Independent Auditor's
Independent Auditor's Report
on the Consolidated Financial Statements
of Public Joint Stock Company "Rosseti Kuban"
and its subsidiaries
for 2022

March 2023

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

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НОВЫЕ РЕШЕНИЯ

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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 2022, the consolidated statement of financial position as at December 31, 2022, the consolidated statement of changes in equity and the consolidated statement of cash flows for 2022 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 of December 31, 2022 as well as its consolidated financial performance and consolidated cash flows for 2022 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 reviewed 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 the concluded 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 Losses on Trade Accounts 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 of December 31, 2022 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 32 (a) 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 liabilities, 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.

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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 31 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 disclosure of 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 of December 31, 2022, 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 of December 31, 2022 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 2022

Other information comprises the information included in the Annual Report for 2022 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 2022 is expected to be provided to us after the date of this auditor's report.

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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.

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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.

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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 T.L. Okolotina

T.L. Okolotina,
acting on behalf of Center for Audit Technologies and Solutions (TSATR) – Audit Services Limited Liability Company
by proxy [unnumbered] dated April 18, 2022,
Officer responsible for the audit resulting in the making of this Independent Auditor's Report (Principal Number of Registration Entry 21906110171)

March 21, 2023

Information on the Auditor

Name: Center for Audit Technologies and Solutions (TSATR) – Audit Services Limited Liability Company
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.
Center for Audit Technologies and Solutions (TSATR) – Audit Services Limited Liability Company is a member of the Self-regulatory organization of Auditors Association Sodruzhestvo (SRO AAS). Center for Audit Technologies and Solutions (TSATR) – Audit Services Limited Liability Company 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, 2022 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, 2022	For the year ended on December 31, 2021
Revenue	7	64,243,200	58,014,622
Operating expenses	10	(55,394,850)	(53,407,510)
Charge of provision for expected credit losses		(625,294)	(535,911)
Net charge of impairment loss of property, plant and equipment and right-of-use assets	14	–	(252)
Other income	8	1,792,581	1,007,256
Other expenses	9	(115,294)	(206,243)
Operating profit		**9,900,343**	**4,871,962**
Financial income	12	123,324	46,492
Financial expenses	12	(2,473,317)	(1,957,733)
Total finance expenses		**(2,349,993)**	**(1,911,241)**
Profit before tax		**7,550,350**	**2,960,721**
Income tax expense	13	(1,851,980)	(1,096,276)
Profit for the period		**5,698,370**	**1,864,445**
Other comprehensive income/(expense)			
Items that cannot be subsequently reclassified to profit or loss			
Revaluation of liabilities for the programs with fixed payments	27	(54,109)	16,072
Income tax	13	10,822	(3,214)
Total items that cannot be subsequently reclassified to profit or loss		**(43,287)**	**12,858**
Other comprehensive income/(expense) for the period, except income tax		**(43,287)**	**12,858**
Total comprehensive income for the period		**5,655,083**	**1,877,303**
Profit attributable to:			
Company owners		5,698,370	1,864,445
Total comprehensive income attributable to:			
Company owners		5,655,083	1,877,303
Earnings per share			
Basic and diluted earnings per share (RUB)	24	16.28	5.45

These Consolidated Financial Statements were approved by the management on March 21, 2023 and signed on behalf of the management by the following persons

Deputy General Director
for Economics and Finance
(by proxy dated December 20, 2022
in the register under No. 23/256-n/23-2022-50-487) K.A. Iordanidi

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, 2022	December 31, 2021
ASSETS			
Fixed assets			
Property, plant and equipment	14	69,358,559	60,777,771
Intangible assets	15	202,638	260,170
Right-of-use assets	16	3,397,399	4,512,530
Trade and other accounts receivable	20	32,935	9,027
Assets associated with employee benefits liabilities	27	302,550	308,658
Other fixed financial assets		1	1
Deferred tax assets	17	76,001	123,335
Advances issued and other fixed assets	21	8,129	6,341
Total fixed assets		**73,378,212**	**65,997,833**
Current assets			
Inventories	19	2,033,586	2,181,199
Prepayment of income tax		706,228	264,915
Trade and other accounts receivable	20	6,853,100	6,209,655
Cash and cash equivalents	22	4,160,721	1,984,357
Advances issued and other current assets	21	131,821	265,156
Total current assets		**13,885,456**	**10,905,282**
Assets classified as held for sale	18	20,403	20,510
Total current assets		**13,905,859**	**10,925,792**
Total assets		**87,284,071**	**76,923,625**
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		2,864,262	760,060
Other reserves		(429,806)	(386,519)
Accumulated loss		(2,051,982)	(4 874 655)
Total equity which is payable to Company owners		**40,330,174**	**35,446,586**
Non-current liabilities			
Non-current borrowings	25	19,305,894	19,742,520
Non-current trade and other accounts payable	28	93,604	122,135
Non-current advances received	30	1,973,121	1,133,942
Employee benefit liabilities	27	621,344	545,309
Deferred tax liabilities	17	393,341	2,190
Total non-current liabilities		**22,387,304**	**21,546,096**
Current liabilities			
Current borrowings and current portion of non-current borrowings	25	5,582,398	6,171,194
Trade and other account payable	28	11,079,936	8,717,865
Government subsidies		–	370
Advances received	30	5,208,893	1,991,891
Taxes payable except income tax	29	1,231,772	965,173
Estimated liabilities	31	1,460,893	2,084,450
Current income tax payable		2,701	–
Total current liabilities		**24,566,593**	**19,930,943**
Total liabilities		**46,953,897**	**41,477,039**
Total equity and liabilities		**87,284,071**	**76,923,625**

(in thousands Russian Rubles, if not mentioned otherwise)

	Note	For the year ended on December 31, 2022	For the year ended on December 31, 2021
CASH FLOW FROM OPERATING ACTIVITIES			
Profit/(loss) for the period		**5,698,370**	**1,864,445**
Adjustments:			
Amortization of property, plant and equipment, right-of-use assets and intangible assets	10	6,198,911	5,736,451
Net charge of impairment loss of property, plant and equipment and right-of-use assets	14	–	252
Financial expenses	12	2,473,317	1,957,733
Financial income	12	(123,324)	(46,492)
Loss from property, plant and equipment sale	8, 9	72,087	184,847
Recovery of provision for impairment of inventory		50,057	(3,017)
Charge of provision for expected credit losses		625,294	535,911
Write-off of bad debts		499,599	(3,073)
Write-off of accounts payable	8	(57,629)	(34,298)
Change of government subsidies		(370)	(11,912)
Change of estimated liabilities	10	(101,251)	1,348,209
Other non-cash transactions		(371,581)	(182,337)
Income tax expense	13	1,851,980	1,096,276
Total adjustments impact		**11,117,090**	**10,578,550**
Change in assets associated with employee benefits liabilities		6,108	10,679
Change in employee benefits liabilities		(20,146)	(31,165)
Change in non-current trade and other accounts receivable		(88,549)	6,652
Change in non-current advances issued and other fixed assets		(1,788)	(2,399)
Change in non-current trade and other accounts payable		(7,648)	(7,305)
Change in non-current advances received		839,179	(44,666)
Cash flow from operating activities before changes in working capital and estimated liabilities		**17,542,616**	**12,374,791**
Changes in operating assets and liabilities:			
Changes in trade and other accounts receivable		(1,335,773)	1,400,093
Change in advances issued and other assets		134,466	(125,172)
Change in inventories		97,556	(99,738)
Change in trade and other accounts payable		409,002	364,503
Change in advances received		3,272,213	(233,500)
Use of estimated liabilities		(557,745)	(217,546)
Cash flow from operating activities before payment of income tax and interests		**19,562,335**	**13,463,431**
Income tax paid		(1,851,429)	(1,242,367)
Interest paid under the lease agreements	26	(341,457)	(401,486)
Interest paid	26	(2,408,038)	(1,700,415)
Net cash from operating activities		**14,961,411**	**10,119,163**
CASH FLOW FROM INVESTING ACTIVITIES			
Property, plant and equipment and intangible assets acquisition		(10,955,854)	(6,014,339)
Interests received		106,369	26,438
Net cash used in investing activities		**(10,849,485)**	**(5,987,901)**
CASH FLOW FROM FINANCING ACTIVITIES			
Raising borrowings	26	15,683,201	24,015,046
Repayment of loans and borrowings	26	(15,616,215)	(26,361,654)
Proceeds from shares issuing		2,104,202	760,060
Dividends paid to Company owners	26	(2,774,363)	(8)
Change in lease liabilities		(3,416)	10,543
Payments for lease liabilities	26	(1,328,971)	(1,323,437)
Net cash from (used in) financing activities		**(1,935,562)**	**(2,899,450)**
Net decrease in cash and cash equivalents		**2,176,364**	**1,231,812**
Cash and cash equivalents at the beginning of the reporting period	22	1,984,357	752,545
Cash and cash equivalents at the end of the reporting period	22	**4,160,721**	**1,984,357**

