

# Appendices

## 1 RAS financial reporting with Audit report on the reliability of statement of financial performance for 2018



### INDEPENDENT AUDITOR REPORT

Shareholders and the Board of Directors of the Interregional Distribution Grid Company of the South PJSC

#### Audit opinion

We conducted an audit of the accounting (financial) reporting of the Interregional Distribution Grid Company of the South PJSC (hereinafter referred to as the Company), consisting of the balance sheet as of December 31, 2018, the statement of financial performance for 2018 and its Appendices.

In our opinion, the attached accounting (financial) statements reflects reliably in all material aspects the Company's financial position as of December 31, 2018, as well as its financial results and cash flow for 2018 in accordance with the rules for compiling accounting records established in the Russian Federation. (financial) reporting.

#### Audit opinion basis

We conducted an audit in accordance with the International Standards on Auditing (ISA). Our responsibilities in accordance with these standards are described in the section "Auditor's responsibility for the audit of accounting (financial) statements" of our report. We are independent in relation to the Company in accordance with the Code of Ethics of Professional Accountants of the Council for International Ethics Standards for Accountants (IESBA Code) and ethical requirements applicable to the audit of the accounting (financial) statements in the Russian Federation, and we have fulfilled other ethical obligations in accordance with these requirements and the IESBA Code. We consider the audit evidence obtained by us sufficient and appropriate to serve as a basis for the expression of our opinion.

#### Key audit issues

Key audit issues are the issues that, according to our professional judgement, were the most significant for the audit of accounting (financial) statements for the current period. These issues were considered in the context of the audit of accounting (financial) statements as a whole and in our opinion on this statements, and we do not express dissenting opinions on these issues. For each of the questions below, the description of how the relevant issue was considered during our audit is provided in this context.

We have fulfilled the responsibilities described in the section "Auditor's responsibility for the audit of accounting (financial) statements" of our report, including with respect to these issues. Consequently, our audit included the implementation of the procedures developed in response to our assessment of risks of material misstatement of the accounting (financial) statements. The results of our audit procedures, including the procedures performed during the consideration of the issues listed below, serve as a basis for expressing our audit opinion on the attached accounting (financial) statements.

Key audit issue	How the relevant key issue was considered during the audit.
<p><b>Recognition and evaluation of the revenue from electricity transmission services</b></p> <p>Recognition and evaluation of the revenue from electricity transmission services was one of the most significant issues of our audit in connection with certain specific features of electricity market functioning mechanisms, which stipulates controversy between power grid, power sales and other companies regarding the volume and cost of electricity transmitted. The amount of revenue disputed by the counterparties is significant for the Company's accounting (financial) statements. The Company's management's assessment of the risk of resolving differences in its favour is largely subjective. The revenue is recognized when, based on assumptions, differences are resolved in favour of the Company. Information on the revenue from electricity transmission services is disclosed in clause 16 of the Explanatory Notes to the balance sheet and statements of financial performance.</p>	<p>We reviewed the applied accounting policy with respect to recognition of the revenue from electricity transmission services, assessed the internal control system for reflection of this revenue, checked the correctness of determining the respective amounts of the revenue based on electricity transmission contracts concluded, and on a selective basis received confirmations of receivables balances from counterparties, reviewed the results of legal proceedings regarding the disputed amounts of services rendered, if any, and assessment of the Procedure for confirming the amount of electricity transmitted.</p>
<p><b>Impairment of receivables</b></p> <p>The issue of impairment of receivables is one of the most significant for the audit due to considerable balances of receivables on the Company's balance sheet as of December 31, 2018, and also because the management's assessment of the possibility of recovering this debt is based on assumptions, in particular, on the projections of purchasing power of the Company. Information on impairment of receivables is disclosed in clause 10 of the Explanatory Notes to the balance sheet and the statements of financial performance.</p>	<p>We analysed the relevance of the Company's accounting policy for consideration of receivables for creation of reserve for impairment, as well as procedures to confirm the appropriateness of estimates made by the Company's management, including analysis of payments of receivables, analysis of maturities and overdue fulfilment of obligations, analysis of buyers' solvency. We conducted audit procedures with respect to information used by the Company to determine the impairment of receivables, structure of receivables by maturity and repayment, tested the correctness of the accrued reserve based on documented management estimates.</p>
<p><b>Recognition, evaluation and disclosure of reserves and contingent liabilities</b></p> <p>Recognition, evaluation and disclosure of reserves and contingent liabilities in relation to litigation and claims of counterparties (including territorial power grid and power sales companies) were among the most significant issues of the audit, since they require considerable management judgement on significant amounts of balance calculations with counterparties contested in the framework of judicial proceedings or being in the process of pre-trial settlement. Information on reserves and contingent liabilities is disclosed in clause 13 of the Explanatory Notes to the balance sheet and the statements of financial performance.</p>	<p>Audit procedures included analysis of decisions made by courts of various instances, and testing the relevance of management's judgements regarding the assessment of risk of an outflow of economic resources due to resolution of disputes, and examining the compliance of prepared documentation with the provisions of existing contracts and legislation.</p>
<p><b>Other information</b></p>	
<p>The audit of accounting (financial) statements of the IDGC of the South PJSC for 2017 was conducted by another auditor, who expressed unqualified audit opinion on these statements on February 22, 2018</p>	
<p>The audit of accounting (financial) statements of the IDGC of the South PJSC for 2016 was conducted by another auditor, who expressed unqualified audit opinion on these statements on February 22, 2017</p>	
<p><b>Other information included in the annual report of the IDGC of the South PJSC</b></p>	
<p>Other information includes information contained in the annual report of the IDGC of the South PJSC, but does not include the accounting (financial) statements and our audit report on it. Responsibility for other information rests with the management. The annual report of the IDGC of the South PJSC is expected to be provided after the date of this audit report.</p>	
<p>Our opinion on the accounting (financial) statements does not apply to other information, and we will not provide a conclusion expressing confidence in any form in response to this information.</p>	
<p>In connection with the audit of accounting (financial) statements, our duty is to acquaint ourselves with the information above, when it will be provided to us, and to consider the question whether there are significant discrepancies between the other information and accounting (financial) statements or our knowledge obtained during the audit, and whether the other information contains other material misstatements.</p>	

