**Auditing Committee of**

**PJSC Kubanenergo**

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Approved by

The Auditing Committee

Of PJSC Kubanenergo

(Minutes of April 15, 2020 No.3)

**REPORT (ACT)**

**OF THE AUDITING COMMITTEE**

OF PUBLIC JOINT STOCK COMPANY

OF POWER INDUSTRY AND ELECTRIFICATION OF KUBAN

April 15, 2020\_\_\_ Moscow

Date of drawing up Place of drawing up

1. **INTRODUCTION**

**INFORMATION ON THE MEMBERSHIP OF THE AUDITING COMMITTEE**

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| Сomposition of the Auditing Committee is elected by the decision of the General Meeting of Shareholders | Resolution of the Annual General Meeting of Shareholders of PJSC Kubanenergo of June 20, 2019 (Minutes of June 20, 2019 No.42) |
| Chairman and Secretary of the Auditing Committee were elected by the decision of the Auditing Committee | Minutes of the Auditing Committee of PJSC Kubanenergo of June 22, 2019 No.1 |
| Chairman of the Auditing Committee | Lelekova Marina Alekseevna |
| Secretary of the Auditing Committee | Kabizskina Elena Aleksandrovna |
| Members of the Auditing Committee | Kim Svetlana Anatolevna  Malyshev Sergey Vladimirovich  Erandina Elena Stanislavovna |

**Audit period:** In accordance with the decision of the Auditing Committee of PJSC Kubanenergo of March 20, 2020 (Minutes No. 2), the audit of financial and operational activities of PJSC Kubanenergo for 2019 is carried out for the period from March 23, 2020 to April 15, 2020.

**Reason for audit:** Federal Law No. 208-FZ of December 26, 1995 “On Joint Stock Companies”, Regulations of PJSC Kubanenergo, Regulation on the Auditing Committee of PJSC Kubanenergo (hereinafter the Company), decision of the Auditing Committee of the Company (Meeting Minutes of March 20, 2020 No.2).

**Audit objective**: expression of independent opinion on the fairness of data contained in the Annual report for 2019, Accounting (Financial) Statements of the Company for 2019, Report on interested parties’ transactions made by the Company in 2019 (hereinafter the Report). The fairness in all material aspects is understood as accuracy degree of data of the Statements which allows shareholders to draw the right conclusions on the results of operating activities, financial situation of the Company and make informed decisions based on these conclusions. In accordance with the Civil Code of the Russian Federation, Federal Law of December 26, 1995 No. 208-FZ “On Joint Stock Companies”, the Chief Executive Officer of the Company bears responsibility for preparation and faithful representation of the Statements in accordance with the Regulations of PJSC Kubanenergo.

**Period under audit**: from January 1, 2019 to December 31, 2019.

**Auditee:** The annual report and accounting (financial) statements for 2019, report on interested parties’ transactions made in 2019, managerial decisions, management statements of the Company, accounting registers, primary accounting documents and other documents of financial and economic activities of the Company.

**During audit procedure (auditing), regulatory legal acts and the following documents were used**:

* Federal Law of December 6, 2011 No. 402-FZ “On Accounting”;
* Federal Law of December 26, 1995 No. 208-FZ “On Joint-Stock Companies”;
* The Civil Code of the Russian Federation;
* Order of the Ministry of Finance of the Russian Federation of July 29, 1998 No.34n “On approval of Regulation of Accounting and Reporting in the Russian Federation”;
* Accounting Regulations (Standards);
* Order of the Ministry of Finance of the Russian Federation of July 2, 2010 No. 66n “On accounting forms of organizations”;
* Regulation on information disclosure by the issuers of securities approved by the Bank of Russia of December 30, 2014 No. 454-P;
* Order of the Bank of Russia "On establishment of limit values of amount of transactions of joint-stock companies and limited liability companies and if these limit values are exceeded, such transactions could be recognized as interested parties’ transactions” of March 31, 2017 No. 4335-U;
* Accounting policy of PJSC Kubanenergo for accounting purposes for 2019 approved by the order of the Company of December 29, 2018 No. 1350 with subsequent amendments and additions;
* other legislative acts and internal regulatory and administrative documents of the Company.

