

KEY ACCOUNTING POLICIES OF KUBANENERGO PJSC

Accounting of fixed assets in the Company is carried out in accordance with the Regulation on Accounting "Accounting for Fixed Assets" PBU 6/01, approved by order of the Ministry of Finance of Russia dated 30.03.2001, No. 26n. Depreciation on fixed assets is calculated on a straight-line basis based on their useful life. For fully depreciated (worn) items of fixed assets, depreciation was not accrued.

Work in progress is estimated at actual cost.

Recognition of the expenses incurred as an expense of a future period and equating it to an asset with reflection in accounting and reporting is related to the principal approach established in the Company. This approach is based on an understanding of the temporary fact of the likelihood that an organization will receive economic benefits in the future from this asset and an assessment of its value with a sufficient degree of reliability.

Advances related to the acquisition of a non-current asset in the future, as well as raw materials and supplies intended for use in the creation of fixed assets, are recorded in line 1150 "Fixed Assets".

Real estate objects are actually exploited, for which capital investments are fully completed and primary documents are drawn up, are accepted for accounting as fixed assets with the release of a separate subaccount "Real estate objects for which no title is registered." For such objects, depreciation is calculated in a general manner from the first day of the month following the month in which the object was put into operation.

Accounting for revenue and other income is maintained by the Company in accordance with the Accounting Regulation "Income of the Organization" PBU 9/99, approved by order of the Ministry of Finance of Russia of 06.05.1999, No. 32n.

The Company has established estimated liabilities due to possible payments of compensation for unused vacations, unresolved requirements of electricity suppliers to compensate for losses and electricity transmission services, legal proceedings and other payments to employees in accordance with PBU 8/2010 "Estimated liabilities, contingent liabilities and contingent assets" approved by order of the Ministry of Finance of Russia dated December 13, 2010, No. 167n.

The Company reserved doubtful receivables that are not repaid or with a high degree of probability will not be refunded within the terms established by the contract and are not provided with appropriate guarantees.

The Company forms a reserve for the depreciation of financial investments in the event of a sustained significant reduction in their value.

Adjustments relating to previous periods

ADJUSTMENTS AND OTHER ACCOUNTING CHANGES RELATING TO PREVIOUS PERIODS IN THE REPORTING FOR 2018 ARE ABSENT.

THE COMPANY HAS FORMED CONSOLIDATED FINANCIAL STATEMENTS FOLLOWING THE REQUIREMENTS OF THE FEDERAL LAW DATED JULY 27, 2010, NO. 208-ФЗ "ON CONSOLIDATED FINANCIAL STATEMENTS."

In accordance with the requirements of the legislation of the Russian Federation, the Company is obliged to conduct an annual audit of financial statements. To check and confirm the annual financial statements, the General Meeting of Shareholders annually approves the Company's auditor.

In order to ensure the independence and objectivity of the external auditor, the selection of the external auditor of the Company was carried out through an open competitive procedure using the Unified Procurement Information System of PJSC Rosseti (hereinafter referred to as the ETP). Information about the open tender for the right to conclude contracts for the audit of financial statements for 2018–2020 was published in the unified information system (www.zakupki.gov.ru, № 31806037793), on the ETP (<http://www.etp.rosseti.ru>). The duration of the competition is from February 1 to April 16, 2018. The evaluation of the contest participants was carried out according to the criteria set in advance and stated in the conditions of the contest.

According to the results of an open one-stage competition without a preliminary qualification selection for the right to conclude contracts for auditing financial statements for 2018–2020, Ernst & Young LLC was declared the winner (Minutes of the meeting of the Competition Commission of PJSC Rosseti dated 16.04.2018, No. 13/595p). Mandatory audit of financial statements for 2018 includes an audit of accounting (financial) statements prepared in accordance with RAS and IFRS for the year ending December 31, 2018

Cost of services for Kubanenergo PJSC for 2018–2020 determined in the amount of 15 853 783.64 rubles, including VAT.

This auditor was also approved by the decision of the Annual General Meeting of Kubanenergo PJSC Shareholders (minutes No. 40 dated 28.05.2018)

Full name of the audit firm: Limited Liability Company Ernst & Young.

Abbreviated name of the audit firm: Ernst & Young LLC.

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The audit organization Ernst & Young LLC is a member of the Russian Auditors Union (Association), a Self-Regulatory Organization of Auditors (Incorporated Society of Accountants) with the primary registration number of entry (PRNE) 11603050648.

The amount of remuneration of an auditor for audit check of the annual financial statements for 2018 was approved by the decision of the Board of Directors of Kubanenergo PJSC (minutes No. 319/2018 dated 24.09.2018) 5,284,594.54 rubles in total, including VAT. In connection with the entry of amendments to the Tax Code of the Russian Federation in accordance with Federal Law of 03.08.2018, No. 303-F3 "Concerning the Amendments to Certain Legislative Acts of the Russian Federation on Taxes and Duties", in force from January 1, the cost of audit services for 2018 amounted to 5,333,857.71 rubles (Supplementary Agreement No. 1/407/30-1511 dated December 13, 2014).

There are no deferred and overdue payments for services rendered by the auditor.

On December 29, 2018, the was the concluded a Contract with the Contractor Ernst & Young, LLC on "assessment and consulting services," for the services of a comprehensive analysis of the financial and economic activities of Kubanenergo PJSC. The Company has no facilities provided in the reporting year by this Contract.