

JSC QUADRA – POWER GENERATION

**Interim Condensed Consolidated
Financial Information (unaudited)**

for the six months ended 30 June 2014

JSC QUADRA – POWER GENERATION

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STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2014

The following statement, which should be read in conjunction with the independent auditors’ report on review of interim condensed consolidated financial information set out on page 2, is made with a view to distinguishing the responsibilities of management and those of the independent auditors in relation to the interim condensed consolidated financial information of Joint Stock Company Quadra – Power Generation and its subsidiaries (the “Group”).

Management is responsible for the preparation of the interim condensed consolidated financial information that presents fairly the consolidated financial position of the Group as at 30 June 2014, and financial performance, cash flows and changes in equity for the six months then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”).

In preparing the interim condensed consolidated financial information, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IAS 34 has been followed, subject to any material departures disclosed and explained in the interim condensed consolidated financial information;
- Preparing the interim condensed consolidated financial information on a going concern basis, unless it is inappropriate to presume that the Group will continue its business for the foreseeable future.

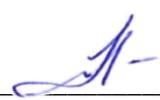
Management is also responsible for:

- Designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- Maintaining statutory accounting records in compliance with the legislation and accounting standards of the Russian Federation;
- Taking steps to safeguard the assets of the Group;
- Detecting and preventing fraud and other irregularities.

The interim condensed consolidated financial information for the six months ended 30 June 2014 was approved on 30 September 2014 by:



V.V. Shelkov
General Director



I.A. Lapitskaya
Chief Accountant

Tula, Russia

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Open Joint Stock Company Quadra – Power Generation:

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Open Joint Stock Company Quadra – Power Generation and its subsidiaries (the “Group”) as of 30 June 2014 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and selected notes (altogether referred to as “interim condensed consolidated financial information”). Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.



30 September 2014
Moscow, Russian Federation

JSC QUADRA – POWER GENERATION

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2014 (UNAUDITED) *in thousands of Russian Roubles*

	Notes	30 June 2014	31 December 2013
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment	5	49,708,663	45,727,397
Available-for-sale investments		30,551	25,671
Accounts receivable and advances paid	6	764,158	504,971
Deferred tax assets		780,348	686,538
Other assets		482,986	425,012
		51,766,706	47,369,589
<i>Current assets</i>			
Inventories	7	1,746,918	1,638,295
Accounts receivable and advances paid	6	7,241,014	10,070,119
Income tax receivable		141,679	88,799
Cash and cash equivalents		273,035	245,030
Other assets		7,283	9,097
		9,409,929	12,051,340
TOTAL ASSETS		61,176,635	59,420,929
EQUITY AND LIABILITIES			
<i>Capital and reserves</i>			
Ordinary shares		19,125,056	19,125,056
Preferred shares		752,729	752,729
Share premium		10,921,097	10,921,097
Merger reserve		(1,807,993)	(1,807,993)
Revaluation reserve for property, plant and equipment		8,377,136	8,737,423
Revaluation reserve for available-for-sale investments		2,696	(1,208)
Accumulated deficit		(7,338,047)	(7,457,857)
Equity attributable to owners of the Company		30,032,674	30,269,247
Non-controlling interests		50	50
TOTAL EQUITY		30,032,724	30,269,297
<i>Non-current liabilities</i>			
Loans and borrowings	8	16,765,864	13,828,144
Pension liabilities		603,985	604,053
Deferred tax liabilities		1,126,541	1,069,441
		18,496,390	15,501,638
<i>Current liabilities</i>			
Loans and borrowings	8	9,385,099	9,376,733
Accounts payable and accruals		2,615,317	3,215,277
Provisions		203,445	108,108
Income tax payable		4,514	387
Other taxes payable		439,146	949,489
		12,647,521	13,649,994
TOTAL LIABILITIES		31,143,911	29,151,632
TOTAL EQUITY AND LIABILITIES		61,176,635	59,420,929

