

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Federal Grid Company of Unified Energy System, Public Joint-Stock Company (PJSC FGC UES)

### *Opinion*

We audited the accounting statements of PJSC FGC UES (the "Company"), comprising the Balance Sheet as of December 31, 2017, the Profit and Loss Statement, the Statement of Changes in Equity, and the Cash Flow Statement for the year then ended, as well as notes to the Balance Sheet and the Profit and Loss Statement, including an overview of the key provisions of accounting policy.

In our opinion, the accounting statements appended hereto fairly represent, in all material respects, the financial standing of the Company as of December 31, 2017, its financial performance and its cash flows for the year then ended in accordance with the applicable accounting rules of the Russian Federation.

### *Basis for our audit opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Accounting Statements section hereof. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the accounting 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 the matters that, in our professional judgment, were of most significance in our audit of the accounting statements for the current period. These matters were addressed in the context of our audit of the accounting statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

### **Fixed asset revaluation**

In our opinion, this matter was one of the most significant in our audit due to a considerable share of fixed assets in the Company's total asset value, a high subjectivity level of the assumptions used in determining the current/replacement value, as well as the significance of judgments and estimates management makes when determining the

current/replacement value of fixed assets.

The Company's fixed assets primarily include special-purpose assets which are rarely sold in the open market, except as part of the existing business, thus preventing the use of market-based approaches in determining their current/replacement value. Accordingly, the current/replacement value of such assets is determined by the Company primarily using cost method net of all types of wear and tear.

We also analyzed significant controls in respect of calculations, the regard given by management to estimation uncertainty, and changes in approaches as compared to the previous period. We analyzed the actual results of application of this approach to obtain sufficient appropriate audit evidence proving that management when preparing calculations complied with the requirements of Russian Accounting Standards (RAS), that the approaches used in such calculations are suitable and applied consistently, and changes in calculations are reasonable based on the information available as at the statements date.

We engaged an expert to test the calculation model and the underlying assumptions in the manner set forth in ISAs.

We assessed the correctness and adequacy of information disclosure in the accounting statements in respect of the current/replacement value of fixed assets, including information about the uncertainty factors for which the calculations are adjusted.

Information about the procedure for determining the revalued cost of fixed assets of the Company is disclosed in Note 3.3 Fixed Assets to the accounting statements.

#### **Impairment of accounts receivable**

In our opinion, this matter was one of the most significant in our audit due to significant accounts receivable balances as of December 31, 2017. The management estimate of the possibility of recovering these receivables is sophisticated, to a great extent subjective and based on the assumptions, including, but not limited to, solvency forecast in respect of the Company's counterparties.

We performed the procedures for assessing the adequacy of the Company's policy for considering accounts receivable as to establishing the impairment reserve, as well as the procedure for confirming the suitability of the Company's management estimates, including special characteristics of specific customers, their solvency, debt repayment trends, payments, and post-balance sheet arrangements, as well as the analysis of expected future cash flows.

Information on the accrued accounts receivable impairment reserve is disclosed by the Company in Notes 3.9 and 3.15 to the accounting statements.

#### **Recognition of financial investment revaluation income and expense**

In our opinion, this matter was one of the most significant in the audit of the accounting statements since the accounting statements carry a significant amount of expenses in connection with the revaluation of financial investment, namely: as sum of RUB 7,496 m. The above-mentioned expense results from a considerable reduction in the quotations of the Company's financial investment in the ordinary shares in PJSC Russian Grids and the shares in PJSC Inter RAO.

We performed the procedures for assessing the recognition of expenses in connection with the revaluation of financial investment, the ordinary shares in PJSC Russian Grids, and the shares in PJSC Inter RAO in the accounting statements as to completeness and correctness, as well as the analysis of information disclosure in the accounting statements as to completeness.

Information about changes in share quotations is disclosed by the Company in Notes 3.7 and 3.15 to the accounting statements.

## ***Other information***

Management is fully liable for all other information. Other information includes all information contained in the 2017 Annual Report of PJSC FGC UES and the issuer's quarterly report of PJSC FGC UES for quarter one of 2018, yet excludes the accounting statements and our auditor's report on the same. The 2017 Annual Report of PJSC FGC UES and the issuer's quarterly report of PJSC FGC UES for quarter one of 2018 are expected to be submitted to us after the date of this auditor's report.

Our opinion on the accounting statements shall not cover any other information, and we do not draw any conclusion to ensure certainty in respect of such information in any form whatsoever.

If when reviewing the 2017 Annual Report of PJSC FGC UES and the issuer's quarterly report of PJSC FGC UES for quarter one of 2018 we conclude that the same contain any material misstatement, we are required to communicate this circumstance with those charged with corporate governance.

## ***Responsibility of management and the Audit Committee of the Board of Directors for accounting statements***

Management is responsible for the preparation and fair presentation of the above-mentioned accounting statements in accordance with the applicable accounting rules of the Russian Federation and the internal control systems which management considers to be necessary for the preparation of accounting statements which are free from material misstatement, whether due to fraud or error.

When preparing the accounting statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating 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 Company's accounting statements.

## ***Auditor's responsibility for the audit of the accounting statements***

Our objectives are to obtain reasonable assurance about whether the accounting statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes the auditor's 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 statements.

As part of an audit in accordance with ISAs, the auditor exercises professional judgment and maintains professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the accounting 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 statements, including the disclosures, and whether the accounting statements represent the underlying transactions and events in a manner that achieves fair presentation (i.e. gives a true and fair view).

We communicate with the Audit Committee of the Board of Directors 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 the audit.

We also provide the Audit Committee of the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Board of Directors, we determine those matters that were of most significance in the audit of the accounting 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 auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Chairman of the Management Board**

**N.A. Dantser**

Auditor qualification certificate No. 05-000015 issued pursuant to resolution No. 24 of the Self-Regulatory Organization of Auditors Non-Commercial Partnership "Russian Collegium of Auditors" (dated November 15, 2011) for an indefinite period of time.

PREN in the register of auditors and audit organizations – 21706004215.

#### **Head of the audit assignment resulting in the Independent Auditor's Report**

**N.N. Usanova**

Auditor qualification certificate No. 05-000030 is issued pursuant to the resolution (minutes No. 25) of the Self-Regulatory Organization of Auditors Non-Commercial Partnership "Russian Collegium of Auditors" (dated November 30, 2011) for an indefinite period of time.

PREN in the register of auditors and audit organizations – 21706004441.

#### **Audited entity:**

**Federal Grid Company of Unified Energy System, PUBLIC JOINT-STOCK COMPANY** (short name – PJSC FGC UES).

Place of business: 5a Akademika Chelomeya St., Moscow, Russia, 117630

Principal State Registration Number – 1024701893336.

**Auditor:**

**Limited Liability Company RSM RUS.**

Place of business: 4 Pudovkina St., Moscow, Russia, 119285

Telephone: (495) 363-28-48; fax: (495) 981-41-21;

Principal State Registration Number – 1027700257540.

Limited Liability Company RSM RUS is a member of the Self-Regulatory Organization of Auditors “Association Sodruzhestvo” (membership certificate No. 6938, Principal Number of Registration Entry (PREN) – 11306030308), place of business: 21 Michurinsky Avenue, Bldg. 4, Moscow, Russia, 119192