

Independent auditor's report  
on the financial statements of  
***Public Joint-Stock Company "Federal Grid Company  
of Unified Energy System"***  
for 2019

*February 2020*

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of Unified Energy System"**

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**Translation of the original Russian version**

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## **Independent auditor's report**

### **Translation of the original Russian version**

To the Shareholders and Board of Directors of  
Public Joint-Stock Company "Federal Grid Company of Unified Energy System"

#### ***Opinion***

We have audited the financial statements of Public Joint-Stock Company "Federal Grid Company of Unified Energy System", which comprise the balance sheet as at 31 December 2019, statement of income for 2019 and appendices thereto.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019 and its financial performance and its cash flows for 2019 in accordance with the rules on preparation of financial statements established in the Russian Federation.

#### ***Basis for 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 financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial 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 those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

## Translation of the original Russian version

Key Audit Matter	How the relevant key matter was considered during our audit
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### ***Recognition and measurement of investments in non-current assets***

The Company's balance sheet reflects capital investments in non-current assets, including design and survey work, acquisition and construction of fixed assets, as well as advances paid to construction companies and suppliers of fixed assets. The Company assesses the ability of uncompleted investments in fixed assets and advances made for the acquisition of fixed assets to provide economic benefits in the future, which affects their book value. This matter was one of the most significant for our audit due to the fact that the measurement methods, as well as the management's assumptions and judgments are of subjective nature and affect the total expected economic benefits, as well as due to the significant balance of uncompleted investments and advances made as at the reporting date.

Information on the investments in non-current assets is disclosed in paragraph 3.4 of the Appendices to balance sheet and statement of income.

We analyzed the assumptions used by the management in assessing the ability of assets to bring future economic benefits, as well as the sources of the formation of economic benefits. We also reviewed the management's plans for future use of assets and expected cash flows from the use of individual fixed assets. We analyzed the relevant disclosures in the financial statements.

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

The matter Impairment of accounts receivables was one of the most significant for our audit due to the significant balance of accounts receivables on the balance sheet of the Company as at 31 December 2019, as well as due to the fact that the management's assessment of recoverability of accounts receivable is based on assumptions, in particular, on the forecasted ability of the Company's customers to pay.

Information on impairment of accounts receivables is disclosed in paragraph 3.9 of the Appendices to balance sheet and the statement of income.

We analyzed the Company's accounting policy on accounts receivables in the context of establishing an impairment allowance, as well as reviewed the assessment procedures performed by the Company's management, including analysis of history of settlements, ageing and overdue receivables and customers' ability to pay.

We performed audit procedures with respect to the information used by the Company to determine the impairment of accounts receivables, as well as with respect to ageing structure of accounts receivables, we also tested the calculation of the amounts of accrued allowance based on the management's estimates.

### ***Other matters***

The financial statements of Public Joint-Stock Company "Federal Grid Company of Unified Energy System" for 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 20 February 2018.

### ***Other information included in Annual Report***

Other information consists of Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

## Translation of the original Russian version

### ***Responsibilities of management and Audit Committee of Board of Directors for the financial statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the rules on preparation of financial statements established in the Russian Federation, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related 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.

Audit Committee of Board of Directors are responsible for overseeing the Company's financial reporting process.

### ***Auditor's responsibilities for the audit of the financial statements***

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

## Translation of the original Russian version

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial 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 financial 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Audit Committee of 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 our audit.

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

## Translation of the original Russian version

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

The partner in charge of the audit resulting in this independent auditor's report is –  
T.L. Okolotina.

T.L. Okolotina  
Partner  
Ernst & Young LLC

20 February 2020

### ***Details of the audited entity***

Name: Public Joint-Stock Company "Federal Grid Company of Unified Energy System"  
Record made in the State Register of Legal Entities on 20 August 2002, State Registration Number 1024701893336.  
Address: 117630, Russia, Moscow, Akademika Chelomeya street, 5A.

### ***Details of the auditor***

Name: Ernst & Young LLC  
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.  
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.  
Ernst & Young LLC is a member of Self-regulatory organization of auditors Association "Sodruzhestvo". Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.