(in thousands Russian Rubles, if not mentioned otherwise)

	Charter capital	Share premium	Reserve for capital stock issues	Other reserves	Unrecovered loss	Total equity
Balance as of January 1, 2022	**33,465,784**	**6,481,916**	**760,060**	**(386,519)**	**(4 874 655)**	**35,446,586**
Other changes in retained earnings *(Note 23-c)*	–	–	–	–	71	**71**
Profit for the period	**–**	**–**	**–**	**–**	**5,698,370**	**5,698,370**
Other comprehensive income/(expense)						
Revaluation of net liabilities (assets) of pension liabilities	–	–	–	(54,109)	–	**(54,109)**
Income tax in respect of other comprehensive income *(Note 13)*	–	–	–	10,822	–	**10,822**
Total comprehensive income for the period	**–**	**–**	**–**	**(43,287)**	**5,698,370**	**5,655,083**
Transactions with Company owners recorded directly in equity						
Issue of shares *(Note 23-d)*	–	–	2,104,202	–	–	**2,104,202**
Dividends to shareholders	–	–	–	–	(2,875,768)	**(2,875,768)**
Balance as of December 31, 2022	**33,465,784**	**6,481,916**	**2,864,262**	**(429,806)**	**(2,051,982)**	**40,330,174**
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 liabilities (assets) of pension liabilities	–	–	–	16,072	–	**16,072**
Income tax in respect of other comprehensive income	–	–	–	(3,214)	–	**(3,214)**
Total comprehensive income for the period	**–**	**–**	**–**	**12,858**	**1,864,445**	**1,877,303**
Transactions with Company owners recorded directly in equity						
Issue of shares	–	–	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**

The appended notes constitute an integral part of the present 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") is 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 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, 2022 directly owned 93.96 % of the total number of outstanding ordinary shares (as of December 31, 2021 – 93.58 % 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 have a significant impact on the Group's activities.

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.

As of December 31, 2022 and 2021, PJSC "Rosseti" owned 93.96 % and 93.58 % of the total number of outstanding ordinary shares in the share capital of PJSC "Rosseti Kuban", respectively.

As of December 31, 2022 and 2021, the Russian Federation owned 88.04 % of the shares in the charter capital of the ultimate parent company PJSC "Rosseti" including 88.89 % of the ordinary voting shares and 7.01 % of the preference shares.

The Extraordinary General Meeting of Shareholders of PJSC "Rosseti" held on September 16, 2022, decided to reorganize PJSC "Rosseti" through its consolidation with Public Joint Stock Company "Federal Network Company – Rosseti" pursuant to and as specified in the consolidation agreement.

On January 9, 2023, the data was entered into the Unified State Register of Legal Entities about the termination of the PJSC "Rosseti" activity through reorganization by means of consolidation with Public Joint Stock Company "Federal Network Company – Rosseti" being a universal successor of PJSC "Rosseti". As a result of the reorganization, the interest of the Russian Federation in the charter capital of the ultimate parent company – Public Joint Stock Company "Federal Network Company – Rosseti" – amounted to 75.000048 %.

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 systems continue to evolve and are subject to frequent changes, as well as the possibility for various interpretations.

In 2022, the action of external sanctions on legal entities and individuals in the Russian Federation has continued and thus the effect of economic and other factors as well as uncertainty on the business conditions in the Russian Federation has intensified. In 2022, the uncertainty of the effect of external and internal factors remains high for the Russian Federation economics and financial indicator volatility persists. Sanctions have been imposed on a number of Russian banks by the United States, the United Kingdom and the EU. All mentioned above has negative impact on the Russian Federation economics. Simultaneously, structural changes of economics have occurred during the reporting year and several legislative measures enable the Russian Federation economics to maintain stability and adapt to the ongoing changes.

The Group takes all measures necessary to ensure stable activity. The presented Consolidated Financial Statements reflects the management’s point of view on how the business conditions in the Russian Federation influence the Group’s activity and financial position. The actual effect of future business environment may differ from current assessments.

2 Basis for Preparation of Consolidated Financial Statements

(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) Basis for Determining the Cost

These Consolidated Financial Statements have been prepared on the basis of initial (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:

- whether the leased property is 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 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.

Pension payment liabilities

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) New standards, clarifications on amendments to existing standards

The amendments to standards listed below became mandatory on January 1, 2022 and had no significant impact on the Group's Consolidated Financial Statements:

- *"Revenue Received Before Start of Expected Asset Use", "Onerous Contracts – Contract Performance Cost"*.
- *"References to Conceptual Framework"* – limited-scope amendments to IFRS (IAS) 16, IFRS (IAS) 37 and IFRS 3.
- Annual improvements of IFRS in 2018–2020 with respect to IFRS 1, IFRS 9, IFRS 16 and IFRS (IAS) 41 (issued on May 14, 2020 and coming into force for annual periods starting on January 1, 2022 or after the date).

Several new standards and interpretations have been published and are mandatory for annual periods starting on January 1, 2023 or after the date. 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 on May 18, 2017 and coming into force for annual periods starting on January 1, 2021 or after the date, the date of coming into force was postponed to January 1, 2023 through Amendments to IFRS 17 issued on June 25, 2020).
- *"Classification of Liabilities as Current or Non-current"* – Amendments to IFRS (IAS) 1 (issued on January 23, 2020 and coming into force for annual periods starting on January 1, 2022 or after the date, the date of coming into force was postponed to January 1, 2024 through Amendments to IFRS (IAS) 1).
- Amendments to IFRS (IAS) 1 and Practical Guidance 2 on IFRS: *"Disclosure of Information About Accounting Policies"* (issued on February 12, 2021 and coming into force for annual periods starting for annual periods starting on January 1, 2023 or after the date).
- *"Deferred Tax on Assets and Liabilities Arising from a Single Operation"* – Amendments to IFRS (IAS) 12 (issued on May 7, 2021 and coming into force for annual periods starting for annual periods starting on January 1, 2023 or after the date).
- Amendments to IFRS 10 and IFRS (IAS) 28 – *"Sale or Contribution of Assets in Transactions Between Investor and Its Associate or Joint Venture"* (issued on September 11, 2014 and coming into force for annual periods starting for annual periods starting on the date to be determined by the IFRS Board or after the date).
- Amendments to IFRS 17 and amendments to IFRS 4 (issued on June 25, 2020 and coming into force for annual periods starting for annual periods starting on January 1, 2023 or after the date).
- Amendments to IFRS (IAS) 8: *"Definition of Accounting Valuations"* (issued on February 12, 2021 and coming into force for annual periods starting for annual periods starting on January 1, 2023 or after the date).
- *"Lease Liabilities at Sale or Leaseback"* – Amendments to IFRS 16 (issued on September 22, 2022 and coming into force for annual periods starting for annual periods starting on January 1, 2024 or after the date).
- *"Long-Term Covenant Liabilities"* – Amendments to IFRS (IAS) 1 (issued on October 31, 2022 and coming into force for annual periods starting for annual periods starting on January 1, 2024 or after the date).

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, 2022 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 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 book 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-fulfillment of liabilities 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 liabilities (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 shall 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 amortization and impairment losses. The cost of property, plant and equipment as of January 1, 2012, 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 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. Amortization

Amortization 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 amortized over the shorter of the lease period and the useful life of the assets. Land plots are not amortized.

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.

Amortization 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 amortization 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, amortization 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 amortization 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 non-current and current 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 fixed assets if the advance is related to the acquisition of an asset that will be classified as fixed 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 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 bringing it to relevant 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 book value 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 book value 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 book value 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 book value in which they would have been recorded (less accumulated amortization 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 current 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 liabilities (neither legal nor constructive) to pay additional amounts. Liabilities 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 profit rate at the end of the year on government bonds, the maturity of which is approximately equal to the period of the relevant liabilities 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 liabilities 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 market yield at the end of the year on government bonds, the maturity of which is approximately equal to the period of the relevant liabilities of the Group and which are denominated in the same currency as the remuneration expected to be paid. The liability valuation is made using the method of the predicted conditional unit. Revaluations are recognized in gain or loss for the period when they occur.

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 liability to pay this amount that arose as a result of the employee's employment in the past, and the amount of this liability 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 liability, 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 liability. 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 liability. The amounts reflecting “amortization of discount” are recognized as finance expenses.

(l) Charter 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 liability 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 liability, 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 liability 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 liability to perform which is recognized when the relevant services are provided.

The technological connection agreement does not contain any further liabilities 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”.

Liabilities under the contract

A liability under the contract is a liability 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 liabilities. The Group reflects liabilities 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 liabilities 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

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 liability to pay income tax for previous years.

Deferred tax is recorded in respect of temporary differences arising between the book value 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 book value 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 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).