### Responsibility of the management and audit committee of the board of directors for accounting (financial) statements

Responsibility for the preparation and fair presentation of the specified accounting (financial) statements in accordance with the accounting (financial) statements rules established in the Russian Federation and for the internal control system that management considers necessary for the preparation of accounting (financial) statements that do not contain material misstatements due to unjust acts or errors rests with the management.

When preparing the accounting (financial) statements, the management is responsible for assessing the Company's ability to continue its activities continuously, for disclosing information relating to the continuity of activities, and for reporting on the basis of continuity assumption, unless the management intends to eliminate the Company, stop its activities or when it has no real alternative to such actions.

The Audit Committee of the Board of Directors is responsible for supervision over the process of preparing the Company's accounting (financial) statements.

### Auditor's responsibility for the audit of accounting (financial) statements

Our purposes are to obtain reasonable assurance that the accounting (financial) statements as a whole does not contain significant discrepancies due to unjust acts or errors, and to issue an audit report containing our opinion. Reasonable certainty is a high degree of certainty, but does not guarantee that an audit conducted in accordance with International Standards on Auditing will always reveal a material misstatement, if any. Misstatement can be a result of unjust acts or errors and is considered significant if it can reasonably be assumed that individually or collectively it could affect economic decisions of users made on the basis of this accounting (financial) statements.

In the framework of the audit conducted in accordance with the International Standards on Auditing, we apply professional judgement and maintain professional skepticism throughout the audit. In addition, we perform the following:

- > identify and assess risks of material misstatement of the accounting (financial) statements due to unjust acts or errors; develop and conduct audit procedures in response to these risks; obtain audit evidence that is sufficient and appropriate to serve as a basis for expressing our opinion. The risk of not detecting material misstatement as a result of unjust acts is higher than the risk of not detecting material misstatement as a result of errors, as unjust acts can include collusion, forgery, intentional omission, misleading information or actions to bypass the internal control system;
- > receive an understanding of internal control system that is relevant for an audit in order to develop audit procedures appropriate to the circumstances, but not to express opinion on effectiveness of the Company's internal control system;
- > assess the appropriateness of accounting policies used and the reasonableness of the determined by the management accounting estimates and disclosures of the relevant information;
- > make a conclusion about the legitimacy of the management's application of the continuity of business, and, on the basis of the audit evidence obtained, the conclusion about whether there is significant uncertainty in connection with the events or conditions that may cause considerable doubts about the Company's ability to stay continuing in operation. If we conclude that there is a significant uncertainty, we have to draw attention in the audit report to appropriate disclosures in the accounting (financial) statements or, if such disclosures are inappropriate, modify our opinion. Our conclusions are based on the audit evidence obtained prior to the date of our audit report. However, future events or conditions may cause the Company to lose its ability to continue its continuous operation;
- > assess the presentation of accounting (financial) statements as a whole, its structure and content, including the disclosure of information, and whether the accounting (financial) statements represent the underlying operations and events so that the reliable presentation is ensured.

