Independent auditor’s report
on the consolidated financial statements of
Public Joint-Stock Company
“Rosseti Moscow Region”
and its subsidiaries
for 2022

March 2023

Independent auditor's report on the consolidated financial statements of Public Joint-Stock Company "Rosseti Moscow Region" and its subsidiaries

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ООО «ЦАТР – аудиторские услуги»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 495 705 9700
+7 495 755 9700
Факс: +7 495 755 9701
ОГРН: 1027739707203
ИНН: 7709383532
ОКПО: 59002827

TSATR – Audit Services LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 495 705 9700
+7 495 755 9700
Fax: +7 495 755 9701
www.b1.ru

Independent auditor's report

To the Shareholders and Board of Directors of
Public Joint-Stock Company "Rosseti Moscow Region"

Opinion

We have audited the consolidated financial statements of Public Joint-Stock Company "Rosseti Moscow Region" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2022, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022 and its consolidated financial performance and its consolidated cash flows for 2022 in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Key audit matter	How our audit addressed the key audit matter
Recognition and measurement of revenue from electricity transmission services	
Recognition and measurement of revenue from electricity transmission services was one of the most significant matters for our audit due to certain specifics of the electricity market mechanisms that give rise to the existence of disagreements among electricity supply, utilities, and other companies in relation to the volume and cost of the transmitted electricity. The amount of revenue challenged by counterparties is material to the Group's financial statements. Management's assessment of the probability of settling disputes in the Group's favor is highly subjective. Revenue is recognized when, with regard to assumptions, disagreements are resolved in favor of the Group. Information on revenue from electricity transmission services and disagreements with customers is disclosed in Notes 6, 25 and 30 (c) to the consolidated financial statements.	We considered the applied accounting policy with regard to the recognition of revenue from electricity transmission services and assessed internal controls over the recognition of this revenue. We analysed electricity transmission contracts and the amounts of revenue determined based on these contracts. We received, on a selective basis, confirmations of revenues and balances of receivables from counterparties, analyzed the results of litigations concerning disputable amounts of services provided, if any, and assessed existing procedures to confirm the volume of electricity transmitted. We reviewed information on revenue from electricity transmission services disclosed in Notes 6, 25 and 30 (c) to the consolidated financial statements.

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Key audit matter	How our audit addressed the key audit matter
Allowance for expected credit losses on trade and other receivables	
The matter of creating allowance for expected credit losses on trade and other receivables is one of the most significant matters for our audit due to the material balances of trade and other receivables as of 31 December 2022, as well as due to the fact that management's assessment of the recoverability of these receivables is based on assumptions, in particular, on the projected solvency of the Group's customers. Information on allowance for expected credit losses on trade and other receivables is disclosed in Notes 17 and 29 (b) to the consolidated financial statements.	We analyzed the Group's accounting policy on the trade and other receivables with respect to the creation of allowance for expected credit losses on trade and other receivables, as well as procedures to confirm the appropriateness of measurements made by the Group's management, including the analysis of repayment of trade and other receivables, the analysis of maturity and delayed performance of obligations, and the analysis of customers' solvency. We performed audit procedures in respect of the information used by the Group to determine the allowance for expected credit losses on trade and other receivables, the structure of receivables by age and maturity, and tested the amount of charged allowance.
Recognition, measurement and disclosure of provisions and contingent liabilities	
Recognition, measurement and disclosure of provisions and contingent liabilities in respect of tax risks, litigations and claims from counterparties (including territorial electric grid and utilities companies) were among the most significant matters for our audit as they require significant judgments of management with respect to material amounts of tax risks and balances of settlements with counterparties that are challenged in litigations or under the pretrial settlement. Information on provisions and contingent liabilities is disclosed in Notes 25 and 30 (c-d) to the consolidated financial statements.	Audit procedures also involved analyzing decisions made by courts of different instances; considering the adequacy of management's judgments with regard to assessment of the possibility of an outflow of economic resources due to the court decisions and dispute settlements; examining the compliance of the prepared documentation with provisions of existing contracts and legislation; and reviewing disclosures on provisions and contingent liabilities in notes to the consolidated financial statements.

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Key audit matter	How our audit addressed the key audit matter
Impairment of non-current assets	
Due to existence of the impairment indicators of non-current assets as of 31 December 2022, the Group performed impairment testing. The value-in-use of property, plant and equipment, forming a significant share of the Group's non-current assets, as of 31 December 2022, was determined by the projected cash flow method. The matter of impairment testing of fixed assets was one of the most significant matters for our audit because the balance of property, plant and equipment forms a significant part of the Group's assets at the reporting date, and because management's assessment of the value-in-use is complex, largely subjective and is based on assumptions, in particular, on the projected electricity transmission volumes, transmission fees, as well as operating and capital expenditures that depend on the expected future market or economic conditions in the Russian Federation, including terminal growth rate and discount rate. Information on the results of the impairment analysis of non-current assets is disclosed by the Group in Note 12 (a) to the consolidated financial statements.	As part of our audit procedures, we also assessed the assumptions and methodologies applied by the Group, in particular, those relating to projected total revenue from the electricity transmission, transmission fee solutions, operating and capital expenditures, long-term rates of fee growth and discount rates. We tested the arithmetic accuracy and input data used in the model to determine the recoverable amount in the impairment test of property, plant and equipment. We engaged valuation specialists to analyze the model used to determine the recoverable amount of property, plant and equipment tested for impairment. We also analyzed the sensitivity of the model to changes of the main indicators of assessment and the Group's disclosures of assumptions on which the results of impairment testing largely depend on.

Other information included in annual report

Other information consists of the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do 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 and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether 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 that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee of the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with Audit Committee of the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

T.L. Okolotina,
acting on behalf of TSATR – Audit Services Limited Liability Company
on the basis of power of attorney dated 18 April 2022,
partner in charge of the audit resulting in this independent auditor's report
(main registration number 21906110171)

21 March 2023

Details of the auditor

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

Details of the audited entity

Name: Public Joint-Stock Company "Rosseti Moscow Region"
Record made in the State Register of Legal Entities on 1 April 2005, State Registration Number 1057746555811.
Address: Russia 115114, Moscow, 2 Paveletskiy proezd, 3, building 2.

(in thousands of Russian roubles, unless otherwise stated)

	Note	For the year ended 31 December 2022	2021
Revenue	6	199 664 789	184 705 502
Operating expenses	7	(165 860 445)	(168 108 625)
Recovery/(allowance) for expected credit losses on accounts receivable	29 (b)	644 869	(238 237)
Impairment loss on property, plant and equipment and right-of-use assets	12	(22 749 185)	(5 121 535)
Other operating income	9	7 563 603	5 871 938
Operating profit		**19 263 631**	**17 109 043**
Finance income	10	1 369 723	486 507
Finance costs	10	(3 404 338)	(3 731 182)
Profit before income tax		**17 229 016**	**13 864 368**
Income tax expense	11	(3 777 847)	(3 406 638)
Profit for the year		**13 451 169**	**10 457 730**
Profit for the year attributable to:			
Shareholders of PJSC Rosseti Moscow Region		13 451 169	10 457 730
Other comprehensive income/(loss)			
Items that will not to be reclassified to profit and loss in subsequent periods			
Remeasurement of defined benefit plans	24	82 575	138 827
Income tax on defined benefit plans	15	(18 286)	(21 568)
Other comprehensive income/(loss), net of income tax		**64 289**	**117 259**
Total comprehensive income for the year, net of tax		**13 515 458**	**10 574 989**
Total comprehensive income attributable to:			
Shareholders of PJSC Rosseti Moscow Region		13 515 458	10 574 989
Earnings per share			
Basic and diluted earnings per ordinary share (in Russian roubles)	21	0.2762	0.2147

These consolidated financial statements were approved by management on 21 March 2023 and were signed on its behalf by:

General Director

P.A. Sinyutin

First Deputy General Director
for Finance and Economic Activity
and Corporate Management

V.Y. Myasnikov

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

(in thousands of Russian roubles, unless otherwise stated)

	Note	31 December 2022	31 December 2021
Assets			
Non-current assets			
Property, plant and equipment	12	328 040 963	331 683 107
Right-of-use assets	14	3 588 021	3 628 006
Intangible assets	13	5 981 780	5 524 779
Trade and other receivables	17	133 391	174 165
Assets related to employee defined benefits plans	24	210 098	198 935
Deferred income tax assets	15	57 952	48 321
Other non-current non-financial assets	18	3 322 125	2 720 476
Total non-current assets		**341 334 330**	**343 977 789**
Current assets			
Inventories	16	4 306 928	3 794 998
Income tax receivable		69 009	879 286
Trade and other receivables	17	17 224 977	15 631 252
Other current non-financial assets	18	10 103 292	7 447 339
Cash and cash equivalents	19	15 464 193	10 654 224
Total current assets		**47 168 399**	**38 407 099**
Total assets		**388 502 729**	**382 384 888**
Equity and liabilities			
Equity			
Share capital	20	24 353 546	24 353 546
Retained earnings		165 989 630	161 236 577
Total equity		**190 343 176**	**185 590 123**
Non-current liabilities			
Loans and borrowings	22	28 497 458	66 353 660
Employee benefits	24	2 934 182	3 057 393
Deferred income tax liabilities	15	11 756 885	14 152 224
Contract liabilities	27	19 890 086	16 602 756
Trade and other payables	26	9 272 363	4 355 721
Total non-current liabilities		**72 350 974**	**104 521 754**
Current liabilities			
Loans and borrowings	22	39 236 941	19 317 592
Income tax payable		1 138 678	19 654
Other taxes payable	28	4 674 332	1 295 543
Contract liabilities	27	43 967 188	30 598 908
Trade and other payables	26	33 119 623	29 024 377
Provisions	25	3 671 817	12 016 937
Total current liabilities		**125 808 579**	**92 273 011**
Total equity and liabilities		**388 502 729**	**382 384 888**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

(in thousands of Russian roubles, unless otherwise stated)

	Note	Share capital	Retained earnings	Total equity
Balance at 1 January 2021		**24 353 546**	**153 062 848**	**177 416 394**
Profit for the year		–	10 457 730	**10 457 730**
Other comprehensive income		–	117 259	**117 259**
Total comprehensive income for the year		**–**	**10 574 989**	**10 574 989**
Dividends to shareholders	23	–	(2 401 260)	**(2 401 260)**
Balance at 31 December 2021		**24 353 546**	**161 236 577**	**185 590 123**
Balance at 1 January 2022		**24 353 546**	**161 236 577**	**185 590 123**
Profit for the year		–	13 451 169	**13 451 169**
Other comprehensive income		–	64 289	**64 289**
Total comprehensive income for the year		**–**	**13 515 458**	**13 515 458**
Dividends to shareholders	23	–	(8 762 405)	**(8 762 405)**
Balance at 31 December 2022		**24 353 546**	**165 989 630**	**190 343 176**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

(in thousands of Russian roubles, unless otherwise stated)

	Note	For the year ended 31 December 2022	2021
Cash flows from operating activities			
Profit for the period		**13 451 169**	**10 457 730**
Adjustments for:			
Depreciation of property, plant and equipment, amortization of right-of-use assets and intangible assets	7	23 849 531	23 159 939
Finance costs	10	3 404 338	3 731 182
Property received as a compensation of losses	9, 12(d)	(3 189 857)	(3 313 805)
(Recovery)/allowance for expected credit losses of accounts receivable		(644 869)	238 237
Recovery of allowance for impairment of advances given	7	(297 421)	(114 427)
(Recovery)/allowance for provisions	7, 25	(6 204 360)	4 960 285
Loss on disposal of property, plant and equipment	7	913 080	2 048 488
Finance income	10	(1 369 723)	(486 507)
Write down of inventory	7	69 652	189 937
Loss from inventory write off		10 612	23 289
Write off of accounts payable		(352 895)	(170 615)
Impairment of property, plant and equipment	12(a)	22 749 185	5 121 535
Income tax expense	11	3 777 847	3 406 638
Other non-cash items		(66 509)	77 937
Total cash flows from operating activities before changes in non-current assets, operating assets and liabilities		**56 099 780**	**49 329 843**
Changes in assets related to employees benefit liabilities		(5 884)	(2 906)
Changes in employees benefit liabilities		(266 666)	(178 412)
Changes in long-term trade and other receivables		141 026	46 606
Changes in long-term non-financial assets		(601 649)	(770 789)
Changes in long-term trade and other payables		4 944 640	650 628
Changes in long-term contract liabilities		3 287 330	5 218 724
Cash flows from operating activities before changes in working capital		**63 598 577**	**54 293 694**
Changes in operating assets and liabilities			
Changes in trade and other receivables		(1 474 074)	(2 430 379)
Changes in other current non-financial assets		(2 358 532)	(654 694)
Changes in inventories		(504 151)	(30 706)
Changes in trade and other payables		3 216 405	1 886 629
Changes in short-term contract liabilities		13 384 629	3 387 326
Changes in provisions		(2 140 760)	(1 683 460)
Changes in taxes payable, other than income tax		3 378 789	(651 588)
Cash flows from operating activities before payment of income tax and interest		**77 100 883**	**54 116 822**
Interest paid		(5 073 216)	(5 284 227)
Interest paid under lease agreements		(311 922)	(299 497)
Income taxes paid		(4 271 802)	(4 653 976)
Net cash flows from operating activities		**67 443 943**	**43 879 122**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Note	For the year ended 31 December 2022	2021
Cash flows from investing activities			
Acquisition of property plant and equipment		(39 928 480)	(31 314 053)
Acquisition of intangible assets		(1 238 026)	(1 420 668)
Interest received		1 264 192	443 327
Proceeds from sale of property, plant and equipment		12 890	99 010
Net cash flows used in investing activities		**(39 889 424)**	**(32 192 384)**
Cash flows from financing activities			
Receipt of loans and borrowings		5 372 425	73 316 577
Repayment of loans and borrowings		(23 141 725)	(72 881 687)
Dividends paid to shareholders of PJSC Rosseti Moscow Region		(4 627 174)	(2 390 888)
Payment of principal portion of lease liabilities		(348 076)	(412 401)
Net cash flows used in financing activities		**(22 744 550)**	**(2 368 399)**
Net increase/(decrease) in cash and cash equivalents		**4 809 969**	**9 318 339**
Cash and cash equivalents at the beginning of the year	19	10 654 224	1 335 885
Cash and cash equivalents at the end of the period	19	**15 464 193**	**10 654 224**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

1 Background

(a) Organisation and operations

Public Joint-Stock Company “Rosseti Moscow Region” (the “Company”) was established on 1 April 2005 by transfer of assets and activities related to the electricity transmission of OJSC Mosenergo, a subsidiary of RAO UES of Russia, within the framework of Russian electricity sector restructuring (Minutes No. 1 of 29 June 2004 of the annual general meeting of shareholders of OJSC Mosenergo).The Company’s shares are traded on Moscow Exchange. Until July 2020, the Company was named Public Joint Stock Company “Moscow United Electric Grid Company”.

