capacity amounted to 16 MW.

### *February*

#### *OJSC Kubanenergo confirmed its compliance to international standards*

OJSC Kubanenergo confirmed the compliance of its management system to international standards in the field of quality management, ecology, health and safety. A report on the results of the certification audit was prepared by SGS.

#### *OJSC Kubanenergo to build a new high-voltage substation in Adygea*

In the framework of the Scheme and Program for development of electric power in the Republic of Adygea in the years 2014-2018, OJSC Kubanenergo plans to build a new substation of 110 kV Yablonovskaya in the Tahtamukaysky District of the Republic of Adygea.

#### *OJSC Kubanenergo is attracting investments for installation of modern electricity metering systems*

The Sochi branch of OJSC Kubanenergo held a meeting with the heads of major Russian enterprises in the energy sector. The theme of the meeting was to attract private investment for the implementation of projects to reduce losses in electric networks of OJSC Kubanenergo by automating electricity metering on terms of energy service contracts.

### *March*

#### *OJSC Kubanenergo is increasing the capacity of substations in the resort zone of the Anapa District*

In order to ensure reliable energy supplies to households and industrial facilities of the resort town of Anapa and its suburbs, experts of OJSC Kubanenergo are carrying out reconstruction of key supply centers of the district – the substations Anapa, Dzhemetete, Dzhiginskaya, Pionerskaya and Blagoveshchenskaya.

## Development Strategy

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The mission of OJSC Kubanenergo is to provide reliable, effective and safe electricity transmission to consumers, and to ensure stable income from the Company's operations for the Company shareholders.

### Strategic Goals of OJSC Kubanenergo

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The aim of operation of the distribution grid complex is to provide long-term reliable, high-quality and affordable energy to consumers throughout the region at the stage of distribution of electricity by organizing the most efficient infrastructure possible.

The company, being part of the unified distribution grid complex of Russia, seeks to achieve the objectives defined at the state level. The Russian government approved the development strategy of the electric grid complex of the Russian Federation, which sets targets for the electric grid complex until 2030, on 03.04.2013, including:

#### **1. Increasing the reliability and quality of electricity supply services provided to a level that completely satisfy customer needs, including:**

- Ø *Improving the quality of customer service (including reducing the number of steps required for technological connection to electric grids from 10 to 6 by 2015, and to 5 by 2018):*

In order to improve the quality of customer service in 2014, OJSC Kubanenergo produced functional expansion of its "Personal Account" interactive service on the Company website, created the possibility of filing an application for review, replacement and installation of electricity meters, as well as entering current electricity meters readings.

In 2015, the Company plans expansion of the functionality of the Personal Account feature, namely applications for the implementation of technical conditions, providing the customer with an invoice for technological grid connection agreements, and sending inquiries (complaints) and surveys.

- Ø *Reduction in undersupply of electric power:*

Overall in the reporting year OJSC Kubanenergo fulfilled the primary goal of its industrial activity – to provide quality and uninterrupted power supplies to consumers.

In accordance with the Rules of investigating the causes of accidents in the power industry, approved by Decree of the Russian Federation dated 28.10.2009 № 846, OJSC Kubanenergo thoroughly investigate the causes of accidents.

Thus, based on the results of investigations of accidents in 2014, a total of 5,561 events were scheduled for execution, and 5,460 of these events were fulfilled. Another 101 were in the process of being fulfilled. There were no events that weren't fulfilled on time.

However, due to adverse weather events and massive outages of power grid equipment, there was an increase in basic accident indicators. Thus, the total undersupply of electricity to consumers increased by 2.09 times year-on-year and amounted to 17,194.593 thousand kWh.

There were two accidents recorded in 2014, the causes of which, according to p.4 of the Rules of investigating the causes of accidents in the electric power industry, approved by the Government of the Russian Federation dated 28.10.2009 №846, were subject to an investigation by the agency of federal state power supervision.

In order to ensure timely liquidation of technological violations and to minimize the time needed to eliminate power outages to consumers in 2014, the Company performed the following activities:

- ü Work was organized for liquidating the consequences of power outages under the direction of the management board of OJSC Kubanenergo, at the meetings of which the need to send additional mobile teams to eliminate the effects of exposure to the elements, their quantity, the adequacy of teams ready, the need to send special equipment, and other issues are decided.
- ü The readiness for action of 22 OJSC Kubanenergo mobile teams located around the Krasnodar Territory and the Republic of Adygea was ensured. These mobile teams are provided with the required amount of protection means, accessories and means of communication, with 53 technical units.

- ü 50 agreements were concluded with subcontractors on their involvement in emergency responses, which will make it possible to further operatively engage 541 people and 341 units of special purpose vehicles.
- ü The availability of 112 reserve sources of electricity supplies for a total capacity of 11,040.5 kW was ensured, which will make it possible to ensure power supplies to the most important socially significant facilities in the case of major technological violations.
- ü The maximum arrival time of emergency and recovery teams to the place of possible technological violations (accidents) is 2 hours.
- ü Information was exchanged with the subsidiary companies of JSC Russian Grids with which Agreements on cooperation in the prevention and elimination of consequences of accidents and emergencies at electric power facilities have been signed in terms of the availability and storage of emergency reserves, reserve sources of electricity supplies, equipping mobile teams, and special vehicles. The emergency reserve is complete.
- ü Comprehensive measures were adopted to prepare the electric grid complex of OJSC Kubanenergo for the autumn-winter 2014/2015 period.

For 2015, OJSC Kubanenergo has scheduled command and staff training (exercises), training at power facility objects, special tactical exercises for prevention and liquidation of technological violations and emergencies at power plants, including those in preparation for the autumn-winter period of 2015-2016.

## **2. Increased security of power supplies, including a decrease in the total number of accidents, including unrecorded accidents.**

In order to improve labor discipline, reduce accidents and human error at the facilities of the united electric grid complex, OJSC Kubanenergo has a Program of Measures to Reduce Systemic Risks of Injuries and a Comprehensive Program of OJSC Kubanenergo to reduce the risk of injury to Kubanenergo personnel and third parties at the facilities of the Company's electric grid complex for the period of 2015-2017 years, approved by the Company Board of Directors (Minutes of 30.12.2014 №201/2014). Despite the large amount of work being done on occupational safety and health, including the prevention of injury, there were three work accidents in the reporting year.

No cases of occupational disease occurred in the staff of OJSC Kubanenergo in 2014.

## **3. Improving the efficiency of the electric grid complex, including:**

### *Ø Reduction of specific investment costs by 30 percent relative to the 2012 level:*

To achieve this goal, the Company selects contractors for the implementation of investment projects on a competitive basis, and seeks to enter construction contracts with contractors at a cost below the prescribed summary estimate.

The Company's investment program for 2015 and the period from 2016-2020 provided for reducing the cost of investment projects during the period from 2015 to 2020 by RUB 4.47 bln, including by year:

<b>Year</b>	<b>Expected reduction in investment project costs, RUB mln</b>
2015	762.57
2016	898.86
2017	310.78
2018	525.49
2019	444.87
2020	1,524.79
<b>Total:</b>	<b>4,467.37</b>

### *Ø Reducing operating costs by 15 percent by 2017 vs. the 2012 level, taking into account inflation per unit of service of electrical equipment:*

To reduce the operating expenses of all subsidiaries and affiliates of JSC Russian Grids, by order of JSC Russian Grids dated 22.10.2013 № 100r, the Method of calculating the effect of reducing the cost of service per unit of electrical equipment of subsidiary companies of JSC Russian Grids for 2013-2018 was approved. On the basis of this methodology, the Company developed a Program of Performance Management for OJSC Kubanenergo for 2014-2018 for achievement of economic effects from reducing the cost per unit of OJSC Kubanenergo electrical equipment, hereinafter the PPM.

As part of cost optimization, the Company has planned a set of measures aimed at reducing costs by 15% by 2017, and by 18% by 2018 of regular operating expenses per 1 conventional vs. the 2012 level. The economic effect from implementation of PPM in the period from 2014 – 2018 will be RUB 5,824.4 mln.

Cost optimization is the result of the Company's systematic work in the framework of activities of the Cost Management Program, hereinafter CMP.

Indicator	2014		Deviation	
	Plan	Fact	Absolute	%
Production expenses, RUB mln	30,094	29,919	-175	-1
Excluded expenses, RUB mln	25,453	25,150	-303	-1
Costs included in the base of the PPM (at current prices), RUB mln	4,642	4,769	127	3
Composite index deflator, %	1.128	1.151	x	x
Costs included in the base of the PPM (in 2012 prices), RUB mln	4,116	4,142	26	1
Effect from implementation of PPM in the current year, RUB mln	-322	-424	-102	32
Effect from implementation of PPM vs. 2012 level <sup>3</sup> , %	-7.75	-10.20	X	x
Number of conventional units	619,133	640,071	20,938	3
Fixed costs in thousand rubles per 1 conventional unit (without the inflation factor)	6.65	6.47	-0.18	-3

The total economic impact of the implementation of CMP measures aimed at optimizing operating costs and expenses in the field of technical re-equipment, reconstruction and new construction, as well as identifying additional revenue, will amount to RUB 1,565.0 mln in 2014, or 116.1% of the planned target of RUB 1,347.8 mln.

*Main directions for achieving the key effectiveness indicators:*

- activities in the field of energy conservation and energy efficiency;
- measures for the implementation of regulated purchasing activity of OJSC Kubanenergo;
- measures for paying salaries;
- other activities (non-sales activities).

Controlled costs in 2014 amounted to RUB 4,768.6 mln, with a planned amount of RUB 4,641.5 mln, which was RUB 127.1 mln more than planned. This increase is due to the growth in the number of conventional units by 20,938 conventional units as compared to the level of planned parameters for 2014.

The fixed costs of OJSC Kubanenergo per standard unit (without the inflation factor) for the reporting period equaled RUB 6,470 vs. a planned value of RUB 6,650 per unit, which was a reduction vs. the planned amount of 2.7%. This positive trend is the result of systematic work on optimization of the Company's costs connected to the enterprise's production activities.

#### Ø Reducing the amount of losses by 11 percent by 2017 vs. the 2012 level:

In order to reduce the relative magnitude of electricity losses by 11% by 2017 vs. the actual performance in 2012, OJSC Kubanenergo plans to implement measures aimed at reducing power losses during transmission of electric power under the terms of energy service contracts.

The list of projects in the field of energy savings and cost-effectiveness that are suitable for implementation in terms of energy agreements (contracts) was approved by the Board of Directors of the Company on 10.12.2013 (corrected on 15.10.2014).

At the end of 2014, the effect of the implementation of measures aimed at reducing electricity losses during transmission totaled 75,925,000 kWh (RUB 302,191,000), including:

- ü organized events – 60,750,000 kWh (RUB 232,460,000),
- ü technical measures – 2,649,000 kWh (RUB 5,434,000),
- ü improvement of electricity measuring – 12,525,000 kWh (RUB 64,365,000).

This work is expected to be continued in the future.

## Development prospects

The main task of the Company's long-term development is to upgrade and expand its electric power infrastructure, which will make it possible to eliminate the existing deficit of energy capacity and establish a foundation for stable development in the long term.

<sup>3</sup> The indicator "Effect of fulfillment of PPM as a percentage vs. the 2012 level" was received as a ratio of the effect of implementation of PPM in the current year in thousands of rubles (in 2012 prices) vs. the 2012 level.

Acting in accordance with Order of the Government of the Russian Federation No. 823 dated October 17, 2009 “On Plans and Programs for Long Term Development of the Electric Power Industry”, OJSC Kubanenergo took a direct part in 2014 in developing:

- ü Schemes and Programs for Perspective Development of the Electric Power Industry of the Krasnodar Region for the period through 2019 (approved by the Administration of the Krasnodar Territory on 30.04.2014 at the meeting of the commission (Staff) to ensure the security of power supplies to customers in the Krasnodar Territory),

- ü Schemes and Programs for Perspective Development of the Electric Power Industry of the Republic of Adygea for 2014-2018 (approved by Decree of the Minister of Economic Development and Trade of the Republic of Adygea dated 21.07.2014 №174-p).

These Programs are synchronized with the long-term investment program of OJSC FGC UES, which manages the Unified National (All-Russian) electric grid, and meets the basic parameters of the long-term investment program of OJSC Kubanenergo for 2014-2019.

According to the Schemes and Programs, the main focus within the Company's electric grid business will be given to development of the most problematic areas of the Krasnodar Territory and Republic of Adygea – the Sochi, South-West and Central power districts, which need improvement in their electricity infrastructure. Taking into account the planned connection of new consumers under previously signed contracts for technological connection, the Company intends to reduce the number of closed power centers – substations with a shortage of power capacity by at least 10% in all districts of concern.

The priority areas in the field of technological connection will also include:

- ü Development of the Temryuk District, including power supplies of electricity loads of the dry cargo region of the Taman sea port and construction loads across the Kerch Strait,
- ü The Novorossiysk Industrial Zone;
- ü Construction of the Lagonaki Alpine Ski Resort,
- ü Elimination of power capacity shortages in large industrial and residential centers of the region – Krasnodar, Novorossiysk, Tuapse, and Greater Sochi.

## Priority Development Areas

*The work of OJSC Kubanenergo is divided into a number of areas that are priorities in accordance with the relevant currently valid resolutions of the Board of Directors.*

№	Business area	Date and number of the OJSC Kubanenergo Board of Directors resolution which defines the priority activity	Company actions in the priority area
1.	Ensuring the set level of reliability and quality of services provided in accordance with normative legal acts	21.11.2011, Minutes №121/2011	In accordance with the Government Decree of the Russian Federation dated 31.12.2009 № 1220 “On setting target levels of reliability and quality of goods and services used annually in establishing long-term tariffs”, the REC - DPT KT annually establishes the target levels of reliability and service quality for the Company. This is an integrated index made up of levels of reliability and quality for electricity transmission services and technological connections. During the reporting year, the Company achieved the planned target level of reliability and quality of services provided. In order to satisfy the necessary level of reliability, a number of measures to improve reliability were implemented. <a href="#">(For more information, see the section Results of Operating Activities / Ensuring Quality, Reliable and Uninterrupted Electric Power Supply to Consumers)</a>
2.	Fulfilling the Program for	Resolution of the Russian	In the reporting year, as part of the Program for Construction of Olympic Facilities, three new 110 kV substation were built and two existing substations

	Construction of Olympic Facilities and Development of Sochi as an Alpine Climatic Resort	Government dated 29.12.2007 № 991	<p>were upgraded, resulting in a total increase in transformer capacity of 308 MW. In addition, there was reconstruction and construction of new 110 kV lines with multifaceted supports, as a result of which 715 supports were installed. AERO-Z type lines were installed for a length of 900.8 km, while at sites in security zones of individual dwellings there was installation of 110 kV cable lines for a length of 36.2 km. The total length of 110 kV lines was 155 kilometers. In particular, under implementation of 452 projects of the urban distribution network, construction and reconstruction of overhead transmission lines as well as transformer substations and distribution points was carried out. As a result of project implementation, 43 distribution points, 390 transformer substations, and 4,942 supports were installed, and 2,300 kilometers of cable were laid.</p> <p>In the village of Krasnaya Polyana, a new production base for services was built, providing the necessary working conditions of operating personnel, and new equipment was installed for a new operational dispatching service with a 6-10 kV dispatcher panel using video cubes for the organization of operational control circuitry power of the village.</p> <p>In 2014, the Company made arrangements for corporate procedures on the conclusion of additional agreements with contractors to carry out, in line with the positive conclusion of state examinations of statements of the contract price, and approved the relevant acts of acceptance.</p> <p>In 2014, all of the facilities of OJSC Kubanenergo included in the Program for Construction of Olympic Facilities and Development of Sochi as an Alpine Resort, approved by Decree of the Russian Government dated 29.12.2007 №991, were put into operation.</p> <p><a href="#">(For more information, see the section Investment Activity / Construction and reconstruction of Olympic Venues)</a></p>
3.	Fulfilling the Company Strategy in the field of information technology, automation and telecommunications for the period to 2016	20.06.2012, Minutes №138/2012	<a href="#">See the sections Results of Operating Activities / Development of Corporate and Technological Automated Control Systems</a>
4.	Fulfilling the Company's Environmental Protection Policy for 2008-2015	18.01.2008, Minutes № 49/2008	<a href="#">See the sections Sustainable Development / Environmental Protection</a>
5.	Increasing the level of anti-terrorist and anti-sabotage protection of the Company's electric grid facilities	05.08.2010, Minutes №94/2010	<a href="#">See the sections Results of Operating Activities / Ensuring Safety of Company Facilities</a>
6.	Planning the development of the OJSC Kubanenergo distribution grid complex	07.09.2011, Minutes №116/2011	<p>For the purposes of this decision, the Company Board of Directors carries out a set of measures for long-term planning electric grid development:</p> <ul style="list-style-type: none"> <li>ü direct involvement in the development of Schemes and Programs of perspective development of the electric power industry of the Krasnodar Territory for the period until 2019;</li> <li>ü preparation of proposals for the inclusion of measures for the construction of new and reconstruction of existing power facilities in the Schemes and Programs for Development of the Electric Power Industry in the Krasnodar Territory and the Republic of Adygea for the period up to 2020;</li> <li>ü participation in development of programs for integrated development of communal infrastructure of 44 municipalities of the Krasnodar region for the period of 2012 – 2020.</li> </ul>
7.	Consolidating power grid assets	21.11.2011, Minutes №121/2011	<p>In order to increase its share in the market of power grid services and reduce the number of territorial grid companies in the region served by OJSC Kubanenergo, the Board of Directors of the Company approved a long term Program for Consolidation of Power Grid Assets for 2011-2015.</p> <p>The objective of this Program is the acquisition of ownership or use of network assets not controlled by OJSC Kubanenergo. Implementation of the program should contribute to improving the reliability of the power supply and controlling electrical networks.</p> <p>In 2014, the main methods of consolidation were rental, and free transfer from municipal administrations, non-profit organizations, and individuals.</p> <p>Thus:</p> <ul style="list-style-type: none"> <li>- using the rent method of consolidation: 1,107 conventional units were consolidated with a length of 457 km and a capacity of 33 megawatts;</li> <li>- using the "free transfer" process of consolidation: 40 conventional units were consolidated, with a length of 39 km and a capacity of 4 megawatts.</li> </ul> <p>The consolidation of power grid assets in 2015 will be implemented in accordance with the approved investment program.</p>
8.	Construction and operation of fiber-optic communication	03.05.2012, Minutes	<a href="#">See the sections Results of Operating Activities / Development of Corporate and Technological Automated Control Systems</a>

	lines	№133/2012	
9.	Implementation of the Company's production asset management system	15.06.2012, Minutes №137/2012	<p>In 2014, a number of activities were fulfilled aimed at developing the production asset management system, namely:</p> <ul style="list-style-type: none"> <li>- data on equipment and customers of the main and the distribution network was updated in the automated control system of power supply equipment certification on the platform of 1S.Energetika;</li> <li>- indices of the status and consequences of failure of electric grid equipment were calculated;</li> <li>- proposals were formed and corrected for adjusting the production program of OJSC Kubanenergo for 2015 based on the results of calculation of the index of status and consequences of failure of the electric grid equipment of OJSC Kubanenergo;</li> <li>- work tasks for the development of the production assets management system of OJSC Kubanenergo were determined in terms of extending the functionality of the production asset management system;</li> <li>- the results of the functioning of the management system of production assets of OJSC Kubanenergo were audited.</li> </ul> <p>Work on development of the functionality of the production asset management system is planned for 2015-2016, including:</p> <ul style="list-style-type: none"> <li>- expanding the capabilities of the automated system in terms of enhancing the convenience of its use (implementation of taking out a batch of defects, the possibility of mass input of weighting coefficients in the types of institutional facilities (branch, RES, substation service, substations, etc.) to calculate the index of the state of institutional facilities, etc.);</li> <li>- implementation of adjustment of formulas for evaluating the technical condition of the equipment;</li> <li>- calculation and display of the need for action to be taken on equipment;</li> <li>- formation of prioritized lists of equipment;</li> <li>- formation of corporate and industry reports;</li> <li>- automation of the process of calculating the volume of service in units of enterprises engaged in operation of electric grid facilities;</li> <li>- automation of the planning process and consideration of implementation of measures of maintenance and repair of industrial assets;</li> <li>- synchronization of the content of directories of classifiers of the automated system with directories of the centralized management system of classifications of JSC Russian Grids.</li> </ul>
10.	Certification of equipment, materials, and systems at the Company's facilities	04.06.2014, Minutes №190/2014	<p>In order to organize work in OJSC Kubanenergo for the certification of equipment, materials and systems, an order was issued, under which:</p> <ul style="list-style-type: none"> <li>• the "Methodology of certification of equipment, materials and systems for the power industry" and "The procedure for certification of equipment, materials and systems for the power industry" were enacted as internal documents</li> <li>• a committee for the acceptance of equipment, materials and systems of OJSC Kubanenergo was designated, and the Regulations for the Work of the Commission on the Acceptance of Equipment, Materials and Systems of OJSC Kubanenergo were approved.</li> </ul> <p>In 2014, no applications were submitted in the prescribed manner for consideration by the Commission on the need to make certification of equipment, materials and systems in the power grid complex of OJSC Kubanenergo.</p>
11.	Ensuring the accessibility of energy infrastructure and the quality of technological connection to Company power grids	12.09.2014, Minutes №196/2014	<p>In 2014:</p> <ul style="list-style-type: none"> <li>• the possibility of making applications for technological connections to electricity grids using the Company website was implemented,</li> <li>• the possibility of making a preliminary calculation of the price of technological connection using the client's own parameters was implemented on the Company website,</li> <li>• information on the overall electricity capacity of each section of the electric grid, and the current capacity reserves for connecting consumers, is published.</li> </ul> <p>The Company is planning to reduce the normative time periods needed for implementing technological connection for special categories of applicants, as well as to reduce the cost of technological connection to the Company's electric grids in 2015.</p>
12.	Improving the system of internal control and risk management, and development of the internal audit function	12.09.2014, Minutes №196/2014	<p>By Resolution of the Board of Directors of JSC Russian Grids (minutes dated 13.02.2014 №143), the Strategy for Development and Improvement of the System of Internal Control of JSC Russian Grids and its subsidiary companies (hereinafter – the Strategy) was approved.</p> <p>In order to fulfill the Strategy, for development and improvement of the system of internal control and management of risks, and functions of internal audit, the Board of Directors of the Company determined the development and improvement of the system of internal control and management of risks, and functions of internal audit, as a priority direction of its business activity (minutes dated 12.09.2014 №196/2014) and approved:</p> <ul style="list-style-type: none"> <li>- The Policy of Internal Control in its new edition;</li> <li>- The Policy of Risk Management in its new edition;</li> <li>- The Policy of Internal Audit.</li> </ul> <p>Work was done in 2014 on identifying the Company's risks, and the risks</p>

		<p>found were grouped into registers of:</p> <ul style="list-style-type: none"> <li>- Key operational risks;</li> <li>- Operational risks of main business processes;</li> <li>- Operational risks of other business processes.</li> </ul> <p>An estimate of the consequences of the risks discovered is updated quarterly, and actions at managing these risks are updated and fulfilled.</p> <p>Information about Company risks is given for examination and decision making to:</p> <ul style="list-style-type: none"> <li>- The Company Management Board – quarterly;</li> <li>- The Audit Committee of the Board of Directors – on half year results and end of the year results;</li> <li>- The Board of Directors – on end of the year results.</li> </ul> <p>In order to increase the predictability of fulfillment of the Company's business plan and development of success at fulfilling the key performance indicators in the reporting period, the Company began integration of the system of risk management and the system of business planning.</p> <p>The Department of Internal Audit and Control of the Company conducts a yearly appraisal of the effectiveness of the system of internal audit and risk management, the results of which are provided to the Board of Directors (with a preliminary conclusion on appraisal by the Audit Committee of the Board of Directors).</p> <p>With the aim of fulfilling the Strategy, in terms of division of functions of fulfilling preventative and current control (building SIC) with functions of further control (appraisal of the effectiveness of SIC), for the purpose of ensuring a rational level of independence and objectiveness, in accordance with the Resolution of the Company Board of Directors, the Management of Internal Audit and Risk Management has been transformed into the Department of Internal Audit and Control with division within the Department of Functional Directions "Internal Audit" and "Organization of Internal Control and Risk Management" (Minutes dated 29.08.2014 №195/2014).</p> <p>Furthermore, functions have been removed from the Department of Internal Audit and Control that were not characteristic of the Department, such as control over the use of insider information and transparency of the owners of the Company's counteragents.</p> <p>With the aim of further perfection of the preventative, current, and future control, the Company is planning:</p> <ul style="list-style-type: none"> <li>- Further integration of the system of risk management and the system of business planning;</li> <li>- Automation of the processes of internal audit and risk management;</li> <li>- Development and approval of the standards of quality characteristics of internal audit, standards of internal audit activities, and standards of practical implementation;</li> <li>- Conducting periodical audits for appraisal of the interconnectedness of the goals of the Company's business activity, its structural subdivisions, and key employees among each other, and with risks of the according business directions, as well as fulfilling goals and key performance indicators of effectiveness;</li> <li>- Obligatory and regular improvement of qualifications of employees of the Department of Internal Audit and Control;</li> <li>- Fulfillment of activities for improving the system of internal control in the process of conducting accounting and tax accounting and filling out accounting (financial) reporting, as well as in processes (business directions) that have a significant influence on the formation of indicators in the Company's accounting.</li> </ul> <p><a href="#">(See the section Internal Control and Risk Management)</a></p>
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## Results of Operating Activities

### Electricity Transmission

The share of power transmission services in the total revenue of the Company for the year amounted to 89%.

### Key Indicators

In 2014, there was an increase in power supply to the grid of OJSC Kubanenergo, as compared with the previous year, in the amount of 730.8 mln KWh or 3.5%, which is due to an increase in consumer demand for electricity in view of the active development of the region, especially in the Sochi Energy District.

The main growth in power supply was seen in the following branches:

- Krasnodar Electric Grids, 277.8 mln KWh or 5.2%
- South Western Electrical Grids, 122.2 mln KWh or 3.2%
- Sochi Electrical Grids, 107.3 mln. KWh or 3.7%.

#### *Results of operations of the Company in 2014*

Supply to grid, mln KWh	Supply from the grid to consumers and related territorial network organizations within the limits of the balance and operational responsibility, mln KWh	Losses	
		mln kWh	%
21,572.653	18,719.929	2,852.724	13.22

#### *Electric power actual losses in 2013–2014*

Actual 2013		Actual 2014		Changes	
mln kWh	%	mln kWh	%	mln kWh	%
2,792.930	13.40	2,852.724	13.22	59.8	-0.18

Actual power losses in the electric grids of OJSC Kubanenergo in the reporting period amounted to 2,853 mln kWh or 13.22% of the total supply to the grid. In 2014, relative losses were reduced by 0.18 percentage points as compared to 2013. The increase in actual power losses in 2014 against 2013 amounted to 59.8 mln KWh. The growth in losses was caused by physical processes associated with the transmission of power and an increase in semi-variable (loading) losses due to the increased supply of power to the grid by 3.5% or 730.8 mln KWh, as well as to the addition of new customers and commissioning of new network equipment.

#### *Dynamics of Power Transmission Services Rendered in 2013–2014*

Volume of Power Transmission Services Rendered						
2013		2014		Changes		
mln kWh	RUB mln	mln kWh	RUB mln	mln kWh	RUB mln	%
16,483	30,505	17,082	28,464	599	- 2,041	3.6

Overall in 2014, the Company rendered power transmission services in the amount of 17,082 mln kWh, which was 599 mln kWh or 3.6% more than in 2013.

### Measures to Reduce Power Losses

Work to reduce power losses is one of the priority areas of activity for the Company.

A set of measures implemented for losses optimization in savings of 75.925 mln kWh (RUB 302.26 mln) in 2014, including through:

- ü organizational measures, of 60.750 mln kWh (RUB 232.460 mln);
- ü technical measures, of 2.649 mln kWh (RUB 5.434 mln);
- ü improved power accounting, 12.525 mln kWh (RUB 64.365 mln).

Loss reduction measures of the program were fulfilled; the program target level of power losses was achieved.

## Electric Power Fiscal Accounting

The following number of subscribers were registered in OJSC Kubanenergo as of December 31, 2014:

- 51,252 legal entities with a total of 94,248 electricity metering points;
- 1,018,865 domestic consumers with a total of 1,018,865 metering points.

The Company had planned to upgrade 4,345 metering points in 2014 at planned costs of 28 million Rubles. Over 9,000 metering points were actually upgraded; and the costs amounted to 22.3 million Rubles. The Company organized remote data collection from 6,232 metering points, having planned 0 metering points.

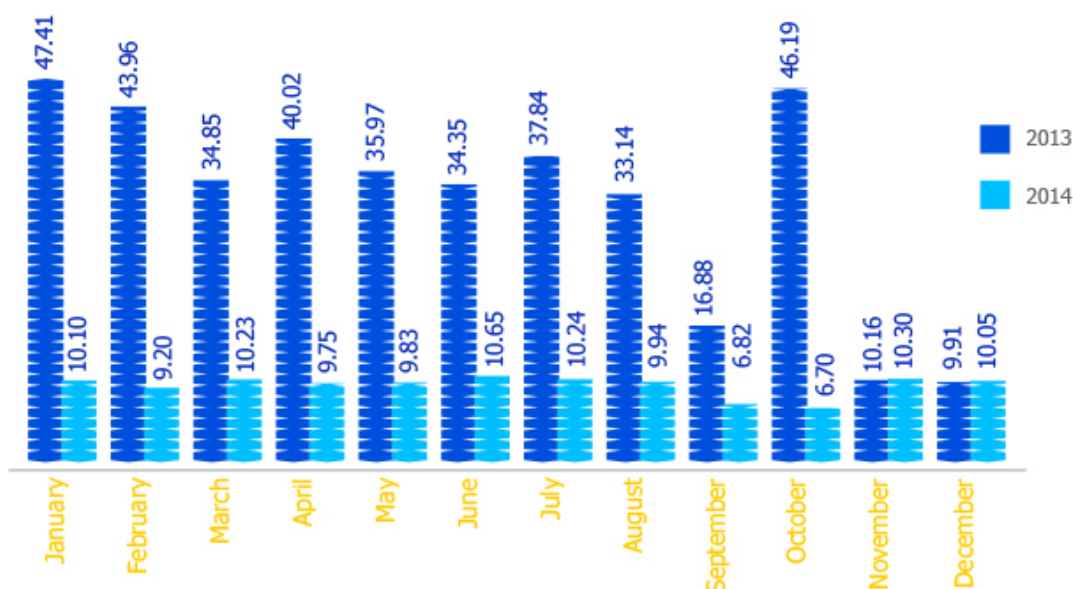
## Implementing AMIS EPFA

### Results of Power Metering Automation in the Reporting Year

Project	Work performed	Utilized funds, RUB mln
Program for future development of metering systems in the retail power market:		
Automatic system for commercial accounting of power consumption "Greater Sochi"	Data collection from 668 transformer substations 6(10)/0.4 kV. The system includes 20,069 electricity meters, including 3,852 meters in the reporting year.	-
Household AMIS EPFA of the Adler district of Sochi (Stage 2)	Data collection from 358 transformer substations 6(10)/0.4 kV, including from 34 in the reporting year. The system includes 12,830 electricity meters, including 2,380 meters in the reporting year.	3.9

In 2014, in order to determine the best technical solution enabling 100% remote reading of meters and select a further development direction for electricity metering systems, OJSC Kubanenergo implemented a "pilot" project of an automated system for commercial accounting of power consumption (ASCAPC) in Tikhoretsk Electric Grids branch of OJSC Kubanenergo.

*Effect of the introduction of the "pilot" project in Tikhoretsk Electric Grids branch of OJSC Kubanenergo. Reduction of losses in C-1 feeder, %*



Introduction of the "pilot" project reduced the actual losses in C-1 feeder of Sadovaya substation 35/10 kW from 37.14% to 9.5% in 2014. 100% readings were received from remotely readable meters included in ASCAPC. Technical solutions used in the "pilot" project were taken as the basis for developing the concept of the introduction of ASCAPC at OJSC Kubanenergo. Implementation of the concept of ASCAPC introduction at OJSC Kubanenergo is planned under energy service agreements.

## Technological Connection to Power Grids of OJSC Kubanenergo

Upcoming technological connection activities of OJSC Kubanenergo are aimed at supplying the demands of the growing economy of the Krasnodar Territory for energy facilities, a transition to a unified scheme of formation and application of rates for technological connection, and achieving a balance of interests in determining the cost of technological connection of consumers to power grids.

In accordance with the current legislation, OJSC Kubanenergo does not refuse the connection to any applicants submitting appropriate applications.

Basic regulations governing the Company's activities for technological connection of power receivers (power plants) of legal and physical entities to the electric grids of OJSC Kubanenergo<sup>4</sup>:

- Federal law No. 35-FZ of 26.03.2003 On Electricity Production;
- Rules for technological connection of power receivers of electricity consumers, electricity production facilities, as well as power grid facilities that belong to power grid companies and other parties to electrical grids (approved by Decree of the Government of the Russian Federation No. 861 of 27.12.2004); Decree of the Government of the Russian Federation No. 1178 of 29.12.2011 “On Price Setting in the Field of Regulated Prices (Tariffs) in Electricity Production”;
- Decree of the Federal Tariff Service of 11.09.2012 No. 209-e/1 “On approval of guidelines for determining the amount of payment for technological connection to electric grids”;
- Regulation on factors in providing technical services, setting payments for technological connection and factors of technological connection to power grid facilities of power receivers of electricity consumers in the city resort of Sochi during organization and holding of the XXII Winter Olympic Games and the XI Paralympic Winter Games 2014 approved by Decree of the Government of the Russian Federation No. 341 of 15.05.2010.

## Execution of Agreements for Technological Connection of Consumers

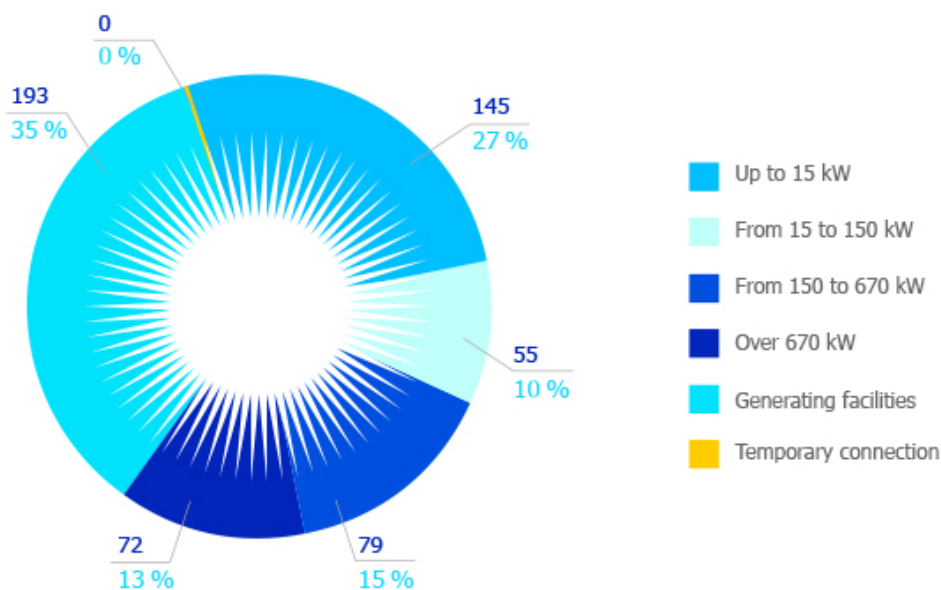
In the reporting year, the Company performed 16,788 agreements for technological connection to electric grids of OJSC Kubanenergo for a total power of 543 MW against 534 MW planned, with an over-fulfillment of the plan of 1.7%.

*Connections in 2014 by consumer categories, MW*

Connection category	Number of executed agreements for technological connection	
	pcs	total power, MW
up to 15 kW inclusive, total	15,650	145
<i>including individuals, up to 15 kW inclusive</i>	<i>11,366</i>	<i>103</i>
over 15 and up to 150 kW inclusive	880	55
<i>including the Applicants having used the installment plan</i>	<i>0</i>	<i>0</i>
over 150 kW and less than 670 kW	229	79
at least 670 kW	26	71
electric power production facilities	3	193
TOTAL excluding temporary technological connection	16,788	543

<sup>4</sup> A complete list of legal documents governing the technological connection process is publicly available on the website of the Company [www.kubanenergo.ru](http://www.kubanenergo.ru) in the [For Customers](#) section.

Structure of OJSC Kubanenergo contracts fulfilled for capacity and the ranges of capacity connected, MW and %



The largest and most important power facilities of the following the applicants were connected to the electric grids of the Company in 2014:

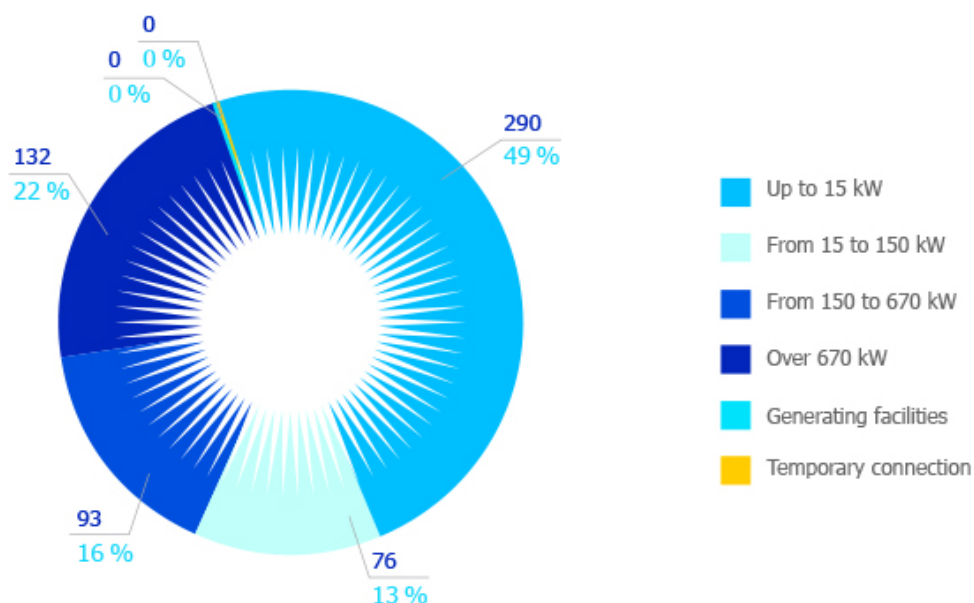
Applicant	Connected capacity, MW
OJSC Mobile Gas Turbine Power Plants (2 agreements)	112.82
OJSC INTER RAO-Electrogeneration (Sochi TPP)	80
CJSC PDK Apsheronsk	22.8
Novocity LLC	8.7
PIK-Kuban CJSC	4.3

#### Volume of Consumer Demand for Technological Connection in 2014

In 2014, the Company entered into 29,532 agreements (with generation facilities) for technological connection to electric grids of OJSC Kubanenergo for a total capacity of 591 MW with the total value of 1,187 million Rubles, excluding VAT.

Connection category	Number of concluded agreements for technological connection	
	pcs	total power, MW
up to 15 kW inclusive, total	27,963	290
<i>including individuals, up to 15 kW inclusive</i>	22,919	237
over 15 and up to 150 kW inclusive	1,218	76
<i>including the Applicants having used the installment plan</i>	0	0
over 150 kW and less than 670 kW	284	93
at least 670 kW	67	132
electric power production facilities	0	0
<b>TOTAL excluding temporary technological connection</b>	<b>29,532</b>	<b>591</b>

Structure of OJSC Kubanenergo contracts signed for capacity and the ranges of capacity connected, MW and %



### Volume of Resulting Revenue and Collected Funds

The revenue for technological connection services in 2014 amounted to 848 million Rubles (excluding VAT), which is 7% above the planned level. Over-fulfillment of the plan was due to the performance of agreemental obligations in Q1 2014 by applicant CJSC PDK Apsheronsk, included in the business plan of 2013, which had previously defaulted on its agreemental obligations.

The amount of funds collected in the reporting year amounted to 1,444 million Rubles (with VAT), which is 18% more than planned. This is due to the early fulfillment of agreemental obligations to the Company by such applicants as CJSC Ramo Haus, CJSC Tander, and Gazprom Invest LLC, which concluded agreements for technological connection in 2014.

In 2015, as compared with the year 2014, the Company expects an increase in its revenues from technological connection services up to 908 million Rubles (excluding VAT). Gazprom Invest LLC, requiring phased grid connection in 2015, represents a large revenue source.

### Technological Connection of Generating Facilities

Item No.	Applicant	Connected generation facility	Technological connection status as of the end of 2014
1.	Yeisk Thermal Power Station LLC	Yeisk TPP	The required capacity for technological connection of generating plants to supply power to the grid amounts to 17.5 MW at 6 kV. A agreement for technological connection was signed for 9.04 million RUB (excluding VAT). The Company performed activities envisaged in the technical conditions for connection and is ready to connect the TPP after full repayment of the outstanding amount by the defaulting applicant. In 2014, a dispute arose between the Company and the applicant regarding the final cost of the agreement. On 29.12.2014, the parties signed a settlement agreement approved by decision of the Court of Arbitration of the Krasnodar Territory.
2.	RN-Tuapse Oil Refinery LLC	Tuapse Oil Refinery:	The required capacity for technological connection of generating plants to supply power to the grid amounts to 24 MW at 110 kV. A agreement for technological connection was signed. In September 2013, a certificate was signed confirming the fulfillment of technical conditions by the applicant and on examination of metering devices. The Company has fulfilled its obligations under the agreements regarding technological connection.
3.	OJSC Verkhnebakansky Cement Plant	Power plant of Verkhnebakansky Cement Plant	The required capacity for technological connection of generating plants to supply power to the grid amounts to 30 MW at 10 kV. On 25.08.2010, a agreement for technological connection was signed for an amount of RUB 64,700 (excluding VAT). The Company has no information regarding fulfillment of technical conditions by the applicant.
4.	Kudepsta TPP-GazEnergoStroy	Site 1. Left bank of the Kudepsta river.	The required capacity for technological connection of generating plants to supply power to the grid amounts to 367 MW at 110 kV. On 24.10.2012, a agreement for

	LLC	367 MW gas piston power plant	technological connection was signed for an amount of RUB 35,300 (excluding VAT).
5.	Kurganinsk Group Water Pipeline, North-East Water Managing Company	Power generators for sewage treatment facilities	The required capacity for technological connection of generating plants to supply power to the grid amounts to 1.0 MW at 10 kV. On 25.07.2013, a agreement for technological connection was signed for an amount of RUB 32,000 (excluding VAT).
6.	CJSC Tander	Power plants for agricultural production	The required capacity for technological connection of generating plants to supply power to the grid amounts to 22.5 MW at 110 kV. On 05.11.2014, OJSC Kubanenergo received from CJSC Tander a letter of suspension of the preparation of materials of the tariff file due to the increase in connected capacities.
7.	Gazprom Teploenergo OJSC	Modular gas-piston plant	The required capacity for technological connection of generating plants to supply power to the grid amounts to 5.844 MW at 6 kV. On 25.02.2015, a agreement for technological connection was sent to the applicant for signature.
8.	OJSC Fanagoria Agro-Industrial Company	Mini-TPP with two gas-piston plants with a total generator power of 2.25 MW (power plant)	The required capacity for technological connection of generating plants to supply power to the grid amounts to 2.0 MW at 10 kV. Technical conditions were prepared; a message was sent to REC DPT KT regarding the method of calculating the cost of technological connection.

## Reliable and Effective Operation of Electrical Power Systems

### Ensuring Quality, Reliable and Uninterrupted Electric Power Supply to Consumers

In order to ensure reliability, quality and uninterrupted power supply to consumers, the Company annually generates and fulfills a program of technical re-equipment, reconstruction, repair and maintenance of power facilities.

In 2014, OJSC Kubanenergo generally fulfilled the main task of improving the efficiency, quality and uninterrupted power supply to consumers.

The Company fulfilled a series of operations for ensuring reliable and accident-free work of its electric grids, including:

- ü anti-flooding operations,
- ü operations to prepare equipment for the lightning storm season,
- ü operations for the fire hazardous period,
- ü operations for preparing electricity grids for work in the fall-winter period,
- ü operations for preparing the grid for work in extreme high and low outside temperatures.

Preparations for the autumn-winter period of 2014/2015 were carried out on the basis of the Regulation on the verification of availability of electric power industry subjects for the autumn-winter period, approved by Decision No.10 of the Government Commission on the Safety of Power Supply (Federal Headquarters) of 06.07.2012, and organizational administrative documents of the Ministry of Energy of Russia, JSC Russian Grids and OJSC Kubanenergo.

Extensive work on the preparation of the Company for the autumn-winter period resulted in the signing by the commission of the Russian Ministry of Energy of a Certificate of readiness of OJSC Kubanenergo for the autumn-winter period of 2014/2015 and provision of a certificate of readiness to the Company.

