

## 2 Consolidated statements in accordance with IFRS with the Audit opinion on the reliability of the consolidated financial statements for 2018



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

### AUDIT OPINION

We conducted an audit of the consolidated financial statements of the Interregional Distribution Grid Company of the South PJSC and its subsidiaries the Group, consisting of the consolidated statements of financial position as of December 31, 2018, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for 2018, as well as notes to the consolidated financial statements, including a brief Overview of accounting policies.

In our opinion, the attached consolidated financial statements reflects in all material respects the consolidated financial position of the Group as of December 31, 2018, as well as its consolidated financial results and consolidated cash flow for 2018 in accordance with International Financial Reporting Standards (IFRS).

### 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 consolidated financial statements" of our report. We are independent in relation to the Group 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 consolidated 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 consolidated financial statements for the current period. These issues were considered in the context of the audit of consolidated financial statements as a whole and in our opinion on this reporting, 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 consolidated financial statements" of our report, including with respect to these issues. Consequently, our audit included the implementation of procedures developed in response to our assessment of risks of material misstatement of the consolidated 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 consolidated financial statements.

Key audit issue	How the relevant key issue was considered during the audit.
<b>Recognition and evaluation of the revenue from electricity transmission services</b>	
<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 Group's financial statements. The Group'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 Group.</p> <p>Revenues from electricity transmission services are disclosed in paragraph 7 of the Notes to the consolidated financial statements.</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>
<b>Reserve for the expected credit losses on trade receivables</b>	
<p>The issue of creating a reserve for the expected credit losses on trade receivables is one of the most significant for our audit due to considerable balances of trade receivables as of December 31, 2018, and also because of the management's assessment of the possibility of recovering these debts based on assumptions, in particular, on the projections of purchasing power of the Group's customers.</p> <p>Information on reserve for the expected credit losses on trade receivables is disclosed in paragraph 18 of the notes to the consolidated financial statements.</p>	<p>We analysed the relevance of the Group's trade receivables accounting policy for creation of a reserve for expected credit losses on trade receivables, as well as procedures to confirm the appropriateness of the estimates made by the Group's management, including the analysis of trade receivables payment, analysis of maturities and overdue fulfilment of obligations, analysis of buyers' solvency.</p> <p>We conducted audit procedures with respect to information used by the Group to determine the allowance for expected credit losses on trade receivables, structure of accounts receivable by maturity and repayment, tested correctness of the amounts of accrued reserves based on management's estimates.</p>
<b>Recognition, evaluation and disclosure of reserves and contingent liabilities</b>	
<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.</p> <p>Information about the reserves and contingent liabilities is disclosed in paragraphs 26 and 30 of the notes to the consolidated financial statements.</p>	<p>Audit procedures, among others, included an analysis of decisions made by the courts of various instances, and consideration of the relevance of the management's judgements regarding the assessment of risk of an outflow of economic resources due to resolving disputes, examining the compliance of prepared documentation with the provisions of existing contracts and legislation, checking disclosures in the notes to the consolidated financial statements on reserves and contingent liabilities.</p>
<b>Impairment of non-current assets</b>	
<p>In connection with the signs of impairment of non-current assets as of December 31, 2018, the Group conducted an impairment test. The value of fixed assets use that represent a significant share of the Group's non-current assets was determined as of 31 December 2018 with the projected cash flow method.</p> <p>The issue of impairment test concerning fixed assets was one of the most significant for our audit, since the balance of fixed assets is a considerable part of the total assets of the Group at the reporting date, and also because the process of management's assessment of value is complex, largely subjective and based on assumptions, in particular, on the forecast volumes of electricity transmission, tariffs for electricity transmission, as well as operational and capital costs, which depend on the future market or economic conditions in the Russian Federation.</p> <p>Information about the analysis of non-current assets for the impairment is disclosed by the Group in paragraph 13 of the notes to the consolidated financial statements.</p>	<p>In the framework of our audit procedures, we evaluated the assumptions and methods applied by the Group, in particular those related to the projected revenue from the electricity transmission, tariff decisions, operational and capital costs, long-term rates of increase in tariffs and discount rates. We tested incoming data embedded in the model and arithmetic accuracy of the model used to determine the recoverable amount in the impairment test for fixed assets. We engaged specialists to analyse the model used to determine the recoverable amount in the impairment test for fixed assets. We also analysed sensitivity of the model to changes in key indicators of the assessment and the information disclosed by the Group about the assumptions on which the test results for impairment are most dependent.</p>

## OTHER INFORMATION

The audit of consolidated financial statements of the IDGC of the South PJSC and its subsidiaries for 2017 was conducted by another auditor, who expressed unqualified audit opinion on these statements on March 15, 2018

## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

Other information includes information contained in the annual report, but does not include the consolidated financial statements and our audit report on it. Responsibility for other information rests with the management. The annual report will presumably be provided to us after the date of this audit report.

Our opinion on the consolidated 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.

In connection with the audit of the consolidated 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) reporting or our knowledge obtained during the audit, and whether the other information contains other material misstatements.

## RESPONSIBILITY OF THE MANAGEMENT AND AUDIT COMMITTEE OF THE BOARD OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Responsibility for the preparation and fair presentation of the specified consolidated financial statements in accordance with IFRS and for the internal control system that management considers necessary for the preparation of consolidated financial statements that do not contain material misstatements due to unjust acts or errors rests with the management.

