

ABBREVIATIONS AND TERMS

ASCEM – automated system for control and electricity metering.

ACS – automated control system.

APCS – automated process control system.

VL, VLI – overhead power line.

HV – high voltage (110 kV and above).

FOCL – fiber-optic communication line.

The shortfall in revenue – the shortfall in incomes of a regulated organization from providing benefits for technological connection to consumers up to 15 kW, arising from the difference in actual costs incurred in connection with the technological connection from the received preferential payment for technological connection, approved in accordance with the current legislation of the Russian Federation.

The last resort provider (default provider) – is a commercial organization, obliged in accordance with Federal Law No. 35-FZ of March 26, 2003 "Concerning the Electric Power Industry" or voluntarily assume responsibilities to conclude a contract for the sale and purchase of electricity with any consumer of electricity who has applied to this organization or with a person acting in the name and on behalf of the electricity consumer and wishing to purchase electricity.

GTPP – gas turbine power plants.

S&A – subsidiaries and affiliates of the Company or PJSC Rosseti.

FGC – Federal Grid Company.

CPL – cable power line.

Corporate year – the period from the moment of election of the personal composition of the Board of Directors and the Auditing Commission at the Annual General Meeting of Shareholders of the Company to the time of the subsequent Annual General Meeting of Shareholders of the Company.

Single pot required gross proceeds – is an economically justified amount of funds, necessary for a Company to carry out regulated activities over the estimated period of regulation, with account for the costs of paying for services of regional grid organizations, PJSC FGC UES, as well as the purchase of electricity to compensate for losses.

Single pot tariffs for electricity transmission – are the unified tariffs for electricity transmission services in the Krasnodar Territory and the Republic of Adygea, differentiated by voltage levels, for all consumers of electricity transmission services, regardless of the network of which grid organization, these consumers are connected.

PL – power line.

GRR of the region, the gross revenue requirement of the region – is an economically reasonable amount of financial resources required for network organizations that operate in the Krasnodar Territory and the Republic of Adygea for the implementation of managed electricity transmission activities during the regulation settlement period.

GRR of the Company, the gross revenue requirement of a grid Company – is an economically reasonable amount of financial resources necessary for the organization to carry out regulated activities during the settlement period of regulation without taking into account the costs of paying for the services of territorial grid organizations, PJSC FGC UES, as well as the purchase of electricity to compensate for losses.

Customer curtailment – undersupply of electricity to consumers as a result of technological disruption of the electrical network.

R & D – research and development work.

RW – research work.

LV – low voltage.

The volume of services rendered – the amount of electricity transmitted through the mechanical devices of electrical networks owned by Kubanenergo PJSC based on ownership or other grounds established by the legislation of the Russian Federation.

EDW – Experimental design work

WECM, the wholesale electricity and capacity market, the wholesale electricity market – the sphere of circulation of particular goods - electricity and power within the framework of the Unified Energy System of Russia within the boundaries of the prevailing economic space of the Russian Federation with the participation of primary producers and major buyers of electricity and capacity, as well as other individuals the status of the subject of the wholesale market and acting on the basis of the rules of the wholesale market, approved in accordance with the Federal Law of 26.03.2003, No. 35-ФЗ "On Electric Power Industry" Russian Federation.

Supply of electricity to the network – the amount of electricity accepted into the distribution network at the points of supply from the Unified National Electric Grid, Generations, and other related systems, formed according to the voltage level along with the balance of the balance sheet.

Kubanenergo PJSC, Kubanenergo OJSC, Company, Issuer, Parent Company – Public Joint Stock Company of Power Industry and Electrification of Kuban.

AR – Accounting Regulation.

Electricity net supply – the amount of electricity transmitted (supplied) through distribution networks by points of electricity supply to consumers and (or) downstream grid organizations, formed by the voltage level along with the balance of the balance sheet. Corresponds to the physical process of transmission of electricity through electrical networks.

