Independent Auditor's Report
on the Consolidated Financial Statements
of Public Joint Stock Company "Rosseti Kuban" and its subsidiaries
for 2021

March 2022

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on the Consolidated Financial Statements
of Public Joint Stock Company
"Rosseti Kuban" and its subsidiaries

Contents

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Independent Auditor's Report

To the Shareholders and the Board of Directors
of Public Joint Stock Company
“Rosseti Kuban”

Opinion

We have audited the consolidated financial statements of Public Joint Stock Company “Rosseti Kuban” and its subsidiaries (the "Group"), which comprise the consolidated statement of profit and loss and other comprehensive income for 2021, the consolidated statement of financial position as at December 31, 2021, the consolidated statement of changes in equity and the consolidated the statement of cash flows for 2021 as well as notes to the consolidated financial statements including a brief overview of the significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of the Group as at December 31, 2021 as well as its consolidated financial performance and consolidated cash flows for 2021 in accordance with the International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (including the International Independence Standards) (the IESBA Code) together with the ethical requirements that are relevant to our audit of consolidated financial statements in the Russian Federation, and we have fulfilled 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 Issues

The key audit issues are the issues that, according to our professional judgment, were the most significant for our audit of the consolidated financial statements for the report period. We review these issues in the context of our audit of the consolidated financial statements as a whole and when forming our opinion on such statements, and we do not express a separate opinion on these issues. With respect to each of the issues listed below, we provide our description of how we reviewed it within our audit in that context.

We have fulfilled our obligations described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report including with respect to these issues. Thus, our audit included the implementation of procedures designed in response to our assessment of the risk of material misstatements of the consolidated financial statements. The result of our audit procedures including those implemented during the review of the issues specified below serves as the basis for our auditor's opinion on the accompanying consolidated financial statements.

Key Audit Issue	Review of the Key Audit Issue Within Our Audit
Recognition and Assessment of Revenue from Power Transmission Services	
The recognition and assessment of revenue from power transmission services was one of the key issues of our audit due to the certain peculiarities of the electric power market operations which create grounds for disputes between the power grid, utility, and other entities with respect to the scope and price of the transmitted power. The revenue disputed by the contractors is significant for the Group's financial statements. The assessment by the Group's management of the probability of the disputes being resolved in favor of the Group is mostly subjective. The revenue is only recognized when, in view of the assumptions, the disputes are resolved in favor of the Group. Information on the revenue from the power transmission services is disclosed in paragraph 7 of the Notes to the Consolidated Financial Statements.	We have reviewed the accounting policy used with respect to the recognition of the revenue from the power transmission services, studied the internal control system for the reflection of this revenue, audited the procedure for calculating the relevant revenue amounts based on concluded the power transmission contracts, selectively verified the receivables balances from counterparties, analyzed the legal arguments in respect of disputed amounts for the services rendered, if any, and assessed the existing procedures for confirming the scope of the power transmitted.
Provision for Expected Credit Loss with Respect to Trade Receivable	
The issue of creating a provision for expected credit loss with respect to trade receivables was one of the key issues for our audit due to the significant balances of trade receivables as at December 31, 2021 as well as due to the fact that management's assessment of the probability of recovering this debt is based on assumptions, in particular, on the solvency forecast for the Group’s buyers. Information on the provision for expected credit loss with respect to trade receivables is disclosed in paragraph 20 of the Notes to the Consolidated Financial Statements.	We analyzed the Group’s accounting policy in relation to trade receivable for the creation of a provision for expected credit loss with respect to trade receivable, and also reviewed the assessment procedures made by the Group's management including analysis of payment of trade receivable, analysis of maturities and overdue obligations, analysis of the buyers’ solvency. We conducted the audit procedures with respect to the information used by the Group to determine the provision for expected credit loss with respect to trade receivables as well as with respect to the structure of receivable by the dates of occurrence and repayment, and tested the calculation of the accrued provision amounts.

Key Audit Issue	Review of the Key Audit Issue Within Our Audit
Recognition, Assessment and Reporting of Reserves, Provisions, Allowances, and Contingent Liabilities	
Recognition, assessment and reporting of reserves, provisions, allowances, and contingent liabilities with respect to the legal arguments and contractors' claims (including the territorial power grid and utility companies) were one of the key issues of our audit due to the fact that those require substantial management judgments with respect to the significant amounts of balances with counterparties that are being disputed in court or subject to pre-trial mediation. Information on the reserves, provisions, allowances, and contingent liabilities is disclosed in paragraph 34 of the Notes to the Consolidated Financial Statements.	The audit procedures, among others, included the analysis of rulings made by courts of various levels and a review of the management's judgments with respect to the assessment of the probability of the economic resources' outflow due to settlement of disputes, a study of compliance of the documentation prepared with the provisions of existing valid agreements and laws, an analysis of the provisions' reporting and contingent liabilities in the Notes to the Consolidated Financial Statements.
Impairment of Fixed Assets	
Due to the presence of signs of impairment of fixed assets as at December 31, 2021, the Group conducted an impairment test. The value of the property, plant and equipment use, representing a significant share of the Group's fixed assets, as at December 31, 2021 was determined using the cash flow projection method. The issue of testing the fixed assets for impairment was one of the key issues for our audit, since the balance of fixed assets constitutes a significant part of all assets of the Group at the reporting date as well as because the process of assessing the value of use by management is complex, mostly subjective and based on the assumptions, in particular, on the forecast of the power transmission volumes, power transmission tariffs as well as operating and capital expenses which depend on the expected future market and economic conditions in the Russian Federation. Information on the results of the analysis of fixed assets for the impairment is disclosed by the Group in paragraph 14 of the Notes to the Consolidated Financial Statements.	As part of our audit procedures, we have analyzed, among others, the assumptions and methods used by the Group, in particular those related to the revenue projection from the power transmission, tariff solutions, operating and capital expenses, long-term tariff growth rates and discount rates. We have conducted a sample basis testing of the incoming data embedded in the model and testing the arithmetic accuracy of the model used to determine the recoverable amount in the impairment test of fixed assets. We have engaged the internal assessment specialists to analyze the model used to determine the recoverable amount in the impairment test of the fixed assets. We have also analyzed the sensitivity of the model to changes in the key assessment indicators and the information disclosed by the Group about the assumptions on which the results of impairment testing depend the most.

Other information included in the Annual Report for 2021

Other information comprises the information included in the Annual Report for 2021 but does not include the consolidated financial statements and our auditor's report thereon. The management is responsible for the other information. The annual report for 2021 is expected to be provided to us after the date of this auditor's report.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information when it is provided to us, and to consider whether there are material inconsistencies between the other information and the consolidated financial statements or our knowledge obtained in the audit, and whether the other information contains other material misstatements.

Responsibilities of the Management and the Audit Committee of the Board of Directors for the Consolidated Financial Statements

The management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the IFRS, and for such internal control as the management determines is necessary to prepare consolidated financial statements that are free from material misstatement whether due to fraud or error.

In preparing the consolidated financial statements, the management is responsible for assessing the Group's ability to continue as a going concern, for disclosing the matters related to going concern, as applicable, and for preparing the statements based on the going concern assumption, unless the management intends to liquidate the Group, terminate its operations or has no realistic alternative such actions.

The Audit Committee of the Board of Directors is responsible for overseeing the process of preparing the Group's financial statements.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance that the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report containing our opinion. Reasonable assurance is a high level of assurance but it is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always reveal a material misstatement, if any. Misstatements can arise as the result of 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 made on the basis of these consolidated financial statements.

As part of an audit conducted in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; design and perform audit procedures in response to these risks; obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of non-detection of material misstatement as a result of fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of the 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 Group's internal control system;

- evaluate the appropriateness of the accounting policies used and the reasonableness of the accounting estimates and the related disclosures made by the management;

- conclude on the appropriateness of the management's use of the going concern assumption and, based on the audit evidence obtained, conclude whether there is a material uncertainty related to events or conditions that may cause significant doubt on the Group's ability to continue operating continuously. If we conclude that there is a material uncertainty, we should draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, modify our opinion. Our conclusions are based on audit evidence obtained prior to the date of our audit opinion. However, future events or conditions may cause the Group to cease its ability to continue a going concern;

- evaluate the presentation of the consolidated financial statements as a whole, its structure and content, including disclosures as well as whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view;

- obtain sufficient proper audit evidence with respect to the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the overall management, control and audit of the Group. We are solely responsible for our audit opinion.

We communicate with the Audit Committee of the Board of Directors, bringing to its attention, among other matters, the information about the planned scope and timing of the audit as well as significant comments on the audit findings including significant deficiencies in the internal control system if we identify them during our audit.

We also stated to the Audit Committee of the Board of Directors that we have complied with all existing ethical independence requirements and informed these persons about all relationships and other issues that may reasonably be deemed affecting the auditor's independence, and, if necessary, about the actions taken to eliminate threats or precautions taken.

From those issues that we have stated to the Audit Committee of the Board of Directors, we determine the issues that are key for the audit of the consolidated financial statements for the report period and that are, consequently, the key audit issues. We describe those issues in our audit report, except for the cases when the public disclosure of information on such issues is prohibited by law or regulation, or when in extremely rare cases we come to the conclusion that information on any issue should not be disclosed in our report since the adverse effects of such information disclosure are reasonably expected to exceed the socially significant advantages resulting from its disclosure.

Officer responsible for the audit resulting in the making of this independent auditor's report is A.B. Kalmykova.

A.B. Kalmykova
acting on behalf of Ernst & Young LLC
by proxy [unnumbered] dated March 1, 2022,
Officer responsible for the audit resulting in the making of this Independent Auditor's Report
(Principal Number of Registration Entry 21906101970)

March 15, 2022

Information on the Auditor

Name: Ernst & Young LLC
The entry was entered into the Unified State Register of Legal Entities on December 5, 2002 and assigned the State Registration Number 1027739707203.
Location: 77 Sadovnicheskaya Naberezhnaya, bldg. 1, Moscow, 115035, Russia.
Ernst & Young LLC is a member of the Self-regulatory organization of Auditors Association Sodruzhestvo (SRO AAS). Ernst & Young LLC is listed in the reference copy of the Register of Auditors and Auditing Entities under entry with Principal Registration Number 12006020327.

Information on the Audited Entity

Name: Public Joint Stock Company "Rosseti Kuban"
The entry was entered into the Unified State Register of Legal Entities on September 17, 2002 and assigned the State Registration Number 1022301427268.
Location: 2a Stavropolskaya str., Krasnodar, Krasnodar Region, 350033, Russia.

(in thousands Russian Rubles, if not mentioned otherwise)

	Note	**For the year ended on December 31, 2021**	**For the year ended on December 31, 2020**
Revenue	7	58 014 622	49 561 633
Operating expenses	10	(53 407 510)	(49 266 371)
Charge of provision for expected credit losses		(535 911)	(387 155)
Net charge of impairment loss on property, plant and equipment and right-of use assets	14	(252)	(4 984)
Other income	8	1 007 256	1 166 432
Other expenses	9	(206 243)	(83 332)
Operating profit		**4 871 962**	**986 223**
Finance income	12	46 492	58 988
Finance expenses	12	(1 957 733)	(2 090 467)
Total finance expenses		**(1 911 241)**	**(2 031 479)**
Profit/(loss) before tax		**2 960 721**	**(1 045 256)**
Expense on income tax	13	(1 096 276)	(194 954)
Profit/(loss) for the period		**1 864 445**	**(1 240 210)**
Other comprehensive income/(loss)			
Items that cannot be subsequently reclassified to profit or loss			
Revaluation of obligations for the programmes with fixed payments	27	16 072	28 815
Income tax	13	(3 214)	(5 763)
Total items that cannot be subsequently reclassified to profit or loss		**12 858**	**23 052**
Other comprehensive income/(loss) for the period, except income tax		**12 858**	**23 052**
Total comprehensive income/(loss) for the period		**1 877 303**	**(1 217 158)**
Profit/(loss) is attributable to:			
Company owners		1 864 445	(1 240 210)
Total comprehensive income/(loss) is attributable to:			
Company owners		1 877 303	(1 217 158)
Earnings per share			
Basic and diluted earnings per share (RUB)	24	5,45	(3,71)

These Consolidated Financial Statements were approved by the management on March 15, 2022 and signed on behalf of the management by the following persons

First Deputy General Director
(by proxy dated December 27, 2021
in the register under No. 23/256-n/23-2021-21-404) E.G. Armaganyan

Chief Accountant –
Head of the Bookkeeping
and Tax Accounting and Statements Department L.V. Loskutova

(in thousands Russian Rubles, if not mentioned otherwise)

	Note	December 31, 2021	December 31, 2020
ASSETS			
Non-current assets			
Property, Plant and Equipment	14	60 777 771	58 164 002
Intangible assets	15	260 170	304 618
Right-of-use assets	16	4 512 530	5 642 257
Trade and other accounts receivable	20	9 027	13 139
Assets associated with employee benefits obligations	27	308 658	319 337
Other non-current financial assets		1	1
Deferred tax assets	17	123 335	116 371
Advances issued and other non-current assets	21	6 341	3 942
Total non-current assets		**65 997 833**	**64 563 667**
Current assets			
Inventory	19	2 181 199	2 014 723
Prepayment of income tax		264 915	302 622
Trade and other accounts receivable	20	6 209 655	8 115 500
Cash and cash equivalents	22	1 984 357	752 545
Advances issued and other current assets	21	265 156	139 484
Total current assets		**10 905 282**	**11 324 874**
Assets classified as held for sale	18	20 510	22 314
Total current assets		**10 925 792**	**11 347 188**
Total assets		**76 923 625**	**75 910 855**
EQUITY AND LIABILITIES			
Equity			
Charter capital	23	33 465 784	33 465 784
Share premium		6 481 916	6 481 916
Reserve for capital stock issues		760 060	–
Other reserves		(386 519)	(399 377)
Retained earnings		(4 874 655)	(6 739 229)
Total equity which is payable to Company owners		**35 446 586**	**32 809 094**
Non-current liabilities			
Non-current borrowings	25	19 742 520	22 778 403
Non-current trade and other accounts payable	28	122 135	104 439
Non-current advances received	30	1 133 942	1 179 235
Liabilities for employee benefits	27	545 309	561 821
Government subsidies		–	404
Deferred tax liabilities	17	2 190	845
Total non-current liabilities		**21 546 096**	**24 625 147**
Current liabilities			
Current borrowings and current portion of non-current borrowings	25	6 171 194	6 755 657
Trade and other accounts payable	28	8 717 865	7 592 834
Government subsidies		370	11 878
Advances received	30	1 991 891	2 252 510
Taxes payable except income tax	29	965 173	938 301
Estimated liabilities	31	2 084 450	921 992
Current income tax payable		–	3 442
Total current liabilities		**19 930 943**	**18 476 614**
Total liabilities		**41 477 039**	**43 101 761**
Total equity and liabilities		**76 923 625**	**75 910 855**

(in thousands Russian Rubles, if not mentioned otherwise)

	Note	For the year ended on December 31, 2021	For the year ended on December 31, 2020
CASH FLOW FROM OPERATING ACTIVITIES			
Profit/(loss) for the period		**1 864 445**	**(1 240 210)**
Adjustments:			
Depreciation of property, plant and equipment, right-of-use assets and intangible assets	10	5 736 451	5 720 577
Net charge of impairment loss of property, plant and equipment and right-of use assets	14	252	4 984
Finance expenses	12	1 957 733	2 090 467
Finance income	12	(46 492)	(58 988)
Loss from property, plant and equipment sale	9	184 847	83 332
Recovery of provision for impairment of inventory		(3 017)	(3 930)
Charge of provision for expected credit losses		535 911	387 155
Write-off of bad debts		(3 073)	124 889
Write-off of accounts payable	8	(34 298)	(25 296)
Change of government subsidies		(11 912)	(12 275)
Charge of estimated liabilities	10	1 348 209	531 893
Other non-cash transactions		(182 337)	52 286
Expense on income tax	13	1 096 276	194 954
Total adjustments impact		**10 578 550**	**9 090 048**
Change of assets associated with employee benefits obligations		10 679	(975)
Change of employee benefits obligations		(31 165)	(175 452)
Change in long-term trade and other accounts receivable		6 652	1 785
Change in long-term advances issued and other non-current assets		(2 399)	1 179
Change in long-term trade and other accounts payable		(7 305)	1 253
Change in long-term advances received		(44 666)	299 321
Cash flow from operating activities before changes in working capital and estimated liabilities		**12 374 791**	**7 976 949**
Changes in operating assets and liabilities:			
Changes in trade and other accounts receivable		1 400 093	(1 539 290)
Change in advances issued and other assets		(125 172)	(85 790)
Change in inventories		(99 738)	(32 769)
Changes in trade and other accounts payable		364 503	994 574
Change in advances received		(233 500)	694 856
Use of estimated liabilities		(217 546)	(361 753)
Cash flow from operating activities before payment of income tax and interests		**13 463 431**	**7 646 777**
Income tax paid		(1 242 367)	(425 086)
Interest paid under the lease agreements		(401 486)	(498 722)
Interest paid		(1 700 415)	(1 510 614)
Net cash from operating activities		**10 119 163**	**5 212 355**
CASH FLOW FROM INVESTING ACTIVITIES			
Property, plant and equipment and intangible assets acquisition		(6 014 339)	(4 922 336)
Interests received		26 438	29 721
Net cash used in investing activities		**(5 987 901)**	**(4 892 615)**
CASH FLOW FROM FINANCING ACTIVITIES			
Raising borrowed funds		24 015 046	49 965 693
Repayment of borrowings		(26 361 654)	(49 715 682)
Proceeds from shares issuing		760 060	–
Dividends which are payable to Company owners		(8)	(636 639)
Change in lease obligations		10 543	20 317
Payments for lease obligations		(1 323 437)	(916 969)
Net cash from (used in) financing activities		**(2 899 450)**	**(1 283 280)**
Net decrease in cash and cash equivalents		**1 231 812**	**(963 540)**
Cash and cash equivalents at the beginning of the reporting period	22	752 545	1 716 085
Cash and cash equivalents at the end of the reporting period	22	**1 984 357**	**752 545**