Measures performed by OJSC Kubanenergo in preparation for the autumn-winter period of 2014/2015 ensured reliable power supply and prevented massive power outages and long-term interruptions of power supply to consumers. Minor interruptions in power supply to consumers were quickly, accurately and timely eliminated by repair teams.

In order to prevent technological failures and accidents in the reporting year, the Company:

- conducted monitoring of major technological failures and accidents that had occurred at power plants over the past 10 years,
- prepared an action plan for the prevention and elimination of natural and man-made emergency situations,
- on a quarterly basis analyzes all technological failures and accidents,
- indicated on the working map of the energy system all areas prone to emergency situations,
- developed methodological recommendations for actions in the event of ice loads and floods,
- concluded agreements on cooperation in emergency situations with 51 municipalities of the Krasnodar Territory and the Republic of Adygea,

- held 40 command and staff trainings (drills), 84 site trainings, 16 special tactical drills and one complex drill on the prevention and elimination of technological failures and accidents at power plants with the participation of 3,395 employees of the Company.

*The Company allocated special forces and resources for rapid elimination of technological failures and accidents:*

- constant readiness: 68 operational mobile teams, 216 staff, and 84 cars and machinery,
- high alert: 272 rescue and recovery teams, 980 staff, and 492 units cars and machinery,
- mobile teams: 22 units, 128 staff, 53 units of cars and special teams
- 74 light towers,
- 112 mobile diesel power plants with total capacity of 11,040.5 kW.

The emergency reserve established by the Company is staffed at 100%.

## Repair-Operating Activities

In order to ensure reliable power supply to industrial and agricultural facilities and the population of the Krasnodar Territory and the Republic of Adygea, OJSC Kubanenergo annually draws up and carries out a repairs program that takes into account the following parameters:

- the standard frequency of complete overhauls, medium repairs and running repairs of power equipment;
- the technical condition of facilities;
- the results of routine checks;
- the need to comply with the instructions of supervisory agencies;
- elimination of failures;
- the economic feasibility and effectiveness of electrical grid operation.

The 2014 repairs program included:

- repairs of the electricity transmission lines, substations, power equipment, system relays and emergency control systems, metering instruments and systems, measuring instruments, dispatcher and production equipment, mechanization means and vehicles, as well as buildings and fittings, computers and office equipment;
- compliance with the instructions of supervisory agencies;
- implementation of target programs, including work on energy saving, improving operational reliability of power equipment and overhead lines, preparing for the storm season, ensuring reliable operations during flooding, preparing the Company for operations during the autumn and winter period.

The repairs program was successfully completed in practically all areas in the reporting year.

### *Results of the repair program in 2014 in physical indicators*

Facilities repaired	Units of measurement	2014		
		Plan	Actual	Completion, %
Comprehensive repairs of the substation	pcs	95	95	100
Overhaul of transformers	pcs	15	15	100
Repairs of commutation devices	pcs	2,216	2,229	101
Repair of 35–220 kV overhead lines	km	1,602.1	1,604.8	100
Repair of 0.4–10 kV ELT	km	974.3	1,027.3	105
Repair of 6-10/0.4 kV transformer substations	pcs	455	550	121

Over-fulfillment of the plan was due to the need for repairs to eliminate the consequences of the freezing rain that occurred in January 2014 in the Krasnodar Territory and the Republic of Adygea, as well as under the requirements of regulatory authorities.

In 2014, it was planned to perform repairs in the amount of RUB 792,048.90 thou. The cost of repairs actually carried out was RUB 818,947.8 thou, which is 103% of the plan, including in the main technological areas:

Technological areas	2014 planned, RUB thou	2014 actual, RUB thou	Completion, %
Substation 35-110 kV	118,256.3	118,657.3	100%
35–110 kV overhead lines	159,893.2	151,916.2	95%
Distribution grids 0.4-10 kV	245,629.9	241,940.0	98%

In the reporting year:

- training on temporary power supply limitation, as well as emergency response drills for ice melting on 110 kV overhead lines were conducted according to the plan;
- the provision of work teams with protective clothing, proper condition of machinery and equipment and availability of primary firefighting equipment were checked.

In order to improve the reliability of the power grid complex in accordance with a comprehensive program of improving the reliability of substation equipment, the following measures were performed in 2014:

- replacement of 160 measuring current and voltage transformers of 6-10 kV at substations of 35-110 kV;
- replacement of a set of a 110 kV separator and a 110 kV short-circuitor 110 kV for a PASS M0 SBB type gas-insulated cell at 110 kV Nebug substation;
- replacement of 97 low-oil circuit breakers of 6-10 kV with vacuum circuit breakers at 35-110 kV substation;
- restoration of reactive power sources with the replacement of 16 defective capacitors (capacitor banks);
- replacement of batteries at 7 substations of 110 kV;
- restoration of mechanical and electromagnetic locks at 70 substations of 35-110 kV.

Maintenance of overhead lines with voltage of 35 kV and higher were completed more than for 100%, including for the replacement of insulation by 124%; works related to brush clearing were completed by 100%, works for examination were completed by 132% and works for measurement were completed by 100%.

For the purposes of identification and timely elimination of heating of contact connections on OL of 35 kV and higher, thermal imaging survey was performed for the most significant overhead lines (OL sections) in the amount of 146 pieces against the planned 145 pieces or at 100.7% of the plan.

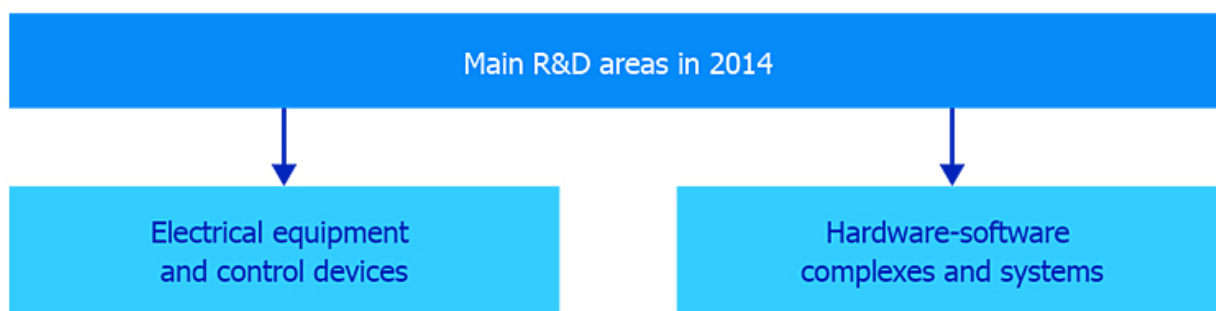
## Innovation Development

In accordance with instruction of the President of the Russian Federation and the decision of the Government Commission on High Technology and Innovation, public corporations and joint stock companies with state participation are instructed to develop and implement innovation development programs.

In pursuance of these instructions, a program of innovation development of OJSC Kubanenergo for 2011–2016 was developed and approved (Minutes of the Board of Directors No. 115/2011 of 29.07.2011). The adjusted program was approved by the Board of Directors (Minutes No. 137/2012 of 18.06.2012).

The Innovation Development Program of OJSC Kubanenergo is aimed at establishing an effective mechanism for the implementation of the innovation cycle, ensuring favorable conditions for the establishment and promotion of high-tech equipment and advanced technology for the distribution grid complex. The program contains a package of measures aimed at the development and implementation of new technologies, innovative types of electrical equipment, and materials that meet international standards in the Company's distribution grid complex.

The Innovation Development Program of OJSC Kubanenergo includes an R&D plan aimed at solving technical, technological, and managerial tasks with a view to improve the efficiency and reliability of the distribution grid complex of the Company. The expected effect of the introduction of the Program includes reduction of the risk of accidents, increased equipment reliability, reduced duration of repairs, reduced labor costs through process automation, and reduced power losses



The 2014 R&D plan envisaged the completion of 5 projects.

*Implementation of the R&D plan in the reporting year:*

R&D project	Commencement date	Planned completion date	Result at the end of the reporting period	Expected results	Planned facility to apply the results	Expected effect of the results applied
1	2	3	4	5	6	7
Insulation monitoring of power transformers in the field, based on partial discharge monitoring;	2012	2014	The current model of the power transformer insulation monitoring system (PTIMS), design and operational documentation, provision and processing program for equipment monitoring data formed by PTIMS	The current model of PTIMS, design and operational documentation, provision and processing program for equipment monitoring data formed by PTIMS	Power transformers if 35-110 kV in power grid branches of the Company	<ul style="list-style-type: none"> <li>ü Reduced operating costs, cost of repairs and cost of power undersupply,</li> <li>ü prevention of emergency situations,</li> <li>ü accelerated identification of insulation defects,</li> <li>ü reduced duration of repairs,</li> <li>ü quality control of repair work</li> </ul>
Development and introduction of a high current laser meter	2011	2015	In 2011-2013, work was completed on all stages except the two last stages. The agreementor has not provided deliverables under the penultimate stage; deliverables under the final stage were provided with numerous deficiencies, not eliminated in the reporting period. Claim-related work is conducted with the agreementor	Three prototypes, engineering and design documentation for the manufacture of high current laser meters	Substation 35-110 kV	The use of high-tech laser measuring equipment in the power industry will dramatically reduce the cost of providing power metering tools, as well as improve reliability and safety. Development of advanced technologies in the power industry will allow taking leading positions in the international market in the sector of metrology equipment
Development of software for targeted recommendations and low-cost methods of reducing technical losses in electric networks of 6-10 kV	2012	2015	<ul style="list-style-type: none"> <li>ü Database for optimization of calculations based on the data collected in the grid of 10 kV of the pilot PGA (Tbilisi PGA). Working version of the software was developed, debugged and tested with account of additional factors using the generated data base;</li> <li>ü Operational documentation and a software testing program were developed;</li> <li>ü In order to obtain baseline data, the operation mode of 10 kV grid of Tbilisi PGA was measured using means of technical accounting.</li> </ul>	Software with a set of operational documentation. Targeted measures to reduce technical losses in the 6-10 kV grid of the pilot PGA. Calculating the cost of targeted activities	6-10 kV distribution grid	Reduction of power losses due to the creation of efficient diagrams of 6-10 kV feeders using the possible circular arrangements and economic substantiation of the selection of power and location of additional sources of reactive power. Reduced labor costs through process automation
Creating a single integrated distributed and scalable system of registration and storage of	2013	2015	Feasibility study, technical proposal to conduct research and development work, a final report	System software with a set of operational documentation, design documentation, technical	Secondary equipment of substations:	Reduced labor costs through process automation and ensuring a full-featured data interface for software users and

heterogeneous data in a standardized form for recording maintenance and repair of facilities, actions of relay protection and automation with reference to the equipment layout			on research work performed	documentation	protection, control, automation, measurement and monitoring	integration with third-party systems. the software is required to: <ul style="list-style-type: none"> <li>ü ensure high transparency in the maintenance and repair,</li> <li>ü reduce the time required for planning and coordination of applications,</li> <li>ü monitor performance of each application in real time, ensure high-level access to the information about the actions of relay protection and automation,</li> <li>ü monitor of analysis and proper classification of these actions,</li> <li>ü ensure the setpoint registration process for relay protection and automation</li> </ul>
Development of technical standards of the "Company Standard. Implementation of the Requirements of Technical Policy. System of standard units of power grid enterprises of territorial grid organizations, dispatch and process management."	2013	2015	Report on the analysis of the existing regulatory framework for the regulatory document developed, a list of sections of the regulatory document	In order to reflect current operating conditions of power grid facilities of all voltage classes, taking into account new types of primary and secondary equipment, operation technology, and communication systems , OJSC Russian Grids initiated an update of the existing system of standard units, followed by its adoption as an industry standard. In this regard, in February 2015, the Company terminated its work under this R&D project	In connection with the termination of work, it is not planned to apply the results	In connection with the termination of work, no effect is planned

Execution of R&D projects in 2014 yielded the following results:

- ü an operating model of PTIMS,
- ü design and operational documentation for PTIMS,
- ü provision and processing program for equipment monitoring data formed by PTIMS.

Partial discharge characteristics were measured in the insulation of the active part of transformers at five 110 kV substations of OJSC Kubanenergo: Pochtovaya, Staro-Shcherbinovskaya, Shcherbinovsky Svinosovkhoz, Zhuravsky, Lebedi.

According to the results of pilot operation of PTIMS in TDTN-16000/110 type transformer, the source of partial discharges was detected and located. Inspection of the transformer during the repair confirmed the presence of a defect in the area identified; the defect was promptly eliminated. The application of PTIMS for transformer insulation monitoring proved to be very efficient.

By the results of the separate specialized exposition of Podium of Innovation Solutions conducted in the framework of Rugrids-Electro 2014 International Energy Forum, the Company was rated third among the best innovative projects implemented and was awarded a diploma.

In addition, the Company received certificate of state registration No.2015612526 for the computer software program for the provision and processing of equipment monitoring data formed by the power transformer insulation monitoring system (TSE SKI) of 19.02.2015.

Licensing agreements on R&D results in 2014 were not concluded.

The share of allocations for R&D funding in the total own revenues of the Company amounted to 0.03%.

*Performance Indicators of the Innovation Development Program of the Company in 2014*

Cost of research and development performed by third parties, including by agreementors (higher education institutions, research organizations, innovative small and medium-sized businesses)	RUB thou	8,856.4
including:		
<i>under projects implemented under process platforms</i>	<i>RUB thou</i>	<i>0.0</i>
<i>higher education institutions</i>	<i>RUB thou</i>	<i>2,500</i>
<i>research organizations</i>	<i>RUB thou</i>	<i>6,356.4</i>
The cost of training and retraining of personnel of personnel in higher education institutions per employee	RUB/person	80,050

*Information about training and retraining of employees of the Company in 2014*

higher education institution	INN of the higher education institution	Number of employees of the Company trained in higher education institutions (people)	Amount of funding for training of employees of the Company in higher education institutions (RUB thou)	Number of employees of the Company retrained in higher education institutions (people)	Amount of funding for retraining of employees of the Company in higher education institutions (RUB thou)
Federal state budgetary institution of higher professional education Bauman Moscow State Technical University	7701002520	0	0.00	32	2,561.6
Belgorod State Technological University (BSTU) Named after V. G. Shukhov	3123017793	1	11.9	0	0.00

## Energy Saving and Increase of Energy Efficiency

In the reporting year, all work related to energy saving and increasing energy efficiency was carried out by the Company in accordance with:

- Federal law No.261-FZ of 23.11.2009, On energy conservation and increasing energy efficiency and amending certain legislative acts of the Russian Federation,
- Decree of the Government of the Russian Federation No. 977 of 01.12.2009, On the investment programs of subjects of the electric power industry (current revision),
- decree No.5/2011 of REC DPT KT of 31.03.2011, On approval of requirements for programs in the field of energy conservation and energy efficiency of organizations engaged in regulated activities in the Krasnodar Territory,
- Law No.1912-KZ of the Krasnodar Territory of 03.03.2010, On energy saving and energy efficiency improvements in the Krasnodar Territory,
- the Program on energy saving and increasing energy efficiency of OJSC Kubanenergo in 2014-2019 ("the Program") approved by Decision No.178/2013 of the Board of Directors of OJSC Kubanenergo of 23.09.2014 (Minutes No. 197/2014) as part of revised business plan of the Company.

In order to ensure the implementation of the Program, OJSC Kubanenergo appointed persons in charge of the organization and supervision of its execution and established special working groups. The Company implements an energy management system in accordance with ISO 50001: 2011.

*In 2014, the Company conducted training on the following topics:*

Subject of training	Number of trained persons
An energy management system as a component of an integrated system of operational management. Energy management fundamentals and methodology	78
Preparation and holding of internal audits of the energy management system	24
Sales Development School	14

The Program target indicators include power losses during power transmission and distribution, energy consumption for production and economic needs of the Company, as well as the provision of the electrical equipment of the Company and consumers connected to its power grids with advanced electricity meters.

*Planned and Actual Target Values of the Program for 2014*

Indicator	Units of measurement	2014	
		Plan	Actual
Loss of power, including:	mln kWh	2,710.863	2,852.724
	% of power supply to the grid	12.835	13.224
<i>consumption for own needs of substations</i>	<i>mln kWh</i>	<i>17.251</i>	<i>16.437</i>
Resources consumption for economic needs, including by resource types:	RUB mln	352.230	378.768
<i>fuel and energy, including:</i>	<i>tons of oil equivalent</i>	<i>23,511</i>	<i>24,339</i>
	<i>RUB mln</i>	<i>348.189</i>	<i>374.368</i>
	<i>tons of fuel equivalent per 1 m<sup>2</sup> of area</i>	<i>0.071</i>	<i>0.074</i>
<i>electric power</i>	<i>mln kWh</i>	<i>33.349</i>	<i>34.393</i>
	<i>RUB mln</i>	<i>69.858</i>	<i>77.714</i>
<i>heat</i>	<i>Gcal</i>	<i>6,166.308</i>	<i>5,568.190</i>
	<i>RUB mln</i>	<i>9.247</i>	<i>8.792</i>
<i>gas</i>	<i>th. m<sup>3</sup></i>	<i>199.426</i>	<i>203.272</i>
	<i>RUB mln</i>	<i>0.919</i>	<i>1.043</i>
<i>other (diesel, kerosene, gasoline, etc.).</i>	<i>th. tons of fuel equivalent</i>	<i>10.876</i>	<i>11.428</i>
	<i>RUB mln</i>	<i>268.165</i>	<i>286.820</i>
<i>hot water supply</i>	<i>th. m<sup>3</sup></i>	<i>1.276</i>	<i>1.030</i>

	<i>Gcal</i>	<i>9.191</i>	<i>153.734</i>
	<i>RUB mln</i>	<i>0.233</i>	<i>0.209</i>
<i>cold water supply</i>	<i>th. m<sup>3</sup></i>	<i>131.936</i>	<i>141.159</i>
	<i>RUB mln</i>	<i>3.808</i>	<i>4.191</i>
equipment with up-to-date electric power metering devices at the wholesale market	%	28.446	28.606

The Program consists of sections, targeted sub-programs (measures) and related measures divided, in turn, to measures to reduce electricity losses in transmission and distribution to electric grids, and measures to reduce the consumption of energy resources at the sites of industrial and household needs and subdivided into organizational and technical measures.

Target measures include activities, the implementation of which reduces the consumption of energy (including electricity) and (or) water by at least 15 percent of the annual consumption of the resource in question, with 80 percent return on investment over 5 years for the consumption of energy resources and (or) water for industrial and domestic needs, and a payback period of 10 years for measures ensuring a reduction of losses in transmission and distribution of electrical energy.

Related measures for optimizing the use of electricity for industrial and commercial needs and measures to reduce electricity losses include measures having positive energy efficiency and not qualifying for inclusion in the target activities.

Such measures as transformer shutdowns at substations under small loads using two or more transformers, disabling transformers at substations with seasonal loads, phase load balancing in distribution networks of 0.38 kV, and load redistribution in the main grid by switching are performed annually, help support the current level of power losses, and do not affect the balance of electric energy in the Company.

*The overall effect planned for 2014 amounted to 252.797 million Rubles, including measures aimed at reducing losses of 74.465 mln kWh (251.665 million Rubles), including under subprograms:*

- under the program of development of the metering system, 10.615 mln kWh (RUB 54.670 mln),
- under the program of technical re-equipment and reconstruction, 0.512 mln kWh (RUB 1.013 mln),
- under the repair program, 2.519 mln kWh (RUB 5.205 mln).

*By the results of 2014, the effect amounted to 302.697 million Rubles, including for measures aimed at reducing losses of 75.925 million kWh (302.191 million rubles), and under subprograms:*

- under the program of development of the metering system, 12.525 mln kWh (RUB 64.365 mln),
- under the program of technical re-equipment and reconstruction, 0.357 mln kWh (RUB 0.676 mln),
- under the repair program of 2.292 mln kWh (RUB 4,761 mln).

The effect of the implementation of measures supporting the current level of losses amounted to 21.941 mln kWh, for an amount of 73.045 million Rubles.

*The costs of measures were 386.843 million Rubles, including by funding sources:*

- the investment program in the amount of RUB 317.971 mln,
- the repair program for RUB 43.095 mln,
- and the program for future development for RUB 22.329 mln.

*Main target measures ensuring reduced consumption of resources for the Company's economic needs:*

- regulation of heating operations in accordance with the temperature regime;
- introduction of energy-saving lamps;
- replacement of mercury street lamps with LED and sodium lighting;
- replacement of windows with plastic or wooden multi-chamber glass units.

By results of 2014, the effect of the implementation of measures to reduce consumption of resources for economic needs in the Company amounted to 0.037 thou tons of oil equivalent (53 thou liters of cold water) in the amount of 0.506 million Rubles against the planned 0.126 thou tons of oil equivalent (498 thou liters of cold water) in the amount of 1.132 million Rubles.

*Failure to fulfill the plan was due to a lack of funding for certain measures planned.*

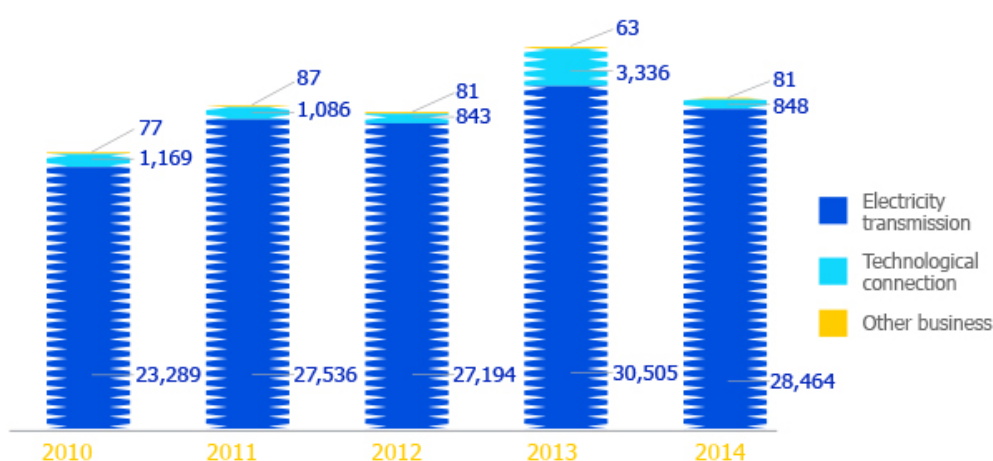
## Tariff Policy and Tariffs for Company Services

### Company Tariff Policy

The fundamental regulatory legal acts governing relations in the fields of establishing regulated tariffs and their application are:

- Federal law No. 35-FZ of 26.03.2003, On Electricity Production (as amended);
- RF Government Decree No. 1178 of 12/29/2011, On pricing in the sphere of controlled prices (tariffs) in the electric power industry (as amended);
- Orders of the Federal Tariff Service of Russia:
  - No.228-e of 30.03.2012, On approval of Methodological Guidelines for regulation of tariffs using the method of return on invested capital;
  - No.20-e/2 of 06.08.2004, On approval of the Methodological Guidelines for the calculation of regulated tariffs and prices for electricity (heat) energy in the retail (consumer) market;
  - No. 209-e/1 of 11.09.2012, On approval of guidelines for determining the amount of payment for technological connection to electric grids;

*Dynamics of the Revenues of OJSC Kubanenergo in 2010–2014, RUB mln*



By the results of 12 months, the actual revenue in 2014 for electric power transmission services (minus the cost of loading losses) amounted to RUB 28,464.23 mln (excluding VAT), which is lower than the actual revenue in the same period in 2013 (RUB 30,505.35 mln) by RUB 2,041.12 mln or 6.69%.

The deviation in the actual revenue for electric power transmission services in 2014 relative to the actual results of 2013 is due to a reduction of the average tariff in the category of Population and Equal-Status Consumers caused by the establishment by the Government of the Russian Federation of a method of calculating the tariff for this category of consumers. The average "boiler" tariff in 2014 amounted to 166.63 kop./KWh, which is lower than the actual rate in 2013 by 9.96% (185.07 kop./KWh).

### Tariffs for Electric Power Transmission Services

In relation to OJSC Kubanenergo, starting from January 1, 2011 (with account of the "reset" of long-term control parameters), a method of long-term tariff regulation is used, the RAB (Regulatory Asset Base) method, which shall expire not earlier than of 01.07.2017.

The main objective of the RAB investment method is to draw investments to the electric power sector, ensuring its return within a long-term period (35 years) without exceeding the limit growth in tariffs.

Starting from 2007, the region has been applying a "boiler" method of payment for electric power transmission. A single boiler rate applies to all consumers of electric power transmission services in Kuban and Adygea belonging to the same tariff group, regardless of the grid and grid company the consumers are connected to.

The basic tariff negotiated model used for payments is the "boiler above" model.

OJSC Kubanenergo has the status of the higher network company ("the boiler holder"). This model stipulates that consumer payments for electric power transmission services received (regardless of the grid and the grid company the consumers are connected to) are transferred to OJSC Kubanenergo, after which the Company pays the subordinate organizations, to the grids of which the power devices of consumers are connected, under individual tariffs.

In addition, starting from 9/22/2011, the individual scheme of "boiler below" has been applied for Maykopskaya CHP LLC.

Under this system, power transmission payments received from consumers connected to Maykopskaya CHP LLC are made according to the single boiler tariff to this organization, which pays for the use of the grids of OJSC Kubanenergo for rendering power transmission services rendered under a separate tariff.

By order No.94/2013-e of December 24, 2013, REC-PTD KT established the following tariffs for Maykopskaya CHP LLC:

Maykopskaya CHP LLC OJSC Kubanenergo	Two-part tariff		Single-part tariff
	Rate for operation of power grids	Rate for the payment of technological consumption (losses)	
	from 01.01.2014 to 30.06.2014		
	55.01633 RUB/kVA*month	0.45686 RUB/kWh	0.90566 RUB/kWh
	from 01.07.2014 to 31.08.2014		
	60.03947 RUB/kVA*month	0.53243 RUB/kWh	1.01058 RUB/kWh
	from 01.09.2014 to 31.12.2014		
	67.46008 RUB/kWh*month	0.53243 RUB/kWh	1.01058 RUB/kWh

For OJSC Kubanenergo, tariffs for power transmission services are set by REC DPT KT.

By Order No.92/2012-e<sup>5</sup> of REC DPT KT of 27.12.2013, the following tariffs were set for 2014 for power transmission services using the grids of OJSC Kubanenergo:

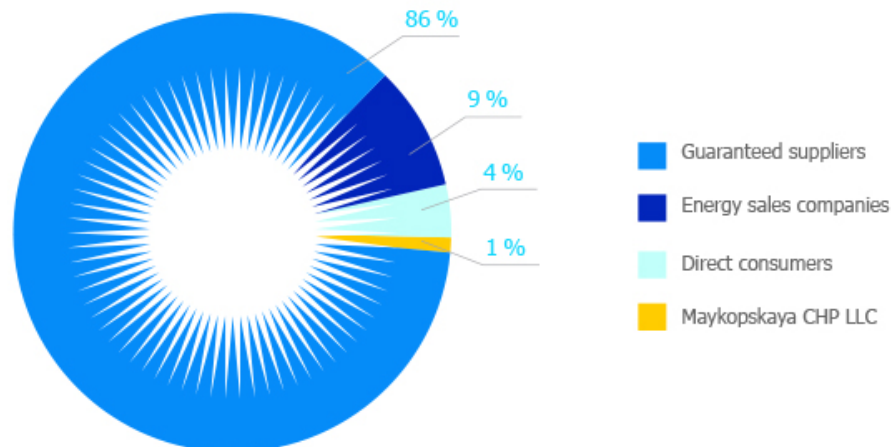
Item No.	Indicator	Units of Measurement	1st half of 2014				2nd half of 2014			
			Range of voltage				Range of voltage			
			High voltage (110 kV and higher)	Average voltage I (35 kV)	Average voltage II (1-20 kV)	Low voltage (0.4 kV)	High voltage (110 kV and higher)	Average voltage I (35 kV)	Average voltage II (1-20 kV)	Low voltage (0.4 kV)
1	2	3	4	5	6	7	8	9	10	11
1	Other consumers (without VAT)									
1.1.	Single-part tariff	RUB/kWh	1.30501	1.51855	2.35520	3.23179	1.30501	1.51855	2.35520	3.23179
1.2.	Two-part tariff									
1.2.1	- rate for operation of power grids	RUB/kWh*month	384.50622	308.00297	458.92444	664.06554	384.50622	308.00297	458.92444	664.06554
1.2.2	- rate for the payment of technological consumption (losses)	RUB/kWh	0.65254	0.65301	0.65323	1.26127	0.65254	0.65301	0.65323	1.26127
2	Population and Equal-Status Consumers (without VAT)									
2.1	Population, except for those in paragraphs 2.2 and 2.3									
2.1.1	Single-part tariff	RUB/kWh	1.75479				1.88206			
2.1.2	Single tariff differentiated by two day zones									
	Day zone (peak and half-peak)	RUB/kWh	1.83106				1.95833			
	Night zone	RUB/kWh	0.44123				0.51765			
2.1.3	Single tariff differentiated by three day zones									
	Peak zone	RUB/kWh	1.83954				1.96680			
	Half-peak zone	RUB/kWh	1.75479				1.88206			
	Night zone	RUB/kWh	0.44123				0.51765			
2.2	Population living in urban areas in homes duly equipped with stationary electric stoves and (or) electric heaters									
2.1.2	Single-part tariff	RUB/kWh	0.83106				0.92443			
2.2.2	Single tariff differentiated by two day zones									

<sup>5</sup> As amended on 26.03.2014, No.13/2014-e, on 26.03.2014, No.14/2014-e, on 14.05.2014, No.19/2014-e, on 25.06.2014, No.26/2014-e, on 16.07.2014, No.33/2014-e, on 17.09.2014, No.47/2014-e and on 24.12.2014, No.80/2014-e.

	Day zone (peak and half-peak)	RUB/kWh	0.88191	0.97528
	Night zone	RUB/kWh	0.01000	0.01000
2.2.3	Single tariff differentiated by three day zones			
	Peak zone	RUB/kWh	0.89038	0.98375
	Half-peak zone	RUB/kWh	0.83106	0.92443
	Night zone	RUB/kWh	0.01000	0.01000
2.3	Population living in rural areas			
2.3.1	Single-part tariff	RUB/kWh	0.83106	0.92443
2.3.2	Single tariff differentiated by two day zones			
	Day zone (peak and half-peak)	RUB/kWh	0.88191	0.97528
	Night zone	RUB/kWh	0.01000	0.01000
2.3.3	Single tariff differentiated by three day zones			
	Peak zone	RUB/kWh	0.89038	0.98375
	Half-peak zone	RUB/kWh	0.83106	0.92443
	Night zone	RUB/kWh	0.01000	0.01000
2.4	Consumers equivalent to the population (tariffs without VAT)			
2.4.1	Single-part tariff	RUB/kWh	1.75479	1.88206
2.4.2	Single tariff differentiated by two day zones			
	Day zone (peak and half-peak)	RUB/kWh	1.83106	1.95833
	Night zone	RUB/kWh	0.44123	0.51765
2.4.3	Single tariff differentiated by three day zones			
	Peak zone	RUB/kWh	1.83954	1.96680
	Half-peak zone	RUB/kWh	1.75479	1.88206
	Night zone	RUB/kWh	0.44123	0.51765

When adopting the single "boiler" tariffs for the transmission of electric power in the region for 2014, REC DPT KT did not provide for the distribution of the revenue structure by groups of consumers.

*Structure of revenues for electric power transmission services rendered by OJSC Kubanenergo by groups of agreementors in 2014, %*



*Analysis of changes in the average tariff for electric power transmission services rendered by OJSC Kubanenergo*

Indicator	2010	2011	2012	2013	2014
Average tariff, kop./kWh	161.07	185.07	183.68	193.56	174.97
Growth rate, %		14.9	-0.8	5.38	-9.60

As compared with 2013, the average tariff for electric power transmission services rendered by OJSC Kubanenergo increased in 2014 by 9.6%.

*Changes in the necessary gross revenue (NGR) of OJSC Kubanenergo, RUB mln*

2010		2011		2012		2013		2014	
Boiler NGR	Own NGR	Boiler NGR	Own NGR	Boiler NGR	Own NGR	Boiler NGR	Own NGR	Boiler NGR	Own NGR
24,471	5,854	28,501	6,635	30,134	7,947	33,901	9,587	30,393	10,459

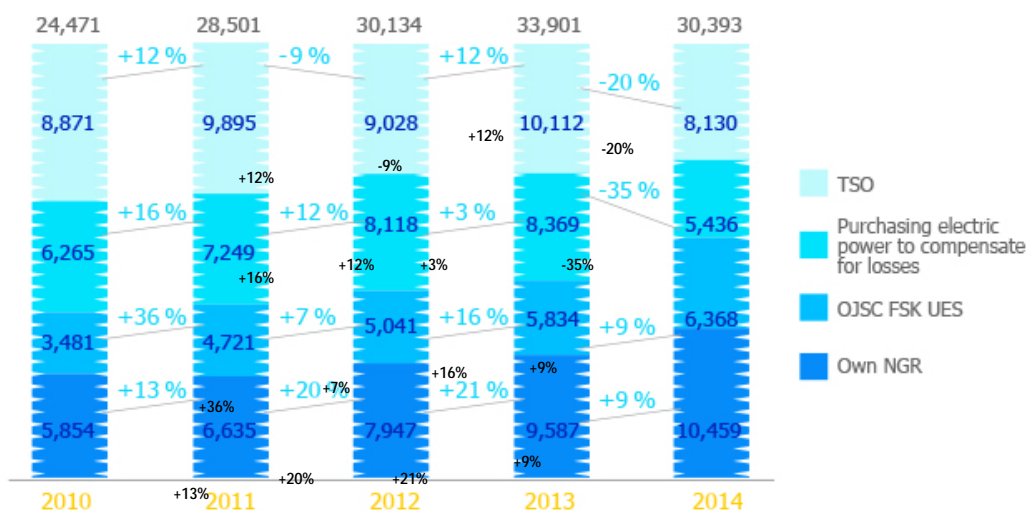
According to the tariff decision of REC DPT KT, the amount of the necessary gross revenue for the transmission services of OJSC Kubanenergo in 2014 amounted to 30,393 million Rubles, including for own maintenance of 10,459 million Rubles.

The main factor reducing the NGR in the reporting period as compared to 2013 is the reduction of tariffs set for electric power transmission in the group of Population and Equal-Status Consumers in accordance with the newly established by the Government of the Russian Federation method for calculating the tariffs for this category of consumers, resulting in lower amounts of cross-subsidization:

Ü in the cost of TGC services, as regards the payment for power supply in order to compensate for losses, by 20%,

Ü in the purchase cost of electric power in order to compensate for losses in the grids of OJSC Kubanenergo, by 35%.

*Dynamics of the structure of NGR for electric power transmission of OJSC Kubanenergo, RUB mln)*



## Tariffs for Technological Connection Services

The amount of payments for technological connection of consumers to electric grids of the Company is also set by REC DPT KT.

Order No.108/2013-e of REC DPT KT of 30.12.2013 as amended by Order No.7/2014-e of 12.02.2014 establishes standardized tariff rates and the rates per unit of maximum capacity for technological connection to electrical grids of OJSC Kubanenergo for 2014. Detailed information about standardized tariff rates and the rates per unit of maximum capacity for technological connection to electrical grids of OJSC Kubanenergo for 2014 is available on the Company's official website at [http://www.kubanenergo.ru/customers/tech\\_connection/prices\\_tech\\_connection/](http://www.kubanenergo.ru/customers/tech_connection/prices_tech_connection/).

*Analysis of the change in the average rate per unit of capacity for OJSC Kubanenergo, RUR/kW<sup>6</sup>*

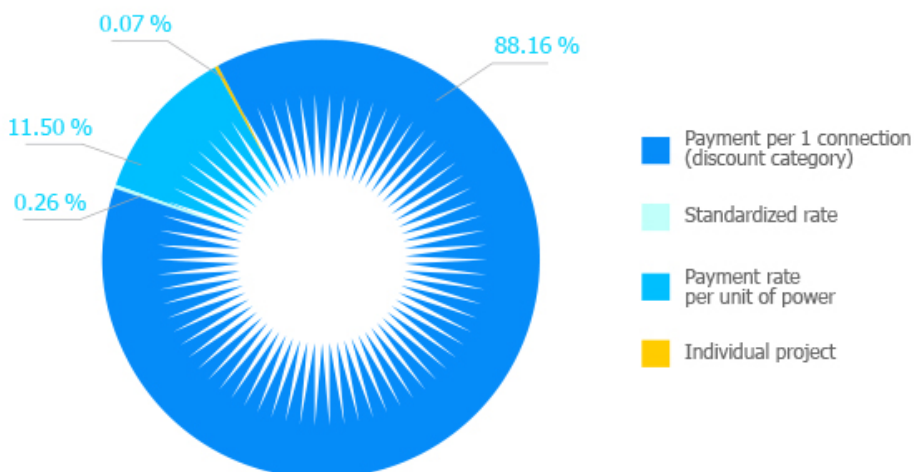
	2012	2013	2014
Total for OJSC Kubanenergo	517.98	517.98	512.24
growth/decrease %		0.00	- 1.1

<sup>6</sup> In order to analyze the change of the rate per unit of capacity in OJSC Kubanenergo, the rate of payment for technological connection of power receivers of electricity consumers and transmission facilities owned by grid organizations and other entities to the distribution grids of OJSC Kubanenergo, not including the construction and reconstruction of transmission facilities at voltages below 35 kV and connected capacity of less than 8,900 kW, was used.

The shortfall in income related to the implementation by OJSC Kubanenergo of technological connection of power receivers of categories of applicants, the cost for grid connection of which is determined by taking into account the features of price-setting established by Resolution No. 1178 of the Russian Government of 29.12.2011, On price-setting in the field of regulated prices (tariffs) in the power sector, included in the tariff for electric power transmission services in 2012–2015, RUB thou:

2012	2013	2014
0.00	68,339	125,092.37 <sup>7</sup>

Selection of a connection fee (% ratio of the number of agreements, in which calculations are made using one of the methods vs. the total number of agreements)



The largest share (88.16% of agreements in the Company) in terms of the selected types of payment for technological connection comes from payment rates per 1 connection (discount category); rates per unit of power account for 11.5 %; standardized tariff rates account for 0.26%, and less than 0.07% of fees are calculated under individual projects.

### Development of Corporate and Technological Automated Control Systems

OJSC Kubanenergo is a modern energy company, the effectiveness of which is inextricably linked with the development of automated systems of technological management (ASTM) enabling centralized control of the processes of power transmission and distribution processes.

The gradual development of ASTM is achieved in accordance with the Company's strategy in the field of information technology and the long-term investment program of the Company.

Meeting the challenges of dispatcher-technological management, and automation of data collection and transmitting technological information from Company's substations is an important condition for the Company's successful development. For organizing dispatcher, technological communications, and telecommunications, the Company uses the departmental communications and telecommunications network, which is reconstructed with a simultaneous transition to digital channels.

The following work was performed in the reporting year in the branch of OJSC Kubanenergo Sochi Electrical Grids:

- Tele-mechanization of 6 substations with voltage of 110 kV with the organization of digital communication and data transmission channels in the branch Sochi Electrical Grids and in Kuban Regional Dispatch Management<sup>8</sup>;

<sup>7</sup> Including the undercompensated shortfall in income from the provision of incentives for technological connection of power receivers of applicants with the maximum connected load of up to 15 kW in 2012 in the amount of 56,413.52 ths. RUB, recorded by REC DPT KT when setting tariffs for electric power transmission via the grids of OJSC Kubanenergo for 2014.

<sup>8</sup> Branch of UES SO JSC

- Tele-mechanization of 23 distribution points with voltage of 6-10 kV with the organization of telecommunication data transmission channels in the branch Sochi Electrical Grids;
  - construction of 178 km of FOCL, including: 94 km of 110 kV overhead lines, 36 km of cable ducts of OJSC Rostelecom, and 48 km jointly with 6-10 kV cable lines;
  - a corporate data transmission network, dispatch and technological communication channels were organized via FOCL-OL in the direction of Adler PGA, Dagomys PGA, Krasnaya Polyana PGA, 110 kV Bocharov Stream Substation, 110 kV Adler Substation, 110 kV Kudepsta Substation, 110 kV Yuzhnaya Substation, 110 kV Khosta Substation, 110 kV Kamenka Substation, 110 kV Kepsha Substation, 110 kV Matsesta Substation, 110 kV Vereshchaginskaya Substation, 110 kV Alpiyskaya Substation, 110 kV Rodnikovaya Substation, 110 kV Pasechnaya Substation, 110 kV Vishnevaya Substation.

*Development of ASTM, communication networks, data collection and transmission in 2014:*

<b>Name of construction in progress, including networks for communications, data collection and transmission</b>	<b>Completed work</b>
Reconstruction and technical re-equipment of Sochi Substation, 2nd starting complex	Tele-mechanization of 110 kV Sochi Substation and organization of digital communication and telecommunication channels with Kuban Regional Dispatch Management
Reconstruction of the emergency control system in the Sochi Energy District of the Kuban Power System with account of commissioning of power facilities and development of the infrastructure for the 2014 Olympic Games.	Replacement of obsolete remote control equipment with advanced equipment COMPASS TM 2.0 at 110 kV substations of: Matsesta, Volkonka, Tuapse, Golovinka, Pasechnaya
City power distribution grid (design and survey, reconstruction, construction).	Installation of remote control facilities at 38 distribution points using equipment COMPASS TM 2.0 and organization of communication and telecommunication channels. Construction of 48 km of FOCL jointly with 6-10 kV cable lines
Bocharov Stream Substation (110 kV) with tapped power transmission lines (design and surveys, construction)	Construction of FOCL-OL Bocharov Stream – Rodnikovaya – Pasechnaya of 11.06 km. Organized dispatch and technological communication via FOCL-OL in the direction of 110 kV Substation Bocharov Stream
110 kV overhead line from Psou Substation to Adler Substation, from Adler Substation to Kudepsta Substation, from Kudepsta Substation to Khosta Substation (design and survey work, reconstruction)	Construction of FOCL: <ul style="list-style-type: none"> <li>• Adler SS – support No. 43 – Kudepsta SS – Khosta SS of 15.8 km,</li> <li>• Adler SS – Adler PGA in the telephone conduit of OJSC Rostelecom of 3.92 km,</li> <li>• Adler SS – Kudepsta SS of 6.75 km,</li> <li>• Kudepsta SS – Khostinsky PGA of 6.69 km.</li> </ul> Organized channels of the corporate data transmission network, dispatch and technological communication channels via FOCL-OL in the direction of Adler PGA, 110 kV substations of: Adler, Kudepsta, Yuzhnaya, Khosta
Overhead lines (110 kV) for power delivery from Sochi TPP to Matsesta Substation, from Matsesta Substation, to Khosta Substation, from Khosta Substation to Krasnopolyanskaya HPP, from Krasnopolyanskaya HPP to Sochi TPP	Construction of FOCL of Khosta – Kamenka – Kepsha – KPGA of 43.16 km. Organized channels of the corporate data transmission network, dispatch and technological communication channels via FOCL-OL in the direction of Krasnopolyansk PGA, 110 kV substations of Kamenka and Kepsha:
Overhead lines (110 kV) for power supply from Sochi TPP to Vereshchagin Substation, from Vereshchagin Substation to Dagomys Substation (design and survey work,	Construction of FOCL: <ul style="list-style-type: none"> <li>• Dagomys Substation – Dagomys PGA of 2.24 km,</li> <li>• Communication node of the branch of Sochi Electrical Grids – Vereshchagin Substation of 5.27 km,</li> <li>• Bocharov Stream SS – 220 kV Dagomys Substation of 8.15</li> </ul>

reconstruction)	km, · Bocharov Stream SS – Rodnikovaya Substation of 5.3 km, · Communication node of the branch of Sochi Electrical Grids - Rodnikovaya Substation of 2 km, · Vereshchagin Substation – Alpiyskaya SS – optical coupler on support No.3a of 2.99 km, · Vereshchagin Substation – optical coupler on support No.3a of 3.83 km. Organized dispatch and technological communication via FOCL-OL in the direction of 110 kV substations of: Vereshchagin, Alpiyskaya, Rodnikovaya
Overhead power transmission lines (110 kV) to deliver power from Sochi TPP to Sochi SS, from Sochi SS to Pasechnaya SS, from Pasechnaya SS to Dagomys SS (design, survey, reconstruction)	Construction of FOCL of Dagomys – Pasechnaya – Vishnevaya – Sochi of 17.59 km. Organized channels of the corporate data transmission network, dispatch and technological communication channels via FOCL-OL in the direction of Dagomys PGA, 110 kV substations of Pasechnaya and Vishnevaya

The development and implementation of information technologies and telecommunications (ITT) contribute to the improvement of business activity, business process reengineering and opening of new opportunities for growth and development of the Company. OJSC Kubanenergo follows the path of development of an up-to-date management infrastructure through business process automation.

