Public Joint Stock Company Rosseti South
and its subsidiaries

Consolidated Financial Statements
prepared in accordance with the International Financial Reporting Standards

for the year ended 31 december 2021

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Independent Auditor's Report

To the Shareholders and the Board of Directors
of the Public Joint Stock Company Rosseti South

Opinion

We have conducted an audit of the consolidated financial statements of Rosseti South Public Joint Stock Company and its subsidiaries (the "Group"), consisting of the consolidated statement of profit or loss and other comprehensive income for 2021, the consolidated statement of financial position as at 31 December 2021, the consolidated statement of changes in equity and the consolidated statement of cash flows for 2021, and notes to the consolidated financial statements, including a brief review of significant accounting policies.

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

Basis for our audit opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under these standards are further described in the Auditor's Responsibility for the Audit of the Consolidated Financial Statements section of our opinion. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Standards for Independence) (IESBA Code) adopted by the International Ethics Standards Board for Accountants (IESBA) and the ethical requirements applicable to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled other ethical obligations in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is adequate and appropriate to provide a basis for our audit opinion.

Key audit issues

Key audit issues are issues that, according to our professional judgment, were the most significant to our audit of the consolidated financial statements for the current period. These issues were considered in the context of our audit of the consolidated financial statements as a whole and in the formation of our opinion on these statements, and we do not express a separate opinion on these issues. With respect to each of the issues below, our description of how the relevant matter was addressed in our audit is given in this context.

We have fulfilled the responsibilities described in the Auditor's Responsibility for the Audit of the Consolidated Financial Statements section of our opinion, including in relation to these issues. Accordingly, our audit included the implementation of procedures developed in response to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including those conducted during the consideration of the following issues, serve as a basis for our audit opinion on the accompanying consolidated financial statements.

Key audit issue	**How the relevant key issue was addressed in our audit**
Recognition and measurement of revenue from transmission services	
Recognition and measurement of revenue from transmission services was one of the most significant issues of our audit due to the specific nature of the mechanisms of operation of the electricity market, which leads to disagreements between power grid, energy retail and other companies regarding the volume and cost of electricity transferred. The amount of revenue disputed by counterparties is material to the financial statements of the Group. Management's assessment of the probability of resolving disagreements in its favor is to a great degree subjective. Revenue is recognised when, subject to assumptions, disagreements are resolved in favour of the Group. Information on revenues from transmission services is disclosed in clause 7 of the notes to the consolidated financial statements.	We reviewed the accounting policy applied with respect to the recognition of revenue from transmission services, studied the system of internal control over the recording of this revenue, checked the determination of the corresponding amounts of revenue based on the concluded contracts for the transmission of electricity, on a sample basis received confirmations of accounts receivable balances from counterparties, conducted an analysis of the results of litigation settlements in relation to the disputed amounts of services rendered, if any, and assessment of the current procedures for confirming the volumes of transmitted electricity.
Provision for expected credit losses on trade receivables	
The issue of creating a provision for expected credit losses on trade receivables was one of greatest importance for our audit due to the material balances of trade receivables as of December 31, 2021, as well as the fact that management's assessment of the possibility of recovering these receivables is based on assumptions, in particular, on the forecast of the solvency of the Group's customers. The provision for expected credit losses on trade receivables is disclosed in clause 20 of the notes to the consolidated financial statements.	We studied the Group's accounting policy in relation to trade receivables for provision for expected credit losses on trade receivables and reviewed the assessment procedures made by the Group's management, including analysis of the payment of trade receivables, analysis of dates of maturity and delinquency, and analysis of customer solvency. We conducted audit procedures with respect to the information used by the Group to determine the provision for expected credit losses on trade receivables, as well as the structure of receivables by terms of maturity, and tested the calculation of accrued provisions.

Key audit issue	How the relevant key issue was addressed in our audit
Recognition, measurement and disclosure of provisions and contingent liabilities	
Recognition, measurement and disclosure of provisions and contingent liabilities in relation to litigation and claims of counterparties (including territorial power grid and energy retail companies) were among the most significant issues of our audit due to the fact that they require significant judgments of management in relation to material amounts of balances of payments with counterparties disputed in the framework of litigation or in the process of pre-trial settlement. Information on provisions and contingent liabilities is disclosed in clauses 31 and 34 of the notes to the consolidated financial statements.	Audit procedures, among others, included reviewing decisions made by courts at different levels and reviewing management's judgments regarding the assessment of the likelihood of economic outflows as a consequence of the resolution of disputes, examining the compliance of the prepared documentation with the provisions of existing contracts and legislation, and reviewing the disclosures in the notes to the consolidated financial statements of provisions and contingent liabilities.
Impairment of capital assets	
Due to indicators of impairment of capital assets as at 31 December 2021, the Group conducted an impairment test. The value in use of property, plant and equipment representing a significant share of the Group's capital assets as at 31 December 2021 was determined using the method of forecasting cash flow. The issue of testing property, plant and equipment for impairment was one of the most material to our audit, as the balance of property, plant and equipment constitutes a significant part of all assets of the Group at the reporting date, and also because the process of management evaluating the value in use is complex, largely subjective and based on assumptions, in particular, on the forecast of the volumes of electricity transmission, transmission tariffs, as well as operating and capital expenditures, which depend on the expected future market and economic conditions in the Russian Federation. Information on the analysis of capital assets for impairment was disclosed by the Group in clause 14 of the notes to the consolidated financial statements.	As part of our audit procedures, we, among other things, analyzed the Group's assumptions and techniques, in particular those relating to projected electricity transmission revenues, tariff solutions, operating and capital costs, terminal growth rate of tariffs and discount rates. We tested on a sample basis the input data included in the model and tested the arithmetic accuracy of the model used to determine the recoverable amount in the impairment test of property, plant and equipment. We engaged internal evaluation officers to analyze the model used to determine recoverable amount in the impairment test of property, plant and equipment. We also reviewed the sensitivity of the model to changes in key measurement indicators and the disclosures of the Group about the assumptions on which impairment testing results are most dependent.

Other information included in the annual report 2021

Other information includes information contained in the annual report 2021, but does not include the consolidated financial statements and our audit report thereon. Management is responsible for other information. The annual report 2021 is expected to be provided to us after the date of this audit report.

Our opinion on the consolidated financial statements does not apply to other information and we will not provide a conclusion with confidence in any form with respect to this information.

In connection with our audit of the consolidated financial statements, it is our responsibility to familiarize ourselves with the above-mentioned other information when it is provided to us and in this case to consider whether there are material inconsistencies between the other information and the consolidated financial statements or our knowledge obtained during the audit and whether the other information contains any other material misstatement.

The responsibility of the management and Audit Committee of the Board of Directors for the consolidated financial statements.

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS and for the internal control system that management considers necessary for the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

In the preparation of the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, for disclosing information related to going concern, as appropriate, and for reporting on a going concern basis, unless management intends to liquidate the Group, cease activities, or management has no realistic alternative to such activities.

The Audit Committee of the Board of Directors is responsible for supervision over the preparation of the Group's financial statements.

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

Our objectives are to obtain reasonable assurance that the consolidated financial statements are generally free from material misstatement due to fraud or error and to issue an audit opinion containing our opinion. Reasonable assurance represents a high degree of certainty, but is not a guarantee that an audit conducted in accordance with International Auditing Standards will always reveal a material misstatement if any. Misstatements may be the result of fraud or error and are considered material if it can reasonably be assumed that individually or collectively they could have an impact on users' economic decisions made on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and we remain professional skeptics throughout the audit process. Besides, we perform the following:

- identify and assess the risks of material misstatement of the consolidated financial statements due to fraud or errors; design and perform audit procedures in response to these risks; obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk that a fraud-induced material misstatement will not be detected is greater than the risk that an error-based material misstatement will not be detected, as fraud may include collusion, forgery, omission, misrepresentation of information or actions bypassing the system of internal control;
- delve into the internal control system that is relevant to the audit for the purpose of developing audit procedures that are appropriate in the circumstances, rather than for the purpose of expressing an opinion on the effectiveness of the Group's internal control system;
- assess the appropriate nature of the accounting policies used and the reasonableness of the estimates calculated by management and the related disclosures;
- conclude about the lawfulness of the management in applying the going concern assumption and, based on the audit evidence obtained, whether there is any material uncertainty 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, in our auditor's report, attention to the related disclosures in the consolidated financial statements; or, if such disclosure is inappropriate, we shall modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. Future events or conditions may, however, cause the Group to be unable to continue as a going concern;
- evaluate the presentation of the consolidated financial statements in general, and its structure and content in particular, including information disclosure, and we also evaluate whether the consolidated financial statements present underlying transactions and events in such a way that their fair presentation is ensured.

We maintain communication with the Audit Committee of the Board of Directors, bringing to its attention, among other things, information about the planned volume and timing of the audit, as well as substantive audit remark, including significant deficiencies in the internal control system, if we identify them during the audit process.

We also provide the Audit Committee of the Board of Directors with a statement that we have observed all relevant ethical requirements related to independence and have informed these individuals of all relationships and other matters that may reasonably be considered to influence the independence of the auditor and, where appropriate, of actions taken to address threats or precautions.

Of the issues that we have brought to the attention of the Audit Committee of the Board of Directors, we identify issues that were most relevant to the audit of the consolidated financial statements for the current period and which are therefore key audit issues. We describe these issues in our audit report, except cases when public disclosure of these issues is prohibited by law or regulation, or when in extremely rare cases we conclude that, that information on any issue should not be reported in our opinion, since it can reasonably be assumed that the negative consequences of reporting such information will exceed the socially significant benefits of reporting it.

The head of the audit, based on the results of which this independent auditor's report was issued, is A.B. Kalmykova.

A.B. Kalmykova,
acting on behalf of Ernst & Young LLC
based on a power of attorney dated March 1, 2022,
head of audit, based on the results of which an audit report was drawn up (ORNZ 21906101970)

March 15, 2022

Information about the auditor

Name: Ernst & Young LLC
The entry was made in the Unified State Register of Legal Entities on December 5, 2002 and assigned the state registration number 1027739707203.
Location: 115035, Russia, Moscow, Sadovnicheskaya embankment, 77, bld. 1.
Ernst & Young LLC is a certified public accountant of Association Sodruzhestvo (SRO AAS). Ernst & Young LLC is included in the check copy of the register of auditors and audit organizations under the main registration number 12006020327.

Information about the audited entity

Name: Rosseti South Public Joint Stock Company
The entry was made in the Unified State Register of Legal Entities on June 28, 2007 and assigned the state registration number 1076164009096.
Location: 344002, Russia, Rostov-on-Don, st. Bolshaya Sadovaya, 49.

(in thousands of Russian rubles, unless otherwise specified)

	Note	For the year ended December 31	
		2021	**2020**
Revenue	7	43 444 339	41 094 227
Operating expenses	10	(41 076 522)	(40 173 141)
Recovery of provision for expected credit losses		1 744 259	538 630
Net impairment loss on property, plant and equipment and right-of-use assets		(7 691 622)	(2 319 297)
Other income	8	666 313	1 350 340
Other expenses	9	(136 185)	(220 721)
Operating income/(loss)		**(3 049 418)**	**270 038**
Finance income	12	566 076	994 616
Finance expenses	12	(2 060 017)	(2 219 412)
Total finance expenses		**(1 493 941)**	**(1 224 796)**
Loss before taxation		**(4 543 359)**	**(954 758)**
Expense/(income) on profit tax	13	810 307	(261 631)
Loss for period		**(3 733 052)**	**(1 216 389)**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Changes in the fair value of equity investments at fair value through other comprehensive income		224	2 775
Income tax	13	(45)	(555)
Revaluation of defined benefit plans	27	46 002	4 811
Total items that will not be reclassified to profit or loss		**46 181**	**7 031**
Other comprehensive income for the period, net of income tax		**46 181**	**7 031**
Total cumulative expense		**(3 686 871)**	**(1 209 358)**
Loss attributable to:			
Owners of the Company		**(3 733 052)**	**(1 216 389)**
Total cumulative expense attributable to:			
Owners of the Company		**(3 686 871)**	**(1 209 358)**
Loss per share			
Basic and diluted loss per share (rub.)	24	(0,025)	(0,008)

These consolidated financial statements were approved by management on March 15, 2022 and signed on behalf of management by the following persons:

General Director B.B. Ebzeev

Chief Accountant G.G. Savin

(in thousands of Russian rubles, unless otherwise specified)

	Note	December 31, 2021	December 31, 2020
ASSETS			
Capital assets			
Property, plant and equipment	14	23 375 787	28 700 638
Intangible assets	15	197 141	240 602
Right-of-use assets	16	814 250	990 241
Long-term trade and other receivables	20	2 637 905	2 196 778
Other financial fixed assets	17	8 124	7 900
Deferred tax assets		1 473 042	758 218
Advances paid and other capital assets	21	2 491	3 268
Total capital assets		**28 508 740**	**32 897 645**
Current assets			
Inventories		1 202 791	956 498
Prepaid income tax		181 030	208 296
Trade and other receivables	20	6 075 204	7 176 316
Cash and cash equivalents	22	1 286 519	1 056 650
Advances paid and other current assets	21	486 975	492 174
Total current assets		**9 232 519**	**9 889 934**
Total assets		**37 741 259**	**42 787 579**
EQUITY AND LIABILITIES			
Equity			
Equity capital	23	15 164 143	15 164 143
Other provisions		(312 484)	(358 665)
Retained profit (uncovered loss)		(15 697 728)	(11 964 676)
Total equity attributable to the owners of the Company		**(846 069)**	**2 840 802**
Long-term liabilities			
Long-term borrowings	25	15 368 791	14 710 603
Long-term trade and other accounts payable	28	2 283 194	5 763 366
Employee benefit liabilities		287 397	310 566
Long-term advances received	30	167 072	380 984
Total long-term liabilities		**18 106 454**	**21 165 519**
Short-term liabilities			
Short-term borrowings and current portion of long-term borrowings	25	8 954 871	6 634 436
Trade and other accounts payable	28	7 891 797	7 655 685
Taxes payable other than income tax	29	801 882	766 140
Advances received	30	1 256 954	2 084 661
Provisions	31	1 573 887	1 640 336
Current income tax debt		1 483	–
Total short-term liabilities		**20 480 874**	**18 781 258**
Total liabilities		**38 587 328**	**39 946 777**
Total equity and liabilities		**37 741 259**	**42 787 579**

(in thousands of Russian rubles, unless otherwise specified)

	Equity attributable to the owners of the Company				
	Equity capital	**Provision for issue of shares**	**Other provisions**	**Retained profit (uncovered loss)**	**Total equity**
Balance as of January 1, 2021	**15 164 143**	**–**	**(358 665)**	**(11 964 676)**	**2 840 802**
Profit for period	–	–	–	(3 733 052)	**(3 733 052)**
Net change in fair value of available-for-sale financial assets	–	–	224	–	**224**
Revaluation of defined benefit plans	–	–	46 002	–	**46 002**
Income tax on other comprehensive income	–	–	(45)	–	**(45)**
Total comprehensive income for the period	**–**	**–**	**46 181**	**(3 733 052)**	**(3 686 871)**
Balance as of December 31, 2021	**15 164 143**	**–**	**(312 484)**	**(15 697 728)**	**(846 069)**
Balance as of January 1, 2020	**8 203 960**	**6 960 000**	**(365 696)**	**(10 748 287)**	**4 049 977**
Loss for period	–	–	–	(1 216 389)	**(1 216 389)**
Net change in fair value of available-for-sale financial assets	–	–	2 775	–	**2 775**
Revaluation of defined benefit plans	–	–	4 811	–	**4 811**
Income tax on other comprehensive income	–	–	(555)	–	**(555)**
Total comprehensive income/(loss) for the period	**–**	**–**	**7 031**	**(1 216 389)**	**(1 209 358)**
Transactions with owners reflected directly in equity					
Provision for issue of shares	–	(6 960 000)	–	–	**(6 960 000)**
Equity increase	6 960 183	–	–	–	**6 960 183**
Total transactions with owners reflected directly in equity	**6 960 183**	**(6 960 000)**	**–**	**–**	**183**
Balance as of December 31, 2020	**15 164 143**	**–**	**(358 665)**	**(11 964 676)**	**2 840 802**

(in thousands of Russian rubles, unless otherwise specified)

	Note	For the year ended December 31 2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for period		**(3 733 052)**	**(1 216 389)**
Adjustments			
Amortization of property, plant and equipment, right-of-use assets and intangible assets	14	2 823 434	2 477 380
Accrual/(recovery) of provision for expected credit losses		(1 744 259)	(538 630)
Finance expenses	12	2 060 017	2 219 412
Finance income	12	(566 076)	(994 616)
Net impairment loss on property, plant and equipment and right-of-use assets		7 691 622	2 319 297
Gain on disposal of property, plant and equipment	9	93 940	220 721
Disposal of a subsidiary		42 245	-
Other non-cash transactions		69 469	(7 428)
Income tax expense	13	(810 307)	261 631
Total effects of adjustments		**5 927 033**	**4 741 378**
Change in employee benefit liabilities		(23 169)	19 065
Change in long-term trade and other receivables		478 465	(1 206 642)
Change in long-term advances issued and other capital assets		777	(2 316)
Change in long-term trade and other accounts payable		(3 480 172)	5 085 776
Change in long-term advances received		(213 912)	296 171
Cash flows from operating activities before changes in working capital and estimated liabilities		**2 689 022**	**8 933 432**
Changes in operating assets and liabilities			
Change in trade and other receivables		2 260 457	1 969 270
Change in advances issued and other assets		5 123	(91 479)
Inventory change		(291 771)	(40 957)
Change in trade and other accounts payable		731 221	(4 189 041)
Use of estimated liabilities		(66 449)	(59 695)
Change in advances received		(827 077)	699 888
Cash flows from operating activities before income tax and interest		**4 500 526**	**7 221 418**
Income tax paid		122 700	11 306
Interest paid on leasing contracts	26	(71 251)	(64 389)
Interest paid	26	(1 871 116)	(1 780 536)
Net cash received/(used) from/(in) operating activities		**2 680 859**	**5 387 799**
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(5 682 368)	(6 867 858)
Proceeds from the sale of property, plant and equipment and intangible assets		4 358	2 117
Cash from disposal of subsidiaries		47 948	–
Dividends received		158	175
Interest received		65 893	70 969
Net cash used in investment activities		**(5 564 011)**	**(6 794 597)**

The accompanying notes form an integral part of these consolidated financial statements.

