

**JSC INTERREGIONAL DISTRIBUTION GRID COMPANY OF NORTHERN CAUCASUS
CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014
(UNAUDITED)**

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JSC IDGC of Northern Caucasus
Consolidated Interim Statement of Financial Position as at 30 June 2014
(Unaudited)
(thousands of Russian Roubles, unless otherwise stated)

	Notes	30 June 2014 (unaudited)	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	6	19,139,515	19,184,368
Intangible assets		65,776	77,500
Accounts receivables and loans issued		560,445	456,062
Deferred tax assets		1,174,545	970,948
Other non-current assets		290,136	249,282
Total non-current assets		21,230,417	20,938,160
Current assets			
Inventories		800,155	749,091
Income tax receivable		125	197
Trade and other receivables		2,853,925	3,290,484
Prepayments for current assets		26,580	51,784
Cash and cash equivalents		2,127,547	1,975,262
Non-current assets held for sale		14,206	14,009
Total current assets		5,822,538	6,080,827
TOTAL ASSETS		27,052,955	27,018,987
EQUITY AND LIABILITIES			
Equity			
Share capital	7	154,562	154,562
Additional paid in capital		5,052,502	5,052,502
Reserves		(91,990)	(122,725)
Retained earnings		1,112,173	3,689,148
Total equity		6,227,247	8,773,487
Non-current liabilities			
Loans and borrowings	8	5,026,735	4,533,217
Trade and other payables		327,361	306,368
Employee benefits		568,139	581,614
Total non-current liabilities		5,922,235	5,421,199
Current liabilities			
Loans and borrowings	8	2,050,991	2,041,089
Trade and other payables		11,593,596	9,905,442
Provisions	9	566,279	428,656
Other taxes payable		679,018	331,843
Current tax liabilities		13,589	117,271
Total current liabilities		14,903,473	12,824,301
Total liabilities		20,825,708	18,245,500
TOTAL EQUITY AND LIABILITIES		27,052,955	27,018,987

These Consolidated Interim Condensed Financial Statements were approved by management on 28 August 2014 and were signed on its behalf by:

First Deputy General Director

U.V. Zaytsev

Chief accountant

N.V. Larionova

The consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 7 to 23.

JSC IDGC of Northern Caucasus
Consolidated Interim Statement of Profit or Loss or Other Comprehensive Income
for the six months ended 30 June 2014
(Unaudited)
(thousands of Russian Roubles, unless otherwise stated)

	Notes	For the six months ended 30 June 2014 (unaudited)	30 June 2013 (unaudited)
Revenue	10	6,963,873	6,552,958
Operating expenses	11	(9,554,466)	(7,584,560)
Other income		70,046	12,146
Operating loss		(2,520,547)	(1,019,456)
Finance income		118,030	55,222
Finance costs		(114,426)	(40,271)
Loss before income tax		(2,516,943)	(1,004,505)
Income tax benefit / (expense)		74,360	(129,410)
Loss for the period		(2,442,583)	(1,133,915)
Other comprehensive income			
<i>Items that will never be reclassified to profit or loss</i>			
Remeasurement of defined benefit liability		38,419	29,956
Related income tax		(7,684)	(4,391)
<i>Total items that will never be reclassified to profit or loss</i>		30,735	17,565
Other comprehensive loss, net of income tax		30,735	17,565
Total comprehensive loss for the period		(2,411,848)	(1,116,350)
Loss per share - basic and diluted (in RUB)	7	(15.80)	(16.52)

JSC IDGC of Northern Caucasus
Consolidated Interim Statement of Cash Flows for the six months ended 30 June 2014
(Unaudited)
(thousands of Russian Roubles, unless otherwise stated)

