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22.02.2018
#RSM-1378

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have conducted an audit of the enclosed accounting statements of Kubanenergo PJSC (hereinafter – the Company) consisting of the balance sheet as of 31 December 2017, the profit and loss statement, the statement of changes in equity, and the cash flow statement for the year ended on the specified date, as well as the explanatory notes to the balance sheet and the profit and loss statement, including the summary of significant accounting policies.

In our opinion, the enclosed accounting statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its accounting performance and cash flows for the year ended on the specified date in accordance with the accounting statements preparation rules established by the Russian Federation.

Basis for Opinion

We have conducted the 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 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 financial statements of the current period. These matters were addressed in the Context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of accounts receivable

In our opinion, this matter was one of the most significance in our audit due to significant balances of the Company's accounts receivable as of 31 December 2017. The management estimate of collectability of the receivables is hard to perform, to a large extent, subjective and based on the assumptions, in particular, forecasting financial solvency of the Company's customers.

We have performed procedures to evaluate 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.

Our audit procedures included: testing of controls on the process of repayment of receivables; testing of receipt of cash after the reporting date; testing the reasonableness of calculating the allowance for doubtful debts, taking into account the information available from external sources on the degree of credit risk in respect of accounts receivable, and also using our own understanding of the size of doubtful accounts receivable as a whole for the industry.

We have also evaluated the adequacy of the disclosures made by the Company about the extent to which valuation judgments were used in calculating the allowance for doubtful debts.

Information on the accrued allowance for doubtful debts is disclosed in Section 5.6.2 of the Explanatory Notes to the accounting statements 2017.

Recognition and measurement of revenue

Recognition and measurement of revenue were matters of the most significance in our audit due to a certain imperfection in the mechanisms of operation of retail electricity market and it leads to disagreements between electric grid companies and energy supply companies in respect of volume of electricity consumption and capacity. The assessment by the Company's management of favorable outcome of the dispute resolution is, to a large extent, subjective and is based on the assumptions of dispute resolution.

We evaluated the internal control over revenue recognition, reviewed the accuracy of determining revenue amounts based on concluded contracts for electricity transmission and other work (services), on a sample basis obtained confirmations of accounts receivable balances from the counterparties, reviewed and evaluated existing procedures for confirming the volume of electricity transmitted and outcomes of litigations in respect of disputed amounts for the provided services, and also performed other procedures to obtain sufficient and appropriate audit evidence, in order to confirm the accuracy, in all material respects, of the amounts of revenues recognized in the accounting statements.

Revenue from disputes between network companies and energy selling companies pertaining to electricity consumption volumes and capacity is disclosed in Section 5.6.4 of the Explanatory Notes to the accounting statements 2017.

Recognition, measurement and disclosure of provisions and contingent liabilities

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 in dispute in the course of litigations and claim settlements.

The audit procedures included review of court rulings made by courts of different levels, review of adequacy of management judgments and documents confirming the assessment of possibility of outflow of economic resources following dispute resolutions, conformity of the prepared documentation with the existing contracts and compliance with the law.

Accrued provisions and contingent liabilities of the Company are disclosed in Section 5.7.1 of the Explanatory Notes to the accounting statements.

Other information

Management is responsible for other information. Other information includes information contained in the annual report of Kubanenergo PJSC for 2017 and the quarterly report of the issuer Kubanenergo PJSC for the 1st quarter of 2018, but does not include financial statements and our audit report on it. The annual report of Kubanenergo PJSC for 2017 and the quarterly report of the issuer for the 1st quarter of 2018 are expected to be provided after the date of this audit report.

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

If, upon acquaintance with the report of Kubanenergo PJSC for 2017 or the quarterly report of the issuer Kubanenergo PJSC for the 1st quarter of 2018, we come to the conclusion that they contain significant distortions, we will have to report this fact to the persons, responsible for corporate governance.

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

The Management is responsible for the preparation of the accounting statements that give a true and fair view in accordance with the Russian Federation accounting 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 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 statements of the Company.

Auditor's Responsibilities for the Audit of the Accounting Statements

Our objectives are to obtain reasonable assurance on whether the accounting 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 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 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 statements, including the disclosures, and whether the accounting 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 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.

Chairperson of the Management Board

Dantser N.A.

Auditor qualification certificate No. 05-000015 issued based on resolution No. 24 of the Self-Regulatory Organization of Auditors Non-Commercial Partnership "Russian Collegium of Auditors" (dated 15.11.2011) for an indefinite period of time.

PREN in the Register of auditors and audit organizations - 21706004215.

Manager responsible for the audit

Mikhailyk R.F.

Auditor qualification certificate No. 03-000591 issued based on the resolution of the Self-Regulatory Organization of Auditors Non-Commercial Partnership "Moscow Audit Chamber" (dated 13.02.2013 No. 188, Minutes No. 25) for an indefinite period of time.

PREN in the Register of auditors and audit organizations – 20103037931.

Audited entity

Public joint-stock company of power industry and electrification of Kuban (short name “Kubanenergo” PJSC)

Address: 2A Stavropolskaya street, Krasnodar 350033, Russia

Primary state registration number – 1022301427268

Auditor

RSM RUS Ltd.

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Phone: (945) 363 28 48; fax: (945) 981 4121

Primary state registration number - 1027700257540

RSM RUS Ltd. is a member of the Self-Regulatory Organization of Auditors Non-Commercial Partnership Association “Sodruzhestvo” (membership certificate No. 6938, Principal Number of Registration Entry 11306030308), address: 21, bldg. 4, Michurinsky prospect, Moscow, 119192.