(in thousands of Russian rubles, unless otherwise specified)

		For the year ended December 31	
	Note	**2021**	**2020**
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowing funds	26	14 270 109	14 628 898
Repayment of borrowed funds	26	(11 111 171)	(12 713 877)
Proceeds from issue of shares		–	183
Dividends paid to the owners of the Company	26	(35)	(157)
Payments under lease obligations	26	(45 882)	(23 447)
Net cash received in financing activities		**3 113 021**	**1 891 600**
Net increase in cash and cash equivalents		**229 869**	**484 802**
Cash and cash equivalents at the beginning of the reporting period	22	1 056 650	571 848
Cash and cash equivalents at the end of the reporting period	22	**1 286 519**	**1 056 650**

1. General

The Group and its activities

The main activities of Rosseti South PJSC (hereinafter referred to as the "Company" or Rosseti South PJSC) and its subsidiaries (hereinafter collectively referred to as the "Group" or the "Rosseti South Group of Companies") are the provision of services for the transmission and distribution of electricity through electrical networks, the provision of services for the utility connection of consumers to networks, as well as the sale of electricity to end consumers in several regions of the Russian Federation.

Since January 1, 2017, the Company was assigned the status of a guaranteed supply company in the Republic of Kalmykia in relation to the area of activity of the previous guaranteed supply company Southern Interregional Energy Company JSC. By Order of the Ministry of Energy of the Russian Federation No. 1427 of December 25, 2019 *"On assigning the status of a guaranteed supply company to a local grid company"*, the status of the Company as a guaranteed supply company in relation to the above-mentioned area of activity was extended from January 1, 2020. By order of the Ministry of Energy of the Russian Federation No. 1034 of November 25, 2020 *"On assigning the status of a guaranteed supply company to a local grid company"*, the status of the Company as a guaranteed supply company in relation to the above-mentioned area of activity was extended from January 1, 2021.

Since August 1, 2021, on the basis of the Order of the Ministry of Energy of the Russian Federation dated June 29, 2021 No. 509 *"On assigning the status of a guaranteed supply company to a local grid company"*, the Company was assigned the status of a guaranteed supply company in the Republic of Kalmykia in relation to the territory within the borders of the Republic of Kalmykia, with the exception of the zone - City of Elista.

Revenue and operating expenses from these activities are disclosed in Notes 7 and 10.

The parent company is PJSC Rosseti.

Location of Rosseti South PJSC: 49 Bolshaya Sadovaya str., Rostov-on-Don, 344002, Russia.

Information on the Group's structure is provided in Note 5 "Material Subsidiaries".

Information on the Group's relationship with other related parties is provided in Note 35 "Transactions with Related Parties".

Relations with the state

The Government of the Russian Federation represented by the Federal Agency for the Administration of State Property is the ultimate controlling party of the Company. The policy of the Government of the Russian Federation in the economic, social and other spheres may have a significant impact on the Group's operations.

As of December 31, 2021, the share of the Russian Federation in the authorized capital of the parent company of PJSC Rosseti amounted to 88.04%, including 88.89% in ordinary voting shares, 7.01% in preferred shares (as of December 31, 2020 - 88.04%, including 88.89% in ordinary voting shares, and 7.01% in preferred shares). PJSC Rosseti, in turn, as of December 31, 2021 owns 84.12% of the Company's shares (as of December 31, 2020 - 84.12%, exclusive of ordinary shares placed on that date).

The state has influence on the Group's activities through representation on the Board of Directors of the parent company of PJSC Rosseti, 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 associated with the main shareholder of the parent company.

Business environment in which the Group operates

The economy of the Russian Federation manifests some characteristics typical of emerging markets. The country's economy is especially sensitive to oil and gas prices. The legal, tax and regulatory systems continue to develop and are subject to frequent changes, as well as admit the possibility of different interpretations. Ongoing political tensions in the region, as well as international sanctions against some Russian companies and citizens, continue to have a negative impact on the Russian economy.

In March 2020, the World Health Organization declared the COVID-19 epidemic a global pandemic. In the context of the pandemic, the Russian authorities have taken a number of measures aimed at containment and mitigation of consequences of COVID-19, such as bans and restrictions on travel, self-isolation and restrictions on commercial activities, including closing enterprises. Some of the above measures were subsequently mitigated, but as of December 31, 2021, the spread of infection remained high, the proportion of vaccinated was relatively low and there was a risk that Russian government authorities would impose additional restrictions in subsequent periods, including due to the emergence of new virus strains.

These measures, in particular, significantly limited economic activity in Russia and have already had and may still have a negative impact on business, market participants, customers of the Group, as well as on the Russian and global economies for an indefinite period of time. The level of economic activity remains reduced, the economy revitalization is closely related to the continuing restrictive measures.

The geopolitical situation is extremely unstable. In February 2022, the effect of additional restrictions and sanctions against Russian companies and the economy of the Russian Federation as a whole became aggravated. In the present situation, the possible consequences of these events cannot be determined with a sufficient degree of reliability. It is impossible to determine how long the increased volatility will continue and at what level the performance of financial and foreign exchange markets will ultimately stabilize. Sanctions have been imposed on a number of Russian banks in the United States, Great Britain and the EU.

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

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

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

2. Principles of the consolidated financial statements

Declaration of compliance with IFRS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Each entity of the Group maintains individual records and prepares official financial statements in accordance with Russian Accounting Standards (RAS). These consolidated financial statements have been prepared on the basis of RAS accounting data, adjusted and reclassified for the purposes of faithful representation in accordance with IFRS.

Going concern

The Group's consolidated financial statements for 2021 are prepared on a going-concern basis, which implies that the Group is able to realise its assets and fulfil obligations in the normal course of business in the foreseeable future.

As of December 31, 2021, due to the reclassification of loans and borrowings from long-term to short-term loans in the amount of 8,870,000 thous.rub., the current liquidity gap was developed. The excess of the Group's short-term liabilities as at 31 December 2021 over short-term assets is 11,248,355 thous.rub. (as at 31 December 2020 - RUB 8,891,324 thous.rub.).

In accordance with the terms of tranches for the Company's debt portfolio, it is planned to refinance loans and borrowings in 2022 in order to reclassify them and minimize the liquidity gap. As of December 31, 2021, the amount of the free limit on the Group's open but unused credit lines amounted to 35,360,499 thous.rub. (20,777,455 thous.rub. as of December 31, 2020). The Group has a chance to raise additional funding within the relevant limits, including to ensure the fulfillment of its short-term obligations. Management forecasts that net cash flow from the Group's operations in 2022, including open long-term credit lines, will be sufficient to cover liabilities payable in 2022.

The loss for 2021 amounted to 3,733,052 thous.rub. (for 2020 - 1,216,389 thous.rub.). For the purposes of improvement of the financial and economic performance of the Group, the management has prepared a plan to stabilize the financial and economic state of the Group and bring the value of net assets in line with the amount of the equity capital.

As at 31 December 2021, the Group has negative net assets in the amount of 846,069 thous.rub. (as at 31 December 2020: positive net assets in the amount of 2,840,802 thous.rub.).

The Group plans implementation of measures aimed at reduction of expenses of purchased electricity to compensate for losses at the Kalmenergo branch, disputing in a court of law the tariff and balance sheet decisions on the transfer of electric energy adopted for 2021 by the Volgogradenergo and Astrakhanenergo branches, sequestration of the investment program in the period 2022-2026 and other measures that will lead to an improvement in the financial position and results of the Group.

Cost determining basis

These consolidated financial statements are prepared based on historical values, except for financial assets measured at fair value through other comprehensive income.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Ruble ("ruble" or "rub."), which is used by the Group as the functional currency and presentation currency of these consolidated financial statements. All numerical indicators in Russian rubles were rounded to the nearest thousand.

New standards, clarifications and amendments to effective standards

New amendments, entering into force for annual accounting periods beginning January 1, 2022, are set out below. These amendments are not expected to materially affect the Group's consolidated financial statements:

- Amendments to IFRS 3 *References to Conceptual Frameworks.*
- Amendments to IAS 16 *Property, Plant and Equipment: Proceeds Before Intended Use.*
- Amendments to IAS 37 *Onerous Contracts - Contract Performance Costs.*
- Amendment to IFRS 1 *First Time Application of International Financial Reporting Standards* − a subsidiary that applies International Financial Reporting Standards for the first time.
- Amendment to IFRS 9 *Financial Instruments* − commissions when conducting a "10% test" in case of derecognition of financial liabilities.
- Amendment to IAS 41 *Agriculture* − taxation in the fair value measurement.

The new standards, amendments and clarifications that were issued but have not yet entered into force at the date of the Group's consolidated financial statements are provided below. The Group intends to adopt applicable standards and clarifications for use after effective date, no material impact is expected on the Group's consolidated financial statements.

- IFRS 17 *Insurance Contracts.*
- Amendments to IAS 8 *Accounting Policies, Changes in Accounting Valuations and Errors.*
- Amendments to IAS 12 *Income Taxes* − deferred tax on assets and liabilities arising from a single transaction.
- Amendments to IFRS 1 *Presentation of Financial Statements* (Accounting Policy) and Code of Practice 2 *Judgements of Materiality.*
- Amendments to IAS 1 *Classification of Liabilities as Short-Term or Long-Term.*

Changes in Presentation. Reclassification of comparative data

Certain amounts in the comparatives for the previous period were reclassified in order to ensure their comparability with the procedure for reporting data in the current reporting period. All reclassifications carried out are immaterial.

Use of accounting estimates and professional judgments

The preparation of the consolidated financial statements in accordance with IFRS requires management to use professional judgments, assumptions and estimates that affect how accounting policies are applied and in what amounts assets, liabilities, income and expenses are reflected. Actual results may differ from these estimates.

Management continually reviews estimates and assumptions based on experience and other factors that have formed the basis for measuring the book value of assets and liabilities. Changes in estimates and assumptions are recognized in the period in which they were adopted, if the change affects only that period, or are recognized in the period to which the change relates and in subsequent periods if the change affects both that period and future periods.

Judgments that have the most significant impact on the performance reported in the consolidated financial statements, estimates and assumptions that may result in the need for a material adjustment to the carrying amount of assets and liabilities over the next year include:

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

At each reporting date, the Group's management determines whether there is indication of impairment of property, plant and equipment and right-of-use assets. Impairment indicators include changes in business plans, tariffs, and other factors leading to adverse effects on the Group's operations. In calculating value in use, management estimates the expected cash flows from an asset or group of cash-generating assets and calculates an appropriate discount rate to calculate the present value of those cash flows. Detailed information is provided in Notes 14 "Property, Plant and Equipment" and 16 "Right-of-use Assets".

Determination of the lease term under agreements with an extension option or a lease termination option - the Group as a lessee

The Group defines the term of the lease as not subject to early termination of the lease term together with periods in respect of which there is an option to extend the lease if there is adequate assurance that it will be exercised or periods in respect of which there is an option to terminate the lease if there is adequate assurance that it will not be exercised.

When making a judgment to assess whether the Group has adequate confidence in the exercise of an extension option or a termination option when determining the lease term, the Group considers the following factors:

- whether the leased object is a specialized object;
- location of the object;
- whether the Group and the lessor have the practical option to select an alternative counterparty (selection of an alternative asset);
- costs associated with the termination of the lease and the conclusion of a new (replacement) contract;
- presence of major improvements of leased objects.

Impairment of receivables

A provision for expected credit losses on receivables is created based on management's assessment of the probability of recovery of specific debts of specific debtors. For the purpose of assessing credit losses, the Group consistently takes into account all reasonable and verifiable information about past events, current and forecasted events, which is available without excessive forces and is appropriate for assessing receivables. Past experience is adjusted based on current data to reflect current conditions that have no impact on prior periods and to exclude the impact of past conditions that no longer exist.

Pension liabilities

The costs associated with the defined benefit pension program and the corresponding pension program expenses are determined using actuarial calculations. Actuarial valuations envisage use of assumptions regarding demographic and financial data. Since this program is a long-range one, there are material uncertainties about such valuations.

Recognition of deferred tax assets

Management estimates deferred tax assets at each reporting date and determines the amount to be reflected to the extent that tax deductions are likely to be used. In determining future taxable profits and sum of tax deductions, management uses estimates and judgments based on previous years taxable profits and expectations for future profits that are reasonable under present circumstances.

3. Significant accounting policies

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

Amendments to standards in force effective for annual periods beginning on January 1, 2021 did not have a material impact on the Group's consolidated financial statements.

Consolidation principles

Subsidiaries

Subsidiaries are companies controlled by the Group. The Group controls a subsidiary when the Group is exposed to risk relating to variable income from investment project or entitled to receive such income and has the ability to exercise its authority over that subsidiary to influence that income. The financial statements of subsidiaries are recorded in the consolidated financial statements from the date of receipt of control to the date of termination.

The accounting policies of the subsidiaries underwent changes where they need to be aligned with the accounting policies adopted by the Group.

Business combination transactions

Business combination transactions are accounted for using the acquisition method as at the date of acquisition, namely as at the date of transfer of control to the Group.

The Group valuates goodwill at the date of acquisition in the following manner:

- fair value of the consideration transferred; plus
- the amount of recognized non-controlling interest in the acquired entity; plus
- fair value of the existing share in the capital of the acquired entity if the business combination transaction was carried out in stages; minus
- the net amount of recognised amounts (as a rule fair value) of identifiable acquired assets less liabilities assumed.

If this difference is expressed as a negative value, then profit from a bargain purchase is recognized immediately in profit or loss for the period.

The consideration transferred does not include amounts related to the settlement of existing relations. Such amounts are generally recognised in profit or loss for the period.

The transaction costs incurred by the Group as a result of the business combination transaction, other than the costs involved in the issue of debt or equity instruments, are charged to expenses as they arise.

Any contingent consideration is recognised at fair value at the date of acquisition. If the contingent consideration is classified as part of the equity, then its value is not subsequently remeasured, and its payment is reflected in the equity. Otherwise, changes in the fair value of the contingent consideration are recognised in profit or loss for the period.