	Note	For the six months ended 30 June 2014 (unaudited)	30 June 2013 (unaudited)
OPERATING ACTIVITIES:			
Loss before income tax		(2,516,943)	(1,004,505)
<i>Adjustments for:</i>			
Depreciation and amortisation	10	760,552	669,754
Allowance for impairment of accounts receivable	10	2,256,435	1,353,660
Allowance for obsolescence of inventories		1,255	(2,315)
Impairment loss on property, plant and equipment		3,333	15,157
Provision for unused vacation		50,745	88,372
Provision for legal processes		174,835	104,926
Finance income		(118,030)	(55,222)
Finance costs		114,426	40,271
Loss on disposal of property, plant and equipment		(50)	(1,577)
Operating profit before working capital changes		726,558	1,208,521
Change in accounts receivable		(1,778,604)	(1,264,364)
Change in prepayments for current assets		22,990	(15,700)
Change in inventories		(52,319)	(29,687)
Change in financial assets related to the employee benefit fund		1,863	(326)
Change in accounts payable		1,423,785	892,695
Change in employee benefits		1,502	(2,307)
Change in other taxes payable		347,175	241,159
Cash flows from operations before income tax and interest paid		692,950	1,029,991
Interest paid		(211,833)	(155,586)
Income tax paid in cash		(240,526)	(354,158)
Net cash flows from operating activities		240,591	520,247
INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment		(515,116)	(844,512)
Proceeds from disposal of property, plant and equipment		45	8,235
Proceeds from disposal of assets held for sale		-	966
Acquisition of intangible assets		(4,208)	(11,912)
Purchase of promissory notes		-	(494,042)
Loans issued		(91,665)	-
Interest received		42,506	11,046
Net cash flows used in investing activities		(568,438)	(1,330,219)
FINANCING ACTIVITIES:			
Issue of shares		-	2,544,000
Proceeds of loans and borrowings		482,399	250,920
Dividends paid		(38)	-
Repayment of finance lease liabilities		(2,229)	(2,760)
Net cash flows from financing activities		480,132	2,792,160
Net increase in cash and cash equivalents		152,285	1,982,188
Cash and cash equivalents at the beginning of the period		1,975,262	1,201,108
Cash and cash equivalents at the end of the period		2,127,547	3,183,296

The consolidated interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 7 to 23.

JSC IDGC of Northern Caucasus
Consolidated Interim Statement of Changes in Equity for the six months ended 30 June 2014
(Unaudited)
(thousands of Russian Roubles, unless otherwise stated)

	Share capital	Additional paid in capital	Reserves	Retained earnings	Total equity
As at 1 January 2013	56,092	2,596,665	(80,883)	5,905,919	8,477,793
Loss for the period	-	-	-	(1,133,915)	(1,133,915)
Remeasurement of defined benefit liability	-	-	21,956	-	21,956
Related income tax	-	-	(4,391)	-	(4,391)
Total comprehensive loss for the period	-	-	17,565	(1,133,915)	(1,116,350)
Transactions with owners of the Company					
Issue of shares	98,073	2,445,927	-	-	2,544,000
Dividends	-	-	-	(160,180)	(160,180)
Total transactions with owners of the Company	98,073	2,445,927	-	(160,180)	2,383,820
As at 30 June 2013 (unaudited)	154,165	5,042,592	(63,318)	4,611,824	9,745,263

	Share capital	Additional paid in capital	Reserves	Retained earnings	Total equity
As at 1 January 2014	154,562	5,052,502	(122,725)	3,689,148	8,773,487
Loss for the period	-	-	-	(2,442,583)	(2,442,583)
Remeasurement of defined benefit liability	-	-	38,419	-	38,419
Related income tax	-	-	(7,684)	-	(7,684)
Total comprehensive loss for the period	-	-	30,735	(2,442,583)	(2,411,848)
Transactions with owners of the Company					
Dividends	-	-	-	(134,392)	(134,392)
Total transactions with owners of the Company	-	-	-	(134,392)	(134,392)
As at 30 June 2014 (unaudited)	154,562	5,052,502	(91,990)	1,112,173	6,227,247

Note 1. Background

(a) The Group and its operations

Open Joint-Stock Company Interregional Distribution Grid Company of Northern Caucasus (hereafter, the "Company" or "OJSC IDGC of Northern Caucasus") and its subsidiaries (together referred to as the "Group") comprise Russian open joint stock companies as defined in the Civil Code of the Russian Federation. The Company was set up on 14 June 2006 based on Resolution no. 223 of 14 June 2006 of the Russian Open Joint-Stock Company RAO "United Energy Systems of Russia" (hereafter, "RAO UES"). On 21 July 2006 the Board of Directors of the Company and its Articles were approved by the Board of Directors' decision of the Russian Open Joint-Stock Company RAO UES (Board of Directors' Meeting Minutes no. 186-r of 21 July 2006). Until 1 August 2007 the Company was named JSC Southern Grid Company.

On 1 April 2008 the reorganization of the Company was completed through the merger of the grid companies of JSC Stavropolenergo, JSC Dagenergo, and JSC Caucasian Energy Management Company.

The Company's registered office is 18, Podstancionnaya Street, Energetik village, Pyatigorsk, Stavropol region, the Russian Federation, 357506.

The Group consists of the Company and its subsidiaries:

Name	Ownership, %	
	30 June 2014 (unaudited)	31 December 2013
JSC Dagenergoset	100.0	100.0
JSC Energoservice	100.0	100.0

The Group's principal activity is the transmission of electricity and the connection of customers to the electricity grid.