(in thousands Russian Rubles, if not mentioned otherwise)

	Charter capital	Share premium	Reserve for capital stock issues	Reserve	Retained earnings	Total equity
Balance as of January 1, 2021	**33 465 784**	**6 481 916**	**–**	**(399 377)**	**(6 739 229)**	**32 809 094**
Other changes in retained earnings	–	–	–	–	129	**129**
Profit for the period	**–**	**–**	**–**	**–**	**1 864 445**	**1 864 445**
Other comprehensive income/(expense)						
Revaluation of net obligations (assets) of pension liabilities	–	–	–	16 072	–	**16 072**
Income tax in respect of other comprehensive income (Note 13)	–	–	–	(3 214)	–	**(3 214)**
Total comprehensive income for the period	–	**–**	**–**	**12 858**	**–**	**12 858**
Transactions with Company owners recorded directly in equity						
Issue of shares (Note 23)	–	–	760 060	–	–	**760 060**
Dividends to shareholders	–	–	–	–	–	–
Balance as of December 31, 2021	**33 465 784**	**6 481 916**	**760 060**	**(386 519)**	**(4 874 655)**	**35 446 586**
Balance as of January 1, 2020	**30 379 335**	**6 481 916**	**3 086 449**	**(422 429)**	**(4 862 354)**	**34 662 917**
Loss for the period	**–**	**–**	**–**	**–**	**(1 240 210)**	**(1 240 210)**
Other comprehensive income/(expense)						
Revaluation of net obligations (assets) of pension liabilities	–	–	–	28 815	–	**28 815**
Income tax in respect of other comprehensive income	–	–	–	(5 763)	–	**(5 763)**
Total comprehensive expense for the period	**–**	**–**	**–**	**23 052**	**(1 240 210)**	**(1 217 158)**
Transactions with Company owners recorded directly in equity						
Registration of an additional issue of shares	3 086 449	–	(3 086 449)	–	–	**–**
Dividends to shareholders	–	–	–	–	(636 665)	**(636 665)**
Balance as of December 31, 2020	**33 465 784**	**6 481 916**	**–**	**(399 377)**	**(6 739 229)**	**32 809 094**

The accompanying notes are an integral part of these consolidated financial statements

1 General Information

(a) The Group and its activities

The core activity of PJSC “Rosseti Kuban” (hereinafter referred to as the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group” or “Rosseti Kuban Group of Companies”) are providing services for the transmission and distribution of energy that is transferred out of the electrical system and services for technological connection of consumers to electric networks.

Location of PJSC “Rosseti Kuban”: 2A Stavropolskaya str., Krasnodar, Krasnodar Region, 350033, Russia.

The company was founded in 1993 and is registered on the territory of the Russian Federation. The Company is a Public Joint Stock Company in accordance with the legislation of the Russian Federation.

Rosseti Kuban Group of Companies consists of PJSC “Rosseti Kuban” and its non-core subsidiaries with 100% participation in their charter capital: JSC Energetik Holiday Facility and JSC Kuban Energoservis.

The Group is controlled by Public Joint Stock Company “Rosseti” (hereinafter – PJSC “Rosseti”) which as of December 31, 2021 directly owned 93.58% of the total number of outstanding ordinary shares (as of December 31, 2020 – 93.44% of the total number of outstanding ordinary shares).

(b) Relations with the Government

The Government of the Russian Federation represented by the Federal Agency for State Property Management is the ultimate controlling party of the ultimate parent company PJSC “Rosseti”. The policy of the Government of the Russian Federation in economic, social and other spheres may has a significant impact on the Group's activities.

As of December 31, 2021 and 2020, the Russian Federation owned 88.04% of the shares in the statutory fund of the ultimate parent company PJSC “Rosseti” including 88.89% of the ordinary voting shares and 7.01% of the preference shares.

As of December 31, 2021 and 2020, PJSC “Rosseti” owned 93.58% and 93.44% of the total number of outstanding ordinary shares in the share capital of PJSC “Rosseti Kuban”, respectively.

The State has an impact on the Group's activities by the agency of representatives of the Board of Directors of PJSC “Rosseti”, rate regulation in the electric power industry, approval and supervision of the investment program implementation. The Group's counterparties (consumers of services, suppliers and contractors, etc.) include a substantial number of government-controlled enterprises.

(c) The economic environment where the Group carries out its activities

The Group carries out its activities in the Russian Federation and thus is exposed to risks arising from the economic situation and state of financial markets of the Russian Federation.

The economy of the Russian Federation shows some characteristics of emerging markets. The country's economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory system continues to evolve and is subject to frequent changes, as well as the possibility for various interpretations. The ongoing political tensions in the region as well as international sanctions against some Russian companies and citizens continue to affect the Russian economy negatively.

In March 2020, the World Health Organization declared the COVID-19 epidemic as a global pandemic. The Russian authorities have taken a number of measures with regard to the pandemic aimed at curbing the spread and mitigating the COVID-19 consequences such as banning and restricting movement, self-isolation and restricting commercial activities including the closure of enterprises. Some of the above measures were subsequently mitigated but as of December 31, 2021, the level of the infection spread remained high, the proportion of the persons vaccinated was relatively low and there was a risk that Russian state authorities would impose additional restrictions in subsequent periods including due to the emergence of new variants of the virus.

These measures, in particular, have significantly restricted economic activity in Russia and have already had and may still have a negative impact on the Group's business, market participants, customers as well as on the Russian and global economy for an indefinite period. The level of economic activity remains subdued, and the economic recovery is closely linked to the continuing restrictive measures.

The geopolitical situation is highly unstable. In February 2022, the effect of additional restrictions and sanctions against Russian companies and the economy of the Russian Federation as a whole intensified. At the moment, the possible consequences of these events cannot be determined with a sufficient degree of reliability. It is impossible to determine how long the increased volatility will persist and at what level the stability of the financial and currency markets indicators will eventually occur. Sanctions have been imposed on a number of Russian banks by the United States, the United Kingdom and the EU.

The Group continues to monitor and assess the development of the situation and respond accordingly:

- carry out measures to ensure reliable energy supply, implement investment projects;
- work closely with the authorities at the federal and regional levels, take all necessary measures to ensure the safety, protection of the life and health of their employees and contractors;
- track forecast and actual information on the impact of the current economic situation on the Group's activities and the Group's core counterparties;
- adapt the Group's activities to the current economic situation, take measures to ensure the Group's financial stability.

The future consequences of the current economic situation and the above measures are difficult to predict, and management's current expectations and estimates may differ from actual results.

2 Basis for Preparation of Consolidated Financial Statement

(a) Declaration of conformity with the IFRS

These Consolidated Financial Statements have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRS).

Every enterprise of the Group maintains individual accounting records and prepares official financial statements in accordance with the Russian Accounting Standards (hereinafter referred to as the "RAS"). These Consolidated Financial Statements have been prepared on the basis of the accounting records under the RAS adjusted and reclassified for the purposes of fair presentation of the financial statements in accordance with the IFRS.

(b) The basis for determining the cost

These Consolidated Financial Statements have been prepared on the basis of historical cost, with the exception of:

- financial assets measurable at fair value through profit or loss;
- financial assets measurable at fair value through other comprehensive income.

(c) Functional currency and reporting currency

The national currency of the Russian Federation is the Russian ruble (hereinafter referred to as the "Ruble" or "RUB") which is used by the Group as the functional currency and reporting currency of these Consolidated Financial Statements. All numerical indicators in Russian rubles were rounded to the nearest thousand.

(d) Use of accounting estimates and professional judgments

The preparation of Consolidated Financial Statements in accordance with the IFRS requires the management to make professional judgments, assumptions and estimates that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The management constantly reviews the estimates and assumptions made based on the experience gained and other factors that have been used as the basis for determining the book value of assets and liabilities. Changes in accounting estimates and assumptions are recognized in the period in which they were adopted, if the change affects only that period, or are recognized in the period to which the change relates and in subsequent periods if the change affects both this and future periods.

The professional judgments that have the most significant impact on the indicators reflected in the consolidated financial statements, accounting estimates and assumptions that may lead to the need for significant adjustments to the book values of assets and liabilities over the next year include the following:

Impairment of property, plant and equipment and right-of-use assets

As of each reporting date, the Group's management determines whether there are signs of impairment of property, plant and equipment and right-of-use assets. The signs of impairment include changes in business plans, tariffs, and other factors leading to adverse consequences for the Group's operations. In making value-in-use calculations, the management evaluates the expected cash flows from a cash generating unit or units and calculates an acceptable discount rate to calculate the present value of these cash flows. The detailed information is provided in Note 14 "Property, Plant and Equipment" and Note 16 "Right-of-use Assets".

Determination of the lease period under the contracts with an option to extend or an option to terminate the lease – The Group as a lessee

The Group defines the lease period as a lease period that is not subject to early termination, together with the periods for which an option to extend the lease is available if there is sufficient confidence that it will be exercised, or the periods for which an option to terminate the lease is available if there is sufficient confidence that it will not be exercised.

In making a judgment to assess whether the Group has sufficient confidence in the exercise of an option to extend or an option to terminate the lease in determining the lease period, the Group considers the following factors:

- is the leased property specialized;
- location of the object;
- whether the Group and the lessor have the practical possibility of choosing an alternative counterparty (choosing an alternative asset);
- costs associated with the termination of the lease and the conclusion of a new (replacement) contract;
- availability of significant improvements to leased property.

Impairment of accounts receivable

A provision for expected credit losses on accounts receivable is created based on the management's probability estimation of specific debt redemption of the specific borrowers. For the purposes of estimation of credit losses, the Group consistently considers all reasonable and verified information about past, current and predictable events that is available without excessive effort and is relevant for the assessment of accounts receivable. The past experience is adjusted based on the data available at the moment, in order to reflect the current factors that did not affect the previous periods, and in order to exclude the influence of factors that occurred in the past and no longer exist.

Pension payment obligations

The expenses for the pension program with fixed payments and the corresponding expenses of the pension program are determined using actuarial expectations. Actuarial valuations require using assumptions about demographic and financial data. There are material uncertainties in regards to such valuations because of the long-term program.

Recognition of deferred tax assets

The management evaluates deferred tax assets at each reporting date and determines the amount to be reflected to the extent that tax deductions are likely to be used. When determining future taxable income and the amount of tax deductions, the management uses the accounting estimates and judgments based on the value of taxable income for previous years and expectations regarding the deferred income that is believed to be reasonable in the circumstances.

Estimated reserves for lawsuits and claims

The provision for lawsuits and claims is created based on the management's assessment of the probability of the adverse outcome for the received lawsuits and repayment claims. For the purposes of estimating reserves, the Group consistently considers all reasonable and verifiable information about past, current and predictable events that is available without excessive effort and is relevant for the assessment of the liability. The experience gained in the past is adjusted based on the data currently available in order to reflect current factors that did not affect previous periods, and in order to exclude the influence of factors that occurred in the past and no longer exist.

(e) Changes in submission. Reclassification of comparison data

Some amounts in the comparative information for the previous period have been reclassified in order to ensure their comparability with submission of data in the current reporting period. All the reclassifications carried out are insignificant.

(f) New standards, clarifications on amendments to existing standards

The new amendments effective for annual reporting periods beginning on January 1, 2022 are listed below. These amendments are not expected to have a material impact on the Group's Consolidated Financial Statements:

- Amendments to IFRS 3 “*References to Conceptual Framework”*.
- Amendments to IAS 16 “*Property, Plant and Equipment: Proceeds before Intended Use”*.
- Amendments to IAS 37 “*Onerous Contracts – Contract Performance Expenses*”.
- Amendment to IFRS 1 “*First Application of the International Financial Reporting Standards”* – a subsidiary applying the International Financial Reporting Standards for the first time.
- Amendment to IFRS 9 “*Financial Instruments”* – commission fee for the “10% test” in the event of derecognition of financial liabilities.
- Amendment to IAS 41 *"Agriculture"* – taxation at fair value measurement.

The new standards, amendments and clarifications that have been issued but have not yet entered into force at the date of issue of the Group's Consolidated Financial Statements are listed below. The Group intends to adopt the applicable standards and clarifications for use after entry into force, no significant impact on the Group’s Consolidated Financial Statements is expected:

- IFRS 17 “*Insurance Contracts*” (issued in May 2017 and effective for annual periods beginning on or after January 1, 2023);
- Amendments to IAS 8 “*Accounting Policies, Changes in Accounting Estimates and Errors”* (issued on February 12, 2021 and effective for annual periods beginning on or after January 1, 2023);
- Amendments to IAS 12 *“Income Taxes”* – deferred tax on assets and liabilities arising from a single transaction (issued on May 7, 2021 and effective for annual periods beginning on or after January 1, 2023);
- Amendments to IFRS 1 *“Submission of Financial Statements”* (Accounting Policy) and Practical Guidance 2 *“Making Judgments about Materiality”*;
- Amendments to IAS 1 *“Classification of Liabilities as Current or Non-current”*.

3 Significant Accounting Policies

The accounting policies described below have been applied consistently in all reporting periods presented in these consolidated financial statements.

Amendments to the current standards which entered into force for annual reporting periods beginning on January 1, 2021 did not have a significant impact on these consolidated financial statements of the Group.

(a) Consolidation principles

i. Subsidiaries

Subsidiaries are companies controlled by the Group. The Group controls a subsidiary when the Group is exposed to risks associated with variable returns from its involvement with the entity or has rights to receive such returns, and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are reflected in the consolidated financial statements from the date of receipt of control until the date of its termination.

The accounting policies of subsidiaries were subject to changes in cases where it was necessary to align them with the accounting policies adopted by the Group. Losses applicable to a non-controlling interests in a subsidiary are fully allocated to the account of non-controlling interests, even if this leads to a debit (“deficit”) balance on this account.

ii. Transactions eliminated on consolidation

Intra-group balances and transactions as well as unrealized gains and losses from intra-group transactions are eliminated when preparing the consolidated financial statements. Unrealized gains on transactions with investment objects accounted for by using the equity method are eliminated by reducing the value of the investment within the limits of the Group's interests in the relevant investment object. Unrealized losses are eliminated in the same manner as unrealized gains but only to the extent that they are not evidence of impairment.

(b) Financial instruments

i. Financial assets

The Group classifies financial assets into the following categories of evaluation: those subsequently measured at amortized cost, those measured at fair value through other comprehensive income and those measured at fair value through profit or loss. The classification depends on the financial asset management business model and the cash flow characteristics stipulated by the contracts.

Financial assets are classified as measured at amortized cost if the following conditions are fulfilled:: the asset is held within the framework of a business model, the purpose of which is to hold assets in order to receive the cash flows stipulated in the contract, and the conditions of the contract stipulate the receipt of cash flows on the specified dates which are exclusively payments to the principal amount of the debt and interest on the outstanding part of the principal amount of the debt.

In the category of financial assets measured at amortized cost, the Group includes the following financial assets:

- trade and other accounts receivable that satisfy the definition of financial assets if the Group does not intend to sell them immediately or in the near future;
- cash and cash equivalents.

For financial assets classified as measured at amortized cost, a provision is made for expected credit losses (hereinafter referred to as the “ECL”).

Upon termination of recognition of financial assets measured at amortized cost and fair value through profit or loss, the Group reflects in the statement of profit or loss and other comprehensive income (through profit or loss) the financial results from their disposal equal to the difference between the fair value reimbursement and the carrying value of the asset.

In the category of financial assets measured at fair value through other comprehensive income, the Group includes equity instruments of other companies that:

- are not classified as measurable at fair value through profit or loss; and
- do not provide the controlling Group with joint control or significant influence over Investee Company.

Upon termination of recognition of equity instruments of other companies classified at the Group's discretion as measurable at fair value through other comprehensive income, previously recognized components of other comprehensive income are transferred from the fair value reserve to retained earnings.

ii. Impairment of financial assets

Impairment reserves are assessed either on the basis of 12-month ECL which are the result of probable non-fulfilment of obligation within 12 months after the reporting date, or lifetime ECL which are the result of all possible events of default during the expectancy period of a financial instrument.