**COMPANY INFORMATION**

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| Full name | Public Joint Stock Company of Power Industry and Electrification of Kuban |
| Registered office (legal address) | 2A Stavropolskaya Street, 350033, Krasnodar, the Russian Federation |
| Correspondence address | 2A Stavropolskaya Street, 350033, Krasnodar, the Russian Federation |
| State registration (PSRN, date) | 1022301427268 of September 17, 2002 |
| Taxpayer Identification Number (TIN) | 2309001660 |
| Branch offices and separate subdivisions with separate balance | Adygeya electrical networks,  Armavir electrical networks,  Krasnodar electrical networks,  Labinsk electrical networks,  Leningradskiy electrical networks,  Slavyanskiy electrical networks,  Sochi electrical networks,  Timashevsk electrical networks,  Tihoretsk electrical networks,  Ust-Labinsk electrical networks,  South-West electrical networks. |
| Chief Executive Officer  (full name, position, date of taking office) | Gavrilov Aleksandr Ilich, CEO  since June 4, 2013 to June 3, 2019.  Shishigin Igor Nikolaevich, Acting CEO  since June 4, 2019 to July 17, 2019.  Sergeev Sergey Vladimirovich, CEO  since July 18, 2019 - present |
| Chief Accountant  (full name, position, date of taking office) | Skiba Inna Viktorovna, Chief accountant  since May 20, 2013 - present |

**AUDITOR INFORMATION**

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| Full corporate name | Limited Liability Company Ernst &Young |
| Decision of the Annual General Meeting of Shareholders on approval of the candidacy of the auditor | Decision of the Annual General Meeting of Shareholders of PJSC Kubanenergo of June 20, 2019 (Minutes No. 42 of June 20, 2019) |
| Decision of the Board of Directors on approval of conditions of the contract with the auditor | Meeting Minutes of the Board of Directors of PJSC Kubanenergo No. 358/2019 of August 16, 2019 |
| Contract for the provision of auditing services | Auditing Contract No. 407/30-1001 of August 16, 2019 |
| Audit report  *(number, date, name of the document)* | Audit report of the External Auditor on accounting (financial) statements of Public Joint Stock Company of Power Industry and Electrification of Kuban for 2019 (signed on February 20, 2020) |

We planned and carried out the auditing in such a way as to get a reasonable assurance that the Statements for 2019 are free from material misstatement.

Audit (auditing) was planned and carried out on a test basis and included the study based on the test and evidences supporting the importance and disclosure of information in the Statements on interested parties’ transactions made in the reporting year, financial and economic activities of the Company, evaluation of accounting principles and methods, rules of preparation of accounting (financial) statements and determination of substantial estimated values. In the course of inspection (auditing), we determined the materiality level (level of total tolerable error of misstatement of statements’ indicators). Materiality is understood as information property disclosed in the statements having an impact on decision making by users of the present statements. Level of a tolerable error is a criterion for us as to assurance of Company’s Statements.

In the course of inspection (auditing), we reconciled the data of accounting register, primary accounting documents, Accounting (Financial) Statements, Annual report, report on interested parties’ transactions made in the reporting year on a sample basis. The arrangement procedure and work performance of the Company intended for safeguarding of assets, results of Company’s asset and liability recognition was checked. We conducted analysis of financial position of the Company based on Accounting (Financial) Statements of the Company.

During audit procedure (auditing), we had been examined the compliance by the Company with the legislation of the Russian Federation and the local normative acts of the Company, compliance of the Statements with the content of transactions and events in such a way as to ensure their faithful representation. We have checked the compliance of business transactions concluded by the Company with the legislation with the sole purpose of getting the reasonable assurance that the Statements are free from material misstatement.