On 23 March 2013 the Extraordinary General Meeting of Shareholders of JSC IDGC Holding the decision was made to amend the Charter of JSC IDGC Holding, under which it was renamed to Joint Stock Company Russian Grids (hereinafter, JSC Rugrids).

As at 30 June 2014 and 31 December 2013 the Russian Government owned 86.32% of the voting ordinary shares and 7.01% of the preference shares of JSC Rugrids, which in turn owned 92.00% of the Company.

(b) Relations with the state and regulation of the Group

Since its foundation the Company has been under control of the Government of the Russian Federation. The Government of the Russian Federation influences the Group's activities through setting power transmission and distribution tariffs.

In accordance with legislation, the Group's tariffs are controlled by the Federal Service on Tariffs and by the Executive Bodies of subjects of the Russian Federation in the field of state regulation of tariffs.

(c) Russian business environment

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

Note 2. Basis of preparation

(a) Statement of compliance

These consolidated interim condensed financial statements (hereinafter 'financial statements') have been prepared in accordance with International Financial Reporting Standards ('IFRSs') pursuant to Federal Law No.208-FZ *On consolidated financial reporting*.

(b) Basis of measurement

The consolidated interim condensed financial statements are prepared on the historical cost basis except that property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS as at 1 January 2010.

(c) Functional and presentation currency

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

(d) Going concern

These consolidated interim condensed financial statements have been prepared on a going concern basis.

As at 30 June 2014 the Group had a net working capital deficit of RUB 9,080,935 thousand (as at 31 December 2013: RUB 6,743,474 thousand), and incurred a net loss of RUB 2,442,583 thousand for the six month ended 30 June 2014 (for the six months ended 30 June 2013: RUB 1,133,915 thousand), primarily attributable to carrying amounts of JSC Dagernergoset.

Of the accounts payable, as at 30 June 2014 RUB 6,226,997 thousand (as at 31 December 2013: RUB 5,606,143 thousand) is due to JSC Dagestan Power Sales Company (hereinafter, "JSC DPSC"), the subsidiary of JSC Rugrids, and hence a related party. In January 2014 JSC DPSC filed a court claim against JSC Dagernergoset to collect accounts payable of the compensation for electricity losses. In June 2014 JSC Dagernergoset filed a counter-claim against JSC DPSC due to the electricity transmission services payables. The counter-claim was accepted for collective consideration (Note 15 (e)).

Management anticipates that any additional repayments required will be met out of operating and financing cash flows. Management believes that the Group has adequate resources to continue in operational existence for the foreseeable future and there is no significant uncertainty regarding the Group's ability to continue as going concern.

Management monitors maturities of the estimated cash flows from operating and financing activities and manages current liquidity using open credit lines. As at 30 June 2014 the Group had unused credit lines in the amount of RUB 184,385 thousand (as at 31 December 2013: RUB 666,784 thousand). Management considers that the Group has the ability to raise additional loans and borrowings.

In order to increase efficiency of working capital management the Group is focused on an increased collection of trade receivables, including doubtful receivables. The Group approved a plan of measures to reduce outstanding receivables for electricity transmission and settlement of disputes with customers. The issues regarding collection of receivables are considered by the Management Board on a regular basis.

(e) Use of judgments, estimates and assumptions

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

In preparing these consolidated interim condensed financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2013. The key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2013.

Note 3. Significant accounting policies

Except for the adoption of the new standards and interpretations effective as at 1 January 2014, the accounting policies applied by the Company were consistent with those applied in the financial statements as at and for the year ended 31 December 2013.

In 2014 the Group applied several other new standards and amendments for the first time. However, they do not significantly impact the financial position and results for the six months ended 30 June 2014:

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 *Impairment of Assets*. The amendments required additional disclosures about the measurement of impaired assets (or a group of assets) with a recoverable amount based on fair value less costs of disposal.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*. Under the amendments there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met.

Investment Entities - Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*, under which a mandatory consolidation exception for certain qualifying investment entities is introduced according to IFRS 10.

Levies (IFRIC 21). The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs.

As at 31 December 2013 the Group early adopted new amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*. The amendments clarify assets and liabilities offsetting rules and introduce new related disclosure requirements.