On 24 July 2020, Public Joint Stock Company “Moscow United Electric Grid Company” was renamed into Public Joint Stock Company “Rosseti Moscow Region”, after the state registration entry of changes made to the constituent documents of a legal entity related to changes in information about the legal entity, contained in the Unified State Register of Legal Entities under the state number 2207706755584.

The consolidated financial statements of PJSC “Rosseti Moscow Region” and its subsidiaries (the “Group”) were prepared as at 31 December 2022 and for the year then ended. The Group’s consolidated financial statements include the following subsidiaries:

No.	Subsidiary	Type of activity	Share, %
1	JSC MOESK-Engineering	Electrical equipment installation, repair and maintenance services	100%
2	JSC Repair of Electrical and Technical Equipment Plant (RETEP)	Electrical equipment installation, repair and maintenance services	100%
3	JSC Energocentr	Connection services	100%

The ultimate beneficiary of the Group is the Russian Federation and parent entity of the Group is PJSC “ROSSETI”.

The Company’s registered office and the actual address is the Russian Federation, 115114, Moscow, 2 Paveletskiy proezd, 3, building 2.

The Group’s main activity is the provision of fee-based services of electricity transmission in Moscow and the Moscow Region. The Group also provides technical connection services to electrical networks as part of its core operations.

(b) Relations with the state

Government of the Russian Federation, represented by the Federal Agency for the Administration of State Property, is the ultimate controlling party of the Company (further – “the main shareholder of the parent company”). The policy of the Government of the Russian Federation in the economic, social and other areas may have a significant impact on the Group’s activities.

As at 31 December 2022, the share of the Russian Federation in the authorized capital of the parent company PJSC “ROSSETI” was 88.04%, including 88.89% in voting ordinary shares, 7.01% in preferred shares (at 31 December 2021: 88.04%, including 88.89% in voting ordinary shares, 7.01% in preferred shares). In turn, as at 31 December 2022, the parent company PJSC “ROSSETI” owned 50.9% of the Company’s voting shares (at 31 December 2021: 50.9%).

1 Background (continued)

(b) Relations with the state (continued)

The state influences the Group's activities through representation on the Board of Directors of the parent company, regulation of tariffs in the electric power industry, approval and control over the implementation of the investment program. The Group's counterparties (consumers of services, suppliers and contractors, etc.) include a significant number of companies related to the main shareholder of the parent company.

The Extraordinary General Meeting of Public Joint Stock Company "ROSSETI", which was held on 16 September 2022, decided to reorganise PJSC "ROSSETI" in the form of joining the Public Joint Stock Company Public Joint Stock Company "Federal Grid Company – ROSSETI" in the manner and on the terms provided for in the accession agreement.

The information on the termination of the activities of Public Joint Stock Company "ROSSETI" through reorganisation in the form of joining the Public Joint Stock Company "Federal Grid Company – ROSSETI", which is the universal legal successor of Public Joint Stock Company "ROSSETI", was entered into the Unified State Register of Legal Entities on 9 January 2023. As a result of the reorganisation, the share of the Russian Federation in the authorised capital of the parent company of the Group, Public Joint Stock Company "Federal Grid Company – ROSSETI", is 75.000048%.

(c) Operating environment of the Group

The Group operates in the Russian Federation and is therefore exposed to risks related to the state of the economy and financial markets of the Russian Federation.

The economy of the Russian Federation exhibits some characteristic features inherent in 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 of different interpretations.

In 2022, the effect of external sanctions on legal entities and individuals in the Russian Federation continues, in connection with which the influence of economic and other factors, as well as the uncertainty factor on the conditions of doing business in the Russian Federation increases. In 2022, the high uncertainty of the impact of external and internal factors on the economy of the Russian Federation, the volatility of financial indicators continues to persist. The United States, the United Kingdom and the EU have imposed sanctions on a number of Russian banks. All of the above has a negative impact on the economy of the Russian Federation. At the same time, during the reporting year, there was a structural restructuring of the economy, a number of legislative measures made it possible to maintain the stability of the economy of the Russian Federation and adapt to the changes taking place.

The Group takes all necessary measures to ensure the sustainability of its activities. The presented consolidated financial statements reflect management's view of the impact of the business environment in the Russian Federation on the Group's operations and financial position. The actual impact of future business conditions may differ from current estimates.

2 Basis of preparation of consolidated financial statements

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International financial reporting standards ("IFRS").

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

(b) Basis of measurement

These consolidated financial statements are prepared on the historical cost basis, except for financial assets at fair value through profit or loss.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian rouble ("RUB"), which is used by the Group's functional currency and the currency in which these consolidated financial statements are presented.

The consolidated financial statements are presented in RUB and all values are rounded to the nearest thousands, except when otherwise indicated.

(d) Application of new and amended standards and interpretations

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

- *Revenue Received before the Start of the Intended Use of the Asset, Burdensome Contracts − the Cost of Fulfilling the Contract*;
- *Reference to the Conceptual Framework* − amendments with limited scope to IAS 16, IAS 37 and IFRS 3;
- Annual Improvements to IFRS for 2018-2020 related to IFRS 1, IFRS 9, IFRS 16 and IAS 41, which was issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022.

New standards and interpretations have been issued, which have been entered into force for annual periods beginning on or after 1 January 2023. The Group intends to adopt the standards and amendments for use after entry into force, no significant impact on the consolidated financial statements of the Group is expected:

- IFRS 17 *Insurance Contracts* (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021, the effective date was subsequently postponed to 1 January 2023 by Amendments to IFRS 17 issued on 25 June 2020);
- *Classification of Liabilities into Short-term and Long-term* − Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022, the effective date was subsequently postponed to 1 January 2024 by Amendments to IAS 1);
- Amendments to IAS 1 and Practical Guidance 2 on IFRS: *Disclosure of Accounting Policies* (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023);

2 Basis of preparation of consolidated financial statements (continued)

(d) Application of new and amended standards and interpretations (continued)

- _Deferred Tax on Assets and Liabilities Arising from the Same Transaction_ − Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023);
- Amendments to IFRS 10 and IAS 28 − _Sale or Contribution of Assets in Transactions between an Investor and its Associate or Joint Venture_ (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB dates);
- Amendments to IFRS 17 and Amendments to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023);
- Amendments to IFRS (IAS) 8: _Definition of Accounting Estimates_ (issued 12 February 2021 and effective for annual periods beginning on or after 1 January 2023);
- _Lease Obligations for Sale and Leaseback_ − Amendments to IFRS 16 (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024);
- _Long-term Obligations with Covenants_ − Amendments to IFRS (IAS) 1 (issued 31 October 2022 and effective for annual periods beginning on or after 1 January 2024).

(e) Reclassification of comparative data

Certain comparative figures were reclassified to comply with presentation of the consolidated financial statements for the current period. All reclassifications are immaterial.

(f) Use of judgments, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the presentation of assets and liabilities, revenues, expenses and the accompanying disclosure of contingent assets and liabilities in preparing the consolidated financial statements in conformity with IFRSs. Actual results may differ from those estimates.

The Group's assumptions and the estimates made by them are based on the initial inputs that were available to the Group when preparing the consolidated financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis for the need to update them. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future period in which the change of estimates affects the financial statements.

Information about critical judgments that have the most significant effect on the amounts recognized in the consolidated financial statements, and estimates and assumptions that may require significant adjustments of the carrying values of assets and liabilities in the next reporting period includes the following:

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

At each reporting date, management of the Group determines whether there is any indication of impairment of fixed assets and right-of-use assets. Indication of impairment includes changes in business plans, tariffs, and other factors leading to adverse effects for the Group. When calculating value in use, management estimates the expected cash flows from an asset or group of cash generating assets and calculates an acceptable discount rate to calculate the present value of those cash flows. Detailed information is provided in the notes "Property, plant and equipment" and "Right-of-use assets".

2 Basis of preparation of consolidated financial statements (continued)

(f) Use of judgments, estimates and assumptions (continued)

Determining the lease term for contracts with an option to renew or an option to terminate the lease − Group as lessee

The Group defines the lease term as the non-terminating lease period together with the periods for which an option to renew the lease is available if there is reasonable assurance 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 executed.

In making judgments to assess whether the Group has reasonable assurance about exercising an extension option or a termination option in determining the lease term, the Group considers the following factors:

- Whether the leased object is specialized;
- Location of the object;
- The Group and the lessor have a practical opportunity to choose an alternative counterparty (select an alternative asset);
- Costs associated with the termination of the lease and the conclusion of a new (replacement) agreement;
- The presence of significant improvements in leased facilities.

Impairment of receivables

An allowance for expected credit losses on receivable is established based on management's assessment of the probability of repayment of debts of specific debtors. For the purpose of assessing credit losses, the Group sequentially considers all reasonable and corroborated information about past events, current and forecasted events, which is available without large effort and is appropriate for the assessment of receivables. Experience gained in the past is adjusted on the basis of current data in order to reflect current conditions that did not affect previous periods, and in order to exclude the influence of past conditions that no longer exist.

Pension liabilities

The costs of a defined benefit pension program and related pension program costs are determined using actuarial calculations. Actuarial valuations use assumptions about demographic and financial data. Since this program is long-term, there is considerable uncertainty regarding such estimates.

Recognition of deferred tax assets

Management estimates deferred tax assets at each reporting date and determines the amount to the extent that tax deductions are probable. In determining future taxable profit and the amount of tax deductions, management uses estimates and judgments based on the amount of taxable profit of previous years and expectations regarding future taxable profit that are reasonable in the circumstances.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The amendments to the current standards, which entered into force for the annual reporting periods beginning on 1 January 2022, did not have a significant impact on these consolidated financial statements of the Group.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are companies controlled by the Group. The Group controls a subsidiary when the Group is exposed to risks associated with variable income from participation in an investment object, or has rights to receive such income, and has the opportunity to use its powers in relation to this company in order to influence the amount of this income. 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.

(ii) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- The aggregate fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Consideration transferred does not include any amounts related to settlement of pre-existing contractual relationship. These amounts in general are recognized in profit and loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, contingent consideration is classified as an asset or liability and is measured at fair value with subsequent changes in the fair value recognised in profit or loss for the period.

(iii) Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests, without a loss of control by the Group, are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests are based on a proportional basis of the net assets of the subsidiary.

3 Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(iv) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control is obtained until the date that control ceases. The accounting policies of subsidiaries are changed, when necessary, to align them with the policies adopted by the Group. Losses attributable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(v) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. Any cash paid for the acquisition is recognised directly in equity.

(vi) Loss of control

On loss of control over a subsidiary, the Group derecognises the related assets and liabilities of the subsidiary, its non-controlling interests and other components of equity. Any resultant gain or loss arising on loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, such interest is recognised at fair value at the date that control is lost. Subsequently, this interest is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(vii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment of respective (underlying) asset.

(b) Foreign currency

Monetary assets and liabilities of the Group's entities denominated in foreign currencies at the reporting date are translated at the functional currency exchange rate at that reporting date. Transactions in foreign currencies are recorded at the functional currency exchange rates at the dates of the transactions. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

(c) Financial instruments

(i) Financial assets

The Group classifies financial assets in the following categories: financial assets at amortized cost and financial assets at fair value through profit or loss. The classification depends on the financial asset management business model and contractual cash flow characteristics.

3 Significant accounting policies (continued)

(c) Financial instruments (continued)

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

The Group's financial assets at amortized cost include:

- Trade and other receivables that meet the definition of financial assets, if the Group has no intention to sell it immediately or in the near future;
- Bank deposits that do not meet the definition of cash equivalents;
- Bills and bonds not intended for trading;
- Loans issued;
- Cash and cash equivalents.

Financial assets at amortized cost are subsequently measured using the effective interest method, and are provision for expected credit losses is estimated.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss. This category includes derivative instruments and investments in quoted equity instruments, which the Group had not at its discretion classify, without the right to cancel, as measured at fair value through other comprehensive income.

Upon derecognition of financial assets at amortized cost and fair value through profit or loss, the Group records in the statement of profit or loss and other comprehensive income the financial result from their disposal equal to the difference between the fair value of the consideration received and the carrying amount of the asset, the recognition of which ceases. The financial result is recognized in profit or loss.

(ii) Impairment of financial assets

The Group recognizes an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. The allowances for impairment of financial assets are assessed either on the basis of 12-month ECL that are the result of possible defaults within 12 months after the reporting date, or ECLs for the entire life of the exposure resulting from all possible cases of non-fulfilment of obligations during the expected term of the financial instrument.

For trade receivables or contract assets arising from transactions that are within the scope of IFRS 15 *Revenue from Contracts with Customers* (including those with a significant financing component) and lease receivables, the Group applies a simplified approach in calculating ECLs, whereby it recognizes a loss allowance based on lifetime ECLs at each reporting date.

Impairment allowances for other financial assets at amortized cost are measured based on 12-month ECLs unless there has been a significant increase in credit risk since initial recognition.

The estimated allowance for expected credit losses for a financial instrument is assessed at each reporting date in an amount equal to expected credit losses for the entire lifetime, if the credit risk for this financial instrument has increased significantly since initial recognition, taking into account all reasonable and confirmed information, including predictive information.

3 Significant accounting policies (continued)

(c) Financial instruments (continued)

As indicators of a significant increase in credit risk, the Group considers the actual or expected difficulties of the issuer or the debtor of the asset, the actual or expected violation of the terms of the contract, the expected revision of the terms of the contract due to the financial difficulties of the debtor on unfavorable terms for the Group, to which it would not have agreed otherwise.

Based on the usual practice of managing credit risk, the Group defines default as the inability of the counterparty (issuer) to fulfil its obligations (including the repayment of funds under the contract) due to a significant deterioration in the financial situation.

A credit loss from impairment of a financial asset is recognized through the recognition of an allowance for impairment. For a financial asset carried at amortized cost, the amount of the impairment loss is calculated as the difference between the carrying amount of the asset and the present value of expected future cash flows, discounted at the original effective interest rate.

If in subsequent periods the credit risk of a financial asset is reduced as a result of an event that occurred after the recognition of this loss, the previously recognized impairment loss is to be reversed by reducing the corresponding allowance. As a result of the reversal, the carrying value of an asset should not exceed its value at which it would be reflected in the statement of financial position if the impairment loss has not been recognized.

(iii) Financial liabilities

The Group classifies financial liabilities in the following categories: financial liabilities at fair value through profit or loss and financial liabilities at amortized cost.

The category “financial liabilities at fair value through profit or loss” includes financial liabilities held for trading and financial liabilities classified at the Group’s discretion at initial recognition as measured at fair value through profit or loss. The Group does not have financial liabilities at fair value through profit or loss.

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

- Loans and borrowings (borrowed funds);
- Trade and other payables.

Loans and borrowings (borrowed funds) are initially recognized at fair value, net of transaction costs that are directly attributable to raising these funds. Fair value is determined taking into account prevailing market interest rates for similar instruments, if they differ materially from transaction prices. In subsequent periods, loans and borrowings are carried at amortized cost using the effective interest method; the entire difference between the fair value of funds received (net of transaction costs) and the amount to be paid off is recognized in profit or loss as finance costs over the entire life of the obligation to repay the borrowed funds.