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

in thousands of Russian Roubles, unless otherwise stated

	Notes	Six months ended 30 June 2014	Six months ended 30 June 2013
Revenue			
Heat energy		12,510,041	11,923,571
Electricity		7,356,476	6,477,983
Capacity		3,841,711	4,262,566
Other revenue		459,167	352,721
Total revenue		24,167,395	23,016,841
Operating expenses			
Fuel		(13,620,362)	(12,366,797)
Staff costs		(3,029,250)	(2,986,215)
Purchase of energy and capacity		(2,732,990)	(2,678,438)
Depreciation of property, plant and equipment		(967,031)	(832,056)
Charge for doubtful receivables	6	(948,910)	(1,005,229)
Heat transportation		(565,212)	(277,954)
Water usage expenses		(393,416)	(439,138)
Materials and spare parts		(314,343)	(399,417)
Taxes, other than income tax		(290,868)	(277,600)
OREM services		(201,954)	(184,011)
Repair and maintenance		(187,263)	(268,696)
Rent expenses		(149,677)	(185,229)
Charge for legal claims and fines		(125,947)	(59,553)
Security services		(92,164)	(99,107)
Other operating expenses, net		(434,772)	(429,475)
Operating profit		113,236	527,926
Finance costs, net		(357,278)	(329,790)
(Loss)/profit before income tax		(244,042)	198,136
Current income tax benefit/(expense)		3,565	(109,913)
(Loss)/profit for the period		(240,477)	88,223
Attributable to:			
Owners of the Company		(240,477)	88,223
Non-controlling interests		–	–
		(240,477)	88,223

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED) FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED) *in thousands of Russian Roubles, unless otherwise stated*

	Notes	Six months ended 30 June 2014	Six months ended 30 June 2013
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of pension liabilities, net of income tax		–	(5,981)
		<u>–</u>	<u>(5,981)</u>
Items that may be reclassified subsequently to profit or loss			
Gain/(loss) from revaluation of available-for-sale investments, net of income tax		3,904	(8,442)
		<u>3,904</u>	<u>(8,442)</u>
Other comprehensive income/(loss) for the period, net of income tax		<u>3,904</u>	<u>(14,423)</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		<u><u>(236,573)</u></u>	<u><u>73,800</u></u>
Attributable to:			
Owners of the Company		(236,573)	73,800
Non-controlling interests		–	–
		<u><u>(236,573)</u></u>	<u><u>73,800</u></u>
(LOSS)/EARNINGS PER SHARE			
Weighted average number of the Company's ordinary shares, in thousand of shares		1,912,505,578	1,912,505,578
Basic and diluted (loss)/earnings per share (in Roubles)		(0.00013)	0.00005

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

in thousands of Russian Roubles

	Six months ended 30 June 2014	Six months ended 30 June 2013
OPERATING ACTIVITIES		
(Loss)/profit before income tax	(244,042)	198,136
Adjustments for:		
Depreciation of property, plant and equipment	967,031	832,056
Finance costs, net	357,278	329,790
Charge for doubtful receivables	948,910	1,005,229
Charge for legal claims and fines	125,947	59,553
Other	9,952	12,494
Operating profit before working capital changes	2,165,076	2,437,258
Change in inventories	(147,368)	(219,759)
Change in accounts receivable, advances paid and other assets	723,163	(717,718)
Change in pension liabilities	(24,353)	(22,836)
Change in accounts payable and accruals	396,403	(432,616)
Change in other taxes payable	(488,036)	(311,334)
Cash generated from operations	2,624,885	732,995
Interest paid	(325,746)	(293,677)
Interest received	1,065	510
Income tax paid	(82,874)	(3,134)
Net cash generated from operating activities	2,217,330	436,694
INVESTING ACTIVITIES		
Purchase and construction of property, plant and equipment	(4,214,566)	(4,248,968)
Interest capitalised	(845,207)	(461,966)
Proceeds from disposal of property, plant and equipment	9,240	5,009
Purchase of intangible assets	(25,186)	(51,950)
Other investing activities, net	615	1,011
Net cash used in investing activities	(5,075,104)	(4,756,864)
FINANCING ACTIVITIES		
Proceeds from loans and borrowings	27,271,728	24,914,327
Repayments of loans and borrowings	(24,385,929)	(20,526,515)
Dividends paid	(20)	(146)
Net cash generated from financing activities	2,885,779	4,387,666
Effect of exchange rates changes on the balance of cash held in foreign currencies	–	(5,425)
Net increase in cash and cash equivalents	28,005	62,071
Cash and cash equivalents at beginning of the period	245,030	261,033
Cash and cash equivalents at end of the period	273,035	323,104