New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 30 June 2014, and have not been applied in preparing these the interim condensed consolidated financial statements. The following standards and amendments will have an impact on the Group's operation. The Group plans to adopt the following pronouncements when they become effective:

- IFRS 15 Revenue from Contracts with Customers. IFRS 15 establishes a single framework for revenue recognition and contains requirements for related disclosures. The new standard replaces IAS 18 Revenue, IAS 11 Constructions Contracts, and the related interpretations on Revenue recognition. The standard is effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.
- Amendments to IAS 16 Property, Plant and Equipment, and IAS 38 Intangible Assets, entitled Clarification of Acceptable Methods of Depreciation and Amortization. Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate, because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments are effective for annual periods beginning on or after 1 January 2016 with early adoption permitted.
- Amendments to IAS 19 Employee Benefits, entitled Defined Benefit Plans: Employee Contributions. The narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendments are effective for annual periods beginning on or after 1 July 2014 with early adoption permitted.
- IFRS 9 Financial Instruments is to be issued in phases and is intended ultimately to replace IAS 39 Financial Instruments: Recognition and Measurement. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The third phase was issued in November 2013 and relates to general hedge accounting. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's

consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

Note 4. Determination of fair value

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

In preparing these consolidated interim condensed financial statements, the methods for determination of fair values were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2013.

Note 5. Operating segments

The Management Board of the Company has been determined as the Group Chief Operating Decision-Maker.

The Group's primary activity is the provision of electricity transmission services within the regions of the Russian Federation. The internal management reporting system is based on segments relating to electric energy transmission in separate regions of the Russian Federation and segments relating to other activities.

The Management Board regularly evaluates and analyses the financial information of the segments reported in the statutory financial statements of respective segments.

In accordance with requirements of IFRS 8 based on the information on segment revenue, profit before income tax and total assets reported to the Management Board the following reporting segments were identified:

- Transmission Segments: Dagestan, North Ossetia-Alania, Stavropol region, Kabardino-Balkaria and Karachaevo-Cherkessia Republics, Republic Ingushetia - the main activity of which is the provision of electricity transmission services within the Russian Federation;
- Other includes operation of OJSC "Energoservice" which doesn't meet any of the quantitative thresholds for determining reportable segments.

Before May 2013 the Ingush branch was included in Other segment as it didn't perform economic activity and its transmissions assets were leased to related party. In May 2013 the Ingush branch started to provide the transmission of electricity and the connection of customers to the electricity grids services and was included in Electricity transmission segment.

Unallocated items comprise corporate balances of the Company's headquarters which do not constitute an operating segment under IFRS 8 requirements.

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

Information regarding the results of each reportable segment is included below. Performance is measured based on segment revenue and profit before income tax, as included in the internal management reports that are reviewed by the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

(i) Information about reportable segments

For the six months ended 30 June 2014

	Transmission Segments						Total
	Stavropol region	Dagestan Republic	North Ossetia-Alania	Kabardino-Balkarian Republic	Karachayevo-Cherkessian Republic	Ingushetia	
Revenue:							
Revenue from external counterparties	3,218,443	1,181,702	758,581	826,138	671,971	270,402	6,927,247
Inter-segment revenue	351	277,612	-	-	-	-	277,963
Total segment revenue	3,218,794	1,459,314	758,581	826,138	671,971	270,402	7,205,210
Including:							
Electricity transmission	3,163,194	1,176,505	753,251	804,190	669,491	269,962	6,836,593
Connection to the electricity network	35,859	1,806	769	19,711	781	285	59,211
Other revenue	19,741	281,003	4,561	2,237	1,699	155	309,406
Finance income	40,789	-	7,925	8,516	7,244	2,977	67,451
Finance costs	(49,162)	(11,892)	(29,533)	(27,688)	(39,380)	(3,755)	(161,410)
Depreciation	(349,615)	(247,842)	(82,011)	(107,119)	(114,025)	(24,553)	(925,555)
Profit / (loss) before income tax	114,019	(2,299,226)	(524,291)	(143,157)	(11,171)	(354,517)	(3,220,882)

For the six months ended 30 June 2013

	Transmission Segments					
	Stavropol region	Dagestan Republic	North Ossetia-Alania	Kabardino-Balkarian Republic	Karachayev-Cherkessian Republic	
Revenue:						Total
Revenue from external counterparties	3,068,125	1,056,764	664,032	855,690	700,766	6,444,206
Inter-segment revenue	-	-	-	-	-	-
Total segment revenue	3,068,125	1,056,764	664,032	855,690	700,766	6,444,206
Including:						
Electricity transmission	2,842,258	1,051,025	663,017	849,450	697,857	6,202,124
Connection to the electricity network	205,479	4,435	174	4,209	1,662	215,969
Other revenue	20,388	1,304	841	2,031	1,247	26,113
Finance income	10,208	-	235	315	261	11,046
Finance costs	(36,400)	(9,246)	(14,032)	(14,266)	(21,437)	(96,548)
Depreciation	(348,136)	(268,286)	(121,720)	(131,877)	(131,015)	(1,034,961)
Profit / (loss) before income tax	286,213	(1,160,400)	(137,511)	139,555	89,312	(772,441)

As at 30 June 2014 (unaudited):