In order to determine the goals in the field of information technology and telecommunications and ways to achieve them, the Board of Directors of the Company approved the strategy of OJSC Kubanenergo in the field of information technology, automation and telecommunications for the period until 2016 (ITT Strategy) and the Road Map for the implementation of the ITT Strategy.

As part of the implementation of the *Roadmap* in 2014:

- the transition of the automated document management system (ADMS) to an updated version of the platform was completed, ensuring full compatibility with the software used on user workstations, increased fault tolerance, performance, and reliability of the system;
- the module of secure document turnover in ADMS was finalized, enabling the use of electronic signatures for signing user actions in ADMS and handling documents constituting commercial and official secrets of OJSC Kubanenergo;
- the introduction of a system of parallel accounting and preparation of consolidated financial statements according to international financial reporting standards of OJSC Kubanenergo was completed based on 1C: Enterprise 8.2;
- work on the development of an automated accounting system of power transmission was completed, ensuring automation of the business process of formation of productive supply and accounting of applications and agreements to provide additional (non-tariff) services to businesses and individuals.

In 2015, work will continue on the development of an automated accounting system for electric power transmission, started in 2014. As part of the development of the automated system, it is planned to expand the functionality of the system, change the principle of formation of reporting forms, and integrate the system with the software package of 1C: Enterprise.

Works on the procurement of services for information infrastructure services in the interests of JSC Russian Grids and OJSC Kubanenergo.

In 2014, 12% of all computer equipment of OJSC Kubanenergo was upgraded. Additional work was performed on the organization of a customer service center in Sochi.

*In 2015, it is planned to implement the following key projects:*

- completion of the development of an automated accounting system of electric power transmission;
- commencement of work on the development of an automated system for certification of grid equipment, including expansion of the functionality of the system, and implementation of new functional modules, including those automating the process of calculating standard units, planning and accounting of equipment maintenance and repair activities.

## Ensuring Safety of Company Facilities

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The Company's work for ensuring the anti-terrorist safety of OJSC Kubanenergo facilities is guided by regulations of the Russian Federation and the Krasnodar Territory, as well as decisions of the Company's management bodies.

Measures for improving anti-terrorist and anti-sabotage protection of the power facilities of OJSC Kubanenergo were defined as a priority direction of the Company by the Board of Directors on 05.08.2010 (Minutes No.94/2010).

The following measures were fulfilled in 2014 in order to ensure the safe functioning of power facilities:

- local normative acts of the Company were issued and are being accurately carried out in respect of improving the level of anti-terrorist protection at facilities and the actions to be taken by employees upon discovery of suspicious objects or signs of a terrorist nature;
- the technical condition of engineering technical protection systems at facilities of the Company is studied on a regular basis, including at the Network Management Center;
- the level of protection of power facilities is checked jointly with representatives of law enforcement agencies;
- unscheduled inspections are performed to check the performance of private security service employees guarding power production facilities;
- actions on anti-terrorist protection at energy production facilities were included in the long-term investment program for 2015–2020;
- weekly briefings of duty dispatchers and operational staff were conducted on outreach activities in the case of evidence of a terrorist nature at power facilities of the Company;
- drills were carried out in all branches of the Company on the actions to be taken by staff upon discovery of unauthorized objects or persons at the facilities;
- plans for joint action of the Company and law enforcement agencies of the Krasnodar Territory and the Republic of Adygea in the event of an emergency were developed; corresponding interaction plans were developed and coordinated;
- the Company's personnel access documents and vehicle passes were exchanged. Particular attention was paid to the issue of passes to employees and vehicles of subsidiaries and affiliates (S&A) of JSC Russian Grids entering the Sochi Energy District.

In close cooperation with the territorial bodies of the Russian FSB and the Russian Interior Ministry, the safety of power facilities during the XXII Olympic Winter Games and XI Paralympic Winter Games 2014 was ensured.

During the 2014 Olympic Games, the Integrated Operational Safety Monitoring Complex (IOSMC) operated at the facilities of OJSC Kubanenergo proved highly efficient. The IOSMC currently enables the use of technical means of protection to constantly monitor the security of facilities of the Company against unlawful interference.

## Company Procurement Activities

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When purchasing goods, works, and services, OJSC Kubanenergo follows the norms of the legislation of the Russian Federation, the Company Charter, and the [Regulations on procurement of goods, works and services for the needs of OJSC Kubanenergo approved as amended by Resolution of the Board of Directors of 14.06.2013, Minutes No.167/2013.](#)

*Principles of procurement activity:*

- timely (long-term and short-term) planning of procurement, rapid decision-making on adjusting the parameters of procurement;
- equality, fairness, absence of discrimination and unjustified restrictions on competition in relation to procurement participants;
- targeted and cost-effective expenditure of funds for the purchase of goods, works and services;
- unlimited admission to participate in the procurement;
- determining the parameters allowing for the procurement of purchased products, markets and situations in which the purchase is carried out;

- competitive selection of suppliers, agreementors, and service providers where possible and appropriate, and when possible collegial decision-making in situations where competitive selection is impossible or impractical;
- consideration of the required set of price and non-price factors determining efficiency when choosing the optimal offers made to the Company;
- openness of procurement;
- use of advanced information technology, electronic document management and automation of procurement activities, including the use of functional electronic marketplaces;
- collegial decision-making on the most important issues of procurement management and for certain purchases;
- professionalism and competence of employees of the Company in the preparation and adoption of procurement decisions; impeccable behavior of employees in terms of ethics.

The methods of procurement and their application conditions are established in the above [Regulations on procurement of goods, works and services for the needs of OJSC Kubanenergo](#).

*Procurement methods used by the Company, in order of priority:*

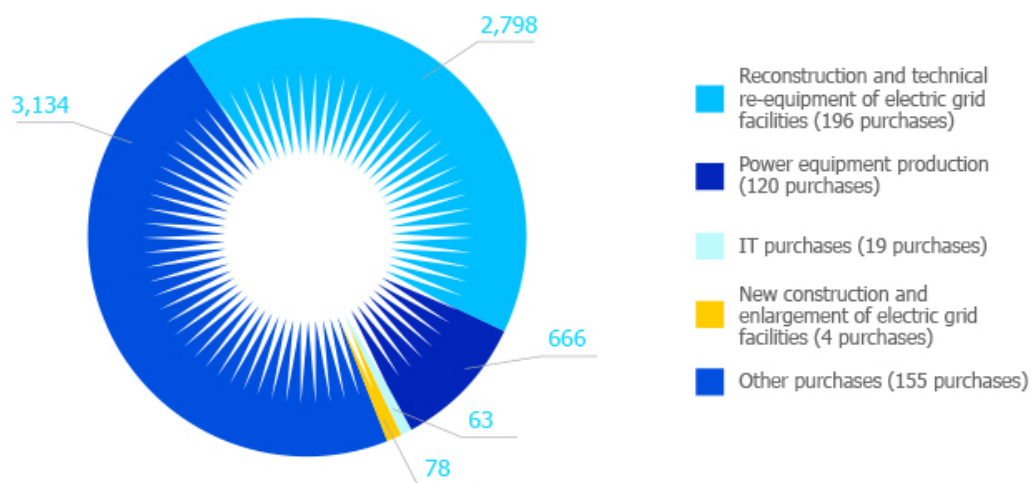
1. Tender, auction.
2. Request for offers, competitive negotiations, request for prices.
3. Simple purchase, small purchase.
4. Purchase from a single supplier (service provider, agreementor).

*Main results of the Company procurement activities in 2014*

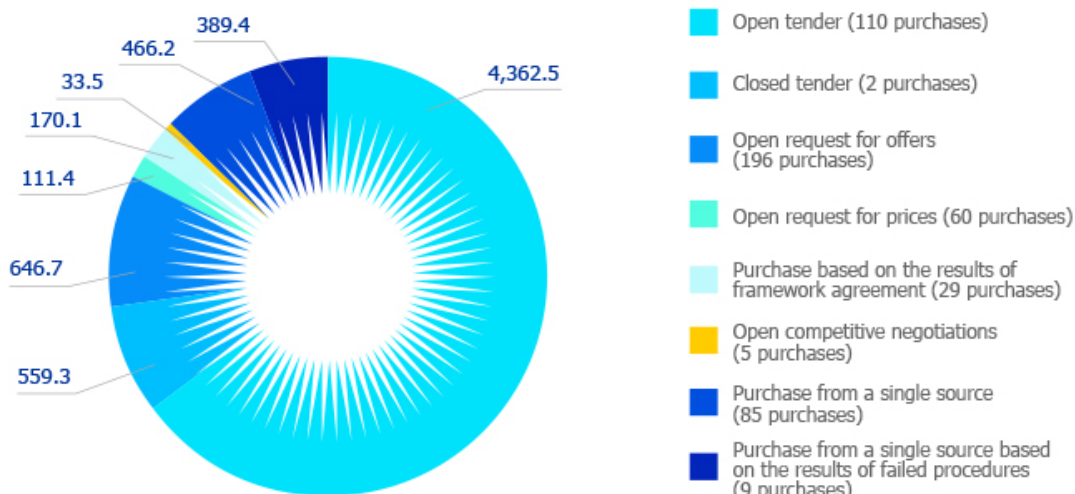
In 2014, the Company conducted 496 procurement procedures for an amount of 6,739 million Rubles (excluding VAT), of which 409 purchases were made using e-commerce for an amount of 12,463.3 million Rubles, or 90.1% of the total cost of procurement.

According to the results of regulated procurements, the Company obtained an economic effect in the amount of 432 million Rubles (excluding VAT), which makes up 6.4% of the planned costs.

*Structure of the Company's purchases made in 2014 by purchase item, RUB mln (without VAT)*



*Structure of the Company's purchases made in 2014 by type of purchase, RUB mln (without VAT)*



*The participation of small and medium businesses in the procurement conducted by OJSC Kubanenergo*

Within the framework of the implementation of the Road Map, the Company has a partnership program between OJSC Kubanenergo and small and medium businesses. Three participants have joined the program since its start.

In 2014, the Company conducted procurement procedures, the winners of which were small and medium businesses, totaling to RUB 4,992.58 mln, which accounted for 64% of the total purchases.

The Company operates a, Advisory Body for ensuring efficient procurement conducted by OJSC Kubanenergo, including from small and medium businesses.

*Improvement of Procurement*

The Company purchases goods and services predominantly on an open, competitive basis from suppliers offering the best value for money through activities aimed at optimizing purchasing:

- using techniques to reduce the limit purchase price;
- increasing the share of open competitive procedures;
- introducing mandatory actions to reduce prices by participants of the purchase (re-bidding).
- adherence to the Procurement Policy of the Company and the Partnership Program between OJSC Kubanenergo and small and medium businesses;
- operation of the Advisory Body to ensure effective procurement conducted by OJSC Kubanenergo, including from small and medium businesses.

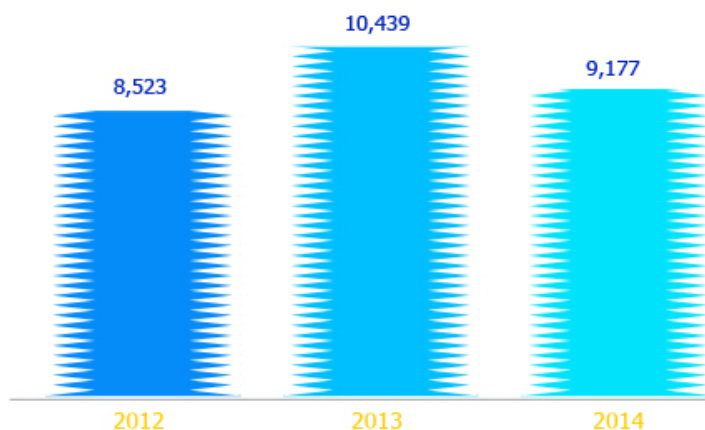
## Investment activity

Investment activity of OJSC Kubanenergo in the reporting year was conducted within the investment program for 2014 approved by order of the Ministry of Energy of Russia No. 630 of 19.12.2012 being part of the Company's long-term investment program for 2012–2017.

### Main results of investment activity in 2014

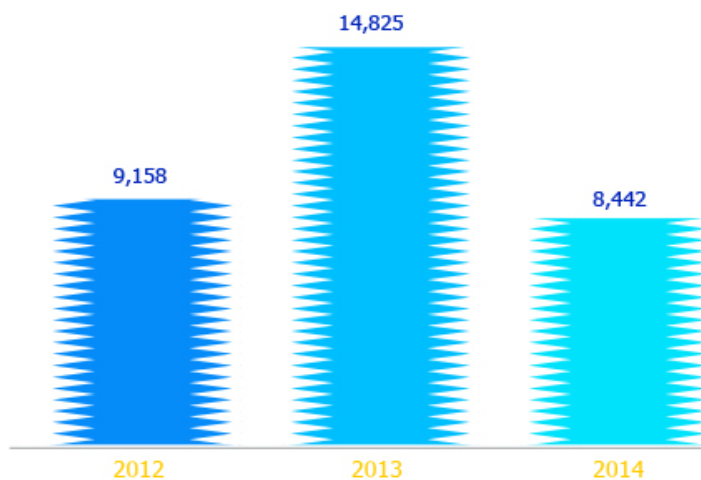
	Capital Investments	Deployment of Fixed Assets	Financing	Installed power capacities	
	RUB mln, excluding VAT	RUB mln, excluding VAT	RUB mln, including VAT	MVA	km
Total (including Olympic venues)	9,177	22,084	8,442	500.2	1,567.3

*Dynamics of Capital Investments of OJSC Kubanenergo in 2012–2014, RUB mln, excluding VAT*



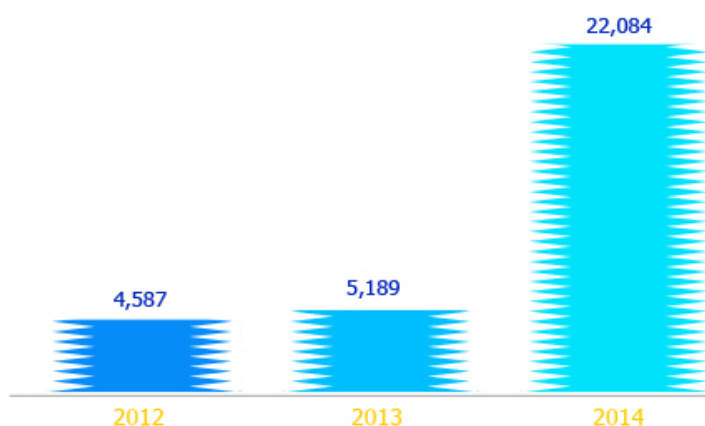
Capital investments have amounted to RUB 9,177 mln, excluding VAT in 2014, which was 12% less than in 2013 and 7% more than in 2012.

*OJSC Kubanenergo Capital Investment Financing Dynamics in 2012–2014, RUB mln, including VAT*



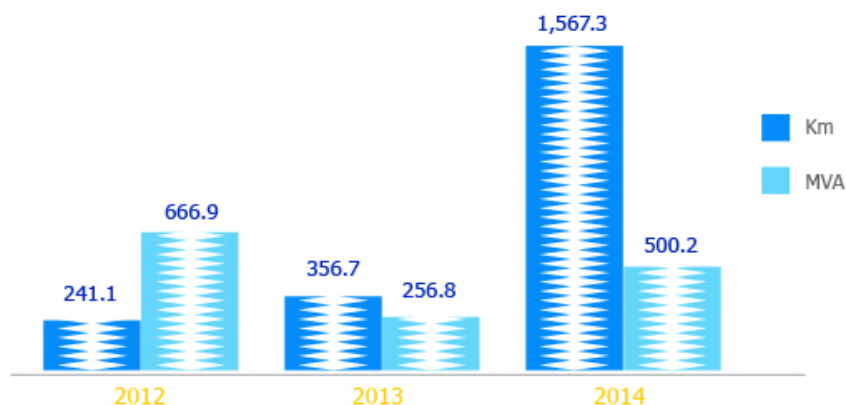
Financing of the facilities included in the investment program in 2014 amounted to RUB 8,442 mln, which was 43% less than in 2013.

*Dynamics of Fixed Assets Deployment by OJSC Kubanenergo in 2012–2014, RUB mln, excluding VAT*



Actual volume of new fixed assets in 2014 amounted to RUB 22,084 mln, excluding VAT having increased by 381% and 326% against 2012 and 2013 respectively, which is due to the commissioning and transfer to fixed assets of completely constructed Olympic Venues.

*Dynamics of Installation of New Capacities by OJSC Kubanenergo in 2012–2014, km and MVA*



*Main Facilities of OJSC Kubanenergo Investment Program Incorporated in Fixed Assets in 2014*

Facility:	Construction Period		Installed Capacity		Volume of New Fixed Assets, RUB mln, excluding VAT
	Start Date	End Date	km	MVA	
Construction of 110/10 kV Sukhoy Port SS with 110 kV overhead lines entry with installation of 2 power transformers	2013	2014	0.25	12.6	200.1
Reconstruction of 110 kV Anapskaya SS, 2nd start-up facility, Phase 2	2008	2014	0.54	40.0	209.6
Reconstruction of 110 kV OSG 110/35/6 kV Yeysk 1 SS with replacement of transformers	2008	2014		25.0	54.4
Reconstruction of 110 kV grid adjacent to Buzhora SS, Phase 2 (construction and installation works)	2013	2014	7.0		58.2
Reconstruction of 110 kV Vostochnaya-Penayskaya, Vostochnaya-Proletariy overhead lines (construction and installation works)	2014	2014	18.8		621.8

*Due to new facilities, the Company will be able to raise reliability of power supplies, provide for the increase of substations transformer capacity and technological connections of new customers.*

Construction of 110/10 kV Sukhoy Port SS with 110 kV overhead lines entry with installation of 2 power transformers was performed under the agreement on technological connection concluded with FTI Rostransmodernizatsiya for connection of the railway station at the 9th km of Krymsk-Novorossiysk railway line.

Reconstruction of 110 kV Anapskaya SS (2nd start-up facility, Phase 2) improved the power quality indices and reliability of electricity supply to Anapa resort town and Anapskiy electric generating system, made it possible to remove restrictions for connection of new customers, housing objects, and other socially important facilities of Anapa (Directorate of Internal Affairs of Anapa, water utilities, central hospital for children, broadcasting center, rescue service, the Centre of Special Communications and Information of the Federal Protective Service of the Russian Federation);

Reconstruction of 110 kV OSG, 110/35/6 kV Yeysk 1 SS with replacement of transformers improved the reliability of electricity supply to Yeysk and the Yeysk Region, which resulted in development of infrastructure and improvement of the social and economic situation in the Yeysk Region (primary customers are the Yeysk Branch of FSUE Rosmorport, LLC Direktoriya Meridian, LLC Stroykompleks, LLC Poligrafmash, LLC Partner, LLC Favorit, LLC Poligraf, Yeysk meat-packing plant, waste treatment and infrastructure facilities of Yeysk);

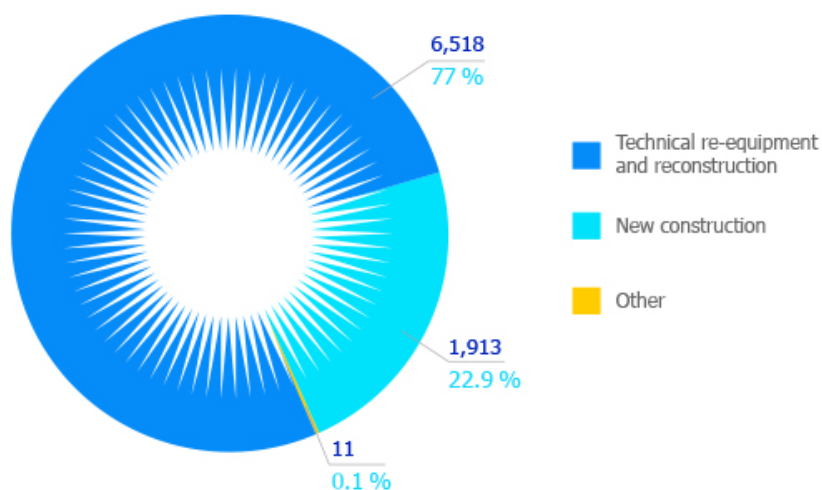
Reconstruction of 100 kV grid adjacent to Buzhora SS, Phase 2 (construction and installation works), promotes increase of power quality indices and reliability of electricity supply to Anapa resort town and Anapskiy electric generating system, makes it possible to remove restrictions for connection of new customers. This facility is under control in accordance with Order of the Ministry of Energy of the Russian Federation No. 485 of 7.31.2014 "On Approval of List of Regions with Significant Risks of Power Supply Failure and List of Measures to Reduce Risks of Power Supply Failure in Such Regions for 2014–2015 Heating Season";

Reconstruction of 110 kV Vostochaya-Penayskaya, Vostochnaya-Proletariy overhead line was performed in accordance with the agreement on technological connection for power supply to the Novorossiysk Naval Base and Black Sea Fleet of the Russian Federation.

### Areas and financing structure of capital investments

Main implementation areas of OJSC Kubanenergo investment program 2014 are capital investments in technical re-equipment and reconstruction (77% of total investments).

*Structure of Capital Investments of OJSC Kubanenergo, RUB mln and %*



Financing structure of capital investments in 2014:

- technical re-equipment and reconstruction – RUB 6,518 mln, including VAT (77%);
- new construction – RUB 1,913 mln, including VAT (22.9%);
- other (research and development, intangible assets) – RUB 11 mln, including VAT (0.1%).

## Results of implementation of the investment program 2014

The number of performed agreements on technological connection concluded in 2014 amounted to 16,788 pcs, with volume of connected capacity of 543 MW, including 11,366 agreements with volume of connected capacity of 103 MW for the privileged consumers category.

Level of electricity losses in 2014 amounted to 2,852.7 million kWh.

Load peak of Kuban power system in 2014 amounted to 4,219 MW.

Removal of restrictions of technological connection for 2014 reporting year amounted to 12.8 MVA.

In accordance with the Strategy for Russian Power Grid Development approved by Order of the Government of the Russian Federation No. 511-r of 03.04.2013, the outcome of the investment costs reduction had amounted to RUB 7.7 mln, excluding VAT, by the end of 2014.

According to the financial statements as of 31.12.2014, the level of wear of fixed assets amounted to 51%.

Share of equipment with excessive service life is 71.4% of total amount of fixed assets.

Relative accident risk was 6.7 in 2014.

## Long-term investment program

Long-Term Investment Program of the Company for 2015-2017 approved by order of the Ministry of Energy of Russia No. 630 of 19.12.2012.

### *Parameters of the Company Long-Term Investment Program for 2015–2017*

	2014 (Actual)	2015	2016	2017
Financing of facilities, RUB mln, including VAT	8,442	828	944	1,062
Capital investments, RUB mln, excluding VAT	9,177	702	800	900
Deployment of fixed assets, RUB mln, excluding VAT	22,080	613	705	941
km	1,567.25		123.4	214.94
MVA	500.15	50		

Upon completion of construction and reconstruction of Olympic Venues capital investments for 2015–2017 are planned to be considerably decreased.

### *Structure of OJSC Kubanenergo capital investments in 2012–2017, RUB mln, including VAT*

	2012 (Actual)	2013 (Actual)	2014 (Actual)	2015	2016	2017
<b>Total</b>	9,158	14,825	8,442	828	944	1,062
<i>Technical re-equipment and reconstruction</i>	7,306	12,119	6,518	826	916	832
<i>New construction</i>	1,814	2,689	1,913		28	230
<i>Other</i>	38	17	11	2		
<b>Including as part of the programs</b>						
Key projects	1,532	2,142	474	283	252	230
<i>Technical re-equipment and reconstruction</i>	807	628	341	283	224	0
<i>New construction</i>	725	1,514	132	0	28	230
Programs of particular importance	6,021	9,941	4,771	0	0	0
<i>Technical re-equipment and reconstruction</i>	4,978	9,243	4,342			
<i>New construction</i>	1,043	698	430			
Programs	220	133	509	413	417	344
<i>Technical re-equipment and reconstruction</i>	190	133	508	413	417	344
<i>New construction</i>	30		1			

Technological connection, including:	128	437	1,249	0	0	0
<i>Facilities for technological connection with the capacity over 670 kV (high voltage – from 110 kV, average voltage – 1-35 kV);</i>	14	53	270			
<i>Facilities for technological connection with the capacity of 150-670 kW (average voltage 2 – 20 kV);</i>	8	36	71			
<i>Facilities for technological connection with the capacity of 15 – 150 kW;</i>	4	15	36			
<i>Facilities for technological connection with the capacity beyond 15 kW;</i>	102	333	872			
- Generation						
Distribution grids	127	120	252	0	149	293
Technical re-equipment and reconstruction	127	119.5	251.5	0	149	293
New construction		0.5	0.5			
Technological control automation (except for AEPCAS)	128	107	156	0	0	56
Electric energy accounting and control devices	85	10	11	83	94	106
Safety programs	36	12	73	12	10	12
Acquisition of grid assets, plots of land and other facilities	0	23				
Other programs and activities	882	1,900	947	37	22	21

The main part of investments of the long-term program for 2015–2017 shall be spent for reconstruction and technical re-equipment of the existing electrical grids.

### Construction and reconstruction of Olympic Venues

In 2014, power facilities required for winter Olympic Games 2014 in Sochi hold a special place in the infrastructure retrofitted and expanded by OJSC Kubanenergo.

In 2009–2013 active construction and reconstruction of Olympic Venues were aimed at timely putting into operation and reliable and uninterrupted functioning in the future. As of the end of 2013 all positive conclusions of the State Expertise, permits for construction with modified technical parameters of facilities, permits for commissioning of facilities, conclusions of the State Construction Supervision on compliance of completed facilities with design documents concerning Olympic Venues were obtained. In addition, certificates of clearance for operation of the Federal Environmental, Industrial and Nuclear Supervision Service were obtained on the basis of which the facilities were energized.

In 2014 property right registration of the completed facilities was carried out, certificates of acceptance of the completed construction facility (KS-14) for all Olympic Venues were executed.

The approved Investment Program 2014 of OJSC Kubanenergo did not provide for construction and reconstruction of Olympic Venues, for which reason actual commissioning of facilities far exceeded the planned scope.

Main funding sources for construction and reconstruction of Olympic Venues are the funds raised from additional shares issued by the Company, with the greater part provided by the federal budget.

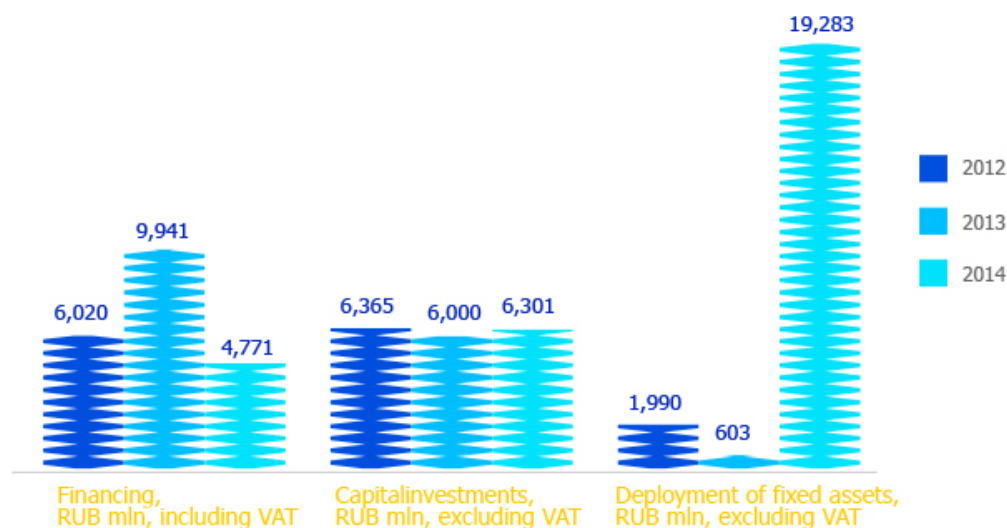
#### *Results of Implementation of the Investment Program for Olympic Venues Construction in 2014*

Capital Investments	Deployment of Fixed Assets	Financing	Installed power capacities	
RUB mln, excluding VAT	RUB mln, excluding VAT	RUB mln, including VAT	MVA	km
6,301.1	19,282.5	4,771.4	374.8	1,106.3

In accordance with the results of implementation of Olympic Venues investment program in 2014, financing of capital investments is RUB 4,771.4 mln with VAT included, as well as the following sources:

Sources of capital investments in Olympic Venues	Actual, RUB mln, including VAT
<b>Total</b>	<b>4,771.4</b>
Funds raised from the issue of additional shares, including:	4,677.3
<i>Federal budget</i>	4,148.7
Other internal funds	94.1

*Dynamics of Olympic Venues Construction Investment Parameters in 2012–2014, RUB mln*



*Structure of Capital Investments in Olympic Venues, RUB mln, including VAT*

	Actual 2012	Actual 2013	Actual 2014
Technical re-equipment and reconstruction	5,428	5,588	4,341
New construction	937	412	430
<b>Total</b>	<b>6,365</b>	<b>6,000</b>	<b>4,771</b>

Main areas of financing of OJSC Kubanenergo Olympic construction program 2014 are capital investments in technical re-equipment and reconstruction (91% of the total investments).

*The following Olympic Venues Were Incorporated into Fixed Assets in the Reporting Year*

Facility	Capital investments, RUB mln, excluding VAT	Deployment of fixed assets, RUB mln, excluding VAT	RUB mln, including VAT	Installed power capacities	
				km	MVA
Overhead lines (110 kV) from Psou SS to Adler SS, from Adler SS to Kudepsta SS, from Kudepsta SS to Khosta SS (design, survey, reconstruction)	700.2	1,972.9	765.0	46.9	
Overhead lines (110 kV) to deliver power from Sochinskaya TPS to Matsesta SS, from Matsesta SS to Khosta SS, from Khosta SS to Krasnopolyanskaya HPP, from Krasnopolyanskaya HPP to Sochinskaya TPS (design, survey, reconstruction)	148.98	618.5	197.6	54.0	

Double circuit overhead lines (110 kV) from Shepsi SS to Dagomys SS (design, survey, reconstruction)	1,196.0	3,340.4	1082.9	135.9	
Overhead lines (110 kV) to deliver power from Sochinskaya TPS to Vereshchaginskaya SS, from Vereshchaginskaya SS to Dagomys SS (design, survey, reconstruction)	474.8	2,364.3	505.1	34.4	
Overhead lines (110 kV) from Psou SS to Yuzhnaya SS, from Yuzhnaya SS to Adler SS (design, survey, reconstruction)	71.7	652.1	96.3	11.6	
City power distribution grid (design and survey, reconstruction, construction). Construction and reconstruction of Krasnopolyanskiy PGDA 0,4-10 kV distribution grid.	59.9	330.0	104.4	80.5	16.2
City power distribution grid (design and survey, reconstruction, construction). Construction and reconstruction of Adler PGDA 0,4-10 kV distribution grid.	722.8	1,429.8	342.5	248.4	86.0
City power distribution grid (design and survey, reconstruction, construction). Construction and reconstruction of Khosta PGDA 0,4-10 kV distribution grid.	250.2	430.1	228.5	78.2	19.3
City power distribution grid (design and survey, reconstruction, construction). Construction and reconstruction of Sochinskiy PGDA 0,4-10 kV distribution grid (area from 110 kV Vereshchaginskaya SS to new 110 kV Bocharov Ruchey SS).	1,185.2	2,655.4	736.1	268.9	195.2
City power distribution grid (design and survey, reconstruction, construction). Construction and reconstruction of Sochinskiy PGDA 0,4-10 kV distribution grid (area from 110 kV Khosta SS to 110 kV Vereshchaginskaya SS).	632.2	860.5	142.4	108.7	58.1
Cabling and overhead lines (110 kV) for power output from Sochinskaya TPS to Sochi SS (design and survey, construction)	1.6	604.4	15.5	12.5	
Cabling and overhead lines (110 kV) for power output from Sochinskaya TPS to Khosta SS (design and survey, construction)	544.1	1,889.6	225.0	17.6	
110 kV Bocharov Ruchey SS with electric transmission lines entries (design and survey, construction)	46.5	133.4	91.9		
110 kV Vereshchaginskaya SS with electric transmission lines entries (design and survey, reconstruction)	19.4	251.4	38.6		
110 kV Bytkha SS with electric transmission lines entries (design and survey, construction)	1.7	97.9	7.4	1.6	
Production maintenance base for Krasnopolyanskiy power grid area and substations (design and survey, construction)	183.7	428.7	89.8		

## Financial Results

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### OJSC Kubanenergo Accounting (Financial) Statement

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The accounting statement of OJSC Kubanenergo for 2014 is compiled based on the standards and provisions in force in the Russian Federation governing accounting and reporting:

- Federal Law No. 402-FZ, On Accounting, of 06.12.2011;
- Decree of the Ministry of Finance of the Russian Federation No. 66n “On the Forms of Accounting Reporting of Organizations” of 02.07.2010;
- Decree of the Ministry of Finance of the Russian Federation No. 124n of 05.10.2011, On Amendments to Forms of Accounting Reporting of Organizations Approved by Decree of the Ministry of Finance of the Russian Federation No. 66n of 02.07.2010,
- Decree of the Ministry of Finance of the Russian Federation No. 34n of 29.07.1998, On Approval of Regulations on Accounting and Reporting in the Russian Federation,
- Chart of accounts of financial and economic activities of organizations approved by Decree of the Ministry of Finance of the Russian Federation No. 94n of 31.10.2000,
- Accounting Regulations on Accounting Policies of an Organization, AR 1/2008, approved by Decree of the Ministry of Finance of the Russian Federation No. 106n of 06.10.2008,

*The annual financial statements of OJSC Kubanenergo for 2014 compiled according to Russian Accounting Regulations (AR) include<sup>9</sup>:*

1. Balance sheet
2. Profit and Loss Statement
3. Statement of Changes in Equity
4. Cash Flow Statement
5. Explanatory Notes
6. Auditors' Report

#### *Basic Provisions of the Company's Accounting Policy*

According to the Company, the assets and obligations in the statement are considered short-term if their maturity does not exceed 12 months after the reporting date. All other assets and obligations are represented as long-term in the annual statement.

Accounting of fixed assets of the Company is performed in accordance with the Accounting Regulations on Accounting of Fixed Assets (AR 6/01) approved by Order of the Ministry of Finance of the Russian Federation No. 26n of 30.03.2001. Assets in respect of which the conditions described in § 4 of the above Regulations are met, and which have the value of no more than RUB 40,000 per unit, are classified as a part of inventories in the accounting.

Depreciation of fixed assets is accrued linearly based on their useful life. Depreciation is not accrued on fully depreciated items of fixed assets.

Accounting of property acquired under leasing agreements is performed in accordance with Federal Law No. 164-FZ of 29.10.1998, On Finance Lease.

Work in progress is assessed at its actual actual cost of production.

Recognition of expenses as deferred expenses and equating them to assets with posting them in accounts and statements are in accordance with the principal approach approved by the Company. This approach is based on the understanding of the time factor of the possibility of obtaining economic benefits from the asset by the Company in the future and sufficiently reliable evaluation of its value.

The Company has established that account balance of deferred expenses shall be displayed in the lines of Other Non-Current Assets and Other Current Assets.

Prepayments related to the acquisition of a non-current asset in the future are stated in line 1150, Fixed Assets.

Revenue from the sales of products and services was recognized for the purpose of accounting after the products shipment to customers (or services rendering) and accounting documents presentation. Revenues are shown in the profit and loss statement net of VAT.

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<sup>9</sup> Appendix 1

Revenues from the sales of products and services was recognized for the purpose of taxation in the reporting (tax) period of the actual sale or rendering regardless of the actual time of funds receipt.

Revenues from products and services with prolonged production cycle are recognized upon completion.

Actually commissioned real estate facilities, with capital investments completed in full and primary documents duly executed, are entered into accounts as fixed assets in a separate sub-account of Real Estate Facilities without Registration of Title. Depreciation of these facilities is accrued according to the standard procedure on the first day of the month following the month of commissioning.

The Company established a reserve for the estimated liabilities resulting from the possible payment of compensation for unused vacations, outstanding claims of power suppliers to compensate for losses and electric power transmission services, as well as a provision for tax disputes, a provision for litigation, a provision for these future employee benefits, as well as other valuation reserves, in accordance with AR 8/2010 on Estimated Liabilities, Contingent Liabilities and Contingent Assets, approved by Order No.167n of the Russian Ministry of Finance of 13.12.2010.

The Company has a reserve for doubtful accounts receivable which have not been repaid or will not be paid with a high degree of probability in due time stipulated by the agreement and are not secured by warrants. The reserve is corrected on a quarterly basis.

The Company establishes a reserve for devaluation of financial investments in case of a constant significant reduction of their cost.

According to the Accounting Regulations on Accounting Policies of an Organization, AR 1/2008, approved by Order of the Ministry of Finance of the Russian Federation No.106n of 06.10.2008, OJSC Kubanenergo established accounting policies of the organization containing the approved methods of assets evaluation (fixed assets, investments, inventories, etc.). Accounting Regulations of the Russian Federation governing the issues of accounting and reporting were used for the development of these assets evaluation methods. Assets and liabilities of the Company were evaluated in the accounts on the basis of the actual purchase costs.

#### *Corrections Related to Previous Periods*

In 2014, the Company made corrections to Form 1, Balance Sheet, as regards comparable data for previous reporting periods (2012–2013) aimed at ensuring more accurate statement of raw materials and supplies used for the creation of fixed assets of the Company. Financial and economic indicators and obligations of the Company provided in the present annual statement are based on corrected accounting statements for the corresponding periods.

## Results of Financial and Economic Activities of the Company

### Analysis of the Results of Company's Financial and Economic Activities

By the results of 2014, revenues from the sales of products (services) amounted to 29,393.4 million Rubles, which is 4,510.4 million Rubles (13.3%) lower than in 2013, including revenues from electric power transmission of 28,464.2 million Rubles (2,041.1 million Rubles below the level of 2013). The decrease is due to the establishment of tariffs for electric power transmission at a level below that approved in 2013.

The net cost amounted to 29,918.8 million Rubles, which is 2,282.6 million Rubles (7.1%) below the level of 2013. Thus, the gross profit, as compared with 2013, reduced by 2,227.7 million Rubles and in 2014 amounted to "minus" 525.4 million Rubles.

Profit before tax amounts to "minus" 3,736.1 million Rubles, which is 1,226.7 million Rubles lower than in 2013.

By the results of 2014, the net profit of the Company amounted to "minus" 3,632.3 million Rubles (1,152.2 million Rubles below the level of 2013).

#### *Financial and Economic Indicators*

No. Item No.	Indicator	2014	2013	2012
		RUB thou		
1	<b>Sales proceeds from products (services), including:</b>	29,393,384	33,903,758	28,118,506
1.1.	<i>from power transmission</i>	28,464,228	30,505,345	27,194,306

1.2.	<i>from technological connection</i>	847,766	3,335,847	843,394
1.3.	<i>from sales of electric power</i>	0	0	0
1.4.	<i>from other activities</i>	81,390	62,566	80,806
2	<b>Net costs of products (services)</b>	29,918,777	32,201,425	28,119,207
3	Gross profit	-525,393	1,702,333	-701
4	Administrative expenses	0	0	0
5	Business expenses	0	0	0
6	Sale profit (loss)	-525,393	1,702,333	-701
7	Interests receivable	634,424	475,329	446,963
8	Interests payable	-1,801,081	-1,535,351	-1,462,895
9	Income from participation in other organizations	5	3	1
10	Other income, total	3,039,425	1,601,414	1,046,902
11	Other costs, total	-5,083,520	-4,753,161	-2,197,596
12	<b>Profit (loss) before tax</b>	-3,736,140	-2,509,433	-2,167,326
13	Income tax and other payments	103,807	29,297	265,860
14	<b>Net profit</b>	-3,632,333	-2,480,136	-1,901,466
15	<b>EBITDA</b>	-95	264,311	273,393

#### *Income Structure*

Indicator	2014		2013		2012	
	RUB thou	%	RUB thou	%	RUB thou	%
Sales proceeds from products (services)	29,393,384	100	33,903,758	100	28,118,506	100
power transmission customers	28,464,228	96.8	30,505,345	90.0	27,194,306	96.7
technological connection services	847,766	2.9	3,335,847	9.8	843,394	3.0
sales of electric power	0	-	0	-	0	-
Other core products (services)	81,390	0.3	62,566	0.2	80,806	0.3
Non-core products (services)	0	-	0	-	45	0.0

The major share in the company's revenues are proceeds from the provision of power transmission services.

By the results of 2014, revenues from the sales of products (services) amounted to 29,393.4 million Rubles, which is 4,510.4 million Rubles (13.3%) lower than in 2013.

By the results of 2014, revenues from the provision of electric power transmission services amounted to 28,464.2 million Rubles (96.8% of revenues), which is 6.7% lower than at the end of 2013. In absolute terms, this decrease amounted to 2,041.1 million Rubles, which is due to the establishment of tariffs for the transmission of electric power at a level below that approved in 2013.

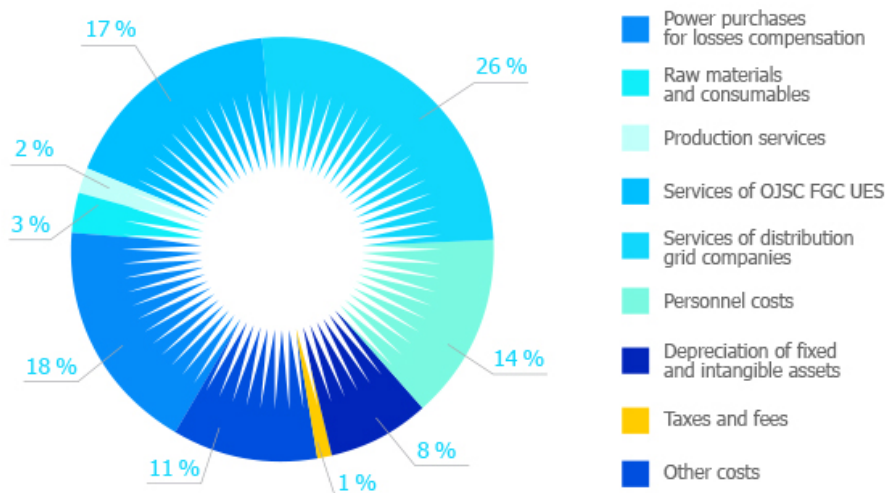
Revenues from technological connection services in 2014 reached 847.8 million Rubles (2.9% of total revenues), which is 74.6% lower than in 2013.

Other income of the Company amounted to 81.4 million Rubles (0.3% of total revenues), which is 30.1% higher than in 2013.

### Cost Structure

Description of expenses item	2014		2013		2012	
	RUB thou	%	RUB thou	%	RUB thou	%
<b>Net costs of products (services)</b>	<b>29,918,777</b>	100.0	<b>32,201,425</b>	100.0	<b>28,119,207</b>	100.0
Depreciation of fixed and intangible assets	2,474,732	8.3	1,713,723	5.3	1,424,787	5.1
Power purchases for losses compensation	5,566,431	18.6	8,298,460	25.8	7,427,499	26.4
Power purchases for sale	0.0	0.0	0.0	0.0	0.0	0.0
Services of OJSC FGC UES	5,036,791	16.8	4,877,739	15.1	4,462,235	15.9
Services of distribution grid companies	7,778,157	26.0	10,024,337	31.1	9,696,190	34.5
Raw materials and supplies	840,724	2.8	766,182	2.4	636,959	2.3
Production services	558,806	1.9	579,828	1.8	404,618	1.4
Personnel costs	4,253,230	14.2	3,708,060	11.5	2,710,424	9.6
Taxes and fees	224,153	0.7	157,833	0.5	97,630	0.3
Other costs	3,185,754	10.6	2,075,263	6.4	1,258,865	4.5

### Cost Structure



### Expenses Dynamics

Production and sales costs	RUB mln	growth rate, %	
		2014/2012	2014/2013
2012	28,119.2	106.4	92.9
2013	32,201.4		
2014	29,918.8		

By the results of 2014, expenses for power purchased for loss compensation amounted to 5,566.4 million Rubles (18.6% of total expenditures). In absolute terms, the drop against the results of 2013 amounted to 2,732.0 mln. Rubles and was due to lower average prices for the purchase of power losses.

The cost of services of OJSC FGC UES totaled 5,036.8 million Rubles (16.8% of total costs). In absolute terms, the growth against the results of 2013 amounted to 159.1 million Rubles and was due to the indexation of the tariff. In addition, in 2014, payments for the services OJSC FGC UES were calculated based on the declared capacity, as well as in 2013.