Transactions excluded during consolidation

Intercompany balances and transactions, as well as unrealized income and expenses from intercompany operations, are eliminated in the preparation of the consolidated financial statements. Unrealized income on operations with equity-accounted investees are eliminated by reducing the value of the investment within the Group's interest in the investee. Unrealized losses are eliminated in the same order as unrealized income, but only to the extent that they are not evidence of impairment.

Financial instruments

Financial assets

The Group classifies financial assets into the following measurement categories: subsequently measured at amortised cost, measured at fair value through other comprehensive income and measured at fair value through profit or loss. The classification depends on the business model for managing financial assets and contract-stipulated cash flow characteristics.

Financial assets are classified as measured at amortised cost if the following conditions are fulfilled: the asset is kept within a business model, the purpose of which is to retain assets to receive contractual cash flows, and the terms of the contract determine the receipt on the specified dates of cash flows that are only payments to the principal and interest on the outstanding portion of the principal.

The Group includes the following financial assets in the category of financial assets measured at amortised cost:

- trade and other receivables that satisfy the definition of financial assets in the event that the Group has no intention to sell it immediately or in the near future;
- bank deposits that do not satisfy the definition of cash equivalents;
- promissory notes and bonds not intended for trading;
- loans issued;
- cash and cash equivalents.

For financial assets classified as measured at amortised cost, a provision is created for expected credit losses (hereinafter referred to as "ECL").

When the Group derecognises financial assets at amortised cost and fair value through profit or loss, the Group reflects in the statement of profit or loss and other comprehensive income (through profit or loss) the financial result of their disposal equal to the difference between the fair value of the consideration received and the book value of an asset.

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

- not classified as at fair value through profit or loss; and
- do not provide the Group with control, joint control or material influence over the investee company.

When equity instruments of other companies classified at the Group's discretion as measured at fair value through other comprehensive income are derecognised, previously recognised components of other comprehensive income are transferred from the fair value reserve to retained earnings.

Impairment of financial assets

Impairment provisions are assessed either on the basis of 12-month ECL that are the result of possible default within 12 months of the reporting date or lifetime ECL that are the result of all possible default events within the expected life of the financial instrument.

For trade receivables or contract assets arising from transactions relating to the scope of IFRS 15 *Revenue from Contracts with Buyers* (including those containing a significant financing component) and lease receivables, the Group applies a simplified approach to estimating the provision for expected credit losses - an estimate of the amount equal to the expected credit losses over the period.

Provisions for impairment of other financial assets classified as measured at amortised cost are measured based on 12-month ECL unless there has been a significant increase in credit risk since recognition. The credit loss provision for expected credit losses on a financial instrument is measured at each reporting date at an amount equal to the expected credit losses for the entire period if the credit risk on that financial instrument has increased significantly since initial recognition, taking in consideration all reasonable and verifiable information, including forecasting information.

As indicators of a significant increase in credit risk, the Group considers the actual or expected difficulties of the issuer or debtor on the asset, the actual or expected violation of the terms of the contract, the expected revision of the terms of the contract because of financial difficulties of the debtor on conditions unfavorable for the Group and would not have agreed to under other circumstances.

Based on common credit risk management practices, the Group defines default as the failure of the counterparty (issuer) to fulfil its obligations (including repayment of money under the contract) due to a material deterioration in its financial position.

An impairment credit loss on a financial asset is carried out by recognition of the valuation provisions for impairment. For a financial asset carried at amortised cost, the amount of the impairment loss is calculated as the difference between the book value of the asset and the present value of the 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 loss was recognized, the previously recognised impairment loss is reversed by reducing the corresponding valuation provision. As a result of the reversal, the book value of the asset should not exceed its value at which it would have been reflected in the statement of financial position had the impairment loss not been recognised.

Financial obligations

The Group classifies financial obligations into the following measurement categories: financial obligations at fair value through profit or loss; financial obligations measured at amortised cost.

The Group includes the following financial obligations in the category of financial liabilities measured at amortised cost:

- loans and borrowings (borrowed funds);
- trade and other payables.

Loans and borrowings (borrowed funds) are initially recognised at fair value including transaction costs directly attributable to the attraction of these funds. Fair value is determined taking into account the prevailing market interest rates on similar instruments in case of its material difference from the transaction price. In subsequent periods, borrowings are carried at amortised cost using the effective interest method; any difference between the fair value of the funds received (net of transaction costs) and the amount payable is recognised in profit or loss as interest cost for the duration of the borrowing repayment obligations.

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

- bears costs on qualifying assets;
- bears costs on borrowings; and
- conducts activities related to the preparation of assets for use or sale.

Capitalization of borrowing costs continues until the date of readiness of assets for their use or sale. The Group capitalizes borrowing costs that could have been avoided had it not borne the costs of qualifying assets. Borrowing costs are capitalized on the basis of the average cost of financing of the Group (weighted average interest expense related to costs incurred on qualifying assets), except for loans that were directly received for the purpose of acquiring a qualifying asset. Actual borrowing costs, reduced by the amount of investment income from temporary investment of loans, are capitalized.

Accounts payable are accrued from the moment the counterparty fulfills its obligations under the contract. Accounts payable are recognised at fair value and are then carried at amortised cost through the effective interest method.

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are recorded at cost with the deduction of accumulated depreciation and impairment losses. The cost of property, plant and equipment as at 1 January 2007 (date of transition to IFRS) was determined based on its fair value (deemed cost) at that date.

Cost includes all expenses directly attributable to the acquisition of the related asset. The cost of self-constructed (built) assets includes material costs, direct labor costs, all other costs directly related to bringing the assets into operating conditions for their intended use, the costs of dismantling and moving the assets and restoring the site occupied by them, and capitalized interest on loans. The cost of purchasing software that is inextricably bound up with the functionality of the equipment concerned is capitalized in the cost of the equipment.

If an item of property, plant and equipment is made up of material separate components that have different useful lives, each of them is recognized as a separate item (material component) of property, plant and equipment.

Any profit or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds of its disposal with its book value and is recognised net as part of profit or loss for the period under "Other income", "Other costs".

Subsequent costs

Costs associated with the replacement of a part (a significant component) of an item of property, plant and equipment increase the book value of that item if the probability that the Group will receive future economic benefits associated with that part is high and its value can be reliably determined. The book value of the replaced part is written off. The costs associated with maintenance and repair of property, plant and equipment are recognized in the statement of profit or loss and other comprehensive income at the time of their occurrence.

Depreciation

Each component of an item of property, plant and equipment is depreciated from the moment of readiness for use on a straight-line method over its expected useful life, since this method most accurately reflects the nature of the expected consumption of the future economic benefits of the asset. Leased assets are depreciated over the lease term. Land plots are not depreciated.

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

- buildings and structures 7-105 years;
- transmission networks 5-59 years old;
- equipment for power transmission 2-57 years;
- other assets 3-100 years.

Impairment

At each reporting date, management determines the presence of indications of impairment of property, plant and equipment.

An impairment loss is recognised if the book value of an asset or its cash-generating unit exceeds its estimated (recoverable) value. The recoverable amount of an asset or cash-generating unit is the greater of the value in use of that asset (that unit) and its fair value minus costs to sell.

For the purposes of impairment testing, assets that cannot be tested individually are grouped into the smallest group in which cash inflows are generated as a result of the continuing use of the related assets, and these inflows are largely independent of cash inflows generated by other assets or groups of assets ("cash-generating unit").

The Group's total (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 apportioned among the units on a reasonable and consistent basis and tested for impairment as part of a test of the unit to which the corporate asset was allocated.

Impairment losses are recognised as part of profit and loss. Impairment losses on cash-generating units are first attributable to a decrease in the book value of goodwill apportioned among those units and then proportionally to a decrease in the book value of other assets within the relevant unit (group of units).

Amounts written off as goodwill impairment loss are not reversed. For other assets at each reporting date, an analysis is made of the impairment loss recognised in one of the prior periods to determine whether there is any indication that the loss should be reduced or no longer recognized.

Amounts written off as impairment losses are reversed if the valuation factors used to calculate the corresponding recoverable amount change. An impairment loss is reversed only to the extent that it is possible to recover the value of assets to their book value, in which they would have been recognised (less accumulated depreciation) if no impairment loss had been recognised.

Intangible assets

Intangible assets include for the most part capitalized computer software and licenses. Acquired software and licenses are capitalized on the basis of expenses incurred to acquire and bring them into operative condition.

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

After initial recognition, intangible assets are recognised at historical cost less accumulated depreciation and accumulated impairment losses. Depreciation of intangible assets is allocated on a straight-line basis over the useful life. At each reporting date, management assesses whether there are indications of impairment of intangible assets. In the event of impairment, the carrying amount of intangible assets is written down to the largest of asset's value in use and the asset's fair value less costs to sell.

Lease

At the time of concluding 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 contract if the right to control the use of an identified asset for a certain period in exchange for a payment is transferred under this contract.

Right-of-use assets are initially measured at cost and depreciated before the end of the lease period. The original cost of the right-of-use asset includes the amount of the initial measurement of the leasing obligation, lease payments made before or at the start of the lease, and initial direct costs. Upon recognition, right-of-use assets are recorded at historical cost less accumulated depreciation and accumulated impairment losses. Right-of-use assets are presented as a separate item in the statement of financial position.

The leasing obligation is initially measured at the present value of lease payments that have not yet been made at the start date of the lease and are subsequently measured at depreciable amount with the recognition of expenses as interest in the financial expenses of the consolidated profit and loss statement. Leasing obligations are presented in the consolidated statement of financial position as long-term and short-term borrowings.

The Group recognises lease payments for short-term leases as a straight-line expense over the lease term.

In respect of a particular lease contract, the Group may decide to qualify the contract as a lease in which the basic asset has a low value and recognize the lease payments under that contract as a straight-line expense over the lease term.

Advances paid

Advances paid are classified as capital assets if the advance is related to the acquisition of an asset that will be classified as capital at its initial recognition. Advances to the acquisition of an asset are included in its carrying amount when the Group gains control over the asset and there is a high probability that the Group will benefit from its use.

Inventories

Inventories are presented at the lower of the cost of sales or net realisable value. The cost price is determined using the weighted average cost method and includes the cost of acquisition of inventory, production or processing costs and other costs of delivering inventory to its present location and bringing it to an appropriate condition.

The net realisable value is the estimated selling price of an item of inventory in the ordinary course of the Group's business less the estimated costs of completing the work on the item and selling it.

Inventories intended to support emergency response actions (emergency situations) at power grid facilities (industry emergency reserve) are reflected in the item "Inventories".

Value added tax

Value added tax arising upon realization of products is subject to transfer to the state budget at the earlier of the following two dates: (a) the moment of receipt of payment from buyers or (b) the moment of delivery of goods or services to the buyer. Incoming VAT is refundable by set-off against the amount of output VAT on receipt of the invoice. Advances of issued and other assets include (on a net basis) VAT amounts accrued on advances received and advances issued, as well as VAT to be refunded and VAT prepaid. The amounts of VAT payable to the budget are disclosed separately as part of short-term liabilities. When creating a provision for expected credit losses on receivables, the entire amount of doubtful debt, including VAT, is reserved.

Employee benefits

Defined benefit plans

A defined benefit plan is a program of payment of remuneration for employees at the end of labor-management relations with them that is different from a defined contribution plan. The liability recognised in the consolidated statement of financial position in respect of defined benefit pension schemes represents the discounted amount of liabilities at the reporting date.

The discount rate represents the end-of-year rate of return on government bonds that have a period to maturity of approximately the same as that of the Group's relevant obligations and are denominated in the same currency as the payments expected to be paid. These calculations are made annually by a qualified actuary using the projected unit credit method of accumulation of future payments. Revaluations of net obligations of defined benefit plan, including actuarial gains and losses, and the effect of applying the asset limit (excluding interest if any) are recognised immediately in other comprehensive income. The Group determines the net interest cost of the net plan obligation for the period by applying the discount rate used to estimate the obligations of defined benefit plan at the beginning of the annual period to the net plan obligation at that date, taking into account any changes in the net plan obligation for the period as a result of contributions and payments. Net interest and other expenses related to defined benefit plans are recognised in profit or loss. Actuarial Total (corporate) assets of the Group and gains or losses resulting from changes in actuarial assumptions are recognised in other comprehensive income/expense.

In the event of a change in payments within the plan or its sequestration, the resulting change in payments relating to past services or the profit or loss from the sequestration is recognised immediately in profit or loss. The Group recognises profit or loss on settlement of plan obligations when this settlement occurs.

Other long-term employee benefits

The Group's net liability in respect of long-term employee benefits other than defined benefit payments represents the amount of future benefits that employees have earned in the current and past periods. These future benefits are discounted to determine their present value. The discount rate is the market yield at the reporting date on government bonds that have a period to maturity of approximately equal to the period to maturity of the Group's respective obligations and are denominated in the same currency in which these benefits are expected to be paid. Liabilities are estimated using the projected unit credit method. Revaluations are recognised in profit or loss for the period in which they arise.

Short-term benefits

In determining the amount of liability in respect of short-term employee benefits, discounting does not apply and the corresponding expenses are recognized as employees perform their duties.

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

Income tax

Income tax expense includes income tax of the current period and deferred tax. Current and deferred income tax is recognised as part of profit or loss for the period, with the exclusion of the portion of it that relates to business combinations, transactions recognised in other comprehensive income or directly in equity.

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

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

- temporary differences arising from the initial recognition of assets and liabilities as a result of a transaction that is not a business combination transaction and does not affect either accounting or taxable profit or tax loss;
- temporary differences relating to investments in subsidiaries and associates to the degree that the Group is able to control the timing of the reversal of those temporary differences and it is probable that those temporary

differences will not be reversed in the foreseeable future; and

- taxable temporary differences arising from the initial recognition of goodwill.

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

Deferred tax is determined on the basis of tax rates that will apply in the future, at the time of reversal of temporary differences, based on the current or substantively enacted legislation at the reporting date.

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

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

Deferred tax assets are recognised in respect of unused tax losses, tax credits and deductible temporary differences only to the extent that there is a high probability of taxable profit against which the associated deductible temporary differences can be realized. Deferred tax assets are analysed at each reporting date and reduced to the extent that the realisation of the related tax benefits is no longer probable.

Provisions

A provision is recognised if a past event results in a legal or constructive obligation that can be reliably estimated and there is a high probability that an outflow of economic benefits will be required to settle the obligation. The value of the provision is determined by discounting the expected cash flows at the pre-tax rate, which reflects current market estimates of the impact of changes in the value of money over time and the risks inherent in the liability. Amounts reflecting "discount amortization" are recognized as finance expenses.

Equity capital

Common stocks and irredeemable stocks are classified as equity.

Treasury stock

In the event that any company of the Group acquires shares of the Company (treasury stock), the amount paid, including any additional costs directly attributable to the acquisition (net of income tax), is deducted from the capital attributable to the Company's shareholders until the shares are cancelled, re-issued or sold. Where such shares are subsequently re-issued or sold, the amounts received less directly attributable transaction costs and related tax charges are included in the equity attributable to the Company's shareholders. Treasury stocks are accounted for at weighted average value. Profit and loss arising from the subsequent sale of shares are recognised in the consolidated statement of changes in equity, net of related expenses, including taxes.

Dividends

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

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is fulfilled by transferring the promised goods or services (i.e. assets) to the customer. The asset is transferred when (or as) the customer gains control of such asset.

When (or as) the obligation is fulfilled, the Group recognises the proceeds in the amount that the Group expects to receive in exchange for the transfer of the promised assets to the customer, excluding VAT.

Electric power transmission

Revenue from transmission of electricity is recognized during the period (estimated month) and is measured using the results method (cost of transferred volumes of electricity).

Electricity transmission service tariffs are approved by the executive authorities of the constituent entities of the Russian Federation in the field of state regulation of tariffs.

Sale of electricity and capacity

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

The sale of electricity in retail electricity and capacity markets to consumers is carried out at regulated prices (tariffs) established by the executive government body of the constituent entity of the Russian Federation in the field of state regulation of tariffs.

Services for utility connection to power networks

Revenue from the provision of services for utility connection to power networks represents a non-refundable charge for connecting consumers to power networks. The Group transfers control of the service at a point in time (on the fact that the consumer is connected to the power network or, for certain categories of consumers − while ensuring that the Group is able to connect to the power network through the activities of the consumer) and, therefore, fulfills the performance obligation at a point in time.