	Transmission Segments					Total
	Stavropol region	Dagestan Republic	North Ossetia-Alania	Kabardino-Balkarian Republic	Karachayevo-Cherkessian Republic	
Segment assets	9,252,912	8,794,772	3,223,243	3,040,693	2,176,261	28,164,509
Including property, plant and equipment	7,451,413	7,757,606	2,178,957	2,43,901	2,024,851	23,002,796
Segment liabilities	1,590,350	11,556,943	623,616	483,360	472,732	15,140,830

As at 31 December 2013:

	Transmission Segments					Total
	Stavropol region	Dagestan Republic	North Ossetia-Alania	Kabardino-Balkarian Republic	Karachayevo-Cherkessian Republic	
Segment assets	9,044,340	10,734,194	3,201,858	3,290,830	2,272,152	30,267,985
Including property, plant and equipment	7,593,564	8,317,966	2,267,011	2,549,842	2,114,072	24,077,120
Segment liabilities	1,280,285	8,959,652	498,613	512,406	404,271	11,957,021

(ii) Reconciliation of reportable segment profit / (loss) before income tax

The Group performs its activities in the Russian Federation and does not have any significant revenues from foreign customers or any significant non-current assets located in foreign countries.

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

	For the six months ended	
	30 June 2014	30 June 2013
	(unaudited)	(unaudited)
Total segment loss before income tax	(3,220,882)	(772,441)
Adjustment on property, plant and equipment	294,208	471,165
Finance lease adjustment	4,368	2,505
Adjustment for inventories valuation	(1,408)	4,876
Bad debt allowance adjustment	440,556	(782,109)
Retirement benefit obligations recognition	15,894	(11,196)
Discounting of long-term receivables	9,802	10,590
Discounting of long-term payables	(20,994)	(18,367)
Reclassified expenses for the purposes of IFRS	(1,421)	(516)
Other provisions	-	41,485
Reversal of accrued revenue and expenses on disagreements	-	62,106
Accrued salaries and wages	-	(62,948)
Revenue from connection services	-	4,248
Other adjustments	(1,406)	(1,203)
Unallocated	(35,660)	47,300
Loss before income tax per Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income	(2,516,943)	(1,004,505)

Note 6. Property, plant and equipment

<i>Cost</i>	Land and buildings	Transmission networks	Equipment for electricity transformation	Construction in progress	Other	Total
Balance at 1 January 2013	1,565,654	6,440,420	6,789,667	6,116,476	2,049,855	22,962,072
Additions	11,109	74,049	15,993	494,636	29,533	625,320
Transfer	6,535	97,906	42,743	(269,006)	121,822	-
Disposals	(22)	(673)	(22)	(289)	(22,778)	(23,784)
Reclassifications	(445,006)	460,344	(1,031)	-	(14,307)	-
Transfer to non-current assets for sale	(3,137)	-	-	-	-	(3,137)
Balance at 30 June 2013 (unaudited)	1,135,133	7,072,046	6,847,350	6,341,817	2,164,125	23,560,471
Balance at 1 January 2014	1,263,046	7,647,139	7,877,400	6,584,594	2,517,695	25,889,874
Additions	12,444	3,198	28,911	60,098	54,696	703,347
Transfer	9,218	101,698	34,550	(256,065)	110,599	-
Disposals	-	(65)	(71)	-	(745)	(881)
Transfer to non-current assets for sale	(283)	-	-	-	-	(283)
Balance at 30 June 2014 (unaudited)	1,284,425	7,751,970	7,940,790	6,932,627	2,682,245	26,592,057

	Land and buildings	Transmission networks	Equipment for electricity transformation	Construction in progress	Other	Total
<i>Accumulated depreciation and impairment</i>						
Balance at 1 January 2013	(229,604)	(2,632,577)	(1,577,215)	(248,396)	(693,622)	(5,381,414)
Depreciation for the period	(38,177)	(207,657)	(221,080)	-	(186,208)	(653,122)
Impairment loss	-	-	-	(15,157)	-	(15,157)
Disposals	22	516	18	-	18,394	18,950
Reclassifications	(4,033)	(2,910)	878	-	6,065	-
Transfer to non-current assets for sale	248	-	-	-	-	248
Balance at 30 June 2013 (unaudited)	(271,544)	(2,842,628)	(1,797,399)	(263,553)	(855,371)	(6,030,495)
Balance at 1 January 2014	(296,379)	(3,098,802)	(2,018,283)	(245,691)	(1,046,351)	(6,705,506)
Depreciation for the period	(40,339)	(242,576)	(245,499)	-	(216,208)	(744,622)
Impairment loss	-	-	-	(3,333)	-	(3,333)
Disposals	-	65	57	-	711	833
Reclassifications	-	804	-	(804)	-	-
Transfer to non-current assets for sale	86	-	-	-	-	86
Balance at 30 June 2014 (unaudited)	(336,632)	(3,340,509)	(2,263,725)	(249,828)	(1,261,848)	(7,452,542)

