

Auditing Commission of IDGC of North-West, PJSC

Approved
by the Auditing Commission of
Interregional Distribution Grid Company of North-West, PJSC
(Minutes No. 3 dated April “15”)

AUDITING COMMISSION REPORT

of Public Joint Stock Company “Interregional
Distribution Grid Company of North-West”

April 15, 2020.
Generation date

Moscow
Generation place

I. INTRODUCTION

DETAILS OF AUDITING COMMISSION COMPOSITION

The Auditing Commission composition was elected by decision of the General Meeting of Shareholders	Decision of the annual General Meeting of Shareholders of IDGC of North-West, PJSC dated 14.06.2019 (Minutes dated 14.06.2019 No. 14)
Chairman and Secretary of the Auditing Commission elected by decision of the Auditing Commission.	Minutes No. 1 of the Auditing Commission of IDGC of North-West, PJSC dated 21.06.2019.
Chairman of the Auditing Commission	M.A. Lelekova
Secretary of the Auditing Commission	S.A. Kim
Members of the Auditing Commission	Ye.A. Kabizskina, Ye.A. Barmina, A.N. Kirillov

Audit examination timeframe: the audit examination of financial and economic activities of IDGC of North-West, PJSC for 2019 was performed from 23.03.2020 till 15.04.2020 in accordance with the decision of the Auditing Commission of IDGC of North-West, PJSC dated 20.03.2020 (Minutes No. 2).

Audit examination grounds: Federal Law No. 208-FZ dated December 26, 1995 “On Joint-Stock Companies”, Articles of Association of IDGC of North-West, PJSC, Regulations on the Auditing Commission of IDGC of North-West, PJSC (hereinafter referred to as the Company), decision of the Auditing Commission of the Company (Minutes of the meeting No. 2 dated 06.03.2019).

Object of audit examination: expression of an independent opinion on the consistency of the data contained in the Annual Report for 2019, the Accounting (Financial) Statements of the Company for 2019 and the Report on Interested-Party Transactions concluded in 2019 (hereinafter referred to as the Statements). “Consistency”, in all material respects, is understood as a degree of the Statements data consistency enabling shareholders to draw correct conclusions on the result of economic activities and financial and property standing of the Company and to take well-substantiated decisions based on such conclusions. In accordance with the Civil Code of the Russian Federation, the Federal Law on Joint-Stock Companies No. 208-FZ dated 26.12.1995 and the Articles of Association of IDGC of North-West, PJSC, the sole executive body of the Company is liable for the preparation and consistency of the Statements submitted.

Period audited: from 01.01.2019 to 31.12.2019.

Audit examination object: Annual Report and Accounting (Financial) Statements for 2019, Report on Interested-Party Transactions concluded in 2019, decisions of management bodies, management statements of the Company, accounting ledgers, source accounting documents and other documentation on the Company’s financial and economic activities.

The following references were used during conductance of the audit examination (review):

- Federal Law No. 402-FZ “On Accounting” dated 06.12.2011;

- Federal Law “On Joint-Stock Companies” No. 208-FZ dated 26.12.1995;
- Civil Code of the Russian Federation;
- Order No. 34n of the Ministry of Finance of the Russian Federation “On approval of the Regulations on Conductance of Accounting and Maintenance of Accounting Statements in the Russian Federation” dated 29.07.1998;
- Accounting regulations (standards);
- Order No. 66n of the Ministry of Finance of the Russian Federation “On organizations’ accounting statement forms” dated 02.07.2010;
- Regulations on disclosure of information by issuers of equity securities approved by the Bank of Russia on 30.12.2014, No. 454-P;
- Instruction of the Bank of Russia “On the Setting of Limit Values for the Amount of Transactions Concluded by Joint-Stock Companies and Limited Liability Companies, where Such Transactions Can Be Recognized as Interested-Party Transactions”, dated 31.03.2017 No. 4335-U;
- Accounting policy of IDGC of North-West, PJSC for 2019 for accounting purposes approved by the Order of the Company No. 858 dated 28.12.2018 taking into account amendments introduced by the order dated 18.07.2019 No. 432;
- other legislative instruments and in-house organizational and administrative documents of the Company.

COMPANY DETAILS

Full registered name	Public Joint Stock Company Interregional Distribution Grid Company of North-West
Location	Saint Petersburg, Russia
Postal address	3 Konstitutsii Sq., Lit. A, Room 16N, 196247 Saint Petersburg, Russia
State registration	Registered in the Uniform State Register of Legal Entities by Interregional Inspectorate No. 15 of the Ministry of Taxation of the Russian Federation for Saint Petersburg under No. 1047855175785 on December 23, 2004. Certificate Series 78 No. 005502120
TIN	7802312751
Branches and standalone subdivisions accounted for on a separate balance sheet	Arkhangelsk branch, Vologda branch, Karelia branch, Murmansk branch, branch in the Komi Republic, Novgorod branch, Pskov branch
Sole Executive Body	Artem Yuryevich Pidnik - General Director from 11.10.2018 till present day.
Chief Accountant	I.G. Zhdanova - Chief Accountant - Head of the Department for Financial and Fiscal Accounting and Reporting from 04.03.2016 to present day.