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

in thousands of Russian Roubles

	Equity attributable to owners of the Company							Total	Non-controlling interests	Total
	Ordinary shares	Preferred shares	Share premium	Merger reserve	Revaluation reserve for property, plant and equipment	Revaluation reserve for available-for-sale investments	Accumulated deficit			
Balance at 31 December 2012	19,125,056	752,729	10,921,097	(1,807,993)	9,542,721	4,798	(7,625,436)	30,912,972	50	30,913,022
Total comprehensive income for the period, net of income tax	-	-	-	-	-	(8,442)	82,242	73,800	-	73,800
Transfer of realised revaluation reserve for property, plant and equipment to accumulated deficit, net of income tax in the amount of RUB 97,572 thousand	-	-	-	-	(390,287)	-	390,287	-	-	-
Balance at 30 June 2013	19,125,056	752,729	10,921,097	(1,807,993)	9,152,434	(3,644)	(7,152,907)	30,986,772	50	30,986,822
Balance at 31 December 2013	19,125,056	752,729	10,921,097	(1,807,993)	8,737,423	(1,208)	(7,457,857)	30,269,247	50	30,269,297
Total comprehensive loss for the period, net of income tax	-	-	-	-	-	3,904	(240,477)	(236,573)	-	(236,573)
Transfer of realised revaluation reserve for property, plant and equipment to accumulated deficit, net of income tax in the amount of RUB 90,072 thousand	-	-	-	-	(360,287)	-	360,287	-	-	-
Balance at 30 June 2014	19,125,056	752,729	10,921,097	(1,807,993)	8,377,136	2,696	(7,338,047)	30,032,674	50	30,032,724

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

in thousands of Russian Roubles, unless otherwise stated

1. GENERAL INFORMATION

Organisation

Open Joint Stock Company Quadra – Power Generation (the “Company”) was established on 18 April 2005, as a subsidiary of Open Joint Stock Company RAO “UES of Russia” within the framework of Russian electricity sector restructuring.

The principal business activity of the Company and its subsidiaries (the “Group”) is generation and sale of electricity (capacity) and heat energy. The major operational facilities of the Group are located on the territory of the Russian Federation in the following regions: Belgorod, Bryansk, Voronezh, Kaluga, Kursk, Lipetsk, Oryol, Ryazan, Smolensk, Tambov and Tula.

The Company’s registered office is located at: 99v, Timiryazev str., 300012, Tula, Russian Federation.

2. BASIS OF PREPARATION

This interim condensed consolidated financial information has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

The interim condensed consolidated financial information is unaudited and does not include all the information and disclosures required in the annual consolidated financial statements in accordance with IFRS. The Group omitted disclosures which would substantially duplicate the information contained in its audited annual consolidated financial statements for the year ended 31 December 2013 prepared in accordance with International Financial Reporting Standards (“IFRS”).

Management believes that the disclosures in this interim condensed consolidated financial information are adequate to make the information presented not misleading if this financial information is read in conjunction with the Company’s annual consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS.

Going concern

As at 30 June 2014 the Group had a working capital deficiency of RUB 3,237,592 thousand and the loss for the six months ended 30 June 2014 amounted to RUB 240,477 thousand.

At the reporting date the Group had access to guaranteed credit facilities of RUB 11,103,484 thousand (Note 8) and therefore management believes that the Group will be able to meet its liabilities as they fall due. Thus interim condensed consolidated financial information for the six months ended 30 June 2014 was prepared on the going concern basis.