Net book value

at 1 January 2013	1,336,050	3,807,843	5,212,452	5,868,080	1,356,233	17,580,658
at 30 June 2013 (unaudited)	863,589	4,229,418	5,049,951	6,078,264	1,308,754	17,529,976
at 1 January 2014	996,667	4,548,337	5,859,117	6,338,903	1,471,344	19,184,368
at 30 June 2014 (unaudited)	947,793	4,411,461	5,677,065	6,682,799	1,420,397	19,139,515

Note 7. Equity

Share capital

	30 June 2014	31 December 2013
	(unaudited)	
Number of ordinary shares authorised, issued and fully paid	154,562,277	154,562,277
Par value (in RUB)	1.0	1.0
Total share capital (in RUB)	154,562,277	154 562,277

Issuance of additional shares

On 15 March 2013 2011 an Extraordinary General Meeting of Shareholders of the Company approved an increase in charter capital through issuance of additional 125,722,698 ordinary shares with a par value of 1.0 rouble each under an open subscription. The approved offering price was RUB 25.94. This share issuance was registered by the Federal Service for Financial Markets on 30 May 2013. In June, July and September 2013 the issuance was completed and 98,469,789 shares were subscribed and fully paid. The amount of RUB 98,470 thousand and RUB 2,455,837 thousand, respectively, were recognised as share capital and additional paid in capital within equity for the year ended 31 December 2013.

Dividends paid and declared

At the annual general meeting of shareholders of The Company held on 24 June 2014 the decision was made to declare dividends of RUB 134,392 thousand (0.8695 RUB per ordinary share) for the 2013 year.

As at 30 June 2014 dividends payable of the Group amounted to RUB 137,711 thousand (as at 31 December 2013: RUB 3,362 thousand).

Loss per share

The calculation of loss per share is based upon the loss for the year and the weighted average number of ordinary shares outstanding during the reporting period. The Company has no dilutive potential ordinary shares.

In shares

	2014	2013
Issued shares at 1 January	154,562,277	56,092,488
Effect of shares issued	-	12,531,483
Weighted average number of shares for the six months ended 30 June	154,562,277	68,623,971

	For the six months ended	
	30 June 2014	30 June 2013
	(unaudited)	(unaudited)
Weighted average number of ordinary shares issued	154,562,277	68,623,971
Loss attributable to the shareholders	(2,442,583)	(1,133,915)
Weighted average loss per ordinary share – basic and diluted (in RUB)	(15.80)	(16.52)

Note 8. Loans and borrowings

Non-current loans and borrowings

	Effective interest rate, %	Currency	Year of maturity	30 June 2014 (unaudited)	31 December 2013
<i>Loans</i>					
JSC Sberbank*	7.9 – 8.2	RUB	2016-2018	2,577,909	2,095,509
JSC Gazprombank*	9.5 – 11.4	RUB	2016	2,460,548	2,456,557
<i>Finance lease liability</i>				17,029	-
Total non-current debt				5,055,486	4,552,066
<i>Less current portion of long-term debt and finance lease liability</i>				(28,751)	(18,849)
Total				5,026,735	4,533,217

During the six months ended 30 June 2014 there were no any repayment of loans and borrowings. The Company raised RUB 482,399 thousand using previously open credit line. There were no new credit lines raised in the reporting period.

Current borrowings

	Effective interest rate, %	Currency	30 June 2014 (unaudited)	31 December 2013
<i>Borrowings</i>				
JSC Rugrids**	-	RUB	30,000	30,000
Total borrowings			30,000	30,000
<i>Promissory notes</i>				
JSC Rugrids**	-	RUB	1,541,035	1,541,035
JSC FGC UES**	9.0	RUB	325,937	325,937
JSC FGC UES**	-	RUB	125,268	125,268
Total promissory notes			1,992,240	1,992,240
<i>Current portion of long-term debt</i>			22,841	18,849
<i>Current portion of finance lease liability</i>			5,910	-
Total			2,050,991	2,041,089

*- Loans from government-related entities.

** - Borrowings and promissory notes from the Parent company and its subsidiary.

All loans and borrowings listed above are bank borrowings with fixed interest rate.

The Group has not entered into any hedging arrangements in respect of its interest rate exposure.

As at 30 June 2014 and 31 December 2013 all loans and borrowings were unsecured.