Charge for utility connection under an individual project, standardized tariff rates, rates for a unit of maximum capacity and formulas for payment for utility connection are approved by the Regional Energy Commission (the department of prices and tariffs of the corresponding region) and do not depend on the proceeds from the provision of electricity transmission services. The charge for utility connection to the unified national (all-Russian) electric network is approved by the Federal Antimonopoly Service.

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

Other revenue

Revenue from the provision of other services (technical and maintenance services, consulting, organizational and technical services, communication and information technology services, other services), as well as revenue from other sales are recognized at the time the consumer gains control over the asset.

Trade receivables

Receivables represent the Group's right to compensation, which is unconditional (i.e., the moment when such compensation becomes payable is due only to the passage of time). The accounting policy for trade and other receivables is provided in the section "Financial Assets".

Contract liabilities

A contract liability is an obligation to transfer to a consumer goods or services for which the Group has received a compensation (or a compensation payable) from the consumer. If the consumer pays a compensation before the Group transfers the goods or services to the consumer, the contract liability is recognised, at the time the payment is made or at the time when the payment becomes payable (whichever happens earlier). Contract liabilities are recognised as revenue when the Group fulfills its contractual obligations. The Group carries out liabilities under contracts with consumers in the item "Advances received" including value added tax (VAT).

Advances received mainly represent deferred income under utility connection agreements.

Advances received are reviewed by the Group for the financial component. If there is a period of more than 1 year between the receipt of advances and the transfer of promised goods and services for reasons other than the provision of financing to the counterparty (under contracts for utility connection to electricity networks), interest expense is not recognized for advances received. Such advances are recognised at fair value of assets received by the Group from consumers and customers as prepayments.

Financial income and expenses

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

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

State subsidies

State subsidies are recognized if there is reasonable assurance that they will be received and all associated conditions will be met. If a subsidy is issued for the purpose of financing certain expenses, it is recognized as income on a systematic basis in the same periods in which the corresponding costs, which it must compensate, are expensed as incurred. If the subsidy is issued for the purpose of financing an asset, it is recognised as income, net of related expenses, in equal shares over the expected useful life of the related asset.

State subsidies compensating the Group for electricity tariffs (shortfall in revenue) are recognized in the consolidated statement of profit or loss and other comprehensive income (as part of other income) during the same periods in which the related revenues were recognized.

Social payments

When the Group's contributions to social programmes are for the benefit of the Company as a whole and are not limited to payments to the Group's employees, they are recognised in profit or loss as they are incurred. The Group's expenses associated with the financing of social programs, without incurring obligations regarding such financing in the future, are recorded in the consolidated statement of profit or loss and other comprehensive income as incurred.

Earning per share

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

4. Fair value measurement

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

In measuring the fair value of an asset or liability, the Group applies, as far as possible, the observable market. Fair value measurements relate to different levels of the fair value hierarchy, depending on the inputs used in the relevant valuation methods:

- Level 1: quoted (unadjusted) prices for identical assets and liabilities in active markets.
- Level 2: inputs other than quoted prices used for Level 1 measurements that are observable either directly (i.e., such as prices) or indirectly (i.e., price-based).
- Level 3: inputs for assets and liabilities that are not based on observable market (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability can be assigned to different levels of the fair value hierarchy, the fair value measurement as a whole refers to the level of the hierarchy to which the lowest-level inputs are relevant to the overall measurement.

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

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

(in thousands of Russian rubles, unless otherwise specified)

5. Material subsidiaries

The consolidated financial statements of the Group as at 31 December 2021 and 31 December 2020 comprise the Company and its subsidiaries owned (founded) by the Company:

		Ownership,%	
	Country of incorporation	**December 31, 2021**	**December 31, 2020**
Agricultural enterprise Sokolovskoe JSC	Russian Federation	–	100
Recreation centre "Energetik" JSC	Russian Federation	100	100
Energoservice of the South JSC	Russian Federation	100	100
VMES JSC	Russian Federation	100	100
YugStroyMontazh LLC	Russian Federation	100	100

On the basis of the Order of Rosseti South PJSC No. 512 dated August 31, 2021 *"On the implementation of the project for the acquisition of ownership of the power grid assets of the Second-tier subsidiary by Rosseti South PJSC through the liquidation procedure"*, a plan of measures was adopted for the voluntary liquidation of YugStroyMontazh LLC. The liquidation procedure is planned in two stages. At the first stage, it is planned to transfer the property of YugStroyMontazh LLC to subsidiaries of Rosseti South PJSC − Energoservice of the South JSC and VMES JSC. For the period of liquidation, the power grid assets will be used by Rosseti South PJSC under a lease agreement. At the second stage, it is planned to acquire Rosseti South PJSC property that previously belonged to YugStroyMontazh LLC from Energoservice of the South JSC and VMES JSC. As of December 31, 2021, the first stage of the procedure has been completed.

Disposal of a subsidiary

In accordance with the decision of the Board of Directors of Rosseti South PJSC dated August 14, 2019, the termination of the participation of Rosseti South PJSC in Agricultural enterprise Sokolovskoe JSC by alienating shares with a method of alienation by sale through a public offer with the involvement of an agent for the sale of property was approved (Extract from the protocol of August 16, 2019 No. 329/2019). In accordance with the protocol for summing up the sale of April 30, 2021 No. 394BFA-3001-1167-1, the auction was recognized as valid, the property was sold at the auction as a single lot at a price of 48,000 thousand rubles. The contract was awarded to the bidder - IE head of the agricultural enterprise Alshenko Alexander Nikolaevich. A purchase and sale agreement of May 14, 2021 was concluded with the individual entrepreneur Alshenko Alexander Nikolaevich, head of the agricultural enterprise. Measures were taken to passing of title when making a transaction - May 26, 2021.

At the date of disposal, the carrying amount of the assets and liabilities of the subsidiary amounted to:

	Carrying amount at the date of disposal
Capital assets	
Property, plant and equipment	53 767
Current assets	
Inventories	44 658
Trade and other receivables	147
Cash and cash equivalents	52
Advances paid and other current assets	76
Short-term liabilities	
Short-term borrowings	(2 000)
Trade and other accounts payable	(4 610)
Taxes payable other than income tax	(1 215)
Advances received	(630)
Net identifiable assets	**90 245**
Consideration received	48 000
Loss on sale	**(42 245)**

6. Segment Information

The Management Board of Rosseti South PJSC is the supreme body making decisions on business operations.

The internal system of management accounting is based on segments (branches formed according to the territorial principle) related to the transmission and distribution of electricity, utility connection to electric networks and the sale of electricity to the end user in a number of regions of the Russian Federation.

EBITDA is used to reflect the results of each reporting segment: profit or loss before interest expense, taxation, depreciation (taking into account the current accounting and reporting standards in the Russian Federation), and net accrual/(reversal) of impairment loss on property, plant and equipment and right-of-use assets (including IFRS). Management believes that the EBITDA calculated in this way is the most indicative measure for assessing the performance of the Group's operating segments.

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

In accordance with the requirements of IFRS 8, based on segment revenue, EBITDA and total assets presented to the Management Board, the following reporting segments were identified:

- Branch of Rosseti South PJSC Kalmenergo;
- Branch of Rosseti South PJSC Astrakhanenergo;
- Branch of Rosseti South PJSC Rostovenergo;
- Branch of Rosseti South PJSC Volgogradenergo;
- VMES JSC;
- YugStroyMontazh LLC;
- Other segments.

The "Other Segments" category includes the operations of the Company's subsidiaries (Agricultural enterprise Sokolovskoe JSC up to the date of disposal, Recreation centre "Energetik" JSC, Energoservice of the South JSC) and a branch of Rosseti South PJSC Kubanenergo. These operations do not meet the quantitative criteria for their allocation to the reporting segments for the year ended 31 December 2021.

Unallocated indicators include the overall performance of the Company's executive office, which is not an operational segment as required by IFRS 8.

Segment indicators are based on management information prepared in accordance with RAS reporting and may differ from those presented in IFRS financial statements. Reconciliation of measures in the valuation presented to the Management Board and similar measures in these consolidated financial statements includes those reclassifications and adjustments that are necessary for reporting in accordance with IFRS.

(in thousands of Russian rubles, unless otherwise specified)

Information about reportable segments

Reportable segment information as of and for the year ended 31 December 2021:

	Astrakhanenergo	Volgogradenergo	Kalmenergo	Rostovenergo	Subsidiary VMES JSC	Subsidiary YugStroyMontazh LLC	Other	Total
Revenue from external consumers	5 811 449	8 940 727	2 756 342	21 583 830	4 091 969	4 345	256 985	**43 445 647**
Sales proceeds between segments	–	2 321 600	–	478	55	206 894	189	**2 529 216**
Segment revenue	**5 811 449**	**11 262 327**	**2 756 342**	**21 584 308**	**4 092 024**	**211 239**	**257 174**	**45 974 863**
Including								
Electric power transmission	*5 698 406*	*10 487 866*	*1 010 237*	*20 601 658*	*4 012 516*	*193 425*	–	***42 004 108***
Utility connection to electricity networks	*83 361*	*723 247*	*373 905*	*844 823*	*60 812*	*2 890*	–	***2 089 038***
Sale of electricity and capacity	–	–	*1 353 974*	–	–	–	–	***1 353 974***
Revenue from lease agreements	*5 126*	*955*	*81*	*7 630*	*14*	*14 080*	*2 182*	***30 068***
Other revenue	*24 556*	*50 259*	*18 145*	*130 197*	*18 682*	*844*	*254 992*	***497 675***
Finance income	86 142	250 813	4 406	37 520	138 657	–	1 666	**519 204**
Finance expenses	(683 190)	(758 369)	(122 962)	(124 997)	(128 655)	–	–	**(1 818 173)**
Depreciation	(559 739)	(661 368)	(311 719)	(1 693 201)	(134 312)	(11 740)	(3 864)	**(3 375 943)**
EBITDA	**1 592 696**	**1 383 510**	**(39 969)**	**4 627 839**	**(80 854)**	**46 855**	**18 281**	**7 548 358**
Segment assets	8 232 446	13 367 158	4 675 671	21 830 616	4 343 139	224 235	636 889	**53 310 154**
Including property, plant and equipment and construction in progress	6 372 735	8 524 045	3 962 742	18 803 254	1 875 757	189 479	23 376	**39 751 388**
Capital investments	1 094 845	1 330 054	547 865	2 406 594	151 099	56 817	307 270	**5 894 544**
Segment liabilities	**2 949 432**	**4 124 033**	**1 296 847**	**7 226 168**	**2 618 159**	**65 639**	**635 959**	**18 916 237**

(in thousands of Russian rubles, unless otherwise specified)

Reportable segment information as of and for the year ended 31 December 2020:

	Astrakhanenergo	**Volgogradenergo**	**Kalmenergo**	**Rostovenergo**	**Subsidiary VMES JSC**	**Subsidiary YugStroyMontazh LLC**	**Other**	**Total**
Revenue from external consumers	5 672 221	8 768 019	3 211 908	19 273 949	3 932 764	2 041	202 934	**41 063 836**
Sales proceeds between segments	–	2 150 134	–	469	276	238 730	–	**2 389 609**
Segment revenue	**5 672 221**	**10 918 153**	**3 211 908**	**19 274 418**	**3 933 040**	**240 771**	**202 934**	**43 453 445**
Including								
Electric power transmission	*5 528 445*	*10 829 622*	*922 213*	*18 781 594*	*3 855 643*	*238 454*	–	***40 155 971***
Utility connection to electricity networks	*118 138*	*45 245*	*1 360 366*	*385 331*	*60 793*	*1 603*	–	***1 971 476***
Sale of electricity and capacity	–	–	*913 270*	–	–	–	–	***913 270***
Revenue from lease agreements	*5 020*	*733*	*99*	*6 514*	*110*	–	*1 775*	***14 251***
Other revenue	*20 618*	*42 553*	*15 960*	*100 979*	*16 494*	*714*	*201 159*	***398 477***
Finance income	29 098	73 663	6 401	39 019	44 545	–	182	**192 908**
Finance expenses	(612 096)	(673 367)	(35 968)	(293 482)	–	–	–	**(1 614 913)**
Depreciation	(485 159)	(552 112)	(235 409)	(1 518 361)	(124 627)	(8 815)	(7 794)	**(2 932 277)**
EBITDA	**1 043 038**	**(274 503)**	**565 722**	**3 157 639**	**(254 922)**	**10 128**	**7 776**	**4 254 878**
Segment assets	7 436 073	13 265 857	4 203 606	21 836 796	4 496 124	207 540	548 034	**51 994 030**
Including property, plant and equipment and construction in progress	5 870 872	7 868 510	3 730 930	18 199 683	1 850 537	152 276	219 402	**37 892 210**
Capital investments	1 554 248	2 614 433	1 610 758	4 644 832	176 218	27 069	8 933	**10 636 491**
Segment liabilities	**2 675 962**	**5 892 565**	**1 019 823**	**9 943 078**	**2 497 732**	**76 414**	**393 622**	**22 499 194**

(in thousands of Russian rubles, unless otherwise specified)

Reconciliation of key segment indicators presented to the Management Board with similar indicators in these consolidated financial statements:

Segment revenue reconciliation:

	For the year ended December 31	
	2021	2020
Segment revenue	**45 974 863**	**43 453 445**
Exclusion of sales revenue between segments	(2 530 524)	(2 389 609)
Retained revenue	–	30 391
Revenue in the statement of profit or loss and other comprehensive income	**43 444 339**	**41 094 227**

Reconciliation of EBITDA of reportable segments:

	For the year ended December 31	
	2021	2020
EBITDA of reportable segments	**7 548 358**	**4 254 878**
Discounting of financial instruments	(102 538)	337 582
Adjustment for provision for expected credit losses	424	512 250
Lease adjustment	145 473	109 145
Recognition of pension and other long-term liabilities to employees	(22 213)	(20 973)
Adjustment for assets related to employee benefit liabilities	(620)	(2 903)
Adjustment of the cost of property, plant and equipment	(45 819)	(90 443)
Adjustment for impairment provision for intra-group financial assets	191 161	489 884
Write-off adjustment for other current and non-current assets	(11 364)	53 001
Net identifiable assets of the disposed company	90 245	–
Other adjustments	(27 492)	20 927
Unallocated indicators	(15 756)	(83 974)
EBITDA	**7 749 859**	**5 579 374**
Amortization of property, plant and equipment, right-of-use assets and intangible assets	(2 823 434)	(2 477 380)
Net impairment loss on property, plant and equipment and right-of-use assets	(7 691 623)	(2 319 297)
Interest expense on financial liabilities carried at depreciable cost	(1 700 822)	(1 658 215)
Interest expense on lease obligations	(77 339)	(79 240)
Income/(expense) on income tax	810 307	(261 631)
Consolidated profit/(loss) for the period in the consolidated statement of profit or loss and other comprehensive income	**(3 733 052)**	**(1 216 389)**

Reconciliation of the total assets of the reportable segments:

	For the year ended December 31	
	2021	2020
Total segment assets	**53 310 154**	**51 994 030**
Settlements between segments	(2 195 175)	(2 105 380)
Intragroup financial assets	(2 927 164)	(3 105 805)
Adjustment of the cost of property, plant and equipment	(4 505 246)	(4 761 837)
Right-of-use asset recognition	814 250	990 241
Impairment of property, plant and equipment	(11 756 908)	(4 431 743)
Adjustment of provision for impairment of receivables	108 808	108 384
Adjustment of deferred tax assets	(132 077)	(962 367)
Recovery of provision for impairment of investments	1 029 488	838 984
Other adjustments	(41 035)	(81 016)
Unallocated indicators	4 036 164	4 304 088
Total assets in the consolidated statement of financial position	**37 741 259**	**42 787 579**

(in thousands of Russian rubles, unless otherwise specified)

Reconciliation of total liabilities of reportable segments:

	For the year ended December 31	
	2021	**2020**
Total segment liabilities	**18 916 237**	**22 499 194**
Settlements between segments	(2 195 175)	(2 105 380)
Adjustment of deferred liabilities	(2 968 810)	(2 468 218)
Recognition of pension and other long-term liabilities to employees	287 397	310 566
Recognition of lease liabilities	882 743	1 049 797
Discounting of accounts payable	(200 320)	(302 858)
Other adjustments	(28 825)	(63 094)
Unallocated indicators	23 894 081	21 026 770
Total liabilities in the consolidated statement of financial position	**38 587 328**	**39 946 777**

The Group carries out its activities in the Russian Federation. The Group does not receive revenue from foreign consumers and has no capital assets abroad.