We have audited the completeness of information disclosure on a sample basis:

* in the Annual report of the Company for compliance with the requirements of Regulations No. 454-P of December 30, 2014 on information disclosure by the issuers of securities approved by the Bank of Russia;
* in the Accounting (Financial) Statements for compliance with Federal Law No. 402-FZ of December 6, 2011 “On accounting” and accounting standards;
* in the report on interested parties’ transactions made in the reporting year for compliance with the requirements of Federal Law No. 208-FZ of December 26, 1995 “On Joint Stock Companies”, Order of the Bank of Russia No. 4335-U of March 31, 2017 "On establishment of limit values of amount of transactions of joint-stock companies and limited liability companies and if these limit values are exceeded, such transactions could be recognized as interested parties’ transactions”.

At the time of the issuance of the present final report, the Annual report for approval by the Annual General Meeting of Shareholders has not been previously approved by the Board of Directors of the Company, the report on interested parties’ transactions made in 2019 has not been approved by the Board of Directors of the Company.

During the process of fairness estimation of the Statements, the Audit Committee relied on auditor’s report of LLC Ernst &Young of February 20, 2020 on faithful reflection of the financial position and results presented in the Accounting (Financial) Statements for 2019 and reports of LLC YugEnergoInzhiniring, prepared in accordance with the results of an independent, technical and pricing audit of investment program implementation reports of the Company for the first-third quarters of 2019, performed under the contract No. 407/30-69 of February 4, 2019 where the indications of unreliability of statements on implementation of investment program during the specified periods are absent.

1. **CONCLUSION**

The combination of accounting methods by the Company which form the Accounting Policies of 2019 were in compliance with legislation of the Russian Federation on accounting and federal standards in the reporting year.

Company’s asset and obligation inventory is conducted in accordance with the requirements of legislation, the inventory count results are recorded in the accounting (financial) statements of the Company.

Accounting (financial) statements for 2019 are drawn up in accordance with the rules of accounting statements established in the Russian Federation in all material respects.

As at December 31, 2019, the carrying value of assets of the Company amounted to 76,231,919 million rubles and increased slightly for 0.43% compared with December 31, 2018.

Non-current assets constitute 85% of property assets and their value amounted to 64,635,283 million rubles as at December 31, 2019, which was 2% more than the value of non-current assets compared with December 31, 2018. Objects of capital investments that were completely constructed and put into operation had a significant influence on growth of non-current assets.

As at December 31, 2019, current assets account for 15% of total assets or 11,596,636 million rubles whereof the accounts receivable in the amount of 64% constitutes the largest share. The volume of current assets decreased by 6% compared with their value as at December 31, 2018. The value of current assets was mainly affected by decreasing in cash balance and cash equivalents by 494,892 million rubles and other current assets by 553,253 million rubles as of reporting date, with an increase of accounts receivable by 375,699 million rubles.

The total amount of accounts receivable recognized under the contracts, for 2019 increased by 4% and as at December 31, 2019, amounted to 9,150,427 million rubles, where 35% of accounts receivable is overdue accounts receivable, and 19% of accounts receivable is recognized as doubtful to collect by the Company and the provision for doubtful debts was created. Overdue accounts receivable increased by 39% for the reporting period, the provision for doubtful debts compared with its value as at December 31, 2018, decreased slightly by 0.6%.

As at December 31, 2019, the equity constitutes 53% and amounted to 40,609,886 million rubles in the structure of capital and liabilities. Equity increased by 15% for the reporting year mainly owing to the capital increase before registration of changes to the amount of 3,086,449 because of additional share issue by the Company in July 2019 as a part of financial assistance of Company’s development plan provided by PJSC Rosseti, and also net profit made by the Company in the reporting period.

Besides, there had been significant changes in the equity structure, which were caused by changes in the Accounting Policy adopted by the Company in the reporting period as to decision on appraisal of fixed assets value at original (historical) cost with the purpose of convergence of approaches to valuation of fixed assets in accordance with RAS and IFRS and also according to Clause 6 of RAS 1/2008 and Clause 7 of RAS 1/2008: additional capital surplus (as at January 1, 2019, formed from revaluation of fixed assets previously made) in the amount of 10,736,476 million rubles was transferred to uncovered loss of past years.

