

“Kubanenergo” JSC
Auditing Committee

Approved by
auditing Committee
(minutes No.4 dated 24.04.2015)

Report of Auditing Committee
of Open joint stock company of power industry and electrification of Kuban

24.04.2015

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” JSC shareholders dated 23.06.2014 (minutes of meeting No.35 dated 24.06.2014)
Chairperson, Secretary of the Auditing Committee were appointed by the Auditing Committee	Minutes of meeting of the Auditing Committee of “Kubanenergo” JSC No.1 dated 11.07.2014
Chairperson of the Auditing Committee	Shmakov I.V.
Secretary of the Auditing Committee	Guseva Ye.Yu.
Members of the Auditing Committee	Malyshev S.V. Bunyaeva M.V. Udid A.N.

Timing of the inspection: In accordance with Federal Law “On joint stock companies”, Charter of “Kubanenergo” JSC (hereafter – the Company) and Regulations on the Company’s Auditing Committee, during the period from 23.03.2015 to 22.04.2015 the Auditing Committee evaluated the fairness of data contained in annual report and accounting (financial) report for 2014.

Reason for the audit: Minutes of meeting of the Auditing Committee of “Kubanenergo” JSC No.3 dated 20.03.2015.

Audit objective: independent evaluation of fairness of data contained in annual report and accounting (financial) report for 2014 (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: 01.01.2014 – 31.12.2014

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

- Letter from Bank of Russia No.06-52/2825 dated 30.03.2015 “On disclosure of information on compliance with Corporate governance code in the annual report of the joint stock company 2014”
- Other legal and internal documents

Information on the Company:

Full name	Open joint company of power industry and electrification of Kuban
Location (legal address)	2 Stavropolskaya street, Krasnodar, Russia, 350033
Postal address	2 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	Krasnodar Power Grids, Sochi Power Grids, Armavir Power Grids, Adygeya Power Grids, Timashevsk Power Grids, Tikhoretsk Power Grids, Leningradskiye Power Grids, Slavyansk Power Grids, SouthWestern Power Grids, Labinsk Power Grids, Ust-Labinsk Power Grids
Sole executive body	Gavrilov Alexandr Ilyich from 04.06.2013 – present director general of “Kubanenergo” JSC
Chief accountant (name, entering office date)	Skiba Inna Viktorovna from 20.05.2013 till present

Information of the Auditor

Full company name	Limited Liability Company “Ernst and Young”
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.35 dated 24.06.2014
Resolution of the BoD on approval of the contract with auditor	Minutes of meeting No.194/2014 dd 01.08.2014
Contract on audit services	No.ATTEST-2014-00238--/407/30-1179 dd 19.08.2014
Auditor’s report	“Auditor’s report on accounting statements of Open joint company of power industry and electrification of Kuban for 2014 dated 02.03.2015”

The audit was planned and carried out the way to get reasonable certainty that the Report for 2014 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 2014, 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 "Ernst & Young" LLC dated 02.03.2015.

II. Final Clause

The balance cost of Company's assets as of 31.12.2014 was 61 714.6 million rubles, in comparison to 31.12.2013 it is 4% lower.

Non-current assets take 79% of the capital structure, their amount as of 31.12.2014 was 48 783.3 million rubles, in comparison to 31.12.2013 its 9% higher.

As at 31.12.2014 the total sum of accounts receivable (code line 120) has reduced by 25% in comparison with 31.12.2013 and amounts 3 830.3 million rubles. As of 31.12.2014 the sum of the provision for doubtful debts has reduced by 2% in comparison to 31.12.2013 and amounts 1 493 million rubles. The share of the provision for doubtful debts has increased from 23% to 28%.

Equity capital of the Company as of 31.12.2014 is 29 621 million rubles or 48% from total volume of liabilities side of the balance-sheet, which 11% less than on the previous reporting date.

Borrowed proceeds has reduced by 1% and amount 17 417 million rubles.

Sum of accounts payable as of 31.12.2014 is 10 619.9 11 651.8 million rubles, which is 9% lower than in 31.12.2013.

By the results of the business activity Kubanenergo has net loss in amount of 3 623.3 million rubles, it is higher than the planned one by 2 032.2 million rubles (the planned net loss – 5 664.5 million rubles) and lower than the indicator of the previous year by 1 152.2 million rubles (loss of 2013 amounted 2 480.1 million rubles).

The cost of net assets as of 31.12.2014 is 29 743.9 million rubles at the amount of authorized capital of 28 286.8 million rubles.

The Auditing Committee of "Kubanenergo" JSC indicated that profitability performance profile showed the reduction of economic efficiency in company's activity in 2014.

By the results of 2014 the indicators of financial state of the Company showed reduction of liquidity and solvency in the reporting period:

The indicators of financial state and solvency of the Company:

Indicator	Recommended value	2013 actual	2014 actual
capacity to pay off current liabilities	≤6 months	5	7
current liquidity ratio	≥1	1.49	0.81
equity to total assets	0.5-0.8	0.52	0.48
Debt/EBITDA	3-4	23.85	32.27

The Auditing Committee of “Kubanenergo” JSC did not indicate dynamics of financial condition of the Company in 2012-2013 due to the fact that according to decision of “Kubanenergo” JSC the revaluation of homogenous groups of fixed assets was not carried out of 31.12.2012, this fact was the reason why the Auditor gave a qualified opinion. In order to fulfill recommendations of the Auditor and Accounting Policy of “Kubanenergo” JSC, the Company carried out revaluation of homogenous groups of fixed assets in 2013.

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” 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 31.12.2014	02.03.2015	2
2.	Financial statements for 12 months of 2014	02.03.2015	1
3.	Report on changes in equity in 2014	02.03.2015	4
4.	Report on cash flow for 12 months of 2014	02.03.2015	2
5.	Explanations to accounting report for 2014 (annexes)	02.03.2015	41
6.	Annual report of “Kubanenergo” JSC 2014	22.04.2015	154

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
- notes the weakening of financial standing of the company and lack of financial sources for provision of its solvency.

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" JSC for 2014 with annexes, which are integral part of Annual Report of the Company for 2014.

Chairperson of the Auditing Committee

Shmakov I.V.

Members of the Auditing Committee

Guseva Ye.Yu.
Malysheva S.V.
Bunyaeva M.V.