For the year ended 31 December 2021, the Group had three major consumers − sales companies in three regions of the Russian Federation for each of which accounted for more than 10% of the Group's total revenues. Revenues received from these counterparties are reported in the financial statements of operating segments of Rostovenergo, Astrakhanenergo and Volgogradenergo.

The total amount of revenue received from TNS Energo Rostov-on-Don PJSC for the year ended 31 December 2021 amounted to 11,481,312 thous. rub. or 26.43% of the Group's total revenue (for the year ended 31 December 2020 - 10,242,426 thous. rub. or 25.3%). The total amount of revenue received from Volgogradenergosbyt PJSC for the year ended 31 December 2021 amounted to 6,291,442 thous. rub. or 14.48% of the Group's total revenue (for the year ended 31 December 2020 - 6,205,338 thous. rub. or 15.3%). The total amount of revenue received from Astrakhan Energy Sales Company PJSC for the year ended December 31, 2021 amounted to 4,933,763 thous. rub. or 11.36% of the Group's total revenue (for the year ended 31 December 2020 - 4,816,360 thous. rub. or 11.9%).

7. Revenue

	For the year ended December 31	
	2021	**2020**
Electric power transmission	39 489 083	37 767 520
Utility connection to electricity networks	2 088 983	1 971 200
Sale of electricity and capacity	1 353 974	913 270
Other revenue	494 345	428 445
Revenue from contracts with customers	**43 426 385**	**41 080 435**
Revenue from lease agreements	17 954	13 792
	43 444 339	**41 094 227**

Other revenues mainly include technical and maintenance services.

8. Other income

	For the year ended December 31	
	2021	**2020**
Income in the form of fines and penalties under business contracts	455 588	1 212 373
Insurance indemnity	144 134	25 304
Income from detected non-contractual electricity consumption	27 447	75 912
Write-off of accounts payable	31 094	34 210
Other income	8 050	2 541
	666 313	**1 350 340**

(in thousands of Russian rubles, unless otherwise specified)

9. Other expenses

	For the year ended December 31	
	2021	**2020**
Effect of a disposal of subsidiary	42 245	–
Loss on disposal of property, plant and equipment	93 940	220 721
	136 185	**220 721**

10. Operating expenses

	For the year ended December 31	
	2021	**2020**
Employee benefits expenses	11 348 005	10 757 060
Amortization of property, plant and equipment, right-of-use assets and intangible assets	2 823 434	2 477 380
Material expenses, incl.	11 490 171	9 734 436
- Electricity to compensate for technological losses	*9 200 460*	*7 663 614*
- Purchased electricity and heat for own needs	*293 259*	*279 634*
- Electricity for sale	*501 341*	*285 649*
- Other material expenses	*1 495 111*	*1 505 539*
Works and services of production nature, incl.	11 801 819	11 907 322
- Electricity transmission services	*11 290 320*	*11 500 945*
- Repair and maintenance services	*268 221*	*288 183*
- Other works and services of production nature	*243 278*	*118 194*
Other services of third parties, incl.	1 114 107	1 163 879
- Consulting, legal and audit services	*37 798*	*71 950*
- Management consulting	*81 327*	*92 616*
- Expenses associated with property maintenance	*296 275*	*306 144*
- Security	*131 198*	*127 921*
- Communication services	*112 756*	*100 170*
- Transport services	*34 929*	*33 872*
- Software and maintenance costs	*121 835*	*94 883*
- Other services	*297 989*	*336 323*
Provisions	801 703	1 572 832
Fines and penalties brought against the Company for violation of the terms of contracts	105 572	247 757
Taxes and charges other than income tax	359 021	386 252
Travel expenses	116 585	79 758
Insurance	98 865	65 102
Other expenses	1 017 240	1 781 363
	41 076 522	**40 173 141**

11. Employee benefits expenses

	For the year ended December 31	
	2021	**2020**
Salaries and wages, including changes in the provision for bonuses and unused vacations	8 298 139	7 889 225
Payroll taxes	2 545 319	2 404 244
Cost of current services	17 049	15 871
Revaluation of liabilities for other long-term employee benefits	(620)	(2 903)
Other personnel costs	488 118	450 623
Total costs of employee benefits	**11 348 005**	**10 757 060**

During the year ended December 31, 2021, the amount of contributions under defined contribution programs amounted to 7,601 thous. rub. (for the year ended December 31, 2020: 7,015 thous rub.).

The amounts of remuneration to key management personnel are disclosed in Note 35 "Related-party transactions".

(in thousands of Russian rubles, unless otherwise specified)

12. Financial income and expenses

	For the year ended December 31	
	2021	**2020**
Finance income		
Interest income on loans issued, bank deposits and bills of exchange	399 231	192 908
Result of derecognition of financial liabilities	–	37 268
Depreciation of the discount on financial assets on income	161 081	75 180
Effect of initial discounting of financial instruments on income	–	689 168
Other financial income	5 764	92
	566 076	**994 616**

	For the year ended December 31	
	2021	**2020**
Finance expenses		
Interest expense on financial liabilities carried at depreciable cost	1 700 822	1 658 215
Effect of initial discounting of financial instruments on expenses	–	274 549
Depreciation of the discount on financial assets on expenses	263 619	189 485
Interest expenses on lease obligations	77 339	79 240
Other financial expenses	18 237	17 923
	2 060 017	**2 219 412**

Information on discounting long-term trade and other accounts payable is disclosed in Note 28.

13. Income tax

	For the year ended December 31	
	2021	**2020**
Current income tax		
Current tax accrual	(11 841)	(173 628)
Adjustments for prior years	107 279	201 166
Total	**95 438**	**27 538**
Deferred income tax	714 869	(289 169)
Total income/(expense) on income tax	**810 307**	**(261 631)**

For the year ended 31 December 2021, the Group recalculated income tax due to adjustment of the Group's income and expenses for 2017-2019. As a result, income tax, excessively accrued in previous periods, amounted to 107,279 thous. rub. according to the updated tax returns provided to the tax authorities, as well as the clarification of calculations for 2019 led to an increase in the tax loss in the amount of 338,713 thous. rub., for which the deferred tax asset was accrued.

(in thousands of Russian rubles, unless otherwise specified)

Income tax recognised in other comprehensive income:

	For the year ended 31 December 2021		
	Before tax	**Income tax**	**After tax**
Financial assets measured at fair value through other comprehensive income	224	(45)	179
Revaluation of defined benefit pension program liabilities	46 002	–	46 002
	46 226	**(45)**	**46 181**

	For the year ended 31 December 2020		
	Before tax	**Income tax**	**After tax**
Financial assets measured at fair value through other comprehensive income	2 775	(555)	2 220
Revaluation of defined benefit pension program liabilities	4 811	–	4 811
	7 586	**(555)**	**7 031**

As of December 31, 2021 and December 31, 2020, deferred assets and income tax liabilities are calculated at a rate of 20 percent, which is expected to be applicable upon sale of related assets and liabilities. The income tax rate officially established by Russian law in 2021 and 2020 – 20%.

Before-tax income relates to income tax expense as follows:

	For the year ended December 31	
	2021	**2020**
Before-tax income	**(4 543 359)**	**(954 758)**
Theoretical amount of expenses/(income) on income tax at the rate of 20%	**908 672**	**190 952**
Effect of applying a lower tax rate	22	81
Tax effect of items not taxable or deductible for tax purposes	(205 666)	(653 830)
Adjustments for prior years	107 279	201 166
	810 307	**(261 631)**

(in thousands of Russian rubles, unless otherwise specified)

14. Property, plant and equipment

	Land plots and buildings	Transmission networks	Equipment for power transmission	Other	Construction in progress	Total
Initial/deemed cost						
As of January 1, 2020	**4 103 776**	**24 600 557**	**14 722 908**	**8 434 471**	**2 888 944**	**54 750 656**
Proceeds	168	13 051	8 433	90 376	10 143 677	**10 255 705**
Commissioning	167 668	1 326 593	983 127	6 360 995	(8 838 383)	**–**
Disposals	(1 840)	(24 311)	(6 246)	(27 133)	(283 930)	**(343 460)**
As of December 31, 2020	**4 269 772**	**25 915 890**	**15 708 222**	**14 858 709**	**3 910 308**	**64 662 901**
Accumulated depreciation and impairment						
As of January 1, 2020	**(1 895 257)**	**(14 864 857)**	**(8 625 102)**	**(5 925 453)**	**(11 750)**	**(31 322 419)**
Commissioning	–	(2 717)	(1 827)	(1 418)	5 962	**–**
Accrued depreciation	(138 671)	(960 443)	(746 801)	(524 900)	–	**(2 370 815)**
Disposals	963	20 736	4 007	24 119	443	**50 268**
Impairment	(341 720)	(1 084 309)	(163 296)	(142 784)	(587 188)	**(2 319 297)**
As of December 31, 2020	**(2 374 685)**	**(16 891 590)**	**(9 533 019)**	**(6 570 436)**	**(592 533)**	**(35 962 263)**
Residual value						
As of January 1, 2020	**2 208 519**	**9 735 700**	**6 097 806**	**2 509 018**	**2 877 194**	**23 428 237**
As of December 31, 2020	**1 895 087**	**9 024 300**	**6 175 203**	**8 288 273**	**3 317 775**	**28 700 638**

(in thousands of Russian rubles, unless otherwise specified)

	Land plots and buildings	Transmission networks	Equipment for power transmission	Other	Construction in progress	Total
Initial/deemed cost						
As of January 1, 2021	**4 269 772**	**25 915 890**	**15 708 222**	**14 858 709**	**3 910 308**	**64 662 901**
Proceeds	13 308	45 334	11 388	75 764	5 159 877	**5 305 671**
Disposal of a subsidiary	–	–	–	(111 390)	–	**(111 390)**
Commissioning	624 727	1 902 697	1 630 551	2 021 073	(6 179 048)	**–**
Disposals	(4 455)	(17 643)	(18 916)	(64 594)	(152 548)	**(258 156)**
As of December 31, 2021	**4 903 352**	**27 846 278**	**17 331 245**	**16 779 562**	**2 738 589**	**69 599 026**
Accumulated depreciation and impairment						
As of January 1, 2021	**(2 374 685)**	**(16 891 590)**	**(9 533 019)**	**(6 570 436)**	**(592 533)**	**(35 962 263)**
Commissioning	(116 461)	(133 900)	(183 281)	(149 611)	583 253	**–**
Accrued depreciation	(140 285)	(927 088)	(774 031)	(843 727)	–	**(2 685 131)**
Impairment	(524 322)	(1 758 720)	(1 642 296)	(2 867 925)	(898 075)	**(7 691 338)**
Disposal of a subsidiary	–	–	–	57 623	–	**57 623**
Disposals	3 541	11 985	12 203	29 059	1 082	**57 870**
As of December 31, 2020	**(3 152 212)**	**(19 699 313)**	**(12 120 424)**	**(10 345 017)**	**(906 273)**	**(46 223 239)**
Residual value						
As of January 1, 2021	**1 895 087**	**9 024 300**	**6 175 203**	**8 288 273**	**3 317 775**	**28 700 638**
As of December 31, 2021	**1 751 140**	**8 146 965**	**5 210 821**	**6 434 545**	**1 832 316**	**23 375 787**

(in thousands of Russian rubles, unless otherwise specified)

As at December 31, 2021 and December 31, 2020, there were no property, plant and equipment acting as collateral for loans and borrowings.

As at December 31, 2021, the initial cost of fully depreciable property, plant and equipment amounted to 14,283,447 thous. rub. (as of December 31, 2020: 12,824,767 thous. rub.).

As at December 31, 2021, construction in progress includes advances for the acquisition of property, plant and equipment in the amount of 561,160 thous. rub. (as of December 31, 2020: 41 thous. rub.), as well as materials for the construction of property, plant and equipment in the amount of 559,242 thous. rub. (as of December 31, 2020: 433,762 thous. rub.).

For the year ended 31 December 2021, capitalized interest amounted to 160,332 thous. rub. (for the year ended 31 December 2020: 187,726 thous. rub.), the capitalization rate was 7.60% (for the year ended 31 December 2020: 7.49%).

For the year ended 31 December 2021, depreciation was capitalized to the cost of capital construction projects in the amount of 19 thous. rub. (for the year ended 31 December 2020, in the amount of 50 thous. rub.).

Impairment of property, plant and equipment

Due to indicators of impairment of capital assets, the Group conducted an impairment test as at 31 December 2021.

The majority of the Group's property, plant and equipment are specialised assets that are rarely purchased and sold on the open market, unless they are sold to existing entities. The market for such property, plant and equipment is not active in the Russian Federation and does not provide sufficient purchase and sale examples to enable a market approach to determine the fair value of these property, plant and equipment.

Consequently, the value in use of property, plant and equipment as at 31 December 2021 was determined using the discounted cash flow method. This method takes into account future net cash flows that will generate these property, plant and equipment in the course of business operations as well as disposal in order to determine the recoverable amount of these assets.

Cash generating units are determined by the Group based on the geographical location of branches and subsidiaries and represent the smallest identifiable groups of assets that generate cash inflows irrespective of other Group assets.

The following basic assumptions were used in assessing the recoverable amount of assets of generating units:

Forecast cash flows were determined for the period 2022-2026 for all CGUs based on management's best estimate of transmission volumes, operating and capital expenditures, and tariffs approved by regulatory authorities for 2022.

The source for the forecast of electricity transmission tariffs for the forecast period is the business plans indicators that are based on tariff models formed taking into account the average annual growth of the tariff for electric energy transmission services in accordance with the approved tariff and balance sheet decisions for 2022, from 2023 - in accordance with the scenario conditions of the parent company and the parameters of the Forecast of socio-economic development of the Russian Federation.

Forecast electricity transmission volumes for all generating units were determined based on annual business plans for 2022-2026.

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

The growth rate of net cash flows in the post-forecast period was 4%.

According to the test results, as of December 31, 2021, an impairment loss was recognized in the amount of 7,691,622 thous. rub., including 1,057,870 thous. rub. for CGUs at Kalmenergo branch, 145,954 thous. rub. for CGUs at VMES JSC, and 6,487,798 thous. rub. for CGUs at Volgogradenergo branch.

The sensitivity of the recoverable amount of CGU assets to changes in underlying assumptions in the calculation is presented below:

The value of use of property, plant and equipment of cash-generating units of Kalmenergo branch and VMES subsidiary is zero and the discount rate change by 1%, a change in the level of the tariff for the transmission of electricity by 3%, a change in the growth rate of net cash flow in the post-forecast period by 1%, a change in the level of operating expenses by 5%, a change in the level of capital investments by 10% does not lead to a positive value of this indicator, accordingly, the sensitivity of the value of the use of property, plant and equipment of the generating units of the Kalmenergo branch and the VMES subsidiary is not analyzed.

Table1. Value in use sensitivity of property, plant and equipment of the cash-generating unit at Astrakhanenergo branch.

	Increase, %	Decrease, %
Change in discount rate by 1%	-13.89	18.90

(in thousands of Russian rubles, unless otherwise specified)

	Increase, %	Decrease, %
Change in power transmission tariff level by 3%	11.75	-11.75
Change in the growth rate of net cash flow in the post-forecast period by 1%	14.36	-10.55
Change in operating expenses by 5%	-14.33	14.33
Change in capital expenditures level by 10%	-1.18	1.18

Table2. Value in use sensitivity of property, plant and equipment of the cash-generating unit at Volgogradenergo branch.

	Increase, %	Decrease, %
Change in discount rate by 1%	-65.29	89.45
Change in power transmission tariff level by 3%	464.58	-470.56
Change in the growth rate of net cash flow in the post-forecast period by 1%	68.63	-50.45
Change in operating expenses by 5%	-778.46	747.63
Change in capital expenditures level by 10%	-31.73	31.73

Table3. Value in use sensitivity of property, plant and equipment of the cash-generating unit at Rostovenergo branch.

