

Auditing Commission of Kubanenergo PJSC

Approved by
the Auditing Commission of
Kubanenergo PJSC
(minutes of meeting No.4 dated
28.04.2017)

Report of the Auditing Commission of Public Joint Stock Company of Power Industry and Electrification of Kuban

I. Introductory Clause

Information on the Auditing Commission

Members of the Auditing Committee were elected at general meeting of shareholders	Resolution of general meeting of “Kubanenergo” PJSC shareholders dated 24.06.2016 (minutes of meeting No.37 dated 27.06.2016)
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 27.06.2016
Chairperson of the Auditing Committee	Kim S.A.
Secretary of the Auditing Committee	Kirillov A.N.
Members of the Auditing Committee	Malyshev S.V. Kabizskina Ye.A. Slesareva

Period of the inspection: In accordance with the Federal Law “On joint stock companies”, the Charter of “Kubanenergo” PJSC (hereafter – the Company) and the Regulations on the Company’s Auditing Commission, during the period from 15.03.2017 to 28.04.2017 the Auditing Commission evaluated the fairness of data contained in annual report and accounting (financial) report for 2016.

Reason for the audit: resolution of the Auditing Commission of the Company (Minutes of meeting No.3 dated 14.03.2017).

Audit objective: independent evaluation of fairness of data contained in annual report and accounting (financial) report for 2016 (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: 01.01.2016 – 31.12.2016

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

- Accounting policy approved by the Order of the Company No.114 on 31.12.2015 “On accounting policy of Kubanenergo PJSC in 2015”
- 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	Adygeyskiye electric networks Armavirskiye electric networks Krasnodarskiye electric networks Labinskikiye electric networks Leningradskiye electric networks Slavyanskikiye electric networks Sochi electric networks Timashevskikiye electric networks Tikhoretskikiye electric networks Ust-Labinskikiye electric networks SouthWestern (Yugo-Zapadniye) 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.37 dated 27.06.2016
Resolution of the BoD on approval of the contract with auditor	Minutes of meeting No.248/2016 dd 15.08.2016
Contract on audit services	Audit contract No.161a070/40730-764 dated 20.09.2016, concluded on the basis of resolution of the Tender Committee No.5/552p dated 20.04.2015
Auditor’s report	No.RSM-1211 dated 22.02.2017 “Auditor’s report on accounting statements 2016”

The audit was planned and carried out the way to get reasonable certainty that the Report for 2016 does not contain material misstatements.

The 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 2016, 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 Commission also took into consideration the report of Company's auditor "RSM RUA" LLC dated 22.02.2017 No.RSM-1211.

II. Final Clause

Balance cost of the Company's assets as of 31.12.2016 was 67 288.201 million rubles, in comparison to 31.12.2015 it is 5% higher.

Non-current assets take 85% of the capital structure, their amount as of 31.12.2016 was 56 898.713 million rubles, the same as in 2015.

Current assets take 15% of the capital structure, their amount as of 31.12.2016 was 10 389.488 million rubles, 69% of which is accounts receivable; the share of accounts receivable has increased by 17% in comparison to 31.12.2015.

As at 31.12.2016 the total sum of accounts receivable (code line 1230) has increased by 2 218.647 million rubles or by 45% in comparison with 31.12.2015 and amounts 7 119.419 million rubles. The sum of the accounts receivable has increased by 11 426.934 million rubles or 18% and amounts 9 459.337 as of to 31.12.2016. Overdue accounts payable has increased in comparison to 31.12.2015 by 16% and amounts to 3 856.75 million rubles or 40% of the accounts receivable, measured on conditions of contracts

The amount of provision for doubtful debts, compared with 31.12.2015, has decreased by 25% and as at 31.12.2016 it amounted 2 339.918 million rubles. The level of allowance for doubtful accounts for the reporting year decreased from 39% to 25% of the total receivables.

In the structure of capital and liabilities as at 31.12.2016, the shareholders' equity accounts for 53% and amounts to 35 398.409 million rubles, including capital before introduction of changes to the Company's Charter – 2 072.164 million rubles. The Company's equity capital has increased by 3% due to additional issue of shares for the amount of 2 072.164 million rubles and receiving monetary assets from Rosseti PJSC as payment for the shares of additional issue.

Accordingly, the share of debt capital accounts for 47% of the balance sheet total, the value of the loan capital has slightly decreased slightly in the reporting year (by 0.3%), and as of 31.12.2016, amounted to 31 889.792 million rubles.

In the structure of the debt capital as of 31.12.2016, the most part of it take the borrowings (60%) and accounts payable (30%). Borrowings as the reporting year increased by 11% and amounted to 18 991.317 million rubles.

The total amount payable, compared with 31.12.2015, decreased by 21% and as of 31.12.2016 amounted to 9 709.566 million rubles, including short-term payables – 8 280.201 rubles. The amount of overdue payables as compared to 31.12.2015, has decreased by 47% and amounts to 2 073.36 million rubles or 21% of total accounts receivable. The level of overdue accounts payable for the year fell from 32% to 21% of the total amount payable.

In the reporting year the Company's performance had a net profit of 2 140.5 million rubles; it is 688.021 million rubles or 47% higher than in the last year.

The net asset value as of 31.12.2016 is 35 528.64 million rubles, while the amount of the authorized capital of the Company is 30 358.911 million rubles, the increase in net asset value amounted to 9.5% and is due to receipt of funds from additional issue of shares.

The indicators of financial state and solvency of the Company:

Indicator	Recommended value	2015 actual	2016 actual
Capacity to pay off current liabilities	≤6 months	7	2.4
Current liquidity ratio	≥1	0.45	0.92
Working capital to current assets ratio	>0.1	-1.26	-0.1
Equity to total assets	0.5-0.8	0.50	0.53
Debt/EBITDA	≤3	2.23	2.11

Financial state indicators and solvency are near the recommended values, except for the current liquidity ration and working capital to current assets ratio.

Methods of keeping accounts constituting the Company's Accounting Policy in 2016 corresponded to the legislation of the 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.

As of the audit date, the Annual report had not been yet approved by the AGM or preliminary considered by the Company's BoD.

The reports approved by Company's Auditing Commission:

#	Type of report	Date of signing report by the management	Amount of pages in the document
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1.	Accounting balance-sheet as of 31 December 2016	21.02.2017	2
2.	Financial statements for January-December 2016	21.02.2017	1
3.	Report on changes in equity in January-December 2016	21.02.2017	4
4.	Report on cash flow for January-December 2016	21.02.2017	2
5.	Explanations to accounting report for 2016 (tables)	21.02.2017	90
6.	Annual report of Kubanenergo PJSC 2016	06.04.2017	348

By the results of the audit of the Company's business activity the Audit Commission 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 Commission should be taken into consideration together with all confirmable forms of accounting (financial) report and Explanations to accounting balance and financial statements for 2016 with the main text and annexes in the form of tables, which are an integral part of Annual Report of the Company for 2016.

Chairperson of the Auditing Commission

Kim S.A.

Members of the Auditing Commission

Kirillov A.N.

Malyshev S.V.

Kabizskina Ye.A.

Slesareva Ye. Yu.