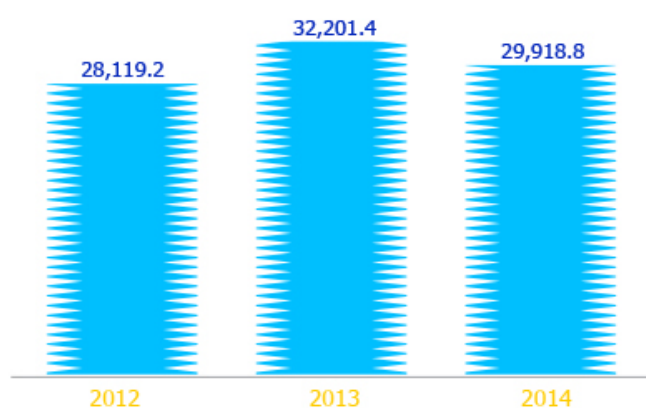
By the results of 2014, the cost of services of distribution grid companies amounted to 7,778.2 million Rubles (26.0 % of total expenditures). As compared with the last year, the cost reduction amounted to 2,246.2 million Rubles. This cost reduction was due to a decrease in the average tariff for electric power transmission services via the grids of territorial grid companies (TGC).

Personnel costs in 2014 amounted to 4,253.2 million Rubles (14.2% of total expenditures), which is 14.7% higher than at the end of 2013. The increased costs for this item were due to:

- increased number of personnel in connection with the implementation of measures under joint Order of OJSC UES FGC and OJSC Kubanenergo No.544/465 of 12.09.2012, On Measures to Improve the Reliability of Power Grid Facilities of the Black Sea Coast of the Krasnodar Territory;
- increased motivation of personnel involved in the maintenance and repair of the distribution grid and organization of the operational staff in the Sochi Energy District around the clock;
- issuance of one-time bonuses to personnel engaged in the certification of electric grid equipment of the Company and identification of unrecorded power consumption by certificates of non-agreement and non-metered electricity consumption.

Depreciation of fixed and intangible assets increased, as compared with 2013, by 761.0 mln. Rubles due to the commissioning of fixed assets of the electric grid complex of the Sochi Energy District as part of the preparation for the XXII Olympic Winter Games and XI Paralympic Winter Games 2014 in Sochi under the approved investment program of the Company.

*Costs of Production, mln RUB*



*Analysis of the Company Financial Status and Activity Results*

Indicator/Year	As of 31.12.2012	As of 31.12.2013	As of 31.12.2014
<b>Liquidity Ratio</b>			
Absolute liquidity ratio	0.21	0.95	0.44
Quick assets ratio	0.42	1.38	0.77
Current liquidity ratio	0.52	1.54	0.81
<b>Financial Stability Ratio</b>			
Equity/assets ratio	0.39	0.52	0.48
Total debt/EBITDA ratio	22.13	23.85	32.27
Current assets coverage ratio	-0.93	0.35	-0.24
<b>Profitability Ratio</b>			
Return on equity (ROE), %	-14.2	-9.95	-11.55
Return on total assets (ROTA) from revenue before taxes, %	-4.42	-4.67	-5.92
EBITDA profitability, %	2.56	2.18	1.84
<b>Efficiency Ratio</b>			
Growth rate correlation of the accounts receivable and accounts payable	0.77	1.13	0.82
Correlation of the total accounts receivable and accounts payable	0.38	0.42	0.33
Correlation of quickly available accounts receivable and accounts payable	0.21	0.54	0.47

By the results of 2014, the liquidity ratio dropped. The above dynamics is due to a decrease in the amount of cash in connection with the payments for the construction of Olympic facilities, as well as a decrease in the level of accounts receivable and inventory. In addition, reduced liquidity ratios were due to an increase, as compared to the previous period, in the amount of short-term debt capital due to the transfer of long-term loan amounts with maturity as of 31.12.2014, amounting to less than 12 months.

The equity-assets ratio decreased by 0.04 as compared to 2013 and as of 31.12.2014, amounted to 0.48. The increase in the total debt to EBITDA ratio is due to a decrease in EBITDA as a result of deterioration of financial results.

The equity ratio decreased, as compared to the same period in 2013, due to the decrease in the balance of funds in the accounts of the Company and reduction of accounts receivable.

The returns on assets and equity by the results of 2014 are negative due to the presence of a net loss.

Efficiency ratios showed a negative trend in the reporting year. There was a reduction in both accounts receivable and accounts payable; however, the upward rate of receivables was lower, which determined the dynamics of the efficiency ratios.

## Accounts Receivable

### *Analysis of changes in accounts receivable, RUB mln*

	31.12.2014	31.12.2013	31.12.2012
<b>Accounts receivable, including:</b>	<b>3,830.30</b>	<b>5,123.54</b>	<b>3,218.96</b>
Payments whereon are expected later than 12 months after reporting date	14.98	14.78	11.00
- purchasers and customers			
- bills receivable			
- issued advance notes			
- other accounts receivable	14.98	14.78	11.00
Payments whereon are expected within 12 months after reporting date	3,815.32	5,108.76	3,207.96
- purchasers and customers	3,267.64	3,955.92	241.28
- bills receivable			
- dividends arrears of subsidiaries and affiliates			
- participants' (founders') arrears of dues to authorized capital			
- issued advance notes	18.25	50.25	2,435.06
- other accounts receivable	529.42	1,102.59	531.61

The total amount of receivables of OJSC Kubanenergo at the beginning of the reporting period amounted to 6,653.44 million Rubles, as of 31.12.2014, it was 5,323.66 mln Rubles. Accounts receivable, net of the reserve for doubtful accounts, as of December 31, 2013, amounted to 5,123.54 mln. Rubles, and as of 31.12.2014, to 3,830.30 mln. Rubles.

As of 31.12.2014, the reserve for doubtful debts amounted to 1,698.12 mln Rubles, including for doubtful receivables in the amount of 1,493,37 mln Rubles (reflected in the balance sheet as a reduction of accounts receivable) and for advances paid for the acquisition of fixed assets in the amount of 204.75 million Rubles (reflected in the balance sheet under non-current assets, as a reduction in outstanding advances).

In order to reduce the accounts receivable, the Company implements a Program of Financial Rehabilitation Measures and maintains claim-related work.

The Company conducts pretrial and trial work on reconciliation with counterparties. In the reporting period, unrecoverable receivables (with the statute of limitations expired) in the amount of 15.70 mln Rubles were written off.

## Accounts Payable

By the results of 2014, liabilities of OJSC Kubanenergo, with account of the deferred tax and other long-term liabilities, amounted to 29,183.44 mln. Rubles, including loan and credit liabilities of 17,417.00 mln. Rubles, which accounted for 59.68 % of total liabilities of the Company.

Accounts payable, excluding loans and credits, decreased in 2014, as compared to the previous year, by 605.50 mln. Rubles and as of December 31, 2014, amounted to 11,641.65 mln. Rubles. Overdue accounts payable amounted to 5,845.80 million Rubles, including accounts overdue by more than 3 months of 3,893.84 mln. Rubles.

By the results of 2014, long-term liabilities amounted to 1,021.77 mln. Rubles, including advance payments received for technological connection services of 806.91 million Rubles.

*Analysis of Changes in Short-Term Accounts Payable, RUB mln*

	12/31/2014	12/31/2013	12/31/2012
<b>Short-term accounts payable, including:</b>	<b>10,619.88</b>	<b>11,651.77</b>	<b>8,278.70</b>
- suppliers and agreementors	7,795.37	9,097.20	3,412.25
- bills payable			
- wages payable to personnel	122.58	174.86	116.55
- arrears to state extra-budgetary funds	66.36	120.18	57.31
- taxes and duties payable	183.79	81.42	47.24
- received advance notes	2,187.28	1,924.89	4,421.53
- arrears of participants (founders) in profit payment			
- other accounts payable	264.50	253.22	223.82

Short-term payables in 2014 are lower by 1,031.89 million Rubles as compared with 2013 and as of 31.12.2014, amounted to 10,619.88 million Rubles.

The following changes were observed:

- debts to suppliers and agreementors reduced by 1,301.83 million Rubles in connection with a reduction in debt for the purchase of power to compensate for losses of 1,286.26 million Rubles
- payables under received advance notes increased by 262.39 million Rubles (13.63%), the bulk of the debt is represented by advances for technological connection of 2,158.55 million Rubles.
- wages payable to personnel dropped by 52.28 million Rubles; the debt is current.
- taxes and duties payable increased by 102.37 million Rubles; an amount of 13.25 million Rubles is overdue.

## Loans and Credits

In 2014, the Company drew long-term loans amounting to 400 million Rubles. These loans were used to refund previous loans. OJSC Kubanenergo signed a credit agreement with CJSC CB Rosenergbank. No short-term loans and credits were obtained.

In 2014, the Company repaid short-term loans in the amount of 400 million Rubles. Long-term loans were repaid in the amount of 220 million Rubles.

*Dynamic of Key Indicators of OJSC Kubanenergo in 2012–2014*

Financial Results	Units of Measurement	2012	2013	2014	Changes in Indicators in 2014 as Compared to 2013, %
Cash at the end of the year	RUB mln	4,292.4	12,622.5	7,071.0	-43.98
Long term loans and borrowings at the end of the year	RUB mln	5,917.0	17,237.0	14,900.0	-13.56
Short term loans and borrowings at the end of the year	RUB mln	10,027.3	400.0	2,517.0	529.25

*Short-Term Loans or Credits Flow in the Reporting Year*

Name of Loan Institution, Lender	Loan Payable (Principal Debt) as of 01.01.2014		Loans and Credits Received in 2014 (with account of movements)		Loans and Credits Repaid in 2014 (Principal Debt)		Loan Payable (Principal Debt) as of 01.01.2015	
	RUB mln	Relative Share, %	RUB mln	Relative Share, %	RUB mln	Relative Share, %	RUB mln	Relative Share, %
CJSC CB Rosenergbank	400.00	100.0	0.00	0.0	400.00	100.0	0.00	0.0
OJSC Gazprombank	0.00	0.00	0.00	0.0	0.00	0.00	917.00	36.4

OJSC Sberbank of Russia	0.00	0.00	0.00	0.0	0.00	0.0	1,600.00	63.6
Total:	400.00	100.0	0.00	100.0	400.00	100.0	2,517.00	100.0

Short-term loan debt at the end of 2014 formed due to the transfer of long-term loans to OJSC Sberbank of Russia and OJSC Gazprombank in the amount of 2,517 mln. Rubles.

Interest accrued in 2014 for the use of short-term loans amounted to 909.66 million Rubles.

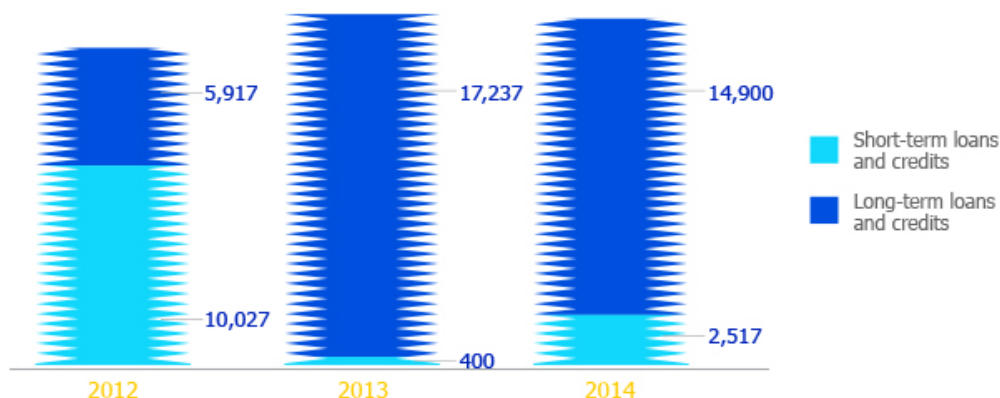
*Movement of Long-Term Credits and Loans*

Loan Institution, Lender	Loan Payable (Principal Debt) as of 01.01.2014		Loans and Credits Received in 2014 (Principal Debt)		Loans and Credits Repaid in 2014 (Movements Taken into Account)		Loan Payable (Principal Debt) as of 01.01.2015	
	RUB mln	Relative Share, %	RUB mln	Relative Share, %	RUB mln	Relative Share, %	RUB mln	Relative Share, %
OJSC Sberbank of Russia	8,600.00	49.9	0.00	0.0	0.00	0.0	7,000.00	47.0
OJSC Gazprombank	8,637.00	50.1	0.00	0.0	220.00	100.0	7,500.00	50.3
CJSC Rosenergobank	0.00	0.00	400.00	100.0	0.00	0.0	400.00	2.7
Total:	17,237.00	100.0	400.00	100.0	220.00	100.0	14,900.00	100.0

The total outstanding long-term loans and credits as December 31, 2014, was 14,900 million Rubles.

The cost of servicing long-term credit resources in 2014 amounted to 891.42 million Rubles.

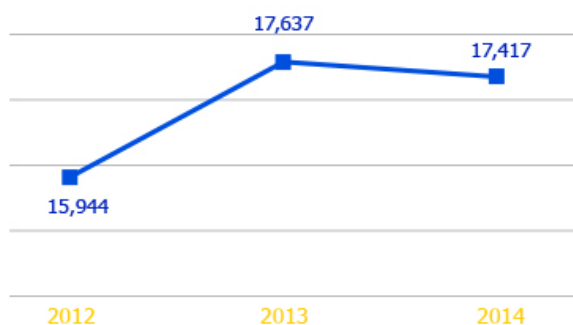
*Structure of the Credit Portfolio in 2012–2014, RUB mln*



OJSC Kubanenergo has no arrears on credit agreements. The total amount of interest on credits in 2014 amounted to 1,801.08 mln. Rubles, which is 265.73 million Rubles more than in the previous year. This increase is due to the deterioration of financial market conditions, which resulted in an increase in interest rates applied by creditor banks of the Company. In addition, the amount of interest payable includes the interest paid by the Company in favor of OJSC Kubanenergobyty in accordance with the agreement on debt restructuring.

The weighted average interest rate as of 31.12.2014, was 13.14% per annum.

*Dynamics of the Credit Portfolio in 2012–2014, RUB mln*



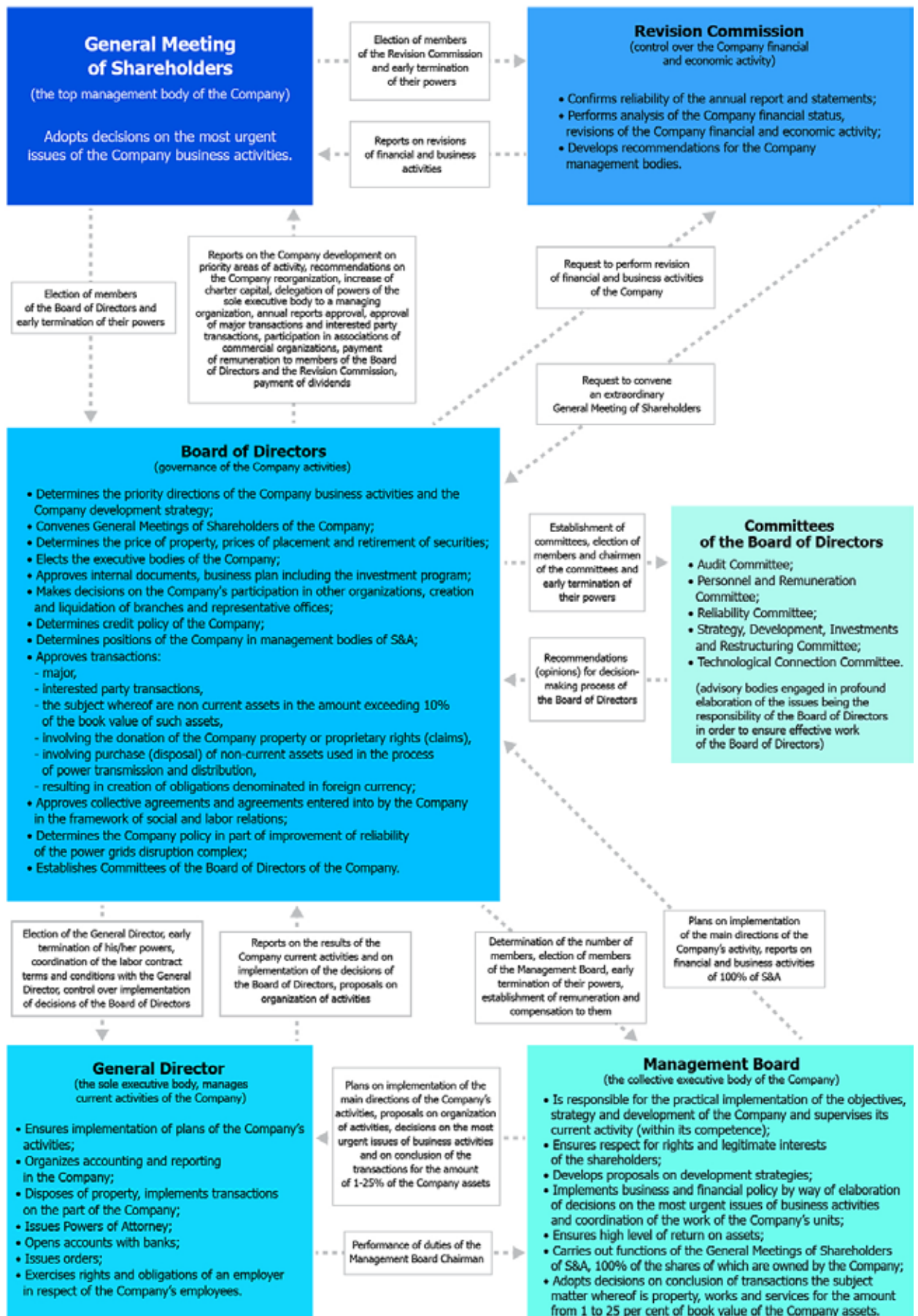
## Corporate Governance

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### Principles and Practices of Corporate Governance

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*Company Corporate Governance and Control Pattern*



Corporate Governance is understood by the Company as a set of processes ensuring management of and control over the activities of the Company, including relationships between its shareholders, the Board of Directors and executive bodies in the interest of all participants of corporate relations, including shareholders and management bodies, as well as potential investors, consumers of services, Company employees, suppliers, creditors, partners, the state and local communities.

OJSC Kubanenergo considers corporate governance to be a tool of improvement of its business efficiency, enhance its reputation and reduce the cost of raising a capital.

*The company adheres to the following principles of corporate governance:*

1. *Fairness.* The Company shall respect legitimate rights of the shareholders and ensure equal treatment of all shareholders, as well as enable them to obtain efficient remedies in case of violation of their rights.
2. *Strategic management of the Company is performed by the Board of Directors.* The Board of Directors establishes the basic guidelines for long-term activities, principles of risk management and internal management, controls the activities of executive bodies of the Company, plays a key role in the prevention and resolution of internal conflicts and ensuring the transparency of the Company.
3. *Accountability.* The Board of Directors of the Company shall be accountable to all shareholders in accordance with the laws of the Russian Federation.
4. *Transparency.* The Company provides for timely disclosure of reliable information of all significant facts related to its activity, including its financial position, results of the activity, structure of property and Company managements, as well as free access to such information for all interested parties.
5. *Liability.* The Company recognizes its responsibility to the shareholders of the Company and provides a reliable method of recording rights to their shares.

In order to ensure continuity of the Corporate Governance practices, the following internal documents have been approved and in force in the Company: the Corporate Governance Code, Regulations on Insider Information, Regulations on Information Policy, Regulations on Dividend Policy<sup>10</sup>.

The Company generally complies with the principles and recommendations of the Corporate Governance Code recommended by the Bank of Russia on 21.03.2014 (the respective compliance report is given in Appendix 4).

*Main events of the reporting year in the field of corporate governance in the Company:*

- in order to take account of the changed requirements of the law on joint stock companies, a new revision of the Company Charter was approved,
- improvement of the system of internal control and risk management and development of the internal audit function were established as the Company's business priorities,
- in order to provide the Board of Directors and executive bodies of the Company with independent and objective assurance that adequate internal control systems, risk management and corporate governance are in place, the Internal Audit Policy of the Company was approved,
- new revisions of the following documents were approved:
  - ü Regulations on the Revision commission of the Company,
  - ü Internal Control Policy and Risk Management Policy, taking into account the provisions of the Strategy of Development of the Electric Grid Complex of the Russian Federation approved by Decree No.511-r of the RF Government of 03.04.2013, and the Strategy of Development and Improvement of the Internal Control System of JSC Russian Grids and its subsidiaries and affiliates, approved by the Board of Directors of JSC Russian Grids (Minutes No.143 of 13.02.2014)
  - ü Regulations on the Reliability Committee and the Committee for Personnel and Remuneration of the Board of Directors of the Company (the competence of the two committees additionally includes preliminary review of proposals for the reorganization of the Company's management)

<sup>10</sup> Find the documents listed above and other internal documents on corporate governance of OJSC Kubanenergo on its website [www.kubanenergo.ru](http://www.kubanenergo.ru), in section [About the Company / Constituent and in-house documents](#). Overview of OJSC Kubanenergo internal documents and regulations regulating the activity of its management and control bodies, as well as functioning of key procedures of corporate governance procedures – Appendix 5.

· the Policy of Cooperation with the Society, Consumers and Authorities of JSC Russian Grids was approved as an internal document of the Company (for the development of local regulations of the Company, establishing goals, objectives and main provisions of the work with external stakeholders).

## General Meeting of Shareholders

General Meeting of Shareholders is the top management body of the Company.

In accordance with the Charter of OJSC Kubanenergo, the following matters, among other things, are the responsibility of the General Meeting of Shareholders of the Company:

- Introduction of amendments and additions to the Charter;
- Reorganization and liquidation of the Company;
- Increase and decrease of the Company's authorized capital;
- Split-up and reverse split of the Company's shares;
- Decision-making on placement of stocks converted into shares by the Company;
- Election of members of the Board of Directors and Revision commission of the Company and early termination of their powers;
- Approval of annual reports, annual accounting statements, profit distribution (including payment of dividends);
- Decision-making on approval of major transactions and interested party transactions in the cases stipulated by Federal Law "On Joint-Stock Companies";
- Approval of internal documents regulating the activity of the Company bodies;
- Decision-making on payment of remuneration and/or compensation to the members of the Board of Directors and the Revision commission of the Company;
- Decision-making with regard to applications for delisting of shares of the Company and (or) equity securities convertible into its shares.

The General Meetings of Shareholders of OJSC Kubanenergo are prepared and held in accordance with the laws of the Russian Federation and [Regulations on Procedure for Convening and Holding General Meeting of Shareholders](#)<sup>11</sup>.

*One General Meeting of Shareholders of the Company was held in 2014 (the annual meeting).*

<b>Date of the General Meeting of Shareholders</b>	<b>Decisions adopted by the General Meeting of Shareholders<sup>12</sup></b>
23.06.2014 (Minutes No. 35 of 24.06.2014) The holders of 99.61% of total amount of placed voting shares participated in the meeting.	<ul style="list-style-type: none"> <li>· The annual report and annual financial statements for 2013 were approved.</li> <li>· Profit distribution was approved (by the results of 2013, the Company sustained loss in the amount of 2,480,136 thousand Rubles). It was decided not to pay dividends by the results of 2013.</li> <li>· The members of the Board of Directors and the Audit Commission were elected.</li> <li>· The auditor of the Company, Ernst &amp; Young LLC, was approved.</li> <li>· The new revisions of the Company Charter and internal documents were approved, including:               <ul style="list-style-type: none"> <li>ü Regulations on Procedure for Convening and Holding General Meeting of Shareholders,</li> <li>ü Regulations on the Revision commission of the Company.</li> </ul> </li> </ul>

## Board of Directors

The Board of Directors performs general management of the Company's activity, excluding the matters being the responsibility of the General Meeting of Shareholders, and plays a fundamental part in the Company's management.

<sup>11</sup> Find the Regulations on Procedure for Convening and Holding General Meeting of Shareholders of OJSC Kubanenergo on the website of [www.kubanenergo.ru](http://www.kubanenergo.ru), in section [About the Company / Constituent and in-house documents](#)

<sup>12</sup> Find the minutes of the General Meetings of Shareholders of OJSC Kubanenergo on the website of [www.kubanenergo.ru](http://www.kubanenergo.ru), in section [About the Company / Management / Shareholders' General Meeting](#)

The main objectives and tasks of the Board of Directors are:

- To determine the Company's development strategy aimed at enhancement of its market capitalization and investment prospects, achievement of maximum profit and increments of assets of the Company;
- To ensure exercise and protection of rights and legitimate interests of shareholders, as well as to assist in settlement of corporate conflicts;
- To ensure completeness, reliability and neutrality of disclosure of information about the Company;
- To establish efficient mechanisms of internal control;
- Approval of key performance indicators, regular evaluation of activities of Company's executive bodies.

In order to implement the above purposes and tasks, the Board of Directors is guided by the following principles:

- To adopt decisions on the basis of reliable information on the Company's activity;
- To avoid restriction of the shareholders' rights to participate in the management of the Company, receipt of dividends and information about the Company;
- To achieve balance of convenience of different groups of shareholders and to have the most neutral decisions adopted by the the Board of Directors to the benefit of all shareholders of the Company.

The responsibility of the Company's Board of Directors is extended compared to the standards of Federal Law "On Joint-Stock Companies"; it additionally includes the following matters:

- Determining the development strategy of the Company;
- Approval of business plan, including investment program;
- Determination of the credit policy of the Company;
- Approval of the procedure of the Company's interaction with the organizations wherein it participates;
- Determination of the Company's stance on the basic issues of the agenda of the General Meetings of Shareholders (participants) and meetings of the Board of Directors of the S&A;
- Preliminary approval of the decisions on conclusion of the following transactions by the Company:
  - ü Transactions the subject whereof are non-current assets in the amount exceeding 10% of the book value of its total non-current assets;
  - ü Transactions involving alienation or a possibility of alienation of property constituting fixed assets, intangible assets, the facilities under construction, the purpose of use whereof is transfer, dispatching, distribution of electric power;
  - ü Transactions involving donation of the Company's property or proprietary rights (claims) to itself or to a third party; transactions involving releasing from property obligation before itself or a third party; transactions involving gratuitous provision of services by the Company to third parties;
- Determination of purchase policy of the Company, and approval of annual complex purchase program;
- Approval of target values of key performance indicators of the Company and reports on performance thereof;
- Determination of the Company policy in part of improvement of reliability of the power grids disruption complex and other power grid facilities, including approval of the Company's strategic programs for development of power supply network, improvement of its reliability and safety.

*The Regulations on the Procedure for Convening and Holding Meetings of the Board of Directors<sup>13</sup> stipulate the rights, obligations and liability of the members of the Board of Directors, organization of work of the Board of Directors, the terms and procedure of convening and holding of its meetings, the procedure of decision making and other issues of its activity.*

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<sup>13</sup> Find the Regulations on Procedure for Convening and Holding Meetings of the Board of Directors of OJSC Kubanenergo on the website of [www.kubanenergo.ru](http://www.kubanenergo.ru), in section [About the Company / Constituent and in-house documents](#)

The Board of Directors includes 11 persons elected by the General Meeting of Shareholders for the period up to the following annual General Meeting of Shareholders

## The Board of Directors<sup>14</sup>

Two personal compositions of the Board of Directors acted in the reporting year.

Ø The Board of Directors, elected by the Annual General Meeting of Shareholders on June 17, 2013, and operating until 23.06.2014<sup>15</sup>:

### 1. Ruslan Raisovich Magadeev, Chairman of the Board of Directors

Year of birth	1977
Education	Higher. Magnitogorsk State Technical University named after G.I. Nosov, degree in Power Supply of Industrial Enterprises
Current position in the primary employment	Deputy Director of the Situation and Analytical Center of JSC Russian Grids
Other held positions	Member of the Board of Directors of OJSC IDGC of South, OJSC IDGC of Urals, OJSC Lenenergo
The first/last election to the Board of Directors of OJSC Kubanenergo	17.06.2013 / 17.06.2013

### 2. Suleyman Gelaniyevich Vagapov, independent director<sup>16</sup>

Year of birth	1953
Education	Higher. Rostov State University named after M.A. Suslov, specialization in Jurisprudence
Current position in the primary employment	Deputy General Director of OJSC Resorts of the North Caucasus
The first/last election to the Board of Directors of OJSC Kubanenergo	17.06.2013 / 17.06.2013

### 3. Aleksandr Viktorovich Varvarin

Year of birth	1975
Education	Higher. International Law and Economics Named after A.S. Griboyedov, specialization in Legal Science.
Current position in the primary employment	Managing Director for Corporate Relations and Legal Support of RSPP
Other held positions	General Director, member of the Board of non-profit partnership CRKO RES Deputy Chairman of the Management Board of RSSOAU. Chairman of the Board of non-profit partnership MSO PAU. Chairman of the Board of Directors of OJSC VNIPIneft, OJSC INPC TLP, OJSC Production and Science Center, OJSC CNIIMashdetal, OJSC CNIIKP, OJSC CNIILKA, OJSC CNIPIK. Member of the Board of Directors of OJSC WCIOM, OJSC IDGC of Volga, OJSC IDGC of the North Caucasus, OJSC GTLK. Member of the Revision commission of OJSC Russian Railways.
The first/last election to the Board of Directors of OJSC	17.06.2013 / 23.06.2014

<sup>14</sup> The consent to disclosure of personal data indicated in section "Corporate Governance" was secured from all persons who are or were the members of the management and control bodies of OJSC Kubanenergo.

<sup>15</sup> The data on the jobs and titles of the members of this Board of Directors are given as of 31.03.2014 according to the information provided by them.

<sup>16</sup> The criteria for the independence of a member of the Board of Directors are determined in accordance with the Corporate Governance Code recommended by the Bank of Russia on 21.03.2014.

Kubanenergo	
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#### **4. Ivan Alekseevich Gaychenya, independent director**

Year of birth	1967
Education	Higher. Higher Frontier Military Political School of the KGB USSR, the International Independent University of Ecology and Political Science, qualification: Jurisprudence; the General Staff Academy of the Armed Forces of the Russian Federation.
Current position in the primary employment	Director of Security Department of JSC Russian Grids.
The first/last election to the Board of Directors of OJSC Kubanenergo	17.06.2013 / 17.06.2013

#### **5. Anna Yurievna Katina**

Year of birth	1982
Education	Higher. Moscow Humanitarian University, specialization in Jurisprudence
Current position in the primary employment	Deputy Head of the Department – Division Head of the Department for Corporate Governance and Shareholder Relations of JSC Russian Grids.
Other held positions	Member of the Board of Directors of OJSC Berendeyevskoye, OJSC Ekaterinburgenergosbyt, JSC Plant RETO, CJSC Tsarskoselskaya Power Supply Company, OJSC Energy Service Company Lenenergo, OJSC Energy Service Company of Urals, OJSC RDE of Urals, OJSC Tyumenenergo
The first/last election to the Board of Directors of OJSC Kubanenergo	Was a member of the Board of Directors of OJSC Kubanenergo from 29.06.2009 to 24.08.2012, then was reelected on 17.06.2013

#### **6. Andrey Sergeevich Kolyada, representative of the legal interests of the Russian Federation**

Year of birth	1984
Education	Higher. State University of Management, qualification: “Enterprise Management”, Russian State University of Trade and Economics, qualification: Jurisprudence.
Current position in the primary employment	Head of the Share Capital Division of the Department for Corporate Governance and Shareholder and Investors Relations of JSC Russian Grids.
Other held positions	Member of the Board of Directors of OJSC Firma Energozashchita, OJSC Samaraneftegeofizika, OJSC Volgogradneftegeofizika, OJSC Stavropolneftegeofizika, OJSC Sevmorneftegeofizika
The first/last election to the Board of Directors of OJSC Kubanenergo	Was a member of the Board of Directors of OJSC Kubanenergo from 30.06.2010 to 24.08.2012, then was reelected on 17.06.2013

#### **7. Marina Aleksandrovna Lavrova**

Year of birth	1982
Education	Higher. State University of Management, qualification: Management in Power Economy; and the Finance Academy at the Government of the Russian Federation, qualification: Finance and Credit.
Current position in the primary employment	Head of the Department of Economy of S&A of the Department of Economic Planning and Budgeting of JSC Russian Grids.
Other held positions	Member of the Board of Directors of OJSC Dagestan Energy Distribution Company, OJSC EEDC
The first/last election to the Board of Directors of OJSC Kubanenergo	17.06.2013 / 23.06.2014

### **8. Khasan Mushtafaevich Likhov**

Year of birth	1983
Education	Academy of Economic Security of the Ministry of the Interior of Russia (Moscow).
Current position in the primary employment	Deputy Director of the Department of Corporate Governance, Pricing Environment and Internal Control in the Fuel and Energy Sector of the Ministry of Energy of Russia
Other held positions	Member of the Board of Directors of OJSC IDGC of the South, OJSC DVEUK, OJSC IDGC of the North Caucasus
The first/last election to the Board of Directors of OJSC Kubanenergo	Was a member of the Board of Directors of OJSC Kubanenergo from 30.06.2010 to 21.06.2012, then was reelected on 24.08.2012 and 17.06.2013

### **9. Leonid Valerievich Neganov**

Year of birth	1972
Education	Higher. Moscow State Engineering and Physics Institute, qualification: Solid-State Science; Higher School of Economics, qualification: Management.
Current position in the primary employment	Minister of Energy of the Ministry of Energy of the Moscow Region.
The first/last election to the Board of Directors of OJSC Kubanenergo	17.06.2013 / 17.06.2013

### **10. Aleksandr Viktorovich Solod**

Year of birth	1976
Education	Higher. Graduated from South-Russian State Technical University, qualification: Electrical Power Systems and Grids
Current position in the primary employment	General Director of the Branch MEG of the South of OJSC FGC UES
Other held positions	Member of the Board of Directors of OJSC IDGC of the South, OJSC Nurenergo.
The first/last election to the Board of Directors of OJSC Kubanenergo	17.06.2013 / 17.06.2013

### **11. Andrey Vladimirovich Cherezov**

Year of birth	1967
Education	Higher technical. Altai Technical University named after I.I. Polzunov, qualification: Power Supply
Current position in the primary employment	Deputy Minister of the Ministry of Energy of Russia
Other held positions	Member of the Board of Directors of OJSC IDGC of the North Caucasus
The first/last election to the Board of Directors of OJSC Kubanenergo	17.06.2013 / 17.06.2013

Ø Current members of the Board of Directors, elected at the Annual General Meeting of Shareholders of OJSC Kubanenergo on 23.06.2014<sup>17</sup>:

### 1. Sergey Vladimirovich Sergeev, Chairman of the Board of Directors

Year of birth	1976
Education	Higher. Novocherkassk State Technical University, qualification: Industrial and Civil Construction. Advanced training at the Institute of Advanced Training for Managers and Specialists in the Fuel and Energy Sector of the Interbranch Regional Center of Training and Retraining of the Irkutsk State Technical University. Retraining in the Academy of National Economy under the Government of the Russian Federation with a degree in Economics, Management, Finance and Legal Framework of Joint Stock Companies
Current position in the primary employment	Deputy General Director for Capital Construction of JSC Russian Grids
Other held positions	Chairman of the Board of Directors of OJSC RDEC IDGC. Member of the Board of Directors of OJSC IDGC of Urals, OJSC Tyumenenergo
The first/last election to the Board of Directors of OJSC Kubanenergo	23.06.2014 / 23.06.2014

### 2. Aleksandr Viktorovich Varvarin

Year of birth	1975
Education	Higher. International Law and Economics Named after A.S. Griboyedov, specialization in Legal Science.
Current position in the primary employment	Managing Director for Corporate Relations and Legal Support of RSPP
Other held positions	General Director, member of the Board of non-profit partnership CRKO RES Chairman of the Board of non-profit partnership MSO PAU. Chairman of the Board of Directors of OJSC INPC TLP, OJSC Production and Science Center, OJSC CNIIMashdetal, OJSC CNIIKP, OJSC CNIILKA, OJSC CNIPIK. Member of the Board of Directors of OJSC WCIOM, OJSC VNIPIneft, OJSC IDGC of Volga, and OJSC IDGC of the North Caucasus Member of the Revision commission of OJSC Russian Railways. Chairman of the Committee for Technological Connection, member of the Committee for Personnel and Remuneration of the Board of Directors of OJSC Kubanenergo
The first/last election to the Board of Directors of OJSC Kubanenergo	17.06.2013 / 23.06.2014

### 3. Aleksandr Ilyich Gavrilov

Year of birth	1973
Education	Higher. Kuban State University, qualification: Accounting and Audit; Kuban State Technological University, qualification: Exploitation and Operation of Oil-and-Gas Field. Academic degree: DPhil in Economics.
Current position in the primary employment	General Director and Management Board Chairman of OJSC Kubanenergo

<sup>17</sup> Information on the jobs and titles of members of this Board of Directors is given as of 31.12.2014, according to the information provided by them.

The first/last election to the Board of Directors of OJSC Kubanenergo	23.06.2014 / 23.06.2014
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#### 4. Ashot Mikhaylovich Kobelyan

Year of birth	1980
Education	Higher. Military Aviation Technical University, qualification: Maintenance of Aircraft and Engines; Russian Academy of National Economy and Public Administration under the President of the Russian Federation, qualification: Management of an Organization.
Current position in the primary employment	Head of the Office of Master Planning, Regulation and Organization of Procurement Activities of the Department of Procurement of JSC Russian Grids
The first/last election to the Board of Directors of OJSC Kubanenergo	23.06.2014 / 23.06.2014

#### 5. Marina Aleksandrovna Lavrova

Year of birth	1982
Education	Higher. State University of Management, qualification: Management in Power Economy; and the Finance Academy at the Government of the Russian Federation, qualification: Finance and Credit.
Current position in the primary employment	Head of the Department of Economy of S&A of the Department of Economic Planning and Budgeting of JSC Russian Grids.
Other held positions	Member of the Board of Directors of OJSC IDGC North-West, OJSC Dagestan Energy Distribution Company, OJSC EEDC Chairman of the Audit Committee of the Board of Directors of OJSC Kubanenergo.
The first/last election to the Board of Directors of OJSC Kubanenergo	17.06.2013 / 23.06.2014

#### 6. Valentin Efimovich Mezhevich

Year of birth	1947
Education	Higher. Irkutsk Polytechnic Institute, qualification: Thermal Power Plants. Academic degree: Ph.D. in Technical Science.
Current position in the primary employment	Deputy General Director for Strategic Communications of JSC Russian Grids
Other held positions	Member of the Board of Directors of OJSC IDGC of Siberia, OJSC IDGC of the North Caucasus
The first/last election to the Board of Directors of OJSC Kubanenergo	23.06.2014 / 23.06.2014

#### 7. Oleg Aleksandrovich Sukhov

Year of birth	1974
Education	Higher. North Caucasus State Technical University, qualification: Electric Drives and Automation of Production Plants and Technological Complexes
Current position in the primary employment	Head of Situation and Analytical Department of the Situation and Analytical Center of JSC Russian Grids
The first/last election to the Board of Directors of OJSC Kubanenergo	23.06.2014 / 23.06.2014

### 8. Andrey Nikolaevich Kharin

Year of birth	1974
Education	Higher. Stavropol State University, qualification: Jurisprudence
Current position in the primary employment	Deputy Director of the Department of Corporate Governance, Pricing Environment and Internal Control in the Fuel and Energy Sector of the Ministry of Energy of Russia
The first/last election to the Board of Directors of OJSC Kubanenergo	23.06.2014 / 23.06.2014

### 9. Kseniya Valeryevna Khokholkova

Year of birth	1970
Education	Higher. State Academy of Management named after Sergo Ordzhonikidze, qualification: Organization of Management in the Fuel and Energy Sector
Current position in the primary employment	Deputy Head of the Department of Shareholder Capital, Division Head of the Office for Securing the Rights of Shareholders of the Department for Corporate Governance and Shareholder Relations of JSC Russian Grids.
Other held positions	Member of the Board of Directors of OJSC Lenenergospetsremont, OJSC Energetik Health and Recreation Resort, OJSC Energoservice, OJSC NIC of Volga Region. Member of the Audit Committee and the Committee for Strategy, Development, Investments and Reforms of the Board of Directors of OJSC Kubanenergo
The first/last election to the Board of Directors of OJSC Kubanenergo	23.06.2014 / 23.06.2014

### 10. Yulia Petrovna Chermenteeva

Year of birth	1972
Education	Higher. Moscow State Academy of Law, qualification: Jurisprudence
Current position in the primary employment	Until August 2014, Head of Electric Power Regulation Office of the Legal Department of JSC Russian Grids
Other held positions	Member of the Board of Directors of OJSC Sevkvkazenergo
The first/last election to the Board of Directors of OJSC Kubanenergo	23.06.2014 / 23.06.2014

### 11. Arseny Grigoryevich Shatokhin

Year of birth	1976
Education	Higher. Kuban State University of Technology, qualification: Management; Russian Academy of State Service, qualification: State and Municipal Management, Ecology and Environmental Management
Current position in the primary employment	Head of the Department of Investment Planning and Reporting of OJSC FGC UES
Other held positions	Member of the Audit Committee of the Board of Directors of OJSC Kubanenergo.
The first/last election to the Board of Directors of OJSC Kubanenergo	23.06.2014 / 23.06.2014

*All persons who were in 2014 and currently are members of the Board of Directors of the Company are citizens of the Russian Federation.*

*No transactions were concluded in the reporting year between the Company and persons who were members of the Board of Directors of OJSC Kubanenergo in 2014.*

No persons who were members of the Board of Directors in 2014 own the shares of the Company or its S&A. None of them have participated in any transactions to acquire or dispose of Company shares.

The members of the Board of Directors of OJSC Kubanenergo were not trained at the Company's expense in the reporting year.

### Activities of the Board of Directors

In 2014, 23 meetings of the Board of Directors were held, all in absentia (by poll).

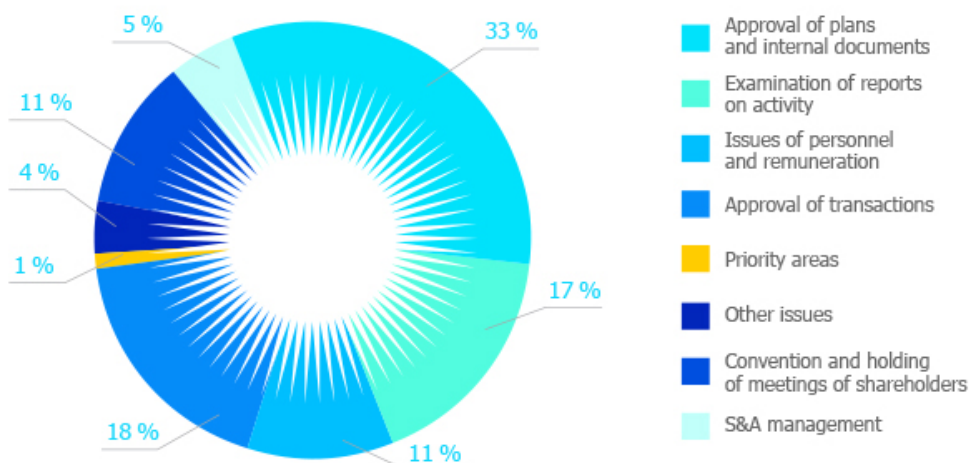
#### Activities of the Board of Directors in 2012–2014

	2012	2013	2014
Number of Board meetings held	24	28	23
<i>including in person and in absentia</i>	1	3	0
Number of issues considered	317	311	224
<i>including decisions made</i>	290	307	224
Average participation of Board members in the work of the Board	72.5%	81.5%	80.8%

#### Participation of Board members in the meetings in 2014



#### Issues considered by the Board of Directors of the Company in 2014



*The most important decisions taken by the Board of Directors of OJSC Kubanenergo in the reporting year:*

- establishment of the following priority areas of activity:
  - ü certification of equipment, materials and systems at the facilities of the Company,
  - ü accessibility of energy infrastructure and quality of technological connection to power grids of the Company,
  - ü improvement of the system of internal control and risk management, development of the internal audit function;
- approval of the following strategic documents:
  - ü Company's business plan, including an investment program for 2015,
  - ü Program of energy saving and energy efficiency of the Company for 2015–2019,
  - ü Plan for the future development of OJSC Kubanenergo for 2014–2018,
  - ü Internal Audit Policy of the Company,
  - ü Human Resources and Social Policy of the Company,
  - ü Comprehensive program to reduce risk of injury of personnel and third parties at grid facilities of OJSC Kubanenergo,
  - ü Procurement Policy of the Company;
  - ü Company Standard on Technical Policy. Electric power accounting systems with remote data collection from wholesale and retail electricity markets at the facilities of OJSC Kubanenergo,
  - ü Regulations on the technical policy in the field of telecommunications of the Company,
  - ü inclusion into the Company's internal documents of the Policy of Innovation Development, Energy Saving and Energy Efficiency, Policy of engagement with society, consumers and authorities of JSC Russian Grids and Anti-Corruption Policy of JSC Russian Grids and its subsidiaries and affiliates,
  - ü amended list of projects in the field of energy saving and increasing economic efficiency suitable for implementation under energy service agreements (agreements),
  - ü adoption of new revisions of the Regulations on the Reliability Committee, the Committee for Personnel and Remuneration of the Board of Directors of the Company and the Central Tender Committee, Risk Management Policy, Internal Control Policy of the Company;
- changes in the composition of the Management Board;
- approval of the new organizational structure of executive bodies of OJSC Kubanenergo;
- review of the reports of Director General on various aspects of financial and economic activities, including the implementation of the business plan and the investment program, as well as on the implementation of decisions of the Board of Directors;
  - approval of interested party transactions;
  - decision on accession of the Company into the Non-Profit Partnership of Territorial Grid Organizations.