AUDITOR DETAILS

Full registered name of organization	Limited Liability Company Ernst & Young
Decision of the annual General Meeting of Shareholders on approval of the Auditor’s candidacy	Minutes No. 14 of the annual General Meeting of Shareholders of IDGC of North-West, PJSC dated 14.06.2019

Decision of the Board of Directors on determining the amount of payment for the services of an external auditor	Minutes of a Session of the Board of Directors of IDGC of North-West, PJSC dated 15.08.2019 No. 329/6.
Contract for provision of auditor services	No. 529/1068/19 dated 21.08.2019
Auditor's Report	The auditor's report of the independent auditor on the financial statements of the Public Joint-Stock Company "Interregional Distribution Grid Company of North-West" for 2019 (signed on 20.02.2020).

We planned and carried out the audit examination so that to gain reasonable assuredness of the 2019 Statements containing no material misrepresentations.

The review (audit examination) was planned and carried out on a selective basis and included test-based study of proofs confirming the value of information and information disclosure in the Statements on interested-party transactions concluded in the reporting year, on the financial and economic activities of the Company, evaluation of accounting principles and methods, the accounting (financial) Statements preparation rules and determination of material assessed values. In the course of the review (audit examination) we determined the materiality level (level of maximum admissible error of the Statements indicators misrepresentation). We understand "materiality" as the capability of information disclosed in the Statements to effect decision-taking by users of such Statements. For us the admissible error level is a criterion to the extent of confirming consistency of the Company's Statements.

In the course of the review (audit examination), we also selectively carried out reconciliation of the data of the accounting ledgers, source accounting records, Accounting (Financial) Statements, the Annual Report, the Report on Interested-Party Transactions concluded in the reporting year. We checked the procedure for arranging and performing the Company's activities aimed at ensuring the safety of assets, as well as the results of the inventory of property and liabilities of the Company. Based on the Accounting (Financial) Statements of the Company, we conducted an analysis of the Company's financial standing and position.

While carrying out the review (audit examination), we considered whether the Company complied with the Russian Federation legislation and local regulatory instruments of the Company, the compliance of the Statements with the content of transactions and events so that their reliable representation was ensured. We reviewed a number of financial and economic operations effected by the Company for conformity with the legislation solely to obtain reasonable and sufficient assuredness of the Statements containing no material misrepresentations.

We also selectively checked the completeness of information disclosure as follows:

- in the Annual Report of the Company for compliance with the requirements of the Regulations on Disclosure of Information by the Issuers of Securities approved by the Bank of Russia on 30.12.2014, No. 454-P;
- in the Accounting (Financial) Statements for compliance with Federal Law on Accounting No. 402-FZ dated 06.12.2011 and accounting standards;
- in the Report on Interested-Party Transactions concluded in the reporting year for compliance with the requirements of the Federal Law on Joint-Stock Companies, Instruction of the Bank of Russia “On the Setting of Limit Values for the Amount of Transactions Concluded by Joint-Stock Companies and Limited Liability Companies, where Such Transactions Can Be Recognized as Interested-Party Transactions”, dated 31.03.2017 No. 4335-U.

When this conclusion was issued, the Annual Report submitted for approval by the annual General Meeting of Shareholders was not preliminarily approved by the Board of Directors of the Company, the Report on Interested-Party Transactions concluded in 2019 was not approved by the Board of Directors of the Company either.

The Auditing Commission, in assessing the reliability of the Reporting, relied, inter alia, on the opinion of the Auditor of the Company Ernst & Young LLC dated 20.02.2020 on the reliable reflection of the financial position, financial results and cash flows in the accounting (financial) statements for 2019, on conclusions of MEKOM LLC, prepared on the basis of the results of an independent technological and price audit of reports on the implementation of the Company's investment program for the 1-3 quarters of 2019, carried out on the basis of the agreement dated 18.12.2018 No. 682/834/18, in which there are no indications of signs of inaccuracy in reporting on the implementation of the investment program for the indicated periods.

II. FINAL PART

In the reporting year, the totality of methods used by the Company to carry out accounting and constituting the Accounting Policy for 2019 conformed to the legislation of the Russian Federation on accounting and the federal standards.

Inventory of the property and liabilities of the Company was carried out in accordance with the requirements of the legislation; the inventory results were reflected in the accounting (financial) statements of the Company.

Accounting (Financial) Statements for 2019 were prepared in accordance with the rules for the formation of accounting statements established in the Russian Federation in all material respects.

Book value of the Company's assets, as of 31.12.2019 was RUB 54,460.917 mln and decreased by 3%, as compared to 31.12.2018.