Note 9. Provisions

	2014	2013
Balance as at 1 January	428,656	114,760
Provisions raised during the period	205,809	115,461
Provisions used during the period	(37,212)	(57,393)
Provisions reversed during the period	(30,974)	(10,535)
Balance as at 30 June	566,279	162,293

Provisions relate to legal proceedings and unsettled legal claims against the Group.

Note 10. Revenue

	For the six months ended	
	30 June 2014	30 June 2013
	(unaudited)	(unaudited)
Electricity transmission	6,836,593	6,241,146
Connection services	59,211	220,217
Rental income	6,844	36,322
Other revenue	61,225	55,273
Total	6,963,873	6,552,958

Note 11. Operating expenses

	For the six months ended	
	30 June 2014	30 June 2013
	(unaudited)	(unaudited)
Personnel costs	2,511,554	2,290,713
Allowance for impairment of trade and other receivables	2,256,435	1,353,660
Purchased electricity for compensation of technological losses	1,911,889	1,485,591
Depreciation and amortization	760,552	669,754
Electricity transmission	742,534	624,097
Raw materials and supplies	314,464	298,060
Rent	214,438	196,206
Provision for legal process	174,835	104,926
Repairs, maintenance and installation services	134,741	32,682
Electricity and heat power for own needs	111,596	102,083
Other expenses	421,428	426,788
Total	9,554,466	7,584,560

Note 12. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2013.

Management believes that at the reporting date the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

As at 30 June 2014 the Group holds investments in equity shares of RUB 223 thousand classified as available for sale measured at fair value and belong to Level 1 in the fair value hierarchy (as at 31 December 2013: RUB 207 thousand). Valuation of available-for sale investments is made on a recurring basis using quoted market prices.

Note 13. Commitments

As at 30 June 2014 the Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUB 3,005,114 thousand (as at 31 December 2013: RUB 2,468,273 thousand).

Note 14. Contingencies

(a) Insurance

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

(b) Taxation contingencies

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

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

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group.

(d) Environmental matters

The Group and its predecessors have operated in the electric transmission industry in the Russian Federation for many years. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. The Group's management periodically evaluates its obligations under environmental regulations.

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

(e) Disagreements with counterparties

In January 2014 JSC DPSC filed a court claim against JSC Dagernergoset due to the compensation for electricity losses payables of RUB 6,321,847 thousand.

On 28 February 2014 JSC DPSC claimed an increase up to RUB 6,860,957 thousand.

On 25 June 2014 JSC Dagernergoset filed a counter-claim against JSC DPSC due to the electricity transmission services payables of RUB 1,032,907 thousand. Arbitration Court of Dagestan Republic ruled to accept the counter-claim for collective consideration with the claim of JSC DPSC. The Court postponed the hearing for 3 September 2014.

As at 30 June 2014 JSC Dagernergoset reported accounts payable of RUB 6,212,142 thousand and RUB 5,593,514 thousand of which were related to this claim (as at 31 December 2013: RUB 5,593,514 thousands and RUB 5,371,438 thousand, respectively).

As JSC DPSC did not present supporting documents for the revised calculations the Group has no basis to reconsider these changes and to report them as at 30 June 2014 and 31 December 2013.

(f) Other contingencies

On 11 June 2014, upon the results of field tax audit for the period from 22 January 2010 to 31 December 2012, tax authority issued a decision against JSC Dagenergoset for the taxes unpaid in the amount of RUB 1,090,559 thousand (including penalties). As at 30 June 2014 JSC Dagenergoset planned to appeal this decision in UFNS of Russia (Dagestan Republic).

In the first half of 2014 upon the results of VAT declarations desk tax audit for the second, third and fourth quarters 2013 tax authorities issued the decisions to refuse a VAT reimbursement in full including VAT recoverable on invoices of JSC DPSC related to the compensations of electricity losses in the total amount of RUB 101,638 thousand (penalties included). As at 30 June 2014 these decisions were pending in the superior tax authorities and JSC Dagenergoset planned to appeal in Arbitration Court.

In 2012 upon the results of VAT declarations desk tax audit for the fourth quarter 2011 and first quarter 2012 tax authorities issued the decisions to refuse a VAT reimbursement in full including VAT recoverable on invoices of JSC DPSC related to the compensations of electricity losses in the total amount of RUB 357,348 thousand (penalties included). JSC Dagenergoset submitted the appeal. By the decisions of the First, the Appeal and Cassation Courts the appeals were rejected. As at 30 June 2014 JSC Dagenergoset considered the option to appeal these decisions of court authorities.

Note 15. Related parties

(a) Control relationships

As at 30 June 2014 and 31 December 2013 JSC Rugrids was the Parent company of the Company.

The party with ultimate control over the Company is the Russian Government, which holds the majority of the voting rights in JSC Rugrids.