3. SIGNIFICANT ACCOUNTING POLICIES

The same accounting policies, presentation and methods of computation have been followed in this interim condensed consolidated financial information as were applied in the preparation of the Group’s financial statements for the year ended 31 December 2013.

New and revised Standards

In the preparation of this consolidated financial information, the Group has adopted all new IFRSs and IFRICs that are mandatory for adoption in annual periods beginning on 1 January 2014:

- Amendments to IFRS 10, IFRS 12 and IAS 27 – *Investment Entities*;
- Amendments to IAS 32 – *Offsetting Financial Assets and Financial Liabilities*;
- Amendments to IAS 36 – *Recoverable Amount Disclosures for Non-Financial Assets*;
- Amendments to IAS 39 – *Novation of Derivatives and Continuation of Hedge Accounting*;
- IFRIC 21 *Levies*.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

in thousands of Russian Roubles, unless otherwise stated

Adoption of those standards and interpretations did not result in changes to the Group financial position, results of operations or level of disclosures.

The Group did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the Group's annual consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS.

5. PROPERTY, PLANT AND EQUIPMENT

During the reporting period Group invested in the capital construction and purchase of property, plant and equipment RUB 4,955,677 thousand (six months, ended 30 June 2013: RUB 4,526,136 thousand).

Certain items of property, plant and equipment were pledged as a security under credit agreements (Note 8). As at 30 June 2014 carrying value of pledged fixed assets amounted to RUB 15,517,959 thousand (31 December 2013: RUB 12,920,631 thousand), pledge value – RUB 9,471,041 thousand (31 December 2013: RUB 7,506,148 thousand).

6. ACCOUNTS RECEIVABLE AND ADVANCES PAID

	<u>30 June 2014</u>	<u>31 December 2013</u>
Trade accounts receivable	12,319,417	14,067,710
Other accounts receivable	159,201	158,553
Allowance for doubtful receivables	<u>(5,638,538)</u>	<u>(4,733,681)</u>
Total financial assets	6,840,080	9,492,582
Advances paid and prepaid expenses	521,594	970,931
VAT reimbursable	638,395	105,558
Other taxes receivable	<u>5,103</u>	<u>6,019</u>
Total non-financial assets	1,165,092	1,082,508
Total non-current portion of accounts receivable and advances paid	<u>764,158</u>	<u>504,971</u>
Total current portion of accounts receivable and advances paid	<u>7,241,014</u>	<u>10,070,119</u>

The decrease of trade accounts receivable is related to the seasonality of the business and a transition in 2014 to direct settlements with final customers for heat energy in certain regions. The increase in allowance for doubtful receivables is related to the accounts receivable past due for heat energy.

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in thousands of Russian Roubles, unless otherwise stated

7. INVENTORIES

	<u>30 June 2014</u>	<u>31 December 2013</u>
Fuel	1,237,929	1,268,232
Raw materials and spare parts	497,085	361,036
Other inventories	<u>246,035</u>	<u>195,325</u>
Total inventories, at cost	1,981,049	1,824,593
Allowance for obsolete and slow moving items	<u>(1,056)</u>	<u>(1,056)</u>
Total	<u>1,979,993</u>	<u>1,823,537</u>
Total non-current portion of inventories	<u>233,075</u>	<u>185,242</u>
Total current portion of inventories	<u>1,746,918</u>	<u>1,638,295</u>

8. LOANS AND BORROWINGS

	<u>30 June 2014</u>		<u>31 December 2013</u>	
	<u>Rate, %</u>	<u>Balance</u>	<u>Rate, %</u>	<u>Balance</u>
Secured bank loans:				
JSC Gazpombank	12.07	3,864,706	10.86 – 10.92	3,011,376
JSC Sberbank of the Russian Federation	12.07	3,864,706	10.86 – 10.92	3,011,376
Unsecured bank loans:				
JSC Gazpombank	7.62 – 11.45	9,444,508	7.62 – 10.85	11,642,848
JSC Sberbank of the Russian Federation	7.62 – 12.60	8,793,809	7.72 – 10.75	5,416,331
Interest accrued	–	<u>183,234</u>	–	<u>122,946</u>
		<u>26,150,963</u>		<u>23,204,877</u>
Long-term portion of loans and borrowings		<u>16,765,864</u>		<u>13,828,144</u>
Current portion of loans and borrowings		<u>9,385,099</u>		<u>9,376,733</u>

All bank loans are RUB-denominated and are obtained within credit facilities provided to the Group. Interest rates are fixed for each tranche as set up in credit facility agreements and respective addendums.

