

Independent Auditor's Report
on Accounting (Financial) Statements of
**Public Joint Stock Company of
Power Industry and Electrification of Kuban**
for 2018

February 2018

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Independent Auditor's Report

To: the shareholders of Public joint-stock company of power industry and electrification of Kuban (Kubanenergo PJSC)

Opinion

We have audited the accompanying accounting (financial) statements of Public joint-stock company of power industry and electrification of Kuban (hereinafter – the Company) which comprise the balance sheet as at 31 December 2018, the profit and loss statement for 2018, and appendixes thereto.

In our opinion, the accompanying accounting (financial) statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its accounting performance and cash flows for 2018 in accordance with the accounting statements preparation rules established by the Russian Federation.

Basis for Opinion

We conducted our audit in accordance with the International Standards of Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Accounting Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and with the ethical requirements that are relevant to our audit of the accounting (financial) statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of the most significance in our audit of the accounting (financial) statements of the current period. These matters were addressed in the context of our audit of the accounting (financial) statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the accounting (financial) statements section of our report, including in relation to these matters. Accordingly, our audit included procedures designed to respond to our assessment of the risks of material misstatement of the accounting (financial) statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying accounting (financial) statements.

Key audit matter	How the matter was addressed in our audit.
<p>Recognition and measurement of revenue from electricity transmission services</p> <p>Recognition and measurement of revenue from electricity transmission services was one of the most significance in our audit due to certain mechanisms of operation of retail electricity market that stipulate presence of disagreements between network, energy supply and other companies pertaining to the volume and cost of transmitted electricity. The sum of the disputable revenue is considered as material for the accounting (financial) statements of the Company. The assessment by the Company's management of favorable outcome of the dispute resolution is, to a large extent, subjective. The revenue is recognized when, with regard of assumptions, disputes are resolved in favor of the Company.</p> <p>Information on the revenue from electricity transmission services is disclosed in the Profit and loss statements.</p>	<p>We have review the Company's policy on recognizing revenue from electricity transmission services; evaluated the system of internal control over revenue recognition; reviewed the accuracy of determined revenue amounts based on concluded electricity transmission contracts; on a sample basis obtained confirmations of accounts receivable balances from the counterparties; analyzed outcomes of litigations in respect of disputed amounts for the provided services, if any; and evaluated exiting procedures for confirming the volume of transmitted electricity.</p>
<p>Impairment of accounts receivable</p> <p>In our opinion, the matter of impairment of accounts receivable was one of the most significance in our audit due to significant balances of the Company's accounts receivable as of 31 December 2018 as well as due to the fact that the management estimate of collectability of the receivables is based on the assumptions, in particular, forecasting financial solvency of the Company's customers.</p> <p>Information on impairment of accounts receivable is disclosed in Section 5.6.1. of the Explanatory Notes to the Balance Sheet and the Profit and loss statements.</p>	<p>We have analyzed the adequacy of the Company's policy on reviewing accounts receivable and determining whether accounts receivables impairment allowance should be established, as well as procedures of confirming the reasonableness of the estimates made by the management of the Company, including review of accounts receivable payments, review of maturity dates and overdue debts, review of customers' financial solvency.</p> <p>We have performed audit procedures in respect of information used by the Company for determining the impairment of accounts receivable, in respect of classification of accounts receivable by their maturity dates; tested accuracy of calculating the allowance on the basis of the management estimates.</p>
<p>Recognition, measurement and disclosure of provisions and contingent liabilities</p> <p>Recognition, measurement and disclosure of provisions and contingent liabilities in respect of litigations and claims of counterparties (including territorial electric grid companies and energy supply companies) were matters of the most significance in our audit because they require a lot of management judgments in respect of significant amounts of balance of payments between counterparties being in dispute in the course of litigations or in the process of pre-trial procedures.</p> <p>Information on provisions and contingent liabilities are disclosed in Section 5.7.1 of the Explanatory Notes to the Balance Sheet and the Profit and loss</p>	<p>The audit procedures included review of court rulings made by courts of different levels, and review of adequacy of management judgments in respect of the assessment of possibility of outflow of economic resources following dispute resolutions, review of conformity of the prepared documentation with the existing contracts and compliance with the law.</p>

statements.

Other information

Audit of accounting (financial) statements of Public joint-stock company of power industry and electrification of Kuban for 2017 was conducted by other auditor that expressed unqualified audit opinion concerning the statements on 22 February 2018.

Audit of accounting (financial) statements of Public joint-stock company of power industry and electrification of Kuban for 2016 was conducted by other auditor that expressed unqualified audit opinion concerning the statements on 22 February 2017.

Other infraction included in the annual report of Public joint-stock company of power industry and electrification of Kuban

Other information includes information contained in the annual report of Public joint-stock company of power industry and electrification of Kuban, but does not include accounting (financial) statements and our audit report on it. The annual report of Public joint-stock company of power industry and electrification of Kuban is expected to be provided after the date of this audit report.

Our opinion on the accounting (financial) statements does not apply to other information, and we do not provide a conclusion that provides in any form confidence in this information.

Since we are conducting our audit of the accounting (financial) statements, our responsibility to study other above-mentioned information when it is provided to us, and, in doing so, consider whether the other information is materially inconsistent with the accounting (financial) statements our knowledge obtained in the course of audit or otherwise appears to be materially misstated.

Responsibilities of Management and the Audit Committee of the Board of Directors for the Accounting (Financial) Statements

The Management is responsible for the preparation and fair presentation of the accounting (financial) statements in accordance with the Russian Federation accounting (financial) statements preparation rules, and for such internal control as management determines is necessary to enable the preparation of accounting statements that are free from material misstatement, whether due to fraud or error.

In preparing the accounting (financial) statements, the Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Audit Committee of the Board of Directors is responsible for overseeing the preparation of the accounting (financial) statements of the Company.

Auditor's Responsibilities for the Audit of the Accounting (Financial) Statements

Our objectives are to obtain reasonable assurance on whether the accounting (financial) statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could

reasonably be expected to influence the economic decisions of users taken on the basis of these accounting (financial) statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the accounting (financial) statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the accounting statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the accounting (financial) statements, including the disclosures, and whether the accounting (financial) statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee of the Board of Directors of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee of the Board of Directors of the Company with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Board of Directors of the Company, we determine those matters that were of most significance in the audit of the accounting (financial) statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Manager in charge of the audit resulting in this independent auditor's report is Kalmykova A.B.

signature

Kalmykova A.B.
Partner
Krasnodar

20 February 2019

Details of the audited entity

Name: Public joint-stock company of power industry and electrification of Kuban

Record made in the State Register of Legal Entities on 17 September 2002; Primary state registration number 1022301427268

Address: 2A Stavropolskaya street, Krasnodar 350033, Russia

Details of the auditor

Name: Ernst & Young LLC

Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.

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