

Internal Audit Commission of Lenenergo PJSC

Approved
by the Internal Audit Commission
of Lenenergo PJSC
(minutes No. 11 dated 22.04.2016)

Lenenergo
Power Industry and Electrification Public Joint Stock Company

INTERNAL AUDIT COMMISSION REPORT

22.04.2016

Date of issue

Moscow

Place of issue

I. INTRODUCTION

MEMBERS OF THE INTERNAL AUDIT COMMISSION

Members of the Internal Audit Commission were elected by resolution of the General Meeting	Resolution of the Annual General Meeting of Shareholders of Lenenergo PJSC dated 22.06.2015 (Minutes No. 1/2015 dated 24.06.2015)
The Chairperson and the Secretary of the Internal Audit Commission were elected by resolution of the Internal Audit Commission	Minutes of the meeting of the Internal Audit Commission No. 1 dated 09.07.2015
Chairperson	Marina Alekseevna Lelekova
Secretary	Artem Nikolayevich Kirillov
Members	Vladislav Vilorgovich Kozelskiy Elena Aleksandrovna Kabizskina Oksana Alekseyevna Medvedeva

Audit period: In accordance with Federal Law titled *On Joint Stock Companies*, Articles of Association of Lenenergo PJSC and Regulations for the Internal Audit Commission of Lenenergo, Public Joint Stock Company of the Power Industry and Electrification, the Internal Audit Commission of Lenenergo PJSC (the "Company") verified the reliability of the data contained in the annual report and accounting (financial) statements for 2015 in the period from March 28, 2016 to April 21, 2016.

Regulatory basis: resolution of the Internal Audit Commission of the Company (minutes of the meeting No. 9 dated March 28, 2016).

Objective: To provide an independent verification of the reliability of data contained in the annual report and annual accounting (financial) statements of the Company for 2015 ("Statements"). Reliability in all material respects data contained in the Statements are accurate to the extent that would enable shareholders to draw correct conclusions about the Company's operating outcomes, and about financial standing and assets of the Company and to make informed decisions based on these conclusions.

Period covered: from January 01, 2015 to December 31, 2015.

Scope: annual accounting (financial) statements, annual report, ledgers, primary accounting documents and other financial and economic documentation of the Company.

Regulations used:

- Federal Law No. 402-FZ dated December 06, 2011 (*On Accounting*);
- Order of the Ministry of Finance of the Russian Federation No. 34n dated July 29, 1998 titled *On Approval of Regulations for Accounting and Reporting in the Russian Federation*;
- Accounting regulations (standards);

- Order of the Ministry of Finance of the Russian Federation No. 66n dated July 02, 2010 titled (*Corporate Accounting Statements Formats*);
- Regulations for Information Disclosure by the Issuers of Issue-Grade Securities approved by the Bank of Russia No. 454-P dated December 30, 2014;
- Other statutory and internal regulations and the Company's internal instructions and orders.

COMPANY PROFILE

Full name	Lenenergo, Power Industry and Electrification Public Joint Stock Company
Place of business (registered address)	196247, Saint Petersburg, Ploshchad Konstitutsii, 1
Postal address	196247, Saint Petersburg, Ploshchad Konstitutsii, 1
State registration (principal state registration number (OGRN), date)	1027809170300, January 22, 1993
Taxpayer Identification Number (INN)	7803002209
Branches and standalone subdivision with separate balance sheets	Cable Grid; Vyborg Power Grid; Saint Petersburg High Voltage Power Grid; Suburban Power Grid; Gatchina Power Grid; Kingisepp Power Grid; Novaya Ladoga Power Grid; Tikhvin Power Grid.
Sole executive body (full name, position, date of entry into office)	<ul style="list-style-type: none"> • Andrey Valentinovich Sorochinsky (Director General from July 31, 2010 to January 16, 2015); • Vasily Vladislavovich Nikonov (Acting Director General from January 17, 2015 to February 13, 2015, Director General from February 14, 2015 to June 29, 2015); • Andrey Andreyevich Sizov (Director General from June 30, 2015 to December 23, 2015); and • Roman Nikolayevich Berdnikov (Acting Director General from December 24, 2015 to date).
Chief Accountant (full name, position, date of entry into office)	Chief Accountant (Head of the Accounting and Tax Records and Reporting Department): Galina Vladimirovna Kuznetsova (from August 01, 2006 to date)