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.

(in thousands Russian rubles, if not mentioned otherwise)

5 Principal Subsidiaries

The Group's Consolidated Financial Statements as of December 31, 2022 and December 31, 2021 include the Company and its subsidiaries, owned (founded) by PJSC “Rosseti Kuban”:

		Ownership share / voting shares, %	
	Country of registration	**December 31, 2022**	**December 31, 2021**
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, amortization, 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-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.

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.

(in thousands Russian rubles, if not mentioned otherwise)

(a) Information on reportable segments

As of and for the year ended on December 31, 2022:

	Rosseti Kuban	Other	Total
Revenue from external buyers	63,732,569	487,978	**64,220,547**
Revenue from sales between segments	6,288	1,639,309	**1,645,597**
Segment revenue	**63,738,857**	**2,127,287**	**65,866,144**
Including			
Electric power transmission	*61,452,874*	–	***61,452,874***
Technological connection to networks	*1,282,050*	–	***1,282,050***
Other revenue	*1,003,933*	*2,127,287*	***3,131,220***
Financial income	109,410	2,665	**112,075**
Financial expenses	(2,662,572)	(13,199)	**(2,675,771)**
Amortization	(6,309,573)	(32,145)	**(6,341,718)**
Segment profit/(loss) before tax	**7,180,429**	**14,863**	**7,195,292**
EBITDA	**16,152,574**	**60,207**	**16,212,781**

As of and for the year ended on 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)**
Amortization	(4,642,021)	(26,180)	**(4,668,201)**
Segment profit 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 on December 31, 2022:

	Rosseti Kuban	Other	Total
Segment assets	**95,867,294**	**1,174,198**	**97,041,492**
Including property, plant and equipment and construction in progress	78,118,655	78,210	**78,196,865**
Capital investments	12,772,201	6,436	**12,778,637**
Liabilities of segments	**50,613,695**	**1,058,630**	**51,672,325**

As of and for the year ended on 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**

(in thousands Russian rubles, if not mentioned otherwise)

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

Reconciliation of segments revenues:

	For the year ended on December 31	
	2022	**2021**
Segment revenue	**65,866,144**	**59,496,795**
Exclusion of revenue from sales between segments	(1,645,597)	(1,482,173)
Adjustment for sales revenue (external)	22,653	–
Revenue in the Consolidated Statement of Profit or Loss and Other Comprehensive Income	**64,243,200**	**58,014,622**

Reconciliation of EBITDA of reporting segments:

	For the year ended on December 31	
	2022	**2021**
EBITDA of reportable segments according to the RAS	**16,212,781**	**8,933,298**
Adjustment of intangible assets value	77,900	129,449
Discounting of accounts payable	–	375
Adjustment for accounts payable	257,836	144,226
Discounting of accounts receivable	2,179	3,296
Adjustment for disputed accounts receivable	(472,706)	2,135
Adjustment to the allowance for expected credit losses	508,567	(10,005)
Lease adjustment	91,893	1,542,144
Adjustment of estimated liabilities	–	8,338
Recognition of pension and other non-current liabilities to employees	14,038	20,486
Adjustment of accrued provisions for unused vacation days and bonuses	(20,969)	10,015
Adjustment of property, plant and equipment value	(31,610)	38,176
Tax adjustment	(171,610)	59,335
Adjustment for intra-group transactions	(11,182)	(80,533)
Subsidy adjustment	–	(3,942)
Other adjustments	(234,539)	(141,888)
EBITDA of reportable segments according to the IFRS	**16,222,578**	**10,654,905**
Amortization of property, plant and equipment, right-of-use assets and intangible assets	(6,198,911)	(5,736,451)
Interest expense on financial liabilities	(2,122,299)	(1,532,351)
Interest expenses for lease liabilities	(351,018)	(425,382)
Income tax expense	(1,851,980)	(1,096,276)
Consolidated profit/(loss) for the period in the Consolidated Statement of Profit or Loss and Other Comprehensive Income	**5,698,370**	**1,864,445**

(in thousands Russian rubles, if not mentioned otherwise)

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

	For the year ended on December 31	
	2022	**2021**
Total amount of assets of segments	**97,041,492**	**80,595,511**
Recognition of lease agreements under IFRS 16 standard	429,555	4,512,530
Recognition of assets related to employee benefit liabilities	302,550	308,658
Adjustment of deferred tax assets	(2,199,610)	(1,359,448)
Adjustment for financial investments	–	5,848
Adjustment of the allowance for expected credit losses	9,326	(26,535)
Decrease in accounts receivable on VAT advances from advances issued	(1,369,300)	(700,138)
Calculations between segments	(803,438)	(703,351)
Discounting of accounts receivable	(3,053)	(4,260)
Reclassification of accounts receivable on lease to lease liabilities	(13,048)	(11,672)
Write-off of accounts receivable	(25,619)	(25,619)
Intra-group financial assets	(45,687)	(45,687)
Adjustment of intangible assets value	(80,442)	(74,375)
Decrease in VAT recoverable amount for VAT amount from advances received	(85,912)	(159,099)
Adjustment of property, plant and equipment value	(5,661,697)	(5,197,902)
Excluding current RE from capital expenditures	(169,780)	(164,683)
Write-off of current assets	(13,976)	(29,685)
Other adjustments	(27290)	3,532
Total assets in the Consolidated Statement of Financial Position	**87,284,071**	**76,923,625**

Reconciliation of the total amount of liabilities of reportable segments:

	For the year ended on December 31	
	2022	**2021**
Total amount of liabilities of segments	**51,672,325**	**40,316,202**
Recognition of lease liabilities	779,824	4,943,208
Reclassification of accounts payable to lease IFRS 16	(130,389)	(127,921)
Recognition of pension and other non-current liabilities to employees	621,344	545,309
Adjustment of accrued provisions for unused vacation days and bonuses	199,135	178,166
Discounting of accounts payable	(2)	(25)
Decrease in other accounts payable for VAT amount from advances received	(1,369,300)	(700,138)
Calculations between segments	(826,082)	(703,351)
Write-off of deferred income	(549,634)	(291,798)
Adjustment of deferred tax liabilities	(3,357,412)	(2,480,238)
Decrease in accounts payable for advances received for VAT amount from advances received	(85,912)	(159,099)
Other adjustments	–	(43,276)
Total amount of liabilities in the Consolidated Statement of Financial Position	**46,953,897**	**41,477,039**

(in thousands Russian rubles, if not mentioned otherwise)

(c) The significant buyer

The Group performs its activities at the territory of the Russian Federation. The Group does not receive proceeds from foreign consumers and has no assets abroad.

For the year ended on December 31, 2022 and December 31, 2021, the Group had 2 main counterparties, each of which accounted for more than 10 % of the Group's consolidated revenue.

The total amount of revenue received from Counterparty 1 for 2022 amounted to 28,840,928 thousand rubles, or 44.89 % of the Group's consolidated revenue (in 2021 – 25,832,038 thousand rubles, or 44.53 %).

The total amount of revenue received from Counterparty 2 for 2022 amounted to 19,531,366 thousand rubles, or 30.40 % of the Group's consolidated revenue (in 2021 – 18,067,286 thousand rubles, or 31.14 %).

7 Revenue

	For the year ended on December 31	
	2022	**2021**
Electric power transmission	61,451,381	54,525,149
Technological connection to electric networks	1,282,050	2,347,653
Other revenue	1,362,736	982,121
Total revenue from contracts with customers	**64,096,167**	**57,854,923**
Revenue from lease agreements	147,033	159,699
	64,243,200	**58,014,622**

Other revenue mainly includes revenue from the sale of additional (non-tariff) services provided by the Group 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 on December 31	
	2022	**2021**
Income from discovered electric power consumption without agreements	38,905	68,476
Income from the termination of the lease agreement	11,004	–
Income in the form of penalties, fines and forfeits in economic contracts	490,474	328,707
Income from compensation for losses due to disposal/liquidation of electric grid property	295,225	222,778
Income from donated property, plant and equipment and inventories	289,511	191,443
Insurance payout	566,626	160,753
Write-off of accounts payable	57,629	34,298
Profit from the sale of property, plant and equipment	43,207	801
	1,792,581	**1,007,256**

(in thousands Russian rubles, if not mentioned otherwise)

9 Other expenses

	For the year ended on December 31	
	2022	**2021**
Loss on disposal (sale) of property, plant and equipment	115,294	184,847
Other expenses	–	21,396
	115,294	**206,243**