For trade accounts receivable or contractual assets that arise as a result of transactions related to the scope of IFRS 15 *“Revenue from Contracts with Customers”* (including those containing a significant financing component) and accounts receivable on lease, the Group applies a simplified approach to the reserve measurement for expected credit losses – where it is measured in the amount equal to expected credit losses for the entire period.

Reserves for impairment of other financial assets classified as measurable at amortized cost are assessed on the basis of 12-month ECL if there has not been a significant increase in credit risk since recognition. The estimated reserve for expected credit losses on a financial instrument is estimated at each reporting date in an amount equal to the expected credit losses for the entire period if the credit risk on this financial instrument has increased significantly since initial recognition considering all reasonable and verifiable information including the predictable information.

As indicators of a significant increase in credit risk, the Group considers the actual or expected difficulties of the issuer or the borrower’s asset, the actual or expected breach of the conditions of the contract, the expected revision of the conditions of the contract due to the financial difficulties of the borrower on disadvantageous terms for the Group to which it would not have given its consent under other circumstances.

Based on the common practice of credit risk management, the Group defines default as the inability of the counterparty (issuer) to fulfill its obligations (including refund under the contract) due to a significant deterioration in the financial position.

An impairment credit loss on a financial asset is reported by means of recognition of an estimated reserve for its impairment. For a financial asset carried at amortized cost, the amount of the impairment loss is calculated as the difference between the book value of the asset and the present value of expected future cash flows discounted at the original effective interest rate.

If, in the subsequent periods, the credit risk on a financial asset decreases as a result of an event that occurred after the recognition of this loss, the previously recognized impairment loss is subject to reversal by means of decrease of relevant valuation allowance. As a result of the reversal, the book value of the asset should not exceed its value at which it would have been reflected in the statement of financial position if an impairment loss had not been recognized.

iii. Financial liabilities

The Group classifies financial liabilities into the following categories of evaluation: financial liabilities measured at fair value through profit or loss; financial liabilities measured at amortized cost.

In the category of financial liabilities measured at amortized cost, the Group includes the following financial liabilities:

- credit and loans (borrowings);
- trade and other accounts payable.

Credit and loans (borrowings) are initially recognized at fair value considering the transaction costs directly related to raising these funds. The fair value is defined relating to the prevailing market interest rates on similar instruments in case of its significant difference from the transaction price. In the subsequent periods, borrowings are carried at amortized cost using the effective interest method; all difference between the fair value of funds received (net of the transaction costs) and the amount to be paid is reflected in profit and loss as interest expense over the entire period of the liabilities for the redemption of borrowings.

Borrowing costs are recognized as expenses in the reporting period in which they were incurred if they were not related to the acquisition or construction of qualified assets. Borrowing costs related to the acquisition or construction of assets that take a significant period to prepare for use (qualifying assets) are capitalized as part of the asset value. Capitalization is carried out when the Group:

- bears the costs of qualifying assets;
- bears borrowing costs; and
- carries on business related to the preparation of assets for use or sale.

Capitalization of borrowing costs continues until the date when assets are ready for use or sale. The Group capitalizes those borrowing costs that could have been saved if the Group had not incurred the costs for qualifying assets. Borrowing costs are capitalized based on the average cost of financing the Group (weighted average interest expenses related to the prior expenses for qualifying assets), with the exception of borrowings that were received directly for the purpose of acquiring a qualifying asset. Actual borrowing costs reduced by the amount of investment income from temporary investing of loans are capitalized.

Accounts payable is calculated upon the contractor fulfills its liability under the contract. Accounts payable is recognized at fair value and further carried at amortized cost using the effective interest method.

(c) Property, plant and equipment

i. Recognition and evaluation

Items of property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment as of January 1, 2011, i.e. at the date of transition to the IFRS, was determined on the basis of their fair value (deemed cost) at that date.

The cost price includes all expenses directly related to the acquisition of the relevant asset. The cost of self-constructed (self-built) assets includes the costs of materials, direct labor costs, all other costs directly related to bringing assets into working condition for their intended use, the costs of dismantling and moving assets and restoring the site on which they are located, and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

If an item of property, plant and equipment is made up of the integral separate components with different useful lives, each of them is recognized as a separate item (major component) of property, plant and equipment.

Any amounts of profit or loss from the disposal of an item of property, plant and equipment are determined by comparing the proceeds from its disposal with its book value and are recognized net in profit or loss for the period under the items “Other income” or “Other expenses” of the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

ii. Subsequent costs

The costs associated with the replacement of a part (major component) of an item of property, plant and equipment increase the book value of this item if the probability that the Group will receive future economic benefits related to this part is high and its cost can be reliably determined. The book value of the replaced part is written off. The costs of current repairs and maintenance of property, plant and equipment are recognized in the Statement of Profit or Loss and Other Comprehensive Income at the time of their occurrence.

iii. Depreciation

Depreciation is recognized on a straight-line basis over the estimated useful lives of each part of the item of property, plant and equipment starting when this item is ready for use, since this method most accurately reflects the nature of the expected consumption of future economic benefits contained in the asset. Leased assets are depreciated over the shorter of the lease period and the useful life of the assets. Land plots are not depreciated.

Useful lives expressed in years by type of property, plant and equipment are presented below:

- buildings 1-83 years;
- transmission networks 4-79 years;
- power transmission equipment 1-42 years;
- other assets 1-50 years.

Depreciation methods, useful lives and the residual value of property, plant and equipment are analyzed as of each reporting date and, if necessary, revised.

(d) Intangible assets

Intangible assets include mainly capitalized computer software and licenses with a limited useful life. Purchased software and licenses are capitalized on the basis of the costs incurred to acquire them and bring them into a state of suitability for use.

Research costs are expensed as they arise. Development costs are recognized as intangible assets only when the Group can demonstrate the following: the technical feasibility of creating an intangible asset so that it is available for use or sale; its intention to create an intangible asset and use or sell it; how the intangible asset will generate future economic benefits; availability of resources to complete development as well as the ability to reliably estimate the costs incurred during development. Other development costs are expensed as incurred. Development costs previously expensed are not recognized in assets in the subsequent period. The book value of development costs is subject to annual impairment testing.

After initial recognition, intangible assets are carried at cost less accumulated depreciation and accumulated impairment losses. Amortization of intangible assets is accrued on a straight-line basis over the asset useful life. At the end of each reporting year, depreciation methods, useful lives and residual values are analyzed for the need to revise them and, if necessary, revised.

The expected useful lives of intangible assets in the reporting and comparative periods were as follows:

- Licenses and certificates 1-10 years;
- Software 1-15 years.

At each reporting date, the management assesses whether there are signs of impairment of intangible assets. In case of impairment, the book value of intangible assets is written off to the largest of two values: the value in use and the fair value of the asset less costs to sell.

(e) Lease

At the time of conclusion of the contract, the Group assesses whether the contract as a whole or its individual components is a lease agreement. A contract as a whole or its individual components is a lease agreement if the right to control the use of an identified asset for a certain period is transferred under this agreement in exchange for compensation.

Right-of-use assets are initially measured at cost and amortized to the earlier of the following dates: the end date of the useful life of the right-of-use asset or the end date of the lease period. The initial cost of the right-of-use asset includes the initial measurement of the lease liability, lease payments made before or at the start date of the lease, and initial direct costs. After recognition, right-of-use assets are carried at cost less accumulated depreciation and accumulated impairment losses. Right-of-use assets are presented in the statement of financial position as a separate item.

The lease liability is initially measured at the present value of lease payments that have not yet been made at the lease commencement date and are subsequently measured at amortized cost with interest expense recognized as finance expenses in the consolidated profit and loss statement. Lease liabilities are presented in the Statement of Financial Position as part of long-term and short-term borrowings.

The Group recognizes lease payments on short-term leases as an expense on a straight-line basis over the lease period.

For an individual lease agreement, the Group may decide to qualify the agreement as a lease in which the underlying asset has a low value and recognize lease payments under such an agreement as an expense on a straight-line basis over the lease period.

For lease agreements of land plots under power grid facilities with an indefinite period, or with a contract validity period of no more than 1 year with the possibility of annual prolongation, the Group determines the contract validity period using as a basic criterion the useful life of property, plant and equipment located on leased land plots.

For lease agreements of power grid facilities with an indefinite period, or with a contract validity period of no more than 1 year with the possibility of annual prolongation, the Group determines the contract validity period using as a basic criterion the useful life of its own property, plant and equipment with similar technical characteristics.

(f) Advances issued

Advances issued are classified as non-current assets if the advance is related to the acquisition of an asset that will be classified as non-current at its initial recognition. Advances for the acquisition of an asset are included in its book value when the Group gains control of the asset and there is a high probability that the Group will receive economic benefits from its use.

(g) Inventories

Inventories are recorded at the lower of the two amounts: cost or net realizable value. The cost price is determined using the weighted average cost method, and it includes the costs of acquiring the inventories, production or processing costs, and other costs incurred in shipping cost to its existing location and condition.

Net realizable value is the estimated selling price of inventory object in the ordinary course of the Group's activity, less the estimated costs for the completion of work with respect to this object and its sale.

Reserves intended to provide work on the prevention and elimination of accidents (emergencies) at power grid facilities (industry emergency reserve) are reflected in the section "Inventories".

(h) Impairment of non-financial assets

The carrying amount of the Group's non-financial assets, other than inventories and deferred tax assets, is analyzed at each reporting date to identify signs of their possible impairment. If there is any such indication, the recoverable amount of the relevant asset is estimated.

An impairment loss is recognized if the carrying amount of an asset or its corresponding cash-generating unit exceeds its estimated (recoverable) amount. The recoverable amount of an asset or a cash-generating unit is presented as the greater of its two values: value in use of this asset (this unit) and its fair value less cost to sell.

For the purpose of an impairment testing, assets that cannot be individually verified are grouped into the smallest group within which cash inflows are generated as a result of the continuing use of the relevant assets, and this inflow is largely independent of cash inflows generated by other assets or groups of assets (the "cash-generating unit cash flows").

The Group's common (corporate) assets do not generate independent cash flows and are used by more than one cash-generating unit. Costs of corporate assets are distributed among units on a reasonable and consistent basis, and its impairment test is carried out as part of the testing of the unit to which this corporate asset was allocated.

Impairment losses are recognized in profit or loss. Impairment losses from cash-generating units are allocated proportionally to a decrease in the carrying amount of assets within the corresponding unit (group of units).

For other assets, an analysis of an impairment loss recognized in one of the previous periods is carried out at each reporting date in order to identify signs that the amount of this loss should be reduced or that it should no longer be recognized.

An impairment loss is reversed when there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that it is possible to restore the value of assets to their carrying amount in which they would have been recorded (less accumulated depreciation amounts) if no impairment loss had been recognized.

(i) Value added tax

The value added tax arising from the sale of goods is subject to transfer to the state budget upon the occurrence of the earliest date: (a) the moment of receipt of payment from buyers or (b) the moment of delivery of goods or services to the buyer.

Input VAT is reimbursed by offsetting against the amount of output VAT upon receipt of the invoice.

The amounts of VAT payable to the budget are disclosed separately as part of short-term liabilities.

When creating a provision for expected credit losses on accounts receivable, the entire amount of doubtful debts, including VAT, is reserved.

(j) Employee benefits

i. Defined contribution programs

A defined contribution program is considered to be an employee compensation program at the end of an employment relationship with them, under the conditions of which the Group makes fixed contributions into a separate (independent) fund and at the same time it does not incur any additional obligations (neither legal nor constructive) to pay additional amounts. Obligations to make contributions to funds through which defined contribution pension programs are implemented including to the State Pension Fund of the Russian Federation, are recognized as employee benefit expenses as part of profit or loss for those periods in which employees provided relevant services under employment contracts. The amounts of contributions paid in advance are recognized as an asset in cases where the enterprise is entitled to reimbursement of the contributions paid by it or to a reduction in the amount of future payments for contributions.

ii. Defined benefit programs

A defined benefit program is a compensation program for employees at the end of an employment relationship with them, different from a defined contribution program. The liability recognized in the consolidated statement of financial position for defined benefit pension plans represents the discounted amount of the liability at the reporting date.

The discount rate is the yield at the end of the year on government bonds, the maturity of which is approximately equal to the period of the relevant obligations of the Group and which are denominated in the same currency as the remuneration expected to be paid. These calculations are made annually by a qualified actuary using the method of the predicted conditional unit of accumulation of future payments.

Revaluation of the net defined benefit liability including actuarial gains and losses and the effect of applying the asset limit (excluding interest, if any) are recognized immediately in other comprehensive income. The Group determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit liability at the beginning of the annual period to the net defined benefit liability at that date considering any changes in the net defined benefit liability for the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit programs are recognized in profit or loss. Actuarial gains or losses resulting from changes in actuarial assumptions are recognized in other comprehensive income/expense.

In the event of a change in payments under the program or its sequestration, the resulting change in payments related to services of previous periods, or the gain or loss from sequestration is recognized immediately in profit or loss. The Group recognizes gains and losses from the settlement of program obligations when this settlement occurs.

iii. Other long-term employee benefits

The net amount of the Group's liability in respect of long-term employee benefits other than defined benefit payments is the amount of future benefits to which employees have earned the right in the current and previous periods. These future benefits are discounted in order to determine their present value. The discount rate is the yield at the reporting date on government bonds the maturity of which is approximately equal to the period of the relevant obligations of the Group and which are denominated in the same currency in which these benefits are expected to be paid. Liabilities are assessed using the forecasted conditional unit method. Revaluations are recognized in profit or loss for the period in which they arise.

iv. Short-term benefits

The discounting is not applicable in determining the value of liabilities related to short-term employee benefits and the relevant expenses will be recognized, if the employees carry out their employment duties.

In respect of amounts expected to be paid under a short-term bonus or profit sharing plan, a liability is recognized if the Group has an existing legal or practice-based obligation to pay this amount that arose as a result of the employee's employment in the past, and the amount of this obligation can be reliably estimated and there is a high probability of outflow economic benefits.

(k) Estimated liabilities

The estimated liabilities are recognized if, as a result of some event in the past, the Group has a legal or constructive obligation, the amount of which can be reliably estimated, and there is a high probability that an outflow of economic benefits will be required to settle this obligation. The amount of the estimated liability is determined by discounting the expected cash flows at a pre-tax rate that reflects current market valuations of the impact of changes in the value of money over time and the risks inherent in this obligation. The amounts reflecting “amortization of discount” are recognized as finance expenses.

(l) Share capital

Ordinary shares and preferred shares that are not subject to mandatory redemption by the decision of the owners are classified as equity.

(m) Dividends

Dividends are recognized as a liability and excluded from equity at the reporting date only if they are declared (approved by shareholders) at the reporting date or earlier. Dividends are subject to disclosure if they are declared after the reporting date but before the signing of the consolidated financial statements.

(n) Revenue from contracts with customers

The Group recognizes the revenue when (or as far as) the entity fulfills the obligation by means of transfer a promised good or service (i.e. an asset) to a buyer. The asset is transferred when (or as far as) the buyer gains control of such an asset.

When (or as far as) the entity fulfills the obligation, the Group recognizes revenues in the amount that the Group expects to receive in exchange for the transfer of promised assets to the buyer, excluding VAT.

Services for electric power transmission

Revenue from electricity transmission services is recognized during the period (billing month) and is estimated by the results method (cost of transferred volumes of electricity and capacity).

Tariffs for electric power transmission services are approved by the executive authorities of the constituent entities of the Russian Federation in the field of state regulation of tariffs.

Services for technological connection to electric networks

Revenue from services for technological connection to electric networks is a non-refundable fee for connecting consumers to the electric networks. The Group cedes control over the service at a certain point in time (upon the consumer's connection to the power grid), and, therefore, fulfills the obligation to perform at a certain point in time.

The payment for technological connection according to an individual project, standard tariff rates, the rates per unit of maximum capacity and the formulas for payment for technological connection are approved by the Regional Energy Commission (Tariffs and Prices Department of the relevant region) and do not depend on the revenue from electricity transmission services. The payment for technological connection to the unified national (all-Russian) power network is approved by the Federal Antimonopoly Service.

The Group has applied the judgment that the technological connection is a separate obligation to perform which is recognized when the relevant services are provided.

The technological connection agreement does not contain any further obligations after rendering the connection service. According to the established practice and laws regulating the electricity market, technological connection and transmission of electricity are the subject of separate negotiations with different consumers as different services with different commercial purposes without connection in pricing, intentions, recognition or types of services.

Other revenue

The revenue from other technical and maintenance services (technical, repair and maintenance services, consulting and organizational and technical services, communication and information technology services, other services) as well as revenue from other sales is recognized at the time the buyer gains control of the asset.