*Minutes of the meetings of the Board of Directors of OJSC Kubanenergo are available at [www.kubanenergo.ru](http://www.kubanenergo.ru), in section [About the Company / Management / Board of Directors](#)*

## Committees of the Board of Directors

Committees of the Board of Director were established in order to ensure effective implementation by the Board of Directors of OJSC Kubanenergo of its functions in relation to overall management of the Company. The Committees have the status of advisory bodies engaged in profound elaboration of issues within the competence of the Board of Directors with subsequent preparation of recommendations for the Board of Directors.

Activities of all Committees are governed by respective regulations establishing purposes and tasks of a Committee, the procedure of establishment thereof and organization of work<sup>18</sup>.

Personal composition of each Committee is elected by the Board of Directors of the Company from the candidates proposed by members of the Board of Directors.

In the reporting year, recommendations to the Board of Directors were timely submitted by each Committee.

*Minutes of the meetings of the Committees of OJSC Kubanenergo are available at [www.kubanenergo.ru](http://www.kubanenergo.ru), in section [About the Company / Management / Board of Directors / Committees of the Board of Directors](#)*

Members of Committees participating in meetings of the Committees of the Board of Directors are entitled to respective remuneration. The total remuneration paid to members of committees of the Board of Directors in 2014 amounted to 1,631 thousand Rubles. The Company has no outstanding amounts payable to any members of the Committees.

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<sup>18</sup> See Regulations on the Committees of the Board of Directors of OJSC Kubanenergo at: [www.kubanenergo.ru](http://www.kubanenergo.ru), in section [About the Company / Constituent and in-house documents](#)

Committee creation date	Date and number of the Minutes of the meeting of the Board of Directors, which approved the Regulations on the Committee (as amended)	Main objectives of the Committee	Members of the Committee in the reporting year <sup>19</sup>	Main results of the Committee
<b>Reliability Committee:</b>				
9/18/2006	8/1/2014 No.194/2014	Development and presentation of recommendations (opinions) to the Board of Directors on areas of activity to ensure technological reliability and development of power facilities, grid equipment and other fixed assets of the Company.	<p><i>Composition of the Committee in the period from 8/15/2013 to 7/31/2014:</i></p> <ol style="list-style-type: none"> <li><b>Vitaliy Ivanov</b> (Chairman of the Committee), Deputy General Director of JSC Russian Grids</li> <li><b>Ruslan Magadeev</b>, Deputy Director of the Situation-Analytical Center of JSC Russian Grids, Chairman of the Board of Directors of OJSC Kubanenergo.</li> <li><b>Pavel Zinchenko</b>, Deputy General Director for Technical Issues, Chief Engineer of OJSC Kubanenergo</li> <li><b>Andrey Chebakov</b>, Deputy Chief Engineer for operation, Head of the Department of Operation and Maintenance and Repair of OJSC Kubanenergo.</li> <li><b>Olga Zuykova</b>, Head of the Process Safety Division of the Asset Management Department of JSC Russian Grids.</li> <li><b>Andrey Koltsov</b>, General Director of Technical Supervision Center, branch of JSC FGC UES.</li> </ol> <p><i>Current members of the Committee (elected 7/31/2014, as amended on 11/14/2014):</i></p> <ol style="list-style-type: none"> <li><b>Ruslan Magadeev (Chairman of the Committee)</b>, Deputy Director of the Situation-Analytical Center of JSC Russian Grids.</li> <li><b>Dmitry Ryazantsev</b>, First Deputy General Director, Chief Engineer of OJSC Kubanenergo, member of the Management Board of OJSC Kubanenergo.</li> <li><b>Andrey Chebakov</b>, Deputy Chief Engineer for operation, Head of the Department of Operation and Maintenance and Repair of OJSC Kubanenergo.</li> <li><b>Kovtun Sergey</b>, Chief Expert of the Department of Major Equipment of the Department of Management of Production Assets of JSC Russian Grids.</li> </ol>	<p><i>Five meetings were held (one in the form of a meeting and four as absent voting); 28 issues were examined; recommendations for the Board of Directors were elaborated on the following main issues:</i></p> <ul style="list-style-type: none"> <li>- on approval of the business plan (including the investment program) and KPIs of the Company,</li> <li>- on approval of a comprehensive program to reduce risk of injury to the Company personnel and third parties at the facilities of OJSC Kubanenergo,</li> <li>- on establishment of the certification of equipment, materials and systems at the facilities of the Company as a priority activity,</li> <li>- on the levels of reliability of quality of services of the Company,</li> <li>- on examination of the General Director's reports on the issues of reliability and the status of the power facilities of OJSC Kubanenergo, accident incidence rates, and the Company's readiness for the autumn-winter period.</li> </ul> <p><i>Participation of members of the Committee in the meetings was 96.3% in average.</i></p>
<b>Audit Committee:</b>				
10/16/2009	8/24/2012 No.142/2012	Development and presentation of recommendations (opinions) to the Board of Directors on control over the preparation of financial statements, selection of an auditor,	<p><i>Composition of the Committee in the period from 8/15/2013 to 7/31/2014:</i></p> <ol style="list-style-type: none"> <li><b>Marina Lavrova</b> (Chairman of the Committee), Head of the Division of Economy of S&amp;A of the Economic Planning and Budgeting Department of JSC Russian Grids, member of the Board of Directors of OJSC Kubanenergo.</li> <li><b>Aleksandr Solod</b>, General Director of the Branch MEG of the South of JSC FGC UES, member of the Board of Directors of OJSC Kubanenergo.</li> <li><b>Anna Katina</b>, Deputy Head of the Management Department, Division Head of</li> </ol>	<p><i>Twelve meetings were held (one in the form of a meeting and eleven as absent voting); 55 issues were examined; recommendations for the Board of Directors were elaborated on the following main issues:</i></p> <p>In 2014, the Board of Directors considered the issues of organization, functioning and effectiveness of risk management and internal control (reports of 6/23/ 2014, No.192/2014, of 9/12/ 2014, No.196/2014 of 10/17/ 2014, No.198/2014), decisions were made regarding:</p> <ul style="list-style-type: none"> <li>- establishing the improvement of the system of internal control and risk management</li> </ul>

<sup>19</sup> Positions of members of the Committees of the Board of Directors are indicated as at the time of their election.

		effectiveness of internal control and risk management procedures, and selection of an external auditor	<p>the Department for Corporate Governance and Shareholder Relations of JSC Russian Grids, member of the Board of Directors of OJSC Kubanenergo.</p> <p><i>Current composition of the Committee (elected 7/31/2014):</i></p> <ol style="list-style-type: none"> <li><b>Marina Lavrova</b> (Chairman of the Committee), Head of the Division of Economy of S&amp;A of the Economic Planning and Budgeting Department of JSC Russian Grids, member of the Board of Directors of OJSC Kubanenergo.</li> <li><b>Ksenia Khokholkova</b>, Deputy Head of the Share Capital Department, Division Head of the Department for Securing the Rights of Shareholders of the Department of Corporate Governance and Shareholder Relations of JSC Russian Grids, member of the Board of Directors of OJSC Kubanenergo.</li> <li><b>Arseny Shatokhin</b>, Director of the Department of Special Projects of JSC Russian Grids, member of the Board of Directors of OJSC Kubanenergo.</li> </ol>	<p>and development of the internal audit function as priority activities of the Company,</p> <ul style="list-style-type: none"> <li>- approval of a registry of key risks,</li> <li>- taking note of the report on key risks.</li> </ul> <p>Significant issues considered by the Audit Committee of the Board of Directors in 2014 include<sup>20</sup>:</p> <ul style="list-style-type: none"> <li>- issues regarding the effectiveness of risk management and internal control (reports of 4/9/ 2014, No.13/2014, of 5/15/ 2014, No.16/2014);</li> <li>- terms of reference and conditions of the tender for the selection of the external auditor (Minutes of 12/22/ 2014, No.24/2014);</li> <li>- reports of the internal audit and risk management division on the implementation of the work plan (Minutes of 2/20/ 2014, No.12/2014; of 5/15/ 2014, No.16/2014; of 8/19/ 2014, No.19/2014, of 12/1/ 2014, No.23/2014);</li> <li>- comments from the external auditor on major deficiencies of the statements prepared in accordance with RAS and IFRS (Minutes of 4/30/ 2014 No.15/2014; of 5/20/2014, No.17/2014; of 12/22/ 2014, No.24/2014);</li> <li>- report of the General Director on the results of the analysis of the causes and elimination of violations identified during inspections conducted by external control bodies, the Revision commission, the Department of Internal Audit and Control of JSC Russian Grids, the Internal Audit and Risk Management Division of OJSC Kubanenergo in 2013 (Minutes of 5/15/ 2014, No.16/2014);</li> <li>- evaluation of the auditor's report confirming the accuracy of the annual accounting (financial) statements of the Company and evaluation of efficiency of the external audit for 2013 (Minutes of 4/30/ 2014, No.15/2014).</li> </ul> <p><i>Participation of members of the Committee in the meetings was 97.0% in average.</i></p>
<b>Strategy, Development, Investments and Restructuring Committee</b>				
2/5/2010	2/5/2010 No.84/2010	Development and presentation of recommendations (opinions) to the Board of Directors on matters related to the development strategy of the Company, evaluation of the effectiveness of its activities, increased investment attractiveness, control over the implementation of programs and projects adopted and reforming of the Company	<p><i>Composition of the Committee in the period from 8/15/2013 to 7/31/2014:</i></p> <ol style="list-style-type: none"> <li><b>Andrey Lisavin</b> (Chairman of the Committee), Head of the Strategy Implementation Division of the Strategic Development Department of JSC Russian Grids.</li> <li><b>Sergey Podlutsky</b>, Head of the Master Planning and Accounting Division of the Investment Activity Department of JSC Russian Grids.</li> <li><b>Valeriy Isaev</b>, Head of the Financial Division of the Corporate Finance Department of JSC Russian Grids</li> <li><b>Marina Lavrova</b>, Head of the Division of Economy of S&amp;A of the Economic Planning and Budgeting Department of JSC Russian Grids, member of the Board of Directors of OJSC Kubanenergo.</li> <li><b>Kirill Iordanidi</b>, Leading Expert of the Strategic Planning Division of the Strategic Development Department of JSC Russian Grids.</li> <li><b>Anna Katina</b>, Deputy Head of the Management Department, Division Head of the Department for Corporate Governance and Shareholder Relations of JSC Russian Grids, member of the Board of Directors of OJSC Kubanenergo.</li> <li><b>Vitaly Kocherga</b>, Deputy General Director for Corporate Management of OJSC Kubanenergo, member of the Management Board of OJSC Kubanenergo.</li> </ol>	<p><i>Twelve meetings were held (five in the form of a meeting and seven as absent voting); 55 issues were examined; recommendations for the Board of Directors were elaborated on the following main issues:</i></p> <ul style="list-style-type: none"> <li>- on approval of the business plan (including investment program), as well as its implementation results,</li> <li>- on approval of the KPI of the General Director and top managers and their implementation results,</li> <li>- on the levels of reliability of quality of services of the Company,</li> <li>- on approval of strategic programs and plans and their implementation reports,</li> <li>- on approval of the policies of innovation development, energy saving and energy efficiency,</li> <li>- on determining the Company's position on the agendas of meetings of the boards of directors of subsidiaries and affiliates of the Company,</li> <li>- on priority activity areas,</li> <li>- on consideration of reports of the Director General within the competence of the Committee.</li> </ul>

<sup>20</sup> Extracts from the above minutes of the meetings of the Audit Committee of the Board of Directors are provided in Appendix 7 hereto.

			<p>8. <b>Vyacheslav Kostetsky</b>, Deputy General Director for Services Development and Realization of OJSC Kubanenergo, member of the Management Board of OJSC Kubanenergo.</p> <p>9. <b>Aleksandr Bogashov</b>, acting consultant of the division of the Federal Agency for State Property Management, member of the Revision commission of OJSC Kubanenergo.</p> <p>10. <b>Zalina Buklova</b>, Head of the Division of the Federal Targeted Investment Program Implementation of the Department of Corporate Governance, Pricing Environment and Internal Control of the Fuel and Energy Sector of the Ministry of Energy of Russia.</p> <p><i>Current members of the Committee elected 7/31/ 2014 (as amended on 11/14/2014):</i></p> <p>1. <b>Valery Krasnikov</b> (Chairman of the Committee), Director of the Corporate Finance Department of JSC Russian Grids.</p> <p><b>Victor Seleznev</b>, Head of the Division for Scientific and Technological Development, Organization and Control of the Implementation of R&amp;D at JSC Russian Grids.</p> <p>3. <b>Nadezhda Sedykh</b>, Chief Expert of the Department of Economics of S&amp;A of the Department of Economic Planning and Budgeting of JSC Russian Grids.</p> <p>4. <b>Ksenia Khokholkova</b>, Deputy Head of the Share Capital Department, Division Head of the Department for Securing the Rights of Shareholders of JSC Russian Grids, member of the Board of Directors of OJSC Kubanenergo.</p> <p>5. <b>Sergey Podlutsky</b>, Head of the Master Planning and Accounting Division of the Investment Activity Department of JSC Russian Grids.</p> <p>6. <b>Yuri Antimenko</b>, Head of the Department of Future Development of the Grid of JSC Russian Grids.</p> <p>7. <b>Kirill Iordanidi</b>, Leading Expert of the Strategic Planning Division of the Strategic Development Department of JSC Russian Grids.</p> <p>8. <b>Vyacheslav Kostetsky</b>, Deputy General Director for Services Development and Realization of OJSC Kubanenergo, member of the Management Board of OJSC Kubanenergo.</p>	<p><i>Participation of members of the Committee in the meetings was 82.7% in average.</i></p>
<b>Personnel and Remuneration Committee:</b>				
8/6/2010	8/1/2014 No.194/2014	<p>Development and presentation of recommendations (opinions) to the Board of Directors on issues of establishing the criteria for the selection and assessment of candidates for the Board of Directors and executive bodies of the Company, assessment of activities of these bodies, and setting up of principles and criteria for determining the amounts of remuneration to their members.</p>	<p><i>Composition of the Committee in the period from 8/15/2013 to 7/31/2014:</i></p> <p>1. <b>Yuriy Mangarov</b> (Chairman of the Committee), Deputy General Director, Chief of Administration at JSC Russian Grids.</p> <p>2. <b>Dmitriy Chevkin</b>, Director of the Department of Personnel Policy and Organization Development of JSC Russian Grids.</p> <p>3. <b>Andrey Kolyada</b>, Head of the Share Capital Division of the Department for Corporate Governance and Shareholder and Investors Relations of JSC Russian Grids, member of the Board of Directors of OJSC Kubanenergo.</p> <p><i>Current composition of the Committee (elected 7/31/2014):</i></p> <p>1. <b>Svetlana Zholnerchik</b> (Chairman of the Committee), Deputy General Director of JSC Russian Grids.</p> <p>2. <b>Alexandr Varvarin</b>, Managing Director for Corporate Relations and Legal Support of RSPP, member of the Board of Directors of OJSC Kubanenergo.</p> <p>3. <b>Natalia Erpsher</b>, Head of Organizational Development Division of the Department of Personnel Policy and Organizational Development of JSC Russian Grids.</p>	<p><i>Six meetings were held in the form of absent voting; 21 issues were examined; recommendations for the Board of Directors were elaborated on the following main issues:</i></p> <ul style="list-style-type: none"> <li>- on approval of the Human Resources and Social Policy of the Company,</li> <li>- on termination of powers and election of Management Board members,</li> <li>- on reviewing the organizational structure of executive bodies and branches of the Company,</li> <li>- on approval of a list of executive positions in the Company, approval of candidates within the competence of the Board of Directors,</li> <li>- on approval of the KPI of the General Director and top managers and their implementation results,</li> <li>- on preliminary approval of candidates for certain management positions in the Company,</li> <li>- on amending the Regulation on material incentives and benefits for senior managers of the Company.</li> </ul> <p><i>Participation of members of the Committee in the meetings was 98.4%.</i></p>
<b>Technological Connection Committee:</b>				

10/11/2011	10/14/2011 No.119/2011	Development of recommendations (opinions) to the Board of Directors on issues regarding the improvement of efficiency and development of the Company's activities in the field of technological connection of consumers to power grids	<p><i>Composition of the Committee in the period from 8/15/2013 to 7/31/2014:</i></p> <ol style="list-style-type: none"> <li>1. <b>Alexandr Varvarin</b> (Chairman of the Committee), Managing Director for Corporate Relations and Legal Support of RSPP, member of the Board of Directors of OJSC Kubanenergo.</li> <li>2. <b>Vyacheslav Kostetsky</b>, Deputy General Director for Services Development and Realization of OJSC Kubanenergo, member of the Management Board of OJSC Kubanenergo.</li> <li>3. <b>Vitaly Kocherga</b>, Deputy General Director for Corporate Management of OJSC Kubanenergo, member of the Management Board of OJSC Kubanenergo.</li> <li>4. <b>Aleksandr Korneev</b>, Head of the Division of Technological Connection Regulation of the Department of Future Development of Grid and Technological Connection of JSC Russian Grids.</li> <li>5. <b>Daniel Bashmakov</b>, Chairman of Krasnodar Territory Branch of OPORY ROSSII.</li> </ol> <p><i>Current composition of the Committee (elected 7/31/2014):</i></p> <ol style="list-style-type: none"> <li>1. <b>Alexandr Varvarin</b> (Chairman of the Committee), Managing Director for Corporate Relations and Legal Support of RSPP, member of the Board of Directors of OJSC Kubanenergo.</li> <li>2. <b>Vyacheslav Kostetsky</b>, Deputy General Director for Services Realization and Development of OJSC Kubanenergo, member of the Management Board of OJSC Kubanenergo.</li> <li>3. <b>Kirill Konevets</b>, Deputy General Director for Corporate Management at OJSC Kubanenergo, member of the Management Board of OJSC Kubanenergo.</li> <li>4. <b>Aleksandr Korneev</b>, Head of the Division of Technological Connection Regulation of the Department of Future Development of Grid and Technological Connection of JSC Russian Grids.</li> <li>5. <b>Daniel Bashmakov</b>, Chairman of Krasnodar Territory Branch of OPORY ROSSII.</li> </ol>	<p><i>Four meetings were held in the form of absent voting; 18 issues were considered, including election of the Chairman, Deputy Chairman and the Secretary of the Committee, consideration of reports on technological connection of consumers, analysis of claim-related work and handling of appeals of the applicants, as well as the work plan of the Committee.</i></p> <p><i>Participation of members of the Committee in the meetings was 96.7% in average.</i></p>
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## Executive Bodies

Current activities of the Company are managed by the sole executive body, the General Director, and a collective executive body, the Management Board.

In accordance with the Company Charter, the General Director is elected by the Board of Directors and is the Chairman of the Management Board. Members of the Management Board are also elected by the Board of Directors following a proposal from the General Director of the Company in the number specified in the respective decision of the Board of Directors.

All members of the Management Board, including the Chairman of the Management Board, have sufficient experience, knowledge and skills required for due performance of their obligations. The General Director and members of the Management Board act in good faith in the interests of the Company and all its shareholders. In order to avoid conflict of interest and related negative consequences for the Company, members of the Management Board disclose all information on their commercial activity unrelated to the Company.

## General Director

In accordance with the Charter of OJSC Kubanenergo, the competence of the General Director includes all matters of the current activities of the Company, except for the matters falling within the competence of the General Meeting of Shareholders, the Board of Directors and the Management Board of the Company.

The General Director of the Company is entitled to act on behalf of the Company without any power of attorney, including, but not limited to, as follows:

- secures the implementation of plans of the Company activities, required for attaining of the set objectives;
- arranges the accounting and reporting in the Company;
- disposes of the Company property, implements transactions on behalf of the Company, issues powers of attorney;
- issues, local normative acts and other internal documents of the Company related to the matters within his competence, gives instructions binding on all employees of the Company;
- approves the Regulations on Branches and Representative Offices of the Company;
- in accordance with the general structure of the executive body of the Company, approves the manning table and salaries of the Company employees;
- exercises the rights and performs the obligations of an employer in respect of the Company's employees as required by the labor law;
- performs the functions of the Chairman of the Management Board of the Company;
- distributes duties between the Deputy General Directors.

Since 19.03.2013, the functions of the sole executive body of the Company have been performed by Aleksandr Ilyich Gavrilov<sup>21</sup>.

## Management Board

The Management Board of the Company operates on the basis of the Charter and the Regulations on the Management Board<sup>22</sup> approved by the resolution of the annual General Meeting of Shareholders of OJSC Kubanenergo. In particular, the following issues fall within the competence of this executive body:

- approval of resolutions on the issues falling within the competence of the supreme governance bodies of economic societies in which 100% of charter capital or all voting shares are held by the Company;
- preparation and submission to the Board of Directors of the reports on financial and business activities of economic societies, in which 100% of charter capital or all voting shares are held by the Company;
- elaboration and submission to the Board of Directors of prospective plans for implementation of the principal areas of Company activities;

<sup>21</sup> By Decision of the Board of Directors of 18.03.2013 (Minutes No.155/2013), A. Gavrilov was appointed Acting General Director; by decision of the Board of Directors of 04.06.2013 (Minutes No.165/2013), he was appointed General Director of the Company for 3 years. For more information about A. Gavrilov please see the information on the current composition of the Board of Directors and the Management Board.

<sup>22</sup> See Regulations on the Management Board of OJSC Kubanenergo at: [www.kubanenergo.ru](http://www.kubanenergo.ru), in section [About the Company / Constituent and in-house documents](#)

- preparation of business plan and reports on the progress of its implementation, as well as approval and adjustment of cash flow;
- preparation of report on financial and business activities of the Company, and on compliance with the decisions adopted by the General Meeting of Shareholders and the Board of Directors by the Management Board;
- establishing social benefits and guarantees for the Company employees;
- approval of resolutions on entering into transactions the subject matter whereof is the property, works and services, the value of which makes from 1 to 25% of the book value of the Company assets.

## Composition of the Management Board

*The following changes in the composition of the Management Board were made in the reporting year:*

Item No.	Contents of the decision of the Board of Directors to amend the composition of the Management Board	Date of the decision of the Board of Directors
1	To elect Denis Vladimirovich Negreba, Deputy General Director for Economics and Finance of OJSC Kubanenergo, as member of the Management Board	07.02.2014
2	To terminate the powers of members of the Management Board Vitaly Aleksandrovich Kocherga and Denis Vladimirovich Negreba	15.05.2014
3	<ol style="list-style-type: none"> <li>1. To establish the number of members of the Management Board as 12 people.</li> <li>2. To terminate powers of the following members of the Management Board: <ul style="list-style-type: none"> <li>ü Pavel Vasilyevich Zinchenko;</li> <li>ü Inver Yusufovich Natkho;</li> <li>ü Andrey Leonidovich Gerasko;</li> <li>ü Inna Viktorovna Skiba;</li> <li>ü Vyacheslav Aleksandrovich Belik.</li> </ul> </li> <li>3. To elect as members of the Management Board: <ul style="list-style-type: none"> <li>ü Dmitry Yuryevich Ryazantsev, Deputy General Director for Technical Issues, Chief Engineer of OJSC Kubanenergo;</li> <li>ü Ruslan Viktorovich Tyrtyschny, Deputy General Director for Capital Construction of OJSC Kubanenergo;</li> <li>ü Kirill Sergeyevich Konevets, Deputy General Director for Corporate Governance of OJSC Kubanenergo;</li> <li>ü Olga Vyacheslavovna Ocheredko, Deputy General Director for Economics and Finance of OJSC Kubanenergo;</li> <li>ü Edgar Garriyevich Armaganyan, Director of the Sochi Electrical Grids Branch of OJSC Kubanenergo;</li> <li>ü Evgeny Viktorovich Rud, Director of the Krasnodar Electrical Grids branch of OJSC Kubanenergo</li> </ul> </li> </ol>	28.08.2014
4	Terminate the powers of member of the Management Board Ruslan Tyrtyschny	15.12.2014

*The following Management Board members of the Company were in office as of the end of the accounting year<sup>23</sup>:*

### 1. Aleksandr Ilyich Gavrilov, Management Board Chairman

Year of birth	1973
Education	Higher. Kuban State University, qualification: Accounting and Audit; Kuban State Technological University, qualification: Exploitation and Operation of Oil-and-Gas Field. Academic degree: DPhil in Economics.
Current position in the primary employment	OJSC Kubanenergo, General Director

### 2. Edgar Garriyevich Armaganyan

Year of birth	1984
Education	Higher. Kuban State Agrarian University, qualification: Electrification and Automation; Moscow Institute of Entrepreneurship and Law, qualification:

<sup>23</sup> The information about the positions held by the Management Board members refers to the state of 31.12.2014.

	Management of Organizations. Professional retraining courses in Management of Organizations in Bauman MSTU on the basis of the Training Center of Kubanenergo
Current position in the primary employment	Sochi Power Grids Branch Director at OJSC Kubanenergo
Date of election to the Management Board	28.08.2014

### 3. Andrey Valeryevich Golov

Year of birth	1980
Education	Higher. Graduated from Orenburg State University, qualification: "Finance and Credit". Academic degree: Ph.D. in Economics.
Current position in the primary employment	Deputy General Director for Logistics and Inventory, Acting Deputy General Director for Investment (jointly with the main position at OJSC Kubanenergo)
Date of election to the Management Board	09.04.2013

### 4. Dmitry Nikolaevich Golovakha

Year of birth	1977
Education	Higher. Graduated from Krasnodar Technical College, qualification: "Installation and Maintenance of Electrical Equipment of Agricultural Companies", Kuban State Agrarian University, qualification: "Electrification and Automation of Agricultural Industry"
Current position in the primary employment	OJSC Kubanenergo, South-Western Power Grids Branch Director
Date of election to the Management Board	14.06.2013

### 5. Lyudmila Alekseevna Golovakha

Year of birth	1955
Education	Higher. Krasnodar College of Sugar Industry, qualification: Electrical Equipment of Industrial Enterprises and Facilities; Kuban State University, qualifications: Jurisprudence, and State and Municipal Management
Current position in the primary employment	Deputy General Director, Chief of Administration at OJSC Kubanenergo
Date of election to the Management Board	14.06.2013

### 6. Kirill Sergeevich Konevets

Year of birth	1983
Education	Higher. Kuban State Agrarian University, qualification: Jurisprudence Professional course at the Bauman MSTU, qualification: Management in the field of Organization Controlling. Academic degree: Ph.D. in Law
Current position in the primary employment	Deputy General Director in charge for Corporate Management of OJSC Kubanenergo
Other held positions	Acting General Director of OJSC Recreation Center Plamya. Member of the Board of Directors of OJSC Kuban Energoservice, OJSC Recreation Center Plamya, OJSC Energetik. Member of the Committee for Technological Connection of the Board of Directors of OJSC Kubanenergo

Date of election to the Management Board	28.08.2014
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### 7. Vyacheslav Yuryevich Kostetsky

Year of birth	1974
Education	Higher. Institute of Economics, Law and Natural Specialties, qualification: Jurisprudence; Kuban State Technological University, qualification: Electric Power Supply Professional retraining courses in Management of Organizations in Bauman MSTU on the basis of the Training Center of Kubanenergo
Current position in the primary employment	OJSC Kubanenergo, Deputy General Director for Services Development and Realization
Other held positions	Chairman of the Board of Directors of OJSC Energoservice of Kuban. Member of the Strategy, Development, Investment and Reforming Committee of the Board of Directors, Member of the Technological Connection Committee of the Board of Directors of OJSC Kubanenergo
Date of election to the Management Board	14.06.2013

### 8. Olga Vyacheslavovna Ocheredko

Year of birth	1972
Education	Higher. Kuban State University, qualification: Economic and Social Planning. Professional retraining courses in Management of Organizations in Bauman MSTU on the basis of the Training Center of Kubanenergo
Current position in the primary employment	Deputy General Director for Economy and Finance of OJSC Kubanenergo
Other held positions	“Recreation Center ‘Energetik’” OJSC, “Recreation Center “Plamya” OJSC, Board of Directors Chairman
Date of election to the Management Board	28.08.2014

### 9. Evgeny Viktorovich Rud

Year of birth	1967
Education	Higher. Kuban State University, qualification: Geography; Kuban State University of Technology, qualification: Power Supply (by Industry). Professional retraining courses in Effective Organization Management Technology in Bauman MSTU on the basis of the Training Center of Kubanenergo
Current position in the primary employment	Krasnodar Power Grids Branch Director at OJSC Kubanenergo
Date of election to the Management Board	28.08.2014

### 10. Dmitry Yuryevich Ryzantsev

Year of birth	1973
Education	Higher. Krasnodar College of Sugar Industry, qualification: Electrical Equipment of Industrial Enterprises and Facilities; Kuban State Technological University, qualifications: Power Supply (by Industries) and Enterprise Economy and Management (by Industries)
Current position in the primary employment	First Deputy Managing Director - Chief Engineer of OJSC Kubanenergo
Other held positions	Member of the Board of Directors of Energoservice of Kuban, JSC. Member of the Reliability Committee of OJSC Kubanenergo

Date of election to the Management Board	28.08.2014
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### 11. Vladislav Andreevich Statuev

Year of birth	1956
Education	Higher. Dzerzhinsky Navy Engineering Academy (St. Petersburg), qualification: Physics and Power Engineering; Financial University under the Government of the Russian Federation, qualification: Enterprise Management.
Current position in the primary employment	Deputy General Director for Safety of OJSC Kubanenergo
Date of election to the Management Board	04.12.2013

*All members of the Management Board are citizens of the Russian Federation.*

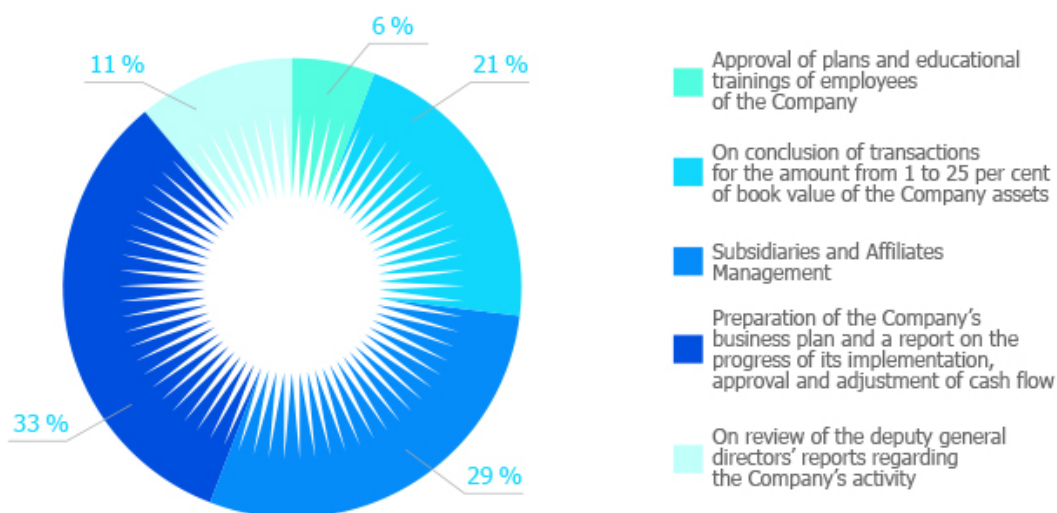
*None of the Board members, except for E. Rud, own any shares of the Company or its subsidiaries and affiliates. As of 31.12.2014, E. Rud owns 30 ordinary shares of OJSC Kubanenergo. None of the members of the Management Board participated in any transactions to acquire or dispose of Company shares.*

*No transactions were concluded in the reporting year between the Company and persons who were members of the Management Board of OJSC Kubanenergo in 2014.*

#### Activities of the Management Board

In 2014, the Management Board held 24 meetings, one in person and 23 by absentee voting. The meetings were held voting in accordance with the action plans and at the initiative of the Chairman of the Management Board. All Management Board members were fully engaged in the meetings.

*In the reporting year, the Management Board considered 56 issues on the following:*



## Remuneration to Members of Management Bodies of the Company

### Remuneration to Members of the Board of Directors

Procedure for the calculation and the payment of remuneration and compensations to the members of the Board of Directors is governed by the Regulations on Remuneration and Compensations to the Board of Directors Members approved by the annual General Meeting of Shareholders (Minutes No.23 of 06.06.2008).

In accordance with these Regulations, remuneration to the members of the Board of Directors shall be calculated as follows:

- for participation in the meeting, a member of the Board of Directors receives payment equal to three (in case of absentee voting) or five (in case of joint attendance) minimum monthly wage rates of the first-class worker established by the industry wage agreement in the RF power complex at the date of holding of the meeting of the Company Board of Directors, with account of indexations; the amount of remuneration paid to

the Chairman (Deputy Chairman) of the Board of Directors increases by 50 % for every meeting, at which he/she performs the functions of the Chairman of the Board of Directors.

· Members of the Board of Directors receive additional remuneration for achievement of the net profit index of the Company according to the data of the annual financial statements adopted by the General Meeting of the Company's Shareholders, as well as in case of increasing the amount of the Company's market capitalization during the period of work of the Board of Directors.

In addition, in the case of a business trip to visit any Company's facilities, hold meetings with shareholders and investors, participate in general shareholders' meetings, as well as perform other tasks related to the functions of a member of the Board of Directors, members of the Board of Directors shall be compensated for all actual costs incurred (travel, accommodation, meals, etc.).

The total remuneration paid to members of the Board of Directors for participation in the work of the Board of Directors in 2014 amounted to 4,030 thousand Rubles. The Company has no outstanding amounts payable to any members of the Board of Directors.

Expenses of members of the Board of Directors of the Company were not compensated in the reporting year.

## Remuneration to Members of Executive Bodies

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### *Remuneration to Members of the Management Board*

According to the decision of the Board of Directors of the Company (Minutes No.115/2011 of 01.08.2011), members of the Management Board are classified as first category top managers. In accordance with the Regulation on Financial Incentives and Benefit Package of Top Managers of OJSC Kubanenergo approved by the Company Board of Directors (Minutes No.158/2013 dated 12.04.2013), remuneration to the Management Board members shall be paid in compliance with labor agreements entered into with them by establishing personal monthly bonuses for their functioning as members of the Company's collective executive body, the Management Board of OJSC Kubanenergo.

Bonus payment to Company's Management Board members shall be preconditioned by the achievement of key performance indicators established by the Board of Directors of the Company for the accounting periods (quarter and year). Upon the fulfillment at year-end of the conditions (strategic priorities) set by the Board of Directors of the Company and the General Director of the Company, the Management Board members may be paid an extra allowance by decision of the General Director of the Company. For the achievement of high values of key performance indicators established by the Board of Directors and the General Director of the Company as priorities, Management Board members may, based on the Company's results at the year-end, be paid a special premium by decision of the Board of Directors and the General Director of the Company.

### *Remuneration to the General Director*

Payment of remunerations to the General Director shall be governed by the Regulations on the Financial Incentives for the General Director of OJSC Kubanenergo approved by the decision of the Board of Directors of the Company (Minutes No. 114/2011 of 22.07.2011), including enactment of Appendices 1 and 2 in pursuance of the decision of the Board of Directors of the Company (Minutes No. 150/2012 of 29.12.2012). These Regulations form an integral part of the labor agreement with the General Director and establish the procedure for determining, approving and changing the basic salary and types of bonuses to be paid to the General Director, and the procedure for payment thereof.

Bonus payment to the Company's General Director shall be preconditioned by the achievement of key performance indicators established by the Board of Directors of the Company for the accounting periods (quarter and year). Upon the fulfillment at year-end of the conditions (strategic priorities) set by the Board of Directors of the Company, the General Director may be paid an extra allowance by decision of the Board of Directors of the Company. For the achievement of a high value of the key performance indicator determined by the Board of Directors of the Company as a priority, the General Director of the Company may, based on the Company's results at the year-end, be paid a special premium by decision of the Board of Directors of the Company.

The Board of Directors may decide to pay a one-time bonus to the General Director for the performance of particularly important tasks (work) implying compliance with special timing and quality requirements, liability and importance for the industry and the state. In addition, the General Director may be paid a one-time bonus by decision of the Board of Directors in case of receipt of national awards, departmental and corporate awards.

*Total remuneration paid to members of executive bodies of the Company in the reporting year amounted to RUB 47,914 thou, including:*

Remuneration for participation in the work of the Management Board	1679
Wage	33,352
Bonuses	10,160
Commissions	0
Benefits	0
Reimbursement of expenses	1,774
Other types of remuneration	949
TOTAL	47,914

The Company has no outstanding remuneration and cost compensation payable to members of its executive bodies.

### Corporate Secretary

In order to comply with the procedures for convening and holding General Meetings of Shareholders, to arrange the performance of the Board of Directors, and to ensure an effective dialog between major participants of the corporate management system, OJSC Kubanenergo has established a position of the Corporate Secretary to be elected by the Board of Directors<sup>24</sup>.

Starting from 20.07.2011, the functions of the Corporate Secretary of the Company have been performed by the Chief Specialist of the Department for Corporate Governance and Shareholder Relations with the Shareholders of OJSC Kubanenergo, Olga Vladimirovna Russu, born in 1967, having higher education in economics and jurisprudence.

### Revision commission

The Revision commission is a permanent supervisory body of OJSC Kubanenergo that carries out regular control of finances and business operations of the Company for its compliance with the laws of the Russian Federation, the Charter and in-house documents of the Company.

The Revision commission acts in the interests of the shareholders of the Company and reports to the General Meeting of Shareholders. In performing its functions, the Revision commission is independent of the officials, the Company's management bodies and the heads of departments of the executive body of the Company.

In its activities, the Audit Commission is guided by the legislation of the Russian Federation, the Charter of OJSC Kubanenergo and the Regulation on the Revision commission<sup>25</sup>.

<sup>24</sup> Functions, appointment procedures and termination of powers, rights and obligations of the Corporate Secretary are specified in the Regulations on the Corporate Secretary approved by the Board of Directors (published on the website at [www.kubanenergo.ru](http://www.kubanenergo.ru), in section [About the Company / Constituent and in-house documents](#)).

<sup>25</sup> OJSC Kubanenergo Regulation on the Revision commission is available at the Company's website [www.kubanenergo.ru](http://www.kubanenergo.ru), in section [About the Company / Constituent and in-house documents](#)

## Composition of the Revision commission

Two sets of members of the Revision commission of the Company operated in the reporting year.

Ø The Revision commission elected by the Annual General Meeting of Shareholders on 17.06.2013, and effective till 23.06.2014<sup>26</sup>:

### 1. Igor Vladimirovich Shmakov, Chairman of the Revision commission

Year of birth	1974
Education	Higher, economics. Kuban State University
Current position in the primary employment	Head of Division for Control and Risks at the Department of Internal Audit and Control of JSC Russian Grids
Other held positions	Chairman of the Revision commission of OJSC IDGC of the South, OJSC Yantarenergo, OJSC MUS Energetiki, OJSC RDE of the South
The first/last election to the Revision commission of OJSC Kubanenergo	17.06.2013 / 23.06.2014

### 2. Yury Veniaminovich Adler

Year of birth	1975
Education	Higher. Urals State Academy of Law, qualification: Jurisprudence
Current position in the primary employment	Head of Division for Standardization and Methodology at the Department for Corporate Governance and Shareholder and Investors Relations of JSC Russian Grids
Other held positions	Member of the Board of Directors of OJSC Nurenergo, OJSC Karachaevo-Cherkesskenenergo, OJSC Dagenergoset, OJSC Energotsentr, OJSC EEDC, OJSC IDGC of Volga, OJSC Energy Service Company, OJSC RDE of the South. Member of the Revision commission of OJSC TRK, OJSC Lenenergo
The first/last election to the Revision commission of OJSC Kubanenergo	17.06.2013 / 17.06.2013

### 3. Aleksandr Evgenyevich Bogashov

Year of birth	1989
Education	Higher. State University of Management, qualification: Enterprise Management, major in Economy and Management in Power Industry
Current position in the primary employment	Acting Consultant of the Division of the Federal Agency for State Property Management
Other held positions	Member of the Board of Directors of OJSC Nizhneartovskneftegeofizika, OJSC Krasnodarneftegeofizika, OJSC SPK Mosenergostroy. Member of the Revision commission of OJSC Moskovskiy Neftemaslozavod, OJSC Volgogradneftegeofizika, OJSC Permneftegeofizika, OJSC TsGE, OJSC Samaraneftegeofizika. Member of the Strategy, Development, Investments and Restructuring Committee of the Board of Directors of OJSC Kubanenergo
The first/last election to the Revision commission of OJSC Kubanenergo	21.06.2012 / 17.06.2013

### 4. Artyom Nikolaevich Kirillov

Year of birth	1984
Education	Higher. Moscow Power Engineering Institute, Electrical Engineer
Current position in the primary employment	Head of the Investment Audit Division at JSC Russian Grids

<sup>26</sup> Information on the jobs and titles of members of this Revision commission is given as of 31.03.2014, according to the information provided by them.

The first/last election to the Revision commission of OJSC Kubanenergo	17.06.2013 / 17.06.2013
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### 5. Nikolay Nikolaevich Pronin

Year of birth	1952
Education	Higher. Bauman Moscow State Technical University
Current position in the primary employment	Deputy Head of Economic Security Department at OJSC FGC UES
The first/last election to the Revision commission of OJSC Kubanenergo	17.06.2013 / 17.06.2013

*Ø Current members of the Revision commission, elected at the Annual General Meeting of Shareholders of OJSC Kubanenergo on 23.06.2014<sup>27</sup>:*

#### 1. Igor Vladimirovich Shmakov, Chairman of the Revision commission

Year of birth	1974
Education	Higher, economics. Kuban State University
Current position in the primary employment	Head of Division for Control and Risks at the Department of Internal Audit and Control of JSC Russian Grids
Other held positions	Chairman of the Revision commission of OJSC IDGC of the South. Member of the Revision commission of OJSC Yantarenergo, OJSC RDE of the South
The first/last election to the Revision commission of OJSC Kubanenergo	17.06.2013 / 23.06.2014

#### 2. Maria Viktorovna Bunyaeva

Year of birth	1982
Education	Higher. Kuban State Technological University, qualification: Accounting, Analysis and Audit
Current position in the primary employment	Leading Expert of the Department of General Audit and Audits Inspections of the Division of Auditing and Internal Audit of the Ddepartment of Internal Audit and Control of JSC Russian Grids
Other held positions	Member of the Revision commission of OJSC IDGC of Center and Volga Region, OJSC IDGC of the North Caucasus, OJSC Sevkavkazenergo
The first/last election to the Revision commission of OJSC Kubanenergo	23.06.2014 / 23.06.2014

#### 3. Elena Yurevna Guseva

Year of birth	1970
Education	Higher, economics. Academy of Labor and Social Relations (Moscow)
Current position in the primary employment	Leading Expert of the Department of Investment Audit of the Division of Auditing and Internal Audit of the Ddepartment of Internal Audit and Control of JSC Russian Grids
Other held positions	Member of the Revision commission of OJSC IDGC of Volga, OJSC Tyumenenergo, OJSC IDGC of the South, OJSC IDGC of Center, OJSC IDGC of Siberia, OJSC IDGC North-West, OJSC IDGC of the North Caucasus, OJSC MOESK, OJSC Sevkavkazenergo
The first/last election to the Revision commission of OJSC Kubanenergo	23.06.2014 / 23.06.2014

<sup>27</sup> Information on the jobs and titles of members of this Revision commission is given as of December 31, 2014, according to the information provided by them.

#### 4. Sergey Vladimirovich Malyshev

Year of birth	1965
Education	Higher. Yaroslavl Higher Military Financial School
Current position in the primary employment	Leading Expert of the Department of General Audit and Audits Inspections of the Division of Auditing and Internal Audit of the Ddepartment of Internal Audit and Control of JSC Russian Grids
Other held positions	Member of the Revision commission of OJSC IDGC of Volga, OJSC Tyumenenergo, OJSC IDGC of the South, OJSC IDGC of South, OJSC IDGC of Center, OJSC IDGC of Urals, OJSC IDGC of Siberia, OJSC IDGC of the North-West, OJSC Lenenergo, OJSC Sevkavkazenergo
The first/last election to the Revision commission of OJSC Kubanenergo	23.06.2014 / 23.06.2014

#### 5. Alexandr Nikolaevich Udod

Year of birth	1975
Education	Higher. St. Petersburg Military Institute of the Russian Interior Troops
Current position in the primary employment	Deputy Department Head of the Federal Agency for State Property Management in the Krasnodar Territory
The first/last election to the Revision commission of OJSC Kubanenergo	23.06.2014 / 23.06.2014

*All persons who were in 2014 and currently are members of the Revision commission of the Company are citizens of the Russian Federation.*

*No transactions were concluded in the reporting year between the Company and persons who were members of the Revision commission of OJSC Kubanenergo in 2014.*

*No persons who were members of the Revision commission in 2014 own the shares of the Company or its S&A.*

#### Results of the Revision commission

In 2014, the Revision commission of OJSC Kubanenergo exercised control through audits of financial and economic activity.