Borrowing costs are expensed in the reporting period in which they were incurred, if they do not relate to acquisition or construction of qualifying assets. Borrowing costs related to acquisition or construction of assets, which preparation for use takes considerable time (qualifying assets), are capitalized as part of the value of the asset. Capitalization is carried out when the Group:

- Bears the costs of qualifying assets;
- Bears the costs of borrowed funds; and
- Conducts activities related to the preparation of assets for use or sale.

3 Significant accounting policies (continued)

(c) Financial instruments (continued)

Capitalization of expenses on borrowed funds continues until the date the assets are ready for their use or sale. The Group capitalizes those borrowing costs that could have been avoided if it had not borne the costs of qualifying assets. Borrowing costs are capitalized based on the average cost of financing the Group (weighted average interest expenses relating to expenditures incurred on qualifying assets), excluding borrowed funds that were received directly for the purpose of acquiring a qualifying asset. The actual costs of borrowed funds, reduced by the amount of investment income from temporary investment of borrowed funds, are capitalized.

Accounts payable are accrued from the date the counterparty fulfils its obligations under the contract. Accounts payable are recognized at fair value and are subsequently measured at amortized cost using the effective interest method.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are set off and the net amount is reported in the consolidated statement of financial position if there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Actual cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Costs for acquisition of software that is directly attributable to functioning of the respective equipment are capitalized to the cost of such equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (significant components) of property, plant and equipment and are depreciated based on the respective individual useful lives.

Recognition of items of property, plant and equipment and any initially recognized significant component ceases after their disposal (i.e. at the date when an receiver obtained control) or when no future economic benefits are expected from theirs' use. Gain or loss on disposal of an item of property, plant and equipment is determined as difference between net proceeds from disposal and the carrying value of property, plant and equipment, and is recognised on a net basis as "Other operating income" or "Operating expenses" in profit or loss for the period.

3 Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment (significant component) is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The cost of replacing a part is expensed. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss for the period as incurred.

(iii) Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful lives of each item of property, plant and equipment or significant part, and is recognised in profit or loss. This method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives are as follows:

- Buildings 20 to 40 years;
- Transmission power grid networks 20 to 25 years;
- Transformers and transformer substations 13 to 18 years;
- Other 4 to 8 years.

Methods of depreciation, useful lives and the residual values of property, plant and equipment are reviewed at each reporting date and adjusted prospectively, if appropriate.

(iv) Impairment

At each reporting date, management determines whether there is any indication that property, plant and equipment is impaired.

An impairment loss is recognized when the carrying amount of an asset or its associated cash-generating unit exceeds its estimated (recoverable) amount. The recoverable amount of an asset or cash-generating unit is the higher of the asset’s value in use and its fair value less costs to sell.

For the purposes of an impairment test, assets that cannot be individually tested are grouped into the smallest group that generates cash inflows from continuing use of the related assets, and these inflows are largely independent of cash inflows generated by other assets or groups of assets (the “cash-generating unit”).

The Group’s general (corporate) assets do not generate independent cash flows and are used by more than one cash-generating unit. The value of a corporate asset is allocated to the units on a reasonable and consistent basis, and its impairment test is performed as part of the testing of the unit to which the corporate asset was allocated.

Impairment losses are recognized in profit or loss. Impairment losses of cash-generating units are first attributed to a decrease in the carrying amount of goodwill allocated to these units, and then pro rata to a decrease in the carrying amount of other assets in the relevant unit (group of units).

Impairment loss on goodwill is not reversed. For other assets, impairment loss recognized in a prior period is reviewed at each reporting date to determine whether the amount of the loss should be reduced or whether it should no longer be recognized.

3 Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

Impairment loss for property, plant and equipment is reversed, if the measurement factors used in calculating the corresponding recoverable amount change. An impairment loss is reversed only to the extent that it is possible to restore the value of the assets to the carrying amount at which they would have been carried (net of accumulated depreciation), if no impairment loss had been recognized.

(e) Intangible assets

(i) Recognition and measurement

Intangible assets acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

(ii) Subsequent costs

Subsequent expenditure is capitalised to the cost of an intangible asset only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the profit or loss as incurred.

(iii) Amortisation

Amortisation charges on intangible assets other than goodwill are accrued from the date they are ready for use and are recognized in profit or loss on a straight-line basis over their respective useful lives. This method most accurately reflects the characteristics of the expected consumption of future economic benefits embodied in the asset.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful lives or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but tested for impairment annually, either individually or at the level of cash generating unit. The assessment of indefinite life is reviewed annually to determine whether it remains supportable to continue to classify the asset as an asset with an indefinite useful life.

(f) Leases

At the time of inception of the contract, the Group assesses whether the contract as a whole or its individual components is a lease. A contract as a whole or its individual components is a lease, if the contract transfers the right to control the use of an identified asset over a specified period in exchange for consideration.

3 Significant accounting policies (continued)

(f) Leases (continued)

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

The lease liability is initially measured at the present value of the lease payments not yet settled at the commencement of the lease and subsequently measured at amortized cost with interest expense recognized in finance costs in the consolidated statement of profit and loss. Lease liabilities are presented in the statement of financial position as part of long-term and short-term borrowings.

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

For a separate lease contract, the Group may elect to qualify the lease as a lease for which the underlying asset is of low value and recognize the lease payments under that lease as an expense on a straight-line basis over the lease term.

For lease agreements for land plots under power grid facilities with an indefinite term, or with a term of no more than 1 year under the agreement with the possibility of annual renewal, the Group determines the term of the agreement, using the useful life of fixed assets located on leased land plots as a basic criterion.

For lease agreements for power grid facilities with an indefinite term, or with a term of no more than 1 year under the agreement with the option of annual renewal, the Group determines the term of the agreement based on the useful lives of its own fixed assets with similar technical characteristics.

(g) Inventories

Inventories are valued at the lower of cost and net realisable value. Inventories are charged to expense based on the weighted average method. Cost includes expenditure incurred on acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Inventories intended to ensure the prevention and elimination of accidents (emergencies) at power grid facilities (industry emergency reserve) are classified as “Inventories”.

(h) Advances given

Advances given are classified as non-current assets if the advance is related to the acquisition of an asset that will be classified as non-current upon initial recognition. Advances for the acquisition of an asset are included in its carrying amount when the Group obtains control of the asset and there is a high probability that the Group will obtain economic benefits from its use.

3 Significant accounting policies (continued)

(i) Value added tax

The value added tax arising from the sale of products is subject to payment to the state budget upon the earliest of the dates: (a) payment is received from buyers or (b) goods or services are delivered to the buyer. Input VAT is refundable by offset against the amount of outgoing VAT on receipt of the invoice. Advances given and other assets include (on a net basis) the amounts of VAT accrued on advances received and advances paid, as well as VAT recoverable and prepayment of VAT. Amounts of VAT payable to the budget are disclosed separately as part of short-term liabilities. Allowance for expected credit losses on accounts receivable is accrued in the total amount of doubtful debts, including VAT.

(j) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans, including the Russian State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognized in the consolidated statement of financial position for defined benefit pension programs represents the discounted amount of the obligation at the reporting date.

The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group’s obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

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

In case of changes in payments within the framework of the plan or its curtailment, the resulting change in payments relating to services of previous periods, or profit or loss from curtailment are recognized immediately in profit or loss. The Group recognizes the gain or loss on settlement of program obligations when this settlement occurs.

3 Significant accounting policies (continued)

(j) Employee benefits (continued)

(iii) Other non-current employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service under employment contract is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by an employee, the obligation can be estimated reliably, and outflow of economic benefits is highly probable.

(k) Provisions

Provisions are recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Increases in estimated liabilities over time, reflecting "unwinding of discount", are recognized as finance costs.

(l) Dividends

Dividends are recognized as a liability and are excluded from equity at the reporting date only if they are declared (approved by shareholders) on or before the reporting date. Dividends are disclosed, if they are declared after the reporting date, but before the consolidated financial statements are signed.

(m) Revenue

Revenue from contracts with customers is recognized when control of the goods or services is transferred to the customer at the amount that reflects the consideration to which the Group expects to receive in exchange for those goods or services. The Group concluded that it is the principal in its revenue arrangements, because it generally controls the goods or services before transferring them to the customer.

Electricity transmission

Revenue from electricity transmission is recognised in statement of profit or loss based on an act of services rendered containing the physical volume of electricity transmitted according to the concluded contracts. The act is prepared based on a monthly summary report of electricity consumption (prepared in physical volumes) broken down by customers. The tariffs for electricity transmission and sales on regulated market are approved by the government agencies of the Russian Federation in the area of the state energy tariff regulation within the range of cap and/or floor tariffs approved by the Federal Antimonopoly Service and the Regional Energy Commissions.

3 Significant accounting policies (continued)

(m) Revenue (continued)

Electricity and capacity sales

Revenue from the sale of electricity is recognized during the period (billing month) and is estimated using the results method (cost of electricity volume transferred).

The sale of electricity to consumers in the retail markets of electricity and capacity is carried out at regulated prices (tariffs) set by the executive government bodies of the constituent entities of the Russian Federation in the area of state regulation of tariffs.

Connection services

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network. The Group transfers control of the service at a specific point of time (upon connecting a consumer to the electricity network,or, for certain categories of consumers, by providing possibility for consumers to connect to the electricity network by their own actions), and, therefore, fulfils its performance obligation at a certain point in time.

Fees for technological connection for an individual project, standardized tariff rates, payment rates for a unit of maximum capacity and formulas for payment for technological connection are approved by the Regional Energy Commission (price and tariff department of the corresponding region) and are not dependent on revenue from the provision of electricity transmission services. The fee for technological connection to a single national (all-Russian) electric network is approved by the Federal Antimonopoly Service.

The Group has applied judgment that technological connection is a separate performance obligation that is recognized when the related services are provided. The technological connection agreement does not contain any further obligations after rendering the connection service. According to established practice and the laws governing the electricity market, technological connection and transmission of electricity are subject of separate negotiations with different consumers as different services with different commercial goals without any connection in pricing, intentions, recognition or types of services.

Construction services

Revenue from contracts for provision of construction services is recognized over the time as the Group creates assets that are controlled by the buyer in the process of their creation, have no alternative use for the Group, and the Group has a legally enforceable right to receive payment for the part of the contract that has been completed to date.

Other services

Revenue from installation, repair and maintenance services and other sales is recognized when the significant risks and rewards of ownership for the asset have passed to the buyer.

Contract balances

(i) Contract assets

Contract asset is initially recognized in relation to revenue for completed work or services. Upon completion and service acceptance by the customer, the amount recognized as contract asset is reclassified to trade receivables. Contract assets are subject to impairment assessment.

3 Significant accounting policies (continued)

(m) Revenue (continued)

(ii) Trade receivables

Accounts receivable represents the Group's right for consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Accounts receivable are recognized when the amount of the consideration becomes payable by customer.

(iii) Contract liability

A contract liability is an obligation to transfer to a customer goods or services for which the Group received consideration (or consideration which is payable) from a customer. If a customer pays the consideration before the Group transfers goods or services to a customer, the Group recognizes contract liabilities at the time payment is received or when the payment becomes payable (whichever occurs earlier). Contract liabilities are recognized as revenue when the Group fulfils its obligations under the contract (that is, transfers control of the relevant goods or services to a customer). The Group recognises contract liabilities under the article "Contract liabilities" including value added tax ("VAT").

Significant financing component

Advance payments received from customers are reviewed by the Group for a significant financing component. Upon receipt of advance payments for a period exceeding 1 year between the customers' payments and the transfer of promised goods and services, and for reasons other than providing financing to the counterparty, interest expense is not recognized. The Group includes in this category advances under agreements for technological connection to the power grids. Such advances are carried at the fair value of the assets received by the Group from customers in advance.

In other cases, the Group determines whether a significant financing component exists in the contracts. The transaction price under such contracts is discounted using the interest rate embodied in the contract (that is, the interest rate that discounts the sale price of the goods upon immediate payment upon delivery up to the amount paid in advance).

The Group applies practical expediency in respect of short-term advance payments received from customers. According to this simplification, the promised compensation amount is not adjusted taking into account the influence of a significant financing component if the period between the transfer of the promised goods or services to the customer and the payment by the customer is no more than one year.

(n) Social expenditure

Since the Group makes contributions to social programs, which benefits are not designated only for the Group's employees, but also for other non-employees citizens, they are recognised in profit or loss as incurred.

(o) Finance income and costs

Finance income comprises interest income on cash in bank balances, bank deposits and foreign currency exchange gains. For all financial instruments measured at amortised cost and interest-bearing financial assets interest income is recognised as it accrues, using the effective interest method.

3 Significant accounting policies (continued)

(o) Finance income and costs (continued)

Finance costs comprise interest expense on borrowings, employee benefits, lease contracts, unwinding of discount on financial liabilities measured at amortised cost and foreign currency exchange losses.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use in accordance with the intentions of the Group or sale are capitalised as part of the cost of the asset.

Borrowing costs that are not directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss using the effective interest method.

Effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Interest income and expense are included in finance income and finance cost in the statement of profit or loss and other comprehensive income.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(p) Government grants

Government grants are recognized if there is reasonable assurance that they will be received and all related conditions will be complied with. If the grant relates to an expense item, it is recognized as income on a systematic basis over the same periods that the related costs, for which it is intended to compensate, are expensed. If the grant relates to an asset, it is recognized as income, net of related expenses, in equal amounts over the expected useful life of the related asset.

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

(q) Income tax expense

Income tax expense for the period comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss for the period except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences associated with investments in subsidiaries. associates and interests in jointly controlled entities, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

3 Significant accounting policies (continued)

(q) Income tax expense (continued)

Deferred tax is measured at the tax rates that are expected to apply to the temporary differences when they are realised, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets and liabilities, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

The tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be set off.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(r) Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to owners of the Company's ordinary shares by the weighted average number of ordinary shares outstanding during the reporting period. The Company does not have dilutive potential ordinary shares.

(s) Dividends paid in cash

The Company recognizes the obligation to pay dividends when the distribution is approved and is no longer at the discretion of the Company. The corresponding amount of declared dividends is recognised directly in equity.

(t) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Each operating segment has its own financial information, and each segments' operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available (see Note 5).

Inter-segment pricing is determined on an arm's length basis.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require measurement of fair value for both financial and non-financial assets and liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability; or, in the absence of a principal market, in the most advantageous market for the asset or liability.

4 Determination of fair values (continued)

When measuring the fair value of an asset or liability, the Group uses observable market data as far as practicable. Fair values are categorized into different levels within the fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about the assumptions made in measuring fair values is included in Note 29.

5 Operating segments

The Group defines operating segments based on the nature of their activities and geographical location. The main activity of the Group is the provision of transmission services and distribution of electricity, technological connection to electric networks. The results of the operating segments are regularly reviewed by the management of the Group.