Trade accounts receivable

Trade accounts receivable represent the Group's right to compensation which is unconditional (i.e. the occurrence of the moment when such compensation becomes payable is due only to the passage of time). The accounting policy for the reflection of trade and other receivables is given in the section “Financial Assets”.

Obligations under the contract

An obligation under the contract is an obligation to transfer to the buyer goods or services for which the Group has received consideration (or an amount of consideration is due) from the buyer. If the buyer pays the consideration before the Group transfers the goods or services to the buyer, the liability under the contract is recognized at the time of payment or the payment is due (whichever occurs earlier). Contractual liabilities are recognized as revenue when the Group fulfills its contractual obligations. The Group reflects obligations under contracts with the buyers within the line code “Advances received”, including value added tax (VAT).

The advances received mainly represent deferred income under technological connection agreements.

Advances received from buyers and customers are analyzed by the Group for the presence of a financial component. If there is a time interval of more than one year between the receipt of advances and the transfer of promised goods and services for reasons other than the provision of financing to the counterparty (under contracts for technological connection to the electric networks), interest expense is not recognized for the advances received. Such advances are recorded at the fair value of assets received by the Group from the buyers and customers in advance payment.

(o) Government subsidies

Government subsidies are recognized if there is reasonable assurance that they will be received and all the conditions associated with them will be fulfilled. When the subsidy is issued for the purpose of financing certain expenses, it is recognized as income on a systematic basis in the same periods in which the corresponding costs that it should compensate are written off as expenses. When the subsidy is issued for the purpose of financing an asset, it is recognized as income, net of the related expenses, in equal shares over the expected useful life of the asset in question.

Government subsidies that compensate the Group for electricity tariffs (loss of income) are recognized in the consolidated statement of profit and loss and other comprehensive income (as part of other income) in the same periods in which the associated revenue was recognized.

(p) Social payments

When the Group's contributions to social programs are intended for the benefit of society as a whole, and are not limited to payments in favor of the Group's employees, they are recognized in profit or loss as they are implemented. The Group's expenses related to the financing of social programs, without incurring obligations regarding such financing in the future, are reflected in the consolidated statement of profit or loss and other comprehensive income as they arise.

(q) Financial income and expenses

Financial income includes interest income on invested funds, dividend income, gains on the disposal of financial assets measured at fair value and measured at amortized cost, the effect of discounting financial instruments. Interest income is recognized in profit or loss at the time of occurrence, and its amount is calculated using the effective interest rate method. Dividend income is recognized in profit or loss at the moment when the Group has the right to receive the corresponding payment.

Finance costs include interest expenses on borrowings, financial leasing, losses from the disposal of financial assets measured at fair value and measured at amortized cost, the effect of discounting financial instruments. Borrowing costs that are not directly related to the acquisition, construction or production of a qualifying asset are recognized in profit or loss for the period using the effective interest method.

(r) Income tax expense

Income tax expense includes current income tax and deferred tax. Current and deferred income tax is recognized in profit or loss for the period, except for the part that relates to business combinations, transactions recognized in other comprehensive income or directly in equity.

Current income tax is the amount of tax payable in respect of taxable income for the year, calculated on the basis of current or substantially enacted tax rates as of the reporting date as well as all adjustments to the amount of the obligation to pay income tax for previous years.

Deferred tax is recorded in respect of temporary differences arising between the carrying amount of assets and liabilities determined for the purposes of their reflection in the financial statements and their tax base. Deferred tax is not recognized in respect of:

- temporary differences arising from the initial recognition of assets and liabilities as a result of a transaction that is not a business combination transaction and does not affect either accounting or taxable profit or tax loss;
- temporary differences related to investments in subsidiaries and associates, to the extent that the Group is able to control the timing of the recovery of these temporary differences and it is probable that these temporary differences will not be restored in the foreseeable future.

The deferred tax estimate reflects the tax consequences that would follow from the manner in which the Group intends to recover or settle the carrying amount of its assets or settle liabilities at the end of this reporting period.

The amount of deferred tax is determined based on the tax rates that will be applied in the future, at the time of the recovery of temporary differences, based on current or substantially enacted legislation as of the reporting date.

When determining the amount of current and deferred taxes, the Group considers the impact of uncertainty regarding the tax position as well as when assessing whether additional taxes, fines and penalties may be accrued. The Group calculates tax based on an assessment of many factors including interpretations of tax legislation and previous experience. Such an assessment is based on estimates and assumptions and may include a number of judgments about future events. If new information becomes available, the Group may reconsider its judgment regarding the amounts of tax liabilities for previous periods; such changes in tax liabilities will affect the income tax expense of the period in which the relevant judgment is made.

Deferred tax assets and liabilities are offset if there is a legal right to offset against each other the amounts of assets and liabilities for current income tax, and they relate to income tax levied by the same tax authority from the same taxable entity, or from different taxable entities but they intend to settle current tax liabilities and assets on a net basis, or the sale of their tax assets will be carried out simultaneously with the repayment of their tax liabilities.

A deferred tax asset is recognized in respect of unused tax losses, tax credits and deductible temporary differences only to the extent that there is a high probability of taxable profit against which the corresponding deductible temporary differences can be realized. The amount of deferred tax assets is analyzed as of each reporting date and is reduced to the extent that that it is no longer probable that the related tax benefit will be realized.

(s) Earnings per share

The Group presents indicators of basic and diluted earnings per share in relation to ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to the owners of the Company's ordinary shares by the weighted average number of ordinary shares outstanding during the reporting period.

4 Fair Value Measurement

Specific accounting policies of the Group and a number of disclosures require an assessment of the fair value of both financial and non-financial assets and liabilities.

In assessing the fair value of an asset or liability, the Group applies, to the extent possible, observable market data. Fair value estimates relate to different levels of the fair value hierarchy, depending on the source data used in the relevant valuation methods:

Level 1: quoted (unadjusted) prices for identical assets and liabilities in active markets.

Level 2: inputs other than quoted prices used for Level 1 estimates that are observable either directly (i.e. such as prices) or indirectly (i.e. determined based on prices).

Level 3: inputs for assets and liabilities that are not based on observable market data (unobservable inputs).

(in thousands Russian rubles, if not mentioned otherwise)

If the inputs used to measure the fair value of an asset or liability can be assigned to different levels of the fair value hierarchy, then the fair value measurement as a whole refers to the level of the hierarchy that corresponds to the lowest level inputs that are significant for the entire measurement.

The Group discloses transfers between levels of the fair value hierarchy in the reporting period during which this change took place.

The moment of time at which transfers to certain levels are recognized and for transfers from certain levels, the Group considers the date of occurrence of the event or change in circumstances that caused the transfer.

5 Principal Subsidiaries

The Group's Consolidated Financial Statements as of December 31, 2021 and December 31, 2020 include the Company and its subsidiaries, owned (founded) by PJSC “Rosseti Kuban”:

		Ownership share / voting shares, %	
	Country of registration	**December 31, 2021**	**December 31, 2020**
JSC Energetik Holiday Facility	Russian Federation	100	100
JSC Kuban Energoservis	Russian Federation	100	100

6 Segment Information

The Executive Board of PJSC “Rosseti Kuban” is the supreme decision-making body for operating activities.

The core activities of the Group are providing services for the transmission and distribution of electricity, technological connection to electric networks in the regions of the Russian Federation: Krasnodar Region and the Republic of Adygea.

To reflect the performance of each reporting segment, EBITDA is used: profit or loss before interest expense, taxation, depreciation, and net accrual/(recovery) of an impairment loss on property, plant and equipment and right-of-use assets (considering current accounting and reporting standards in the Russian Federation). The management believes that the EBITDA calculated in this way is the most indicative for evaluating the performance of the Group's operating segments.

For the purposes of presenting a reconciliation of EBITDA with consolidated profit for the previous period, in comparative information, the net accrual of impairment losses on property, plant and equipment and right-of of-use assets has been transferred from the adjustments section to the second section.

In accordance with the requirements of IFRS 8 “*Operating Segments”* based on data on segment revenue, EBITDA and total assets submitted to the Executive Board, the Group has allocated one reporting segment which is a strategic business unit of the Group. The strategic business unit provides electricity transmission services including technological connection services in the geographical regions of the Russian Federation (Krasnodar Region and the Republic of Adygea) and they are managed as a whole. The “Other” segment combines several operating segments, the core activities of which are providing repair services, lease services and recreation.

(in thousands Russian rubles, if not mentioned otherwise)

Segment indicators are based on business information prepared on the basis of the RAS reporting data and may differ from those presented in the financial statements prepared in accordance with the IFRS. Reconciliation of the indicators in the assessment presented to the Executive Board and similar indicators in these Consolidated Financial Statements includes those reclassifications and adjustments that are necessary for reporting in accordance with the IFRS.

The key segment indicators are presented and analyzed by the Executive Board of the Group and are disclosed in the tables below.

(a) Information on reportable segments

As of and for the year ended December 31, 2021:

	Rosseti Kuban	Other	Total
Revenue from external buyers	57 650 795	363 827	58 014 622
Revenue from sales between segments	18 949	1 463 224	1 482 173
Segment revenue	**57 669 744**	**1 827 051**	**59 496 795**
Including			
Electric power transmission	*54 526 276*	–	*54 526 276*
Technological connection to networks	*2 347 653*	–	*2 347 653*
Other revenue	*795 815*	*1 827 051*	*2 622 866*
Financial income	28 305	1 913	30 218
Financial expenses	(1 552 608)	(448)	(1 553 056)
Depreciation	(4 642 021)	(26 180)	(4 668 201)
Segment profit/(loss) before tax	**2 698 754**	**13 287**	**2 712 041**
EBITDA	**8 893 383**	**39 915**	**8 933 298**

As of and for the year ended December 31, 2020:

	Rosseti Kuban	Other	Total
Revenue from external buyers	49 365 948	196 736	49 562 684
Revenue from sales between segments	3 632	837 784	841 416
Segment revenue	**49 369 580**	**1 034 520**	**50 404 100**
Including			
Electric power transmission	*48 101 880*	–	*48 101 880*
Technological connection to networks	*731 309*	–	*731 309*
Other revenue	*536 391*	*1 034 520*	*1 570 911*
Financial income	29 540	1 092	30 632
Financial expenses	(1 593 371)	(105)	(1 593 476)
Depreciation	(4 559 838)	(3 913)	(4 563 751)
Segment profit before tax	**(1 384 286)**	**91 703**	**(1 292 583)**
EBITDA	**4 768 923**	**95 721**	**4 864 644**

As of and for the year ended December 31, 2021:

	Rosseti Kuban	Other	Total
Segment assets	**79 554 071**	**1 041 440**	**80 595 511**
Including property, plant and equipment and construction in progress	66 287 667	94 550	**66 382 217**
Capital investments	7 195 173	83 390	**7 278 563**
Liabilities of segments	**39 380 700**	**935 502**	**40 316 202**

As of and for the year ended December 31, 2020:

(in thousands Russian rubles, if not mentioned otherwise)

	Rosseti Kuban	Other	Total
Assets of segments	**77 380 244**	**434 941**	**77 815 185**
Including property, plant and equipment and construction in progress	63 827 345	58 828	**63 886 173**
Capital investments	5 052 934	30 923	**5 083 857**
Liabilities of segments	**39 551 046**	**312 955**	**39 864 001**

(b) Reconciliation of the main segment indicators by EBITDA is presented below:

Reconciliation of segments revenues:

	For the year ended December 31	
	2021	2020
Segments revenues	**59 496 795**	**50 404 100**
Exclusion of revenue from sales between segments	(1 482 173)	(841 416)
Adjustment for sales revenue (external)	–	(1 051)
Revenue in the Consolidated Statement of Profit or Loss and Other Comprehensive Income	**58 014 622**	**49 561 633**

Reconciliation of EBITDA of reporting segments:

	For the year ended December 31	
	2021	2020
EBITDA of reportable segments according to the RAS	**8 933 298**	**4 864 644**
Adjustment of intangible asset value	129 449	58 351
Discounting of accounts payable	375	1 170
Adjustment for accounts payable	144 226	33 856
Discounting of accounts receivable	3 296	5 034
Adjustment for disputed accounts receivable	2 135	127 924
Adjustment to the allowance for expected credit losses	(10 005)	(85 309)
Lease adjustment (reversal of lease expenses under IFRS 16)	1 542 144	1 733 407
Adjustment of estimated liabilities	8 338	(8 338)
Recognition of pension and other non-current liabilities to employees	20 486	176 427
Adjustment of accrued provisions for unused vacation days and bonuses	10 015	(42 665)
Adjustment of property, plant and equipment value	38 176	9 838
Tax adjustment	59 335	16 431
Adjustment for revenue from electric power transmission	–	(1 051)
Adjustment for intra-group transactions	(80 533)	(132 960)
Adjustment for subsidy	(3 942)	3 942
Other adjustments	(141 888)	5 087
EBITDA of reportable segments according to the IFRS	**10 654 905**	**6 765 788**
Depreciation of property, plant and equipment, right-of-use assets and intangible assets	(5 736 451)	(5 720 577)
Interest expense on financial liabilities	(1 532 351)	(1 585 331)
Interest expense for lease liabilities	(425 382)	(505 136)
Income tax expense	(1 096 276)	(194 954)
Consolidated profit/(loss) for the period in the Consolidated Statement of Profit or Loss and Other Comprehensive Income	**1 864 445**	**(1 240 210)**

(in thousands Russian rubles, if not mentioned otherwise)

Reconciliation of the total amount of assets of the reportable segments:

	For the year ended December 31	
	2021	**2020**
Total amount of assets of segments	**80 595 511**	**77 815 185**
Recognition of lease agreements under IFRS 16 standard	4 512 530	5 642 257
Recognition of assets related to employee benefit obligations	308 658	319 337
Adjustment for deferred tax assets	(1 359 448)	(932 816)
Adjustment for financial investments	5 848	14 109
Adjustment for the allowance for expected credit losses	(26 535)	(17 773)
Decrease in accounts receivable on VAT advances from advances issued	(700 138)	(721 071)
Calculations between segments	(703 351)	(295 841)
Discounting of accounts receivable	(4 260)	(6 800)
Reclassification of accounts receivable on lease to lease obligations	(11 672)	(12 784)
Write-off of accounts receivable	(25 619)	(25 619)
Intra-group financial assets	(45 687)	(45 687)
Adjustment for intangible assets value	(74 375)	(108 058)
Decrease in VAT recoverable amount for VAT amount from advances received	(159 099)	(17 687)
Adjustment of property, plant and equipment value	(5 197 902)	(5 570 362)
Excluding current RE from capital expenditures	(164 683)	(106 368)
Write-off of current assets	(29 685)	(21 740)
Other adjustments	3 532	2 573
Total assets in the Consolidated Statement of Financial Position	**76 923 625**	**75 910 855**

Reconciliation of the total amount of liabilities of reportable segments:

	For the year ended December 31	
	2021	**2020**
Total amount of liabilities of segments	**40 316 202**	**39 864 001**
Recognition of lease liabilities under IFRS 16	4 943 208	6 097 272
Reclassification of accounts payable to lease IFRS 16	(127 921)	(298 281)
Recognition of pension and other non-current liabilities to employees	545 309	561 821
Adjustment of accrued provisions for unused vacation days and bonuses	178 166	188 181
Discounting of accounts payable	(25)	(308)
Subsidy adjustment	–	(3 971)
Decrease in other accounts payable for VAT amount from advances received	(700 138)	(721 071)
Calculations between segments	(703 351)	(295 841)
Write-off of deferred income	(291 798)	(147 572)
Adjustment of deferred tax liabilities	(2 480 238)	(2 133 121)
Decrease in accounts payable for advances received for VAT amount from advances received	(159 099)	(17 687)
Other adjustments	(43 276)	8 338
Total amount of liabilities in the Consolidated Statement of Financial Position	**41 477 039**	**43 101 761**

(in thousands Russian rubles, if not mentioned otherwise)

(c) The significant buyer

The Group operates its activities in the territory of the Russian Federation. The Group does not receive proceeds from foreign consumers and has no non-current assets abroad.

For the year ended December 31, 2021 and December 31, 2020, the Group had 2 counterparties, each of which accounted for more than 10% of the Group's consolidated revenue. The revenue received from these counterparties are reflected in the Group's financial statements.

The total amount of revenue received from Counterparty 1 for 2021 amounted to 25 832 038 thousand rubles, or 44.53% of the Group's consolidated revenue (in 2020 – 23 392 295 thousand rubles, or 47.23%).

The total amount of revenue received from Counterparty 2 for 2021 amounted to 18 067 286 thousand rubles, or 31.14% of the Group's consolidated revenue (in 2020 – 15 920 732 thousand rubles, or 32.15%).

7 Revenue

	For the year ended December 31	
	2021	**2020**
Electric power transmission	54 525 149	48 099 486
Technological connection to electric networks	2 347 653	731 309
Other revenue	982 121	579 154
Total revenue from contracts with customers	**57 854 923**	**49 409 949**
Revenue from lease agreements	159 699	151 684
	58 014 622	**49 561 633**

Other revenue mainly includes revenue from the sale of additional (non-tariff) services provided by the company and not related to the main activities: services for the placement of equipment at power grid facilities, services for technical and repair maintenance, diagnostics and testing, construction and installation works, consulting and organizational and technical services and other non-tariff services.

