

Auditing Committee of “Kubanenergo” PJSC

Approved by  
auditing Committee of  
“Kubanenergo PJSC  
(minutes No.5 dated 10.05.2016)

**Report of Auditing Committee  
of Public Joint Stock Company of Power Industry and Electrification of  
Kuban**

10.05.2016

Moscow

## I. Introductory Clause

### Information on the Auditing Committee

Members of the Auditing Committee were elected at general meeting of shareholders	Resolution of general meeting of “Kubanenergo” PJSC shareholders dated 10.06.2015 (minutes of meeting No.36 dated 11.06.2015)
Chairperson, Secretary of the Auditing Committee were appointed by the Auditing Committee	Minutes of meeting of the Auditing Committee of “Kubanenergo” PJSC No.1 dated 01.07.2015
Chairperson of the Auditing Committee	Kim S.A.
Secretary of the Auditing Committee	Malyshev S.V.
Members of the Auditing Committee	Shmakov I.V. Kabizskina Ye.A. Lukovkina I.P.

**Period of the inspection:** In accordance with Federal Law “On joint stock companies”, Charter of “Kubanenergo” PJSC (hereafter – the Company) and Regulations on the Company’s Auditing Committee, during the period from 29.03.2016 to 06.05.2016 the Auditing Committee evaluated the fairness of data contained in annual report and accounting (financial) report for 2015.

**Reason for the audit:** Minutes of meeting of the Auditing Committee of “Kubanenergo” PJSC No.4 dated 28.03.2016.

**Audit objective:** independent evaluation of fairness of data contained in annual report and accounting (financial) report for 2015 (hereafter – the Report). Fairness in all its meanings is the level of accuracy of data in Report, which allows the shareholders to make right conclusions on the results of business activity, financial and property status of the Company and make decisions on the basis of the conclusions.

**The audited period:** 01.01.2015 – 31.12.2015

**Audited documents:** annual accounting (financial) report, annual report, accounting register, source accounting documents and other documents related to Company’s business activity.

**The audit was performed in accordance with:**

- Federal law “On accounting” No.402-FZ dd. 06.12.2011
- Order of RF Ministry of Finances “On approval of regulation on accounting report in Russian Federation” No.34H dated 29.07.1998
- Regulations on accounting
- Order of RF Ministry of Finances “On forms of accounting reports of organizations” No.66 H dated 02.07.2010
- Regulations on disclosure of information by the issuer of securities, approved by order of Federal financial marker service (hereafter - FFMS) No.454-II dated 31.12.2014
- Other legal and internal documents

## Information on the Company:

Full name	Public Joint Company of Power Industry and Electrification of Kuban
Location (legal address)	2A Stavropolskaya street, Krasnodar, Russia, 350033
Postal address	2A Stavropolskaya street, Krasnodar, Russia, 350033
State registration (ORGN, date)	1022301427268 dated 17.09.2002
Tax reference number (INN)	2309001660
Branches and standalone subdivisions with independent	Krasnodarskiye electric networks, Sochi electric networks, Armavirskiye electric networks, Adygeyskiye electric networks, Timashevskskiye electric networks, Tikhoretskiskiye electric networks, Leningradskiye electric networks, Slavyanskskiye electric networks, SouthWestern electric networks, Labinskskiye electric networks, Ust-Labinskskiye electric networks
Sole executive body	Gavrilov Alexandr Ilyich, director general from 04.06.2013 – present
Chief accountant (name, entering office date)	Skiba Inna Viktorovna from 20.05.2013 till present

## Information on the Auditor

Full company name	Limited Liability Company “RSM RUS”
Meeting of general meeting of shareholders, when a decision to approve the auditor was made	Minutes of meeting of Annual general meeting of “Kubanenergo” JSC shareholders No.36 dated 11.06.2016
Resolution of the BoD on approval of the contract with auditor	Minutes of meeting No.220/2016 dd 28.09.2015
Contract on audit services	Audit contract No.15a082 dated 05.10.2015, concluded on the basis of resolution of the Tender Committee No.5/552p dated 20.04.2015
Auditor’s report	No.RSM-1332 dated 29.02.2016 “Auditor’s report on accounting statements 2015”

The audit was planned and carried out the way to get reasonable certainty that the Report for 2015 does not contain material misstatements.

Audit (inspection) was planned and carried out on a test basis and included examination, based on tests, confirmations, which prove value and disclosure of information on business activity of the Company, evaluation of principles and methods of accounting, rules of preparing reports, definition of accounting estimates. During the audit (inspection) we defined materiality level (the level of available mistake in indicators). Under materiality we mean the ability of information disclosed in report to influence decisions of those who read the report. The level of available mistake is a criterion in a part of proving the reliability of report of the Company.

When carrying out audit we checked whether the Company complies with the laws of Russian Federation and local regulations of the Company. We checked the compliance of several business tractions carried out by the Company to legislation

only in order to get reasonable and sufficient assurance that the report does not contain material misstatements.

We have also selectively checked the indicators in the Annual report and accounting (financial) report for 2015, the completeness of disclosed information in the Annual report for the compliance with requirement of the Bank of Russia on disclosure of information by issuers of securities.