Management has determined the following reportable segments:

- Electricity transmission in Moscow;
- Electricity transmission in the Moscow Region;
- Connection services in Moscow;
- Connection services in the Moscow Region.

Other activities mainly represent rental income, installation services, repair and technical maintenance of electrical equipment, which have been included in the segment “Other”.

The Board of Directors of PJSC Rosseti Moscow Region, being the supreme body making decisions on the Group’s operating activities, regularly analyzes information related to reporting segments in order to make decisions on the allocation of resources to segments and evaluate the results of their activities.

Segment results are evaluated on the basis of revenue and operating profit of the segments as reported in the statutory financial statements prepared in accordance with the Russian accounting principles (“RAS”).

The segment information also includes indicators of capital investments and borrowings, as these indicators are analysed by the management of the Group responsible for operational decision-making.

5 Operating segments (continued)

The segment revenue and operating profit for the year 2022 are as follows:

	Electricity transmission	Connection services	Other	Total
External revenues	**179 421 640**	**13 030 477**	**7 363 919**	**199 816 036**
Moscow	81 290 132	9 973 483	6 471 905	**97 735 520**
Moscow Region	98 131 508	3 056 994	892 014	**102 080 516**
Inter-segment revenue	**–**	**2 078**	**3 232 963**	**3 235 041**
Moscow	–	–	2 634 819	**2 634 819**
Moscow Region	–	2 078	598 144	**600 222**
Depreciation and amortisation	**(29 320 034)**	**–**	**(487 903)**	**(29 807 937)**
Moscow	(15 935 414)	–	(90 028)	**(16 025 442)**
Moscow Region	(13 384 620)	–	(397 875)	**(13 782 495)**
Reportable segment finance costs	**(3 061 149)**	**–**	**(92 196)**	**(3 153 345)**
Moscow	(1 185 194)	–	(88 696)	**(1 273 890)**
Moscow Region	(1 875 955)	–	(3 500)	**(1 879 455)**
Reportable segment finance income	**–**	**–**	**1 324 868**	**1 324 868**
Moscow	–	–	1 203 751	**1 203 751**
Moscow Region	–	–	121 117	**121 117**
Reportable segment operating profit	**11 673 713**	**11 652 633**	**1 452 721**	**24 779 067**
Moscow	6 653 038	9 514 683	1 165 197	**17 332 918**
Moscow Region	5 020 675	2 137 950	287 524	**7 446 149**

Other significant items are as follows:

	Reportable segment totals	Adjustments	Consolidated totals
Depreciation and amortisation	**(29 807 936)**	5 958 405	(23 849 531)
Capital expenditure for the year	**(47 199 169)**	3 168 874	(44 030 295)
Impairment losses on property, plant and equipment	**(21 453 639)**	(1 295 546)	(22 749 185)
Income tax expense	**(2 996 718)**	(781 129)	(3 777 847)
Finance costs	**(3 153 345)**	(250 993)	(3 404 338)
Finance income	**1 324 868**	44 855	1 369 723

5 Operating segments (continued)

Comparative segment revenue and profit before income tax for the year 2021 are as follows:

	Electricity transmission	Connection services	Other	Total
External revenues	**168 998 978**	**9 275 826**	**6 430 698**	**184 705 502**
Moscow	77 271 593	6 905 903	3 818 724	**87 996 220**
Moscow Region	91 727 385	2 369 923	2 611 974	**96 709 282**
Inter-segment revenue	**–**	**187**	**2 386 085**	**2 386 272**
Moscow	–	–	1 833 020	**1 833 020**
Moscow Region	–	187	553 065	**553 252**
Depreciation and amortisation	**(25 345 443)**	**–**	**(106 272)**	**(25 451 715)**
Moscow	(15 028 752)	–	(106 272)	**(15 135 024)**
Moscow Region	(10 316 691)	–	–	**(10 316 691)**
Reportable segment finance costs	**(3 327 555)**	**–**	**–**	**(3 327 555)**
Moscow	(1 523 064)	–	–	**(1 523 064)**
Moscow Region	(1 804 491)	–	–	**(1 804 491)**
Reportable segment finance income	**–**	**–**	**497 035**	**497 035**
Moscow	–	–	445 791	**445 791**
Moscow Region	–	–	51 244	**51 244**
Reportable segment operating profit	**14 167 732**	**8 178 312**	**1 551 869**	**23 897 913**
Moscow	6 808 616	6 264 136	959 167	**14 031 919**
Moscow Region	7 359 116	1 914 176	592 702	**9 865 994**

Other significant items are as follows:

	Reportable segment totals	Adjustments	Consolidated totals
Depreciation and amortisation	**(25 451 715)**	2 291 776	(23 159 939)
Capital expenditure for the year	**(42 972 754)**	716 750	(42 256 004)
Impairment losses on property, plant and equipment	**–**	(5 121 535)	(5 121 535)
Income tax expense	**(3 614 246)**	207 608	(3 406 638)
Finance costs	**(3 327 555)**	(403 627)	(3 731 182)
Finance income	**497 035**	(10 528)	486 507

5 Operating segments (continued)

Reconciliation of reportable segment profit before income tax:

	For the year ended 31 December	
	2022	**2021**
Reportable segments profit	23 326 346	22 346 044
Other profit or loss	1 452 721	1 551 869
Unallocated	(10 330 219)	(8 466 502)
Total profit before income tax per RAS	**14 448 848**	**15 431 411**
Capitalized borrowing costs	155 164	185 949
Leases	89 731	466 779
(Loss)/gain on disposal of property, plant and equipment	(82 649)	87 468
Depreciation and amortisation	5 472 445	2 291 776
Allowance for expected credit losses	77 317	89 991
Discounting of loan	(23 935)	(79 238)
Impairment of property, plant and equipment	(1 348 467)	(5 121 535)
Employee benefits	33 558	29 442
Income from property, plant and equipment received free-of-charge	(596 655)	(402 440)
Impairment of financial investments	(628 724)	857 411
Workwear in operation	(6 053)	156 507
Other items	(361 564)	(129 153)
Consolidated profit before income tax per IFRS	**17 229 016**	**13 864 368**

Major customer

In 2022, revenue from one customer of the Group related to segments of electricity transmission in Moscow and the Moscow Region comprised approximately 83% or RUB 165 358 725 thousand of the Group’s total revenue (2021: 84%; RUB 154 390 604 thousand).

Segment assets are presented in the table below:

	Moscow	**Moscow Region**	**Total**
31 December 2022			
Total assets	**250 422 749**	**170 477 847**	**420 900 596**
Property, plant and equipment	203 118 923	147 517 530	**350 636 453**
Accounts receivable	10 964 164	10 482 607	**21 446 771**
Unallocated	36 339 662	12 477 710	**48 817 372**
Capital expenditure for the year	**25 596 347**	**21 602 822**	**47 199 169**
31 December 2021			
Total assets	**266 721 879**	**144 803 747**	**411 525 626**
Property, plant and equipment	230 548 532	122 808 702	**353 357 234**
Accounts receivable	10 705 678	9 454 471	**20 160 149**
Unallocated	25 467 669	12 540 574	**38 008 243**
Capital expenditure	**25 486 174**	**17 486 580**	**42 972 754**

5 Operating segments (continued)

Reconciliation of reportable segments assets:

	31 December 2022	31 December 2021
Reportable segments assets	372 083 224	373 517 383
Unallocated	48 817 372	38 008 243
Total assets per RAS	**420 900 596**	**411 525 626**
Inventories	(41 654)	(105 398)
Right-of-use assets	4 799 967	3 628 005
Property, plant and equipment	(22 595 489)	(21 674 126)
Allowance for expected credit losses on account receivable and advances given	(172 212)	(245 431)
Deferred tax assets	(8 869 257)	(7 526 028)
Other items	(461 903)	48 092
Eliminations of unallocated and intragroup balances	(5 057 319)	(3 265 852)
Consolidated assets per IFRS	**388 502 729**	**382 384 888**

Segment liabilities are presented in the table below:

	Moscow	Moscow Region	Total
31 December 2022			
Total liabilities	**118 042 571**	**96 315 576**	**214 358 147**
Loans and borrowings	16 656 224	46 577 120	**63 233 344**
Unallocated	101 386 346	49 738 457	**151 124 803**
31 December 2021			
Total liabilities	**120 132 365**	**88 441 087**	**208 573 452**
Loans and borrowings	34 685 389	46 796 654	**81 482 043**
Unallocated	85 446 976	41 644 433	**127 091 409**

Reconciliation of reportable segments liabilities:

	31 December 2022	31 December 2021
Reportable segments liabilities	63 233 344	81 482 043
Unallocated	151 124 803	127 091 409
Total liabilities per RAS	**214 358 147**	**208 573 452**
Lease liabilities	3 068 745	3 662 424
Deferred tax liabilities	(11 425 131)	(10 610 551)
Employee benefits	2 934 182	3 057 393
Effect of discounting	(20 723)	(44 657)
Deferred revenue	(7 580 301)	(6 060 599)
Other items	(187 294)	(125 969)
Eliminations of unallocated and intragroup balances	(2 988 072)	(1 656 728)
Consolidated liabilities per IFRS	**198 159 553**	**196 794 765**

6 Revenue

	For the year ended 31 December	
	2022	**2021**
Revenue from electricity transmission	179 421 638	168 998 978
Revenue from connection services	13 030 477	9 275 826
Resale of electricity and capacity	–	979 152
Other revenue	6 851 573	5 060 523
Revenue from contracts with customers	**199 303 688**	**184 314 479**
Revenue from lease	361 101	391 023
	199 664 789	**184 705 502**

Other revenues include electrical equipment installation and maintenance services.

7 Operating expenses

	For the year ended 31 December	
	2022	**2021**
Personnel costs (Note 8)	(25 870 407)	(23 444 803)
Depreciation and amortisation	(23 849 531)	(23 159 939)
Material expenses, including:		
- Electricity for compensation of losses	(22 816 607)	(22 075 560)
- Purchased electricity and heat power for own needs	(430 452)	(409 855)
- Electricity for sale	–	(829 805)
- Other material costs	(4 311 959)	(3 718 343)
Production work and services, including:		
- Electricity transmission services	(78 123 619)	(71 937 202)
- Repair, maintenance and installation services	(3 263 341)	(4 156 135)
- Other works and production services	(5 694 432)	(3 279 817)
- Allowance of impairment of advances given	297 421	114 427
- Taxes other than income tax	(1 017 980)	(1 043 723)
- Short-term lease	(27 354)	(98 936)
- Insurance	(447 911)	(449 376)
Other third-party services, including:		
- Consulting, legal and audit services	(121 093)	(1 773 389)
- Security services	(811 861)	(724 232)
- Transportation	(527 693)	(525 850)
- Telecommunication services	(736 030)	(643 211)
- Other services	(1 089 523)	(1 127 561)
Loss on disposal of property, plant and equipment	(913 080)	(2 048 488)
Write down of inventory	(69 652)	(189 937)
Provisions (Note 25)	6 204 360	(4 960 285)
Other expenses	(2 239 701)	(1 626 605)
	(165 860 445)	**(168 108 625)**

8 Personnel costs

	For the year ended 31 December	
	2022	**2021**
Salaries and wages, including social taxes	(21 090 014)	(19 123 390)
Contributions to the Russian pension fund	(3 590 124)	(3 163 157)
Financial aid to employees and pensioners	(1 063 886)	(1 029 723)
Expenses in respect of post-employment benefits	(117 682)	(125 682)
Other payments	(8 701)	(2 851)
	(25 870 407)	**(23 444 803)**

Average number of employees during 2022 was 15 799 (2021: 15 313). The amounts related to the key management remuneration are disclosed in Note 31.

9 Other operating income

	For the year ended 31 December	
	2022	**2021**
Income from electricity consumption without contracts	807 341	721 180
Income from compensation of losses from disposal of power grid facilities	5 089 392	4 152 531
Other income	1 666 870	998 227
	7 563 603	**5 871 938**

Property received as compensation of losses from disposal of power grid facilities for the year ended 31 December 2022 includes property in the amount of RUB 3 190 838 thousand and cash in the amount of RUB 1 898 554 thousand (2021: RUB 3 313 805 thousand and RUB 838 726 thousand, respectively).

10 Finance income and costs

	For the year ended 31 December	
	2022	**2021**
Finance income		
Interest income	1 364 444	480 093
Interest on assets related to employee benefits obligations	5 279	6 414
	1 369 723	**486 507**
Finance costs		
Interest expense in respect of loans and borrowings	(2 842 454)	(3 176 280)
Interest on employee benefits obligation (Note 24)	(226 030)	(176 529)
Interest under lease agreements	(311 922)	(299 497)
Unwinding of discount of financial liabilities at amortised cost	(22 054)	(73 797)
Other financial costs	(1 878)	(5 079)
	(3 404 338)	**(3 731 182)**

Interest income for the year ended 31 December 2022 includes interest income on cash balances on current bank accounts of the Group in the amount of RUB 1 264 192 thousand (2021: RUB 436 111 thousand).

11 Income tax expense

The main components of income tax expense for the years ended 31 December are presented in the table below:

	For the year ended 31 December	
	2022	**2021**
Current income tax expense	(6 201 103)	(3 605 689)
Change in deferred income tax	2 423 256	199 051
	(3 777 847)	**(3 406 638)**

The income tax rate in the Russian Federation is 20%.

In accordance with the Moscow Regional Law *On Preferential Tax Treatment in the Moscow Region* No. 151/2004-OZ dated 24 November 2004, the Group exercised its right to tax benefit as an investor that made capital investments in the newly constructed property, plant and equipment that was put into operation, in the form of decreased income tax rate by 4.5 percentage points. Thus, in calculating its deferred tax assets and liabilities as at 31 December 2022, the Group applied a lower rate of 18.152% (31 December 2021: 18.165%).