We are engaged in informational interaction with the audit committee of the board of directors, bringing to its attention, among other things, information on the planned scope and timing of the audit, as well as significant remarks on the audit results, including considerable deficiencies in the internal control system, if we identify in the audit process.

We also provide the audit committee of the board of directors with a statement that we have complied with all the relevant ethical requirements regarding independence and informed it about all the relationships and other issues that can reasonably be considered to influence the independence of the auditor, and, if necessary, on the appropriate precautions.

Of the issues which we brought to attention of the audit committee of the board of directors, we identify the issues that were the most significant for the audit of accounting (financial) statements for the current period and, therefore, are the key audit issues. We describe these issues in the audit report, except when public disclosure of information is prohibited by the law or regulation, or when in extremely rare cases we conclude that information on any matter should not be communicated in our report, since it can be reasonably assumed that the negative consequences of communicating such information will exceed the socially significant benefits of its communication.

The Head responsible for the audit, according to the results of which the present audit report of an independent auditor was issued, - A.B. Kalmykova.

**A.B. Kalmykova**

*PartnerErnst & Young LLC*

February 20, 2019

**Information about the audited entity**

Name: Public Joint-Stock Company Interregional Distribution Grid Company of the South

The entry was made in the Unified State Register of Legal Entities on June 28, 2007 and is assigned state registration number 1076164009096.

Location: 344002, Russia, Rostov region, Rostov-on-Don, 49 Bolshaya Sadovaya St.

**Information about the auditor**

Name: Ernst & Young LLC

The entry was made in the Unified State Register of Legal Entities on December 5, 2002 and is assigned state registration number 1027739707203.

Location: 115035, Russia, Moscow, 77 Sadovnicheskaya nab., bld. 1.

Ernst & Young LLC is a member of the Incorporated Society of Accountants Russian Union of Auditors (Association) (ISA RUA). Ernst & Young LLC is included in the control copy of the register of auditors and audit organisations with the main registration number of record 11603050648.

## BALANCE SHEET AS OF DECEMBER 31, 2018

		CODES		
		NIAD	0710001	
		Date (day, month, year)	31.12.2018	
Company	IDGC of the South PJSC	RNNBO	80380011	
Tax identification number		TIN	6164266561	
Type of economic activity	electricity transmission	RNCE	35.12	
Institutional-legal form/ownership			12247	49
Public Joint-Stock Company / Private Property		OKOPF/RCFO		
Unit of measurement: RUB, in thousands		RCMU	384	
Location (address)	344002, Rostov region, Rostov-on-Don, 49 Bolshaya Sadovaya St.			
Indicator name	Indicator code	December 31, 2018	December 31, 2017	December 31, 2016
<b>ASSETS</b>				
<b>I. FIXED ASSETS</b>				
Intangible assets	1110	1 125	1 406	1 689
including incomplete acquisition of intangible assets	1111			
Research and development results	1120	44 975	30 051	17 040
including costs for unfinished research and development	1121	19 953	16 807	9 700
Intangible search assets	1130			
Tangible search assets	1140			
Fixed assets	1150	28 180 015	28 696 683	28 564 113
land and environmental facilities	1151	30 761	30 511	30 511
buildings, machinery, equipment, facilities	1152	25 580 765	26 158 356	25 030 267
other types of fixed assets	1153	200 638	158 021	196 043
construction in progress	1154	2 071 961	2 159 154	3 070 922
advances issued for capital construction and acquisition of fixed assets	1155	1 635	475	424
raw materials and materials intended for use in fixed assets creation	1156	294 255	190 166	235 946
Profitable investments in material values	1160	-	-	3
Financial investments	1170	127 470	134 564	147 910
investments in subsidiaries				
investments in associates	1172			
investments in other organisations	1173	3 296	4 158	6 830
loans granted to organisations for more than 12 months	1174			
financial investments	1175			
Deferred tax assets	1180	405 489	399 627	433 756
Other non-current assets	1190	66 969	79 501	103 546