Electricity loss:Actual (reported) loss of electricity – the difference between the amount of electricity supplied to the electricity network from other networks or electricity producers, and the amount of electricity consumed by the power receivers connected to this network, as well as transmitted to other network organizations.

Regulatory loss of electricity – estimated values of losses established by the authorized federal executive body concerning the aggregate of power transmission lines and other electric grid facilities owned by the grid organization, differentiated by the voltage levels of the networks. The cost of regulatory electricity losses is included in the size of the fee for the transmission of electricity (tariff).

Excessive (commercial) electricity losses – the difference between actual and regulatory electricity losses; The network organization pays the full amount, in the networks of which excess power losses have occurred.

Load losses of electricity – losses depending on the load in transformers and lines arising in the process of power transmission.

PS – substation.

RPA – relay protection and automation.

DEDN – districts of electrical distribution networks in branches of OJSC Kubanenergo, which unite several network sites, as well as groups: operational dispatching, mechanization, and transport, for the transport of electricity, and performing their operational management (through the head of DEDN).

RAS – Russian Accounting Standards.

REC - DPR KR – Regional Energy Commission – Department of Prices and Tariffs of Krasnodar Territory – the executive authority of Krasnodar Region in the field of state regulation of tariffs.

EN – electric networks in the branches of OJSC Kubanenergo.

Recloser – is an automatic section for network partitioning, which includes a high-voltage equipment cabinet with a vacuum switch, a control cabinet with microprocessor relay protection and automation.

Network organization, distribution network Company – an organization engaged in the transmission and/or distribution of electricity through electrical networks.

SSIW – self-supporting insulated wire.

Related Network Organization – the grid organization, which owns on the right of ownership or on other legal grounds objects of the electric grid economy directly connected technologically to the electrical networks of another grid organization (to which it is adjacent).

Media – mass media.

AV1, AVI – average voltage I (35 kV).

AV, AVII – average voltage II (1–20 kV).

The average number of employees – is the sum of the list of employees for each calendar day of the period, including holidays (non-working) and days off, divided by the number of calendar days of the period.

The list number of staff – the number of permanent, seasonal, temporary, and other employees on the organization's lists. The list number includes those working and absent from work for various reasons, but not terminated with the organization of labor relations, receiving wages in this organization.

Technical losses – losses of electricity in lines and equipment of electrical networks caused by physical processes occurring during transmission of electricity following the technical characteristics and modes of operation of lines and equipment, taking into account the power consumption for auxiliary needs of substations.

Technical metering of electricity – metering to control energy consumption inside power plants, substations, enterprises, to calculate and analyze electric power losses in electrical networks, as well as to account for electricity consumption for own, business and production needs.

Technological violation (accident) – an unauthorized violation of normal operation in the electrical network.

TS – transformer substation.

Technological connection – technological connection of power receiving devices (power installations) of legal entities and individuals to the power grids of a Company providing electric power transmission services.

MR – maintenance and repair.

RPA Setpoint – the parameter of operation (release) of the relay or the response time (release) of the relay to which the relay is adjusted.

c.u.– conditional units – conditional units of electrical equipment.

Local Grid Company (LGC) – is a regional network organization – a commercial entity that owns electric grid facilities based on ownership or as otherwise established by federal laws. Based on the use of these facilities, such an organization provides electricity transmission services and provides technological connection of power receiving devices (power plants) of legal entities and individuals to the power grids in the prescribed manner. Such a Company also has the right to enter into contracts for the provision of services for the transmission of electricity through the electric grid facilities not belonging to the Unified National (All-Russian) electric power grid.

TPP – thermal power plant.

The feeder – is a power line connecting the busbars of the switchgear with the distribution and consumer electrical networks fed from these buses.

Power center – 110, 35, 6/10 kV substation bus-bars.

Electricity – electrical energy.

EN – electrical networks.

EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization)– is an indicator equal to the amount of profit before taxes, depreciation expenses and interest on loans.

IEC-61850 – is the standard of the International Electrotechnical Commission "Communication Networks and Systems at Substations", describing data flow formats, types of information, rules for describing power facility elements and a set of rules for organizing an event-based data transfer protocol.