Reconciliation of income tax expense calculated at effective tax rate and actual income tax expense is presented below:

	For the year ended 31 December	
	2022	**2021**
Profit before income tax	**17 229 016**	**13 864 368**
Income tax calculated at the current income tax rate 18.152% (2021: 18.165%)	**(3 127 423)**	**(2 518 525)**
Adjustments for previous years	120 481	336 091
The effect from change of tax rate	10 296	(10 331)
Non-deductible expenses	(781 201)	(1 213 873)
Income tax expense	**(3 777 847)**	**(3 406 638)**

12 Property, plant and equipment

	Land and buildings	Transmission networks	Transformers and transformer substations	Other	Construction in progress	Total
Cost						
At 1 January 2021	**56 940 917**	**262 922 578**	**106 601 712**	**105 661 692**	**44 209 891**	**576 336 790**
Reclassification between groups	(302 227)	298 531	12 589	(8 893)	–	**–**
Additions	111 089	2 820 855	473 646	1 629 670	35 654 979	**40 690 239**
Disposals	(23 856)	(1 131 300)	(82 557)	(705 110)	(1 606 106)	**(3 548 929)**
Transfers from right-of-use assets	–	7 427	–	–	–	**7 427**
Transfers	756 062	13 534 103	6 790 624	6 355 236	(27 436 025)	**–**
At 31 December 2021	**57 481 985**	**278 452 194**	**113 796 014**	**112 932 595**	**50 822 739**	**613 485 527**
Depreciation and impairment losses						
At 1 January 2021	**(17 988 620)**	**(109 208 596)**	**(54 009 347)**	**(74 312 572)**	**(381 475)**	**(255 900 610)**
Reclassification between groups	99 394	(96 797)	(6 388)	3 791	–	**–**
Depreciation charge	(1 670 845)	(9 734 707)	(5 263 236)	(5 439 960)	–	**(22 108 748)**
Impairment	(499 328)	(2 291 378)	(670 654)	(358 262)	(1 301 913)	**(5 121 535)**
Transfers from right-of-use assets	–	(3 742)	–	–	–	**(3 742)**
Disposals	18 748	536 553	55 414	699 079	22 421	**1 332 215**
Transfers	–	(8 654)	(2 818)	(401)	11 873	**–**
At 31 December 2021	**(20 040 651)**	**(120 807 321)**	**(59 897 029)**	**(79 408 325)**	**(1 649 094)**	**(281 802 420)**
Cost						
At 1 January 2022	**57 481 985**	**278 452 194**	**113 796 014**	**112 932 595**	**50 822 739**	**613 485 527**
Reclassification between groups	(38)	(14 563)	134 188	(119 587)	–	**–**
Additions	115 576	2 779 203	852 299	2 109 077	36 810 601	**42 666 756**
Disposals	(12 009)	(907 382)	(66 941)	(166 253)	(491 555)	**(1 644 140)**
Transfers from right-of-use assets	41	73 182	71 358	51	–	**144 632**
Transfers	934 136	16 593 272	7 832 568	6 929 725	(32 289 701)	**–**
At 31 December 2022	**58 519 691**	**296 975 906**	**122 619 486**	**121 685 608**	**54 852 084**	**654 652 775**
Depreciation and impairment losses						
At 1 January 2022	**(20 040 651)**	**(120 807 321)**	**(59 897 029)**	**(79 408 325)**	**(1 649 094)**	**(281 802 420)**
Reclassification between groups	33	2 972	(106 763)	103 758	–	**–**
Depreciation charge	(1 659 354)	(10 134 666)	(5 065 365)	(5 766 060)	–	**(22 625 445)**
Impairment	(2 825 137)	(13 642 902)	(4 041 472)	(2 239 674)	–	**(22 749 185)**
Transfers from right-of-use assets	(41)	(38 918)	(37 400)	(26)	–	**(76 385)**
Disposals	9 884	402 995	57 017	158 720	13 007	**641 623**
Transfers	(4)	(13 797)	(2 418)	(432)	16 651	**–**
At 31 December 2022	**(24 515 270)**	**(144 231 637)**	**(69 093 430)**	**(87 152 039)**	**(1 619 436)**	**(326 611 812)**
Net book value						
At 31 December 2021	**37 441 334**	**157 644 873**	**53 898 985**	**33 524 270**	**49 173 645**	**331 683 107**
At 31 December 2022	**34 004 421**	**152 744 269**	**53 526 056**	**34 533 569**	**53 232 648**	**328 040 963**

(a) Impairment of property, plant and equipment

As at 31 December 2022 and 31 December 2021, the Group performed impairment tests for property, plant and equipment due to existence of impairment indicators of non-current assets. For this purpose, the Group determined recoverable amount and compared it with the carrying amount of non-current assets.

12 Property, plant and equipment (continued)

(a) Impairment of property, plant and equipment (continued)

The recoverable amount was determined by calculating the value in use of assets based on projected cash flows based on the Group's financial plans. The major part of the Group's property, plant and equipment is specialised assets that are rarely sold in the open market, except when they are sold as part of an operating enterprise. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales transactions to use a market-based approach in determining fair value.

Each cash-generating unit ("CGU") is determined by the Group based on geographical locations of the Group's branches and subsidiaries, which is the smallest identifiable group of assets that generates cash inflows that are independent of the cash inflows from other groups of assets of the Group.

The forecast period was determined as a period from 2023 to 2027 for CGU Moscow Region, and as a period from 2023 to 2032 for CGU Moscow based on the best management's estimates of electricity transmission volumes, operating and capital costs, tariffs approved by regulatory authorities for 2023, and their further projected growth.

Based on the results of impairment testing in 2022, impairment of non-current assets was recognized for CGU Moscow in the amount of RUB 22 749 185 thousand (31 December 2021: RUB 5 121 535 thousand).

Key assumptions used for calculation of value in use

Changes in the following factors have the greatest impact on the value of discounted cash flows:

Discount rate

For the purposes of the impairment testing, the post-tax discount rate was determined based on the Company's weighted average cost of capital ("WACC") of 10.20% (2021: 10.55%).

The increase of the discount rate to 11.20% (i.e. + 1%) will result in a decrease of value in use for CGU Moscow by RUB 26 920 114 thousand; and there would be no impairment for CGU Moscow Region.

Inflation index (CPI)

For the purposes of the impairment testing the following projected inflation indices published by the Ministry of Economic Development of the Russian Federation ("MED of RF") were used: 6.0% in 2023, 4.7% in 2024, 4.0% from 2025 onward.

The tariff for electricity transmission

In preparing cash flows, the approved tariff and balance decisions for Moscow and the Moscow Region for 2023 are taken as a basis, as well as the projected increase in the tariff for electricity transmission according to the forecast of socio-economic development of the Russian Federation for 2023 and for the planning period of 2024 and 2025 approved at a meeting of the Government of the Russian Federation on 22 September 2022. In subsequent periods, the tariff growth is based on the CPI. The average tariff growth without taking into account the component for the services of regional network organizations in the forecast period was 4.75% (2021: 3.7%) for CGU Moscow and 6.3% (2021: 4.2%) for CGU Moscow Region. The average tariff growth in the post-forecast period was 4% (2021: 4%) for CGU Moscow and 4% (2021: 4%) for CGU Moscow Region. If tariff growth is lower on the average by 0.5 percentage points then the projected level, there will be a decrease of value in use by RUB 3 983 666 thousand for CGU Moscow; and would not result in an impairment loss for CGU Moscow Region.

12 Property, plant and equipment (continued)

(a) Impairment of property, plant and equipment (continued)

Volumes of electricity supply

Planned volumes of electricity supply in the forecast period are based on business plans and statistics on the dynamics of electricity consumption in Moscow and the Moscow Region. As part of the long-term planning process, the growth rate of supply is provided by the existing reserve of idle capacity.

The projected average growth rate of the planned volume of electricity supply during the forecast period used for impairment testing as at 31 December 2022 was 0.52% (2021: 0.59%) for CGU Moscow and 0.5% (2021: 0%) for CGU Moscow Region. The average increase of the planned volume of electricity supply in the post-forecast period was 0% (2021: 0%) for the CGU Moscow and 0% (2021: 0%) for CGU Moscow Region. The decrease of the average growth rate of the planned volume of supply by 0.5 percentage points will result in a decrease of value in use by 4 115 316 thousand for CGU Moscow; and would not result in an impairment loss for CGU Moscow Region.

Capital costs forecast

The forecast of future capital expenditures is based on the Group's investment program and the best management's estimates of the required amount of capital investments necessary to maintain the level of economic benefits expected from fixed assets in their existing condition.

Operating expenses forecast

The forecast of operating expenses is based on business plans data. The average increase of expenses in the forecast period is 4.16% (2021: 4.35%) for CGU Moscow and 10.4% (2021: 5.22%) for the CGU Moscow Region. The average increase of operating expenses in the post-forecast period is 2.96% (2021: 2.74%) for CGU Moscow and 2.74% (2021: 2.44%) for CGU Moscow Region. Indexation of controllable operating expenses at the CPI level will result in a decrease of value in use by RUB 7 109 658 thousand for CGU Moscow; and will not result in an impairment loss for CGU Moscow Region.

Other assumptions

Cash flows include cash flows from additional income added to the required gross proceeds as a compensation of shortfall in revenue. Test results are sensitive to this assumption. In accordance with law, shortfall in revenue is subject to compensation through tariffs, however, the final decision on timing and amounts of compensation is made by the regional authorities. In case the accumulated shortfall in revenue is not fully accepted for inclusion into tariff during the forecast period, this will result in a decrease of value in use by RUB 1 246 986 for CGU Moscow; and will not result in an impairment loss for CGU Moscow Region.

(b) Capitalised borrowing costs

The amount of borrowing costs capitalised during the year ended 31 December 2022 was RUB 1 973 837 thousand at capitalisation rate of 6.24% (2021: RUB 2 106 776 thousand at capitalisation rate of 6.84%). This amount was included into the cost of property, plant and equipment.

12 Property, plant and equipment (continued)

(c) Advance payments for capital expenditures

Construction in progress includes advance payments for capital expenditures in the amount of RUB 118 808 thousand (31 December 2021: RUB 127 288 thousand).

(d) Property received under agreements to compensate losses

In 2022, the Group recognized the property, plant and equipment received as compensation of losses as a result of power grid facilities disposal in the amount of RUB 3 189 857 thousand (2021: RUB 3 313 805 thousand).

(e) Initial cost of fully depreciated fixed assets

As at 31 December 2022, the initial cost of fully depreciated fixed assets amounted to RUB 37 971 038 thousand (31 December 2021: RUB 38 555 483 thousand). As at 31 December 2022 and 2021, there were no fixed assets held as collateral.

13 Intangible assets

	Software	Patents and licences	Scientific research	Other	Total
Cost					
At 1 January 2021	**4 990 417**	**203 847**	**420 818**	**614 439**	**6 229 521**
Reclassification	(204)	–	(101 847)	102 051	**–**
Additions	1 159 713	340 687	65 365	–	**1 565 765**
Disposals	(61 620)	(66 118)	(10 244)	–	**(137 982)**
At 31 December 2021	**6 088 306**	**478 416**	**374 092**	**716 490**	**7 657 304**
Amortisation					
At 1 January 2021	**(1 081 513)**	**(14 189)**	**(252 963)**	**(206 771)**	**(1 555 436)**
Amortisation	(472 596)	(132 239)	(34 224)	(65 763)	**(704 822)**
Reclassification	–	–	7 537	(7 537)	**–**
Disposals	61 615	66 118	–	–	**127 733**
At 31 December 2021	**(1 492 494)**	**(80 310)**	**(279 650)**	**(280 071)**	**(2 132 525)**
Cost					
At 1 January 2022	**6 088 306**	**478 416**	**374 092**	**716 490**	**7 657 304**
Reclassification	10 498	–	(78 668)	68 170	**–**
Additions	1 026 338	239 166	98 035	–	**1 363 539**
Disposals	(196 714)	(35 603)	–	–	**(232 317)**
At 31 December 2022	**6 928 428**	**681 979**	**393 459**	**784 660**	**8 788 526**
Amortisation					
At 1 January 2022	**(1 492 494)**	**(80 310)**	**(279 650)**	**(280 071)**	**(2 132 525)**
Amortisation	(554 439)	(190 536)	(10 596)	(71 748)	**(827 319)**
Reclassification	(453)	–	8 420	(7 967)	**–**
Disposals	117 491	35 607	–	–	**153 098**
At 31 December 2022	**(1 929 895)**	**(235 239)**	**(281 826)**	**(359 786)**	**(2 806 746)**
Net book value					
At 31 December 2021	**4 595 812**	**398 106**	**94 442**	**436 419**	**5 524 779**
At 31 December 2022	**4 998 533**	**446 740**	**111 633**	**424 874**	**5 981 780**

The amount of borrowing costs capitalised during the year ended 31 December 2022 was RUB 5 884 thousand at capitalisation rate of 6.24% (2021: RUB 10 377 thousand at capitalisation rate of 6.84%). This amount was included into the cost of intangible assets.

As at 31 December 2022 and as at 31 December 2021 the Group had no intangible assets with an indefinite useful life.

14 Right-of-use assets

	Land and buildings	Transmission networks	Transformers and transformer substations	Other	Total
Cost					
At 1 January 2021	**4 120 904**	**362 240**	**270 421**	**19 961**	**4 773 526**
Additions	117 912	2 123	2 867	144	**123 046**
Changing the terms of the agreement	29 970	11 780	62 170	8 531	**112 451**
Disposals	(245 336)	–	(358)	–	**(245 694)**
Transfer to property, plant and equipment	–	(7 427)	–	–	**(7 427)**
At 31 December 2021	**4 023 450**	**368 716**	**335 100**	**28 636**	**4 755 902**
Depreciation and impairment losses					
At 1 January 2021	**(677 715)**	**(145 523)**	**(126 186)**	**(13 152)**	**(962 576)**
Depreciation charge	(321 880)	(23 636)	(18 100)	(4 644)	**(368 260)**
Disposals	198 840	–	358	–	**199 198**
Transfer to property, plant and equipment	–	3 742	–	–	**3 742**
At 31 December 2021	**(800 755)**	**(165 417)**	**(143 928)**	**(17 796)**	**(1 127 896)**
Cost					
At 1 January 2022	**4 023 450**	**368 716**	**335 100**	**28 636**	**4 755 902**
Additions	536 826	6 840	1 244	22 237	**567 147**
Changing the terms of the agreement	173 889	1 152	347	1 741	**177 129**
Disposals	(371 912)	(983)	(75)	–	**(372 970)**
Transfer to property, plant and equipment	(2 696)	(140 262)	(1 674)	–	**(144 632)**
Transfer	(20 039)	22 210	(85 706)	83 535	**–**
At 31 December 2022	**4 339 518**	**257 673**	**249 236**	**136 149**	**4 982 576**
Depreciation and impairment losses					
At 1 January 2022	**(800 755)**	**(165 417)**	**(143 928)**	**(17 796)**	**(1 127 896)**
Depreciation charge	(379 041)	(12 652)	(14 167)	(20 123)	**(425 983)**
Disposals	82 600	255	84	–	**82 939**
Transfer to property, plant and equipment	2 696	72 015	1 674	–	**76 385**
Transfer	8 338	(9 742)	41 683	(40 279)	**–**
At 31 December 2022	**(1 086 162)**	**(115 541)**	**(114 654)**	**(78 198)**	**(1 394 555)**
Net book value					
At 31 December 2021	**3 222 695**	**203 299**	**191 172**	**10 840**	**3 628 006**
At 31 December 2022	**3 253 356**	**142 132**	**134 582**	**57 951**	**3 588 021**

The carrying amount of lease obligations and changes during the period is presented in loans and borrowings in Note 22.

For the purpose of the impairment testing, specialized assets in the form of a right of use (including leasehold plots of land on which own and leased specialized objects are located) are assigned to CGU assets similarly as non-current assets – based on the geographical location of branches and subsidiaries. The value in use of such assets in the form of a right of use as at 31 December 2022 was determined using the discounted cash flow method.

Impairment testing information is disclosed in Note 12 “Property, plant and equipment”. As at 31 December 2022, no impairment of right-of-use assets was revealed.