Non-current assets occupy 87% of the property structure, their value as of December 31, 2019 amounted to RUB 47,515.669 mln, which is slightly less than the size of non-current assets as of December 31, 2018 (less than 1%). It should be noted that in the sources of formation of non-current assets, borrowed capital occupies 46%, which significantly affects the initial value of non-current assets.

Current assets, as of December 31, 2019, account for 13% of all assets or RUB 6,945.248 mln, of which the largest share is receivables (73%). The volume of current assets decreased by 22%, as compared to their value as of 31.12.2018, which is mainly due to a 26% decrease in the provision for doubtful debts.

The total amount of receivables accounted for under the terms of the contracts for 2019 decreased by 11% and, as of December 31, 2019, amounted to RUB 13,865.6 mln, of which 75% of the debt is overdue receivables, 63% of which are recognized by the company as doubtful and a reserve for doubtful debts was created. The reduction in overdue receivables for the reporting year amounted to 9%, the share of the allowance for doubtful debts in the total amount of receivables recorded under the terms of the contract, compared with the same indicator as of December 31, 2018, increased from 56% to 63%.

As of 31.12.2019, the owner capital is 47% being RUB 25,689.609 mln in the amount of capital and liabilities. Equity for the reporting year decreased by RUB 14.343 mln (less than 1%).

The borrowed capital accounts for 53% in the amount of capital and liabilities. In the reporting year, the amount of borrowed capital decreased by 6% and amounted to RUB 28,771.308 mln, as of 31.12.2019. In the borrowed capital structure, the largest share falls to the borrowed funds (51%) and short-term accounts payable (32%), as of 31.12.2019. The structure of borrowed capital showed changes in terms of reducing the amount of loans and borrowings and the amount of short-term payables.

The Company's activities in the reporting year yielded net profit in an amount of RUB 553.876 mln (net profit in the previous reporting period was RUB 599.356 mln). The financial result was mainly affected by the decrease in total revenue, the negative balance of other income and expenses (RUB -1,432 mln), due to the creation in the reporting year of reserves for doubtful debts and losses of previous years identified in the reporting period.

The cost of net assets as of 31.12.2018 was RUB 25,717.925 mln hence exceeding the chartered capital of the Company as of the date above. Net assets, compared with the figure as of December 31, 2018, decreased by RUB 10.66 mln (0.04%).

The solvency ratio for current liabilities and the ratio of debt to EBITDA are within the recommended values. Indicators of current liquidity and provision with working capital are below the recommended values, which indicates a lack of working capital for repayment of short-term obligations at the end of the reporting year.

No facts of violating the legal acts of the Russian Federation in the course of implementation of financial and economic activities that could significantly affect the Statements of the Company were identified.

No facts of misrepresentation of the information contained in the report on interested-party transactions concluded in 2019 were revealed.

In 2019, the Company did not bring to the attention of the Board of Directors and the Auditing Commission of the Company the information provided for in paragraph 4 of Article 82 of the Federal Law dated 26.12.1995 No. 208-FZ "On Joint Stock Companies" regarding the information contained in the notifications received by the Company from persons interested in transactions by the Company, on the occurrence of circumstances by virtue of which they may be recognized as interested in transactions by the Company.

The Annual Report of the Company submitted for approval by the annual General Meeting of Shareholders contains information provided by the Regulations on Disclosure of Information by the Issuers of Securities approved by the Central Bank of the Russian Federation on 30.12.2014, No. 454-P.

Following the results of the evaluation of the consistency of the Company's Statements for 2019, the Auditing Commission expresses its opinion on the consistency of the data contained in the Annual Report for 2019, the Accounting (Financial) Statements of the Company for 2019 and the Report on Interested-Party Transactions concluded in 2019 in all material respects.

Composition of the Company's Statements to be confirmed by the Auditing Commission:

Item No.	Statement form title	Date of signature by management	Number of sheets in the document
1.	Balance Sheet as of December 31, 2019	20.02.2020	3

Item No.	Statement form title	Date of signature by management	Number of sheets in the document
2.	Profit and Loss Statement for the period from January 1 to December 31, 2019	20.02.2020	2
3.	Statement of Changes in Equity in 2019	20.02.2020	3
4.	Cash Flow Statement for 2019	20.02.2020	3
5.	Explanatory Notes to the accounting (financial) statements for 2019 with appendices	20.02.2020	66
6.	Annual report of IDGC of North-West, PJSC for 2019	undated	433
7.	Report on Interested-Party Transactions concluded in 2019 by IDGC of North-West, PJSC.	undated	7

This conclusion of the Auditing Commission shall be considered jointly with all the forms of Accounting (Financial) Statements to be validated and the Explanations on 2019 balance sheet and the profit and loss statement in textual and tabular form that form integrated parts of the Company's 2019 annual report, as well as the Report on Interested-Party Transactions concluded in 2019.

Chairman of the Auditing
Commission

/signature/

M.A. Lelekova

Members of the Auditing
Commission

/signature/

A.N. Kirillov,

/signature/

S.A. Kim,

/signature/

Ye.A. Kabizskina,

/signature/

Ye.A. Barmina