8 Other Income

	For the year ended December 31	
	2021	**2020**
Income from discovered electric power consumption without agreements	68 476	70 376
Income from the termination of the lease agreement	–	17 117
Income in the form of penalties, fines and forfeits in economic contracts	328 707	527 826
Income from compensation for losses due to disposal/liquidation of electric grid property	222 778	225 558
Income from donated property, plant and equipment and inventories	191 443	65 648
Income from subsidies received	–	3 942
Insurance payout	160 753	230 669
Write-off of accounts payable	34 298	25 296
Profit from the sale of property, plant and equipment	801	–
	1 007 256	**1 166 432**

(in thousands Russian rubles, if not mentioned otherwise)

9 Other Expenses

	For the year ended December 31	
	2021	**2020**
Loss on disposal (sale) of property, plant and equipment	184 847	83 332
Other expenses	21 396	–
	206 243	**83 332**

10 Operating Expenses

	For the year ended December 31	
	2021	**2020**
Expenses for employee benefits	8 096 322	7 482 352
Depreciation of property, plant and equipment, right-of-use assets and intangible assets	5 736 451	5 720 577
Material expenses, including		
Electric energy for compensation of process losses	9 069 565	8 284 103
Purchased electrical energy and heat for own needs	124 177	120 836
Other material expenses	2 330 856	1 732 846
Works and services of an production nature, including		
Services for electric power transmission	21 919 041	20 504 022
Repair and maintenance services	674 899	693 764
Other works and services of production nature	217 799	402 090
Taxes and fees except income tax	631 545	682 534
Short-term lease	22 960	13 324
Insurance	140 918	90 878
Other services of third-party organizations, including:		
Communication services	79 944	72 569
Security	231 363	236 053
Consulting, legal and audit services	42 361	56 721
Software and maintenance expenses	116 354	96 330
Transport services	7 505	4 062
Other services, including		
Implementation of energy service contracts	1 123 825	1 435 925
Other third-party services	174 290	104 481
Other expenses, including		
Business expenses	85 901	76 334
Estimated liabilities	1 348 209	531 893
Expenses related to the maintenance of property	163 267	169 585
Expenses for services related to the organization, operation and development of the UPS	104 437	118 322
Expenses recognized in the form of penalties, fines and forfeits for breach of contract	10 507	61 483
Profit and loss for prior periods	394 168	382 224
Other operating expenses	560 846	193 063
	53 407 510	**49 266 371**

(in thousands Russian rubles, if not mentioned otherwise)

11 Employee Benefit Expenses

	For the year ended December 31	
	2021	**2020**
Salary	5 869 380	5 559 871
Social security contributions	1 796 649	1 697 707
Expenses/(income) related to defined benefit programs	26 968	(122 858)
Other	403 325	347 632
	8 096 322	**7 482 352**

During the year ended December 31, 2021, the amount of deductions for defined benefit programs amounted to 58 133 thousand rubles (for the year ended December 31, 2020: 52 594 thousand rubles).

The amounts of remuneration to key management personnel are disclosed in Note 35 “Related Party Transactions”.

12 Financial Income and Expenses

	For the year ended December 31	
	2021	**2020**
Financial income		
Interest income on loans issued, bank deposits, bills and bank account balances	26 467	29 642
Interest income on assets associated with liabilities for employee benefits	12 603	22 820
Effect from initial discounting of financial liabilities	375	1 170
Amortization of discount of financial assets	3 296	5 034
Other financial income	3 751	322
	46 492	58 988

	For the year ended December 31	
	2021	**2020**
Financial expenses		
Interest expenses for financial liabilities measured at amortized cost	1 500 212	1 547 750
Interest expenses for lease liabilities	425 382	505 136
Interest expenses for long-term employee benefit liabilities	30 725	33 186
Effect of initial discounting of financial assets	756	1 453
Amortization of discount of financial liabilities	658	2 942
Other financial expenses	–	–
	1 957 733	**2 090 467**

(in thousands Russian rubles, if not mentioned otherwise)

13 Income Tax

	For the year ended December 31	
	2021	**2020**
Current income tax		
Accrual of current tax	(1 157 150)	(107 284)
Tax adjustment for the prior periods	52 041	82 860
Total current income tax	**(1 105 109)**	**(24 424)**
Deferred income tax		
Accrual and recovery of temporary differences	8 833	(170 530)
Total income tax expense	**(1 096 276)**	**(194 954)**

Income tax recognized in other comprehensive income:

	For the year ended December 31, 2021			For the year ended December 31, 2020		
	Before tax	**Income tax**	**After tax**	**Before tax**	**Income tax**	**After tax**
Revaluation of pension liabilities for the programs with fixed payments	16 072	(3 214)	12 858	28 815	(5 763)	23 052
	16 072	**(3 214)**	**12 858**	**28 815**	**(5 763)**	**23 052**

As at December 31, 2021 and December 31, 2020, deferred income tax assets and liabilities are calculated at a rate of 20 percent, which is expected to be applicable when the respective assets and liabilities are realized.

Profit (loss) before tax is related to income tax expenses as follows:

	For the year ended December 31, 2021	**%**	**For the year ended December 31, 2020**	**%**
Profit/(loss) before tax	**2 960 721**	**100**	**(1 045 256)**	**(100)**
Theoretical amount of income tax expense at the rate of 20%	**(592 144)**	**(20)**	**209 051**	**(20)**
Tax effects from sections, untaxed and non -deductible for tax purposes	(556 173)	(19)	(486 865)	47
Adjustments for previous years	52 041	2	82 860	(8)
	(1 096 276)	**(37)**	**(194 954)**	**19**

(in thousands Russian rubles, if not mentioned otherwise)

14 Property, Plant and Equipment

	Real estate and buildings	Transmission networks	Electric power transmission equipment	Other	Construction in progress	Total
Initial / deemed cost						
As of January 1 , 2020	**9 857 128**	**45 731 587**	**21 500 947**	**8 942 530**	**3 702 815**	**89 735 007**
Reclassification between groups	(4 588)	5 424	2	(838)	–	**–**
Receipts	220	37 621	50 358	31 272	5 012 693	**5 132 164**
Transfer to right-of-use assets	–	–	–	–	589	**589**
Commissioning	460 524	2 153 273	1 240 311	542 803	(4 396 911)	**–**
Disposal	(2 517)	(11 609)	(17 458)	(27 700)	(115 320)	**(174 604)**
Transfer to non-current assets held for sale	–	–	–	–	–	**–**
As of December 31, 2020	**10 310 767**	**47 916 296**	**22 774 160**	**9 488 067**	**4 203 866**	**94 693 156**
Accumulated depreciation and impairment						
As of January 1 , 2020	**(3 207 102)**	**(14 098 992)**	**(8 986 012)**	**(5 964 288)**	**(71 282)**	**(32 327 676)**
Reclassification between groups	2 854	(3 003)	(1)	150	–	**–**
Accrual/recovery of impairment loss)	–	–	–	–	(4 984)	**(4 984)**
Accrued depreciation	(350 727)	(2 088 952)	(1 164 795)	(646 616)	–	**(4 251 090)**
Reclassification of impairment losses when property, plant and equipment commissioning	(898)	(509)	(1 106)	(534)	3 047	–
Impairment/reversal of impairment	–	–	–	–	–	**–**
Disposal	1 311	4 492	18 942	24 877	4 974	**54 596**
As of December 31, 2020	**(3 554 562)**	**(16 186 964)**	**(10 132 972)**	**(6 586 411)**	**(68 245)**	**(36 529 154)**
Carrying amount						
As of January 1 , 2020	**6 650 026**	**31 632 595**	**12 514 935**	**2 978 242**	**3 631 533**	**57 407 331**
As of December 31, 2020	**6 756 205**	**31 729 332**	**12 641 188**	**2 901 656**	**4 135 621**	**58 164 002**
Initial / deemed cost						
As of January 1 , 2021	**10 310 767**	**47 916 296**	**22 774 160**	**9 488 067**	**4 203 866**	**94 693 156**
Reclassification between groups	(14 232)	10 393	2 907	932	–	**–**
Transfer to right-of-use assets	–	–	–	–	–	**–**
Receipts	3 179	123 620	281 413	252 648	6 531 435	**7 192 295**
Commissioning	129 505	2 231 460	960 838	1 327 151	(4 648 954)	**–**
Disposal	(6 449)	(83 022)	(6 213)	(7 790)	(223 545)	**(327 019)**
Transfer to non-current assets held for sale	(413)			(1)		**(414)**
As of December 31, 2021	**10 422 357**	**50 198 747**	**24 013 105**	**11 061 007**	**5 862 802**	**101 558 018**
Accumulated depreciation and impairment						
As of January 1 , 2021	**(3 554 562)**	**(16 186 964)**	**(10 132 972)**	**(6 586 411)**	**(68 245)**	**(36 529 154)**
Reclassification of depreciation and impairment losses	11 456	(9 738)	(280)	(1 438)	–	**–**
Accrual/recovery of impairment loss	–	–	–	–	(252)	**(252)**
Reclassification of impairment losses when commissioning property, plant and equipment	(339)	(57)	(16 067)	(1 235)	17 698	**–**
Accrued depreciation	(379 854)	(2 107 819)	(1 202 919)	(635 221)	–	**(4 325 813)**
Disposal	4 558	46 264	4 590	7 649	11 605	**74 666**
Transfer to non-current assets held for sale	306	–	–	–	–	**306**
As of December 31, 2021	**(3 918 435)**	**(18 258 314)**	**(11 347 648)**	**(7 216 656)**	**(39 194)**	**(40 780 247)**
Carrying amount						
As of January 1 , 2021	**6 756 205**	**31 729 332**	**12 641 188**	**2 901 656**	**4 135 621**	**58 164 002**
As of December 31, 2021	**6 503 922**	**31 940 433**	**12 665 457**	**3 844 351**	**5 823 608**	**60 777 771**

As of December 31, 2021, construction in progress includes advances for the acquisition of property, plant and equipment in the amount of 493 715 thousand rubles (as of December 31, 2020: 140 958 thousand rubles) as well as materials for the construction of property, plant and equipment in the amount of 1 430 590 thousand rubles, (as of December 31, 2020: 802 561 thousand rubles).

For the year ended December 31, 2021, capitalized interests amounted to 80 858 thousand rubles (for the year ended December 31, 2020: 64 138 thousand rubles), the capitalization rate was 7.24% (for the year ended December 31, 2020 – 6.94%).

For the year ended December 31, 2021, amortization was capitalized into the value of the facilities of investment building amounting to 1 547 thousand rubles (for the year ended December 31, 2020, in the amount of 13 717 thousand rubles).

As of December 31, 2021 and December 31, 2020, there were no property, plant and equipment that are pledged as security for a loan.

Impairment of property, plant and equipment

Due to the presence of signs of impairment of non-current assets, the Group conducted an impairment test as of December 31, 2021.

Most of the Group's property, plant and equipment are specialized objects that rarely become objects of purchase and sale on the open market except when they are sold as part of existing businesses. The market for such property, plant and equipment is not active in the Russian Federation and does not provide enough examples of purchase and sale for a market approach to determine the fair value of these property, plant and equipment to be used.

As a result, the value of the use of property, plant and equipment as of December 31, 2021 was determined using the discounted cash flow method. This method considers the future net cash flows that these property, plant and equipment will generate in the course of operating activities as well as on disposal, in order to determine the recoverable value of these assets.

The core activities of the Group for the provision of services for the transmission and distribution of electricity, technological connection to electric networks is carried out in the regions of the Russian Federation: Krasnodar Region and the Republic of Adygea. When determining the CGU, the structure of assets, their territorial location, the mechanisms of electricity transmission, the method of tariff formation, the isolation of the energy system as well as the possibility of separate accounting and planning of financial indicators for a group of assets are considered. The main criterion for determining the CGU is the indivisibility of the tariff and the impossibility of further detailing accounting and planning. The group of assets of PJSC “Rosseti Kuban” as a whole is defined as the CGU (without the allocation of groups of assets of branches).

The following basic assumptions were used to estimate the recoverable value of assets of generating units:

The forecast cash flows were determined for the period 2022-2026 based on the management's best estimate of electricity transmission volumes, operating and capital costs as well as tariffs approved by regulatory authorities for 2022 (Unified (boiler) tariffs for electricity transmission services via the networks of the Krasnodar Region, the Republic of Adygea and the Federal Territory “Sirius” for 2022 approved by order of the Department of State Regulation of Tariffs of the Krasnodar Region dated December 27, 2021 No. 44/2021-e).

The source for the forecast of electricity transmission tariffs for the forecast period are the indicators of business plans which are based on tariff models formed considering the average annual growth of the tariff for electricity transmission services in accordance with the Forecast of Social and Economic Development of the Russian Federation for 2022 and the planning period 2023-2024 published on the website of the Ministry of Economic Development of the Russian Federation on October 6, 2021.

(in thousands Russian rubles, if not mentioned otherwise)

The forecast volumes of electricity transmission for the generating unit were determined on the basis of the annual Business Plan for 2022 and forecast indicators for 2023-2026 approved by the Board of Directors of PJSC “Rosseti Kuban” (Minutes of the meeting No. 461/2021 of December 30, 2021).

The forecast cash flows were discounted to their present value using a weighted average cost of capital (WACC) of 10.55%.

The long-term growth rate of net cash flows in the post-forecast period was 3.97%.

According to the results of testing, as of December 31, 2021, no impairment of the Group's non-current assets was detected. The sensitivity of the recoverable value of the assets of the CGU to changes in the basic assumptions in the calculation is presented below:

	Increase, %	**Decline, %**
Change of discount rate by 1%	14.14	(10.61)
The change in the RGR to the base value in each period by reducing the useful production by 0.5%	3.98	(3.98)
Change in the growth rate of net cash flow in the post-forecast period by 1%	10.03	(7.38)
Change in the level of operating expenses by 1%	6.39	(6.39)
Change in the level of investments (capital investments) by 10%	2.10	(2.10)

The sensitivity analysis of the material assumptions on the basis of which the impairment model for PJSC “Rosseti Kuban” was built as of December 31, 2021 is presented below:

- increase in the discount rate to 11.55% (by 1%): leads to an impairment loss of PJSC “Rosseti Kuban” in the amount of 4 038 556 thousand rubles, the value of use will be 61 543 317 thousand rubles;
- reduction of the required gross revenue to the base value in each period by 0.5%: does not lead to an impairment loss of PJSC “Rosseti Kuban”, the value of use will amount to 66 104 465 thousand rubles;
- increase in the level of operating expenses to the base value in each period by 1%: leads to an impairment loss of PJSC “Rosseti Kuban” in the amount of 1 137 035 thousand rubles, the value of use will be 64 444 838 thousand rubles ;
- increase in the level of capital investments in the forecast and post-forecast period by 10%: does not lead to an impairment loss of PJSC “Rosseti Kuban”, the value of use will amount to 67 401 256 thousand rubles ;
- decrease in the growth rate of net cash flow in the post-forecast period by 1%: leads to an impairment loss of PJSC “Rosseti Kuban” in the amount of 1 820 066 thousand rubles, the value of use will be 63 761 867 thousand rubles.

(in thousands Russian rubles, if not mentioned otherwise)

15 Intangible Assets

	Software	Certificates, licenses and patents	R&D	Other	Total
Initial cost					
As of January 1 , 2020	**652 801**	**7 171**	**14 500**	**78 195**	**752 667**
Reclassification between groups	–	–	–	–	–
Receipts	101 505	1 908	–	–	**103 413**
Disposal	(1 770)	**–**	–	–	**(1 770)**
As of December 31, 2020	**752 536**	**9 079**	**14 500**	**78 195**	**854 310**
Accumulated amortization and impairment					
As of January 1 , 2020	**(403 576)**	**(5 895)**	**–**	**(17 319)**	**(426 790)**
Accumulated amortization	(100 125)	(2 558)	**–**	(21 989)	**(124 672)**
Disposal	1 770	**–**	–	–	**1 770**
As of December 31, 2020	**(501 931)**	**(8 453)**	**–**	**(39 308)**	**(549 692)**
Carrying amount					
As of January 1 , 2020	**249 225**	**1 276**	**14 500**	**60 876**	**325 877**
As of December 31, 2020	**250 605**	**626**	**14 500**	**38 887**	**304 618**

	Software	Certificates, licenses and patents	R&D	Other	Total
Initial cost					
As of January 1 , 2021	**752 536**	**9 079**	**14 500**	**78 195**	**854 310**
Receipts	97 658	1 667	13 775	–	**113 100**
Disposal	–	–	(7 000)	–	**(7 000)**
As of December 31, 2021	**850 194**	**10 746**	**21 275**	**78 195**	**960 410**
Accumulated amortization and impairment					
As of January 1 , 2021	**(501 931)**	**(8 453)**	**–**	**(39 308)**	**(549 692)**
Accumulated amortization	(128 094)	(1 742)	–	(20 712)	**(150 548)**
Disposal	–	–	–	–	**–**
As of December 31, 2021	**(630 025)**	**(10 195)**	–	**(60 020)**	**(700 240)**
Residual value					
As of January 1 , 2021	**250 605**	**626**	**14 500**	**38 887**	**304 618**
As of December 31, 2021	**220 169**	**551**	**21 275**	**18 175**	**260 170**

The amount of amortization of intangible assets included in operating expenses in the consolidated statement of profit or loss and other comprehensive income amounted to 150 548 thousand rubles (for the year ended December 31, 2020: 122 350 thousand rubles).