In the reporting year, eight meetings of the Revision commission were held, including consideration of the following key issues<sup>[1]</sup>:

- on election of the Chairman of the Revision commission of the Company;
- on election of the Secretary of the Revision commission of the Company;
- on approval of the work plan of the Revision commission of the Company for the period of 2014–2015;
- on conducting a routine inspection (audit) of financial and economic activity of the Company for 2013;
- on review and approval of the Revision commission Report for 2013;
- on review and approval of the opinion of the Revision commission;
- on approval of result of the audit of financial and economic activity for 9 months of 2013.

According to the results of each of the control measures, a report (opinion) was drawn up, including recommendations to improve the control environment of the Company and eliminate violations. Based on the reports and instructions of the Revision commission of the Company, an action plan was developed to address the violations and implement the recommendations, post-control measures were taken for the implementation of these plans.

<sup>[1]</sup> Minutes of meetings of the Revision commission of OJSC Kubanenergo are available at [www.kubanenergo.ru](http://www.kubanenergo.ru), in section [About the Company / Activities control system / Revision commission](#)

## Remuneration to Members of the Revision commission

In accordance with the Regulations on Payments of Remunerations and Compensations to Members of the Revision commission of OJSC Kubanenergo (Minutes No.23 of June 6, 2008), remuneration to members of the Revision commission shall be determined as twenty minimum monthly wage rates of a first-class worker, plus indexation, as established by the industry wage agreement in the power complex of the Russian Federation.

Members of the Revision commission of the Company are reimbursed for expenses related to the participation in meetings of the Revision commission and performance of audits under the standards of reimbursement of travel expenses of the Company applicable at the time of the meeting or audit.

The total remuneration paid to members of the Revision commission for participation in its work in 2014 amounted to 1,598 thousand Rubles.

## Subsidiaries and Affiliates of the Company

As of 31.12.2014, OJSC Kubanenergo holds 100% stakes in three subsidiary open joint-stock companies:

Item No.	Name	Operation region	Type of activity	Share held by OJSC Kubanenergo in the capital of S&A (%)
1	Open Joint-Stock Company Recreation Center Energetik (OJSC Recreation Center Energetik)  4 Pionerskaya Street, Divnomorskoe settlement, 353490, Krasnodar Territory	Krasnodar Territory	Recreation services for children and adults, first of all, for employees of OJSC Kubanenergo and their family members; organization and holding of seminars and conferences.	100 % / 100 %
2	Open Joint-Stock Company Recreation Center "Plamya" (OJSC Recreation Center "Plamya"),  Novomikhaylovsky-2 settlement, Tuapse district, 352856, Krasnodar Territory	Krasnodar Territory	Recreation services for children and adults, first of all, for children of employees of OJSC Kubanenergo; organization of training programs and sports competitions; organization and holding of seminars and conferences.	100 % / 100 %
3	Open Joint-Stock Company Energoservice of Kuban OJSC Energoservice of Kuban  47 Novorossiyskaya Street, Karasunsky district, 350080, Krasnodar	Krasnodar Territory	Design, construction and installation work for electric power meters, hot and cold water meters; design, installation and commissioning of electric power and gas meters and process equipment	100 % / 100 %

The Company cooperates with S&A in accordance with the laws of the Russian Federation, constituent and in-house documents of OJSC Kubanenergo and its S&A, as well as the Procedure for Interaction between OJSC Kubanenergo and Business Entities Shares of Which are Owned by the Company approved in 2009 by the Board of Directors<sup>28</sup>.

*The major goals of cooperations between the Company and S&A are as follows:*

- ensuring stable financial development and profitability of S&A,
- ensuring protection of the rights and legally protected interests of shareholders of the Company and S&A,

<sup>28</sup> The Procedure for Interaction between OJSC Kubanenergo and Business Entities Shares of Which are Owned by the Company is available at [www.kubanenergo.ru](http://www.kubanenergo.ru), in section [About the Company / Constituent and in-house documents](#)

- enhancement of investment prospects of the Company and S&A through the provision to investment professionals of complete, up-to-date, and reliable information about S&A's activities, as well as the balance and predictability of the corporate policy in general,
- elaboration and implementation of coordinated and effective investment policy of S&A.

*Management and control of S&A's business operations is performed by the Company through the following corporate management mechanisms:*

- in accordance with the Charter of OJSC Kubanenergo, the Management Board of the Company shall perform the functions of general meetings of shareholders of 100% S&As;
- general management of S&As shall be performed by their boards of directors, most of members whereof shall be representatives of OJSC Kubanenergo;
- the position of OJSC Kubanenergo with regard to any issues on agendas of general meetings of shareholders and meetings of boards of directors of S&As shall be determined by the Board of Directors of the Company;
- regular control of financial and economic activities of S&As shall be carried out by their revision commissions consisting of OJSC Kubanenergo's representatives.

Operating management of each S&A shall be performed by a sole executive body, the General Director. S&As' charters do not provide for any collective executive bodies (management boards).

Target values for S&As' net profit and current liquidity ratios shall be fixed in S&As' business plans for the purpose of monitoring and controlling their current business operations.

*Information on Financial and Economic Activities of S&A*

By the results of 2014, OJSC Kubanenergo consumed the following amounts of services to its subsidiaries and affiliates (S&A):

- OJSC Recreation Center Energetik, 17.1% of the revenue;
- OJSC Recreation Center "Plamya", 0.0% of the revenue;
- OJSC Energoservice of Kuban, 0.0% of the revenue;

*Financial and Economic Performance of OJSC Recreation Center Energetik*

Item No.	Name	2014	2013	2012
1	Revenue, RUB thou	63,921	54,302	54,509
2	Gross profit, RUB thou	1,263	-80	1,641
3	Net profit (undistributed profit / loss), RUB thou	223	-3,174	86
4	Return on equity, %	0.6	-8.2	0.2
5	Return on assets, %	0.5	-7.4	0.19
6	Net profitability ratio,%	0.3	-5.8	0.16
7	Profitability of products (sales),%	2.0	-0.1	3.0
8	Capital turnover	1.6	1.4	1.3
9	Uncovered loss at the balance sheet date, RUB thou	1,287	1,511	-
10	Uncovered loss at the balance sheet date to the balance-sheet total,%	3.01	3.5	-

*Financial and Economic Performance of OJSC Energoservice of Kuban*

Item No.	Name	2014	2013	2012
1	Revenue, RUB thou	7,461.5	4,150.0	15,532.0
2	Gross profit, RUB thou	-757.5	655.0	11,930.0
3	Net profit (undistributed profit / loss), RUB thou	-4,722.7	-4,359.0	6,279.0
4	Return on equity, %	459.4	-117.9	78.0
5	Return on assets, %	-46.7	-96.7	68.5
6	Net profitability ratio,%	-63.3	-105.0	40.4
7	Profitability of products (sales),%	-78.5	-126.4	51.3

8	Capital turnover	-7.3	1.1	1.9
9	Uncovered loss at the balance sheet date, RUB thou	1,133	-	-
10	Uncovered loss at the balance sheet date to the balance-sheet total,%	11.2	-	-

#### *Financial and Economic Performance of OJSC Recreation Center Plamya*

Item No.	Name	2014	2013	2012
1	Revenue, RUB thou	1,226	1,265	855
2	Gross profit, RUB thou	-881	-960	-1,651
3	Net profit (undistributed profit / loss), RUB thou	-1,302	-1,025	-1,651
4	Return on equity, %	-16.2	-11.0	-15.9
5	Return on assets, %	-6.9	-5.4	-9.0
6	Net profitability ratio,%	-106.20	-81.03	-193.10
7	Profitability of products (sales),%	-71.9	-75.9	-193.1
8	Capital turnover	0.15	0.14	0.08
9	Uncovered loss at the balance sheet date, RUB thou	-	-	4,105
10	Uncovered loss at the balance sheet date to the balance-sheet total,%	-	-	22.44

Detailed information on all S&A is available at the website of OJSC Kubanenergo in section [About the Company / Subsidiary companies](#).

### Information Policy

Information policy of OJSC Kubanenergo is aimed at complete satisfaction of the demand of shareholders, potential investors and other stakeholders for reliable information about the Company and its activities, as well as at enabling free and easy access to such information.

Objectives, principles, basic forms and procedures for disclosing any information by the Company are stated in the Regulations on Information Policy of OJSC Kubanenergo approved by the Board of Directors<sup>29</sup>.

In addition to information subject to mandatory disclosure, the Company shall disclose the details of its activities, securities and shareholders, management and control bodies, major transactions and its subsidiaries and affiliates.

Any information about the Company's activities is generally disclosed by posting on its corporate website [www.kubanenergo.ru](http://www.kubanenergo.ru), in the news feed of Interfax authorized news agency, through publications in printed and on-line mass media, as well as by means of holding meetings with shareholders and other stakeholders.

The General Director of the Company ensures implementation of the information policy; its observance is controlled by the Board of Directors.

#### Basic Principles of the Information Policy of OJSC Kubanenergo

- regularity and promptness;
- information availability;
- information completeness;
- reliability and neutrality of information disclosed;
- keeping an adequate balance between the Company's transparency and its commercial interests.

<sup>29</sup> Regulations on Information Policy of OJSC Kubanenergo are available at the Company's website [www.kubanenergo.ru](http://www.kubanenergo.ru), in section [About the Company / Constituent and in-house documents](#)

## Internal Control and Risk Management

The System of Internal Control and Risk Management (SIC&RM) of OJSC Kubanenergo is an element of the Company's corporate governance, which includes the full range of procedures, methods and controls created and used by the Board of Directors and executive management bodies, senior management and all employees of the Company in order to provide reasonable guarantees of achievement of goals set in the following areas:

- efficiency and effectiveness of activity arrangement;
- compliance with the laws applicable to the Company's activities as well as with the requirements of the Company's local regulations;
- prevention of misconduct of the Company's employees and third parties with respect to the Company's assets;
- reliability, completeness and timeliness of all types of reporting.

The effectiveness of the control function and internal control system as a whole is ensured using the following three constituent relationship management processes:

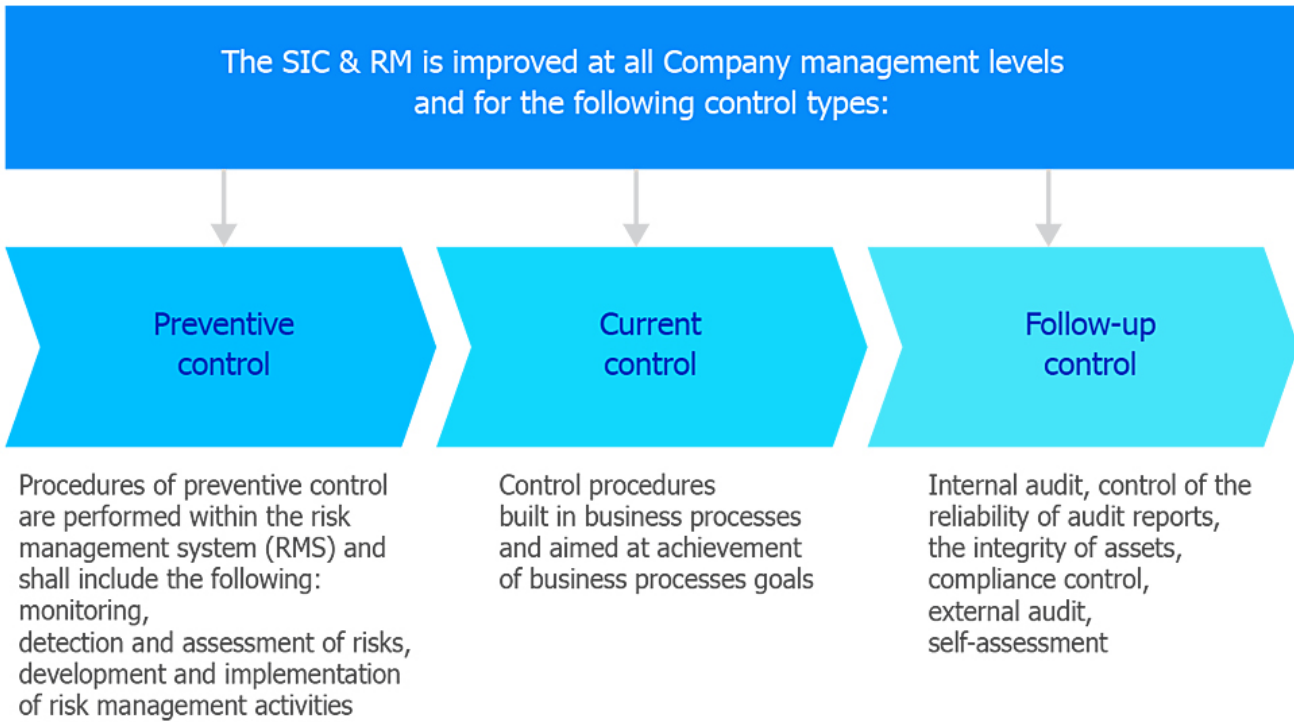
- organization of effective internal control of business processes to achieve the maximum effect of all activities of the Company: control procedures implemented at the level of business processes promote timely and effective identification of deviations and improve the efficiency of the operating environment and reliability of financial reporting (monitoring);
- risk management, forming part of the internal control system, helps reduce the risk of failure by the Company in reaching its objectives, creation of protective barriers and prevention of abuse (preventive control);
- audit and independent evaluation: internal audit provides independent and objective judgment about the reliability and effectiveness of internal control and risk management (follow-up).

For the development and improvement of the system of internal control and risk management and the internal audit function, in the reporting year the Board of Directors approved (Minutes of 12.09.2014, No.196/2014):

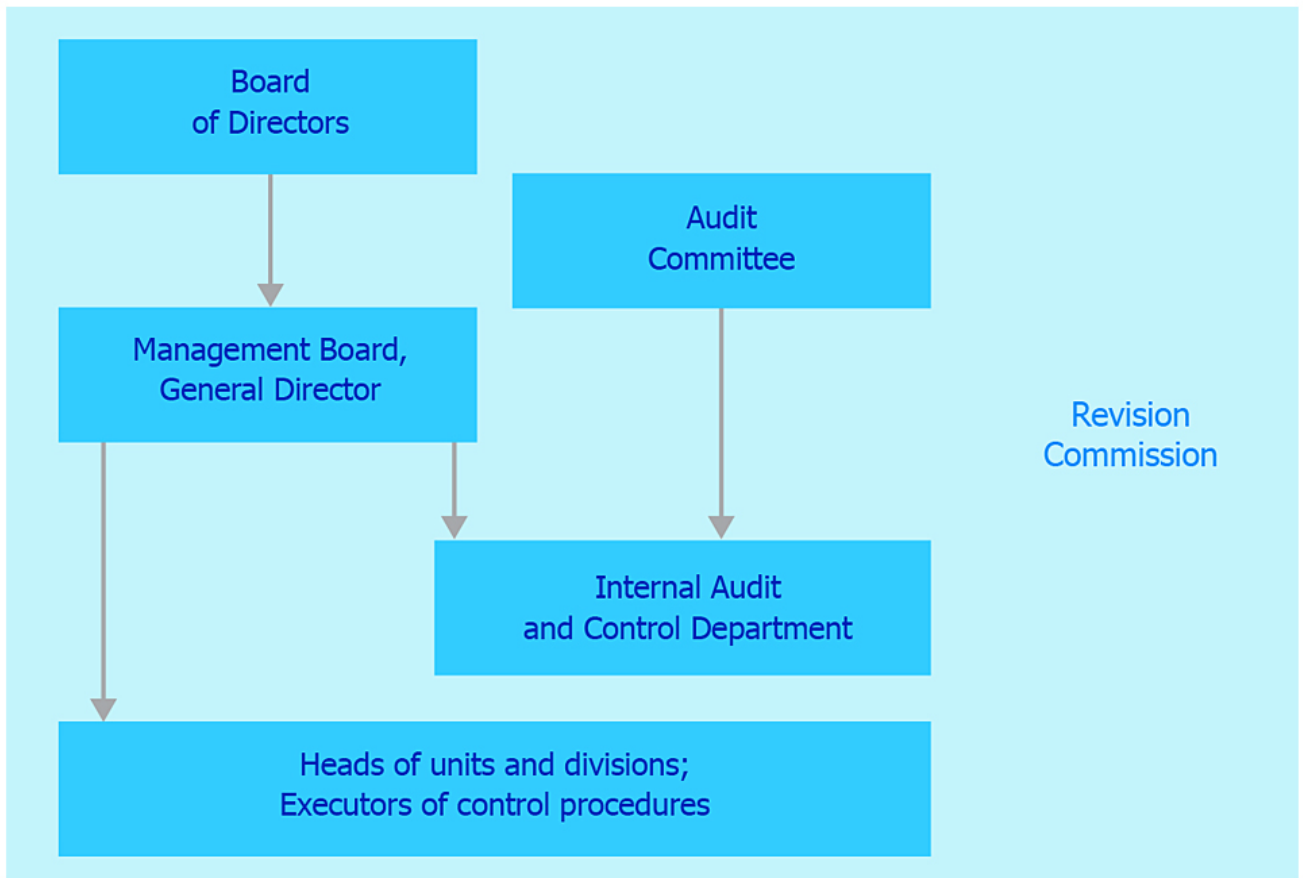
- Internal Control Policy, as amended;
- Risk Management Policy, as amended;
- Internal Audit Policy.

The Policies are available on the Company's website; all employees of the Company have read and understood the Policies.

*System of Internal Control and Risk Management*



*Members of the internal control and risk management system*






*Powers and responsibilities of the main participants of SIC&RM*





<b>Name of the participant</b>	<b>Basic powers and responsibilities in the field of SIC&amp;RM</b>
Board of Directors	<ul style="list-style-type: none"> <li>· to ensure the creation, operation management and establishment of the overall development strategy of SIC&amp;RM in the Company;</li> <li>· to review of reports and making decisions on systemic and key issues of internal control</li> </ul>
Revision commission	<ul style="list-style-type: none"> <li>· to exercise control over financial and economic activities of the Company;</li> <li>· to perform independent assessment of the data contained in the annual report and annual financial statements of the Company;</li> <li>· to interact with the Department of Internal Audit and Control</li> </ul>
Audit Committee of the Board of Directors	<ul style="list-style-type: none"> <li>· to ensure the selection of the external auditor and assess the results of its work;</li> <li>· to provide an assessment of the reliability of accounting (financial) statements of the Company (including the external auditor's opinion);</li> <li>· to evaluate the effectiveness of the SIC&amp;RM and prepare proposals for its improvement</li> </ul>
General Director, Management Board	<ul style="list-style-type: none"> <li>· to ensure the creation and daily operation of an effective and reliable SIC of the Company</li> </ul>
Heads of units and divisions	<ul style="list-style-type: none"> <li>· to organize an effective control environment for supervised processes (activities), be responsible for the effective achievement of operational goals in supervised processes (activities), risk management in supervised processes (activities) and execution of control procedures</li> </ul>
Employees of Company's divisions performing control procedures as part of their official duties	<ul style="list-style-type: none"> <li>· to perform control procedures in the functioning of the SIC in accordance with the job descriptions and established regulations;</li> <li>· to ensure timely notification of supervisors if the performance of control procedures and risk management measures is rendered impossible for some reason and/or requires a change in the design of control procedures/risk management measures due to changes in internal and/or external conditions of functioning of the Company, including to ensure the development and submission to supervisors of proposals on introduction of control procedures and risk management measures in their respective fields of activity</li> </ul>
Internal Audit and Control Department	<ul style="list-style-type: none"> <li>· to ensure methodological support and coordination of risk management processes and regulatory control environment of the Company, perform independent follow-up and evaluation of the effectiveness of the control environment within the Company, and ensure notification of the Board of Directors and executive bodies of significant trends and shortcomings in the activities of the Company</li> <li>· to interact with the Revision commission</li> </ul>

In order to ensure the efficiency of the SIC and its compliance with the objectively changing requirements and conditions, the Company evaluates the effectiveness of the SIC in terms of its compliance with the target condition and level of maturity.




Information on risks presented below contains the names of the risks inherent in the Company, a brief description thereof, main risk management measures implemented in 2014, as well as a graphic representation of the significance of risks and its dynamics against 2013 and throughout 2014. Significance of a risk refers to a combination of the probability of the risk and the magnitude of its consequences for the Company in monetary and other terms with the application of the following scale:

<b>Level of significance</b>		<b>Dynamics</b>	
Critical		No change (or insignificant dynamics)	
Significant		Increase	↑
Moderate		Reduction	↓

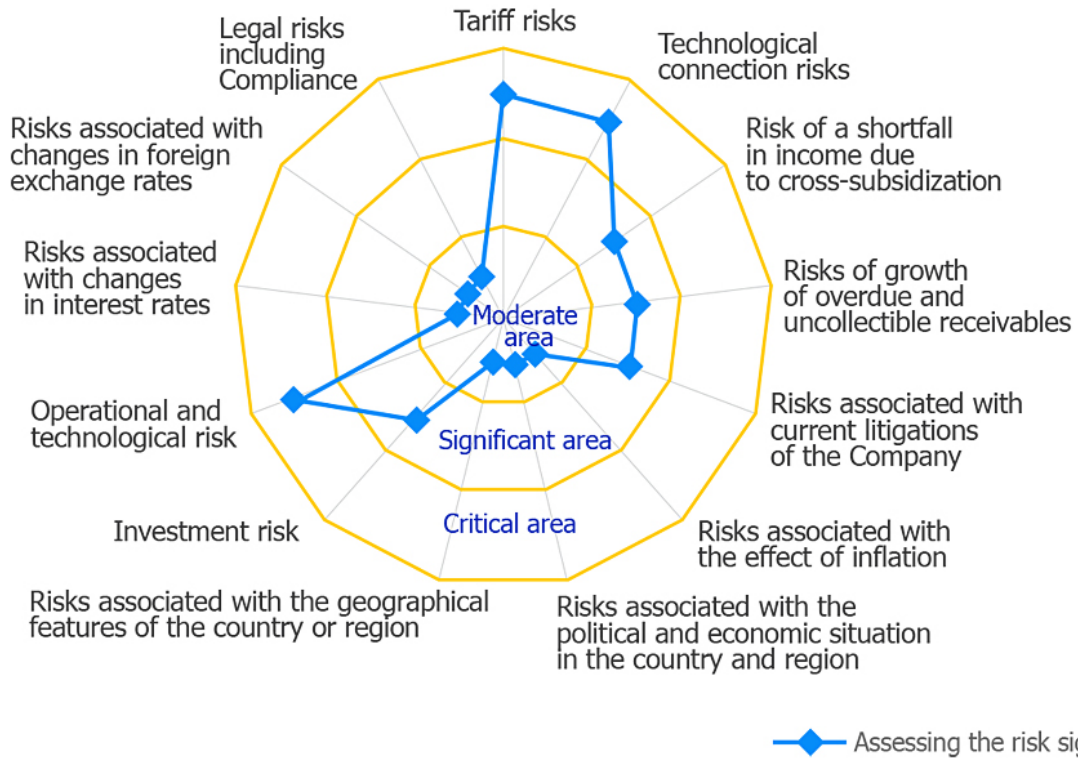
### Information on Risks of the Company

Item No.	Risk	Description	Measures to minimize the risk taken in 2014	Risk significance assessment and dynamics
<b>Industrial risks</b>				
1	Tariff risks	<p>The Company is a natural monopoly; its activities are subject to state regulation. Due to the limited increase in tariffs for consumers at the level of the Russian Government, the possibility of establishing tariffs below the economically justified level is estimated as high.</p> <p>In addition, the Company is exposed to the risk of decline in revenue due to changes in the actual structure of power transmission as compared with that adopted at the approval of tariffs, as well as the risk of changes in tariff legislation.</p> <p>FTS of Russia approved the conversion of the Company to the regulation of tariffs for power transmission with the use of the method of return on invested capital (RAB-regulation), the use of which shall help to attract long-term investments in the industry and reduce the influence of subjective factors on tariff decisions. Due to the increase in interest rates both in the existing and new loans, the approved rates of return on invested capital created after the transition of the Company to RAB-regulation, as well as the rate of return on invested capital for the calculation of tariffs for electric power transmission under UNEG, in accordance with Order No.1981-e and No.2049-e of the FTS of Russia of 17.11.2014 and 21.11.2014, do not cover the cost of return and maintenance of borrowed funds, which may lead to an increase in the debt burden of the Company.</p>	<ul style="list-style-type: none"> <li>- interaction with tariff regulation bodies on the justification of expenditure in the framework of approval of tariffs for electric power transmission services;</li> <li>- interaction with REC DPT KT and FTS of Russia for the adoption of the highest possible level of tariffs for electric power transmission services in 2015, as a result of which tariffs for power transmission services for 2015 were approved (by agreement with the Federal Tariff Service of Russia) in excess of the limit maximum tariffs approved by the Federal Tariff Service of Russia;</li> <li>- pre-trial work was conducted on the consideration of the dispute on the shortfall in income not included by REC DPT KT in NGR in 2014. As a result of this work, the claims of OJSC Kubanenergo were granted (Order No.1837-d of the FTS of Russia of 27.10.2014);</li> <li>- uncompensated costs were recognized as economically justified and subject to reporting by the Company within NGR (based on Judgment No.A32-23152/2014 of the Arbitration Court of the Krasnodar Territory of 19.12.2014).</li> </ul>	
2	Technological connection risks	<p>The key risk of the Company in terms of technological connection (TC) is risk of shortage of funding for the implementation of TC agreements. The consequence of this risk includes regulatory approval of TC rates below the economically reasonable level.</p>	<ul style="list-style-type: none"> <li>- development of design estimates for EC projects;</li> <li>- interaction with tariff regulation authorities on the justification of the payment, supporting the cost of individual projects;</li> <li>- improvement of the TC process.</li> </ul>	
3	Risk of a shortfall in income due to cross-subsidization	<p>In connection with the termination from 01.01.2014, of lease agreements for "last mile" facilities in most constituents of the Russian Federation, the Company retains a significant risk that the shortfall in income will not be compensated. This is due to the fact that the Pricing basics in the area of controlled prices (rates) in the electric power industry approved by Decree No.1178 of the RF Government of 29.12.2011, do not envisage a fixed compensation mechanism for the shortfall in income of grid organizations, including the possibility of additional growth of tariffs for electric power transmission services.</p> <p>In addition, in connection with approval of the value of cross-subsidization at level of 2013 (in accordance with Decree No.750 of the Government of the Russian Federation of 30.07.2014, On amendments to certain acts of the Government of the Russian Federation on reducing the amount of cross-subsidization in the electric grid complex), there is a risk of an increase in the uncompensated shortfall in income of the Company.</p> <p>According to Federal law No. 35-FZ dated 26.03.2003, On Electricity Production, Article 8, "Lease by the organization managing the unified national (All-Russia) electric grid to territorial grid organizations of power grid facilities and (or) their parts, having technologically connected power receivers of electricity consumers, may be subject to preliminary conclusion of agreements between such consumers and territorial grid organizations".</p>	<ul style="list-style-type: none"> <li>- submission of Agreements to extend "last mile" agreements to consumers directly connected to the grids of OJSC UES FGC and indirectly connected to the grids of the UNEG;</li> <li>- submission of an offer under the agreement to extend the "last mile" agreement between OJSC UES FGC and OJSC Kubanenergo, taking into account the Agreements received, conclusion of a agreement in order to avoid shortfall in volumes of the planned performance of OJSC Kubanenergo for 2014.</li> </ul>	
4	Risks of growth of overdue and uncollectible receivables	<p>Overdue and uncollectible receivables may arise in such areas of activity as transmission of electric power, capital construction, and technological connection.</p> <p>To a greater degree, the risk applies to the debt for electric power transmission, as the revenue from power transmission services constitutes a large portion of the revenue structure of the Company. One of the major factors affecting the growth of overdue and uncollectible receivables for electric power transmission is the difficulty of matching the amounts of services rendered (due to the use of different algorithms for the formation of productive supply by distribution and power grid companies).</p>	<ul style="list-style-type: none"> <li>- analysis of the causes of disagreement between amounts of power transmitted;</li> <li>- execution of a schedule of activities to reduce receivables for electric power transmission services;</li> <li>- accumulation of judicial practice and creation of positive precedents in cases where a consumer unduly contests the use of supply points (e.g., refusal of utility service providers to record the amount of electricity consumed in for household needs or that determined using common metering</li> </ul>	

Item No.	Risk	Description	Measures to minimize the risk taken in 2014	Risk significance assessment and dynamics
			equipment); - installation of collective metering equipment.	
<b>Country and regional risks</b>				
5	Risks associated with the political and economic situation in the country and region	Major risk factors in this group may include: decrease in the ratings of the country, changes in exchange rates and the key rate, inflation. These factors may lead to an increase in the cost of purchased power grid equipment, industrial decline, reduced purchasing power, complicated attraction and increase in the cost of borrowed capital. In the event of a significant political instability, which may negatively affect the activity and revenues of the Issuer, the Issuer shall promptly take crisis management measures and reduce costs as soon as possible. The social and political situation in the regions where the Company is assessed as stable and the risk of occurrence in these regions, for internal reasons, of a military conflict or a state of emergency is minimal. The risks of terrorism and subversive activities are assessed as minimal.	- implementation of state programs on import substitution to reduce the cost of purchased equipment; - improvement of energy efficiency and introduction of energy-saving technologies; - cost management; - implementation of measures to protect power facilities against sabotage and terrorist acts.	
6	Risks associated with the geographical features of the country or region, including increased risk of natural disasters, possible interruption of transport communications	Risks related to military conflicts, introduction of a state of emergency and natural disasters may have the following consequences: - deterioration of the national economy and, as a consequence, deterioration of the financial situation of the Company;  - damage/loss of property of the Company, which may adversely affect its ability to timely and fully meet its obligations to customers and partners.  Given the development of the transport infrastructure in the region, the risks of disruption of transportation due to inaccessibility and remoteness are minimal. According to the Company, the situation in the region will have a positive impact on activities of the Company; there is no reason to expect that a change of situation in the region may result in a failure to fulfill its obligations.	- property insurance; - cost management; - crisis management measures.	
<b>Financial risks</b>				
7	Risks associated with changes in foreign exchange rates	The Company has no investments in foreign companies the net asset value which is exposed to changes in exchange rates, has no revenue and expenses denominated in foreign currencies (has no foreign currency settlement or deposit accounts). Risks associated with exchange rate fluctuations do not directly impact the financial and economic activity, but may lead to higher prices for power equipment. At the moment, the risk is assessed as moderate.	- purchase of power equipment of Russian manufacturers; - monitoring of the dynamics of exchange rates, analysis of the possible impact.	
8	Risks associated with changes in interest rates	The issuer attracts short-term and long-term borrowings from the Russian financial market. The main factor in the growth of interest rates was the increase of the key rate used by the Central Bank of Russia to provide credits to commercial banks in debt. A significant increase in interest rates may lead to higher debt servicing costs.	- the use of borrowed capital with fixed interest rates; - raising long-term credits in order to prevent the negative impact of short-term fluctuations in interest rates, diversification of funding sources.	
9	Risks associated with the effect of inflation	The Company assesses the risks associated with the effect of inflation as moderate. Rising inflation rates may increase the cost of procurement subject to state limitation of the growth of tariffs.	- a comprehensive analysis of financial risks is conducted; - a business plan is prepared in accordance with the scenario; - procurement procedures are carried out in order to reduce the cost of procurement.	
<b>Legal risks</b>				
10	Legal risks	Since the Company has no arrears on taxes and duties to the budgets of all levels, its tax risks are considered to be minimal. In addition, the Company does not expect in the short term the emergence of any significant consequences associated with changes in the tax law and civil law. Changes in currency and customs legislation of the Russian Federation do not affect Company's operations and, therefore, do not entail any legal risks. The exposure of the Company to the risk of suspension, modification or revocation of licenses is insignificant. The risks of compliance with the legislation and internal regulatory documents are identified by the results of internal and external audits of the Company, with subsequent compilation and implementation of corrective action plans.	- extension of the necessary permits for business activities; - monitoring of the legislation of the Russian Federation; - planning of the Company's financial and economic activities with account of all changes in the legislation; - compliance with legal and internal regulations.	
<b>Risks associated with the Company's activities</b>				

Item No.	Risk	Description	Measures to minimize the risk taken in 2014	Risk significance assessment and dynamics
11	Operational and technological risk	<p>Risks of the industrial activity:</p> <ul style="list-style-type: none"> <li>- systemic consumer power supply failures due to accidents and damage of grid sections and substation equipment;</li> <li>- violation of the requirements of GOST 13109-97 on electric power quality assurance;</li> <li>- violations of power transmission conditions and reduced quality of services rendered;</li> <li>- failure to perform timely maintenance (including diagnostics) and repairs;</li> <li>- poor quality of repairs;</li> <li>- methodological errors in planning of maintenance programs;</li> <li>- incorrect ranking facilities to be repaired;</li> <li>- accidents in related networks, leading to failures of the equipment of the Company;</li> <li>- abnormal power losses.</li> </ul>	<ul style="list-style-type: none"> <li>- scheduled and unscheduled repairs and maintenance of electric grid equipment;</li> <li>- upgrade, reconstruction and new construction;</li> <li>- technical control;</li> <li>- regular optimization of the structure and amount of components and spare parts in stock, etc.;</li> <li>- ensuring industrial safety and production control;</li> <li>- implementation of a program to reduce losses;</li> <li>- planning emergency measures (based on the analysis of technological violations) in order to mitigate the risk and prevent occurrence of similar cases in the future.</li> </ul>	
12	Investment risk	<p>The main risks for the Company's investment activities are the risks of incomplete disbursement of capital investment, increased construction in progress, and reduced investment program (in terms of volume and funding). The latter risk arises in connection with the state tariff regulation and the resulting changes in economic conditions, including due to increased procurement prices related to investment activities.</p>	<ul style="list-style-type: none"> <li>- formation of the investment program in accordance with the scenario conditions;</li> <li>- adjustment of the investment program to changes in economic conditions;</li> <li>- reallocation of funds received from the savings as the result of tender procedures to other facilities of the investment program;</li> <li>- implementation of measures to reduce the amount of construction in progress (Order No.999 of the Company dated 27.11.2014);</li> <li>- monitoring compliance with the terms of the procurement and agreementing procedures.</li> </ul>	
13	Risks associated with current litigations of the Company	<p>In 2014, the Company participated in judicial proceedings regarding its core activities that could significantly affect its financial situation. Judgments were passed both in favor of the Company and in favor of the plaintiffs against the Company. The most significant cases were related to the settlement of disputes under the agreements for electric power transmission services with OJSC Kubanenergosbyt, OJSC Oboronenergosbyt, and Maykopskaya CHP LLC</p>	<ul style="list-style-type: none"> <li>- supporting the interests of the Company in court;</li> <li>- monitoring the judicial practice to ensure positive court decisions in favor of the Company.</li> </ul>	

*Risks by Areas of Significance*



## Stocks and dividends

### Shares of OJSC Kubanenergo

	At the beginning of 2014	At the end of 2014
<b>Securities type, class, character, form of issuance</b>	Uncertificated registered ordinary shares	
<b>Nominal value per share</b>	100 rubles	
<b>Number of securities outstanding</b>	142,942,830 shares of principal issue and 139,925,300 shares of additional issue	282,868,130
<b>State registration number of the issue and registration date</b>	1 Principal securities issue: No. 1-02-00063-A as of 08.07.2003. 2 Additional issue: No. 1-02-00063-A-004D as of 06.05.2013	Principal securities issue: No. 1-02-00063-A as of 08.07.2003
<b>Presence / absence of special right of the Russian Federation to participate in the management of the Company ("golden share")</b>	No special right of the Russian Federation to participate in the management of the Company ("golden share")	
<b>Number of authorized shares which may be placed by the Company in addition to outstanding shares</b>	334,364,407 in common stocks with a total nominal value of RUB 33,436.4 mln	194,439,107 in common stocks with a total nominal value of RUB 19,443.9 mln

No preferred shares have been issued

The Company does not, and does not intend to, keep any shares on the balance sheet.

No subsidiaries or affiliates of OJSC Kubanenergo own shares in the Company.

In accordance with the Charter of OJSC Kubanenergo, each registered ordinary share of the Company grants equal scope of rights to its owner.

Ordinary registered shareholders of the Company are entitled to:

- participate in person or through representatives in the General Meeting of Shareholders of the Company having a right to vote on all issues within their competence;
- make suggestions for the inclusion of issues in the agenda of the General Meeting in the manner prescribed by the laws of the Russian Federation and the Charter;
- obtain all information on the Company's activity and acquainted with the Company's documents in accordance with Article 91 of the Federal Law "On Joint-Stock Companies", as well as with other regulatory legal acts of the Russian Federation and the Charter;
- receive dividends declared by the Company;
- preemptively purchase additional shares and issuance securities placed by means of public offering, converted into shares in a quantity which is proportional to the number of ordinary shares which belong to them in cases covered by the laws of the Russian Federation;
- get a part of the Company's assets in case it is liquidated;
- exercise other rights provided for by the laws of the Russian Federation and the Charter.

## Charter capital of the Company

From 2009 to 2013 the Company held 4 emissions of additional shares to attract investments for:

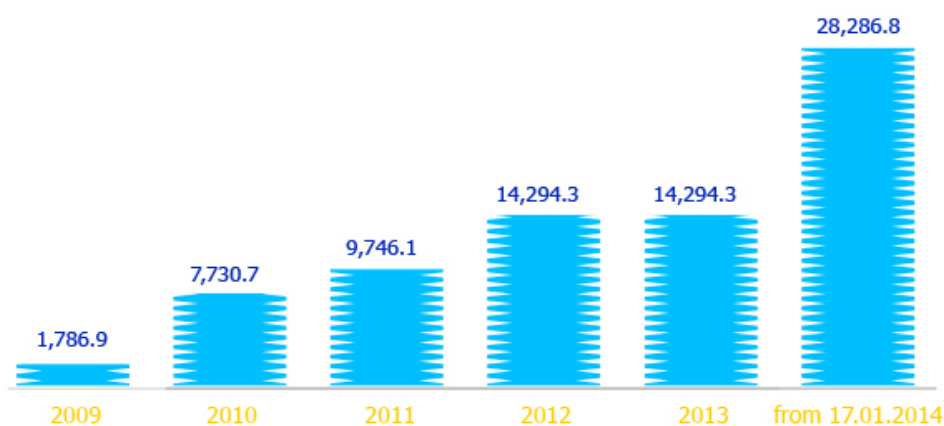
- Large scale projects in construction and renovation of distribution grid facilities of federal importance, including those providing for the infrastructure of the 2014 Winter Olympic games in Sochi,
- medium and long term measures to enhance reliability of power grid facilities on the Black Sea coast region and Krasnodar Region.

As of beginning of 2014, OJSC Kubanenergo charter capital amounted to RUB 14,294,283,000.

Amendments to the Charter of OJSC Kubanenergo related to finishing of the 4<sup>th</sup> issue of additional shares as a result of which the Company's charter capital increased to RUB 28,286,813,000 were registered on 17.01.2014.

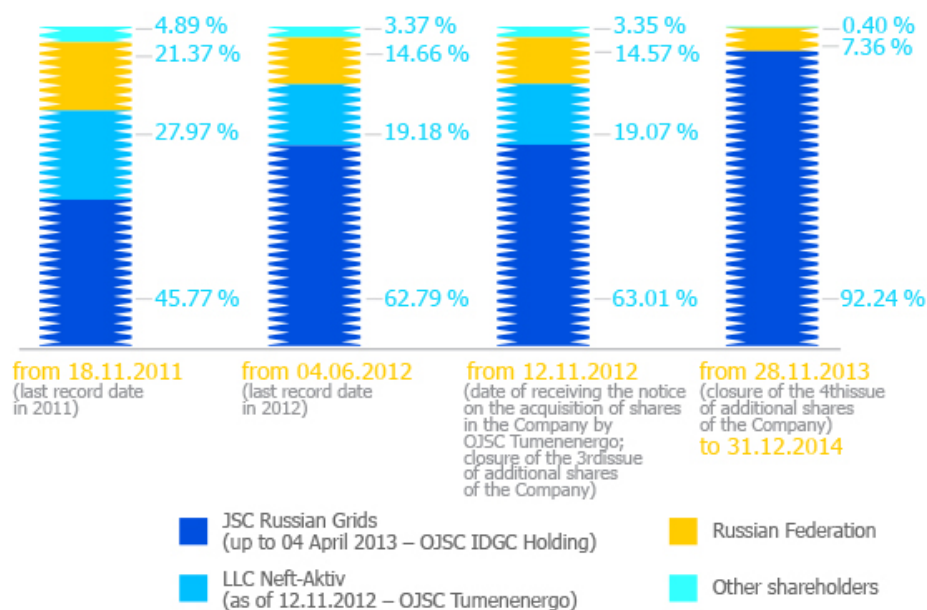
Hence, since 2009 the authorized capital of the Company has soared almost 16 times:

*Charter Capital, RUB mln*



## Structure of the share capital

*Structure of OJSC Kubanenergo Share Capital, %*



There were no changes in the structure of the share capital of the Company during the reporting year.

*Statistics on the shareholders of OJSC Kubanenergo as of 31.12.2014*

Item No.	Registered persons	Number of persons	Number of shares	% from the total number of shares
1	<b>Natural persons</b>	<b>1,775</b>	<b>342,827</b>	<b>0.1212</b>
	<i>including non-residents</i>	2	485	0.0002
2	<b>Legal entities, including nominal shareholders (total)</b>	<b>18</b>	<b>282,518,483</b>	<b>99.8764</b>
	<i>including owners (nominal shareholders) of more than 5% of shares</i>	2	282,512,387	99.8742
	<i>including non-residents</i>	2	330	0.0001
3	<b>Trustees</b>	<b>0</b>	<b>0</b>	<b>0</b>
4	<b>Shares in joint ownership</b>	<b>14</b>	<b>6,820</b>	<b>0.0024</b>
<b>Total according to the register:</b>		<b>1,807</b>	<b>282,868,130</b>	<b>100</b>

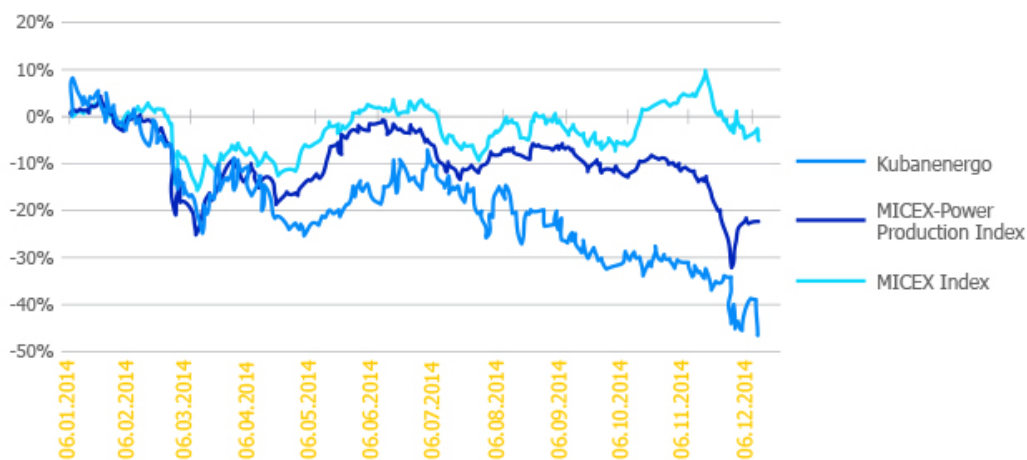
Stock market and capitalization of OJSC Kubanenergo

In 2014, OJSC Kubanenergo shares were traded at MICEX Stock Exchange as non-listed stocks, ticker symbol – KUBE, ISIN code: RU0009046767.

*Information as to the current quotations and prices of the deals is available in both Russian and English:*

- <http://moex.com>
- <http://www.finam.ru/>
- <http://kubanenergo.ru>

*OJSC Kubanenergo Capitalization Dynamics*



Capitalization of the Company at the beginning of 2014 has reached RUB 21.53 bln and amounted to RUB 12.16 bln at the end of the year

The capitalization maximum in 2014 amounted to RUB 24.03 bln, with the lowest drop at RUB 9.5 bln. The market price of the shares in the reporting year was in the downward trend and dropped by the end of the year by 46,5% against the lowered index of the MICEX-Power Production which dropped by 22,02%. Adverse effect has partly resulted from the measures taken by the Government of the Russian Federation to freeze electricity tariffs.