Pry-Cam – is a type of partial discharge monitoring system used for online diagnostics of the state of power grids and the implementation of operational maintenance.

SCADA (Supervisory Control And Data Acquisition – Dispatch Control and Data Acquisition) – is a software package designed to develop or provide real-time systems for collecting, processing, displaying and archiving information about a monitoring or management object.

UNITS OF MEASURE

VA – Volt-Ampere

W – Watt

y. -- year

yy – years

Gcal – gigacaloria

kV – kilovolt

kVA – kilovolt-ampere

kW – kilowatt

kW • h – kilowatt-hour

km – kilometer

cop. – kopec

m – meter

MVA – megavolt-ampere

MW – megawatts

mln. – million

bln. – billion

rub. – Russian ruble

pp – percentage point

s – second

d. – day

t – ton

ths. – one thousand

h – hour

pers. – persons

pcs. – piece

APPENDIX 1

**INDEPENDENT AUDITOR'S REPORT
ON ACCOUNTING (FINANCIAL) STATEMENTS
OF PUBLIC JOINT STOCK COMPANY OF POWER
INDUSTRY AND ELECTRIFICATION OF KUBAN
FOR 2018**

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

February 2019

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

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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.

Recognition and measurement of revenue from electricity transmission services

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.

Information on the revenue from electricity transmission services is disclosed in the Profit and loss statements.

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.

Impairment of accounts receivable

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.

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.

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.

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.

Recognition, measurement and disclosure of provisions and contingent liabilities

Recognition, measurement and disclosure of provisions and contingent liabilities in respect of

The audit procedures included review of court rulings made by courts of different levels, and review 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. 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 statements.

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.

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.

Address: 77/1 Sadovnicheskaya naberezhnaya, Moscow 115035, Russia

Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

Balance sheet**3****1**

Form No. 1 OKUD [Russian National Classifier of Management Documentation]		Codes
		0710001
Organization: Kubanenergo PJSC	Date	3
Taxpayer Identification Number	OKPO [Russian Classifier of Businesses and Organizations]	0
Type of activity electricity transmission	TIN	2309001660
Organizational legal form/ownership form: Public Joint-Stock Company / private	OKVED [Russian Classifier of Types of Economic Activity]	35.12 / 35.13
Unit: thousand rubles	OKOPF [Russian Classifier of Organizational Legal Forms]/OKFS [Russian National Classifier of Forms of Ownership]	12247 / 16
Address: 2A Stavropolskaya str., 350033 Krasnodar, Krasnodar region	OKEI [Russian Classifier of Measurement Units]	384

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notes	Indicator	Line code	as of 31 December 2018	as of 31 December 2017	as of 31 December 2016
	ASSETS				
	I. NON-CURRENT ASSETS				
5.1.1.- 5.2.2.	Intangible assets	1110	38 621	33 456	25 834
5.2.2.	including purchase of intangible assets in progress	1111	7 500	6 000	-
5.2.1.- 5.2.2	R&D results	1120	107 450	69 571	24 411
5.2.2.	including expenditures on researches in progress	1121	107 450	69 571	24 411
	Intangible development assets	1130	-	-	-
	Tangible development assets	1140	-	-	-
5.3.1.- 5.3.6.	Fixed assets	1150	62 534 635	59 659 050	55 910 737
	land plots and environmental facilities	1151	136 330	136 244	136 122
	buildings, vehicles, equipment, constructions	1152	50 768 189	50 815 750	50 114 801
	other fixed assets	1153	207 553	260 043	319 843
5.3.5.	construction in progress	1154	10 190 196	6 737 703	4 320 028
5.3.6.	advances paid for capital construction and purchase of fixed assets	1155	341 336	1 054 174	83 921
	raw materials and materials for production of fixed assets*	1156	891 031	655 136	936 022
5.3.1.	Income-bearing investments in tangible valuables	1160	-	-	-
5.4.1.-	Financial investments	1170	37 556	36 004	45 588