Debt capital accounts for 47% in the structure of capital and liabilities. The value of debt capital for the reporting period decreased by 12% and as at December 31, 2019, amounted to 35,622,033 million rubles. Borrowings (65%) and accounts payable (28%) constitute the largest share in the structure of debt capital as at December 31, 2019. The borrowings decreased by 6% for the reporting year. Accounts payable decreased by 30% mainly by decrease in accounts payable on advances received. Share of overdue debt in the total value of accounts payable increased from 22% to 26% at the end of the reporting year compared with similar indicator as at December 31, 2018.

The performance result of the Company for the reporting year is net profit in the amount of 2,428,011 million rubles as a result of one-time revenue receipts for technological connection from the large declarant of the Federal State Institution “Rostransmodernizatsiya” (net profit for the previous reporting period was 151,198 million rubles).

As at December 31, 2019, net asset value amounted to 40,748,160 million rubles and exceeds the charter capital of the Company. Increase in value of net assets amounted to 15% for the reporting year.

Indicators of financial position and paying capacity of the Company are in the recommended values with the exception of current liquidity ratios and the provision of own circulating assets which indicated the shortage of own circulating assets in order to settle short-term liabilities at the end of the reporting period. However, based on the results of 2019, there has been an improvement in indicated coefficients compared with 2018 as a result of decrease in accounts payable and short-term borrowings mainly covered by financial assistance provided by PJSC Rosseti under the Development Plan of the Company.

Cases of violation of legal acts of the Russian Federation in implementing the financial and economic activities, which could have a significant impact on the Statements of the Company, have not been detected.

Cases of misrepresentation contained in the report on interested parties’ transactions made in 2019, have not been detected.

In 2019, the Company did not provide the Board of Directors and the Auditing committee with the information stipulated by Clause 4 of Article 82 of Federal Law of December 26, 1995 No. 208-FZ “On Joint Stock Companies” with regards to the information, contained in notices received by the Company from persons who are interested in transactions made by the Company, on occurrence of circumstances for which these persons may be considered to be interested in transactions made by the Company.

The annual report of the Company for approval by the Annual General Meeting of Shareholders contains information provided by the Regulations No. 454-P of December 30, 2014 on information disclosure by the issuers of securities approved by the Central Bank of the Russian Federation.

In accordance with the results of fairness estimation of the Statements according to the results of 2019, the Auditing Committee expresses an opinion on the fairness of data contained in the Annual report for 2019, Accounting (Financial) Statements of the Company for 2019, Report on interested parties’ transactions made in 2019 in all material respects.

**The content of the Company’s statements confirmed by the Auditing Committee:**

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| Ser. No. | Name of the reporting format | Signature date by the Executive Board | Number of the sheets in the document |
| 1. | Balance sheet as at December 31, 2019 | February 20, 2020 | 2 |
| 2. | Statement of financial results for 12 months of 2019 | February 20, 2020 | 4 |
| 3. | Statement of changes in equity for 2019 | February 20, 2020 | 3 |
| 4. | Cash Flow Statement for 12 months of 2019 | February 20, 2020 | 2 |
| 5. | Notes to the balance sheet and statement of financial results for 2019 of PJSC Kubanenergo with appendices | February 20, 2020 | 76 |
| 6. | Annual Report of the Public Joint Stock Company Kubanenergo based on the results of work for 2019 | April 16, 2020 | 349 |
| 7. | Report on interested parties’ transactions made in 2019 | undated | 3 |

The present report of the Auditing Committee should be considered in conjunction with all approved forms of Accounting (Financial) Statements and notes to the balance sheet and statement of financial results for 2019 in text and table form, Report on interested parties’ transactions made in 2019.

Chairman of the Auditing Committee

of PJSC Kubanenergo \_\_\_\_\_\_\_\_\_\_\_\_\_M.A. Lelekova

Members of the Auditing Committee

of PJSC Kubanenergo \_\_\_\_\_\_\_\_\_\_\_\_\_\_ S.A. Kim

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