	Increase, %	Decrease, %
Change in discount rate by 1%	-13.18	17.91
Change in power transmission tariff level by 3%	15.86	-15.86
Change in the growth rate of net cash flow in the post-forecast period by 1%	13.56	-9.97
Change in operating expenses by 5%	-21.30	21.30
Change in capital expenditures level by 10%	-1.17	1.17

Table 4. Value in use sensitivity of property, plant and equipment at Rosseti South PJSC (average for all branches)

	Increase, %	Decrease, %
Change in discount rate by 1%	-23.09	31.56
Change in power transmission tariff level by 3%	123.05	-124.54
Change in the growth rate of net cash flow in the post-forecast period by 1%	24.14	-17.74
Change in operating expenses by 5%	-203.52	195.81
Change in capital expenditures level by 10%	-8.52	8.52

Sensitivity analysis of material assumptions on the basis of which impairment models are built for the CGU of Rosseti South PJSC as of December 31, 2021 is presented below:

increase in discount rate to 11.55%:

- does not result in an impairment loss for Astrakhanenergo (the value in use in this case will be 17,026,697 thous. rub.);
- results in an additional impairment loss for Volgogradenergo in the amount of 265,244 thous. rub.;
- does not result in an impairment loss for Rostovenergo (the value in use in this case will be 39,989,105 thous. rub.);

reduction of the required gross revenue to the base value in each period by 3%:

- does not result in an impairment loss for Astrakhanenergo (the value in use in this case will be 17,451,115 thous. rub.);
- results in an additional impairment loss for Volgogradenergo in the amount of 265,244 thous. rub.;
- does not result in an impairment loss for Rostovenergo (the value in use in this case will be 38,751,241 thous. rub.);

increase in the level of operating expenses to the base value in each period by 5%:

- does not result in an impairment loss for Astrakhanenergo (the value in use in this case will be 16,941,119 thous. rub.);
- results in an additional impairment loss for Volgogradenergo in the amount of 265,244 thous. rub.;
- does not result in an impairment loss for Rostovenergo (the value in use in this case will be 36,249,48 thous. rub.);

increase in the level of capital investments in the forecast and post-forecast period by 10%:

- does not result in an impairment loss for Astrakhanenergo (the value in use in this case will be 19,539,824 thous. rub.);
- results in an additional impairment loss for Volgogradenergo in the amount of 265,244 thous. rub.;
- does not result in an impairment loss for Rostovenergo (the value in use in this case will be 45,517,640 thous. rub.);

decrease in the growth rate of net cash flow in the post-forecast period by 1%:

- does not result in an impairment loss for Astrakhanenergo (the value in use in this case will be 17,687,037 thous. rub.);
- results in an additional impairment loss for Volgogradenergo in the amount of 265,244 thous. rub.;
- does not result in an impairment loss for Rostovenergo (the value in use in this case will be 41,467,240 thous. rub.).

(in thousands of Russian rubles, unless otherwise specified)

15. Intangible assets

	Software	R&D	Other	Total
Initial cost				
As of January 1, 2020	**284 450**	**61 597**	**1 369**	**347 416**
Proceeds	58 800	34 380	4 466	**97 646**
Disposals	(48 951)	–	(294)	**(49 245)**
As of December 31, 2020	**294 299**	**95 977**	**5 541**	**395 817**
Accumulated depreciation				
As of January 1, 2020	**(134 824)**	**(7 583)**	**(110)**	**(142 517)**
Accrued depreciation	(51 569)	(9 292)	(984)	**(61 845)**
Disposals	48 951	–	196	**49 147**
As of December 31, 2020	**(137 442)**	**(16 875)**	**(898)**	**(155 215)**
Residual value				
As of January 1, 2020	**149 626**	**54 014**	**1 259**	**204 899**
As of December 31, 2020	**156 857**	**79 102**	**4 643**	**240 602**

	Software	R&D	Other	Total
Initial cost				
As of January 1, 2021	**294 299**	**95 977**	**5 541**	**395 817**
Proceeds	49 006	5 033	579	**54 618**
Disposals	(133 262)	(34 079)	–	**(167 341)**
As of December 31, 2021	**210 043**	**66 931**	**6 120**	**283 094**
Accumulated depreciation				
As of January 1, 2021	**(137 442)**	**(16 875)**	**(898)**	**(155 215)**
Accrued depreciation	(51 571)	(10 577)	(1 852)	**(64 000)**
Disposals	133 262	–	–	**133 262**
As of December 31, 2021	**(55 751)**	**(27 452)**	**(2 750)**	**(85 953)**
Residual value				
As of January 1, 2021	**156 857**	**79 102**	**4 643**	**240 602**
As of December 31, 2021	**154 292**	**39 479**	**3 370**	**197 141**

Depreciation amount of intangible assets included in operating expenses in the consolidated statement of profit or loss and other comprehensive income amounted to 64,000 thous. rub. (for the year ended 31 December 2020: 61,845 thous. rub.). For the year ended December 31, 2021, interest capitalization was not carried out (for the year ended December 31, 2020: 133 thous. rub., capitalization rate 7.49%.)

Intangible assets are amortized on a straight-line basis.

(in thousands of Russian rubles, unless otherwise specified)

16. Right-of-use assets

	Land plots and buildings	Transmission networks	Equipment for power transmission	Other property, plant and equipment	Total
Initial cost					
As of January 1, 2020	**829 587**	**48 937**	**–**	**56**	**878 580**
Reclassification between groups	33 436	(33 436)	–	–	**–**
Proceeds	61 599	17 211	94 239	–	**173 049**
Change of contract conditions	12 780	8	2 531	–	**15 319**
Termination of the lease agreement	(6 267)	–	–	–	**(6 267)**
As of December 31, 2020	**931 135**	**32 720**	**96 770**	**56**	**1 060 681**
Accumulated depreciation and impairment					
As of January 1, 2020	**(29 267)**	**(5 289)**	**–**	**(9)**	**(34 565)**
Reclassification between groups	(900)	900	–	–	**–**
Accrued depreciation	(30 875)	(9 044)	(4 836)	(9)	**(44 764)**
Change of contract conditions	4 146	–	–	–	**4 146**
Termination of the lease agreement	4 743	–	–	–	**4 743**
As of December 31, 2020	**(52 153)**	**(13 433)**	**(4 836)**	**(18)**	**(70 440)**
Residual value					
As of January 1, 2020	**800 320**	**43 648**	**–**	**47**	**844 015**
As of December 31, 2020	**878 982**	**19 287**	**91 934**	**38**	**990 241**
Initial cost					
As of January 1, 2021	**931 135**	**32 720**	**96 770**	**56**	**1 060 681**
Proceeds	30 172	36 316	17 942	744	**85 174**
Change of contract conditions	(80 329)	(7)	12 549	(22)	**(67 809)**
Termination of the lease agreement	(150 480)	(2 367)	(634)	(9)	**(153 490)**
As of December 31, 2021	**730 498**	**66 662**	**126 627**	**769**	**924 556**
Accumulated depreciation and impairment					
As of January 1, 2021	**(52 153)**	**(13 433)**	**(4 836)**	**(18)**	**(70 440)**
Accrued depreciation	(29 335)	(15 714)	(30 512)	(16)	**(75 577)**
Change of contract conditions	19 089	2	207	–	**19 298**
Termination of the lease agreement	13 689	2 366	634	8	**16 697**
Impairment	–	–	(284)	–	**(284)**
As of December 31, 2021	**(48 710)**	**(26 779)**	**(34 791)**	**(26)**	**(110 306)**
Residual value					
As of January 1, 2021	**878 982**	**19 287**	**91 934**	**38**	**990 241**
As of December 31, 2021	**681 788**	**39 883**	**91 836**	**743**	**814 250**

(in thousands of Russian rubles, unless otherwise specified)

For the purpose of the impairment test, right-of-use specialized assets (including leased land plots under own and leased specialized facilities) are classified as CGU assets similarly to capital assets - based on the geographical location of branches and subsidiaries.

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

17. Other financial assets

	December 31, 2021	December 31, 2020
Capital		
Financial assets measured at fair value through other comprehensive income	8 124	7 900
	8 124	**7 900**

Investments in quoted equity instruments include shares of Volgogradenergosbyt PJSC with a fair value calculated on the basis of published market quotations, equal to 6,165 thous. rub. as of December 31, 2021 (as of December 31, 2020: 5,284 thous. rub.).

18. Deferred tax assets

Differences between IFRS and Russian tax legislation result in temporary differences between the carrying amounts of certain assets and liabilities for financial reporting purposes, on the one hand, and for income tax purposes, on the other.

(in thousands of Russian rubles, unless otherwise specified)

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities relate to the following items:

	Assets		Liabilities		Net	
	December 31, 2021	**December 31, 2020**	**December 31, 2021**	**December 31, 2020**	**December 31, 2021**	**December 31, 2020**
Property, plant and equipment	252 695	–	–	(331 734)	252 695	(331 734)
Right-of-use assets	–	–	(162 850)	(198 049)	(162 850)	(198 049)
Trade and other receivables and advances issued	88 876	496 081	–	–	88 876	496 081
Lease liabilities	172 023	205 675	–	–	172 023	205 675
Provisions	371 775	328 067	–	–	371 775	328 067
Trade and other accounts payable	225 224	148 694	–	–	225 224	148 694
Tax losses to be carried forward	542 405	110 612	–	–	542 405	110 612
Other	8 355	6 532	(25 461)	(7 660)	(17 106)	(1 128)
Tax assets/(liabilities)	**1 661 353**	**1 295 661**	**(188 311)**	**(537 443)**	**1 473 042**	**758 218**
Credit for tax	(188 311)	(537 443)	188 311	537 443	–	–
Net deferred tax assets/(liabilities)	**1 473 042**	**758 218**	**–**	**–**	**1 473 042**	**758 218**

(in thousands of Russian rubles, unless otherwise specified)

Movement of deferred tax assets and liabilities during the year

	January 1, 2021	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2021
Property, plant and equipment	(331 734)	584 429	–	252 695
Right-of-use assets	(198 049)	35 199	–	(162 850)
Trade and other receivables	496 081	(407 205)	–	88 876
Lease liabilities	205 675	(33 652)	–	172 023
Provisions	328 067	43 708	–	371 775
Trade and other accounts payable	148 694	76 530	–	225 224
Tax losses to be carried forward	110 612	431 793	–	542 405
Other	(1 128)	(15 933)	(45)	(17 106)
Net deferred tax assets/(liabilities)	**758 218**	**714 869**	**(45)**	**1 473 042**

	January 1, 2020	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2020
Property, plant and equipment	(655 035)	323 301	–	(331 734)
Right-of-use assets	(168 803)	(29 246)	–	(198 049)
Trade and other receivables	1 119 039	(622 958)	–	496 081
Lease liabilities	173 458	32 217	–	205 675
Provisions	340 010	(11 943)	–	328 067
Trade and other accounts payable	198 414	(49 720)	–	148 694
Tax losses to be carried forward	34 513	76 099	–	110 612
Other	6 346	(6 919)	(555)	(1 128)
Net deferred tax assets/(liabilities)	**1 047 942**	**(289 169)**	**(555)**	**758 218**

(in thousands of Russian rubles, unless otherwise specified)

19. Inventories

	December 31, 2021	December 31, 2020
Feedstock and materials	907 798	708 759
Provision for impairment of feedstock and materials	(8 150)	(7 319)
Other inventories	303 539	255 465
Provision for impairment of other inventories	(396)	(407)
	1 202 791	**956 498**

As of December 31, 2021 and December 31, 2020, the Group did not have reserves that would be pledged under loan or other agreements.

As of December 31, 2021, the sectoral emergency reserve is 192,032 thous. rub. (as of December 31, 2020: 113,631 thous. rub.)

During the year ended 31 December 2021, inventories recognised in operating expenses under the item "Other material expenses" amounted to 1,495,111 thous. rub. (during the year ended 31 December 2020, 1,505,539 thous. rub.).

20. Trade and other receivables

	December 31, 2021	December 31, 2020
Long-term trade and other receivables		
Trade receivables	1 873 246	3 030 931
Provision for impairment of trade receivables	(20 261)	(939 078)
Other receivables	784 920	105 700
Provision for impairment of other receivables	–	(775)
Total financial assets	**2 637 905**	**2 196 778**
Short-term trade and other receivables		
Trade receivables	9 080 053	11 291 845
Provision for impairment of trade receivables	(3 763 437)	(4 769 553)
Other receivables	1 385 924	1 576 012
Provision for impairment of other receivables	(627 336)	(921 988)
Total financial assets	**6 075 204**	**7 176 316**

Trade receivables as of December 31, 2021 include long-term restructured receivables of Volgogradenergosbyt PJSC for electricity transmission services in the total amount of 1,321,654 thous. rub. The terms of the agreement provide for the payment of receivables in 2024-2027 and the application of an interest rate equal to the MOSPRIME 3M credit rate effective at the beginning of each accounting period (quarter), increased by 3.52 percentage points.

Trade receivables as of December 31, 2021 include long-term restructured receivables of Astrakhan Energy Sales Company PJSC in the total amount of 530,229 thous. rub. The terms of the agreement provide for the payment of receivables in 2020- 2029 and the application of an interest rate equal to the MOSPRIME 3M credit rate effective at the beginning of each accounting period (quarter), increased by 3.52 percentage points.

The Group's exposure to credit risk, impairment of trade and other receivables and fair value are disclosed in Note 32.

Balances with related parties are disclosed in Note 35.

(in thousands of Russian rubles, unless otherwise specified)

21. Advances paid and other assets

Capital	December 31, 2021	December 31, 2020
VAT on advances of buyers and customers	563	–
Advances paid	1 928	3 268
	2 491	**3 268**

Current	December 31, 2021	December 31, 2020
Advances paid (short-term)	198 643	29 521
Provision for impairment of advances paid (short-term)	(279)	(1 043)
VAT recoverable	5 071	1 458
VAT on advances received and VAT on advances paid for the purchase of property, plant and equipment	246 578	445 254
Prepayment for taxes other than income tax	36 962	16 984
	486 975	**492 174**

22. Cash and cash equivalents

	December 31, 2021	December 31, 2020
Cash in bank accounts and cash on hand	1 258 516	1 056 625
Cash equivalents	28 003	25
	1 286 519	**1 056 650**

Cash equivalents as at December 31, 2021 include short-term investments in bank deposits. Deposits are placed at interest rates of 7.8% per annum. As of December 31, 2020, there were no short-term investments in bank deposits.

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

23. Equity capital

	Ordinary shares	
	December 31, 2021	**December 31, 2020**
Nominal value per one share, rub	0.10	0.10
In circulation as of January 1	151 641 426 354	82 039 595 425
In circulation at the end of the period and fully paid	151 641 426 354	151 641 426 354

Ordinary shares

Ordinary shareholders shall have the right to vote on all items of the agenda at the General Meetings of Shareholders of the Company, to receive dividends, in accordance with the procedure established by the legislation of the Russian Federation and the Charter of the Company, as well as other rights provided for by the Charter and legislation of the Russian Federation.

Additional issue of securities

On November 5, 2019, the Extraordinary General Meeting of Shareholders of the Company decided to place securities in the amount of 98 520 013 264 pieces in the amount of 9,852,001 thous. rub. (Minutes No. 21 of November 8, 2019). On 19 December 2019, the Bank of Russia registered the additional issue of 98 520 013 264 ordinary registered uncertified shares of the Company in the amount of 9,852,001 thous. rub.

As part of the pre-emptive right to acquire additional shares of Rosseti South PJSC, shareholders contributed 6,960,183 thous. rub. to the authorized capital of the Group on May 29, 2020, amendments to the Charter of the Company were registered related to an increase in the authorized capital of the Company by 6,960,183 thous. rub. to 15,164,143 thous. rub.

Dividends

The base for the distribution of the Company's profits among shareholders in accordance with the legislation of the Russian Federation is net profit based on financial statements prepared in accordance with accounting and reporting standards in the Russian Federation.

At the Annual General Meeting of Shareholders of the Company held on June 9, 2018, the decision to pay dividends for 2017 in the amount of 377,259 thous. rub. was taken. During the year ended 31 December 2018, the Company paid dividends for 2017 in the amount of 373,716 thous. rub. During the year ended 31 December 2019, the Company paid dividends for 2017 in the amount of 253 thous. rub. During the year ended 31 December 2020, the Company paid dividends for 2017 in the amount of 62 thous. rub.