INDEPENDENT AUDITOR PROFILE

Full name of the entity	RSM RUS, Limited Liability Company
Resolution of the annual general meeting of shareholders on approval of the independent auditor	Minutes of the annual general meeting of Lenenergo PJSC No. 1/2015 dated June 24, 2015
Resolution of the Board of Directors on approval of the terms and conditions of an agreement with the independent auditor	Minutes of the meeting of the Board of Directors of Lenenergo PJSC No. 15 dated October 02, 2015
Agreement for audit services	Audit service agreement for the audit of statements of Lenenergo PJSC for 2015 No. 15a077/15-4525 dated 18.08.2015
Auditor's report (document number, date, description)	Auditor's report on the financial statements for 2015 No. RSM-1542 dated 14.03.2016.

We planned and performed our internal audit to obtain reasonable assurance that the Statements for 2015 are free from material misstatement.

The inspection (internal audit) was planned and performed on a random basis and included test-based study of evidence proving the materiality and disclosure in the Statements of information about the Company's financial and economic activities, assessment of accounting principles and methods, rules for preparation of accounting (financial) statements, determination of significant estimates. During the internal audit, we identified materiality level (total allowable level of error pertaining to distortion of reported figures). We understand materiality as the ability of information disclosed in the statements to affect the decisions of users based on these statements. For us, allowable level of error is a criterion related to confirmation of reliability of the Company's Statements.

During the internal audit, we checked the Company's compliance with the laws of the Russian Federation and local regulations of the Company. We verified the conformity of a number of financial and economic operations performed by the Company to the legislation solely to obtain reasonable and sufficient assurance that the Statements are free from material misstatement.

In addition, we performed random reconciliation of the figures contained in the Annual Report and accounting (financial) statements for 2015, audited the completeness of information disclosed in the Company's Annual Report as to compliance with the Bank of Russia's requirements concerning information disclosure by the issuers of issue-grade securities.

In the course of the internal audit, the Internal Audit Commission relied, inter alia, on auditor's report prepared by RSM RUS, the Company's independent auditor, No. RSM-1542 dated 14.03.2016

II. SUMMARY

At December 31, 2015, carrying amount of assets and liabilities of the Company was RUB 194,683.027 million, an increase of 18% against the carrying amount at December 31, 2014.

Non-current assets account for 81% of total assets, amounting to RUB 157,018.381 million at December 31, 2015, which is 7% more than the amount of non-current assets at December 31, 2014. A significant amount of capital construction advances (RUB 763.670 million) as a part of the Company's non-current assets shall be noted. The Company believes that such advances are unlikely to be utilized, therefore a provision for doubtful debts was created in respect of such advances in the amount of RUB 728.708 million at 31 December 2015.

At December 31, 2015, current assets account for 19% of total assets, amounting to RUB 37,664.646 million, which is twice the amount of the current assets at December 31, 2014. The said increase in current assets was due to the inflow of cash invested into the additional issue of shares at the end of the reporting year. Some portion of that cash was still kept at the Company account at December 31, 2015.

At December 31, 2015, accounts receivable (line 1230 of the balance sheet) decreased by 41% versus December 31, 2014 and amounted to RUB 7,399.020 million. Total recognized accounts receivable under contracts terms at December 31, 2015 decreased by 37% to RUB 8,798.885 million.

At December 31, 2015, recognized overdue receivables in accounts receivable under contract terms amounted to RUB 3,758.064 million (43%). Compared with the year's opening balance, the figure grew by 32 percentage points, which indicates a deterioration in the structure of receivables.

At December 31, 2015, provision for doubtful debts increased by 1% versus December 31, 2014 to RUB 1,399.865 million, which equals 16% of the recognized accounts receivable under contracts.

At December 31, 2015, equity and borrowed capital account for 58% and 42% of the Company's capital and liabilities, respectively.

Equity and reserves for the reporting year increased by 59% and at December 31, 2015 were RUB 113,336.124 million (including capital of RUB 47,817.779 million existing before the registration of changes). Borrowed capital decreased by 13% during the reporting year to RUB 81,346.903 million at December 31, 2015.