The amount of capitalized amortization of intangible assets amounted to 1 516 thousand rubles (for the year ended December 31, 2020: 1 206 thousand rubles).

Intangible assets are amortized on a straight-line basis.

The amount of research and development costs recognized as part of operating expenses for 2021 amounted to 5 010 thousand rubles (for 2020: 8 525 thousand rubles).

(in thousands Russian rubles, if not mentioned otherwise)

16 Right-of-use Assets

	Land and buildings	Transmission networks	Electric power transmission equipment	Other	Total
Initial cost					
As of January 1 , 2020	**581 969**	**14 704**	**558 753**	**7 789**	**1 163 215**
Reclassification between groups	–	–	–	–	**–**
Receipts	1 843 120	2 769 041	1 054 874	379 283	**6 046 318**
Modification of conditions under lease agreements	75 106	838	(161 272)	(249)	**(85 577)**
Disposal or termination of lease agreements	(36 526)	(2 039)	(6 002)	(396)	**(44 963)**
As of December 31, 2020	**2 463 669**	**2 782 544**	**1 446 353**	**386 427**	**7 078 993**
Accumulated depreciation and impairment					
As of January 1 , 2020	**(32 455)**	**(3 804)**	**(133 505)**	**(1 587)**	**(171 351)**
Accumulated depreciation	(396 756)	(555 755)	(334 363)	(74 856)	**(1 361 730)**
Modification of conditions under lease agreements	1 329	–	71 020	109	**72 458**
Disposal or termination of lease agreements	21 239	585	2 022	41	**23 887**
As of December 31, 2020	**(406 643)**	**(558 974)**	**(394 826)**	**(76 293)**	**(1 436 736)**
Carrying amount					
As of January 1 , 2020	**549 514**	**10 900**	**425 248**	**6 202**	**991 864**
As of December 31, 2020	**2 057 026**	**2 223 570**	**1 051 527**	**310 134**	**5 642 257**
Initial cost					
As of January 1 , 2021	**2 463 669**	**2 782 544**	**1 446 353**	**386 427**	**7 078 993**
Receipts	199 335	144 719	5 507	2 224	**351 785**
Modification of conditions under lease agreements	(42 472)	5 133	2 812	6	**(34 521)**
Disposal or termination of lease agreements	(13 830)	(575)	(373 479)	(2 800)	**(390 684)**
As of December 31, 2021	**2 606 702**	**2 931 821**	**1 081 193**	**385 857**	**7 005 573**
Accumulated depreciation and impairment					
As of January 1 , 2021	**(406 643)**	**(558 974)**	**(394 826)**	**(76 293)**	**(1 436 736)**
Accumulated depreciation	(400 376)	(563 889)	(221 685)	(75 687)	**(1 261 637)**
Modification of conditions under lease agreements	14 421	–	–	–	**14 421**
Disposal or termination of lease agreements	2 139	248	187 077	1 445	**190 909**
As of December 31, 2021	**(790 459)**	**(1 122 615)**	**(429 434)**	**(150 535)**	**(2 493 043)**
Carrying amount					
As of January 1 , 2021	**2 057 026**	**2 223 570**	**1 051 527**	**310 134**	**5 642 257**
As of December 31, 2021	**1 816 243**	**1 809 206**	**651 759**	**235 322**	**4 512 530**

For the purposes of the impairment test, specialized right-of-use assets (including leased land plots for own and leased specialized facilities) are classified as the CGU assets in the same way as own non-current assets.

The value of the use of the right-of-use assets is determined using the discounted cash flow method. Information on the impairment test conducted as of December 31, 2021 is disclosed in Note 14 "Property, Plant and Equipment".

(in thousands Russian rubles, if not mentioned otherwise)

17 Deferred Tax Assets and Liabilities

The differences between the IFRS and Russian tax legislation lead to temporary differences between the book value of certain assets and liabilities for financial reporting purposes, on the one hand, and for income tax purposes, on the other.

(a) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities relate to the following sections:

	Assets		Liabilities		Net	
	December 31, 2021	**December 31, 2020**	**December 31, 2021**	**December 31, 2020**	**December 31, 2021**	**December 31, 2020**
Property, plant and equipment	42 048	27 470	(1 122 150)	(723 839)	(1 080 102)	(696 369)
Intangible assets	2 775	2 346	–	–	2 775	2 346
Right-of-use assets	–	–	(902 506)	(1 128 451)	(902 506)	(1 128 451)
Financial assets measured at fair value through other comprehensive income	–	–	(9 138)	(9 138)	(9 138)	(9 138)
Trade and other accounts receivable	509 601	408 361	–	–	509 601	408 361
Advances issued and other assets	2 077	2 548	–	–	2 077	2 548
Lease liabilities	988 642	1 219 454	–	–	988 642	1 219 454
Estimated liabilities	417 458	184 398	–	(2)	417 458	184 396
Employee benefit liabilities	9 330	11 529	–	–	9 330	11 529
Trade and other accounts payable	158 890	122 702	–	(19 858)	158 890	102 844
Advances received	–	1 038	–	(806)	–	232
Tax losses to be carried forward	1 630	15 172	–	–	1 630	15 172
Assets held for sale	–	–	(4 102)	(4 463)	(4 102)	(4 463)
Other	36 603	7 855	(10 013)	(790)	26 590	7 065
Tax assets/ (liabilities)	**2 169 054**	**2 002 873**	**(2 047 909)**	**(1 887 347)**	**121 145**	**115 526**
Tax offset	(2 045 719)	(1 886 502)	2 045 719	1 886 502	–	–
Net tax assets/(obligations)	**123 335**	**116 371**	**(2 190)**	**(845)**	**121 145**	**115 526**

(b) Change in deferred tax assets and liabilities during the year

	January 1, 2021	**Recognized as part of profit or loss**	**Recognized as part of other comprehensive income**	**December 31, 2021**
Property, plant and equipment	(696 369)	(383 733)	–	(1 080 102)
Intangible assets	2 346	429	–	2 775
Right-of-use assets	(1 128 451)	225 945	–	(902 506)
Financial assets measured at fair value through other comprehensive income	(9 138)	–	–	(9 138)
Trade and other accounts receivable	408 361	101 240	–	509 601
Advances issued and other assets	2 548	(471)	–	2 077
Lease liabilities	1 219 454	(230 812)	–	988 642
Estimated liabilities	184 396	233 062	–	417 458
Employee benefit liabilities	11 529	1 015	(3 214)	9 330
Trade and other accounts payable	102 844	56 046	–	158 890
Advances received	232	(232)	–	–
Tax losses to be carried forward	15 172	(13 542)	–	1 630
Assets held for sale	(4 463)	361	–	(4 102)
Other	7 065	19 525	–	26 590
	115 526	**8 833**	**(3 214)**	**121 145**

(in thousands Russian rubles, if not mentioned otherwise)

	January 1, 2020	Recognized as part of profit or loss	Recognized as part of other comprehensive income	December 31, 2020
Property, plant and equipment	(392 773)	(303 596)	–	(696 369)
Intangible assets	(9 507)	11 853	–	2 346
Right-of-use assets	(198 373)	(930 078)	–	(1 128 451)
Financial assets measured at fair value through other comprehensive income	(9 138)	–	–	(9 138)
Trade and other accounts receivable	362 465	45 896	–	408 361
Advances issued and other assets	895	1 653	–	2 548
Lease liabilities	212 684	1 006 770	–	1 219 454
Estimated liabilities	145 294	39 102	–	184 396
Employee benefit liabilities	41 367	(24 075)	(5 763)	11 529
Trade and other accounts payable	147 032	(44 188)	–	102 844
Advances received	–	232	–	232
Tax losses to be carried forward	188	14 984	–	15 172
Assets held for sale	(12 272)	7 809	–	(4 463)
Other	3 957	3 108	–	7 065
	291 819	**(170 530)**	**(5 763)**	**115 526**

18 Assets Qualified as Held for Sale

As of December 31, 2021 and 2020, the company's balance sheet had non-core assets listed in the table below:

	For the year ended December 31	
	2021	**2020**
As part of current assets		
Assets classified as held for sale − short-term	20 510	22 314
	20 510	**22 314**

It is expected that the sale of a non-core asset classified as held for sale will take no more than one year.

Immediately before classifying the objects as assets for sale, an estimate of the recoverable amount was made. As of December 31, 2021, there was no write-off, as the carrying amount of assets held for sale has not decreased below its fair value less costs to sell.

19 Inventory

	December 31, 2021	December 31, 2020
Raw materials and supplies	1 004 731	827 016
Reserve for impairment of raw materials	(1 181)	(1 704)
Other inventories	1 178 002	1 192 258
Reserve for impairment of other inventories	(353)	(2 847)
	2 181 199	**2 014 723**

As at 31 December 2021 and 31 December 2020, the Group had no reserves that would be pledged under loan or other agreements.

For the year ended December 31, 2021, 2 330 856 thousand rubles were recognized as expenses (during the year ended December 31, 2020, 1 732,846 thousand rubles) as part of operating expenses under the section “Other Material Expenses”.

As of December 31, 2021, the reserves intended to ensure the prevention and liquidation of emergency situations at power grid facilities (industry emergency reserve) is 545 273 thousand rubles (December 31, 2020 – 507 511 thousand rubles) and is reflected in the section “Inventories”.

(in thousands Russian rubles, if not mentioned otherwise)

20 Trade and Other Accounts Receivable

	December 31, 2021	December 31, 2020
Trade and other receivables, long-term		
Trade accounts receivable	1 345	445
Other accounts receivable	7 682	12 694
	9 027	**13 139**
Trade and other receivables, short-term		
Trade accounts receivable	7 560 859	8 858 237
Provision for expected credit losses on trade accounts receivable	(1 686 223)	(1 253 116)
Other accounts receivable	1 163 952	1 263 664
Provision for expected credit losses on other accounts receivable	(828 933)	(753 285)
	6 209 655	**8 115 500**
	6 218 682	**8 128 639**

Information on the Group's exposure to credit and currency risk, impairment of trade and other accounts receivable as well as fair value, is disclosed in Note 32.

21 Advances Issued and Other Assets

	December 31, 2021	December 31, 2020
Non-current		
Advances issued	5 934	3 257
VAT for advances received	407	685
	6 341	**3 942**
Current		
Advances issued	186 574	36 700
Provision for impairment of advances issued	(5 377)	(5 877)
VAT recoverable	9 541	22 597
VAT for advances received and VAT for advances issued for the purchase of property, plant and equipment	50 341	15 366
Prepaid taxes except income tax	24 077	70 698
	265 156	**139 484**
	271 497	**143 426**

22 Cash and Cash Equivalents

	December 31, 2021	December 31, 2020
Cash at bank and in hand	1 984 357	752 545
	1 984 357	**752 545**

As of December 31, 2021 and December 31, 2020, all cash balances are denominated in rubles.

(in thousands Russian rubles, if not mentioned otherwise)

23 Charter Capital

(a) Charter capital

	Ordinary shares	
In units	**December 31, 2021**	**December 31, 2020**
Nominal value of one share	100 rubles	100 rubles
In circulation as at January 1	334 657 837	334 657 837
In circulation at the end of the year and fully paid	342 258 436	334 657 837

(b) Ordinary shares

In accordance with the Articles of Association as of January 1, 2021 and as of December 31, 2021, the Charter capital of the Company is 33 465 783 700 rubles, it is divided into 334 657 837 units of ordinary registered non-documentary shares at nominal value of 100 rubles 00 kopecks each.

(c) Dividends

The source of payment of dividends is the net profit of PJSC "Rosseti Kuban" determined in accordance with the requirements established by the current legislation of the Russian Federation.

For the year ended December 31, 2021, dividends for 2020 were not accrued and were not paid to the owners of the company (for the year ended December 31, 2020, dividends for 2019 paid to the owners of the company amounted to 636 639 thousand rubles including the parent company PJSC "Rosseti" – 595 146 thousand rubles.).

As of December 31, 2021, the amount of dividends for 2017 returned to the Group after the expiration of the claim period and included in retained earnings amounted to 127 thousand rubles (as of December 31, 2020, the amount of unclaimed dividends for 2016 included in retained earnings is 249 thousand rubles).

(d) Additional issue of the securities

In February 2021, the Extraordinary General Meeting of Shareholders of PJSC "Rosseti Kuban" decided to increase the charter capital of the Company by placing additional ordinary shares in the amount of 69 583 132 units with a nominal value of 100 rubles each, for a total amount at a nominal value of 6 958 313 200 rubles (Minutes of the Meeting of February 26, 2021 No. 44).

On March 17, 2021, the Board of Directors of PJSC "Rosseti Kuban" approved a securities prospectus containing the conditions of placement of additional shares.

On April 1, 2021, the Bank of Russia carried out the state registration of this additional issue and the registration of the securities prospectus of PJSC "Rosseti Kuban". The additional issue of securities was assigned the state registration number 1-02-00063-A.

Additional shares will be placed within a year from the date of state registration of the additional issue, that is, until April 1, 2022.

In the second quarter of this year, the shareholders began exercising the pre-emptive right to purchase additional shares of the Group which will continue until February 3, 2022.
As of December 31, 2021, funds were received to pay for the outstanding shares in the amount of 760 060 thousand rubles.

On September 29, 2021, PJSC "Rosseti Kuban" handed over to the registrar an order on the placement of 5 966 911 additional issue shares in favor of persons exercising the pre-emptive right to purchase securities. On September 30, 2021, the registrar performed an operation in the register of securities holders of PJSC "Rosseti Kuban" for the initial placement of these shares.

On December 28, 2021, PJSC “Rosseti Kuban” handed over to the registrar an order on the placement of 1 200 933 additional issue shares in favor of persons exercising the pre-emptive right to purchase securities. On December 29, 2021, the registrar performed an operation in the register of securities holders of PJSC “Rosseti Kuban” for the initial placement of these shares.

The Group's management assessed the probability of a refund of the funds received due to the payment of additional shares in the amount of 43 276 thousand rubles as “low”. Having applied the provisions of IAS 32 “Financial Instruments: Presentation of Information” and IFRIC 2 “*Shares of participants in cooperative organizations and similar instruments”*, the Group classified the cash received as part of Capital elements under the line “Provision for the issue of shares” of the consolidated statement of financial position.

24 Earnings per Share

The calculation of earnings per share for the year ended December 31, 2021 and December 31, 2020 is based on earnings attributable to holders of ordinary shares and the weighted average number of ordinary shares outstanding. The Company does not have dilutive financial instruments.

In thousands of shares	2021	2020
Ordinary shares as of January 1	**334 658**	**334 658**
The effect of the stock floatation	7 600	–
Weighted average number of shares for the period ended December 31	**342 258**	**334 658**

	For the year ended December 31, 2021	For the year ended December 31, 2020
Weighted average number of shares outstanding for the period ended December 31 (in thousands of units)	342 258	334 658
Profit/(loss) for the period which is payable to Company owners	1 864 445	(1 240 210)
Profit/(loss) per share – basic and diluted (in Russian rubles)	**5.45**	**(3.71)**

25 Borrowings

	December 31, 2021	December 31, 2020
Long-term liabilities		
Unsecured loans and borrowings	16 136 314	17 882 922
Lease liabilities	4 943 208	6 097 272
By deducting: current portion of long-term lease liabilities	(1 337 002)	(1 201 791)
	19 742 520	**22 778 403**
Short-term liabilities		
Unsecured loans and borrowings	4 834 192	5 553 866
Current portion of long-term lease liabilities	1 337 002	1 201 791
	6 171 194	**6 755 657**
Including:		
Interest payable on loans and borrowings	34 192	153 866
	34 192	**153 866**

As of December 31, 2021 and December 31, 2020, all loan balances are denominated in rubles.

(in thousands Russian rubles, if not mentioned otherwise)

For the year ended December 31, 2021, the Group used the following bank loans and borrowings:

	Effective interest rates	Repayment periods	Nominal value
Unsecured bank credits	5.10%-10.40%	2021-2024	17 124 927
Unsecured bank credits	7.00%-KC+1.50%	2021-2023	1 990 120
Unsecured bank credits	KC+2.75%	2023-2023	99 999
Unsecured loans	7.95%-10.01%	2022-2022	4 800 000
			24 015 046

For the year ended 31 December 2021, the Group repaid the following loans and bank credits:

	Nominal value
Unsecured bank credits	20 961 654
Unsecured loans	5 400 000
	26 361 654

As of December 31, 2021, the amount of available line of open but unused credit lines and loans of the Group amounted to 43 209 186 thousand rubles, including overdraft lending limits of 1 750 000 thousand rubles (37 112 578 thousand rubles as of December 31, 2020).