At the Annual General Meeting of Shareholders of the Company held on May 31, 2019, the decision to pay dividends for 2018 in the amount of 561,287 thous. rub. was taken. During the year ended 31 December 2019, the Company paid dividends for 2018 in the amount of 557,154 thous. rub. During the year ended 31 December 2020, the Company paid dividends for 2018 in the amount of 95 thous. rub. During the year ended 31 December 2021, the Company paid dividends for 2017 in the amount of 14 thous. rub., for 2018 in the amount of 21 thous. rub.

As at 31 December 2021, dividends in the amount of 4,014 thous. rub. are reflected in the consolidated statement of financial position of the Group as part of trade and other accounts payable (31 December 2020: 7,266 thous. rub.).

24. Earning per share

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

	For the year ended December 31	
In thousands of shares	**2021**	**2020**
Ordinary shares as of January 1	**151 641 426**	**77 199 899**
Effect of the share placing	−	74 440 851
Weighted average number of shares for the period ended December 31	**151 641 426**	**151 640 750**

	For the year ended December 31	
	2021	**2020**
Weighted average number of ordinary shares outstanding for the period ended December 31 (thous. pcs.)	**151 641 426**	**151 640 750**
Loss for the period due to ordinary shareholders	(3 733 052)	(1 216 389)
Loss per ordinary share − basic and diluted (in Russian rubles)	**(0,025)**	**(0,008)**

25. Borrowed funds

	December 31, 2021	**December 31, 2020**
Long-term liabilities		
Unsecured loans and borrowings	18 379 483	8 722 545
Unsecured bond loans	−	5 000 000
Lease liabilities	878 779	1 032 901
Less: current portion of long-term lease liabilities	(19 471)	(44 843)
Less: current portion of long-term loan liabilities	(3 870 000)	−
	15 368 791	**14 710 603**
Short-term liabilities		
Unsecured loans and borrowings	61 436	6 572 697
Unsecured bond loans	5 000 000	−
Lease liabilities	3 964	16 896
Current portion of long-term loan liabilities	3 870 000	−
Current portion of long-term lease liabilities	19 471	44 843
	8 954 871	**6 634 436**
Including:		
Interest payable on loans and borrowings	23 084	6 566
Interest payable on bond loans	38 352	66 131
	61 436	**72 697**

(in thousands of Russian rubles, unless otherwise specified)

As of December 31, 2021 and December 31, 2020, all balances of loans and borrowings are nominated in rubles.

		Effective interest rates		Nominal value	
	Maturity	**December 31, 2021**	**December 31, 2020**	**December 31, 2021**	**December 31, 2020**
Unsecured bank loans*	2022-2024	8,9%-10,3%	6,7%-9,0%	8 944 527	4 856 071
Unsecured bank loans*	2022-2024	8,3%-10%	6,7%-8,082%	2 579 075	871 852
Unsecured bank loans	2023	7,9%	Key rate of the Central Bank of Russia + 0.58%	1 599 059	3 001 188
Unsecured bank loans	2024	Key rate of the Central Bank of Russia KR + 1.48% − KR + 1.5%	−	1 829 906	−
Unsecured loans*	2023	7,93%	−	450 000	−
Unsecured loans*	2025	7.07%	7.07%	3 038 352	3 037 771
Unsecured bond loans*	2022	9,24%	9,24%	5 000 000	5 000 000
Unsecured loans*	2021	−	MosPrime Rate (3M) + 0,99%; + 0,85%; + 0,5%	−	3 528 360
Lease liabilities	2021-2069	6.6-8.92%	6.68-9.00%	882 743	1 049 797
Total liabilities				**24 323 662**	**21 345 039**

* Loans received from government-related companies.

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

The Group's exposure to interest rate risk is disclosed in Note 32.

(in thousands of Russian rubles, unless otherwise specified)

26. Changes in liabilities caused by financing activities

	Borrowed funds		Interest payable on borrowed funds (excluding% under lease agreements)	Lease liabilities	Dividends payable	Total
	Long-term	Short-term				
As of January 1, 2021	**13 722 545**	**6 500 000**	**72 697**	**1 049 797**	**7 266**	**21 352 305**
Changes due to cash flows from financing activities						
Borrowing funds	11 992 659	2 277 450	–	–	–	**14 270 109**
Repayment of borrowed funds	(2 335 721)	(8 775 450)	–	–	–	**(11 111 171)**
Lease payments	–	–	–	(45 882)	–	**(45 882)**
Interest paid (operating activities, for reference)	–	–	(1 871 116)	(71 251)	–	**(1 942 367)**
Dividends paid	–	–	–	–	(35)	**(35)**
Total	**9 656 938**	**(6 498 000)**	**(1 871 116)**	**(117 133)**	**(35)**	**1 170 654**
Non-cash changes						
Reclassification	(8 870 000)	8 870 000	–	–	–	**–**
Capitalized interests	–	–	160 332	–	–	**160 332**
Interest expenses	–	–	1 700 823	77 339	–	**1 778 162**
Revenues from lease agreements	–	–	–	85 009	–	**85 009**
Other changes, net	–	(2 000)	(1 300)	(212 269)	(3 217)	**(218 786)**
Total	**(8 870 000)**	**8 868 000**	**1 859 855**	**(49 921)**	**(3 217)**	**1 804 717**
As of December 31, 2021	**14 509 483**	**8 870 000**	**61 436**	**882 743**	**4 014**	**24 327 676**

(in thousands of Russian rubles, unless otherwise specified)

	Borrowed funds		Interest payable on borrowed funds (excluding% under lease agreements)	Lease liabilities	Dividends payable	Total
	Long-term	Short-term				
As of January 1, 2020	**16 502 022**	**659 771**	**9 658**	**890 514**	**7 423**	**18 069 388**
Changes due to cash flows from financing activities						
Borrowing funds	5 855 590	8 773 308	–	–	–	**14 628 898**
Repayment of borrowed funds	(5 635 067)	(7 078 810)	–	–	–	**(12 713 877)**
Lease payments	–	–	–	(23 447)	–	**(23 447)**
Interest paid (operating activities, for reference)	–	–	(1 780 536)	(64 389)	–	**(1 844 925)**
Dividends paid	–	–	–	–	(157)	**(157)**
Total	**220 523**	**1 694 498**	**(1 780 536)**	**(87 836)**	**(157)**	**46 492**
Non-cash changes						
Reclassification	(3 000 000)	3 000 000	–	–	–	**–**
Capitalized interests	–	–	187 859	–	–	**187 859**
Interest expenses	–	–	1 658 215	79 240	–	**1 737 455**
Revenues from lease agreements	–	–	–	173 045	–	**173 045**
Other changes, net	–	1 145 731	(2 499)	(5 166)	–	**1 138 066**
Total	**(3 000 000)**	**4 145 731**	**1 843 575**	**247 119**	**–**	**3 236 425**
As of December 31, 2020	**13 722 545**	**6 500 000**	**72 697**	**1 049 797**	**7 266**	**21 352 305**

(in thousands of Russian rubles, unless otherwise specified)

27. Employee benefits

The Group has pension liabilities and other long-term defined benefit liabilities that apply to most employees and retirees. Defined benefit liabilities consist of several unsecured programs providing lump sum payments upon retirement, financial support to retirees, employee death benefits, and anniversary payments.

The amounts of defined benefit liabilities recognized in the consolidated statement of financial position are as follows:

	December 31, 2021	December 31, 2020
Net Cost of employee benefit program liabilities at the end of employment	273 147	295 081
Net cost of liabilities under other long-term employee benefits plans	14 250	15 485
	287 397	**310 566**

Changes in present value of defined benefit liabilities:

	2021		2020	
	Post-employment benefits	Other long-term benefits	Post-employment benefits	Other long-term benefits
Defined benefit plan liabilities as of January 1	**295 081**	**15 485**	**276 713**	**14 788**
Cost of current services	14 133	2 916	13 203	2 668
Interest expenses	17 536	687	16 991	932
Effect of revaluation:				
- changes in financial actuarial assumptions	(59 657)	(2 184)	7 513	271
- experience adjustments	13 655	1 564	(12 324)	(3 174)
Plan contributions	(7 601)	(4 218)	(7 015)	–
Defined benefit plan liabilities as of December 31	**273 147**	**14 250**	**295 081**	**15 485**

Expenses recognised in profit or loss for the period:

Expenses/(income) recognized in the profit or loss for the period	For the year ended December 31 2021	2020
Cost of employee services	17 049	15 871
Revaluation of liabilities for other long-term employee benefits	(620)	(2 903)
Interest expenses	18 223	17 923
Total expenses recognised in profit or loss	**34 652**	**30 891**

Profit recognised in other comprehensive income for the period:

	For the year ended December 31 2021	2020
(Profit)/loss on change in financial actuarial assumptions	(59 657)	7 513
(Profit)/loss on experience adjustment	13 655	(12 324)
Total income recognized in other comprehensive income	**(46 002)**	**(4 811)**

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

	For the year ended December 31 2021	2020
Balance as of January 1	**361 435**	**366 246**
Revaluation change	(46 002)	(4 811)
Balance as of December 31	**315 433**	**361 435**

The sensitivity of the total value of pension liabilities to changes in basic actuarial assumptions is as follows:

	For the year ended December 31 2021	2020
Financial assumptions		
Discount rate	8.4%	6.1%
Inflation rate	4.5%	4.0%
Wage increase	5.0%	4.5%

Demographic assumptions

(in thousands of Russian rubles, unless otherwise specified)

Expected retirement age		
Men	65	65
Women	60	60
Average employee turnover rate	6,3%	6,3%

The amount of expected payments under long-term employee benefits programs for 2022 is 15,638 thous. rub., including:

- under defined benefit programs, including non-state employee pensions, 14,056 thous. rub.;
- under the programs of other long-term employee benefits 1,582 thous. rub.

	Changes in assumptions	**Impact on obligations**
Discount rate	Growth/decrease by 0.5%	+/-5.4%
Future wage growth	Growth/decrease by 0.5%	+/-2.8%
Future benefit growth (inflation)	Growth/decrease by 0.5%	+/-3.4%
Employee turnover rate	Growth/decrease by 10%	+/-1.1%
Mortality rate	Growth/decrease by 10%	+/-1.3%

28. Trade and other accounts payable

	December 31, 2021	**December 31, 2020**
Long-term accounts payable		
Trade accounts payable	2 245 433	5 731 381
Other accounts payable	37 761	31 985
	2 283 194	**5 763 366**
Short-term accounts payable		
Trade accounts payable (short-term)	6 018 139	5 736 928
Other accounts payable and accrued expenses	364 085	534 620
Payables to employees	1 505 559	1 376 871
Dividends payable	4 014	7 266
	7 891 797	**7 655 685**

As of December 31, 2021, long-term and short-term trade payables included debt to the electricity supplier FGC UES PJSC in the amount of 1,572,481 thous. rub., including current and restructured debts (as of December 31, 2020: 3,983,519 thous. rub.)

In 2017, two agreements were signed with FGC UES PJSC dated June 27, 2017 and December 31, 2017, under which debt totaling 5,588,433 thous. rub. has been restructured. The parties agreed on a debt repayment schedule until December 31, 2021 with the accrual of interest at a nominal rate of 11%. According to the weighted average interest rates on loans provided by credit institutions to non-financial entities in rubles (for 30 largest banks) published by the Central Bank of the Russian Federation, market rates as of the date of signing of the agreements amounted to 9.72% and 9.17%, respectively.

On April 2, 2020, supplementary agreements to the agreements dated June 27, 2017 and December 31, 2017 were signed with FGC UES PJSC, under which the parties agreed to change the debt repayment schedule for a total of 3,731,476 thous. rub. until December 31, 2023 with interest accrued at a nominal rate of 10%. According to the weighted average interest rates on loans provided by credit institutions to non-financial entities in rubles (for 30 largest banks) published by the Central Bank of the Russian Federation, the market rate as of the date of signing of supplementary agreements amounted to 7.27%.

Due to the materiality of the amendments introduced by the supplementary agreements, as of December 31, 2020, the recognition of the existing financial liability as of December 31, 2019 was discontinued and a new one was recognized.

The discount amounts recognised in accounts payable under the supplementary agreements dated April 2, 2020 to the agreements dated June 27, 2017 and December 31, 2017 amounted to 192,872 thous. rub. and 81,677 thous. rub., respectively.

As of December 31, 2021, the total amount of the unamortized discount reflected in long-term and short-term accounts payable amounted to 38,288 thous. rub. (as of December 31, 2020 − 199,369 thous. rub.).

On April 22, 2020, agreements were signed on the termination of energy service contracts with Kaskad-Energosbyt LLC and Electrotechnical plants "Energomera" JSC. In accordance with the terms of the agreements, the company must pay the cost of the System of commercial and technical electricity metering with remote data collection in the amount of 5,127,976 thous. rub. and the cost of the exchange fleet in the amount of 105,147 thous. rub. The parties agreed on a debt repayment schedule until December 25, 2024.

(in thousands of Russian rubles, unless otherwise specified)

As of December 31, 2021, long-term and short-term trade payables included debt under terminated energy service contracts in the amount of 2,378,681 thous. rub. (as of December 31, 2020 − 3,757,255 thous. rub.).

The discount amount reflected in accounts payable under the agreement on termination of the energy service contract with Electrotechnical plants "Energomera" JSC amounted to 9,598 thous. rub. as of December 31, 2021 (as of December 31, 2020 − 32,915 thous. rub.) and under agreements on the termination of energy service contracts with Kaskad-Energosbyt LLC amounted to 229,010 thous. rub. as of December 31, 2021 (as of December 31, 2020 − 655,866 thous. rub.). According to the weighted average interest rates on loans provided by credit institutions to non-financial entities in rubles (for 30 largest banks) published by the Central Bank of the Russian Federation, the market rate as of the date of signing of the agreement amounted to 8.82%.

As of December 31, 2021, the total amount of the unamortized discount on terminated energy service contracts, reflected in long-term and short-term accounts payable, amounted to 238,608 thous. rub. (as of December 31, 2020: 502,227 thous. rub.).

The Group's exposure to liquidity risk in respect of accounts payable is disclosed in Note 32.

29. Taxes payable other than income tax

	December 31, 2021	December 31, 2020
Taxes payable		
VAT	352 268	369 474
Property tax	80 828	79 167
Social security contributions	267 832	232 480
Other taxes payable	100 954	85 019
	801 882	**766 140**

30. Advances received

In this note, the amount of consumer advances is shown with VAT.

Long-term	December 31, 2021	December 31, 2020
Advance payments for utility connection to electricity networks	148 481	363 506
Other advances received	18 591	17 478
	167 072	**380 984**

Short-term	December 31, 2021	December 31, 2020
Advance payments for utility connection to electricity networks (short-term)	1 157 415	2 022 803
Other advances received (short-term)	99 539	61 858
	1 256 954	**2 084 661**

(in thousands of Russian rubles, unless otherwise specified)

31. Provisions

	For the year ended December 31	
	2021	**2020**
Balance as of January 1	**1 640 336**	**1 700 031**
Accrual (increase) for the period	1 360 852	3 049 314
Recovery (decrease) over the period	(559 149)	(1 476 482)
Use of estimated liabilities	(875 559)	(1 632 527)
Capitalized	7 407	–
Balance as of December 31	**1 573 887**	**1 640 336**

Estimated liabilities relate to lawsuits and claims brought against the Group for ordinary activities, as well as estimated liabilities for property tax risks as at 31 December 2021 in the amount of 202,050 thous. rub. (as at 31 December 2020 there were no estimated liabilities for tax risks).

32. Financial risk and capital management

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

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

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

Credit risk

Credit risk is the risk that the Group will incur a financial loss caused by the buyer or counterparty to a financial instrument not fulfilling its contractual obligations in full and on time. Credit risk relates mainly to the Group's receivables, bank deposits, cash and cash equivalents.

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

In terms of the structure of the Group's debtors, the Group's exposure to credit risk mainly depends on the individual characteristics of each counterparty. The Group creates a provision for expected credit losses on trade and other receivables, the estimated amount of which is determined on the basis of a model of expected credit losses weighted by the probability of default occurrence, and can be adjusted both upward and downward. For that, the Group analyzes the borrowing capacity of the counterparties, debt repayment dynamics, takes into account changes in payment terms, the availability of third-party guarantees, bank guarantees, and current economic conditions.

