

Lenenergo PJSC
Internal Audit Commission

Approved
by the Lenenergo PJSC
Internal Audit Commission
(Minutes No. 3 dated 15 April 2020)

Lenenergo
Power Industry and Electrification Public Joint Stock Company

INTERNAL AUDIT COMMISSION
REPORT (STATEMENT)

April 15, 2020
Date of issue

Moscow
Place of issue

I. INTRODUCTION

INTERNAL AUDIT COMMISSION MEMBERS

Members of the Internal Audit Commission were elected under the resolution of the General Meeting of Shareholders	Resolution of the Annual General Meeting of Shareholders of Lenenergo PJSC dated 18.06.2019 (Minutes No. 1/2019 dated 21.06.2019)
The Chairperson and the Secretary of the Internal Audit Commission were elected by resolution of the Internal Audit Commission	Minutes of the meeting No. 1 dated 20.06.2019 of the Lenenergo PJSC's Internal Audit Commission
Chairperson	S. V. Kiryukhin
Secretary	M. A. Lelekova
Members	E. A. Kabizskina, A. N. Kirillov, D. N. Ponomarev

Audit period: In accordance with the decision of the Internal Audit Commission of Lenenergo PJSC (minutes No. 2 dated March 20, 2020), internal audit of financial and economic activities of Lenenergo PJSC for 2019 was carried out during the period from March 23, 2020 to April 15, 2020.

Regulatory basis: Federal Law No. 208-FZ dated December 26, 1995 (*On Joint Stock Companies*), Articles of Association of Lenenergo PJSC, Regulations for the Internal Audit Commission of Lenenergo PJSC (the "Company"), Company's Internal Audit Commission resolution (minutes No. 9 dated March 28, 2016).

Objective: To express an independent opinion on the reliability of data contained in the Annual Report for 2019, Accounting (Financial) Statements of the Company for 2019, and the Related-Party Transactions Report for 2019 ("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. The Company's Sole Executive Body is responsible for the preparation and reliability of the Statements in accordance with the Russian Civil Code, Federal Law No. 208-FZ dated December 26, 1995 titled *On Joint Stock Companies*, and the Company's Articles of Association.

Period covered: January 01, 2019 - December 31, 2019.

Scope: Annual Report and Annual Accounting (Financial) Statements for 2019, Related-Party Transactions Report for 2019, governing bodies' resolutions, management statements of the Company, ledgers, primary accounting documents and other financial and economic documents of the Company.

Regulations used:

- Federal Law No. 402-FZ dated December 06, 2011 (*On Accounting*);
- Federal Law No. 208-FZ dated December 26, 1995 (*On Joint Stock Companies*);
- Russian Civil Code;

- Order of the Ministry of Finance of Russia 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 Russia No. 66n dated July 02, 2010 titled *On the Forms of Corporate Accounting Statements*;
- Regulations for Information Disclosure by the Issuers of Issue-Grade Securities approved by the Bank of Russia No. 454-P dated 30.12.2014;
- Bank of Russia Instructions No. 4335-U dated March 31, 2017 titled *On Establishing the Limits for the Amount of Transactions of Joint Stock Companies and Limited Liability Companies, in Excess of Which Such Transactions Can Be Recognized as Related-Party Transactions*;
- Regulations for Accounting Policy approved by order of the Company No. 836 dated December 31, 2013 titled *On Approval of the Accounting Policy* (as amended by orders No. 132 dated March 27, 2015, No. 183 dated April 24, 2015, No. 310 dated July 08, 2015, No. 626 dated December 31, 2015, No. 303 dated June 30, 2016, No. 653 dated December 09, 2016, No. 699 dated December 28, 2016, No. 746 dated December 30, 2016, No. 500 dated September 25, 2017, No. 692 dated December 08, 2017, No. 53 dated February 06, 2018, No. 308 dated July 09, 2018, No. 665 dated December 29, 2018, No. 148 dated March 27, 2019, and No. 290 dated June 11, 2019);
- other statutory and internal regulations and internal regulatory 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)	Russian Federation, Saint Petersburg
Postal address	196247, Saint Petersburg, Ploshchad Konstitutsii, 1
State registration (principal state registration number (OGRN), date)	1027809170300, 22 January 1993
Taxpayer Identification Number (INN)	7803002209
Branches and standalone subdivision with separate balance sheets	Cable Grid; Construction Projects Directorate; 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; Energouchet.
Sole executive body	Andrey Valeryevich Ryumin (Director General from January 12, 2018 to date)
Chief Accountant	Chief Accountant (Head of the Accounting and Tax Records and Reporting Department): Galina Vladimirovna Kuznetsova (from August 01, 2006 to June 20, 2019); Natalya Vladimirovna Korepanova (acts as the Chief Accountant from June 21, 2019 to date)