When preparing the consolidated financial statements, the management is responsible for assessing the Groups'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 Group's consolidated financial statements.

## AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS

Our purposes are to obtain reasonable assurance that the consolidated 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 the result of unjust acts or errors and is considered significant if it can reasonably be assumed that individually or collectively it could affect the economic decisions of users made on the basis of this consolidated 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 consolidated 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 the internal control system that is relevant for an audit in order to develop audit procedures appropriate to the circumstances, but not to express an opinion on effectiveness of the Group'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 significant doubts about the Group'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 consolidated 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 Group to lose its ability to continue its continuous operation;

assess the presentation of the consolidated financial statements as a whole, its structure and content, including the disclosure of information, and whether the consolidated financial statements represents the underlying operations and events so that the reliable presentation is ensured.

obtain sufficient appropriate audit evidence regarding the financial information of organisations and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the general management, control and audit of the Group. We are solely responsible for our audit opinion.

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 the attention of the audit committee of the board of directors, we identify the issues that were the most significant for the audit of consolidated 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**

*Partner Ernst & Young LLC March 18, 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 DATE MONTH YEAR and is assigned state registration number [specify the number].

Location: Index, Russia, city, street, etc.

**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.

## CONSOLIDATED FINANCIAL STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED ON DECEMBER 31, 2018 (IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS OTHERWISE INDICATED)

	For the year ended on December 31	
	2018	2017
Revenue	36 544 975	35 303 117
Operating income	(34 503 654)	(32 688 419)
Net other income	1 764 630	1 428 144
<b>Operating results</b>	<b>3 805 951</b>	<b>4 042 842</b>
Financial income	111 116	85 263
Financial expenses	(2 523 593)	(3 270 864)
<b>Financial expenses, total</b>	<b>(2 412 477)</b>	<b>(3 185 601)</b>
<b>Profit prior tax</b>	<b>1 393 474</b>	<b>857 241</b>
Income tax expense	(673 077)	(102 724)
<b>Profit for the period</b>	<b>720 397</b>	<b>754 517</b>
<b>Other comprehensive income/(expense)</b>		
Net change in fair value of financial assets available for sale	-	(753)
Income tax	-	150
<b>Total items that can be subsequently reclassified to profit or loss</b>	<b>-</b>	<b>(603)</b>
Changes in fair value of equity investments at fair value through other comprehensive income	(862)	-
Income tax	172	-
Revaluation of defined benefit plan obligation	5 542	(4 773)
<b>Total items that can not be subsequently reclassified to profit or loss</b>	<b>4 852</b>	<b>(4 773)</b>
<b>Other comprehensive income/(expense) for the period, net of income tax</b>	<b>4 852</b>	<b>(5 376)</b>
<b>Total comprehensive income for the period</b>	<b>725 249</b>	<b>749 141</b>
<b>Profit due:</b>		
<b>The Company Owners</b>	<b>720 397</b>	<b>754 517</b>
<b>Total comprehensive income due:</b>		
<b>The Company Owners</b>	<b>725 249</b>	<b>749 141</b>
<b>Earnings per share</b>		
<b>Basic and diluted earnings per ordinary share (RUB)</b>	<b>0,010</b>	<b>0,012</b>

These consolidated financial statements was approved by the management on March 18, 2019 and signed on behalf of the management by the following persons:

**B.B. Ebzeev**

*General director*

**G.G. Savin**

*Chief Accountant*

## CONSOLIDATED FINANCIAL STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2018 *(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS OTHERWISE INDICATED)*

	December 31, 2018	December 31, 2017
<b>Assets</b>		
<b>Fixed assets</b>		
Fixed assets	21 193 599	21 203 755
Intangible assets	149 897	142 125
Trade and other receivables	1 660 823	8 280
Financial investments	3 296	4 158
Deferred tax assets	232 238	602 871
<b>Non-current assets, total</b>	<b>23 239 853</b>	<b>21 961 189</b>
<b>Reversible assets</b>		
Inventories	748 036	750 976
Advanced income tax payment	434 146	460 954
Trade and other receivables	11 694 686	13 424 346
Cash and cash equivalents	1 132 261	874 632
<b>Current assets, total</b>	<b>14 009 129</b>	<b>15 510 908</b>
<b>Assets, total</b>	<b>37 248 982</b>	<b>37 472 097</b>
<b>Capital and liabilities</b>		
<b>Capital</b>		
Authorized capital	6 903 906	6 117 814
Reserve for share issue	-	786 092
Other reserves	(209 728)	(212 819)
Retained loss	(6 923 439)	(7 268 338)
<b>Total capital due to the owners of the Company</b>	<b>(229 261)</b>	<b>(577 251)</b>
<b>Long term duties</b>		
Loans	23 932 022	21 588 750
Trade and other payables	3 413 213	3 900 595
Employee benefit liabilities	97 696	117 306
<b>Long-term liabilities, total</b>	<b>27 442 931</b>	<b>25 606 651</b>
<b>Short-term liabilities</b>		
Loans	1 625 511	2 798 563
Trade and other payables	7 538 338	8 235 685
Reserves	871 463	1 407 937
Current income tax debt	-	512
<b>Current liabilities, total</b>	<b>10 035 312</b>	<b>12 442 697</b>
<b>Liabilities, total</b>	<b>37 478 243</b>	<b>38 049 348</b>
<b>Capital and liabilities, total</b>	<b>37 248 982</b>	<b>37 472 097</b>