The Group has the opportunity to obtain additional financing within the appropriate limits including for ensuring the fulfillment of its short-term liabilities.

The Group does not use hedging instruments to manage interest rate risk.

In 2021, the Group recorded a breach of financial indicators under loan agreement No. 5781 dated June 30, 2020 concluded with PJSC “Rosseti”. Due to the presence of objective reasons for exceeding the indicators established by the loan agreement as well as in accordance with the letter of PJSC “Rosseti”, the lender has no intention of early reclaiming the loan.

In 2021, the lender of the Group – Sberbank – recorded a breach of the condition on maintaining net credit turnover for the 3rd quarter of 2021 under General Agreements No. 5400/449 dated July 9, 2018, No. 5400/634 and No. 5400/635 dated November 18, 2019. In accordance with the letter of Sberbank, the bank confirmed that it had no intention to use the right to claim repayment of the outstanding amounts before the end of the issued tranches (until July 21, 2023).

Information on the Group's exposure to interest rate risk is disclosed in Note 32.

(in thousands Russian rubles, if not mentioned otherwise)

		Effective interest rate		Book value	
	Maturity date	**December 31, 2021**	**December 31, 2020**	**December 31, 2021**	**December 31, 2020**
Unsecured loans and borrowings					
Unsecured loans	2023-2025	КС +1.55% - КС +2.75%	5.68%-7.40%	13 244 141	15 482 922
Unsecured loans	2023-2026	КС +1.10% - КС +1.43%	5.95%-5.95%	1 500 404	1 000 000
Unsecured loans	2022-2023	7.07%-10.01%	5.68%-7.40%	6 225 961	6 953 866
				20 970 506	**23 436 788**
Lease liabilities	2022-2070	6.16%-9.31%	5.95%-8.13%	4 943 208	6 097 272
Total liabilities				**25 913 714**	**29 534 060**

26 Changes in Liabilities Arising from Financial Activities

	Borrowings		**Interest payable on borrowings (except % under lease agreements)**		
	Long-term	**Short-term**		**Lease liabilities**	**Dividends payable**
As of January 1 , 2021	**17 882 922**	**5 400 000**	**153 866**	**6 097 272**	**479**
Changes in cash flows from financing activities					
Raising borrowings	17 994 477	6 020 569	–	–	–
Repayment of loans and borrowings	(19 741 085)	(6 620 569)	(1 700 415)	–	–
Lease payments	–	–	–	(1 323 437)	–
Interest paid (operating activities, for reference)	–	–	–	(401 486)	–
Dividends paid	–	–	–	–	(8)
Total	**(1 746 608)**	**(600 000)**	**(1 700 415)**	**(1 724 923)**	**(8)**
Non-cash changes					
Capitalized interest	–	–	80 529	329	–
Interest expense	–	–	1 500 212	425 382	–
Receipts from lease agreements	–	–	–	351 785	–
Dividends accrued	–	–	–	–	–
Other changes, net	–	–	–	(206 637)	(127)
Total	**–**	**–**	**1 580 741**	**570 859**	**(127)**
As of December 31, 2021	**16 136 314**	**4 800 000**	**34 192**	**4 943 208**	**344**

(in thousands Russian rubles, if not mentioned otherwise)

	Borrowings		Interest payable on borrowings (except % under lease agreements)	Lease liabilities	Dividends payable
	Long-term	Short-term			
As of January 1 , 2020	**19 432 911**	**3 600 000**	**52 592**	**1 063 418**	**453**
Changes in cash flows from financing activities					
Raising borrowings	36 128 620	13 837 073	–	–	–
Repayment of loans and borrowings	(37 678 609)	(12 037 073)	(1 510 614)	–	–
Lease payments	–	–	–	(916 969)	–
Interest paid (operating activities, for reference)	–	–	–	(498 722)	–
Dividends paid	–	–	–	–	(636 639)
Total	**(1 549 989)**	**1 800 000**	**(1 510 614)**	**(1 415 691)**	**(636 639)**
Non-cash changes					
Capitalized interest	–	–	64 138	1 383	–
Interest expenses	–	–	1 547 750	505 136	–
Receipts under lease agreements	–	–	–	6 046 317	–
Dividends accrued	–	–	–	–	636 665
Other changes, net	–	–	–	(103 291)	–
Total	**–**	**–**	**1 611 888**	**6 449 545**	**636 665**
As of December 31, 2020	**17 882 922**	**5 400 000**	**153 866**	**6 097 272**	**479**

(in thousands Russian rubles, if not mentioned otherwise)

27 Employee benefits

The Group has a defined benefit pension and other long-term defined benefit plans that apply to most employees and retired employees. Liabilities under defined benefit programs consist of several unsecured programs that provide lump-sum payments upon retirement, payments in case of death of employees.

The amounts of defined benefit liabilities recognized in the consolidated statement of financial position are presented below:

	December 31, 2021	December 31, 2020
Net value of obligations under employee benefit programs after termination of labor activity	545 309	561 821
Total net value of liabilities	**545 309**	**561 821**

Change in the value of net assets related to employee compensation liabilities:

	For the year ended December 31	
	2021	2020
Asset value as of January 1	**319 337**	**318 362**
Employer’s contributions	20 734	20 014
Other movement on accounts	15 087	24 011
Benefits payment	(46 500)	(43 050)
Value of assets as of December 31	**308 658**	**319 337**

Assets related to defined benefit pension programs are administered by Non-State Pension Fund of JSC “NPF “Otkritie”. These assets are not assets of defined benefit pension plans since under the conditions of existing agreements with the fund, the Group has the opportunity to use contributions transferred under defined benefit pension plans to finance its defined contribution pension plans or transfer to another fund on its own initiative.

Changes in the present value of defined benefit liabilities:

	For the year ended December 31, 2021		For the year ended December 31, 2020	
	Benefits after termination of labor activity	Other long-term benefits	Benefits after termination of labor activity	Other long-term benefits
Defined benefit liabilities as of January 1	**561 821**	–	**732 902**	–
Cost of current services	26 968	–	30 692	–
Past service cost and budget sequestration	–	–	(153 550)	–
Interest expense on liabilities	30 725	–	33 186	–
Effect of revaluation:		–		
- loss from changes in demographic actuarial assumptions	14 372	–	–	–
- loss from changes in financial actuarial assumptions	(83 058)	–	9 133	–
- (profit)/loss from adjustment based on experience	52 614	–	(37 948)	–
Contributions to the program	(58 133)	–	(52 594)	–
Defined benefit liabilities as at 31 December	**545 309**	–	**561 821**	–

(in thousands Russian rubles, if not mentioned otherwise)

Expenses recognized in profit or loss for the period:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Employee service cost	26 968	(122 858)
Interest expenses	30 725	33 186
Total (income)/expenses recognized in profit or loss	**57 693**	**(89 672)**

Profit/loss recognized in other comprehensive income for the period:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Loss from changes in demographic actuarial assumptions	14 372	–
Loss on changes in financial actuarial assumptions	(83 058)	9 133
(Profit)/loss from adjustment based on experience	52 614	(37 948)
Total (income)/loss recognized in other comprehensive income	**(16 072)**	**(28 815)**

Change in reserve for revaluation of liabilities in other comprehensive income during the reporting period:

	For the year ended December 31	
	2021	**2020**
Revaluation as of January 1	**499 218**	**528 033**
Revaluation change	(16 072)	(28 815)
Revaluation at December 31	**483 146**	**499 218**

Basic actuarial assumptions:

	December 31, 2021	December 31, 2020
Financial assumptions		
Discount rate	8.4%	6.1%
Salary increase in the future	5.0%	4.5%
Inflation rate	4.5%	4.0%
Demographic assumptions		
Predictable retirement age		
- Men	65	65
- Women	60	60
Moderate level of employee turnover	9.5%	9.5%

The sensitivity of the aggregate value of pension liabilities to changes in the main actuarial assumptions is given below:

	Changes in assumptions	Impact on liabilities
Discount rate	Growth/decrease by 0.5%	Change by (3.5%)
Salary increase in the future	Growth/decrease by 0.5%	Change by 2.7%
Benefits (inflation) increase in the future	Growth/decrease by 0.5%	Change by 1.2%
Level of employee turnover	Increase/decrease by 10%	Change by (2.4%)
Mortality rate	Increase/decrease by 10%	Change by (1.1%)

(in thousands Russian rubles, if not mentioned otherwise)

The amount of expectable payments under long–term employee benefits programs for the period from January 1, 2022 - December 31, 2022 is 161 753 thousand rubles including:

- under defined benefit programs including non-state pension provision of employees, 161 753 thousand rubles;
- according to the programs of other long-term employee benefits 0 thousand rubles.

28 Trade and Other Accounts Payable

	December 31, 2021	December 31, 2020
Long-term debt		
Trade accounts payable	92 134	95 472
Other accounts payable	30 001	8 967
	122 135	**104 439**
Short-term debt		
Trade accounts payable	6 783 569	5 864 793
Other accounts payable and accrued expenses	707 163	597 154
Payables to employees	1 226 789	1 130 408
Dividends payable	344	479
	8 717 865	**7 592 834**
	8 840 000	**7 697 273**

Information on the Group's exposure to liquidity risk in terms of accounts payable is disclosed in Note 32.

29 Tax Payable Except Income Tax

	December 31, 2021	December 31, 2020
VAT	571 743	570 035
Property tax	159 482	162 485
Social security contributions	170 816	138 979
Other taxes payable	63 132	66 802
	965 173	**938 301**

30 Advances Received

	December 31, 2021	December 31, 2020
Long-term		
Advances for services of technological connection to electric networks	1 127 028	1 179 235
Other advances received	6 914	–
	1 133 942	**1 179 235**
Short-term		
Advances for services of technological connection to electric networks	1 723 537	2 083 710
Other advances received	268 354	168 800
	1 991 891	**2 252 510**
	3 125 833	**3 431 745**

(in thousands Russian rubles, if not mentioned otherwise)

31 Estimated Liabilities

	For the year ended December 31	
	2021	**2020**
Balance as of January 1	**921 992**	**726 472**
Accrual (increase) for the period	1 416 263	596 284
Recovery (decrease) for the period	(68 054)	(64 391)
Use of estimated liabilities	(217 546)	(361 753)
Capitalized	31 795	25 380
Balance as of December 31	**2 084 450**	**921 992**

The estimated liabilities mainly relate to lawsuits and claims brought against the Group for ordinary activities.

32 Financial Risk and Capital Management

In the course of its normal financial and business activities, the Group is exposed to a variety of financial risks, including, but not limited to, the following: market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk.

This Note contains information about the Group's exposure to each of these risks, discusses the objectives, policies and procedures for risk assessment and management as well as information about the Group's capital management. More detailed quantitative data are disclosed in the relevant sections of these consolidated financial statements.

In order to maintain or change the capital structure, the Group may change the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

(a) Credit risk

Credit risk is the risk that the Group will incur a financial loss caused from buyers or contractors’ failure to meet contractual obligations regarding the financial instruments in full and on time. Credit risk is mainly associated with the Group's accounts receivable, bank deposits, cash and cash equivalents.

Deposits with original repayment period more than three months, cash and cash equivalents are placed in financial institutions that have a minimal risk of default are considered reliable counterparties with a stable financial position in the financial market of the Russian Federation.

Considering the structure of the Group's borrowers, the Group's exposure to credit risk mainly depends on the individual characteristics of each counterparty. The Group creates a provision for expected credit losses on trade and other receivables, the estimated value of which is determined based on the model of expected credit losses weighted by the probability of default, and can be adjusted both upward and downward. For these purposes, the Group analyzes the creditworthiness of counterparties, the dynamics of debt repayment, considers changes in payment conditions, the availability of third-party guarantees, bank guarantees, current economic conditions.

The carrying amount of accounts receivable, less the allowance for expected credit losses, represents the maximum amount exposed to credit risk. Although the repayment of accounts receivable may be affected by economic and other factors, the Group believes that there is no significant risk of losses exceeding the created reserve.

(in thousands Russian rubles, if not mentioned otherwise)

The Group, whenever possible, uses a prepayment system in its relations with counterparties. As a rule, prepayment for technological connection of consumers to the networks is provided for by the contract. The Group does not require collateral for accounts receivable.

In order to effectively organize work with accounts receivable, the Group monitors changes in the volume of accounts receivable and its structure, highlighting current and overdue debts. In order to minimize credit risk, the Group implements measures aimed at timely fulfillment of contractual obligations by counterparties, reducing and preventing the formation of overdue debts. Such measures, in particular, include: conducting negotiations with consumers of services, improving the efficiency of the process of forming the volume of services for the transmission of electricity, ensuring compliance with the schedules agreed with the reliable suppliers of control readings and technical verification of electricity metering devices, limiting the mode of electricity consumption (implemented in accordance with the statutory regulations of the legislation of the Russian Federation), claim work, presentation of requirements for the provision of financial security in the form of independent (bank) guarantees, banker’s guarantees and other forms of ensuring the fulfillment of obligations.

i. The level of credit risk

The book value of financial assets reflects the maximum amount of the Group's credit risk. As of the reporting date, the maximum level of credit risk was:

	Book value	
	December 31, 2021	**December 31, 2020**
Trade and other accounts receivable (less the provision for expected credit losses)	6 218 682	8 128 639
Cash and cash equivalents	1 984 357	752 545
	8 203 039	**8 881 184**

As of the reporting date, the maximum level of credit risk in terms of trade accounts receivable by buyer groups was:

	December 31, 2021		**December 31, 2020**	
	Total nominal value	**Provision for expected credit losses**	**Total nominal value**	**Provision for expected credit losses**
Buyers of electricity transmission services	7 077 351	(1 351 430)	8 515 965	(1 129 735)
Buyers of services for technological connection to networks	47 631	(24 810)	37 783	(27 652)
Other buyers	437 222	(309 983)	304 934	(95 729)
	7 562 204	**(1 686 223)**	**8 858 682**	**(1 253 116)**

The book value of trade accounts receivable attributable to the ten largest borrowers of the Group amounted to 5 339 100 thousand rubles as of December 31, 2021 (as of December 31, 2020: 7 962 695 thousand rubles).

(in thousands Russian rubles, if not mentioned otherwise)

Classification of trade and other accounts receivable by statute of limitations is presented below:

	December 31, 2021		December 31, 2020	
	Total nominal value	**Provision for expected credit losses**	**Total nominal value**	**Provision for expected credit losses**
Outstanding debt	5 991 942	(479 900)	5 865 076	(36)
Overdue by less than 3 months	362 238	(72 480)	1 369 296	(10 236)
Overdue by more than 3 months and less than 6 months	124 041	(17 327)	111 160	(51 208)
Overdue for more than 6 months and less than a year	162 618	(78 622)	534 371	(205 454)
Overdue for more than a year	2 092 999	(1 866 827)	2 255 137	(1 739 467)
	8 733 838	**(2 515 156)**	**10 135 040**	**(2 006 401)**

The Group believes that overdue non-impaired accounts receivable are highly likely to be recoverable as of the reporting date due to the existence of positive judicial practice in similar cases.

The carrying amount of accounts receivable from buyers and customers and other accounts receivable, less the provision for impairment of accounts receivable, represents the maximum amount exposed to credit risk. Although the repayment of accounts receivable is confirmed by the influence of economic factors, management believes that the Group does not have a significant risk of losses in excess of the already formed provision for expected credit losses.

The movement of the provision for expected credit losses on trade and other receivables is presented below:

	2021	**2020**
Balance as of January 1	2 006 401	1 774 590
Increase in the reserve for the period	604 955	505 341
Recovery of reserve amounts for the period	(69 044)	(114 073)
Amounts of trade and other accounts receivable written off from the previously accrued reserve	(27 156)	(159 457)
Reclassification for the period	–	–
Balance as of December 31	**2 515 156**	**2 006 401**

As at 31 December 2021 and 31 December 2020, the Group has no contractual basis for offsetting financial assets and financial liabilities, and the Group's management does not anticipate offsetting in the future on the basis of additional agreements.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial liabilities at maturity date of liabilities redemption.

Liquidity risk management implies maintaining a sufficient amount of cash and availability of financial resources by obtaining credit lines. The Group adheres to a balanced model of working capital financing through the use of both short-term and long-term sources. Temporarily available funds are placed in the form of short-term financial instruments, mainly bank deposits.

The Group's approach to liquidity management is to ensure that the Group always has liquid funds sufficient to repay its obligations on time preventing unacceptable losses and not putting the Group's reputation at risk. This approach is used to analyze payment conditions related to financial assets and forecast cash flows from operating activities.

The Group's consolidated financial statements prepared in accordance with the International Financial Reporting Standards for the year 2021 ended 31 December 2021 have been prepared on the basis of the going concern principle which implies that the Group is able to realize its assets and settle its liabilities in the normal course of business in the foreseeable future.