INDEPENDENT AUDITOR PROFILE

Full name of the entity	Ernst & Young LLC
Resolution of the annual general meeting of shareholders on approval of the independent auditor	Minutes of the annual general meeting of Lenenergo PJSC No. 1/2019 dated June 21, 2019
Auditor's report	Independent auditor's report on accounting (financial) statements of Lenenergo PJSC for 2019 dated February 21, 2020

We planned and performed our internal audit in order to obtain reasonable assurance that the Statements for 2019 are free from material misstatement.

The internal audit was planned and carried out 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 related-party transactions, financial and economic activities, assessment of accounting principles and methods, rules for preparation of accounting (financial) statements, determination of significant estimates. In performing the internal audit, we identified materiality level (total allowable level of error pertaining to distortion of reported indicators). 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.

In the course of the internal audit, we randomly reconciled the data of ledgers, primary accounting documents, Accounting (Financial) Statements, Annual Report, and Related-Party Transactions Report for the Reporting Year. We checked the Company's procedure for the arrangement and implementation of asset protection and the results of stocktaking of the Company's assets and liabilities. Based on the Company's Accounting (Financial) Statements, we analyzed the financial position of the Company.

During the inspection (internal audit), we considered the Company's compliance with the laws of the Russian Federation and local regulations of the Company, and whether the Statements represent the underlying transactions and events in a manner that achieves a true and fair view. 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.

We also randomly checked the completeness of information disclosure:

- in the Company's Annual Report for compliance with the requirements set forth in the Regulations on Information Disclosure by the Issuers of Issue-Grade Securities, approved by the Bank of Russia on December 30, 2014 (No. 454-P);
- in the Accounting (Financial) Statements for compliance with Federal Law No. 402-FZ dated December 06, 2011 (*On Accounting*) and accounting standards;

– in the Related-Party Transactions Report for the Reporting Year for compliance with the requirements of Federal Law No. 208-FZ dated December 26, 1995 (*On Joint Stock Companies*), Bank of Russia Instructions No. 4335-U dated March 31, 2017 titled *On Establishing the Limits for the Amount of Transactions of Joint Stock Companies and Limited Liability Companies, in Excess of Which Such Transactions Can Be Recognized as Related-Party Transactions*.

While evaluating the reliability of the Statements, the Internal Audit Commission relied, among other things, on the independent auditor's report on accounting (financial) statements of PJSC Lenenergo for 2019 prepared by independent auditors Ernst & Young LLC on February 21, 2020 and on the reports regarding the Company's investment program for Q1-Q3 of 2019 prepared by the Financial University under the Government of the Russian Federation following the independent audit of processes and prices conducted under contract No. 19-9182 dated July 10, 2019. The said reports contain no information about any evidence of unreliability of the statements of investment program implementation for the specified periods.

II. SUMMARY

In the reporting year, accounting methods applied by the Company that constitute its Accounting Policy for 2019 complied with the laws of the Russian Federation on business accounting and federal standards.

Assets and liabilities of the Company were verified as required by law and verification results were incorporated in the accounting (financial) statements of the Company.

Accounting (financial) statements of the Company for 2015 were prepared in accordance with the financial reporting rules accepted in the Russian Federation, in all material respects.

At December 31, 2019, carrying amount of the Company's assets was RUB 226,796.457 million, an increase of 6% against the carrying amount at December 31, 2018.

Non-current assets accounted for 93% of total assets, amounting to RUB 211,611.077 million at December 31, 2019, which is 7% greater than the amount of non-current assets at December 31, 2018. The increase in non-current assets is mainly due to commissioning fixed assets and the 18% increase in the construction in progress for the reporting year.