*Fluctuation of one share price of OJSC Kubanenergo in 2014*

Weighted Average Price (Beginning of the Year)	Lowest Drop	Maximum Price	Weighted Average Price (End of the Year)	Relative Price Increase over the Year, %
75	33.6	84.96	40.1	-46.53

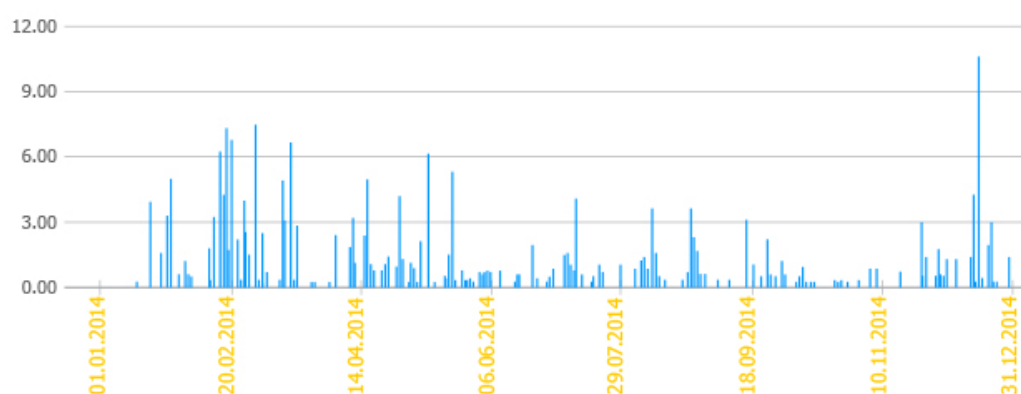
### Price Quotation and Trade Volume

Indicator	2012	2013	2014	2014/2013 (relative increase, %)
Weighted Average Price (End of the Year)	152.97	77.9	40.1	-46.53
Trade volume, pcs.	11,250,630	1,056,540	234,200	-77.83
Trade volume, RUB	1,365,966,838.60	153,059,217.20	14,301,266.50	-90.66

Trade volume of the Company shares at MICEX Stock Exchange in 2014 amounted to RUB 14.3 mln / 0.23 mln shares. Low trading activity compared to that of 2013 is partly caused by the consolidation of a block of shares by the majority shareholder of the Company, JSC Russian Grids.

#### Dynamics of Trade Volume of the Company Shares

thou pcs.



Trade volume reached its peak at 10,640 pieces on 18.12.2014. During the 2<sup>nd</sup>, 3<sup>rd</sup>, and 4<sup>th</sup> quarters trade volumes were low, amounting to only 10 OJSC Kubanenergo shares traded on certain trading days.

### Profit distribution and dividend policy

The dividend policy of OJSC Kubanenergo is a total of principles and methods used by the Company to work out the correlation between the profit that goes towards capitalization and the profit that goes towards the dividends, as well as to decide on the procedure and timing of paying out the dividends, and to decide on the responsibility of the Company for failing to deliver the stated amount in dividends.

Our dividend policy is aimed at increasing the investment appeal of OJSC Kubanenergo and the growth of its market capitalization.

While increasing the capitalization, we also aim at increasing the amounts paid out as dividends to the shareholders based on the amount of profit attained in the financial year and investment requirements in relation to the development of the Company.

The Dividend Policy of the Company is determined by the Regulation on the Dividend Policy of OJSC Kubanenergo established by the decision of the Board of Directors (Minutes No. 95/2010 of 03.09.2010) and published on the corporate website of the Company [www.kubanenergo.ru](http://www.kubanenergo.ru) - page [About the Company / Constituent and in-house documents](#)

#### Basic principles of OJSC Kubanenergo dividend policy

- Ensuring a balanced approach to the interests of the Company and its shareholders while settling the volume of dividends to be paid
- Respect and strict compliance with the rights of shareholders set forth by the applicable laws of the Russian Federation, the Charter and internal documents of the Company

*Data sheet on dividends paid by OJSC Kubanenergo*

Dividend Period, Year	Number and Date of the Protocol of the annual General Meeting of Shareholders of OJSC Kubanenergo where the Decision on the Dividends Payment Was Made	Date of Drafting the List of Shareholders Entitled to Receive Dividends in the Dividend Period	Amount of Dividends Announced (Accrued) on the Shares of the Given Tier (Type) per Share, RUB.	Total Amount of Dividends Announced (Accrued) on the Total Number of Outstanding Shares of the Given Tier (Type), RUB.	Total Amount of Funds Paid in Dividends on the Company's Shares of the Given Tier (Type), RUB;	Period of Time Set to Pay out the Announced Dividends on the Company's Shares	Means and Other Terms of Payment of the Announced Dividends on the Company's Shares	Reasons of Default on the Announced Dividend Payments
2005	No. 18 of 11.06.2006	12.04.2006	4.476917	80,000,000	79,662,676.97	60 days	Monetary means	Failure to provide updates on the changes in personal data by the persons registered in list of shareholders
2006	No. 20 of 05.06.2007	26.04.2007	1.253593	22,401,000	22,303,192.20			
2007	No. 23 of 06.06.2008	17.04.2008	1.678844	30,000,000	29,873,068.07			

Following the results of 2003–2004 and 2008–2013 financial years, the General Meeting of Shareholders of OJSC Kubanenergo decided not to pay dividends.

## Sustainable Development

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### Personnel Policy

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The key objectives of the personnel and social policy, designed to achieve the targets of the Strategy of Development of the Electric Grid Complex, are:

- planning of staff requirements, ensuring the availability of reliable information on operational and predictive numerical and qualitative requirements in labor, necessary and sufficient to perform the tasks assigned to the Company;
- timely supply of the demand of the Company for personnel with required qualifications;
- ensuring the effectiveness of personnel, and productivity growth in the Company.

*These key objectives of the personnel and social policy shall be achieved by implementing a set of measures in various areas of activity and achievement of the targets set:*

- in organizational design;
- in the field of staffing and staff development;
- in the field of performance management (staff motivation);
- in the field of social benefits and guarantees;
- in the field of personnel safety and work culture.

*In the implementation of the personnel policy, the Company is guided by the following principles:*

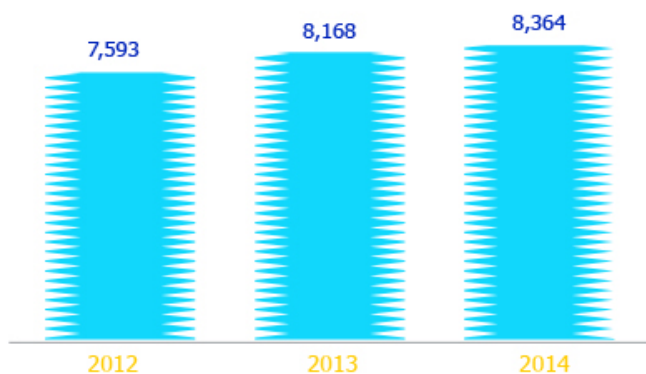
- compliance of the Policy with the common principles and approaches to human resource management in the power sector, taking into account the regional specifics;
- maximum compliance of Policy implementation mechanisms with the best practice and standards of human resource management in Russian and foreign companies;
- formation of a set of areas and methods of human resource management enabling the Company to rapidly and effectively adapt to corporate and external changes;
- operation with a single area of personnel, use of common technologies and common information resources of the electric grid complex in order to improve personnel management and reduce costs;
- giving employees equal opportunities and non-discrimination on any grounds;
- enabling maximum development of the professional potential of employees and ensuring the implementation of the approach implying "perception of the personnel of electric grid companies as human capital", implying investment in personnel development and maximizing the return on investment;
- creation of conditions requiring professionalism, productivity, motivation for professional development and general corporate distribution of values as the only guarantee of progress in the Company;
- creation of the image of the Company as of a socially responsible, preferred employer in order to increase attractiveness for highly skilled workers.

### Headcount and Structure of Company Personnel

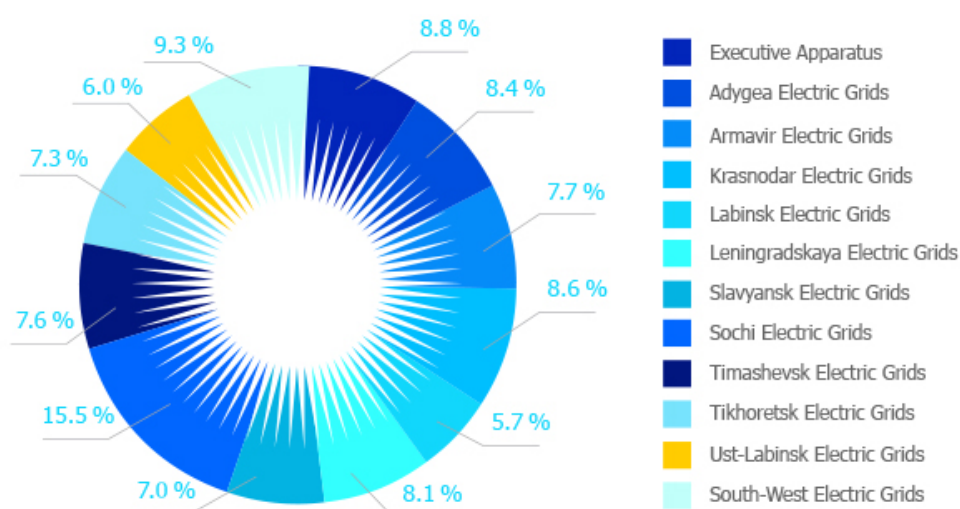
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The average headcount of OJSC Kubanenergo in 2014 amounted to 8364 people, which is 2.4% higher than in 2013. The increase in headcount is due to the employment of new production staff at branches of the Sochi Power Grids and South-Western Power Grids in order to improve the reliability of power grid facilities on the Black Sea coast of the Krasnodar Territory, ensure reliable and safe power supply in the Sochi Energy District of the Kuban Power System during the XXII Olympic Winter Games and XI Paralympic Winter Games in 2014 in Sochi. After the XXII Olympic Winter Games and XI Paralympic Winter Games in 2014 in Sochi, OJSC Kubanenergo took measures to optimize the number of personnel.

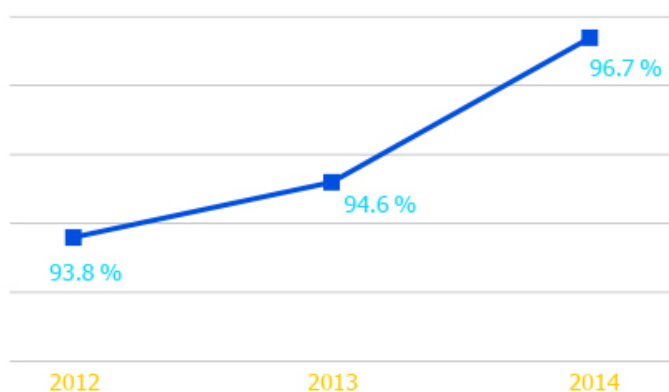
*Dynamics of the average number of personnel in 2012-2014, people*



*Employee distribution in 2014, %*

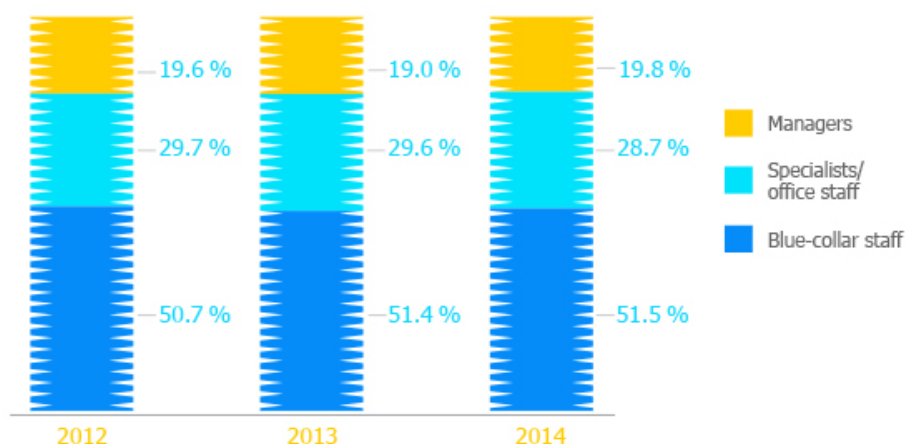


*Provision of personnel in OJSC Kubanenergo, %*



The staffing level of the Company in 2014 amounted to 96.7%, which 2.1 % points above the level of 2013. Staffing of OJSC Kubanenergo over the past three years has been stable and maintained at a high level.

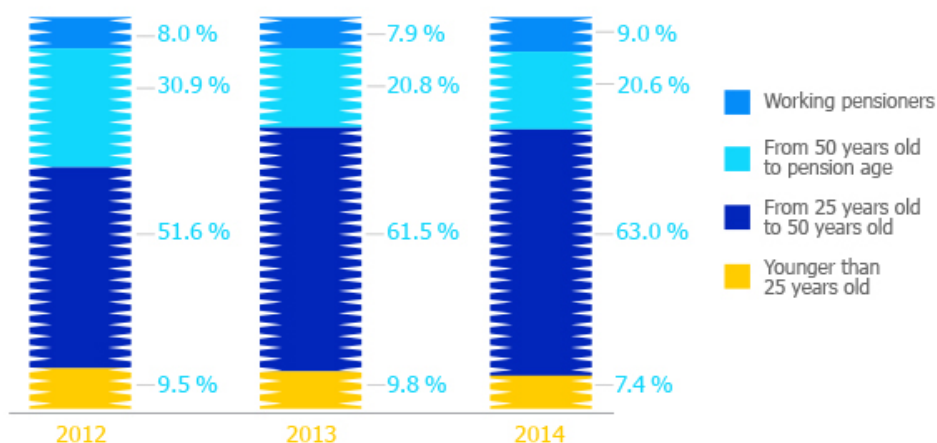
*Change in employee structure in OJSC Kubanenergo by personnel category in 2012–2014, %*



The structure of employees by categories is due to the specifics of activities of the distribution grid complex: the main proportion of employees are workers (51.5%); specialists/officials account for 28.7%; and managers account for 19.8%.

The dynamics of the structure of employees in the three years is generally uniform and stable. In 2014, as compared to 2013, the proportion of managers increased by +0.8 % points and the proportion of specialists/officials reduced by -0.9 % points.

*Change in the personnel structure of OJSC Kubanenergo by age in 2012-2014, %*

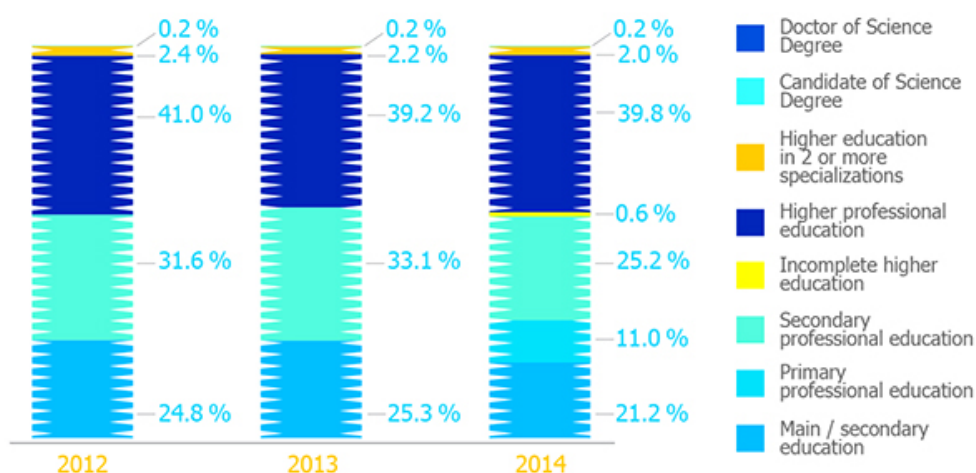


Analysis of the structure of personnel by age shows that the basis of human resource capacity OJSC Kubanenergo is made up by employees aged 25 to 50 years (63%), their share is increasing annually (+11.4 %points against 2012). At the same time, there is a decrease in the proportion of young professionals to form the basis of the human resource capacity of the Company in the future (by 2.1 percentage points against 2012) largely due to the transition of personnel from the age group "up to 25 years" to the category of "25 to 50 years". In 2014, as compared to 2013, the proportion of workers over 50 years old increased by 1 % point.

In order to retain and attract young employees, the Company renders professional and social support to young professionals in order to retain them in the Company in priority occupations; measures are taken to replace older staff with young professionals in the branches of OJSC Kubanenergo; rotation is carried out among the youth and working pensioners for the optimum balance and maximum development of their potential.

The average age of the Company's employees in 2014 was 41 years (vs 39.5 years in 2013).

### Qualification structure of OJSC Kubanenergo employees in 2012–2014, %



The staff of OJSC Kubanenergo is characterized by a high level of qualification: about 79% of the Company's employees have professional education.

The number of employees without professional education decreased significantly as compared to 2013 (by 4.1 % points).

In order to improve the qualification and professional level of the Company's employees, vacancies are primarily filled with candidates with higher and specialized secondary vocational education.

### Personnel Training and Development

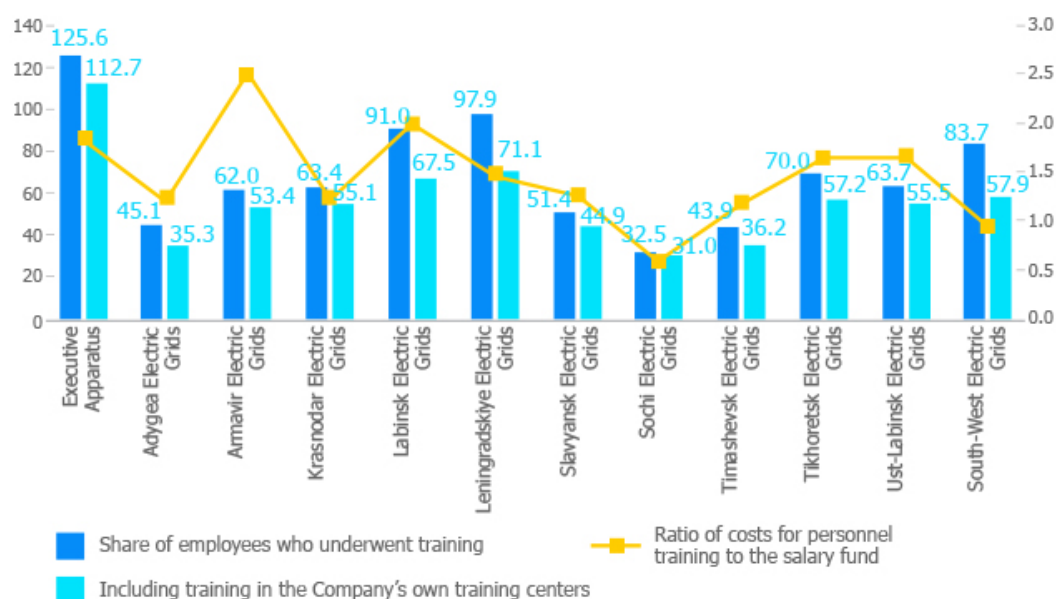
The availability of highly-qualified employees having the necessary knowledge, skills, and experience at all management and work levels guarantees successful operation of modern company. Creating the conditions for training, re-training, and improving the qualifications of each employee is one of the priority areas of human resource management in the Company.

The required personnel training is determined based on the regulatory documentation in the field of training of personnel in electric power distribution companies, the need for mastering new techniques and technology, the possibility of expanding the work functions of each specific employee, individual development plans for employees in personnel reserves, and changes in external socio-economic conditions.

Considering the fact that the work of a large part of Company employees is related to the use of a hazardous production infrastructure, the most important element of the personnel training system consist in the provision of training related to ensuring industrial safety supervised by the Russian Federal Service for Ecological, Technical and Atomic Supervision (Rostekhnadzor).

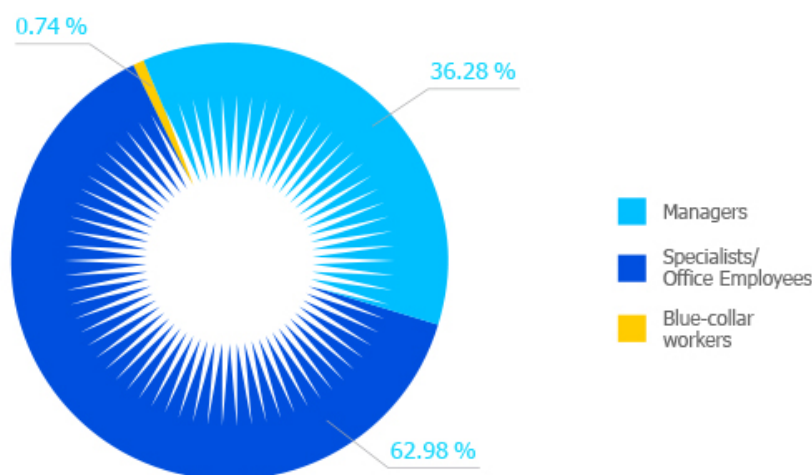
In 2014, various training events were attended by 6,218 employees of the Company or 74.34% of the average number of employees, of which 5,590 people or 66.8% participated in the events on behalf of various educational institutions, in the off-the-job manner (vs 5,703 employees and 69.82% in 2013, respectively).

Share of employees who took part in educational trainings, and the ratio of costs for personnel training vs. the salary fund in the reporting year, %



The cost of training in 2014 totaled RUB 49,177.21 thou or 1.34% to the payroll of employees of the Company (RUB 41,178.46 thou or 1.25% in 2013, respectively).

Distribution of Employees Trained by Category, %



Given the specifics of the Company's activities and objectives of the training, employees taking part in educational activities predominantly consist of the production staff.

#### Information about Non-State Educational Establishment TC Kubanenergo

This training center founded by the Company has trained 4,591 employees, representing 82.1% of the total number of employees trained off-the-job.

Non-State Educational Establishment Training Center Kubanenergo (abbreviated name NSEE TC Kubanenergo) operates under license No.02697 of 24.08.2011, allowing the implementation of 101 program of additional vocational training. In 2014, Company's employees were trained under 81 program of additional vocational education and training.

NSEE TC Kubanenergo has an educational-production base for 270 people (classrooms, laboratories), a hostel with 171 beds, an electric grid ground equipped with supports for overhead power lines of 0.4-110 kV, a district substation, consumer substations, and a diesel power plant of 250 kVA and 30 kVA.

NSEE TC Kubanenergo employs 63 people, including 5 teachers. Practical disciplines are taught by employees of equipment manufacturers and fuel and energy companies of the Southern Federal District (EKRA, Schneider Electric, Radius Avtomatika, etc.). Teaching is performed by attracted experts of the Company having proper qualifications.

All training programs are agreed with technical and specialized services of the Company. New training and retraining programs, when required, are initiated both by the Company and NSEE TC Kubanenergo in view of the introduction of new laws, regulations, requirements of technical regulations or introduction of new equipment and technologies at power enterprises of the region.

Managers and specialists included in the personnel reserve study at NSEE TC Kubanenergo under retraining programs of:

- ü Chief Engineer School;
- ü Dispatcher Training School;
- ü School of Management of Regional Electric Grids;
- ü School Development and Implementation of Services;
- ü Relay Protection and Automation.

Each training program includes 500 academic hours of training conducted during one calendar year.

### **Interaction with Educational Institutions**

Retraining and advanced training of personnel of the Company is also carried out through external parties.

In 2014, the Company's key partners in this area were:

- ü Federal State Budgetary Educational Institution of Higher Professional Education Educational and Methodical Office of RTN;
- ü FGAOU DPO St. Petersburg Institute of Energy Advanced Training;
- ü NP Stavropol Training Center;
- ü CSTI Progress LLC
- ü ANO Center of Retraining and Advanced Training;
- ü CJSC PricewaterhouseCoopers;
- ü CJSC BI Partner, and others.

At the end of the reporting year, 24 agreements on cooperation between the Company and educational institutions of secondary and higher vocational education were in effect, under which the parties organize and develop mutually beneficial strategic cooperation in the field of training, research and innovation aimed at improving the quality of training of graduates in the interests of the power industry.

*Key partners of the Company include* Federal State Budgetary Educational Institution of Higher Professional Education South-Russian State Polytechnical University (NPI) named after M.I. Platov, Federal State Budgetary Educational Institution of Higher Professional Education Azov-Black Sea State Academy of Agricultural Engineering (Zernograd), and Federal State Budgetary Educational Institution of Higher Professional Education Russian Academy of National Economy and Public Administration under the President of the Russian Federation. Employees of Sochi Power Grids Branch successfully completed training at Federal State Budgetary Educational Institution of Higher Professional Education Belgorod State Technological University named after V.G. Shukhov in the specialization of Power Supply (distance learning program).

The main areas of cooperation are as follows:

- target agreement training: in 2014, tripartite agreements were concluded for special agreement training of 24 specialists for the needs of the Company; in total, 399 specialists are undergoing targeted training in the reporting period in the following fields of study: erection electrician for electrical power grids and electrical equipment, electrician for machinery repairs and maintenance in agricultural production;

- organization of practical training for students: in 2014, 211 people completed training at Company's facilities, including 10 students of institutions of higher vocational education, 106 students of institutions of secondary vocational education, 95 students of primary vocational schools;

- retraining of employees;

- organization of student construction brigades.

In July 2014, the Company formed a student construction brigade of 10 people selected out of the students of the Kuban State Agrarian University. Throughout the season, the brigade performed landscaping of the territory of the Krasnodar Power Grids Branch of OJSC Kubanenergo and repaired its power grid facilities.

In order to attract young professionals to work in the Company, special activities are conducted at secondary schools aimed at developing long-term vocational guidance and selection of the best students for target training at secondary and higher education institutions with the possibility of further employment in the Company.

### Interaction with the Personnel Reserve of the Company

Formation and development of the personnel reserve is one of the priority tasks of the Company in the implementation of its personnel policy.

Interaction with the personnel reserve is carried out at the level of branches and executive bodies of the Company based on the a systematic approach established by the Company's local regulations.

In order to ensure timely filling of new vacancies or positions with employees having the professional competencies required for performing the duties in leading positions of the Company, a managerial personnel reserve is formed, the handling of which is governed by the Regulation on the Personnel Reserve (approved by Order No.334 of 7/5/2010).

In 2014, administrative personnel reserve was formed for the following positions (899 items):

- in executive bodies of the Company:
  - deputy general directors in various areas of activity;
  - heads of divisions and their deputies;
  - heads of managements and their deputies;
  - heads of departments and services;
- in branches:
  - directors of branches;
  - deputy directors of branches in various areas of activity;
  - heads of divisions of the administration;
  - heads of departments, services and sectors of the administration;
  - heads and chief engineers of Regional Electric Grids;
  - foremen.

The managerial personnel reserve is divided into operational and prospective. The operational personnel reserve includes managers and specialists of the Company having qualifications that comply with requirements of the target position or requiring short-term training to achieve this compliance. The prospective personnel reserve consists of employees of the Company with evident potential to for the target position, but requiring additional training for the development of their professional and managerial skills.

The main criteria of eligibility to the managerial personnel reserve are:

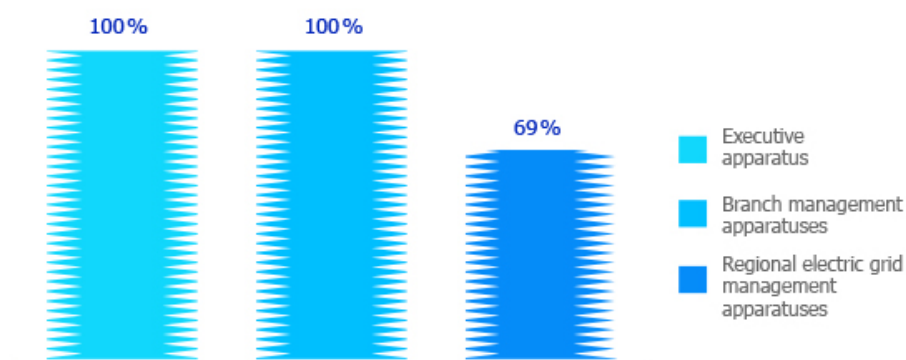
- high professional qualifications;
- high production results;
- availability of the potential for professional development and career growth;
- leadership qualities.

The managerial personnel reserve may include people with experience in the Company of at least one year.

Candidates to the managerial personnel reserve were admitted on a competitive basis by the results of assessment procedures designed to determine the level of management skills and development capacity.

At the end of the reporting period, the Company's managerial personnel reserve included 821 employees.

*Rates of the Company's Managerial Personnel Reserve in 2014, %*



The low personnel reserve rates for management positions at REG is due to the high requirements for the candidates and lack of qualified personnel, particularly in rural areas of electric grids.

In 2011, in order to attract young employees to solving urgent problems of the electric grid complex, develop their managerial and professional competencies, and assist in career development, the Company implemented a training program for the youth personnel reserve. All work with youth personnel reserves is governed by the Regulation on the personnel reserve of young professionals of the Company and the external personnel reserve of young professionals from among students of specialized educational institutions (approved by Order No.279 of 4/2/2012).

In accordance with the requirements of this Regulation, the personnel reserve of young professionals of the Company may include personnel under the age of 35 years (inclusive), admitted on a competitive basis, having personal and business potential for professional development and career growth, recommended by their supervisors and having successfully passed respective evaluation tests.

In 2014, the Company's youth personnel reserves included 39 high-potential young professionals. For each reservist, target positions were identified, tutors were assigned from among the qualified managers and specialists of the Company in the relevant area of activities, individual development plans were developed and approved.

In accordance with the individual plans, employees in the personnel reserves of the Company studied the functional contents of their target positions. The main emphasis in the development of such reserve members was placed on practical experience: the practice of temporary appointments of reserve members to their target positions in the absence of their supervisors was largely used, as well as their inclusion into working/project groups and involvement in the development of regulatory documents:

In order to develop management skills and professional competencies, members of the personnel reserve of young professionals were trained under the course of Successful Manager: Management Tools. During the event, promising young employees mastered the skills of effective personnel management, learned to overcome psychological barriers in delegation of authority, and acquired other necessary management skills.

Young professionals were also able to acquire practical experience by managing work teams and supervising the work of student construction brigades.

A representative of the Labinsk Power Grids Branch took part in the International Forum of Young Energy Professionals and Industrialists "Forsage".

Five employees of the Company participated in the activities of the youth program of the III International Forum on Energy Efficiency and Energy Saving ENES 2014 and in the qualifying events for the formation of the national team of JSC Russian Grids to attend the International Youth Forum in St. Petersburg.

In October 2014, in Moscow, Expocentre on Krasnaya Presnya hosted the International Electric Power Forum RuGrids-Electro. During the Forum, the jury of the contest titled "Idea to Implementation" awarded a diploma for the "Most Practical Solution" to Sergey Valkov, who presented a work on "Development of an Arc Protection Testing Device" (which was already awarded at the contest of "Youth Potential in Science, Technology and Innovation at OJSC Kubanenergo in 2014).

*In the reporting year, 158 reserve members were appointed to top positions:*

Personnel reserve type	Number of people from the reserve appointed to high positions, people	
	to target positions	other
Managerial personnel reserve	109	27
Youth personnel reserve	11	11
TOTAL	120	38

In October 2014, in the framework of the implementation of the unified system of interaction with personnel reserves, S&A of JSC Russian Grids enforced the Regulations on interaction with the personnel reserve of the Company, which changed the nomenclature of target positions in the Company and envisaged a renewal of personnel reserves.

### Key Performance Indicators of the Company Management

On 01.01.2013, a new system of key performance indicators was approved and implemented by decision of the Board of Directors (Minutes No.147/2012 of 04.12.2012). The target values of key performance indicators for the 4th quarter of 2014 and 2014 were approved by the Board of Directors (Minutes No.177/2013 of 20.12.2013), with subsequent corrections in December 2014 and February 2015.

The system of key performance indicators of the Company reflects the implementation of goals and objectives of the Strategy of Development of the Electric Grid Complex approved by Decree No.511-r of the RF Government on 03.04.2013.

The main targets reported in the system of key performance indicators of the General Director of the Company are as follows:

- improved reliability and quality of power supply,
- increased safety of power supply,
- reduced investment and operating costs,
- execution of the investment program.

*In 2014, the following composition of key performance indicators was used:*

Annual key performance indicators		Quarterly key performance indicators	
Terms bonus payment	Determining the amount of bonuses	Terms bonus payment	Determining the amount of bonuses
<ul style="list-style-type: none"> <li>· Availability of net profit,</li> <li>· Timely implementation of milestones in project schedules under federal programs and target dates for the elimination of schedule delays in projects under federal programs, including for power supply facilities of Sochi 2014.</li> <li>· Reduced costs of acquisition of goods (work, services) per unit by at least 10 percent per year for three years in real terms in 2010 prices</li> </ul>	<ol style="list-style-type: none"> <li>1. Reliable operation: average duration of interruptions in power transmission.</li> <li>2. EBITDA.</li> <li>3. Power losses in the supply to the grid.</li> <li>4. Efficiency of investment activity: compliance with commissioning schedules and plans for the funding and amounts of capital investments confirmed by work completion certificates (per year).</li> <li>5. Quality of services provided:               <ol style="list-style-type: none"> <li>5.1. Quality of technological connection services,</li> <li>5.2. Quality of power transmission services,</li> <li>5.3. Service quality.</li> </ol> </li> <li>6. Effectiveness of innovation activity</li> </ol>	<ul style="list-style-type: none"> <li>· Lack of lethal industrial accidents or group accidents with severe injuries due to the non-performance (low quality performance) of their duties by employees of the Company</li> <li>· Obtaining (availability) of certificates of readiness in due time (1, 4 quarters)</li> <li>· Timely implementation of milestones in project schedules under federal programs and target dates for the elimination of schedule delays in projects under federal programs, including for power supply facilities of Sochi 2014.</li> <li>· Compliance with funding schedules and amounts of capital investments confirmed by work completion certificates and certificates of commissioning of fixed assets under federal programs</li> </ul>	<ol style="list-style-type: none"> <li>1. Reliable operation: prevention of an excessive number of accidents</li> <li>2. Efficiency of investment activity: compliance with quarterly funding schedules and amounts of capital investments confirmed by work completion certificates, under the investment program on an accrual basis from the beginning of the year (quarter)</li> </ol>

Approved the annual target values of key performance indicators for 2014 were achieved in full. The annual index of KPI performance is 100%; the quarterly index is 100%.

### Occupational Safety

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The basic principle of the Company's activities in the field of occupational safety and health consists in the recognition and ensuring the priority of life and health of employees in relation to the results of production activities of the Company.

In order to ensure normal and safe working conditions for employees at all stages of the production process, the Company has the Regulations on occupational safety management system meeting the requirements of GOST 12.0.230-2007, international standard OHSAS 18001, international standards on OSH management systems, as well as requirements of the Russian labor legislation.

The Company's management is responsible for ensuring safe working conditions and occupational safety in OJSC Kubanenergo and their compliance with the requirements set.

In 2014, the Company performed permanent OHS measures and measures developed rapidly based on the analysis of activities of the Company and other subsidiaries and affiliates of JSC Russian Grids and aimed at preventing injuries and improving the organization of work in the field of occupational safety.

In order to improve labor discipline, reduce accidents and human error at the facilities of the combined electric grid complex, OJSC Kubanenergo operates the Program of measures to reduce systemic risks of injuries and a comprehensive program of OJSC Kubanenergo to reduce the risk of injury to personnel OJSC Kubanenergo and third parties at power grid facilities of the Company for the period of 2015-2017, as approved by the Board of Directors (Minutes No.201/2014 of 30.12.2014).

In order to coordinate the work of the branches of OJSC Kubanenergo in the area of occupational health and safety, 33 conference calls were conducted, of which 9 were held via videoconference with the participation of first deputy directors, chief engineers and heads of technical units of the Company branches. Occupational Safety Days were held on a monthly basis, which allowed involving a large number of employees of the Company in the process of self-control and mutual control, as well as increased the level of knowledge and experience of employees in the field of occupational health and safety.

In order to improve knowledge and exchange experiences with deputy chief engineers and heads of industrial safety and production control services of the branches of OJSC Kubanenergo, the Department of Occupational Safety and Production Control of the Company conducted in 2014 two field seminars, covering various issues of occupational safety and organization of structural units in the form of business games, including sessions on the functioning of the occupational safety system and timely detection of potential threats and risks to the health and lives of employees of OJSC Kubanenergo and planning of labor protection measures.

As part of the functioning of the internal technical control system, in 2014, comprehensive inspections were conducted at the Company's branches of Labinsk and Leningrad Power Grids; thematic inspections of divisions of all branches of the Company were conducted throughout the year, which allowed identifying and eliminating violations.

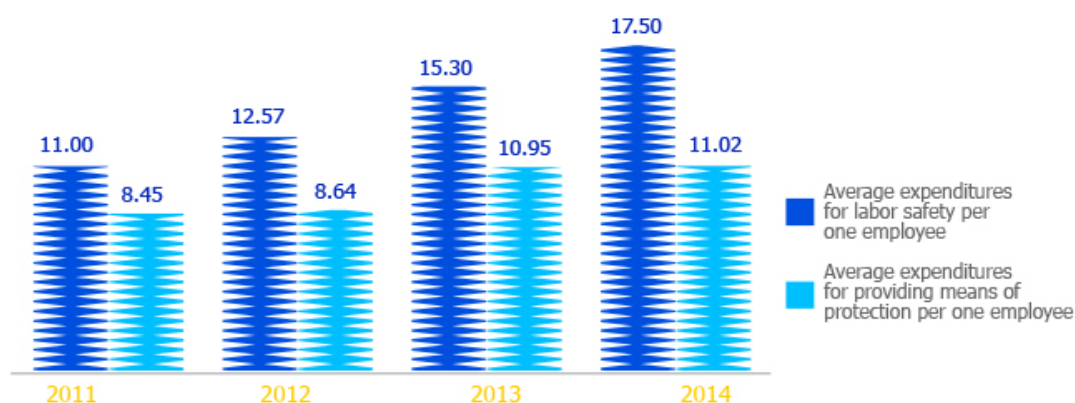
Despite the large amount of occupational safety and health related work performed, including on the prevention of injuries, it was not possible to completely avoid occupational accidents in the reporting year: three accidents occurred.

Occupational diseases of the personnel of OJSC Kubanenergo in 2014 were identified.

In 2014, a special assessment of working conditions was conducted at 2,227 workplaces of the branches of OJSC Kubanenergo.

In order to ensure the preservation of life and health of employees of the Company, in 2014, the necessary protective equipment and supplies were acquired to ensure the safety of work. The annual application for the purchase of special clothing and footwear was performed in full.

*Unit costs of occupational health and safety and the provision of personal protective equipment per worker in 2011–2014, RUB thou*



## Industrial Safety

Production control in the field of industrial safety is carried out in accordance with the order of the Company "On production control over the compliance with industrial safety requirements at hazardous production facilities of OJSC Kubanenergo" of 31.07.2013, and the Regulation on production control over compliance with industrial safety requirements at hazardous production facilities of OJSC Kubanenergo of October 11, 2006, developed in accordance with the following documents:

- Federal Law No.116-FZ of 21.07.1997, On industrial safety of hazardous production facilities;
- Rules of organization and implementation of production control to comply with the requirements of industrial safety at hazardous production facilities;
- Industry regulation on production control over compliance with industrial safety requirements at hazardous production facilities.

In OJSC Kubanenergo, four hazardous production facilities were identified.

The facilities are registered in the Federal Service for Ecological, Technological and Nuclear Supervision (certificate A30-00777 of 14.10.2013). In 2014, the hazardous production facilities were operated in accordance with the requirements of technical regulatory documents.

OJSC Kubanenergo has two explosive manufacturing facilities registered in the unified state register of Rostekhnadzor. For their operation, license No.VP-30-003995 was obtained (renewed) in 2011 by the Federal Service for Ecological, Technological and Nuclear Supervision (unlimited).

Work related to the operation of hazardous production facilities of the Company and technical devices used therein may be performed by duly trained employees having passed pre-examination training and examination in industrial safety rules. Training, pre-examination training, initial and periodic testing of knowledge of engineering and technical workers shall be conducted in specialized organizations having appropriate permits.

## Social Responsibility

Concern for the welfare of its employees is one of the priorities of the social policy OJSC Kubanenergo.

The basic principles of the social policy of OJSC Kubanenergo consist in the creation of comfortable labor and recreation conditions for employees, increasing their social security, and improvement of labor and social relations at the workplace.

When encouraging its employees and increasing their commitment in industrial activities, OJSC Kubanenergo pays particular attention to their social support. The social programs, benefits and guarantees available in the Company ensure that the Company attracts and retains the most valuable employees, strengthens the loyalty of employees to the Company, and promotes achievement of its goals.

Improvement of the system of moral and material incentives for employees is the most important area of activities of OJSC Kubanenergo. The social policy of OJSC Kubanenergo is based on the Industry Tariff Agreement in the electric power industry of the Russian Federation for 2013-2015, the collective agreement, internal regulations, rules and other local regulations.

As part of the benefits package, employees of the Company receive financial assistance in connection with the birth of a child, registration of marriage, burial of relatives, retirement, emergencies

or death of the employee; compensations for child care in preschool institutions are paid, as well as other payments stipulated by the collective agreement.

Being a socially responsible company, OJSC Kubanenergo takes care of its veterans and pensioners. Retired pensioners of OJSC Kubanenergo receive monthly allowances.

In the reporting period, more than 2,600 veterans and pensioners of the Company received various benefits (material assistance on the Victory Day, Power Engineer's Day, monthly financial assistance and financial assistance under applications, etc.) in the total amount of 9,141.95 thousand Rubles.

*Amount of funds allocated for the provision of financial assistance to employees and pensioners of OJSC Kubanenergo in 2012-2014., RUB thou*

Name	2012	2013	2014
OJSC Kubanenergo	16,746.2	16,969.3	18,002.5

Health care and recreation of employees and their children play an important role in improving performance of the personnel.

This year, 963 tickets were purchased for resort and recreational trips of employees and their families, as well as 327 tickets to children's recreation camps.

*Amount of funds allocated for resort and recreational trips of employees of OJSC Kubanenergo and their children in 2012-2014., RUB thou*

Name	2012	2013	2014
OJSC Kubanenergo	12,785.9	13,015.6	13,935.0

OJSC Kubanenergo provides high-quality and timely health care services to its employees through the conclusion of agreements of voluntary health insurance and round the clock insurance of all employees against accidents. In 2014, as a result of an open competition, OJSC Alfa Insurance was selected as the insurer for voluntary health insurance, and OJSC SOGAZ was selected for the insurance of employees against accidents.

In order to improve the social security of employees and develop non-financial incentives, OJSC Kubanenergo develops non-state pension programs.

Non-state pension programs for employees of the Company are implemented through the Private Pension Fund of the electric power industry. Non-state pension programs are designed to ensure the proper level of welfare of employees having reached the retirement age, creating conditions for effective solution of personnel issues related to the attraction, retention and motivation of personnel.

Taking into account the complexity of the problem of provision of housing to employees, the collective agreement the Company envisages assistance and support in the improvement of their living conditions by providing financial assistance to employees at registration of a mortgage loan and repayment of the related interest. In 2014, 120 employees of the Company received assistance in the improvement of their living conditions for a total amount of 2,137.48 thousand Rubles, including by the following categories of employees: 45 managers, 52 specialists, 23 workers.

In order to develop and maintain a healthy lifestyle, OJSC Kubanenergo conducts health and fitness activities and promotes mass sports among the Company employees, providing them with access to a sports infrastructure.

During the XXII Olympic Winter Games and XI Paralympic Winter Games (February to March 2014), JSC Russian Grids jointly with OJSC Kubanenergo organized a volleyball tournament for employees of JSC Russian Grids and its subsidiaries and affiliates serving Sochi power grid facilities in the city of Sochi. The Company's team won the competition.

In November 2014, employees of the Company represented the OJSC Kubanenergo at the IV Open Chess Tournament of Power Engineers in the Memory of M.M. Botvinnik held by JSC Russian Grids jointly with the Russian Chess Federation. Power engineers of Kuban won the third prize at the tournament.

OJSC Kubanenergo provides social support to veterans and retired employees of the Company. In 2014, active work on cooperation with the veteran community was conducted.

In celebration of the 69th anniversary of the Victory in the Great Patriotic War, all 11 branches and the executive office of the Company jointly conducted a historical and memorial event of the Relay of the Victory Banner. Honoring and material support of veterans is an integral part of humanitarian activities of the Company.

In OJSC Kubanenergo, significant attention is paid to activities that bring together and join the team of the Company, thereby improving the corporate culture.

In 2014, the following activities were conducted:

- celebration of the Day of Defender of the Fatherland;
- celebration of March 8;
- honoring of veterans of the Great Patriotic War;
- celebration of the Children's Day;
- children's creative contest of Elektroscha Looking for Talents;
- children's drawing competition of Children Draw the Power Industry;
- Christmas parties for the children of employees of the Company.

Particular attention is paid to the preparation and celebration of the professional holiday, Power Engineers' Day.

In 2014, the best employees of OJSC Kubanenergo received a total of 2,549 awards for their great contribution to the development of the electric grid complex of Kuban, for long-term and fair work, for their contribution to the preparation and holding of the XXII Olympic Winter Games and XI Paralympic Winter Games of 2014 in Sochi, and for the elimination of consequences of natural disasters, including awards of the President of the Russian Federation, government awards, departmental, regional, sectoral, corporate and intercompany awards, such as:

- 11 awards of the President of the Russian Federation;
- 49 government awards of the Russian Federation;
- 95 departmental awards;
- 74 regional awards;
- 100 industry awards (Association of Electric Power Industry Employers);
- 1,122 corporate awards (of JSC Russian Grids),
- 1,098 intercompany awards (of OJSC Kubanenergo).