10 Operating expenses

	For the year ended on December 31	
	2022	**2021**
Expenses for employee benefits *(Note 11)*	9,114,859	8,096,322
Amortization of property, plant and equipment, right-of-use assets and intangible assets	6,198,911	5,736,451
Material expenses, including		
Electric energy for compensation of process losses	9,280,483	9,069,565
Purchased electrical energy and heat for own needs	122,314	124,177
Other material expenses	2,543,547	2,330,856
Works and services of production nature, including		
Services for electric power transmission	23,567,601	21,919,041
Repair and maintenance services	804,735	674,899
Other works and services of production nature	266,178	217,799
Taxes and fees except income tax	685,496	631,545
Short-term lease	5,862	22,960
Insurance	139,917	140,918
Other services of third-party organizations, including		
Communication services	90,288	79,944
Security	236,336	231,363
Consulting, legal and audit services	101,790	42,361
Software and maintenance expenses	122,814	116,354
Transport services	16,553	7,505
Other services, including		
Implementation of energy service contracts	959,777	1,123,825
Other third-party services	205,676	174,290
Other expenses, including		
Business expenses	195,086	85,901
Change of estimated liabilities	(101,251)	1,348,209
Expenses related to the maintenance of property	158,215	163,267
Expenses for services related to the organization, operation and development of the UPS	110,819	104,437
Expenses recognized in the form of penalties, fines and forfeits for breach of contract	41,776	10,507
Profit and loss for prior periods	350,033	394,168
Other operating expenses	177,035	560,846
	55,394,850	**53,407,510**

(in thousands Russian rubles, if not mentioned otherwise)

11 Employee Benefit Expenses

	For the year ended on December 31	
	2022	**2021**
Salary	6,629,834	5,869,380
Social security contributions	2,014,537	1,796,649
Expenses/(income) related to defined benefit programs	24,302	26,968
Other	446,186	403,325
	9,114,859	**8,096,322**

During the year ended December 31, 2022, the amount of deductions for defined benefit programs amounted to 44,448 thousand rubles (for the year ended on December 31, 2021: 58,133 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 on December 31	
	2022	**2021**
Financial income		
Interest income on loans issued, bank deposits, bills and bank account balances	106,190	26,467
Interest income on assets associated with liabilities for employee benefits	9,070	12,603
Effect from initial discounting of financial liabilities	–	375
Amortization of discount of financial assets	2,179	3,296
Other financial income	5,885	3,751
	123,324	**46,492**

	For the year ended on December 31	
	2022	**2021**
Financial expenses		
Interest expenses on financial liabilities carried at amortized cost	2,079,232	1,500,212
Interest expenses for lease liabilities	351,018	425,382
Interest expenses for long-term employee benefit liabilities	42,072	30,725
Effect of initial discounting of financial assets	972	756
Amortization of discount of financial liabilities	23	658
	2,473,317	**1,957,733**

13 Income tax

	For the year ended on December 31	
	2022	**2021**
Current income tax		
Accrual of current tax	(1,636,355)	(1,157,150)
Tax adjustment for the prior periods	233,682	52,041
Total current income tax	**(1,402,673)**	**(1,105,109)**
Deferred income tax		
Accrual and recovery of temporary differences *(Note 17)*	(449,307)	8,833
Total income tax expense	**(1,851,980)**	**(1,096,276)**

(in thousands Russian rubles, if not mentioned otherwise)

Income tax recognized in other comprehensive income:

	For the year ended on December 31, 2022			For the year ended on December 31, 2021		
	Before tax	**Income tax**	**After tax**	**Before tax**	**Income tax**	**After tax**
Revaluation of liabilities for the programs with fixed payments	(54,109)	10,822	(43,287)	16,072	(3,214)	12,858
	(54,109)	**10,822**	**(43,287)**	**16,072**	**(3,214)**	**12,858**

As of December 31, 2022 and December 31, 2021, 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 (expense) before tax is related to income tax expenses as follows:

	For the year ended on December 31, 2022	**%**	**For the year ended on December 31, 2021**	**%**
Profit/(loss) before tax	**7,550,350**	**100**	**2,960,721**	**100**
Theoretical amount of income tax expense at the rate of 20 %	**(1,510,070)**	**(20)**	**(592,144)**	**(20)**
Tax effects from sections, untaxed and non-deductible for tax purposes	(575,592)	(8)	(556,173)	(19)
Adjustments for previous years	233,682	3	52,041	2
	(1,851,980)	**(25)**	**(1,096,276)**	**(37)**

(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, 2022	**10,422,357**	**50,198,747**	**24,013,105**	**11,061,007**	**5,862,802**	**101,558,018**
Reclassification between groups	1,224,936	(242,453)	439,581	(1,422,064)	–	**–**
Receipts	19,876	261,851	236,478	52,631	13,126,839	**13,697,675**
Commissioning	535,222	3,310,946	3,047,514	1,600,983	(8,494,665)	**–**
Disposal	(10,070)	(37,530)	(95,592)	(1,767,449)	(50,032)	**(1,960,673)**
As of December 31, 2022	**12,192,321**	**53,491,561**	**27,641,086**	**9,525,108**	**10,444,944**	**113,295,020**
Accumulated amortization and impairment						
As of January 1, 2022	**(3,918,435)**	**(18,258,314)**	**(11,347,648)**	**(7,216,656)**	**(39,194)**	**(40,780,247)**
Reclassification between groups	(744,205)	148,157	(405,442)	1,001,490	–	**–**
Accrued amortization	(408,482)	(2,166,854)	(1,398,237)	(723,228)	–	**(4,696,801)**
Reclassification of impairment losses when property, plant and equipment commissioning	(1,987)	(35)	(4,636)	–	6,658	**–**
Disposal	7,712	21,931	79,854	1,430,771	319	**1,540,587**
As of December 31, 2022	**(5,065,397)**	**(20,255,115)**	**(13,076,109)**	**(5,507,623)**	**(32,217)**	**(43,936,461)**
Residual value						
As of January 1, 2022	**6,503,922**	**31,940,433**	**12,665,457**	**3,844,351**	**5,823,608**	**60,777,771**
As of December 31, 2022	**7,126,924**	**33,236,446**	**14,564,977**	**4,017,485**	**10,412,727**	**69,358,559**
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	–	**–**
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 fixed 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 amortization 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 amortization and impairment losses	11,456	(9,738)	(280)	(1,438)	–	**–**
Accrual/recovery of impairment loss	–	–	–	–	(252)	**(252)**
Accrued amortization	(379,854)	(2,107,819)	(1,202,919)	(635,221)	–	**(4,325,813)**
Reclassification of impairment losses when property, plant and equipment commissioning	(339)	(57)	(16,067)	(1,235)	17,698	**–**
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)**
Residual value						
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, 2022, initial cost of fully amortized property, plant and equipment amounted to 9,269,926 thousand rubles (as of December 31, 2021: 7,243,821 thousand rubles).

As of December 31, 2022, construction in progress includes advances for the acquisition of property, plant and equipment in the amount of 436,340 thousand rubles (as of December 31, 2021: 493,715 thousand rubles) as well as materials for the construction of property, plant and equipment in the amount of 2,711,827 thousand rubles, (as of December 31, 2021: 1,430,590 thousand rubles).

For the year ended on December 31, 2022, capitalized interests amounted to 316,051 thousand rubles (for the year ended on December 31, 2021: 80,858 thousand rubles), the capitalization rate was 11.51 % (for the year ended on December 31, 2021 – 7.24 %).

For the year ended on December 31, 2022, amortization was capitalized into the value of the facilities of investment building amounting to 1,874 thousand rubles (for the year ended on December 31, 2021, in the amount of 1,547 thousand rubles).

As of December 31, 2022 and December 31, 2021, there were no property, plant and equipment that are pledged as security for a loan.

Impairment of property, plant and equipment

Changing market and economic conditions, including the scope of investment projects being implemented by the Group, are the indicators (signs) of possible impairment of property, plant and equipment. The Group conducted an impairment test as of December 31, 2022.

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 recoverable cost of specialized use facilities was determined as the value of their use using the cash flow projection 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 2023–2027 based on the management's best estimate of electricity transmission volumes, operating and capital costs as well as tariffs unified (boiler) tariffs for electricity transmission services via the networks of the Krasnodar Region, the Republic of Adygea and the Federal Territory “Sirius” for 2023 approved by order of the Department of State Regulation of Tariffs of the Krasnodar Region dated November 25, 2022 No. 40/2022-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 2023 and the planning period 2024–2025 published on the website of the Ministry of Economic Development of the Russian Federation on May 18, 2022.

(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 2023 and forecast indicators for 2024-2027 approved by the Board of Directors of PJSC “Rosseti Kuban” (Minutes of the meeting No. 506/2022 of December 30, 2021).
- For the test purposes, the nominal discount rate was determined based on the weighted average cost of capital after income tax and amounted to 10.20 % as of December 31, 2022.
- The percentage growth rate of net cash flows in the post-forecast period was 4 %.

The recoverable cost of fixed assets tested by the CGU amounted to as follows as of December 31, 2022: CGU of “Rosseti Kuban” 72,931,458 thousand rubles.