15 Deferred income tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities at 31 December are attributable to the following:

	Assets		Liabilities		Net	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
Property, plant and equipment	36 667	67 194	(16 563 965)	(19 529 599)	(16 527 298)	(19 462 405)
Intangible assets	–	–	(125 365)	(113 478)	(125 365)	(113 478)
Right-of-use assets	–	–	(658 004)	(664 323)	(658 004)	(664 323)
Other investments and financial assets	–	–	(38 137)	(36 137)	(38 137)	(36 137)
Inventories	492	14 659	–	(7 842)	492	6 817
Trade and other receivables	1 583 032	1 863 266	–	–	1 583 032	1 863 266
Lease liability	676 308	668 923	–	–	676 308	668 923
Loans and borrowings	–	–	(129 721)	(175 116)	(129 721)	(175 116)
Employee benefits	532 677	555 444	–	–	532 677	555 444
Trade and other payables	2 291 776	1 351 579	–	–	2 291 776	1 351 579
Provisions	666 511	1 867 730	–	–	666 511	1 867 730
Other	28 796	33 797	–	–	28 796	33 797
Tax assets/(liabilities)	**5 816 259**	**6 422 592**	**(17 515 192)**	**(20 526 495)**	**(11 698 933)**	**(14 103 903)**
Set-off of tax	(5 758 307)	(6 374 271)	5 758 307	6 374 271	–	–
Net tax assets/ (liabilities)	**57 952**	**48 321**	**(11 756 885)**	**(14 152 224)**	**(11 698 933)**	**(14 103 903)**

(b) Movements in temporary differences during the year

Movement in temporary differences during the year:

	1 January 2022	**Recognised in profit or loss**	**Recognised in other comprehen-sive income**	**31 December 2022**
Property, plant and equipment	(19 462 405)	2 935 107	–	(16 527 298)
Intangible assets	(113 478)	(11 887)	–	(125 365)
Right-of-use assets	(664 323)	6 319	–	(658 004)
Other investments and financial assets	(36 137)	(2 000)	–	(38 137)
Inventories	6 817	(6 325)	–	492
Trade and other receivables	1 863 266	(280 234)	–	1 583 032
Lease liability	668 923	7 385	–	676 308
Loans and borrowings	(175 116)	45 395	–	(129 721)
Employee benefits	555 444	(4 481)	(18 286)	532 677
Trade and other payables	1 351 579	940 197	–	2 291 776
Provisions	1 867 730	(1 201 219)	–	666 511
Other	33 797	(5 001)	–	28 796
Net tax liabilities	**(14 103 903)**	**2 423 256**	**(18 286)**	**(11 698 933)**

15 Deferred income tax assets and liabilities (continued)

(b) Movements in temporary differences during the year (continued)

	1 January 2021	Recognised in profit or loss	Recognised in other comprehen-sive income	31 December 2021
Property, plant and equipment	(18 985 065)	(477 340)	–	(19 462 405)
Intangible assets	(122 769)	9 291	–	(113 478)
Right-of-use assets	(699 096)	34 773	–	(664 323)
Other investments and financial assets	(34 419)	(1 718)	–	(36 137)
Inventories	(8 699)	15 516	–	6 817
Trade and other receivables	1 763 844	99 422	-	1 863 266
Lease liability	721 641	(52 718)	–	668 923
Loans and borrowings	(146 396)	(28 720)	–	(175 116)
Employee benefits	580 572	(3 560)	(21 568)	555 444
Trade and other payables	1 218 255	133 324	–	1 351 579
Provisions	1 419 171	448 559	–	1 867 730
Other	11 575	22 222	–	33 797
Net tax liabilities	**(14 281 386)**	**199 051**	**(21 568)**	**(14 103 903)**

16 Inventories

	31 December 2022	31 December 2021
Raw materials and consumables	3 046 684	2 814 445
Write down of raw materials and consumables	(11 634)	(15 853)
Other inventories	1 286 159	1 007 650
Write down of other inventories	(14 281)	(11 244)
	4 306 928	**3 794 998**

As at 31 December 2022 and at 31 December 2021, the Group did not have inventories that would have been pledged under credit or other agreements.

17 Trade and other receivables

	31 December 2022	31 December 2021
Non-current trade and other receivable		
Other receivables	385 735	380 828
Allowance for expected credit losses on other receivables	(252 344)	(206 663)
	133 391	**174 165**
Current trade and other receivable		
Trade receivables	18 780 299	17 604 683
Allowance for expected credit losses on trade receivables	(3 408 193)	(3 988 574)
Other receivables	5 946 975	6 499 655
Allowance for expected credit losses on other receivables	(4 094 104)	(4 484 512)
	17 224 977	**15 631 252**

Trade and other receivables are usually repaid within 30 days.

17 Trade and other receivables (continued)

As at 31 December 2022 and at 31 December 2021, the Group received a pledge of real estate in the amount of RUB 364 977 thousand as collateral from counterparties for the performance of theirs' obligations to the Group. The pledge of real estate is retained as part of an amicable settlement of debt for non-contractual electricity consumption.

The Group's exposure to credit risks and movements of expected credit losses related to trade and other receivables are disclosed in Note 29.

18 Other non-financial assets

	31 December 2022	31 December 2021
Other non-current non-financial assets		
Advances given	6 624 228	6 915 141
Allowance for impairment of advances given	(6 624 228)	(6 915 141)
VAT on advances from customers	3 322 125	2 720 476
	3 322 125	**2 720 476**
Other current non-financial assets		
Advances given	2 425 632	2 200 035
Allowance for impairment of advances given	(28 755)	(63 695)
VAT recoverable	441 882	242 910
VAT on advances from customers	7 257 416	5 037 535
Prepaid taxes, other than income tax and VAT	7 117	30 554
	10 103 292	**7 447 339**

19 Cash and cash equivalents

	31 December 2022	31 December 2021
Cash in bank	15 238 702	10 654 221
Cash for intended use under government contract	225 489	–
Petty cash	2	3
	15 464 193	**10 654 224**

As at 31 December 2022 and 31 December 2021 all cash and cash equivalents are denominated in roubles.

	Rating	Rating agency	31 December 2022	31 December 2021
PJSC Sberbank*	AAA(ru)	AKRA	520 685	3 952 890
PJSC Gazprombank*	ruAA+	RA	87 727	146 668
Moscow Department of Finance	–	–	225 489	–
JSC AB Rossia	ruAA	RA	127 882	9 971
PJSC Promsvyazbank	ruAA+	RA	97 307	1 075 051
JSC Alfa-Bank	ruAA+	RA	105 898	5 002 592
PJSC VTB Bank*	ruAAA	RA	11 703 982	1 830
JSC Severgazbank	ruA-	RA	85	1 258
PJSC Credit Bank of Moscow	ruA+	RA	2 524 793	23
Bank Rrdb (JSC)*	ruAA	RA	67	1 330
Other banks	–	–	70 276	462 608
Petty cash	–	–	2	3
			15 464 193	**10 654 224**

* *Government-related banks.*

The Group's exposure to credit risk is disclosed in Note 29.

20 Equity

(a) Share capital

Share capital	Ordinary shares 31 December 2022	31 December 2021
Number of ordinary shares of 0.50 RUB each, pcs.	48 707 091 574	48 707 091 574

All shares are issued and fully paid. The holders of ordinary shares are entitled to receive the declared dividends and to one vote per share at the Company's annual and general meetings of shareholders.

(b) Treasury shares

The Group did not hold any own (treasury) shares as at 31 December 2022 and 31 December 2021.

(c) Dividends

According to the legislation of the Russian Federation, the amount of dividends to be distributed is limited by the amount of the remaining retained earnings reported in the Company's obligatory financial statements prepared in accordance with RAS.

In 2022, the Company paid dividends for 2021 in the amount of RUB 4 627 174 thousand, were declared on 22 June 2022 (RUB 0.0950 per ordinary share). In December 2022, dividends for 9 months 2022 which were declared in the amount of RUB 4 135 232 thousand (RUB 0.0849 per ordinary share).

In 2021, dividends for 2020 were paid in the amount of RUB 2 390 888 thousand, which were declared in May 2021 in the amount of RUB 2 401 260 thousand (RUB 0.0493 per ordinary share).

Information about the accrued and paid dividends is disclosed in Note 23.

21 Earnings per share

The calculation of earnings per share is based upon the profit for the year attributable to the shareholders and the average number of ordinary shares outstanding during the year as shown below. The Company has no potential dilutive ordinary shares.

	For the year ended 31 December 2022	2021
Number of outstanding shares (pcs.)	48 707 091 574	48 707 091 574
Profit for the period attributable to the shareholders of PJSC Rosseti Moscow Region ('000' RUB)	13 451 169	10 457 730
Basic and diluted earnings per share (RUB)	**0.2762**	**0.2147**

22 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost. Information about the Group's exposure to interest rate and foreign currency risk is presented in Note 29.

	31 December 2022	**31 December 2021**
Non-current		
Unsecured bank loans	42 918 073	42 917 878
Unsecured bonds	20 459 411	38 766 179
Lease liabilities	3 708 031	3 650 197
Less: current portion of unsecured bank loans	(22 918 073)	(37 876)
Less: current portion of unsecured bonds	(15 387 006)	(18 626 747)
Less: current portion of lease liabilities	(282 978)	(315 971)
	28 497 458	**66 353 660**
Current		
Unsecured bank loans	648 884	336 998
Current portion of unsecured bank loans	22 918 073	37 876
Current portion of unsecured bonds	15 387 006	18 626 747
Current portion of lease liabilities	282 978	315 971
	39 236 941	**19 317 592**
Including		
Interests payable on loans and borrowings	38 073	37 876
Interests payable on bonds	318 100	566 800
	356 173	**604 676**

22 Loans and borrowings (continued)

Terms and debt repayment schedule

Terms and conditions of outstanding loans, borrowings and lease liabilities were as follows:

		Effective interest rate			Carrying amount	
		31 December		Year	31 December	
	Currency	2022	2021	of maturity	2022	2021
Unsecured bank loans*	RUB	6%	6%	2023	22 898 804	22 898 804
Unsecured bank loans*	RUB	6%	6%	2024	20 016 440	20 016 440
Unsecured bonds	RUB	6%	6%	2023	10 225 800	10 224 100
Unsecured bonds	RUB	6%	6%	2023	5 055 500	5 054 750
Unsecured bonds	RUB	8%	8%	2024	5 036 800	5 035 650
Unsecured bank loans	RUB	12%	–	2023	317 693	–
Unsecured bonds	RUB	11.1%	–	2024	141 311	201 258
Unsecured bank loans	RUB	11%	–	2023	120 996	–
Unsecured bank loans	RUB	KR CB RF + 3	–	2023	186 638	–
Unsecured bank loans	RUB	KR CB RF + 1.5	–	2023	26 386	–
Unsecured bank loans	RUB	9%	–	2022	–	305 887
Unsecured bank loans	RUB	KR CB RF + 1.5	–	2022	–	33 745
Unsecured bonds	RUB	8%	–	2022	–	8 135 200
Unsecured bonds	RUB	9%	–	2022	–	10 115 221
Lease liabilities	RUB	9%	8%	2022-2070	3 708 031	3 650 197
					67 734 399	**85 671 252**

* _Loans from state-controlled entities._

23 Changes in liabilities arising from financing activities

	Loans and borrowings		Interest payable (excluding interests on lease contracts)	Lease liabilities	Dividends payable
	Non-current	**Current**			
At 1 January 2022	**63 019 434**	**18 396 945**	**604 676**	**3 650 197**	**42 525**
Changes of cash flows from financing activities					
Proceeds from loans and borrowings	–	5 372 425	–	–	–
Repayment of loans and borrowings	–	(23 141 725)	–	–	–
Payment of lease liabilities	–	–	–	(348 076)	–
Interest paid (operating activities, for reference)	–	–	(5 073 216)	(311 922)	–
Dividends paid	–	–	–	–	(4 627 174)
Total	**–**	**(17 769 300)**	**(5 073 216)**	**(659 998)**	**(4 627 174)**
Non-cash changes					
Reclassification	(37 948 906)	37 948 906	–	–	–
Interests capitalized	–	–	1 979 721	–	–
Interest expense	–	–	2 842 454	311 922	–
Additions under lease contracts	–	–	–	405 910	–
Dividends declared	–	–	–	–	8 762 405
Unclaimed dividends for previous periods	–	–	–	–	8 672
Discounting	–	21 239	2 538	–	–
Other changes, net	1 877	–	–	–	11 169
Total	**(37 947 029)**	**37 970 145**	**4 824 713**	**717 832**	**8 782 246**
At 31 December 2022	**25 072 405**	**38 597 790**	**356 173**	**3 708 031**	**4 197 597**

23 Changes in liabilities arising from financing activities (continued)

	Loans and borrowings		Interest payable (excluding interests on lease contracts)	Lease liabilities	Dividends payable
	Non-current	Current			
At 1 January 2021	**80 794 375**	**154 809**	**595 469**	**3 932 975**	**32 153**
Changes of cash flows from financing activities					
Proceeds from loans and borrowings	43 086 421	30 230 156	–	–	–
Repayment of loans and borrowings	(42 806 419)	(30 075 268)	–	–	–
Payment of lease liabilities	–	–	–	(412 401)	–
Interest paid (operating activities, for reference)	–	–	(5 284 227)	(299 497)	–
Dividends paid	–	–	–	–	(2 390 888)
Total	**280 002**	**154 888**	**(5 284 227)**	**(711 898)**	**(2 390 888)**
Non-cash changes					
Reclassification	(18 059 947)	18 059 947	–	–	–
Interests capitalized	–	–	2 117 154	–	–
Interest expense	–	–	3 176 280	299 497	–
Additions under lease contracts	–	–	–	123 046	–
Dividends declared	–	–	–	–	2 401 260
Discounting	–	27 301	–	–	–
Other changes, net	5 004	–	–	6 577	–
Total	**(18 054 943)**	**18 087 248**	**5 293 434**	**429 120**	**2 401 260**
At 31 December 2021	**63 019 434**	**18 396 945**	**604 676**	**3 650 197**	**42 525**

24 Employee benefits

The Group has the following long-term pension and social benefit plans:

- Defined contribution pension plan and defined benefit pension plan (Non-State Pension Fund (NPF) Otkrytie and Non-State Pension Fund Gazfond); and
- Other long-term defined benefit plans regulated by Collective Agreements that include lump sum benefit upon retirement, jubilee dates benefits for pensioners and employees, as well as periodic financial aid payment for pensioners and one-time death benefits paid in case of the death of a pensioner.

The table below summarises the amounts of defined benefit obligations recognised in the financial statements.