In order to promote professions of the energy sector and involve children of employees of OJSC Kubanenergo in the creative process, yearly traditional competitions of Children Draw the Power Industry and Elektroscha Looking for Talents were conducted. In general for the Company, over 300 children took part in these competitions, 36 of them were awarded with valuable prizes and gifts.

Social work of OJSC Kubanenergo is aimed at the development of social partnership, improving social security of employees and enabling general development of Company.

## Environmental Protection

OJSC Kubanenergo supplies to its customers the most efficient and environmentally friendly form of energy, electricity, and produces various impacts on the environment. The environmental management system of the Company is focused on reducing the negative impact on the environment and ensuring environmental safety of grid facilities.

In 2014, environmental activities were planned based on the priority of environmental aspects in accordance with the goals established in the Environmental Policy of OJSC Kubanenergo aimed at ensuring compliance with the environmental legislation, reasonable management of natural resources, technological upgrades and gradual decommissioning of outdated equipment with its replacement by more environmentally safe devices.

All activities planned for 2014 were successfully implemented. under the Program for Implementation of the Environmental Policy of the Company, including:

- regulatory documents on types of negative impacts were updated with obtaining of corresponding permits;
- the required amount of laboratory measurements were performed as part of the production environmental monitoring of compliance with standards for emissions of pollutants into the atmosphere from various emission sources, as well as of the quality of storm water entering water bodies and the terrain;
- production control was carried out in the field of production and consumption waste management in the territory of location of offices of the Company;
- the fee for a negative impact on the environment was paid in full and in due time;

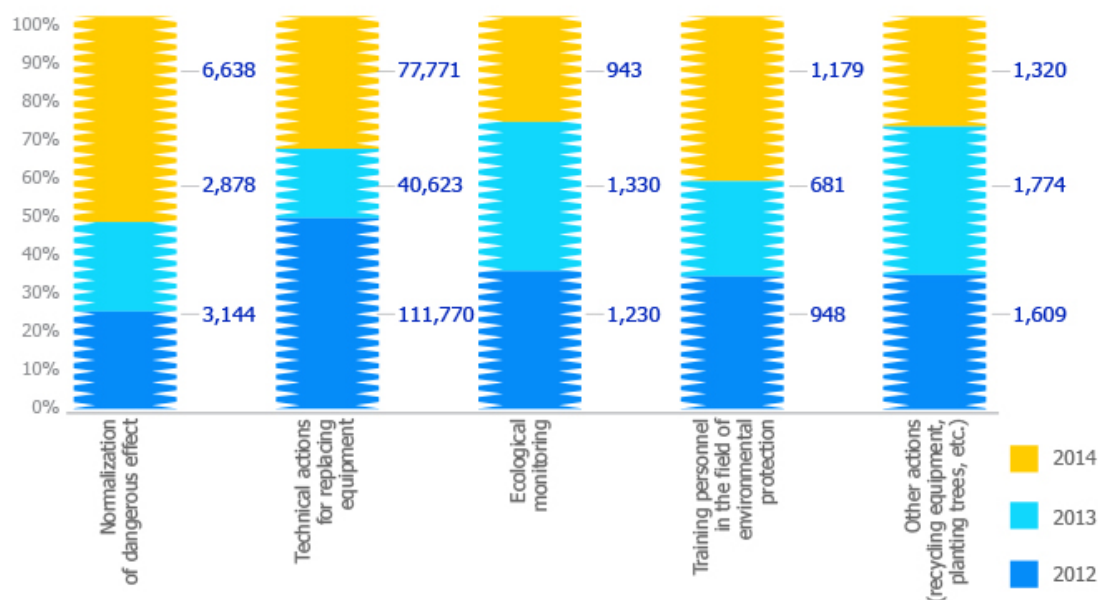
- KRUN 6-10 cells with oil circuit breakers were replaced with environmentally safer cells with vacuum circuit breakers;
- SK type storage batteries were replaced with more advanced 16 GroE 150, 16 GroE 400, OP-10, OP-12 type batteries, the service life of which more than doubled, thus reducing the amount of waste generated and its disposal costs;
- 14.36 tons of decommissioned used CS1 and CS2 type capacitors (extremely hazardous waste containing trichlorobiphenyl) were transferred for disposal to OJSC Kuprit (Kirov);
- 9 units of vehicles and machinery were replaced, upon expiry of their rated service life, with new vehicles meeting EURO-3 standards;
- repairs of the emergency transformer oil collection and removal system (suction pipes, oil drains and sumps) was performed at 277 substations, including to ensure environmental safety of grid facilities;
- internal environmental audits were conducted at the branches and executive bodies of the Company, resulting in the development of measures aimed at improving the environmental management system and prevention of negative environmental impacts.

In the process of eco-oriented reconstruction, which resulted in a reduction of anthropogenic load on the environment in accordance with the Stockholm Convention on elimination in production and non-use of persistent organic pollutants, 283 units of equipment containing trichlorobiphenyl were decommissioned.

In compliance with the requirements of environmental legislation, the Company annually ensures training and retraining of personnel in the field of environmental protection and ecological safety. In the reporting year, managers and specialists of OJSC Kubanenergo were trained under the following programs:

- Professional training for the right to work with hazardous waste, 46 people;
- Ensuring environmental safety at electric grid facilities, 11 people;
- Problems and practical applications of the current environmental legislation, 15 people.

*Costs for fulfilling the Ecological Policy Program, RUR thou*



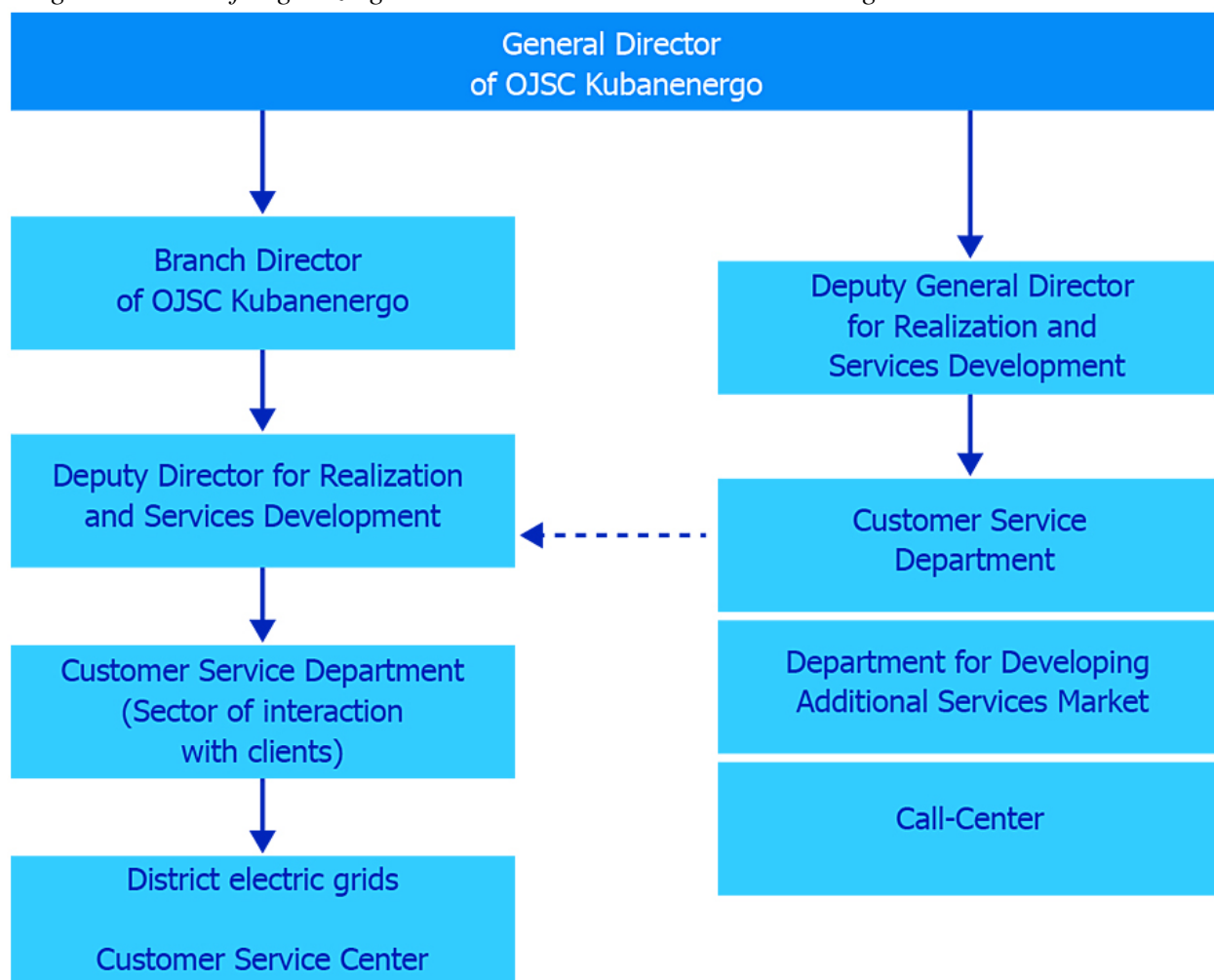
The annual spring event was conducted simultaneously with the All-Russian Ecological Clean-Up of "Green Spring". The event included cleaning and landscaping of the territories of municipalities of the Krasnodar Territory and the Republic of Adygea controlled by the Company in the framework of the environmental action of Russian Grids Group of Companies.

In total, 500 seedlings of various species of trees and shrubs were planted in parks, alleys, forest park zones and in the territories of branches of the Company. The event was attended by more than 500 employees of OJSC Kubanenergo.

## Organization of Customer Service

In order to ensure the provision of high quality services, the Company established and successfully operates customer service divisions.

### *Target structure of organizing customer service at OJSC Kubanenergo*



Full-time customer service is provided by 12 customer service centers in the Company's branches and 37 customer service points in the areas of electric grids. These common service points may be used by users to solve any emerging issues in cooperation with the Company.

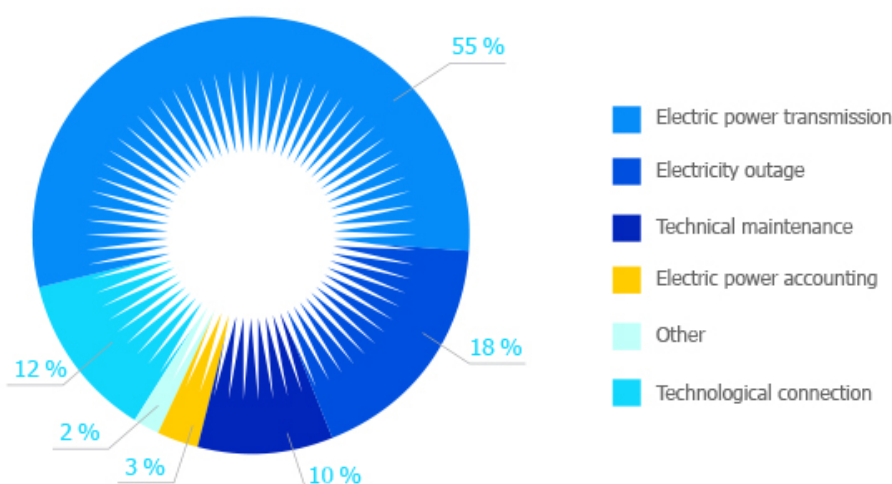
In 2014, the Company opened in the central part of Sochi the largest and most modern in southern Russia customer service center, which occupies an area of 271.7 square meters. It operated 8 windows for providing customer services, covers an expanded list of services and issues, has an electronic waiting line system and an information self-service terminal.

Remote customer service of OJSC Kubanenergo is organized through a call-center work with a single federal number of 8-800-100-15-52. Call-center operators promptly inform the population of the Krasnodar Territory and Republic of Adygea on various issues related to the power supply and the time of rescue and recovery operations and scheduled repairs. In 2014, over 310 thousand consumers applied to the Call-center of OJSC Kubanenergo.

In 2014, OJSC Kubanenergo received:

- ü 4,132 claims from consumers (including 1,952 reasonable claims), which is 414 claims less than in 2013,
- ü 17 reviews (gratitude), which is 2 less than in 2013.

### Description of Claims received in 2014, %



Consumer complaints were considered, measures were taken to eliminate their causes.

OJSC Kubanenergo also provides online customer service at its website [www.kubanenergo.ru](http://www.kubanenergo.ru), in section [For customers / Customer service centre](#) at:

- ü applications for services are submitted using [Customer's Personal Account](#),
- ü claims of consumers are submitted through [Internet reception](#),
- ü information to consumers is provided in subsection [Q&A](#).

In 2014, through the Internet Reception and Personal Account, 430 claims of consumers were received.

### Integrated Management System

In April 2014, within the framework of the compliance audit, the certification body of CJSC SGS Vostok Limited (part of SGS Group) confirmed the compliance of the Company's management with international standards in the field of quality management, occupational health and safety, and environmental management in the branches of Adygei, Leningrad, Slavic Power Grids and the executive office of the Company. By the results of the audit, the certification body concluded that the Company's management system is functioning effectively, is well-planned and is able to reach the planned objectives set out in the [Management Policy of OJSC Kubanenergo in the field of quality, environmental management, occupational health and safety, approved by Order No.127 of OJSC Kubanenergo of 3/20/2007 \(IMS Policy\)](#).

In 2014, the Company implemented a number of measures to improve its management system:

- In accordance with the IMS Policy, [approved goals](#), a Quality Management Program for 2014 was developed and implemented.
- The Company conducted quarterly monitoring of established performance indicators of processes and, when required, took corrective and preventive actions in order to achieve its performance targets.
- In the first quarter, analysis of the control system was conducted, by the results of which decisions were made on planning and improvement of Company's activities.

The 2014 program of internal audits was completed in full, with the identification of problem areas in business processes, environmental management system, the system of industrial and occupational safety. Internal audits conducted allowed the Company to eliminate existing inconsistencies and ensure their timely prevention. The internal audits were conducted with the participation of technical experts in the field of operation of lines of 35 kV and higher, employees of relevant services of the executive office, and managers of the Company's branches, which enabled a better assessment of business processes, compliance with legal requirements and internal regulations in the field of process management, industrial safety, occupational safety and environmental compliance.

The Company constantly monitors the impact of its activities on the environment.

In February 2015, re-certification audits were conducted at the sites of three branches: Sochi, Labinsk and Timashevsk Power Grids, and at the executive office of the Company. By the results of the

audit, it was decided to issue to the Company certificates (third edition) of compliance with international standards in the field of quality management, environmental management and occupational health and safety.

## Communication with the Public and Public Authorities, Congress and Exhibition Activity

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### Communication with Public Authorities and Civil Society Organizations

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In the reporting year, media coverage was regularly provided at working meetings and meetings of the management of OJSC Kubanenergo and branches of the Company with federal and regional government officials.

Events attended by the management of the Ministry of Energy of Russia, JSC Russian Grids, SC Olympstroy, administration of the Krasnodar Territory and the city of Sochi and dedicated to the issues of preparation of the distribution grid complex of the Sochi Energy District for the XXII Olympic Winter Games and XI Paralympic Winter Games of 2014 in Sochi were of the most interest to the media.

*The most important events of the reporting period attended by federal officials and the top management of JSC Russian Grids and OJSC Kubanenergo, widely covered in the media, include:*

- meeting of the staff of the Company with a member of the Federation Council of the Krasnodar Territory V. Ignatenko in Sochi (September 2014),
- a working meeting of the Head of the Republic of Adygea A. Tkhakushinov with the General Director of the Company A. Gavrilov in the Government House of Adygeya (June 2014),
- meeting of the mayor of Sochi A. Pakhomov with the staff of the Company in Sochi (August 2014),
- 46th meeting of the CIS Electric Power Council in Sochi and awarding of the General Director of OJSC Kubanenergo A. Gavrilov with the Russian Energy Certificate of Merit for his great personal contribution to the development of the fuel and energy complex (September 2014),
- the grand opening of the sculpture Energy of Olympic Victories in Sochi (December 2014),
- opening in Sochi of the largest and most advanced in southern Russia Customer Service Centre of OJSC Kubanenergo (May 2014), etc.

In 2014, meetings were also held with representatives of municipal authorities, power supply companies, and law enforcement agencies on strengthening cooperation in the fight against unauthorized energy consumption, which were also covered in the media.

In February-March 2015, on the initiative of JSC Russian Grids, regional commissions for financial monitoring of payments for power supplied and transmission services rendered were established in the Krasnodar Territory and the Republic of Adygea.

In 2014, as part of the Program for the prevention of electrical injuries to third parties at the power facilities of OJSC Kubanenergo, round tables were held with participation of the management of the Company's branches and heads of municipalities of the Krasnodar Territory on cooperation in the field of prevention of electrical injuries among the population and respective cooperation agreements were signed.

These activities contributed to constructive interaction between OJSC Kubanenergo and public authorities at all levels, raised awareness of public authorities on activities of the Company and improved assessment of these activities.

### Social Communications

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In 2014, the Company initiated the development and implementation of a number of targeted communications programs that improved its image of a socially responsible company.

In particular, in 2014, 713 secondary educational institutions of the Krasnodar Territory and the Republic of Adygea were covered by the PR-program to prevent injuries and deaths of children at power distribution facilities of OJSC Kubanenergo. Over 1,100 lectures and lessons on electrical safety were conducted, attended by about 16,600 students of the region.

Approximately 70 million units of printed products were made, such as: thematic posters, flyers, calendars, magnets, rulers and bookmarks containing the rules of electrical safety for school children.

As part of the prevention of electrical injuries to children, creative competitions, themed tours and open days were conducted. Power engineers organized 18 trips for graduates of secondary educational institutions. In the summer, cooperation with children's health camps was conducted. During the school

holidays of 2014, the campaign on Safe Energy – Happy Summer was held on the territory of municipalities of the Krasnodar Territory on the Black Sea and Azov Sea coasts. As part of the campaign, experts of the Company held more than 200 lectures and thematic lessons, including at the All-Russian Children's Health Center Orlyonok (Tuapse District), the Federal Children Health and Education Center Smena (Anapa) and educational and tourist camps located in the mountainous area of the Krasnodar Territory.

Partners of OJSC Kubanenergo in the implementation of the programs for the prevention of electrical injuries to children, under respective cooperation agreements, included the regional ministries of education and science of the Krasnodar Territory and the Republic of Adygea.

OJSC Kubanenergo is constantly improving methods for preventing electrical injuries to children. Educational animated films, audio clips and thematic presentations were created and are widely used during the "lessons on electrical safety"; new forms of interaction with the target audience were developed and introduced. Unusual lessons on electrical safety were held in Krasnodar at the site of the Training Centre of OJSC Kubanenergo during professional competitions of repair teams. A series of lessons were conducted at the Krasnodar Scientific Theatre Noosphere, which demonstrated the inventions of Nikola Tesla, who made numerous discoveries in the field of electricity. A social campaign for the prevention of electrical injuries was held in the central square of Armavir during the celebration of the Russian Youth Day.

The official corporate website of OJSC Kubanenergo operates an information platform on Prevention of Electrical Injuries to Children, containing all knowledge available at the branches of the Company and teaching materials for teachers wishing to conduct thematic discussions and class hours on electrical safety.

In the reporting period, the Company initiated 850 mentions in the media relating to the prevention of electrical injuries, including 130 printed publications, as well as over three thousand radio and television mentions in the Krasnodar Territory and the Republic of Adygea.

The Company also continued to implement measures to prevent non-agreemental and non-metered consumption of electricity, countering and prevention of thefts of power equipment of OJSC Kubanenergo.

In the reporting year, the Company published more than 90 press releases on the official corporate website of the Company and 105 stories and 385 messages on television and radio of Kuban on the topic of prevention of unauthorized consumption of electricity and theft of electrical equipment. The number of materials posted in electronic media amounted to 550; 75 publications were made in the printed media.

Employees of OJSC Kubanenergo participated in professional competitions among employees of the title of the Best Power Engineer Olympic Sochi (July 2013 to April 2014) organized by the JSC Russian Grids. As part of the information support of the competition, the Company ensured monthly coverage of intermediate results, prepared articles for the corporate newspaper of JSC Russian Grids titled the Energy of the Olympics and the regional media.

In celebration of the 69th anniversary of the Victory in the Great Patriotic War (May-June 2014), the branches of OJSC Kubanenergo conducted the historical and memorial campaign of the Relay of the Victory Banner, which included over 800 employees of the Company and about a thousand residents of Kuban. The event was attended by veterans, Company's employees, their families and the public.

In the reporting period, active work was performed to ensure information support of the work of the Council of Veterans and the Youth Council of OJSC Kubanenergo. An environmental campaign on landscaping was organized and carried out, during which Kuban power engineers planted about 500 seedlings of various species of trees and shrubs. Alleys of Power Engineers emerged in the city of Timashevsk, villages of Pavlovskaya, Krylovskaya, Novopokrovskaya, and Belaya Glina of the Krasnodar Territory.

## Communications with the Mass Media

In 2014, the Company resumed close interaction with the leading regional and industry media in order to increase brand awareness, and form a positive reputation and image information of a transparent company, as well as increase the audience of the information influence of OJSC Kubanenergo.

These public media events featuring the Company management focused on creating a positive and coherent image of the Company, as well as strengthening the goodwill and public capital of the Company in the structure of its market value.

In 2014, 851 messages on activities of the Company were published in the print media of the Krasnodar Territory and Republic of Adygea. At the same time, about 70% of messages in regional

publications were published free of charge due to the increased effectiveness of PR-divisions of the branches of OJSC Kubanenergo.

According to Interfax SCAN monitoring system, in 2014, the total mentions of OJSC Kubanenergo in the media amounted to 8,249 messages (printed, electronic, radio, TV).

In the reporting period, 585 news were posted at the official corporate website of the Company.

The largest segment of news reports on the activities of OJSC Kubanenergo for the period was online media (79%). There was also quite a high proportion of central news agencies (21%).

Topics of information materials about the Company:

- production indicators (65%),
- investment activities (10%),
- social and human resources policy (15%),
- prevention of electrical injuries, non-agreemental and non-metered electricity consumption (10%).

The number of positive news reports about the activities of OJSC Kubanenergo initiated by PR-divisions of the Company amounted to about 65%; neutral reports accounted for about 30%.

According to FederalPress Russian News Agency, the press service of OJSC Kubanenergo was rated first among the best PR specialists of the largest companies of the Krasnodar Territory. Respondents included senior editors and journalists of printed and electronic media.

In 2014, as part of the program for the preparation of the Sochi power grid complex for the Olympics, as well as during the Olympic and Paralympic Winter Games of 2014, a Press Center operated on the basis of the Sochi Power Grids branch of OJSC Kubanenergo, which consisted of PR-experts of OJSC Kubanenergo. The main tasks of the Press Centre consisted in the implementation of the common information policy of JSC Russian Grids, informing the public about the preparation of the distribution grid complex of Sochi for the Olympics, and hourly monitoring of energy-related publications in the media throughout the entire period of the Olympic and Paralympic Games.

In 2014, on the basis of the Company and its branches, dozens of outreach events were held for the media, which resulted in approximately 500 publications. Most of the activities took place in the branches of OJSC Kubanenergo of Sochi and South-Western Power Grids. Press conferences of the General Director of the Company and directors of the branches of Sochi and South-Western Power Grid were held.

Solemn ceremonies dedicated to the anniversaries of the branches of OJSC Kubanenergo of Adygei, South-Western, Leningrad, Labinsk, Slavic, Timashevsk, and Tikhoretsk Power Grids were held, as well as to the 70th anniversary of the Company. The events were attended by the management of the Company and its branches and representatives of public authorities. The events received extensive coverage in the media.

In 2014, the corporate website of OJSC Kubanenergo received about 200 thousand visitors.

In the reporting year, the Company continued to extend the content and improve the structure of the corporate website of OJSC Kubanenergo. The technical upgrade of the website was due to the Company's wish to meet the standards of quality presentation of mandatory and voluntarily disclosed information online, in order to ensure maximum transparency of the Company.

In order to develop the corporate culture and internal corporate traditions, create a positive image of OJSC Kubanenergo within the team, and deliver information on its activities to each employee, 10 supplements on OJSC Kubanenergo to the corporate newspaper of the Russian Grids were issued in the period of January 2014 to March 2015 and an additional themed insert was published for the Victory Day. The newspaper was focused on industrial developments and included stories of employees, young professionals and veterans of the Company.

## Congress and Exhibition Activities

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In order to create and maintain a positive image of OJSC Kubanenergo, develop and strengthen international and interregional cooperation, demonstrate its innovation potential, and exchange experiences, the Company participated in several congress and exhibition events, including at the international level.

In the reporting year, the Company's management and experts took part in:

- the V International Exhibition and Conference on Industrial and Occupational Safety in the Energy Industry SAPE 2014 (April 8-10, 2014, Moscow)

- St. Petersburg International Economic Forum (May 22-24, 2014, St. Petersburg)
- Krasnodar Spring Forum on Energy Efficiency and Innovation (May 29-31, 2014, Sochi)
- 17th All-Russian Scientific and Technical Conference of the Krasnodar regional branch of the Russian scientific and technical society of power engineers and electrical engineers on "Ways to improve the reliability, efficiency and safety of energy production" (June 2-6, 2014, Gelendzhik). Sergey Valkov, Electrician of the Relay Protection and Automation Service of Timashevsk Power Grids Branch of OJSC Kubanenergo, winner of the contest of "Youth Potential in Science, Technology and Innovation of OJSC Kubanenergo, presented his project on "Development of an Arc Protection Testing Device" at the conference,
  - XIII International Investment Forum Sochi-2014 (September 18-21, 2014, Sochi), including the ceremony of signing of the agreement between the Republic of Adygea and JSC Russian Grids. The document envisages improvements in the functioning and reliability of facilities of the Unified National Electric Grid and the distribution grid complex of Adygeya, the provision of mutual assistance in disaster relief, as well as consolidation of power grid assets in the region. The Company also took part in the awards ceremony of the nationwide open competition of annual reports of joint stock companies in 2014 held in the framework of the Forum. In this contest, OJSC Kubanenergo was awarded three prizes for the first places in the following categories: Best Annual Report in the Industry of Infrastructure, Best Electronic Annual Report and Best Annual Report of the Krasnodar Territory,
    - the 46th meeting of the CIS Electric Power Council in Sochi (24.10.2014, Sochi)
    - International Electric Power Forum Rugrids-Electro (October 15-17, 2014, Moscow); at its separate specialized exposition of Podium of Innovation Solutions, the Company presented its new technical development, an field insulation monitoring device for power transformers based on the application of a system of monitoring of partial discharges and received a diploma, rating third among the best innovative projects,
    - International Specialized Exhibition Electrical Grids of Russia - 2014 (December 2-5, 2014, Moscow).

## Appendices to the Annual Report

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The following appendices form an integral part of this annual report of OJSC Kubanenergo:

Appendix No. 1	Annual accounting (financial) statements of OJSC Kubanenergo for 2014 compiled according to RAS and the auditor's report on the reliability of the annual financial statements of OJSC Kubanenergo for 2014 compiled according to the Russian Accounting Standards (RAS)
Appendix No. 2	Description of Assets of OJSC Kubanenergo
Appendix No. 3	Review of major and other significant transactions and interested party transactions made by OJSC Kubanenergo in 2014.
Appendix No. 4	Report on compliance of OJSC Kubanenergo with the Code of Corporate Governance recommended by the Bank of Russia on 3/21/2014, in 2014
Appendix No. 5	Review of In-House Documents of OJSC Kubanenergo
Appendix No. 6	Information on the Participation of OJSC Kubanenergo in Other Commercial Organizations

## Contact Information

Full company name	Open Joint Stock Company of Energy and Electrification of Kuban
Abbreviated name	OJSC Kubanenergo
	The company is not included in the list of strategic enterprises and strategic joint-stock companies approved by Presidential Decree No.1009 of August 4, 2004 (as amended)
Location	2 Stavropolskaya Street, Krasnodar, Russian Federation
Mailing address	2 Stavropolskaya Street, Krasnodar, Russian Federation, 350033
Primary State Registration Number	1022301427268
Bank Details	INN/KPP 2309001660/997450001 acc. 40702810330020101989, in the Krasnodar branch No. 8619 of Krasnodar, corr.acc. 3010181010000000602, BIC 040349602
Contact phone / fax	+7 (861) 268-59-13 / +7 (861) 268-24-93
E-mail address:	<a href="mailto:telet@kuben.elektra.ru">telet@kuben.elektra.ru</a>
Website	<a href="http://www.kubanenergo.ru">www.kubanenergo.ru</a>

### For shareholders:

Chief specialist of the Department for Corporate Governance and Shareholder Relations	Svetlana Ivanovna Kruglova +7 (861) 212-25-10, <a href="mailto:kruglovasi@kuben.elektra.ru">kruglovasi@kuben.elektra.ru</a>
Lead Specialist of the Department for Corporate Governance and Shareholder Relations	Irina Vladimirovna Podsvirova +7 (861) 212-22-76, Fax: +7 (861) 212-27-08 <a href="mailto:podsvirovaiv@kuben.elektra.ru">podsvirovaiv@kuben.elektra.ru</a>

### For investors and financial analysts:

Head of the Department for Corporate Governance and Shareholder Relations	Ekaterina Evgenyevna Didenko +7 (861) 212-23-09, <a href="mailto:didenkoe@kuben.elektra.ru">didenkoe@kuben.elektra.ru</a>
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### For customers:

Head of the Customer Interaction Department	Elena Ivanovna Trifonova +7 (861) 212-22-74, <a href="mailto:trifonovaei@kuben.elektra.ru">trifonovaei@kuben.elektra.ru</a>
Internet Reception	Company website <a href="http://www.kubanenergo.ru">www.kubanenergo.ru</a> , section <a href="#">For customers / Customer service centre / Internet reception</a>

### Contacts of Customer Service Centers:

<i>Branch of OJSC Kubanenergo</i>	<i>Contact phone</i>	<i>E-mail address</i>
Executive Office	8-800-100-15-52	<a href="mailto:contact@kuben.elektra.ru">contact@kuben.elektra.ru</a>
Adygea Power Grids	+7 (8772) 59-22-02	<a href="mailto:garov@adseti.ru">garov@adseti.ru</a>
Armavir Power Grids	+7 (86137) 698-03	<a href="mailto:nabokova_kv@armset.ru">nabokova_kv@armset.ru</a>
Krasnodar Power Grids	+7 (861) 255-79-84	<a href="mailto:tsok@krasnodarseti.ru">tsok@krasnodarseti.ru</a>
Labinsk Power Grids	+7 (86169) 691-53	<a href="mailto:cok@labnet.kuban.ru">cok@labnet.kuban.ru</a>
Leningradskiye Power Grids	+7 (86145) 735-00	<a href="mailto:kazantsevali@lenseti.kuban.ru">kazantsevali@lenseti.kuban.ru</a>
Slavyansk Power Grids	+7 (86146) 433-14	<a href="mailto:klient@slavseti.ru">klient@slavseti.ru</a>
Sochi Power Grids	+7 (8622) 69-02-42	<a href="mailto:tsoksochi@elsetisochi.ru">tsoksochi@elsetisochi.ru</a>
Timashevsk Power Grids	+7 (86130) 232-65	<a href="mailto:cok@timseti.kuban.ru">cok@timseti.kuban.ru</a>

Tikhoretsk Power Grids	+7 (86196) 704-17	<a href="mailto:goryainovane@tihset.ru">goryainovane@tihset.ru</a>
Ust-Labinsk Power Grids	+7 (86135) 503-43	<a href="mailto:putinceva@useti.kuban.ru">putinceva@useti.kuban.ru</a>
South-Western Power Grids	+7 (8617) 67-84-20 (Novorossiysk), +7 (86133) 566-72 (Anapa)	<a href="mailto:novolato@mail.novuzs.ru">novolato@mail.novuzs.ru</a>

**For applicants:**

In Krasnodar: Chief Specialist for Organizational Development	Olga Igorevna Zherdeva +7 (861) 212-23-76. <a href="mailto:hr@kuben.elektra.ru">hr@kuben.elektra.ru</a>
In Sochi: Deputy Head of the HR department of the Sochi Power Grids branch of OJSC Kubanenergo	Vera Ivanovna Smerdova +7 (8622) 690-218 <a href="mailto:personal@elsetisochi.ru">personal@elsetisochi.ru</a>

**Branches of OJSC Kubanenergo as of December 31, 2014**

	<i>Name</i>	<i>Location</i>	<i>Contact phone / fax</i>
1.	Adygea Power Grids	358 Shovgenova Street, Maykop, Republic of Adygea, Russia	+7 (8772) 57-17-20 / +7 (8772) 56-01-41
2.	Armavir Power Grids	54 Vorovskogo Str., Armavir, Krasnodar Region, Russia	+7 (86137) 698-59 / +7 (86137) 785-54
3.	Krasnodar Power Grids	131 Pashkovskaya Str., Krasnodar, Krasnodar Region, Russia	+7 (861) 255-53-97 / +7 (861) 255-74-34
4.	Labinsk Power Grids	334 Mira Str., Labinsk, Krasnodar Region, Russia	+7 (86169) 699-07 / +7 (86169) 693-11
5.	Leningradskiye Power Grids	6 Division 302 Str., Stanitsa Leningradskaya, Krasnodar Region, Russia	+7 (86145) 703-01
6.	Slavyansk Power Grids	49 Stroitel'naya Street, Slavyansk-on-Kuban, Krasnodar Region, Russia	+7 (86146) 431-96 / +7 (86146) 446-59
7.	Sochi Power Grids	42 Konstitutsii SSSR Str., Sochi, Krasnodar Region, Russia	+7 (8622) 69-03-59 / +7 (8622) 61-40-71
8.	Timashevsk Power Grids	176 Lenina Str., Timashevsk, Krasnodar Region, Russia	+7 (86130) 233-59 / +7 (86130) 234-00
9.	Tikhoretsk Power Grids	62 Dzerzhinskogo Str., Tikhoretsk, Krasnodar Region, Russia	+7 (86196) 721-26 / +7 (86196) 769-50
10.	Ust-Labinsk Power Grids	4 Krasnodarskaya Str., Ust-Labinsk, Krasnodar Region, Russia	+7 (86135) 214-13 / +7 (86135) 216-33
11.	South-Western Power Grids	1 Vostochny Mol, Novorossiysk, Krasnodar Region, Russia	+7 (8617) 67-85-59 / +7 (8617) 67-81-21

**Information on the Registrar**

Full company name	Open Joint-Stock Company R.O.S.T. Registrar
Abbreviated name	OJSC R.O.S.T. Registrar
INN/ OGRN	7726030449 / 1027739216757
Location	bldg. 13, 18 Stomyinka Str., Moscow
License for performing the activity of a registrar:	
- license No.	10-000-1-00264
- issue date	03.12.2002
- validity	unlimited
- issuing authority	Federal Commission for Securities Market (Federal Service for Financial Markets) of Russia
Contact phone / fax	+7 (495) 771-73-35 / +7 (495) 771-73-36
E-mail address:	<a href="mailto:rost@rost.ru">rost@rost.ru</a>
Website	<a href="http://www.rost.com">www.rost.com</a>

OJSC R.O.S.T. Registrar has been maintaining the register of holders of securities of OJSC Kubanenergo from 16.12.2010.

OJSC R.O.S.T. Registrar does not have transfer agents able to provide services to entities registered in the register of shareholders of OJSC Kubanenergo.

#### Information on the Auditor

Full company name	Ernst & Young Limited Liability Company
Abbreviated name	Ernst & Young LLC
INN/ OGRN	7709383532 / 1027739707203
Location	bldg.1, 77 Sadovnicheskaya Embankment, Moscow, Russia, 115035
Certificate of membership in a self-regulatory organization of auditors:	Ernst and Young LLC is a member of the self-regulatory organization of Non-Profit Partnership Russian Audit Chamber
Contact phone / fax	+7 (495) 755-9700 / +7 (495) 755-9701
E-mail address:	<a href="mailto:moscow@ru.ey.com">moscow@ru.ey.com</a>
Website	<a href="http://www.ey.com">http://www.ey.com</a>
Fiscal years, in which the auditor conducted independent audits of the accounting and financial statements of OJSC Kubanenergo	2014
The amount of remuneration of the auditor for the audit of accounting (financial) statements of the Company prepared in accordance with RAS and consolidated financial (accounting) statements prepared in accordance with International Financial Reporting Standards for 2014	2,624,476.48 RUB
Auditor's non-audit services rendered to the Company	In the reporting year, the auditor did not provide any non-audit services

### Abbreviations and Terms

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**AMIS EPFA** — Automated measuring and information system for electric power fiscal accounting.

**AEPCAS** — Automated electric power control and accounting system.

**OHTL** — overhead transmission line.

**FOCL** — fiber optic communication line.

**Shortfall in income due to granting connection allowance to consumers of up to 15 kW** — regulated entity's shortfall in income resulted from the difference of actual grid connection charges from reduced payment for the grid connection as established by applicable law.

**Default (Power) Provider** — a commercial entity that is bound, according to Federal Law No. 35-FZ dated 3/26/2003 "On Electric Power Sector" or by virtue of voluntarily assumed responsibilities, to enter into the power purchase agreement with any applying electricity consumer or any person acting for and on behalf of any electricity consumer and willing to purchase electric power.

**GTPP** — gas turbine power plant.

**S&A** — Subsidiaries and Affiliates of the Company or JSC Russian Grids.

**UNEG** — the Unified National (All-Russian) Electric Grid.

**ISG** — any switchgear with its equipment installed indoor, or secured from any contact with environment by means of special purpose shrouds.

**CL** — cable power line.

**Required "Boiler" Gross Proceeds** — an economically feasible amount of funds required by an organization to perform regulated activities during an accounting regulatory period, taking into consideration any costs incurred for the payment of the services rendered by territorial grid companies, FGC UES, as well as for the purchase of electric power needed to compensate for losses.

**"Boiler" Transmission Tariffs** — all-in power transmission tariffs graded by the voltage level applicable within the area of the Krasnodar Region and the Republic of Adygeya for all consumers of the power transmission services, irrespective of which grid company's grids they are connected to.

**ECSG** — external complete switchgear, i.e. an electric installation designed to collect and distribute electric power.

**ELT** — electric transmission line.

**RAB (Regulatory Asset Base)** — a tariff regulation method for distribution grid companies, according to which required gross proceeds taken for the calculation of the tariffs shall be determined through the return on investment and shall be imposed for a long-run period. One of the key RAB parameters is imposed tariffs' longevity, recoverability of investment, which reduces investors' risks and allows executing long-term loans. Furthermore, the method secures preservation of investment, which also encourages investing in the business. At the same time, RAB implies fair return on investment made in the regulated company comparable with return on investment made in other assets with similar risks.

**Undersupply** — undersupply of electric power to consumers due to the power grid operating failure.

**Non-Influenceable Costs** — any costs free of any influence, that would not change upon administrative decisions of the Company management within given period of time. Non-Influenceable Costs, inter-alia, include: purchased electricity intended for the compensation for losses; grid distribution companies' services; services rendered by FGC UES; wear and tear; leasing; taxes, including, but not limited to, insurance payments; rent.

**R&D** — Research and development, as well as engineering.

**OJSC Kubanenergo, Company, Issuer** — the Open Joint-Stock Company of Power Industry and Electrification of the Kuban Region.

**Scope of Services Rendered** — the amount of the electric power transmitted through the technical facilities of the power grids owned by OJSC Kubanenergo or otherwise possessed by it in compliance with the laws of the Russian Federation.

**Olympic Venues** — for the purposes of this document, shall mean power distribution facilities of federal significance specified in the Program of Construction of Olympic Venues and Development of Sochi as a

Mountain Climate Resort approved by the Decree of the Government of the Russian Federation No. 991 of 12/29/2007 (as amended).

**OSG** — outdoor switchgear, i.e. an electric facility designed to collect and distribute electric power, with power conductors installed open-air without any protection from the environmental exposure.

**Supplies to the Grid** — the amount of the electric power collected by the distribution grid through the supply points from the Unified National Power Grid, from the generation and other related systems, realized by the voltage level against the inventory responsibility interface.

**AR** — Accounting Regulations.

**Influencable Costs** — any costs exposed by the management of the Company.

**Net Supplies** — the amount of the electric power transmitted (supplied) by the distribution grids through the power supply points controlled by consumers and/or downstream grid companies, realized by the voltage level against the inventory responsibility interface. It corresponds to the physical electric power transmission by the power grids.

**Electric Power Losses:**

*Actual (Reported) Electric Power Losses* — the difference between the amount of the electric power supplied to the power grid from other grids or by electric power producers and the amount of the electric power consumed by the power receivers connected to this grid, as well as transmitted to other grid companies.

*Reference Electric Power Losses* — estimated amount of losses determined by a competent federal executive authority in relation to any cluster of electric transmission lines and other power grid facilities owned by respective grid company, graded by the grid voltage level. The cost of Reference Electric Power Losses shall be included in the transmission payment (tariff).

*Excessive (Market) Electric Power Losses* — the difference between Actual and Reference Electric Power Losses; it shall be fully paid by the grid company that owns the grids where the Excessive Electric Power Losses occurred.

*Electric Power Losses Under Load* — the losses that depend on transformer loads and line loads arising during the transmission process.

**SS** — Substation.

**PGDA** — Power Distribution Grid Areas within OJSC Kubanenergo branches comprised of several grid sites and the following teams: operative dispatching team, mechanization and transportation team, electric power transport team, and operating management team (performing via the PGDA Leader).

**RAS** — Russian Accounting Standards.

**REC-PTD KT** — Regional Energy Commission - Pricing and Tariff Department of the Krasnodar Region, i.e. an executive authority of the Krasnodar Region in the field of the state regulation of tariffs.

**PGA** — Power Grid Areas within OJSC Kubanenergo branches.

**Grid Company, Distribution Grid Company** — a Company that performs electric power transmission and/or distribution through power grids.

**SSIW** — self-supporting insulated wire.

**PTIMS** — the power transformer insulation monitoring system.

**Related Grid Company** — any grid company that owns or otherwise legally possesses power grid facilities directly connected to power grids of any other grid company (it is related to).

**Mass Media** — mass communication media.

**Required In-House Gross Proceeds** of the Company — an economically feasible amount of funds required by an organization to perform regulated activities during an accounting regulatory period, without taking into consideration any costs incurred for the payment of the services rendered by territorial grid companies, FGC UES, as well as for the purchase of electric power needed to compensate for losses.

**Average Staff Headcount** — shall be determined by summing headcount for each calendar day of the period, including public holidays (days-off) and weekends, and dividing the total sum by the quantity of calendar days of the period.

**Staff Headcount** — the number of full time employees, seasonable employees, temporary employees and other employees on the rolls of the company. The Staff Headcount comprises of the employees at work and those who are absent due to whatever reason but have not terminated their employment agreements with the company, and get wages in this company.

**Technical Losses** — electric power losses on the lines and the grid facilities resulting from any physical processes occurring during electric power transmission in accordance with technical parameters and operating modes established for such lines and facilities, taking into consideration substation in-house power consumption.

**Process Upset** — unauthorized power grid disturbance.

**TSS** — Transforming Substation.

**Technological Connection** — the connection of any entity's and person's power receivers (power systems) to power grids of the companies that render electric power transmission services.

**TGC** — territorial grid company, i.e. any commercial entity that owns or otherwise, in compliance with the federal law, possesses power grid facilities used by such company in order to render electric power transmission services and duly perform the connection of any entity's and person's power receivers (power systems) to service, and that exercises its right to enter into electric power transmission agreements through any power grid facilities not pertaining to the Unified National (All-Russian) Power Grid.

**TPP** — Thermal Power Plant.

**Feeder** — the power line connecting the busbars of the switchgear with distribution and consumer electrical grids fed by these busbars.

**Power Supply Center** — substation busbars for 110, 35, 6/10 kV.

**EBITDA** — (Earnings before Interest, Taxes, Depreciation and Amortization) an indicator equal to the amount of earnings before the payment of taxes, depreciation and amortization expense, and interest on loans.

**ROE** — (Return On Equity) a performance indicator representing a quotient of the division of the net profit obtained in the period by equity of the organization.

**ROTA** — Return on Total Assets; it is a performance indicator determined as quotient of net profit (or profit before tax) for the reported period by the total amount of the company's assets for the reported period.

## Units of measurement

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**VA** - volt-ampere

**W** - watt

**yr.** - year

**yrs.** - years

**Gcal** - gigacalorie

**kV** - kilovolt

**kVA** - kilovolt-ampere

**kW** - kilowatt

**kWh** - kilowatt hour

**km** - kilometer

**kop.** - kopecks

**m** - meter

**MVA**- megavolt-ampere

**MW** - megawatt

**mln** - million

**bln** - billion

**RUB** - Russian Ruble

**% point** – percentage point

**s** - second

**d.** - days

**t** - ton

**thou** - thousand

**h** - hour

**ppl.** - people

**pcs.** - pieces