As at 30 June 2014 and as at 31 December 2013 certain credit facilities were secured by the pledged property, plant and equipment (Note 5).

Certain bank loans are subject to the restrictive covenants that the Group has to comply with. All bank loan agreements have accelerated clauses, allowing creditors to request early repayment of outstanding amounts in case of non-compliance with these covenants. The Group was in compliance with all the covenants as at 30 June 2014. The information about the breach of the covenants after the reporting date is presented in Note 11.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

in thousands of Russian Roubles, unless otherwise stated

Available credit facilities

The following committed credit facilities provided by the financial institutions to the Group were unused at the end of respective reporting periods:

	<u>30 June 2014</u>	<u>31 December 2013</u>
Secured credit facilities and credit lines	10,000,000	10,000,000
Unsecured credit facilities and credit lines	26,800,000	29,500,000
Overdrafts	500,000	500,000
Less: amounts used by the Group	<u>(26,196,516)</u>	<u>(23,112,562)</u>
Total unused credit facilities	<u>11,103,484</u>	<u>16,887,438</u>

9. RELATED PARTIES

Transactions between the Group and related parties are presented as follows:

	<u>Sales and other income</u>		<u>Purchase of goods and services</u>	
	<u>For the six months ended 30 June 2014</u>	<u>For the six months ended 30 June 2013</u>	<u>For the six months ended 30 June 2014</u>	<u>For the six months ended 30 June 2013</u>
LLC SK Soglasie	4,122	4,231	60,519	63,984
Total	<u>4,122</u>	<u>4,231</u>	<u>60,519</u>	<u>63,984</u>

There were no significant outstanding balances with related parties as at 30 June 2014 and 31 December 2013.

10. CONTINGENCIES AND COMMITMENTS

Capital commitments

As at 30 June 2014, the Group's contractual capital commitments, including VAT, amounted to RUB 12,156,508 thousand (31 December 2013: RUB 11,510,331 thousand).

Operating environment

Emerging markets such as Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

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in thousands of Russian Roubles, unless otherwise stated

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and E.U. on certain Russian officials, businessmen and companies. In addition, in April 2014 credit agency Standard & Poor's downgraded Russia's long-term foreign currency sovereign rating from BBB to BBB- with a negative outlook. Previously, Fitch credit agency has also revised Russia's creditworthiness outlook from stable to negative. These events, including official sanctions, particularly if further extended, may adversely affect the Russian economy through reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the rouble and other negative economic consequences. The impact of these developments on the operations and financial position of the Group is at this stage difficult to predict.

11. SUBSEQUENT EVENTS

Covenants

In August 2014, management identified a technical breach of one of the covenants of the long-term loan facility agreement with JSC Gazprombank and JSC Sberbank of the Russian Federation with an outstanding debt amount of RUB 7,729,412 thousand as at 30 June 2014. As at the date of the approval of this interim condensed consolidated financial information for the six months ended 30 June 2014 the Group had received a written waiver from the creditors, which stipulates the non-use of sanctions in accordance with this agreement, including the request of early repayment of outstanding amounts. At the present time the Group is in the process of negotiation of an additional agreement, in accordance with which the terms of the agreement will be changed.

Additional credit facilities

On 24 July 2014 the Group signed a credit facility agreement with JSC Gazprombank in the amount of RUB 3,000,000 thousand. The loan matures on 20 July 2017. The interest rate will be determined by parties at the moment of provision of credit tranches.