Amounts recognised in the statement of financial position:

	31 December 2022	**31 December 2021**
Present value of post-employment benefits obligation	2 930 979	3 054 522
Present value of other long-term employee benefit obligation	3 203	2 871
Total present value of defined benefit obligation	**2 934 182**	**3 057 393**

Amounts recognised in profit or loss for the year are as follows:

	For the year ended 31 December	
	2022	**2021**
Interest expenses, net (Note 10)	226 030	176 529
Employees service cost	118 324	126 267
Remeasurement of other long-term employee benefit obligation	(170)	(414)
Total loss recognised in profit and loss	**344 184**	**302 382**

Amounts recognised in other comprehensive income are as follows:

	For the year ended 31 December	
	2022	**2021**
Actuarial (gain)/loss arising from experience adjustment	58 754	211 160
Actuarial (gain)/loss arising from change in financial actuarial assumptions	(159 569)	(493 260)
Write-off of revaluation on discontinued pension plans	18 240	–
Loss from changes in demographic actuarial assumptions	–	143 273
Total actuarial (gain)/loss recognised in other comprehensive income	**(82 575)**	**(138 827)**

24 Employee benefits (continued)

Movements in defined benefit liability are as follows:

	Changes of present value of post-employment benefits obligation		Changes of present value of other long-term employee benefit obligation		Changes of present value of defined benefit liability	
	2022	2021	2022	2021	2022	2021
At 1 January	**3 054 522**	**3 195 367**	**2 871**	**2 736**	**3 057 393**	**3 198 103**
Current service cost	117 682	125 682	642	585	118 324	126 267
Past service cost and curtailments	–	–	–	–	–	–
Interest cost	225 817	176 369	213	160	226 030	176 529
Remeasurement effect arising from:						
Loss from changes in demographic actuarial assumptions	–	143 273	–	90	–	143 363
Actuarial (gain)/loss arising from change in financial actuarial assumptions	(159 569)	(493 260)	(98)	(280)	(159 667)	(493 540)
Actuarial (gain)/loss arising from experience adjustment	58 754	211 160	(72)	(224)	58 682	210 936
Contributions to plan	(366 227)	(304 069)	(353)	(196)	(366 580)	(304 265)
At 31 December	**2 930 979**	**3 054 522**	**3 203**	**2 871**	**2 934 182**	**3 057 393**

24 Employee benefits (continued)

Movements in the value of plan assets related to employee benefits plan were as follows:

	2022	2021
Value of plan assets related to employee defined benefits plans, at 1 January	**198 935**	**189 615**
Return on plan assets (Note 10)	5 279	6 414
Contribution by employer	259 126	195 786
Other movements	2 584	901
Benefits paid	(255 826)	(193 781)
Value of plan assets related to employee defined benefits plans, at 31 December	**210 098**	**198 935**

	31 December 2022	31 December 2021
Employees benefit liabilities	(2 934 182)	(3 057 393)
Value of assets related to employee benefits plan	210 098	198 935
Net liabilities at the reporting period end	**(2 724 084)**	**(2 858 458)**

Assets related to employee benefits plan and defined benefit plans are managed by the non-state pension fund Otkrytie. The assets are not the Fund's assets, as under the terms of agreements with the Fund the Group is able to use contributions to reduce future contributions or compensation by the funding of other plans or transfer to another fund at its own discretion.

Changes in the remeasurements of defined benefit liability recognised in other comprehensive income during the reporting period:

	For the year ended 31 December	
	2022	2021
1 January	**3 128 926**	**3 267 753**
Remeasurement	(82 575)	(138 827)
31 December	**3 046 351**	**3 128 926**

The significant actuarial assumptions are as follows:

	For the year ended 31 December	
	2022	2021
Financial assumptions		
Discount rate, annual (nominal)	10.3%	8.4%
Future inflation rate	5.6%	4.5%
Future salary increase (nominal)	6.1%	5.0%
Demographic assumptions		
Expected retirement age		
Male	65	65
Female	60	60
The average level of staff turnover	7.7%	7.7%

24 Employee benefits (continued)

The sensitivity of pension liabilities to changes in the key actuarial assumptions is presented below:

	Change in assumption	Impact on defined benefit liability	Sensitivity
Discount rate	Increase/decrease by 0.5%	Change by	-3.2%
Future salary increases	Increase/decrease by 0.5%	Change by	0.8%
Future benefit increases (inflation)	Increase/decrease by 0.5%	Change by	2.9%
Employee turnover	Increase/decrease by 10%	Change by	-0.8%
Mortality level	Increase/decrease by 10%	Change by	-1.3%

As at 31 December 2022, the weighted average duration for liabilities on the post-employment payment is 7 years. The expected contributions by the Group in 2023 to the post-employment benefit plan and other long-term payments are RUB 331 812 thousand and RUB 419 thousand, respectively.

25 Provisions

	2022	2021
Balance at 1 January	**12 016 937**	**8 740 112**
Provisions accrued during the period	3 758 891	5 409 911
Provisions reversed during the period	(9 963 251)	(449 626)
Provisions used during the period	(2 140 760)	(1 683 460)
Balance at 31 December	**3 671 817**	**12 016 937**

A certain specifics of the mechanisms of functioning of the electricity market determines the existence of disagreements between electric grid, retail and other companies regarding the volume and cost of electricity transferred.

Taking into account all the circumstances and the current conditions for provision for resolving disagreements regarding the volumes of electricity transmitted with regard to the contingent liability of electricity transmission services and the costs of electricity purchased to compensate for losses, the Group recognised provision to cover the possible outflow of economic resources in case of resolution of disagreements with JSC Mosenergosbyt not in favor of the Group in the amount of RUB 3 285 859 thousand as at 31 December 2022 (2021: RUB 2 444 334 thousand). The Group also recognised provision to cover losses that the Group may incur due to an unfavorable outcome of litigations with JSC Mosenergosbyt in the amount of RUB 332 288 thousand (2021: RUB 502 165 thousand).

In addition, there are a number of unresolved disputes with other counterparties, in respect of which the Group recognised a provision in the amount of RUB 53 670 thousand (2021: RUB 123 471 thousand).

During 2018-2022, the Group challenged in court additional property tax charges for 2013-2015 related to the qualification of objects as movable or immovable property, presented according to the results of an on-site tax audit. As at 31 December 2022 the Group restored the estimated liability for property tax in connection with the decision of the Supreme Court of the Russian Federation No. 305-ES22-13255 in case No. A40-317545/2018 on the refusal of the tax inspectorate to transfer the cassation appeal for consideration at a court session of the Judicial Board for Economic Disputes of the Supreme Court of the Russian Federation and the expiration after 12 February 2023 of the deadline for appealing previously adopted judicial decisions acts in favor of the Society. As at 31 December 2021: the estimated liability was recognized in the amount of RUB 8 946 967 thousand.

25 Provisions (continued)

The provision for lawsuits has been recognised to cover the costs of claims where the Group acts as a defendant in the course of business activities and the provision for electricity transmission services. It is expected that the balance of the provision as at 31 December 2022 will be used within 12 months after the reporting date, and that the outcome of ongoing litigation will not lead to significant losses in excess of the amounts already accrued.

26 Trade and other payables

	31 December 2022	31 December 2021
Non-current trade and other payable		
Trade accounts payable	3 804	27 998
Other payables	9 268 559	4 327 723
	9 272 363	**4 355 721**
Current trade and other payable		
Trade accounts payable	23 768 798	23 948 660
Provision for unused vacations and bonuses	3 990 419	3 708 867
Other payables	5 360 406	1 366 850
	33 119 623	**29 024 377**

Trade and other payables are interest free and are usually repaid within 57 days.

Long-term other payables include cash received under loss compensation agreements (deferred income) in the amount of RUB 9 130 059 thousand (31 December 2021: RUB 4 205 436 thousand). The corresponding income is recognized over time based on the useful life of the assets (Note 9). Cash received under loss compensation agreements is recognized in cash flows from operating activities.

The Group's exposure to liquidity risk and the policy used by the Group to manage risks related to trade and other payables are disclosed in Note 29.

27 Contract liabilities

	31 December 2022	31 December 2021
Non-current		
Contract liabilities from technological connection to electricity girds services	19 821 321	16 501 986
Other contract liabilities	68 765	100 770
	19 890 086	**16 602 756**
Current		
Contract liabilities from technological connection to electricity girds services	41 682 974	28 268 051
Other contract liabilities	2 284 214	2 330 857
	43 967 188	**30 598 908**

As at 31 December 2022 non-current contract liabilities include overdue advances received for connection services in the amount of RUB 5 202 829 thousand (31 December 2021: RUB 4 504 854 thousand). The contract liabilities are recognised VAT inclusive.

28 Other taxes payable

	31 December 2022	31 December 2021
Value added tax	2 613 439	851 282
Property tax	17 509	17 342
Employee releted taxes paid to government non-budgetary funds	1 862 713	415 189
Other taxes	180 671	11 730
	4 674 332	**1 295 543**

29 Financial risk and capital management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

(b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customers contract, leading to a financial loss for the Group. The Group is exposed to credit risk from its operating activities, mainly related to trade receivables, and from its financing activities, in relation to bank deposits, cash in banks, and other financial instruments.

(i) Trade and other receivables

The Group's exposure to credit risk is affected mainly by the individual characteristics of each customer.

Approximately 83% (2021: 84%) of the Group's revenue is attributable to a single customer operating with the Group for more than ten years, and, historically, losses have been incurred infrequently. Information on trade and other receivables is provided in Note 17. For the purpose of monitoring customer credit risk, the remaining customers are grouped according to similar credit risks characteristics, including aging profile, maturity and existence of financial difficulties in previous periods. The Group's management assesses the credit quality of a customer taking into account its financial position, past experience and other factors. Based on the analysis performed, individual credit risk limits are set for each group of customers and these limits are reviewed on a regular basis.

The Group does not require collateral in respect of trade and other receivables.

The Group recognizes an allowance for expected credit losses that represents the estimated amount of anticipated losses in respect of trade and other receivables. The allowance is made for risks that relates to individually significant exposures.

29 Financial risk and capital management (continued)

(b) Credit risk (continued)

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	31 December 2022	**31 December 2021**
Trade and other receivables	17 358 368	15 805 417
Cash and cash equivalents	15 464 193	10 654 224
	32 822 561	**26 459 641**

The outstanding balance of account receivable of the Group's major customer controlled by the Government of the Russian Federation as at 31 December 2022 is RUB 13 056 773 thousand, expected credit losses of RUB 76 012 thousand, which is the book value of accounts receivable of RUB 12 980 761 thousand, or 75% of the total amount of trade and other receivables (2021: accordingly: RUB 11 752 607 thousand; RUB 264 427 thousand; RUB 11 488 180 thousand; or 73%).

As at the reporting date, the maximum level of credit risk in terms of trade receivables by groups of customers was:

	31 December 2022		31 December 2021	
	Carrying value	**Expected credit losses**	**Carrying value**	**Expected credit losses**
Buyers of electricity sale services	81 243	(81 229)	193 881	–
Buyers of electricity transmission services	16 546 173	(2 184 790)	14 999 442	(2 368 354)
Buyers of technological connection services	836 542	(372 073)	976 875	(459 100)
Other buyers	1 316 341	(770 101)	1 434 485	(1 161 120)
	18 780 299	**(3 408 193)**	**17 604 683**	**(3 988 574)**

The aging of trade and other receivables as at 31 December is presented in the table below:

	31 December 2022		31 December 2021	
	Carrying value	**Expected credit losses**	**Carrying value**	**Expected credit losses**
Not past due	16 918 364	(366 296)	15 633 494	(542 439)
Past due less than 3 months	440 657	(104 365)	443 003	(81 365)
Past due from 3 to 6 months	375 604	(105 961)	420 279	(203 298)
Past due from 6 months to one year	250 636	(191 575)	527 467	(469 802)
Past due more than one year	7 127 748	(6 986 444)	7 460 923	(7 382 845)
	25 113 009	**(7 754 641)**	**24 485 166**	**(8 679 749)**

The changes in the allowance for expected credit losses in respect of trade and other receivables during the year was as follows:

	2022	**2021**
Balance at 1 January	**(8 679 749)**	**(8 798 439)**
Accrued during the period	(502 908)	(676 732)
Reversed during the period	1 147 777	438 495
Used during the period	280 239	356 927
Balance at 31 December	**(7 754 641)**	**(8 679 749)**

29 Financial risk and capital management (continued)

(b) Credit risk (continued)

As at 31 December 2022, the allowance for expected credit losses in the amount of RUB 7 754 641 thousand (2021: RUB 8 679 749 thousand) relates to disputable accounts receivable not paid during the period and not secured by collateral and guarantees. The recovery of the allowance for expected credit losses in the amount of RUB 1 147 777 thousand is associated with the fulfillment by counterparties of their payment obligations.

	31 December 2022	31 December 2021
Nominal value of receivables		
Not overdue, not impaired receivables	16 552 068	15 091 055
Not overdue but impaired receivables	366 296	542 439
Overdue and impaired receivables	8 194 645	8 851 672
	25 113 009	**24 485 166**

Based on past experience and analysis performed by the credit department, the Group management believes that no allowance for expected credit loss is necessary in respect of accounts receivable not overdue and not impaired because the customers, which these balances relate to have a good credit history.

(ii) Bank deposits, cash and cash equivalents

Bank deposits, cash and cash equivalents are deposited only within financial institutions that the management considers having minimal risk of default. Bank deposits, cash and cash equivalents are mainly held at PJSC Credit Bank of Moscow and PJSC VTB Bank.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The liquidity management objective is maintaining sufficient liquidity to meet the Group's liabilities when due, under both normal and stressed conditions.

Substantial share of advances received from customers under agreements for technological connection to electricity networks has the major impact on the Group's liquidity ratio. Such advances are regarded as long-term sources of funding since they relate to implementation of long-term investment projects by the Group. These liabilities do not require current assets coverage since they are used for non-current assets construction and are settled when technological connection services are provided.

At 31 December 2022, the Group's had short-term liabilities exceeded its current assets by RUB 78 640 180 thousand (31 December 2021: RUB 53 865 912 thousand). The net amount of current liabilities as at 31 December 2022 is represented mainly by accounts payable, contract liabilities (advances received) and short term loans and borrowings.

The Group monitors its liquidity risk and manages it by planning operating cash flows, opening credit lines, obtaining credits and loans and borrowings (refer to Note 22).

At 31 December 2022, the Group had unused credit limits in the amounts sufficient for financing its working capital deficit. The amount of undrawn borrowing facilities is RUB 166 311 116 thousand (31 December 2021: RUB 150 522 998 thousand), including RUB 145 615 236 thousand (31 December 2021: RUB 141 522 998 thousand) that can be drawn beyond one year. Besides, the management believes that the measures undertaken on cost savings in combination with gradual growth of tariffs of transmission services and technological connection to electricity networks services are aimed at contribute to the increase of the Group's liquidity.

The management believes that due to abovementioned circumstances, the Group has sufficient liquidity to continue as a going concern in the foreseeable future. Accordingly, the present consolidated financial statements of the Group do not include adjustments that would be required in case the Group is not able to continue on a going concern basis.