During the audit (inspection) the Auditing Committee also took into consideration the report of Company's auditor "RSM RUA" LLC dated 29.02.2016 No.RSM-1332.

## **II. Final Clause**

The balance cost of Company's assets as of 31.12.2015 was 64 318.398 million rubles, in comparison to 31.12.2014 it is 4% higher.

Non-current assets take 85% of the capital structure, their amount as of 31.12.2015 was 54 833.486 million rubles, in comparison to 31.12.2014 its 12% higher.

Current assets take 15% of the capital structure, their amount as of 31.12.2015 was 9 484.912 million rubles, 52% of which is accounts receivable.

As at 31.12.2015 the total sum of accounts receivable (code line 1230) has increased by 28% in comparison with 31.12.2014 and amounts 4900.772 million rubles. The sum of the accounts receivable has increased by 51% and amounts 8 032.413 million rubles as of 31.12.2015.

The amount of provision for doubtful debts, compared with 31.12.2014, increased 2 times and amounted, as at 31.12.2015, 3 253.735 million rubles. The level of allowance for doubtful accounts for the reporting year increased from 32% to 41% of the total receivables, measured on conditions of contracts. Overdue receivables increased as compared to 31.12.2014, by 15% and amounted to 3 329.178 million rubles or 41% of the accounts receivable, measured on conditions of contracts.

The growth of overdue accounts receivable and increase in provision for doubtful debts shows that there is deterioration of the structure of receivables in the reporting year.

In the structure of capital and liabilities as at 31.12.2015, shareholders' equity accounts for 50%, compared with 31.12.2014, increased by 2% and amounted to 32 330 542 million rubles.

Accordingly, the share of debt capital accounts for 50% of the balance sheet total, the value of the loan capital decreased slightly in the reporting year (by 0.3%), and as of 31.12.2015, amounted to 31 987.856 million rubles. In the structure of the debt capital the most part of its take borrowings (53%) and accounts payable (37%).

Borrowings as the reporting year decreased by 2% and amounted to 17 071.346 million rubles.

The total amount payable, compared with 31.12.2014, increased by 5% and as of 31.12.2015 amounted to 12 268.512 million rubles, including short-term payables - 11 799.752 rubles. The amount of overdue payables as compared to 31.12.2014, decreased by 34% and amounted to 3 885.868 million rubles or 32% of total accounts receivable. The level of overdue accounts payable for the year fell from 50% to 32% of the total amount payable.

In the reporting year the Company's performance had a net profit of 1 452.479 million rubles, in 2014, the Company's business was unprofitable.

The net asset value as of 31.12.2015 is 32 445.840 million rubles, while the amount of the authorized capital of the Company is 28 286.813 million rubles, the increase in net asset value, as compared to 31.12.2014, amounted to 9%.

The indicators of financial state and solvency of the Company:

Indicator	Recommended value	2014 actual	2015 actual
capacity to pay off current liabilities	≤6 months	7	7
current liquidity ratio	>1	0,81	0,45
Debt/EBITDA	3-4	32,27	2,23

Despite the positive financial result in the reporting year by the results of 2015, the improvement in Debt/EBITDA, indicator current ratio decreased and is below the recommended, due to the reclassification of borrowings from long-term to short-term in accordance with the repayment terms and loans established by the relevant contracts.

Methods of keeping accounts from Accounting Policy approved by Company's order No.1578 on 27.12.2013 "On Accounting Policy of "Kubanenergo" JSC in 2014" and prolonged by the resolution No.1124 on 30.12.2014 for 2015, corresponded the legislation of Russian Federation on accounting and federal standards.

The report was prepared in accordance with legislative and legal acts of Russian Federation (Russian Accounting Standards) and legal documents of the Company.

The Annual Report of the Company, which is submitted for consideration of Annual General Meeting of Shareholders, contains information stipulated by Regulations on disclosure of information by the issuer, approved by Order of FFMS of Russia No.454-II dated 30.12.2014.

The reports approved by Company's Auditing Committee:

#	Type of report	Date of signing report by the management	Amount of pages in the document
1.	Accounting balance-sheet as of 31.12.2015	29.02.16	2
2.	Financial statements for January-December 2015	29.02.16	1
3.	Report on changes in equity in January-December 2015	29.02.16	4
4.	Report on cash flow for January-December 2015	29.02.16	2

5.	Explanations to accounting report for 2015 (tables)	29.02.16	97
6.	Annual report of “Kubanenergo” JSC 2015	-	330

As of the audit date the Annual report was not approved by the AGM and was not preliminary considered by the Company’s BoD.

By the results of the audit of company’s business activity the Audit Committee expresses its opinion on reliability of data contained in annual report and annual accounting (financial) report of the Company in all material respects.

The report of the Auditing Committee should be taken into consideration together with all confirmable forms of accounting (financial) report and Explanations to accounting balance and financial statements of “Kubanenergo” PJSC for 2015 with annexes, which are integral part of Annual Report of the Company for 2015.

Chairperson of the Auditing Committee

Kim S.A.

Members of the Auditing Committee

Shmakov I.V.

Malyshev S.V.

Kabizskina Ye.A.

Lukovkina I.P.