The majority of the Group's related party transactions are with the subsidiaries of JSC Rugrids and other state controlled entities.

(b) Transactions with the Parent and entities under common control of the Parent

Transactions with the Parent's subsidiaries were as follows:

	For the six months ended	
	30 June 2014	30 June 2013
	(unaudited)	(unaudited)
Revenue:		
Electricity transmission	2,158,690	1,908,133
Rental income	3,689	3,299
Other revenue	42,493	2,527
Interest income on loans issued	20,360	-
	For the six months ended	
	30 June 2014	30 June 2013
	(unaudited)	(unaudited)
Expenses:		
Transactions with the Parent		
Management services	38,262	38,262
Rent	-	137
Transactions with the entities under common control of the Parent		
Electricity transmission	615,243	-
Purchased electricity for compensation of technological losses	1,093,986	818,939
Electricity and heat power for own needs	53,294	30,584
Other expenses	9,192	1,149

All outstanding balances with related parties are to be settled in cash within a year of the statement of financial position date. None of the balances are secured.

(c) Transactions with other state controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control. Prices for electricity and heat are based on tariffs set by the Federal Service on Tariffs and the regional services on tariffs. Bank loans are provided on the basis of market rates.

Revenues from state-controlled entities for the six months ended 30 June 2014 constitute 13% (the six months ended 30 June 2013: 15%), including 14% (the six months ended 30 June 2013: 15%) of electricity transmission revenues.

Electricity transmission costs for state-controlled entities for the six months ended 30 June 2014 constitute 1% (the six months ended 30 June 2013: 27%) of total transmission costs.

The Company disclosed operations with JSC FGC UES as operations with subsidiaries and associates of the Parent company after 14 June 2013. At this date, the Russian Federation transferred its share of JSC FGC UES (79.64%) to JSC RUGRIDS. Thus, share of operations with state controlled entities decreased.

(d) Transactions with management and close family members

There are no transactions or balances with key management and close family members except their remuneration in the form of salary and bonuses.

Salary and bonuses which are paid to members of Board of Directors and Key Management Personnel for performing their job responsibilities consist of wages, non-cash benefits, bonuses calculated on the basis of the results for the period presented in the Company's obligatory financial statements prepared in accordance with Russian accounting principles and payments to social funds.

Key management received the following remuneration during the year, which is included in personnel costs:

	For the six month ended	
	30 June 2014	30 June 2013
	(unaudited)	(unaudited)
Salaries and bonuses	45,711	93,250

Note 16. Events after the reporting period

Change of the Company's registered office

In accordance with the Board of Directors Meeting Minutes no.14 dated of 24 June 2014 the Company's registered office is 13A, Podstancionnaya Street, Energetik village, Pyatigorsk, Stavropol region, the Russian Federation, 357506 since 12 August 2014.

Appointment of executive body

In accordance with the Board of Directors Meeting Minutes no.14 dated of 24 June 2014 the authorities of the sole executive body of the Company were transferred to the managing company, JSC Rugrids, since the date of signing the Agreement on delegation authorities of the sole executive body of OJSC IDGC of Northern Caucasus. At the date of approval of these consolidated interim condensed financial statements the above-mentioned Agreement was not signed.

Legal proceedings

On 10 July 2014 Moscow Arbitration Court made a resolution due to the compensation for electricity losses payables of RUB 1,013,487 thousand and penalty RUB 268,497 thousand against JSC Dagerenergoset in favour of JSC FGC UES for the period from July 2011 to December 2013. In the consolidated interim statement of financial position as at 30 June 2014 the debt is reported as Trade and Other payables and the penalty amounted to RUB 166,922 thousand is reported as Other provision. A gap in RUB 101,575 thousand is related to the penalty which is not included in Other provision at the reporting date due to the fact that JSC FGC UES declared an increase of claims during the court session held on the 3 July 2014. On 8 August 2014 JSC Dagerenergoset submitted an appeal.

On 24 July 2014 Moscow Arbitration Court did not change the decision dated of 8 April 2014 which was issued in favour of JSC FGC UES due to the claim against OJSC IDGC of Northern Caucasus to collect in full the promissory notes and interests payables amounted to RUB 423,040 thousand and penalties amounted to RUB 126,031 thousand. These payables were reported in full as Loans and Borrowings and Other provision, respectively, in the consolidated interim statement of financial position. At the date of approval of these consolidated interim condensed financial statements the Company planned to submit the cassation appeal.

Other contingencies

On 14 July 2014 JSC Dagerenergoset submitted an appeal to UFNS of Russia (Dagestan Republic) to the decision of 11 June 2014 upon the results of field tax audit for the period from 22 January 2010 to 31 December 2012.