5-9	11-25	26-67	68-87	88-159	160-196
Company's Overview	Strategic Report	Operating results	Financial Review	Corporate governance	Appendices
Section I, total	1100		28 826 043	29 341 832	29 268 054
<b>II. REVERSIBLE ASSETS</b>					
Inventories	1210		713 637	718 177	813 275
raw materials, materials and other similar values	1211		712 891	718 162	741 784
work in progress	1212				
finished products and goods for resale	1213		21	15	39
goods shipped	1214		725	-	71 452
other backlog and costs	1215				
Value added tax on values acquired	1220		5 446	7 990	2 983
Receivables	1230		14 267 653	13 691 892	13 826 570
Payments for which are expected more than 12 months after the reporting date	1231		1 995 606	10 980	4 644
buyers and customers	123101		1 987 866	3 106	2 694
notes receivable	123102				
prepayments	123103		1 165	1 798	1 912
other receivables	123104		6 575	6 076	38
Payments for which are expected within 12 months after the reporting date	1232		12 272 047	13 680 912	13 821 926
buyers and customers	123201		10 772 230	12 124 945	11 405 048
notes receivable	123202		-	-	-
receivables from dividend subsidiary and affiliated companies	123203		-	-	-
debt of participants (founders) on contributions to the share capital	123204		-	-	-
prepayments	123205		18 594	31 423	26 651
other receivables	123206		1 481 223	1 524 544	2 390 227
Financial investments (excluding cash equivalents)	1240		-	-	-
loans granted to organisations for a period of less than 12 months	1241		-	-	-
other short-term financial investments	1242		-	-	-
Cash and cash equivalents	1250		1 040 215	434 337	690 127
cashbox	1251		-	-	-
current accounts	1252		1 034 170	428 131	682 485
currency accounts	1253		-	-	-
other funds	1254		6 045	6 206	7 642
Other current assets	1260		269 306	266 491	271 034
Section II, total	1200		16 296 257	15 118 887	15 603 989
<b>BALANCE</b>	<b>1600</b>		<b>45 122 300</b>	<b>44 460 719</b>	<b>44 872 043</b>
<b>LIABILITIES</b>					
<b>III. CAPITAL AND RESERVES</b>					
Share capital (share capital, authorized fund, contributions of partners)	1310		6 903 906	6 117 814	4 981 110

Capital (before registration of changes)	1311	-	786 092	143 909
Own shares purchased from shareholders	1320	-	-	-
Revaluation of noncurrent assets	1340	14 600 286	14 630 345	14 652 936
Additional capital (without revaluation)	1350	-	-	-
Reserve capital	1360	183 146	157 574	157 574
Retained earnings (uncovered loss) of reporting period	1370	(14 727 566)	(15 476 505)	(16 010 534)
previous years	1371	(15 849 277)	(15 476 505)	(16 010 534)
of reporting period	1372	1 121 711	-	-
Section III, total	1300	6 959 772	6 215 320	3 924 995
<b>IV. LONG TERM DUTIES</b>				
Borrowed funds	1410	23 932 022	21 588 750	17 232 022
bank loans to be repaid more than 12 months after the reporting date	1411	18 932 022	16 588 750	12 232 022
loans to be repaid more than 12 months after the reporting date	1412	5 000 000	5 000 000	5 000 000
Deferred tax liabilities	1420	1 000 247	944 306	830 913
Estimated liabilities	1430	-	-	-
Other liabilities	1450	3 368 207	3 794 797	118 948
Section IV, total	1400	28 300 476	26 327 853	18 181 883
<b>V. SHORT-TERM LIABILITIES</b>				
Borrowed funds	1510	1 625 511	2 798 563	7 223 561
bank loans to be repaid within 12 months after the reporting date	1511	1 515 411	2 798 563	7 188 421
loans to be repaid within 12 months after the reporting date	1512	110 100	-	35 140
Accounts payable	1520	6 403 365	6 813 989	13 572 980
suppliers and contractors	1521	4 005 603	4 399 916	10 411 233
notes payable	1522	-	-	-
debt to staff of the company	1523	335 786	278 098	293 457
debt to state extrabudgetary funds	1524	210 293	162 994	168 318
arrears on taxes and duties	1525	688 135	785 789	377 952
advances received	1526	861 147	889 569	1 002 756
debt to participants (founders) for the income payment	1527	5 200	1 762	1 812
other creditors	1528	297 201	295 861	1 317 452
Revenue of the future periods	1530	28 023	32 323	35 632
Estimated liabilities	1540	1 804 239	2 271 758	1 931 821
Other liabilities	1550	914	913	1 171
<b>Section IV, total</b>	<b>1500</b>	<b>9 862 052</b>	<b>11 917 546</b>	<b>22 765 165</b>
<b>BALANCE</b>	<b>1700</b>	<b>45 122 300</b>	<b>44 460 719</b>	<b>44 872 043</b>