The key factor driving the change in the structure of capital and liabilities of the Company was an additional issue of the Company's shares for RUB 47,817.7 million in the reporting year and the repayment of loans totaling RUB 11,025 million out of proceeds from the additional issue of shares.

During the reporting year, loans and borrowings reduced by 23% and at December 31, 2015 amounted to RUB 38,456.305 million.

Total accounts payable reduced by 2% versus December 31, 2014 and at December 31, 2015 amounted to RUB 35,257.772 million, including short-term accounts payable in the amount of RUB 32,513.111 million (92% of total payables).

At the end of the reporting year, overdue payables accounted for 75% of the total accounts payable. The increase in overdue accounts payable mainly results from unpaid debt to contractors in respect of which claim handling procedures and court proceedings are in progress, and from overdue obligations under grid connection agreements for which the Company received advances.

A significant portion of the Company's liabilities is constituted by estimated liabilities (RUB 3,556.718 million at the end of the reporting year) that were mainly formed due to the litigation against the Company that it believes it is unlikely to win.

The Company's operating loss after the reporting year was RUB 5,916.496 million (2014: RUB 7,967.844 mn).

At December 31, 2015, net assets were RUR 113,336.124 million, with the share capital at RUB 1,752.1 million. A 59% increase in the value of net assets for the reporting year was due to proceeds from the additional issue of shares mentioned above.

Despite a slight improvement of liquidity and financial independence indicators in the reporting year, the financial position of the Company at December 31, 2015 remained difficult.

Indicators of the Company's financial standing and solvency:

Description	Recommended values	At December 31, 2014 (actual)	At December 31, 2015 (actual)
Ability to meet current liabilities	6 or less months	10	13.6
Current ratio	≥ 1	0.47	0.75
Equity to total assets	0.5-0.8	0.43	0.58
Debt/EBITDA	3-4	4.31	5.25

In the reporting year, accounting methods applied by the Company that constitute its Accounting Policy approved by Company Order No. 132 dated 27.03.2015 (as amended) complied with the laws of the Russian Federation on business accounting and federal standards.

The Statements are prepared in compliance with the legislative and regulatory acts of the Russian Federation (RAS) and the Company's by-laws in all material respects.

The Annual Report of the Company submitted for approval by the Annual General Meeting contains information provided for in the Regulations for Information Disclosure by the Issuers of Issue-Grade Securities No. 454-P approved by the Central Bank of the Russian Federation on December 30, 2014.

Statements of the Company verified by the Internal Audit Commission:

No.	Reporting form	Date of signing by the management	Number of pages
1.	Balance sheet at December 31, 2015	March 10, 2016	2
2.	Profit and loss statement for 12 months (2015)	March 10, 2016	1
3.	Statement of changes in equity for 2015	March 10, 2016	3
4.	Statement of cash flows for 12 months (2015)	March 10, 2016	2
5.	Notes to the balance sheet and profit and loss statement of Lenenergo PJSC for 2015 (tables/worksheets and description/notes)	March 10, 2016	90
6.	Annual report of Lenenergo PJSC for 2015	April 22, 2016	536

At the time of the audit, the Annual Report was neither approved under the General Meeting's decision nor was it reviewed by the Board of Directors of the Company on a preliminary basis.

After auditing the financial and economic operations of the Company for 2015, the Internal Audit Commission:

- confirms the reliability of the data contained in the annual report and the annual accounting (financial) statements of the Company for 2015 in all material respects;
- notes that the financial position of the Company at December 31, 2015 remained difficult.

This Report of the Audit Commission shall be read together with all verified accounting (financial) statements and notes to the balance sheet and profit and loss statement for 2015 (including the tables/worksheets and the description/notes) that constitute an integral part of the Company's annual report for 2015.

Chairperson	(Signed)	M. A. Lelekova
Members	(Signed)	E. A. Kabizskina
	(Signed)	A. N. Kirillov
	(Signed)	O. A. Medvedeva

Total of *seven* (7) pages bound and numbered.

(Signed) *Kabizskina*

(Signature) (Full name)