The Group's profit for 2021 amounted to 1 877 303 thousand rubles (2020 – the loss of 1 217 158 thousand rubles mainly due to the impact of negative consequences related to COVID-19), the Company's short-term liabilities as of December 31, 2021 amounted to 19 930 943 thousand rubles including liabilities for borrowings in the amount of 6 171 194 thousand rubles. The Group has opened free lending limits to ensure the refinancing of borrowings due in 2022. The total amount of the credit limit (including overdraft loans) with the end of the sample period in 2022-2025 as of December 31, 2021 is 43 209 186 thousand rubles including free limits under loan agreements with PJSC "Rosseti" – 1 300 000 thousand rubles.

According to the forecasts of the Group's management, the net cash flow from operating activities in 2022 will be sufficient to cover the Group's liabilities payable in 2022.

Thus, despite the working capital deficit, the Group's management believes that the Group will be able to fulfill all its current liabilities during 2022.

(in thousands Russian rubles, if not mentioned otherwise)

Information concerning the contract periods of repayments of financial liabilities considering the expectable interest payments and without taking into account the effect of set-offs is outlined below. By reference to the cash flows included in the time analysis of payment, it is not assumed that they may arise significantly earlier in time or in significantly different amounts:

December 31, 2021	**Book value**	**Cash flows under the agreement**	**Up to 1 year**	**From 1 to 2 years**	**From 2 to 3 years**	**From 3 to 4 years**	**From 4 to 5 years**	**Over 5 years**
Non-derivative financial liabilities								
Credits and loans	20 970 506	24 532 308	6 792 666	1 263 945	10 740 524	5 735 173	–	–
Finance lease liabilities	4 943 208	7 056 042	1 775 684	1 631 567	1 622 884	108 880	70 325	1 846 701
Trade and other account payable	8 840 370	9 132 193	9 010 058	28 531	8 551	3 755	3 905	77 393
	34 754 084	**40 720 542**	**17 578 408**	**2 924 043**	**12 371 959**	**5 847 808**	**74 230**	**1 924 094**

December 31, 2020	**Book value**	**Cash flows under the agreement**	**Up to 1 year**	**From 1 to 2 years**	**From 2 to 3 years**	**From 3 to 4 years**	**From 4 to 5 years**	**Over 5 years**
Non-derivative financial liabilities								
Credits and loans	23 436 788	26 854 818	6 861 988	2 184 128	16 279 350	98 980	1 430 372	–
Lease liabilities	6 097 272	8 372 398	1 891 139	1 587 416	1 514 815	1 493 315	98 106	1 787 607
Trade and other account payable	7 709 555	7 857 435	7 752 306	10 554	5 912	3 610	3 755	81 298
	37 243 615	**43 084 651**	**16 505 433**	**3 782 098**	**17 800 077**	**1 595 905**	**1 532 233**	**1 868 905**

(c) Market risk

Market risk is the risk of changes in market prices such as foreign exchange rates, interest rates, commodity prices and the cost of capital which will affect the financial results of the Group's operations or the value of financial instruments held. The purpose of market risk management is to control exposure to market risk and keep it within acceptable limits while achieving optimization of investment returns.

i. Currency risk

Most of the Group's income and expenses as well as monetary assets and liabilities are denominated in Russian rubles. Changes in exchange rates do not have a direct significant impact on the Group's income and expenses.

ii. Interest risk

Changes in interest rates mainly have an impact on loans and borrowings as they change either their fair value (for loans and borrowings with a fixed rate) or future cash flows (for loans and borrowings with a floating rate). The Group's management does not adhere to any established rules when determining the ratio between loans and borrowings at fixed and floating rates. However, when making borrowing decisions, the Group's management prefers loans and borrowings with fixed rates, and, as a result, the Group is exposed to the risk of changes in these rates to a limited extent. At the same time, in the loan agreements concluded by the Group, as a rule, there are no prohibitive commissions of creditor banks for early repayment of debt on the initiative of the borrower which provides the Group with additional flexibility in optimizing interest rates in the current economic conditions.

Sensitivity analysis of the fair value for fixed rate financial instruments

The Group does not account for any fixed rate financial assets and liabilities as instruments measured at fair value, changes in which are reflected in profit or loss for the period. Accordingly, the change in interest rates as of the reporting date would not affect the profit or loss indicators.

(d) Fair and book value

The book value of the Group's financial instruments corresponds to their fair value, respectively, no additional disclosure is provided for them.

The interest rate used to discount the expected future cash flows on long-term accounts receivable for the purposes of determining the disclosed fair value as of December 31, 2021 was 6.78%-8.69% (December 31, 2020: 6.97%-9.01%).

The interest rate used to discount the expected future cash flows on long-term accounts payable for the purposes of determining the disclosed fair value as of December 31, 2021 was 6.78%-8.69% (as of December 31, 2020: 6.97%-9.01%).

The interest rate used to discount expected future cash flows on long-term and short-term borrowings for the purposes of determining the disclosed fair value as of December 31, 2021 was 5.60% - KC+2.75% (as of December 31, 2020: 5.68%-7.40%).

For the year ended December 31, 2021, there were no transfers between the levels of the fair value hierarchy.

(e) Capital management

The main aim of capital management for the Group is to maintain a consistently high level of capital which allows maintaining the trust of investors, creditors and market participants and ensuring sustainable business development in the future.

The Group monitors the structure and return on equity using coefficients calculated on the basis of consolidated financial statements under the IFRS, management reports and statements prepared in accordance with the RAS. The Group analyzes the dynamics of the indicators of total debt and net debt, the structure of debt as well as the ratio of equity and debt capital.

The Group manages the debt position by implementing a credit policy aimed at improving financial stability, optimizing the debt portfolio and building long-term relationships with debt capital market participants. To manage the debt position, limits are applied in the Group including by categories of financial leverage, debt coverage, debt service coverage. The initial data for calculating the limits are the indicators of the RAS reporting.

The Company and its subsidiaries are required to comply with the statutory requirements for equity adequacy, according to which the value of their net assets, determined in accordance with Russian accounting principles, must constantly exceed the amount of the share capital.

As of December 31, 2021 and as of December 31, 2020, these requirements were met.

33 Capital Contractual Obligations

The amount of the Group's capital obligations under contracts for the purchase and construction of property, plant and equipment is 2 416 614 thousand rubles, including VAT, as of December 31, 2021 (as of December 31, 2020: 1 386 140 thousand rubles, including VAT).

34 Contingent Liabilities

(a) Insurance

The Group has uniform requirements regarding the volume of insurance coverage, the reliability of insurance companies and the procedure for organizing insurance protection. The Group insures assets, civil liability and other insured risks. The Group's main production assets have insurance coverage including coverage in case of damage or loss of property, plant and equipment. Nevertheless, there are risks of a negative impact on the Group's operations and financial position in the event of damage to third parties as well as a result of loss or damage to assets whose insurance protection is not available or has not been fully implemented.

(b) Contingent tax liabilities

Russian tax legislation allows for different interpretations with respect to the operations and activities of the Group. Accordingly, the management's interpretation of tax legislation and its formal documentation can be successfully challenged by the relevant regional or federal authorities. Tax administration in Russia is gradually being strengthened. In particular, the risk of checking the tax aspect of transactions without obvious economic meaning or with counterparties violating tax legislation increases. Tax audits may cover three calendar years prior the year of the decision on the tax audit. Under certain conditions, earlier periods may also be subject to verification.

The Russian tax authorities have the right to add additional tax liabilities and penalties based on the rules established by the legislation on transfer pricing (hereinafter referred to as “TP”) if the price/profitability in controlled transactions differs from the market level. The list of controlled transactions mainly includes transactions concluded between related parties.

Starting from January 1, 2019, control over transfer pricing for a significant part of domestic transactions has been abolished. However, the exemption from price control may not be applicable to all transactions made on the domestic market. At the same time, in the case of additional charges, the mechanism of counter-adjustment of tax liabilities can be used if certain legal requirements are met. Intra-group transactions that have been out of the control of the TP since 2019 can nevertheless be checked by the territorial tax authorities for obtaining unjustified tax benefits, and TP methods can be used to determine the amount of additional charges. The Federal executive body authorized for control and supervision in the field of taxes and fees may verify prices/profitability in controlled transactions and, in case of disagreement with the prices applied by the Group in these transactions, add additional tax liabilities if the Group is unable to justify the market nature of pricing in these transactions by providing relevant legal requirements transfer pricing documentation.

As the practice of applying the property tax rules develops further, the criteria for classifying property as movable or immovable property applied by the Group may be challenged by the tax authorities and courts. The Group's management does not exclude the risk of resource outflow while the impact of such developments cannot be assessed with a sufficient degree of reliability.

In the opinion of management, the relevant provisions of the legislation have been interpreted correctly by them, and the Group's position in terms of compliance with tax legislation can be justified and protected.

As of December 31, 2021, the on-site tax audit for 2016-2018 has been completed but the audit report has not been submitted by the tax authority before the date of signing the reports. As the practice of applying the property tax rules develops further, the tax authorities and courts may challenge the criteria for classifying property as movable or immovable property applied by the Group. The risk of claims from the tax authorities as well as the likelihood of unfavorable resolution of tax disputes (if they arise) is assessed by the Group's management as “probable”. In this regard, the Group's management, exercising the principle of prudence, decided to create a reserve for estimated liabilities for tax risks in the amount of 559 578 thousand rubles.

(c) Legal proceedings

The Group is a participant in a number of lawsuits (both as a plaintiff and a defendant) arising in the course of ordinary business activities.

In the opinion of the management, there are currently no outstanding claims or other claims that could have a material impact on the results of operations or the financial position of the Group and would not be recognized or disclosed in the consolidated financial statements.

(in thousands Russian rubles, if not mentioned otherwise)

(d) Environmental commitments

The Group has been operating in the field of the power industry in the Russian Federation for many years. The legislation on environmental protection in the Russian Federation continues to develop, and the duties of authorized state bodies to monitor its compliance are being reconsidered. Potential environmental commitments arising from changes in interpretations of existing legislation, lawsuits or changes in legislation cannot be assessed. In the opinion of the management, under the existing control system and under current legislation, there are no probable liabilities that could have a material negative impact on the financial position, results of operations or cash flows of the Group.

35 Related Party Transactions

(a) Control relationship

Related parties are shareholders, affiliates and organizations under common ownership and control of the Group, members of the Board of Directors and key management personnel of the Group. As of December 31, 2021 and December 31, 2020, control over the Group belonged to PJSC “Rosseti”. The ultimate controlling party is the state represented by the Federal Agency for Property Management which owns a controlling stake in PJSC “Rosseti”.

(b) Transactions with the parent company, its subsidiaries and associated companies

Transactions with the parent company, its subsidiaries and associated companies include transactions with PJSC “Rosseti”, its subsidiaries and associated companies:

	Transaction amount for the year ended December 31		Book value	
	2021	**2020**	**December 31, 2021**	**December 31, 2020**
Revenue, other income, financial income				
Parent company				
Other revenue	1 185	1 185	–	–
Income from the termination of the lease agreement	–	157	–	–
Enterprises under the common control of the parent company				
Lease	4 608	4 434	1 363	4
Other revenue	2 908	30 669	63 846	109 811
Interest income	3 751	322	1 796	160
Income from the termination of the lease agreement	46	–	–	–
Other operating income	11 350	–	68 607	
	23 848	**36 767**	**135 612**	**109 975**
Provision for expected credit losses on trade and other accounts receivable	(6 643)	(97 750)	(104 393)	(97 750)
Accounts receivable less the provision for expected credit losses	–	–	31 219	12 225

(in thousands Russian rubles, if not mentioned otherwise)

	Transaction amount for the year ended December 31		Book value	
	2021	**2020**	**December 31, 2021**	**December 31, 2020**
Operating expenses, financial expenses				
Parent company				
Expenses for the organization and development of the UES	104 437	118 322	19 434	37 165
Other works and services of an industrial nature	15 272	15 272	–	2 817
Other expenses	6 382	6 413	–	37
Interest expense on lease	–	151	–	–
Interest expense on financial liabilities carried at amortized cost	285 394	228 187	25 961	153 866
Enterprises under the common control of the parent company				
Electricity transmission services	8 051 470	7 627 903	790 579	765 295
Services for technological connection to electric networks	1 493	3 491	–	–
Repair and maintenance services	1 830	1 759	549	–
Short-term lease	–	558	1 217	2 385
Other expenses	84 927	58 089	21 314	20 901
Interest expenses on lease liabilities	20 661	16 644	–	–
Interest expenses on financial liabilities carried at amortized cost	14 898	–	–	–
	8 586 764	**8 076 789**	**859 054**	**982 466**
Construction and installation works capitalized	47 365	42 815	424 114	295 632
	8 634 129	**8 119 604**	**1 283 168**	**1 278 098**

	Book value	
	December 31, 2021	**December 31, 2020**
Parent company		
Credits and loans	5 600 000	6 800 000
Enterprises under the common control of the parent company		
Advances issued	5 934	4 867
Lease liabilities	286 291	293 285
Advances received	30	76
Credits and loans	600 000	–
	6 492 255	**7 098 228**

For the year ended December 31, 2021, the Group obtained loans from the parent company in the amount of 4 200 000 thousand rubles, repaid – 5 400 000 thousand rubles.

For the year ended December 31, 2021, the Group obtained loans from companies under the general control of the parent company in the amount of 600 000 thousand rubles, there was no repayment.

As of December 31, 2021, there is no debt to the parent company for the payment of dividends (as of December 31, 2020 – none).

(in thousands Russian rubles, if not mentioned otherwise)

(c) Operations with key management personnel

For the purposes of preparing these consolidated financial statements, key management personnel include members of the Board of Directors and the Executive Board.

Remuneration of key management personnel consists of the salary stipulated by the employment agreement, non-monetary benefits as well as bonuses determined by the results for the period and other payments.

The amounts of remuneration to key management personnel disclosed in the table represent the costs of the current period for key management personnel reflected in the employee compensation expenses.

	For the year ended December 31	
	2021	**2020**
Short-term employee benefits	181 750	214 488
	181 750	**214 488**

The current value of liabilities under defined benefit and defined contribution programs as well as other post-employment benefits, in respect of key management personnel as of December 31, 2021 amounted to 0 thousand rubles (as of December 31, 2020: 0 thousand rubles).

(d) Transactions with the government-related entities

As part of its operating activities, the Group carries out transactions with other government-related entities. These operations are carried out at regulated tariffs or at market prices, market interest rates. Taxes are accrued and paid in accordance with Russian tax legislation.

Revenue from government-related entities amounted to:

- 2.68% of the Group's total revenue for the year ended December 31, 2021 (for the year ended December 31, 2020: 1.39%);
- 0.90% of the Group's electricity transmission revenue for the year ended December 31, 2021 (for the year ended December 31, 2020: 0.95%).

The expenses of electricity transmission and the expenses of purchasing electricity to compensate for technological losses, for the government-related entities, amounted to 4.37% of the total expenses of transmission and compensation for losses for the year ended December 31, 2021 (for the year ended December 31, 2020: 3.36%).

As of December 31, 2021, credits and loans from banks associated with the main shareholder of the parent company amounted to 13 244 141 thousand rubles (as of December 31, 2020, 19 471 534 thousand rubles)

For the year ended December 31, 2021, the Group obtained loans and borrowings from banks associated with the main shareholder of the parent company in the amount of 17 224 926 thousand rubles, repaid – 19 471 534 thousand rubles.

Interest accrued on loans and borrowings from the government-related banks for the year ended December 31, 2021 amounted to 1 106 050 thousand rubles (for the year ended December 31, 2020: 1 539 254 thousand rubles).

As of December 31, 2021, the balance of cash and cash equivalents placed in the government-related banks amounted to 1 981 785 thousand rubles (as of December 31, 2020: 751 889 thousand rubles.)

As of December 31, 2021, lease liabilities for the government-related entities amounted to 4 721 931 thousand rubles (as of December 31, 2020: 5 716 635 thousand rubles).

36 Events after the reporting date

In the period after the reporting date, the Group received cash in the amount of 386 282 thousand rubles to pay for outstanding shares including:

- for the period of the pre-emptive right to purchase additional shares (from January 1, 2022 to February 3, 2022) – 140 293 thousand rubles,
- for the period of acquisition of additional shares by open subscription (from February 11, 2022 to March 14, 2022) – 245 989 thousand rubles.

On February 4, 2022, the Group handed over an order to the registrar on the placement of 1 835 684 shares in favor of persons exercising the pre-emptive right to purchase securities for a total transaction amount of 183 568 thousand rubles. On February 7, 2022, the order was executed by the registrar.

There are no other significant events that have or may have an impact on the financial condition, cash flows or results of operations of the Group that occurred between the reporting date and the date of signing of the consolidated financial statements of the Group for the year ended December 31, 2021, prepared in accordance with the IFRS except for the events disclosed in the Note 1 in relation to the economic environment in which the Group operates.