Based on the test results, as of December 31, 2022, the value of the use amounted to 146,672,279 thousand rubles, no impairment detected.

The sensitivity analysis of the material assumptions on the basis of which the impairment models were built as of December 31, 2022 is presented below:

	Increase, %	**Decline, %**
Change of discount rate by 1%	18.23 %	(13.16 %)
The change in the RGR to the base value in each period by reducing the useful production by 0.5 %	13.50 %	(13.50 %)
Change in the growth rate of net cash flow in the post-forecast period by 1 %	11.53 %	(8.32 %)
Change in the level of operating expenses by 1 %	3.55 %	(3.55 %)
Change in the level of investments (capital investments) by 10 %	0.94 %	(0.94 %)

15 Intangible assets

	Software	**Certificates, licenses and patents**	**R&D**	**Other**	**Total**
Initial cost					
As of January 1, 2022	**850,194**	**10,746**	**21,275**	**78,195**	**960,410**
Receipts	69,429	2,029	3,325	–	**74,783**
Disposal	–	–	(4,070)	–	**(4,070)**
As of December 31, 2022	**919,623**	**12,775**	**20,530**	**78,195**	**1,031,123**
Accumulated amortization and impairment					
As of January 1, 2022	**(630,025)**	**(10,195)**	**–**	**(60,020)**	**(700,240)**
Accrued amortization	(111,990)	(1,965)	–	(14,290)	**(128,245)**
Disposal	–	–	–	–	**–**
As of December 31, 2022	**(742,015)**	**(12,160)**	–	**(74,310)**	**(828,485)**
Residual value					
As of January 1, 2022	**220,169**	**551**	**21,275**	**18,175**	**260,170**
As of December 31, 2022	**177,608**	**615**	**20,530**	**3,885**	**202,638**

(in thousands Russian rubles, if not mentioned otherwise)

	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)**
Accrued 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 126,499 thousand rubles for the year ended on December 31, 2022. (for the year ended on December 31, 2021: 149,032 thousand rubles).

The amount of capitalized amortization of intangible assets amounted to 1,746 thousand rubles for the year ended on December 31, 2022. (for the year ended on December 31, 2021: 1,516 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 2022 amounted to 2,930 thousand rubles. (for 2021: 5,010 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, 2022	**2,606,702**	**2,931,821**	**1,081,193**	**385,857**	**7,005,573**
Reclassification between groups	(9,340)	–	11,926	(2,586)	**–**
Receipts	136,341	39,865	85,317	1,161	**262,684**
Modification of conditions under lease agreements	(30,449)	1,157	9,251	32,149	**12,108**
Disposal or termination of lease agreements	(27,641)	(14,499)	(6,292)	(933)	**(49,365)**
As of December 31, 2022	**2,675,613**	**2,958,344**	**1,181,395**	**415,648**	**7,231,000**
Accumulated amortization and impairment					
As of January 1, 2022	**(790,459)**	**(1,122,615)**	**(429,434)**	**(150,535)**	**(2,493,043)**
Reclassification between groups	2,550	–	(3,972)	1,422	**–**
Accrued amortization	(463,781)	(603,632)	(221,969)	(86,357)	**(1,375,739)**
Modification of conditions under lease agreements	10,717	358	66	(7,862)	**3,279**
Disposal or termination of lease agreements	12,857	12,893	5,497	655	**31,902**
As of December 31, 2022	**(1,228,116)**	**(1,712,996)**	**(649,812)**	**(242,677)**	**(3,833,601)**
Residual value					
As of January 1, 2022	**1,816,243**	**1,809,206**	**651,759**	**235,322**	**4,512,530**
As of December 31, 2022	**1,447,497**	**1,245,348**	**531,583**	**172,971**	**3,397,399**
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 amortization and impairment					
As of January 1, 2021	**(406,643)**	**(558,974)**	**(394,826)**	**(76,293)**	**(1,436,736)**
Accrued amortization	(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)**
Residual value					
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**

The amount of amortization of right-of-use assets included in operating expenses in the consolidated statement of profit or loss and other comprehensive income amounted to 1,375,611 thousand rubles for the year ended on December 31, 2022. (for the year ended on December 31, 2021: 1,261,606 thousand rubles).

(in thousands Russian rubles, if not mentioned otherwise)

The amount of capitalized amortization of right-of-use assets amounted to 128 thousand rubles for the year ended on December 31, 2022. (for the year ended on December 31, 2021: 31 thousand rubles).

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 fixed 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, 2022 is disclosed in Note 14 "Property, Plant and Equipment".

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, 2022	**December 31, 2021**	**December 31, 2022**	**December 31, 2021**	**December 31, 2022**	**December 31, 2021**
Property, plant and equipment	66,372	42,048	(1,561,172)	(1,122,150)	**(1,494,800)**	**(1,080,102)**
Intangible assets	9,295	2,775	–	–	**9,295**	**2,775**
Right-of-use assets	–	–	(679,480)	(902,506)	**(679,480)**	**(902,506)**
Financial assets measured at fair value through other comprehensive income	–	–	(9,138)	(9,138)	**(9,138)**	**(9,138)**
Trade and other accounts receivable	518,527	509,601	(4,531)	–	**513,996**	**509,601**
Advances issued and other assets	2,129	2,077	–	–	**2,129**	**2,077**
Lease liabilities	155,965	988,642	–	–	**155,965**	**988,642**
Estimated liabilities	292,179	417,458	(961)	–	**291,218**	**417,458**
Employee benefit liabilities	26,320	9,330	–	–	**26,320**	**9,330**
Trade and other account payable	491,560	158,890	–	–	**491,560**	**158,890**
Advances received	–	–	–	–	**–**	**–**
Tax losses to be carried forward	1,231	1,630	–	–	**1,231**	**1,630**
Assets held for sale	–	–	(4,081)	(4,102)	**(4,081)**	**(4,102)**
Other	384,413	36,603	(5,968)	(10,013)	**378,445**	**26,590**
Tax assets/ (liabilities)	**1,947,991**	**2,169,054**	**(2,265,331)**	**(2,047,909)**	**(317,340)**	**121,145**
Tax offset	(1,871,990)	(2,045,719)	1,871,990	2,045,719	**–**	**–**
Net tax assets/(liabilities)	**76,001**	**123,335**	**(393,341)**	**(2,190)**	**(317,340)**	**121,145**

(in thousands Russian rubles, if not mentioned otherwise)

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

	January 1, 2022	Recognized as part of profit or loss	Recognized as part of other comprehensive income	December 31, 2022
Property, plant and equipment	(1,080,102)	(414,698)	–	(1,494,800)
Intangible assets	2,775	6,520	–	9,295
Right-of-use assets	(902,506)	223,026	–	(679,480)
Financial assets measured at fair value through other comprehensive income	(9,138)	–	–	(9,138)
Trade and other accounts receivable	509,601	4,395	–	513,996
Advances issued and other assets	2,077	52	–	2,129
Lease liabilities	988,642	(832,677)	–	155,965
Estimated liabilities	417,458	(126,240)	–	291,218
Employee benefit liabilities	9,330	6,168	10,822	26,320
Trade and other account payable	158,890	332,670	–	491,560
Advances received	–	–	–	–
Tax losses to be carried forward	1,630	(399)	–	1,231
Assets held for sale	(4,102)	21	–	(4,081)
Other	26,590	351,855	–	378,445
	121,145	**(449,307)**	**10,822**	**(317,340)**

	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 account 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)

18 Assets Qualified as Held for Sale

As of December 31, 2022 and 2021, the company's balance sheet had non-core assets listed in the table below:

	For the year ended on December 31	
	2022	**2021**
As part of current assets		
Assets classified as held for sale − current	20,403	20,510
	20,403	**20,510**

It is expected that the sale of a non-core asset classified as held for sale will take no more than one year. In January 2023, the issue of shifting the deadline for non-core asset sale to Q4 2023 was brought to the attention of the Group's Board of Directors.

Immediately before classifying the objects as assets for sale, an estimate of the recoverable amount was made. As of December 31, 2022, there was no write-off, as the book value of assets held for sale has not decreased below its fair value less costs to sell.

19 Inventories

	December 31, 2022	**December 31, 2021**
Raw materials and supplies	975,506	1,004,731
Reserve for impairment of raw materials	(51,238)	(1,181)
Other inventories	1,109,671	1,178,002
Reserve for impairment of other inventories	(353)	(353)
	2,033,586	**2,181,199**

As of 31 December 2022 and 31 December 2021, the Group had no reserves that would be pledged under loan or other agreements.

For the year ended December 31, 2022, 2,543,547 thousand rubles were recognized as expenses (during the year ended December 31, 2021, 2,330,856 thousand rubles) as part of operating expenses under the section "Other Material Expenses".