Current assets account for 7% of total assets, amounting to RUB 15,185.380 million at December 31, 2019, with accounts receivable (28%) and cash and cash equivalents (48%) accounting for the largest portion of current assets. The amount of current assets decreased by 7% as compared with the amount of the same at December 31, 2018, mainly due to the decrease in accounts receivable by 34%, including through the increase in the provision for doubtful debts.

At December 31, 2019, the carrying amount of accounts receivable was RUB 4,258.980 million. Total accounts receivable recognized under contract terms decreased by 8% during 2019 and amounted to RUB 9,934.157 million at December 31, 2015. The overdue receivables accounted for 59% (RUB 5,859.538 million) of the total accounts receivable. 57% of receivables were recognized as doubtful and the Company created a provision for doubtful debts in the amount of RUB 5,675.177 million. Overdue accounts receivable recognized under contract terms grew by 33% during the reporting year, provision for doubtful debts increased by 30% as compared to the amount thereof at December 31, 2018.

In the structure of capital and liabilities at December 31, 2019, equity accounts for 67% and amounts to RUB 151,068.178 million. During the reporting year, equity increased by 8% due to net profit for the reporting period.

Equity accounts for 33% in the structure of capital and liabilities. Borrowed capital amounted to RUB 75,728.279 million at December 31, 2019 and increased by 1% during the reporting year. Borrowings (37%) and accounts payable (45%) account for the largest portion in the structure of borrowed capital at December 31, 2019. During the reporting year, borrowings reduced by 18%, and accounts payable increased by 13%. In the reporting year, increase in the borrowed capital was mainly due to 47% growth in accounts payable and estimated liabilities as a result of accrued provisions for tax risks and for legal proceedings pending at the reporting date and due to 14% growth in deferred tax liabilities.

After the reporting year, the Company had derived net profit in the amount of RUB 12,704.918 million (2018: RUB 10,386.223 mn).

Net assets at December 31, 2019 amount to RUB 151,068.178 million and exceed the share capital of the Company at December 31, 2019. The increase in the value of net assets at the end of the reporting year amounted to 8%.

The Company's financial self-sufficiency figures are within the recommended limits, except for solvency, current liquidity and availability of own working capital that evidence that the Company's own working capital is insufficient to pay off the short-term liabilities that were three times greater than the Company's current assets at the end of the reporting period.

No instances of misrepresentation/misreporting of the information contained in the Related-Party Transactions Report for 2019 were identified.

In 2019, the Company did not communicate information to the Board of Directors and the Internal Audit Commission as provided for in clause 4 of Article 82 of Federal Law No. 208-FZ dated December 26, 1995 (*On Joint Stock Companies*) with regard to the information contained in notices received by the Company from persons interested in

transactions made by the Company concerning occurrence of circumstances wherein such persons may be recognized as having an interest in the Company's transactions.

The Annual Report of the Company submitted for approval by the Annual General Meeting of Shareholders 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. At the date of this Report, the Annual Report has not been approved by the Board of Directors of the Company.

Following the verification of the Company's Statements for 2019, the Internal Audit Commission believes that the data contained in the Annual Report for 2019, Annual Accounting (Financial) Statements of the Company for 2019, and Related-Party Transactions Report for 2019, are reliable in all material respects.

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 31 December 2019	February 21, 2020	2
2.	Profit and loss statement for 12 months (2019)	February 21, 2020	1
3.	Statement of changes in equity for 2019	February 21, 2020	3
4.	Statement of cash flows for 12 months (2019)	February 21, 2020	3
5.	Notes to the balance sheet and profit and loss statement of Lenenergo PJSC for 2019 with attachments	February 21, 2020	68
6.	Annual report of Lenenergo, Public Joint Stock Company of the Power Industry and Electrification, for 2019	n/a	422
7.	Related-party transactions report for 2019	n/a	1

This Report of the Audit Commission shall be read together with all proven accounting (financial) statements and notes to the balance sheet and profit and loss statement for 2019 in the text and table form.

Chairman *(Signed)* S. P. Kiryukhin

Members *(Signed)* M. A. Lelekova

(Signed) E. A. Kabizskina

(Signed) A. N. Kirillov

(Signed)

D. N. Ponomarev