**A.A. Rybin**

Acting General Director of the Power of Attorney Dd. 07.02.2019 No.167-19

**G.G. Savin**

Chief Accountant February 20, 2019

## REPORT ON FINANCIAL RESULTS FOR THE 12 MONTHS OF 2018

			CODES	
			NIAD	0710001
			Date (day, month, year)	31.12.2018
Company	<b>IDGC of the South PJSC</b>		RNNBO	80380011
Tax identification number			TIN	6164266561
Type of economic activity	<b>electricity transmission</b>		RNCE	35.12
<b>Institutional-legal form/ownership</b>				12247 49
<b>Public Joint-Stock Company / Private Property</b>			OKOPF/RCFO	
<b>Unit of measurement: RUB, in thousands</b>			RCMU	384
Indicator name	Indicator code		January - December 2018	January - December 2017
Revenue including:	2110		36 394 026	35 144 452
electricity transmission revenue	2111		34 928 358	33 439 198
technological connection revenue	2112		380 107	415 318
revenue from the organization of functioning and development of UES of Russia in terms of the grid complex distribution	2113		-	-
electricity and power resale revenue	2114		847 327	859 637
income from participation in other organisations	2115		-	-
rental income	2116		36 939	37 268
income from the sale of other products, goods, works, services of industrial nature	2117		168 333	391 092
income from the sale of other products, goods, works, services of non-industrial nature	2118		32 962	1 939
Cost of sales including	2120		(30 683 371)	(28 630 009)
power transmission cost	2121		(29 589 701)	(27 549 510)
technological connection cost	2122		(144 079)	(133 599)
cost of the organization of functioning and development of UES of Russia in terms of the grid complex distribution	2123		-	-
electricity and power resale cost	2124		(734 564)	(795 179)
cost from participation in other organisations	2125		-	-
rental services cost	2126		(14 171)	(21 569)
cost from the sale of other products, goods, works, services of industrial nature	2127		(161 142)	(119 901)
cost from the sale of other products, goods, works, services of non-industrial nature	2128		(39 714)	(10 251)
Gross profit (loss)	2100		5 710 655	6 514 443
Selling and marketing expenses	2210		(22 475)	(26 234)
Operational costs	2220		(729 689)	(738 130)
Profit (loss) from sales	2200		4 958 491	5 750 079
Income from participation in other organisations	2310		1 014	148
Interest receivable	2320		47 438	61 346
Interest payable	2330		(2 507 908)	(3 070 331)



Other income	2340	3 652 331	3 864 141
Other expenses	2350	(4 662 545)	(5 970 119)
Profit (loss) before tax	2300	1 488 821	635 264
Current income tax	2410	(408 083)	(343 628)
including fixed tax liabilities (assets)	2421	158 095	381 415
Change in deferred tax liabilities	2430	(56 919)	(143 366)
Change in deferred tax assets	2450	9 143	(21 474)
Other	2460	88 749	384 642
Net income (loss)	2400	1 121 711	511 438
<b>FOR REFERENCE</b>			
Result from revaluation of non-current assets, not included in net profit (loss) of the period	2510	-	-
Result from other operations not included in net profit (loss) of the period	2520	-	-
Cumulative financial result of the period	2500	1 121 711	511 438
Base profit (loss) per share	2900	0,01625	0,00836
Diluted profit (loss) per share	2910	0,01625	0,00836

**A.A. Rybin**

*Acting General Director of the Power of Attorney Dd. 07.02.2019 No.167-19*

**G.G. Savin**

*Chief Accountant February 20, 2019*