As of December 31, 2022, the reserves intended to ensure the prevention and liquidation of emergency situations at power grid facilities (industry emergency reserve) is 582,625 thousand rubles (December 31, 2021 – 545,273 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, 2022	December 31, 2021
Trade and other receivables, non-current		
Trade accounts receivable	32,748	1,345
Provision for expected credit losses on trade accounts receivable (non-current)	(31,958)	–
Other accounts receivable	66,035	7,682
Provision for expected credit losses on other accounts receivable (non-current)	(33,890)	–
	32,935	**9,027**
Trade and other receivables, current		
Trade accounts receivable	7,935,420	7,560,859
Provision for Expected Credit Losses on Trade Accounts Receivable	(1,703,166)	(1,686,223)
Other accounts receivable	1,410,852	1,163,952
Provision for expected credit losses on other accounts receivable	(790,006)	(828,933)
	6,853,100	**6,209,655**
	6,886,035	**6,218,682**

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

Information on balances with associated parties is disclosed in Note 35.

21 Advances issued and other assets

	December 31, 2022	December 31, 2021
Fixed		
Advances issued	7,722	5,934
VAT for advances received	407	407
	8,129	**6,341**
Current		
Advances issued	92,408	186,574
Provision for impairment of advances issued	(4,246)	(5,377)
VAT recoverable	(12,192)	9,541
VAT for advances received and VAT for advances issued for the purchase of property, plant and equipment	41,707	50,341
Prepaid taxes except income tax	14,144	24,077
	131,821	**265,156**
	139,950	**271,497**

22 Cash and cash equivalents

	December 31, 2022	December 31, 2021
Cash at bank and in hand	3,510,721	1,984,357
Cash equivalents	650,000	–
	4,160,721	**1,984,357**

As of December 31, 2022 and December 31, 2021, all cash balances are denominated in rubles.

(in thousands Russian rubles, if not mentioned otherwise)

As of December 31, 2022, cash equivalents include short-term investments in bank deposits employed for a period of up to three months. The deposits are opened at annual percentage rates from 7.12 % to 8.03 %.

23 Charter capital

(a) Charter capital

	Ordinary shares	
In units	December 31, 2022	December 31, 2021
Nominal value of one share	100 rubles	100 rubles
In circulation as of January 1	342,258,436	334,657,837
In circulation at the end of the year and fully paid	363,300,457	342,258,436

(b) Ordinary shares

In accordance with the Articles of Association as of December 31, 2021 and as of December 31, 2022, 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.

Since April 1, 2021, PJSC “Rosseti Kuban” has been placing additional shares and the Bank of Russia performed state registration of the placement as well as registration of the securities prospectus containing the conditions of securities placement on April 1, 2021 and on April 25, 2022. As of December 31, 2022, 28,642,620 additional shares were placed, including 21,042,021 in 2022.

The total amount of the Group’s outstanding shares is 363,300,457 items as of December 31, 2022.

(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.

The Annual General Meeting of Shareholders held on June 16, 2022, decided to pay dividends on the Company’s outstanding shares on the basis of the results of financial and business activities of PJSC “Rosseti Kuban” in 2021 in the amount of 932,223 thousand rubles in monetary form (Minutes of the Annual General Meeting of Shareholders of June 21, 2022 No. 48). The dividends amounted to 2.71262 rubles per one ordinary share of the Company.

The Extraordinary General Meeting of Shareholders held on December 5, 2022, decided to pay dividends on the PJSC “Rosseti Kuban” ordinary shares from the net profit of the Company received during 9 months of 2022 in the amount of 1,943,545 thousand rubles in monetary form (Minutes of the Extraordinary General Meeting of Shareholders of December 8, 2022 No. 49). The dividends amounted to 5.48230 rubles per one ordinary share of the Company.

For the year ended on December 31, 2022, dividends paid to Company owners amounted to 2,774,363 thousand rubles including 2,695,919 thousand rubles of the parent company PJSC “Rosseti” in which the dividends for 2021 amounted to 872,691 thousand rubles. (for the year ended on December 31, 2021 – dividends for 2020 were not accrued and were not paid to the owners of the company).

As of December 31, 2022, the debt for the payment of dividends to other owners amounted to 101,678 thousand rubles while the debt to the parent company for the payment of dividends was paid.

As of December 31, 2022, the dividends returned to the Group after the expiration of the claim period and included in retained earnings amounted to 71 thousand rubles. (as of December 31, 2021 – 217 thousand rubles).

(d) Additional issue of 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. The initial period of additional shares placement is one year since the date of state registration of the additional issue. On April 25, 2022, the Bank of Russia registered the Group’s securities prospectus providing for extension of the additional share placement period till April 1, 2023 through the extension of the offer collection period till March 2, 2023.

During the period from April 10, 2021 till March 20, 2023, the shareholders exercised their pre-emptive right to purchase additional shares. The additional shares were paid in cash in the amount of 3,759,954 thousand rubles, 28,642,620 additional shares were placed amounting to 2,864,262 thousand rubles. The registrar performed the operation in the register of security holders of the Group for the initial placement of these shares. The amount of additional ordinary shares left after the pre-emptive right was exercised is 40,940,512 items.

24 Earnings per share

The calculation of earnings per share for the year ended on December 31, 2022 and December 31, 2021 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	**2022**	**2021**
Ordinary shares as of January 1	**342,258**	**334,658**
The effect of the stock placement	21,042	7,600
Weighted average number of shares for the period ended on December 31	**349,986**	**342,258**

	For the year ended on December 31, 2022	**For the year ended on December 31, 2021**
Weighted average number of shares outstanding for the period ended on December 31 (in thousands of units)	363,300	342,258
Profit/(loss) for the period which is payable to Company owners	5,698,370	1,864,445
Profit/(loss) per share – basic and diluted (in Russian rubles)	**16.28**	**5.45**

(in thousands Russian rubles, if not mentioned otherwise)

25 Borrowings

	December 31, 2022	December 31, 2021
Non-current liabilities		
Unsecured credits and loans	21,003,300	16,136,314
Lease liabilities	3,866,469	4,943,208
By deducting: current portion of non-current borrowings and credits	(4,071,757)	–
By deducting: current portion of non-current lease liabilities	(1,492,118)	(1,337,002)
	19,305,894	**19,742,520**
Current liabilities		
Unsecured credits and loans	18,523	4,834,192
Current portion of non-current borrowings and credits	4,071,757	–
Current portion of non-current lease liabilities	1,492,118	1,337,002
	5,582,398	**6,171,194**
Including:		
Interest payable on loans and borrowings	18,523	34,192
	18,523	**34,192**

As of December 31, 2022 and December 31, 2021, all loan balances are denominated in rubles.

As of December 31, 2022 and December 31, 2021, current and non-current liabilities on loans and borrowings amounted to 21,021,823 thousand rubles and 20,970,506 thousand rubles (excluding the current and non-current liabilities on lease).

As of December 31, 2022 and December 31, 2021, current and non-current liabilities on lease amounted to 3,866,469 thousand rubles and 4,943,208 thousand rubles respectively.

For the year ended on December 31, 2022, the Group used the following bank loans and borrowings:

	Effective interest rates	Repayment periods	Nominal value
Unsecured bank credits	KR + 1.35 % − KR + 1.70 %	2022–2025	14,682,503
Unsecured bank credits	KR + 1.5 % − KR + 1.50 %	2022–2023	1,000,698
			15,683,201

For the year ended on December 31, 2022, the Group repaid the following loans and bank credits:

	Nominal value
Unsecured bank credits	10,816,215
Unsecured loans	4,800,000
	15,616,215

As of December 31, 2022, the amount of available line of open but unused credit lines and loans of the Group amounted to 58,342,200 thousand rubles, including overdraft lending limits of 1,750,000 thousand rubles (43,209,186 thousand rubles as of December 31, 2021, including overdraft lending limits of 1,750,000 thousand rubles).