29 Financial risk and capital management (continued)

(c) Liquidity risk (continued)

The following are the maturity profile of contractual financial liabilities, including estimated interest payments and assuming set-off agreements:

31 December 2022	**Carrying amount**	**Contractual cash flows**	**0-1 years**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**Over 5 years**
Non-derivative financial liabilities								
Loans and borrowings	43 566 957	46 281 854	25 736 101	20 545 753	–	–	–	–
Bonds issued	20 459 411	21 286 096	15 971 032	5 315 064	–	–	–	–
Lease liabilities	3 708 031	10 050 514	590 550	427 565	408 312	344 173	290 658	7 989 256
Trade payables	42 391 986	42 456 729	33 151 294	9 287 868	3 564	7 963	4 153	1 887
	110 126 385	**120 075 193**	**75 448 977**	**35 576 250**	**411 876**	**352 136**	**294 811**	**7 991 143**

31 December 2021	**Carrying amount**	**Contractual cash flows**	**0-1 years**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**Over 5 years**
Non-derivative financial liabilities								
Loans and borrowings	43 254 876	48 277 876	2 967 221	24 965 450	20 345 205	–	–	–
Bonds issued	38 766 179	41 989 518	20 815 391	15 680 922	5 493 205	–	–	–
Lease liabilities	3 650 197	10 390 646	620 162	436 067	407 541	326 868	401 487	8 198 522
Trade payables	33 380 098	33 363 396	28 996 863	4 343 550	22 745	237	–	–
	119 051 350	**134 021 436**	**53 399 637**	**45 425 989**	**26 268 696**	**327 105**	**401 487**	**8 198 522**

29 Financial risk and capital management (continued)

(d) Market risk

Market risk is the risk that changes in market prices, in particular, interest rates and equity instruments prices, may affect the Group's income or value of its financial instruments. The market risk management objective is to control market risk exposure at the acceptable level, while optimising the returns.

(i) Interest rate risk

Changes in interest rates impact primarily loans and borrowings, since they may change their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates debt. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
	31 December 2022	**31 December 2021**
Financial assets	15 464 193	10 654 224
Financial liabilities	(64 026 368)	(82 021 055)
	(48 562 175)	**(71 366 831)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss for the period. The Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

(e) Fair values and carrying amounts

The basis for determining fair values is disclosed in Note 4. Set out below is a comparison, by class, of the carrying amounts and fair value of the Group's financial instruments presented in the financial statements, other than those with carrying amounts that are reasonable approximations of fair values:

	31 December 2022		Level of fair value hierarchy		
	Carrying amount	**Fair value**	**1**	**2**	**3**
Bonds issued	15 281 300	15 246 300	15 246 300	–	–
Total	**15 281 300**	**15 246 300**	**15 246 300**	**–**	**–**

	31 December 2021		Level of fair value hierarchy		
	Carrying amount	**Fair value**	**1**	**2**	**3**
Bonds issued	33 528 010	33 036 450	33 036 450	–	–
Total	**33 528 010**	**33 036 450**	**33 036 450**	**–**	**–**

29 Financial risk and capital management (continued)

(f) Capital management

The Board of Directors pursues a policy designated to maintaining sufficient level of capital enabling the Group to support investors', creditors' and market participants' confidence and to sustain future development of business. The Board of Directors monitors the return on capital ratio, which is calculated as net operating profit divided by total shareholders' equity. The Board of Directors also monitors the level of dividends distributable to ordinary shareholders.

The Board of Directors seek to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages of less risky equity financing.

The Group monitors capital structure using gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as recorded in the consolidated statement of financial position, less cash. Total capital is calculated as equity, as recorded in the consolidated statement of financial position.

The main goal of capital management for the Group is to maintain a consistently high level of capital to maintain confidence of investors, creditors and market participants and ensure the sustainable development of the business in the future.

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

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

	Carrying amount	
	31 December 2022	**31 December 2021**
Total loans and borrowings (Note 23)	71 931 996	85 713 777
Less: cash and cash equivalents (Note 19)	(15 464 193)	(10 654 224)
Net debt	56 467 803	75 059 553
Equity	190 343 176	185 590 123
Debt to equity ratio	**29.67%**	**40.44%**

There were no changes in the Group's approach to capital management during the year.

The Group is subject to external capital requirements that require that its net assets as determined in accordance with RAS should exceed its charter capital amount.

30 Capital commitments

As at 31 December 2022, the amount of future capital commitments under the contracts for capital construction of power grid facilities amounted to RUB 68 009 653 thousand, including VAT (31 December 2021: RUB 55 718 727 thousand, including VAT).

31 Contingent liabilities

(a) Political environment

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, as well as changes in environmental protection area in Russia.

Currently, the political situation in the country is relatively unstable due to the sanctions imposed against Russia by some countries, the general geopolitical situation in the country, as well as fluctuations in crude oil prices. This, in turn, provides a negative impact on the Russian economy as a whole. In particular, this is reflected in the instability of RUB exchange rate and the need for economic, tax, political and other reforms.

Despite the stabilization measures taken by the Government of the Russian Federation in order to ensure liquidity and refinancing foreign loans of Russian banks and companies, there remains uncertainty about the possibility of access to capital sources, as well as the cost of capital for the Group and its counterparties, which may affect the financial position, results of operations and the Group's economic prospects. Instability in the capital markets could lead to a significant deterioration of liquidity in the banking sector and tightening of credit conditions in Russia.

Generally, the Group cannot have a significant impact on the economic situation in the country. However, in the event of negative impact of changes in the situation on the country or region of the Russian Federation where the Group operates, the Group intends to take measures to mitigate the negative consequences for the financial position and performance of the Group.

(b) Insurance

The market of insurance services in the Russian Federation is at the development stage, and, therefore, many forms of insurance commonly used in other countries are not yet available in Russia.

The Group provides full insurance coverage of production facilities and equipment. The Group does not have full coverage for business interruption and civil liability insurance for damage to property or the environment arising from accidents at the Group's premises or in connection with its activities. Until the Group obtains the appropriate insurance coverage, there is a risk that damage or loss of certain assets could have a material adverse effect on the Group's operations and its financial position.

(c) Litigation

The Group acts as a party to a number of legal proceedings arising in the normal course of business. Management believes that these legal proceedings will not have a material adverse effect on the Group's operating results.

The Group believes that the Group's practice in the servicing its clients and discharging its obligations generally complies with the requirements of the Russian electricity legislation. Disagreements in assessment of mutual obligations of electricity market participants arising during several reporting periods are resolved through the court hearings. Disagreements relate to volumes of electricity supplied due to different approaches used in calculation, applied tariffs (prices) and accounting (delivery) points. The court can agree with the position of the Group's customers.

31 Contingent liabilities (continued)

(c) Litigation (continued)

Differences in the calculation of quantities and tariffs applied to electricity transmission services affect the calculation of amount of electricity purchased by the Group from distribution companies to compensate for electricity losses in grid networks. The amounts of receivables for electricity transmission services disputed by consumers, subject to negative court practice in the relevant disputes, are included in allowance for expected credit losses, and the amounts of unrecognized debt for purchased electricity for compensation of losses in such cases are included in provision (Note 25). At the same time, disputes over the obligations to pay for electricity to compensate for losses in grid networks are often not considered in courts, but are settled by the parties after the dispute over the electricity transmission services is resolved.

(d) Taxation contingencies in the Russian Federation

The tax system of the Russian Federation is characterized by frequent changes of regulatory legislative documents, official pronouncements and decisions of the judicial authorities, which often contain ambiguous and sometimes contradictory statements that can be interpreted by tax authorities in different ways. Calculation of taxes are subject to review and detailed checks by a number of authorities, which have the right to impose significant fines and penalties. Tax audits can cover three to five subsequent calendar years preceding the year of audit. Under certain circumstances tax audits may cover even earlier periods.

Russian tax legislation is subject to varying interpretations regarding the operations and activities of the Group. Accordingly, 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 strengthening. In particular, the risk of checking the tax aspect of transactions without obvious economic substance or with counterparties that violate tax laws is increasing. Tax audits may cover the three calendar years preceding the year the tax audit decision was made. Under certain conditions audits may cover even earlier periods.

In accordance with the transfer pricing legislation, the Russian tax authorities have the right to charge additional tax liabilities and penalties if the price/profitability in controlled transactions differs from the market level. The list of transactions controlled for transfer pricing purposes mainly includes transactions between related parties.

Starting from 1 January 2019, transfer pricing control was abolished for a significant part of domestic Russian transactions, and the threshold for cross-border transactions concluded with the same interdependent counterparty, which are subject to tax price control, was set at 60 million roubles. Also, control in the field of transfer pricing is carried out in relation to certain types of transactions between independent enterprises, for example, in transactions with companies located in low-tax jurisdictions, as well as in transactions in the field of foreign trade in goods of the world exchange trade (if the threshold for turnover in such transactions is RUB 60 million). At the same time, the mechanism of counter adjustment of tax liabilities in the case of additional tax charges on grounds related to violation of transfer pricing rules, as well as voluntary symmetric adjustments of transfer prices and, as a result, tax liabilities, can be used subject to certain legal requirements and only in relation to transactions, which are recognized as controlled.

In intra-group transactions that have gotten out of the control of transfer pricing since 2019, the applied transfer prices may nevertheless be checked by the territorial tax authorities outside the scope of transfer pricing audits for unjustified tax benefits, and transfer pricing methods may be used to determine the amount of additional tax charges.

31 Contingent liabilities (continued)

(d) Taxation contingencies in the Russian Federation (continued)

With the further development of the practice of applying tax rules on property taxes, tax authorities and courts may challenge the criteria for classifying property as movable or immovable property applied by the Group. The management of the Group does not exclude the risk of outflow of resources and the recognition of related liabilities, as disclosed in Note 25.

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

(e) Environmental matters

The Group and its subsidiaries have been operating in Russian power industry sector for many years. The Russian legislation on environment protection is regularly supplemented and updated, and the government authorities are constantly reviewing law enforcement practice. The management periodically evaluates its obligations on compliance with environmental legislation.

Potential liabilities may arise as a result of changes in law, regulation or civil procedures. At the moment, it is not possible to assess the impact of these potential changes, but it can be material. The management believes that under the current legislation and law enforcement practices, the Group does not have significant obligations to compensate for environmental damage.

32 Related party transactions

(a) Control relationships

As at 31 December 2022, the parent of the Group was PJSC “ROSSETI”, a state-controlled entity. The ultimate controlling party of the Group is the Russian Federation, which held the majority of the voting rights in PJSC ROSSETI (the parent company).

32 Related party transactions (continued)

(b) Transactions with the parent company and other subsidiaries under the parent company's control ("fellow subsidiaries")

	Transaction value		Outstanding balance	
	For the year ended 31 December		As at 31 December	
	2022	2021	2022	2021
Revenue and other income				
Parent company				
Other revenue	2 401	1 591	–	–
Fellow subsidiaries				
Revenue from lease	637	752	6	217
Technical connection	103	51	–	–
Other revenue	198 055	105 144	634 862	843 934
Other income	59 702	61 489	106 819	83 286
Total revenue and income	**260 898**	**169 027**	**741 687**	**927 437**
Allowance for expected credit losses on accounts receivable	**–**	**(51 408)**	**(689 551)**	**(887 343)**
Operating expenses, other expenses				
Parent company				
Consulting and legal services	(62 642)	(422 959)	(6)	(67 056)
Fellow subsidiaries				
Power transmission services	(22 509 856)	(21 964 541)	(2 386 194)	(1 117 969)
Short term leases	(157)	(7 002)	(630)	(1 098)
Connection services	(12 224)	(3 406)	–	–
Other expenses	(354 493)	(260 431)	(111 161)	(124 720)
Total operating expenses	**(22 939 372)**	**(22 658 339)**	**(2 497 991)**	**(1 310 843)**
Fellow subsidiaries				
Advances given	–	–	28 543	37 643
Contract liabilities	–	–	(709 960)	(106 984)
Dividends to parent company	**(4 460 474)**	**–**	**(2 105 027)**	**–**

(c) Transactions with key management personnel

For the purposes of preparing these consolidated financial statements, key management personnel include members of the Company's Board of Directors, members of the Company's Management Board, members of the Revision Commission and representatives of the Company's top management.

Remuneration of key management personnel consists of wages stipulated by the employment agreement, non-monetary benefits, as well as bonuses determined by the results for the period and other payments. Key management received the remuneration during the year, which is recognized as personnel costs (see Note 8):

	For the year ended 31 December	
	2022	2021
Short-term employee benefits, including social security contributions	914 845	469 513
Severance package	14 619	10 283
Post-employment and other long-term benefits (including pension programs)	3 295	(2 005)
	932 759	**477 791**

32 Related party transactions (continued)

(c) Transactions with key management personnel (continued)

The present value of liabilities under defined benefit plan, defined contribution plan and other post-employment benefits reported in the consolidated statement of financial position of the Group includes liabilities related to key management personnel in the amount of RUB 10 947 thousand (2021: RUB 7 652 thousand).

(d) Transactions with state-controlled entities

In the course of its operations, the Group also enters into significant transactions with state-controlled entities. Sales and purchases from state-controlled entities are measured, where applicable, at regulated tariffs. In other cases sales and purchases are measured at prevailing market prices. Taxes are charged and paid in accordance with the Russian tax legislation.

Revenues from state-controlled entities amounted to 89% (2021: 88%) of the Group`s total revenues, including 93% (2021: 92%) of revenues from electricity transmission services.

Electricity transmission costs incurred by the Group under contracts with state-controlled entities, including purchases from PJSC “ROSSETI”’s group companies, amounted to 91% (2021: 92%) of the total electricity transmission costs.

Interests expense on the government-related bank loans amounted to RUB 1 545 764 thousand (2021: RUB 1 527 504 thousand).

As at 31 December 2022, cash and cash equivalents held in the government-related banks amounted to RUB 709 768 thousand (at 31 December 2021: RUB 548 768 thousand).

Information about significant loans from state-controlled entities is disclosed in Note 22.

As at 31 December 2022, lease liabilities from the government-related companies amounted to RUB 3 252 826 thousand (at 31 December 2021: RUB 3 059 309 thousand).

(e) Pricing policies

Related party transactions for electricity transmission are based on the tariffs established by the government.

In accordance with the Company’s Charter documents, the following transactions are subject to the approval by the Board of Directors, if the amount of the transaction is less than 2% of total assets of the Company as determined in accordance with RAS, and are subject to approval at the shareholders’ general meeting, if the amount of the transaction exceeds 2% of the total assets of the Company as determined in accordance with Russian accounting standards:

- Transactions involving the entities where the shareholders of the Company have ownership interest of 20% or more;
- Transaction involving the entities where the management of the Company also act in management capacity.

33 Events subsequent to the reporting date

On 22 February 2023, the Group partially redeemed 001P-02 series bonds at par value of RUB 10 000 000 thousand, placed on 21 February 2020 at a rate of 6.15% in the amount of RUB 9 528 228 thousand.

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 the 31 December 2022, prepared in accordance with IFRS, except for the events disclosed in the Note 1 in relation to the economic environment in which the Group operates. The Group regards these events as non-adjusting events after the reporting period, the quantitative effect of which cannot be estimated at the moment with a sufficient degree of confidence.