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

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

(in thousands Russian rubles, if not mentioned otherwise)

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

	Maturity date	Effective interest rate December 31, 2022	Effective interest rate December 31, 2021	Book value December 31, 2022	Book value December 31, 2021
Unsecured credits and loans					
Unsecured loans	2023–2025	KR + 1.35 % – KR + 2.75 %	KR + 1.55 % – KR + 2.75 %	18,119,319	13,244,141
Unsecured loans	2023–2023	KR + 1.10 % – KR + 1.33 %	KR + 1.10 % – KR + 1.43 %	1,484,335	1,500,404
Unsecured loans	2025–2025	7.07 %–7.07 %	7.07 %–10.01 %	1,418,169	6,225,961
				21,021,823	**20,970,506**
Lease liabilities	2023–2071	8.85 %–14.37 %	6.16 %–9.31 %	3,866,469	4,943,208
Total liabilities				**24,888,292**	**25,913,714**

26 Changes in Liabilities Arising from Financial Activities

	Borrowings Non-current	Borrowings Current	Interest payable on borrowings (except % under lease agreements)	Lease liabilities	Dividends payable
As of January 1, 2022	**16,136,314**	**4,800,000**	**34,192**	**4,943,208**	**344**
Changes in cash flows from financing activities					
Raising borrowings	14,682,503	1,000,698	–	–	–
Repayment of loans and borrowings	(9,815,517)	(5,800,698)	–	–	–
Lease payments	–	–	–	(1,328,971)	–
Interest paid (operating activities, for reference)	–	–	(2,408,038)	(341,457)	–
Dividends paid	–	–	–	–	(2,774,363)
Total	**4,866,986**	**(4,800,000)**	**(2,408,038)**	**(1,670,428)**	**(2,774,363)**
Non-cash changes					
Reclassification	(4,071,757)	4,071,757			
Capitalized interest	–	–	313,137	2,914	–
Interest expenses	–	–	2,079,232	351,017	–
Receipts from lease agreements	–	–	–	262,684	–
Dividends accrued	–	–	–	–	2,875,768
Other changes, net	–	–	–	(22,926)	(71)
Total	**(4,071,757)**	**4,071,757**	**2,392,369**	**593,689**	**2,875,697**
As of December 31, 2022	**16,931,543**	**4,071,757**	**18,523**	**3,866,469**	**101,678**

(in thousands Russian rubles, if not mentioned otherwise)

	Borrowings		**Interest payable on borrowings (except % under lease agreements)**	**Lease liabilities**	**Dividends payable**
	Non-current	**Current**			
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					
Reclassification	–	–	–	–	–
Capitalized interest	–	–	80,529	329	–
Interest expenses	–	–	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)

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, 2022	December 31, 2021
Net value of liabilities under employee benefit programs after termination of labor activity	621,344	545,309
Total net value of liabilities	**621,344**	**545,309**

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

	For the year ended on December 31	
	2022	2021
Asset value as of January 1	**308,658**	**319,337**
Income from plan assets	9,070	–
Employer’s contributions	21,543	20,734
Other movement on accounts	(198)	15,087
Benefits payment	(36,523)	(46,500)
Value of assets as of December 31	**302,550**	**308,658**

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 on December 31, 2022		For the year ended on December 31, 2021	
	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	**545,309**	**–**	**561,821**	**–**
Cost of current services	24,302	–	26,968	–
Past service cost and budget sequestration	–	–	–	–
Interest expense on liabilities	42,072	–	30,725	–
Effect of revaluation:	–	–		–
– loss from changes in demographic actuarial assumptions	–	–	14,372	–
– profit/(loss) from changes in financial actuarial assumptions	(33,424)	–	(83,058)	–
– profit/(loss) from adjustment based on experience associated with demographic and financial actuarial assumptions	87,533	–	52,614	–
Contributions to the program	(44,448)	–	(58,133)	–
Defined benefit liabilities as of December 31	**621,344**	**–**	**545,309**	**–**

(in thousands Russian rubles, if not mentioned otherwise)

Expenses recognized in profit or loss for the period:

	For the year ended on December 31, 2022	For the year ended on December 31, 2021
Employee service cost	24,302	26,968
Revaluation of liabilities under other long-term employee benefits	–	–
Interest expenses	42,072	30,725
Total (income)/expenses recognized in profit or loss	**66,374**	**57,693**

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

	For the year ended on December 31, 2022	For the year ended on December 31, 2021
Loss from changes in demographic actuarial assumptions	–	14,372
(Profit)/loss from changes in financial actuarial assumptions	(33,424)	(83,058)
(Profit)/loss from adjustment based on experience	87,533	52,614
Total (income)/expense recognized in other comprehensive income	**54,109**	**(16,072)**

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

	For the year ended on December 31 2022	2021
Revaluation as of January 1	**483,146**	**499,218**
Revaluation change	54,109	(16,072)
Revaluation as of December 31	**537,255**	**483,146**

Basic actuarial assumptions:

	December 31, 2022	December 31, 2021
Financial assumptions		
Discount rate	10.30 %	8.4 %
Salary increase in the future	6.10 %	5.0 %
Inflation rate	5.60 %	4.5 %
Demographic assumptions		
Predictable retirement age		
– Men	65	65
– Women	60	60
Moderate level of employee turnover	9.50 %	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	Increase/decrease by 0.50 %	Change by (3.20 %)
Salary increase in the future	Increase/decrease by 0.50 %	Change by 2.70 %
Benefits increase in the future (inflation)	Increase/decrease by 0.50 %	Change by 0.80 %
Level of employee turnover	Increase/decrease by 10.00 %	Change by (2.40 %)
Mortality rate	Increase/decrease by 10.00 %	Change by (0.90 %)

(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, 2023 – December 31, 2023 is 188,815 thousand rubles including:

- under defined benefit programs including non-state pension provision of employees, 188,815 thousand rubles;

28 Trade and other account payable

	December 31, 2022	December 31, 2021
Non-current debt		
Trade accounts payable	93,604	92,134
Other accounts payable	–	30,001
	93,604	**122,135**
Current debt		
Trade accounts payable	9,337,701	6,783,569
Other accounts payable and accrued expenses	171,424	707,163
Payables to employees	1,469,133	1,226,789
Dividends payable	101,678	344
	11,079,936	**8,717,865**
	11,173,540	**8,840,000**

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

29 Taxes payable except income tax

	December 31, 2022	December 31, 2021
VAT	514,660	571,743
Property tax	155,499	159,482
Social security contributions	473,181	170,816
Other taxes payable	88,432	63,132
	1,231,772	**965,173**

30 Advances Received

	December 31, 2022	December 31, 2021
Non-current		
Advances for services of technological connection to electric networks	1,971,783	1,127,028
Other advances received	1,338	6,914
	1,973,121	**1,133,942**
Current		
Advances for services of technological connection to electric networks	3,598,783	1,723,537
Other advances received	1,610,110	268,354
	5,208,893	**1,991,891**
	7,182,014	**3,125,833**

(in thousands Russian rubles, if not mentioned otherwise)

31 Estimated liabilities

	For the year ended on December 31	
	2022	**2021**
Balance as of January 1	**2,084,450**	**921,992**
Accrual (increase) for the period	774,809	1,416,263
Recovery (decrease) for the period	(876,060)	(68,054)
Use of estimated liabilities	(557,745)	(217,546)
Capitalized	35,439	31,795
Balance as of December 31	**1,460,893**	**2,084,450**

The estimated liabilities mainly relate to lawsuits and claims brought against the Group for ordinary activities as well as estimated liabilities related to unregulated issues of the Group’s tax disputes as of December 31, 2022 and December 31, 2021 in the amounts of 173,376 thousand rubles and 559,578 thousand rubles respectively.

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 (interest rate 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 liabilities 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 book value 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 liabilities 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 liabilities.

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, 2022	**December 31, 2021**
Trade and other accounts receivable (less the provision for expected credit losses)	6,886,035	6,218,682
Cash and cash equivalents	4,160,721	1,984,357
	11,046,756	**8,203,039**

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

	December 31, 2022		**December 31, 2021**	
	Total nominal value	**Provision for expected credit losses**	**Total nominal value**	**Provision for expected credit losses**
Buyers of electricity transmission services	7,667,559	(1,597,134)	7,077,351	(1,351,430)
Buyers of services for technological connection to networks	38,043	(27,797)	47,631	(24,810)
Other buyers	262,566	(110,193)	437,222	(309,983)
	7,968,168	**(1,735,124)**	**7,562,204**	**(1,686,223)**

The book value of trade accounts receivable attributable to the ten largest borrowers of the Group amounted to 5,570,634 thousand rubles as of December 31, 2022 (as of December 31, 2021: 5,339,100 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, 2022		December 31, 2021	
	Total nominal value	**Provision for expected credit losses**	**Total nominal value**	**Provision for expected credit losses**
Outstanding debt	6,616,159	(274,759)	5,991,942	(479,900)
Overdue by less than 3 months	377,971	(77,116)	362,238	(72,480)
Overdue by more than 3 months and less than 6 months	287,666	(203,910)	124,041	(17,327)
Overdue for more than 6 months and less than a year	320,674	(216,882)	162,618	(78,622)
Overdue for more than a year	1,842,585	(1,786,353)	2,092,999	(1,866,827)
	9,445,055	**(2,559,020)**	**8,733,838**	**(2,515,156)**

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 book value 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:

	2022	**2021**
Balance as of January 1	**2,515,156**	**2,006,401**
Increase in the reserve for the period	723,282	604,955
Recovery of reserve amounts for the period	(97,988)	(69,044)
Amounts of trade and other accounts receivable written off from the previously accrued reserve	(581,430)	(27,156)
Balance as of December 31	**2,559,020**	**2,515,156**

As of December 31, 2022 and as of December 31, 2021, 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 current and non-current 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 liabilities 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.

As of December 31, 2022, the amount of available line of open but unused credit lines of the Group amounted to 58,342,200 thousand rubles (as of December 31, 2021: 43,209,186 thousand rubles). The Group has the opportunity to obtain additional financing within the appropriate limits including for ensuring the fulfillment of its current liabilities.

(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, 2022	**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	21,021,823	25,070,389	5,794,646	5,736,563	13,539,180	–	–	–
Lease liabilities	3,866,469	5,486,316	1,708,122	1,689,798	168,786	122,272	92,238	1,705,100
Trade and other account payable	11,173,540	11,723,176	11,629,572	8,551	3,755	3,905	4,061	73,332
	36,061,832	**42,279,881**	**19,132,340**	**7,434,912**	**13,711,721**	**126,177**	**96,299**	**1,778,432**

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	–	–
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**

(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 non-current accounts receivable for the purposes of determining the disclosed fair value as of December 31, 2022 was 8.85–13.15 % (December 31, 2021: 6.78–8.69 %).

The interest rate used to discount the expected future cash flows on non-current accounts payable for the purposes of determining the disclosed fair value as of December 31, 2022 was 8.85–13.15 % (as of December 31, 2021: 6.78–8.69 %).

The interest rate used to discount expected future cash flows on non-current and current borrowings for the purposes of determining the disclosed fair value as of December 31, 2022 was KR[*]+1.35 % – KR*+2.75 % (as of December 31, 2021: 5.60 % – KR*+2.75 %).

For the year ended on December 31, 2022, there were no transfers between the levels of the fair value hierarchy.

[*] KR – key rate of the Bank of Russia.

(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 charter capital.

As of December 31, 2022 and as of December 31, 2021, these requirements were met.

33 Capital Contractual Liabilities

The amount of the Group's capital liabilities under contracts for the purchase and construction of property, plant and equipment is 1,147,198 thousand rubles, including VAT, as of December 31, 2022 (as of December 31, 2021: 2,416,614 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, 2022, the on-site tax audit for 2016–2018 has been completed. The Decision of the tax body on the results of on-site tax audit of the financial and business activities defines violations in terms of determining the useful life and amortization group for certain power infrastructure facilities.

Due to the existence of negative judicial practice in additional charging of income tax as well as company property tax due to amortization overstatement, the Company assesses the risk as “probable”. In this regard, the Group's management, exercising the principle of prudence, decided to create a reserve for estimated liabilities in the amount of 173,376 thousand rubles.

Due to the fact that the Decision of the tax body on the results of on-site tax audit for 2016–2018 contains no tax claims on company property in terms of requalification of the property, plant and equipment from “movable” to “immovable” category and due to the change in judicial practice in favor of other subsidiaries and associates of PJSC “Rosseti”, the sum of earlier created provision of estimated liabilities on tax risks has been fully recovered in the amount of 559,578 thousand rubles.

The amount of provision on tax disputes was 173,376 thousand rubles as of December 31, 2022. (as of December 31, 2021 – 559,578 thousand rubles). The Group intends to challenge the tax body decision.

(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, 2022 and December 31, 2021, 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 on December 31		Book value	
	2022	**2021**	**December 31, 2022**	**December 31, 2021**
Revenue, other income, financial income				
Parent company				
Other revenue	1,185	1,185	–	–
Enterprises under the common control of the parent company				
Lease	4,789	4,608	6	1,363
Other revenue	99,182	2,908	84,954	63,846
Interest income	5,885	3,751	7,016	1,796
Income from technological connection services	–	46	–	–
Other operating income	1,326	11,350	5,469	68,607
Net income/expenses from sale of property, plant and equipment	35,236	–	–	–
	147,603	**23,848**	**97,445**	**135,612**
Provision for expected credit losses on trade and other accounts receivable	35,969	(6,643)	(68,424)	(104,393)
Accounts receivable less the provision for expected credit losses	–	–	29,021	31,219

(in thousands Russian rubles, if not mentioned otherwise)

	Transaction amount for the year ended on December 31		**Book value**	
	2022	**2021**	**December 31, 2022**	**December 31, 2021**
Operating expenses, financial expenses				
Parent company				
Expenses for the organization and development of the UPS	110,819	104,437	19,926	19,434
Other works and services of production nature	15,272	15,272	–	–
Other expenses	–	6,382	–	–
Interest expenses on financial liabilities carried at amortized cost	570,300	285,394	18,169	25,961
Enterprises under the common control of the parent company				
Services for electric power transmission	8,324,432	8,051,470	879,062	790,579
Services for technological connection to electric networks	39	1,493	9162	–
Repair and maintenance services	1903	1,830	–	549
Short-term lease	–	–	–	1,217
Software and maintenance expenses	41,632	–	3,401	–
Other expenses	51,118	84,927	9,838	21,314
Interest expenses on lease liabilities	18,624	20,661	–	–
Interest expenses on financial liabilities carried at amortized cost	23,654	14,898	–	–
	9,157,793	**8,586,764**	**939,558**	**859,054**
Construction and installation works	105,988	47,365	366,666	424,114
	9,263,781	**8,634,129**	**1,306,224**	**1,283,168**

	Book value	
	December 31, 2022	**December 31, 2021**
Parent company		
Credits and loans	1,400,000	5,600,000
Enterprises under the common control of the parent company		
Advances issued	7,722	5,934
Lease liabilities	235,543	286,291
Advances received	571,445	30
Credits and loans	–	600,000
	2,214,710	**6,492,255**

For the year ended on December 31, 2022, the Group did not obtain any loans from the parent company but repaid 4,200,000 thousand rubles. (for the year ended on 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 on December 31, 2022, the Group did not obtain any loans from companies under the general control of the parent company but repaid 600,000 thousand rubles. (for the year ended on 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).

(in thousands Russian rubles, if not mentioned otherwise)

As of December 31, 2022, there is no debt to the parent company for the payment of dividends (as of December 31, 2021 – none).

(c) Operations with key management personnel

For the purposes of preparation of the Consolidated Financial Statements, the members of the Board of Directors and the Executive Board of PJSC “Rosseti Kuban”, the General Director and deputies of the same were included in the key management personnel.

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. Remuneration or compensations are not paid to the members of the Board of Directors who are simultaneously the members of the Company's collective executive body or an individual executive body (General Director) of the Company.

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 on December 31	
	2022	**2021**
Short-term employee benefits	231,010	181,750
	231,010	**181,750**

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, 2022 amounted to 0 thousand rubles (as of December 31, 2021: 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:

- 1.29 % of the Group's total revenue for the year ended December 31, 2022 (for the year ended on December 31, 2021: 2.68 %);
- 0.86 % of the Group's electricity transmission revenue for the year ended on December 31, 2022 (for the year ended December 31, 2021: 0.90%).

The expenses of electricity transmission and the expenses of purchasing electricity to compensate for technological losses, for the government-related entities, amounted to 4.72 % of the total expenses of transmission and compensation for losses for the year ended on December 31, 2022 (for the year ended December 31, 2021: 4.37%).

As of December 31, 2022, credits and loans from banks associated with the main shareholder of the parent company amounted to 18,019,319 thousand rubles (as of December 31, 2021: 13,244,141 thousand rubles).

For the year ended on December 31, 2022, the Group obtained loans and borrowings from banks associated with the main shareholder of the parent company in the amount of 14,682,503 thousand rubles, repaid – 9,799,497 thousand rubles. (for the year ended on 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 on December 31, 2022 amounted to 1,532,550 thousand rubles (for the year ended on December 31, 2021: 1,106,050 thousand rubles).

As of December 31, 2022, the balance of cash and cash equivalents placed in the government-related banks amounted to 3,509,687 thousand rubles (as of December 31, 2021: 1,981,785 thousand rubles).

As of December 31, 2022, lease liabilities for the government-related entities amounted to 3,229,417 thousand rubles (as of December 31, 2021: 4,721,931 thousand rubles).

36 Events after the reporting date

In the period after the reporting date, the Group received cash in the amount of 895,692 thousand rubles to pay for outstanding shares. Additional shares were not transferred to the original owners in that period.

On January 9, 2023, reorganization of Public Joint Stock Company “Rosseti” (the largest shareholder of the Group), Joint Stock Company “Far East Power Management Company – ENES” (also, the owner of a stock of the Group’s shares) through the consolidation with Public Joint Stock Company “Federal Network Company – Rosseti” (successor) (OGRN 1024701893336, INN 4716016979), record in the Unified State Register of Legal Entities under the State Registration Number 2237700011767. PJSC “Federal Network Company – Rosseti” is a universal successor of the mentioned organizations, and the title for all shares of PJSC “Rosseti Kuban” owned by the said shareholders of the Group has been transferred to it.

The share of Public Joint Stock Company “Federal Network Company – Rosseti” in the Group’s outstanding shares amounts to 99.69 % as of January 9, 2023.

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 on December 31, 2022, 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.