The carrying amount of receivables, net of expected credit loss provisions, represents the maximum amount exposed to credit risk. While the collection of receivables may be affected by economic and other factors, the Group believes that there is no material risk of losses exceeding the provision created.

If possible, the Group uses a prepayment system in its relationships with counterparties. As a rule, the prepayment for utility connection of consumers to the networks is provided for by the contract. The Group does not require collateral security for receivables.

(in thousands of Russian rubles, unless otherwise specified)

For effective management of receivables, the Group monitors changes in the volume of receivables and its structure by allocating current and overdue accounts. In order to minimize credit risk, the Group implements measures aimed at timely fulfillment of contractual obligations by counterparties, reducing and preventing the creation of overdue accounts. Such measures, in particular, include: conducting negotiations with service consumers, increasing the efficiency of the process of forming the volume of electricity transmission services, ensuring the implementation of schedules for monitoring readings and technical verification of electricity metering tools agreed with guaranteed supply companies, limiting the electricity consumption regime (implemented in accordance with the norms of the legislation of the Russian Federation), claims work, presentation of claims for the provision of financial security in the form of independent (bank) guarantees, collateral and other forms of security for the fulfillment of obligations.

Credit risk level

The carrying amount of financial assets reflects the maximum credit risk of the Group. As of the reporting date, the maximum level of credit risk was:

	Book value	
	December 31, 2021	**December 31, 2020**
Trade and other receivables (net of expected credit loss provisions)	8 713 109	9 373 094
Cash and cash equivalents	1 286 519	1 056 650
Financial assets measured at fair value through other comprehensive income	8 124	7 900
	10 007 752	**10 437 644**

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

	December 31, 2021		December 31, 2020	
	Total nominal value	**Expected credit loss provision**	**Total nominal value**	**Expected credit loss provision**
Buyers of electricity sales services	550 473	(288 085)	447 114	(263 809)
Buyers of electricity transmission services	9 998 540	(3 278 072)	13 501 340	(5 217 981)
Buyers of utility connection services	33 024	(15 245)	70 368	(13 342)
Other buyers	371 262	(202 296)	303 954	(213 499)
	10 953 299	**(3 783 698)**	**14 322 776**	**(5 708 631)**

The carrying amount of trade receivables attributable to the Group's ten largest debtors amounted to 6,139,942 thous. rub. as at 31 December 2021 (31 December 2020: 9,516,436 thous. rub.).

The ageing of trade and other receivables is as follows:

	December 31, 2021		December 31, 2020	
	Total nominal value	**Expected credit loss provision**	**Total nominal value**	**Expected credit loss provision**
Undue debt	7 293 509	(93 800)	8 675 524	(1 023 601)
Overdue by less than 3 months	393 607	(163 101)	1 228 826	(745 420)
Overdue for more than 3 months and less than 6 months	288 328	(142 881)	890 353	(785 590)
Overdue for more than 6 months and less than a year	506 931	(209 921)	1 122 778	(750 857)
Overdue for more than a year	4 641 768	(3 801 331)	4 087 007	(3 325 926)
	13 124 143	**(4 411 034)**	**16 004 488**	**(6 631 394)**

(in thousands of Russian rubles, unless otherwise specified)

The movement of the expected credit loss provisions on trade and other receivables is presented below:

	2021	2020
Balance as of January 1	**6 631 394**	**9 413 786**
Increase in provision for the period	885 191	5 517 906
Recovery of provision amounts for the period	(2 629 450)	(6 056 536)
Amounts of trade and other receivables written off from previously accrued provision	(476 101)	(2 243 762)
Balance as of December 31	**4 411 034**	**6 631 394**

As of December 31, 2021 and December 31, 2020, the Group has no contractual basis for offsetting financial assets and financial liabilities, and the management of the Group does not anticipate future offsetting based on supplementary agreements.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations at maturity.

Liquidity risk management involves the maintenance of sufficient funds and the availability of financial resources by attracting credit facilities. The Group follows a balanced model of working capital financing through the use of both short-term and long-term sources. Temporarily available cash is placed in the form of short-term financial instruments in the form of transactions for a minimum balance.

The Group's approach to liquidity management is to ensure that the Group has sufficient liquidity to meet its obligations on time without incurring illegible losses or exposing to risk the Group's reputation. This approach is used to analyze payment due dates related to financial assets and forecast cash flows from operating activities.

As of December 31, 2021, there was a current liquidity gap. The Group's approach to this fact is described in Note 2, section "Going concern".

(in thousands of Russian rubles, unless otherwise specified)

Below is information on the contractual maturity of financial liabilities, taking into account expected interest payments and excluding the effect of offsets. With respect to cash flows included in the analysis of the payment due dates, it is not assumed that they may occur much earlier in time or in significantly different amounts:

December 31, 2021	**Book value**	**Cash flows under the contract**	**Up to 1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**Over 5 years**
Non-derivative financial liabilities								
Credits and loans	**18 440 919**	20 917 671	5 176 185	5 181 957	7 494 131	3 065 398	–	–
Bond loans	**5 000 000**	5 230 400	5 230 400	–	–	–	–	–
Lease liabilities	**882 743**	2 272 638	135 737	104 423	96 333	83 858	64 745	1 787 542
Trade and other accounts payable	**10 174 991**	10 243 419	7 960 226	1 790 454	324 565	–	–	168 174
	34 498 653	**38 664 128**	**18 502 548**	**7 076 834**	**7 915 029**	**3 149 256**	**64 745**	**1 955 716**

December 31, 2020	**Book value**	**Cash flows under the contract**	**Up to 1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**Over 5 years**
Non-derivative financial liabilities								
Credits and loans	**15 295 242**	17 150 416	7 305 957	3 519 380	3 047 581	212 100	3 065 398	–
Bond loans	**5 000 000**	5 691 200	460 800	5 230 400	–	–	–	–
Lease liabilities	**1 049 797**	2 995 370	137 626	117 488	107 032	105 319	97 594	2 430 311
Trade and other accounts payable	**13 378 317**	13 378 317	7 614 951	2 214 435	3 230 979	314 040	870	3 042
	34 723 356	**39 215 303**	**15 519 334**	**11 081 703**	**6 385 592**	**631 459**	**3 163 862**	**2 433 353**

Market risk

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

Risk of exchange losses

Income and expenses and monetary assets and liabilities of the Group are nominated in Russian rubles. Changes in exchange rates do not directly affect the Group's income and expenses.

Interest rate risk

Changes in interest rates primarily affect loans and borrowings because they change either their fair value (for fixed-rate loans and borrowings) or future cash flows (for floating-rate loans and borrowings). The Group's management does not adhere to any established rules in determining the ratio between loans and borrowings at fixed and floating rates. At the same time, at the time of raising new loans and borrowings, on the basis of judgment, it is decided which rate - fixed or floating - will be most beneficial for the Group for the entire settlement period until maturity.

Sensitivity analysis of fair value of fixed-rate financial instruments

The Group does not recognize any financial assets and liabilities at fixed rates as instruments at fair value through profit or loss. Accordingly, the change in interest rates at the reporting date would not have affected profit or loss.

Cash flow sensitivity analysis for floating rate financial instruments

As at 31 December 2021, the Group's financial liabilities at floating interest rates amounted to 1,829,906 thous. rub. (31 December 2020: 3,001,188 thous. rub.).

A possible change in interest rates by 100 basis points would increase (reduce) the loss before income tax for 2021 by 18,229 thous. rub. (for 2020: 46,847 thous. rub.) This analysis is based on the assumption that all other variables remain constant and interest expense is not capitalized.

Fair and book value

Management believes that at the reporting date the fair value of the Group's financial assets and liabilities approximates their carrying amount.

Financial assets and financial liabilities of the Group, with the exception of quoted market securities included in financial investments (Level 1 in the fair value hierarchy, Note 17), cash and cash equivalents (Level 1 in the hierarchy), bank loans and borrowings (Level 2 in the hierarchy) belong to Level 3 in the fair value hierarchy.

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

The interest rate used to discount expected future cash flows on long-term accounts payable for the purpose of determining the disclosed fair value at 31 December 2021 and 31 December 2020 was 7.27-8.82%.

Management of capital

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

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

The Group manages its debt position by implementing credit policies aimed at improving financial stability, optimizing its debt portfolio and building long lasting relationships with participants in the debt capital market. To manage the debt position, the Group applies limits, including the categories of capital leverage, debt coverage, and debt servicing coverage. The initial data for the calculation of limits are RAS reporting indicators.

33. Capital commitments

The amount of the Group's capital commitments under contracts for the acquisition and construction of property, plant and equipment amounted to 8,173,307 thous. rub. including VAT as at 31 December 2021 (as at 31 December 2020: 5,050,336 thous. rub.).

34. Contingent liabilities

Insurance

The Group applies uniform requirements regarding the amount of insurance coverage, the reliability of insurance companies and the procedure for organizing insurance protection. The Group maintains insurance of assets, liability and other insured risks. The Group's principal operating assets have insurance coverage, including coverage for damage to or loss of property, plant and equipment. At the same time, there are risks of adverse impact on the Group's operations and financial position in the event of loss or damage to assets that are not insured or not fully covered.

Contingent tax liabilities

Russian tax legislation are subject to different interpretations with respect to the Group's operations and activities. 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 being increased. In particular, the risk of checking the tax aspect of transactions without obvious economic meaning or with counterparties violating tax laws increases. Tax inspections may cover three calendar years preceding the year of the tax inspection decision. Under certain conditions, earlier periods can be checked.

The Russian tax authorities have the right to charge additional tax liabilities and penalties based on the rules established by the transfer pricing ("TP") legislation, if the price/profitability in controlled transactions differs from the market level. The list of controlled transactions mainly includes transactions concluded between related persons.

Starting from January 1, 2019, control over transfer pricing for a significant part of domestic Russian transactions was removed. However, exemption from price controls may not be applicable to all transactions made in the domestic market. With that, in case of additional charges, the mechanism of counter-adjustment of tax liabilities can be applied subject to certain requirements of the law. Intra-group transactions that have been out of TP control since 2019 may nevertheless be checked by the territorial tax authorities for unjustified tax benefits, and TP methods may be used to determine the amount of additional charges. The federal executive body in charge of control and supervision in the area of taxes and levies may check prices/profitability in controlled transactions and, in case of disagreement with the prices applied by the Group in these transactions, charge additional tax liabilities if the Group is unable to substantiate the market nature of pricing in these transactions by providing transfer pricing documentation that meets legal requirements.

(in thousands of Russian rubles, unless otherwise specified)

With the further development of the practice of applying property tax rules, tax authorities and courts may challenge the criteria for classifying property as movable or immovable items used by the Group. The Group's management has accrued an estimated liability for property tax risk in the amount of the most likely outflow of resources disclosed in note 31.

According to management, the relevant provisions of the legislation have been interpreted correctly by them, and the position of the Group in terms of compliance with tax legislation can be justified and defended.

Legal proceedings

The Group is a participant in a number of legal proceedings (both as plaintiff and defendant) arising in the ordinary course of business. According to management, there are currently no outstanding claims or other legal actions that could have a material impact on the results of operations or financial position of the Group and are not recognized or disclosed in the interim condensed consolidated financial statements.

Environmental commitments

The Group has been operating in the electric power industry in the Russian Federation for many years. The legislation on environmental protection in the Russian Federation continues to develop, the duties of competent government bodies for monitoring its compliance are being revised. Contingent commitments related to environmental protection arising from changes in interpretations of existing legislation, lawsuits or changes in legislation cannot be assessed. Management believes that there are no contingent commitments under the existing control system and current legislation that could have a material adverse impact on the Group's financial position, results of operations or cash flows.

35. Related Party Transactions

Control relationships

Parties are generally considered to be related if they are under common control or one of the parties has the ability to control the other party or may exert significant influence over its decisions on financial and business matters or exercise joint control over it. When considering relationships with each of the possible related parties, the economic content of such relationships is taken into account, and not just their legal form.

The main related parties of the Group for the year ended 31 December 2021 and 31 December 2020, as well as at 31 December 2021 and 31 December 2020, were the parent company, its subsidiaries, key management personnel, and companies associated with the principal shareholder of the parent company.

Operations with the parent company, its subsidiaries

	Transaction amount for the year ended December 31		Book value	
Revenue, net other income	**2021**	**2020**	**December 31, 2021**	**December 31, 2020**
Parent Company				
Lease payment	1 641	1 641	–	–
Other revenues and proceeds	10 000	–	–	–
Enterprises under common control of the parent company				
Electric power transmission	297 551	481 976	–	–
Other revenues and proceeds	76 242	33 623	444 278	413 689
Recovery of provision for expected credit losses	(56 602)	1 615	–	–
	328 832	**518 855**	**444 278**	**413 689**

(in thousands of Russian rubles, unless otherwise specified)

Operating expenses, financial expenses	Transaction amount for the year ended December 31 2021	2020	Book value December 31, 2021	December 31, 2020
Parent Company				
Management consulting	81 327	92 616	15 134	17 977
Other works and services of production nature	28 537	28 538	–	–
Other	5 420	5 725	–	–
Interest expense on financial liabilities carried at depreciable cost	732 888	559 638	38 352	66 131
Enterprises under common control of the parent company				
Electricity transmission services	7 825 181	7 470 217	1 365 419	3 986 849
Electricity to compensate for technological losses	293,917	240 146	–	–
Other	74 054	90 691	763 679	302 171
Provisions	74 546	–	74 546	–
Accrual of provision for expected credit losses	56 602	435 362	–	–
Interest expense on financial liabilities carried at depreciable cost	206 329	366 471	–	–
	9 378 801	**9 289 404**	**2 257 130**	**4 373 128**

	Book value December 31, 2021	December 31, 2020
Parent Company		
Credits and loans	8 000 000	11 500 000
Enterprises under common control of the parent company		
Advances paid	25 036	26 545
Credits and loans	450 000	–
Advances received	15	68
Lease liabilities	34 187	33 089
	8 509 238	**11 559 702**

As of December 31, 2021, there is no debt to the parent company for the payment of dividends.

In 2020, the Company did not pay dividends to the parent company.

Operations with key management personnel

For the purposes of preparing these consolidated financial statements, key management personnel include members of the Board of Directors and the Management Board of Rosseti South PJSC, the General Director and his deputies.

Remuneration of key management personnel is composed of wages stipulated by the labor agreement, non-monetary benefits, as well as bonuses determined by the results for the period and other payments. Remuneration or compensation is not paid to those members of the Board of Directors who are government employees.

(in thousands of Russian rubles, unless otherwise specified)

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

	For the year ended December 31	
	2021	**2020**
Short-term employee benefits	160 262	226 663
Change in post-employment liabilities and other long-term benefits (including pension plans)	1 061	–
Termination benefits	–	1 081

As of December 31, 2021, the present value of defined benefit liabilities for key management personnel reported in the consolidated statement of financial position amounted to 1,061 thous. rub. (there were no liabilities as of December 31, 2020).

Transactions with companies associated with the principal shareholder of the parent company

As part of its operating performance, the Group enters into transactions with other companies associated with the parent company's principal shareholder. These transactions are carried out at regulated rates or at market prices. Raising and investing funds in financial institutions associated with the principal shareholder of the parent company is carried out at market interest rates. Taxes are assessed and paid in accordance with Russian tax law.

Revenue from companies associated with the principal shareholder of the parent company was:

- 46% of the Group's total revenue for the year ended December 31, 2021 (December 31, 2020: 46%);
- 44% of the Group's electricity revenues for the year ended December 31, 2021 (December 31, 2020: 44%).

Costs of electricity transmission and costs of purchasing electricity to compensate for technological losses for companies related to the state amounted to 9 and 18%, respectively, of the total costs of transmission and compensation for losses for the year ended December 31, 2021 (for the year ended December 31, 2020: 13 and 17%, respectively).

Interest accrued on loans and borrowings from government-related banks for the year ended December 31, 2021 amounted to 733,307 thous. rub. (for the year ended December 31, 2020: 612,109 thous. rub.).

As of December 31, 2021, loans and borrowings received from banks related to the principal shareholder of the parent company amounted to 11,509,610 thous. rub. (as of December 31, 2020, 5,727,923 thous. rub.).

As of December 31, 2021, the balance of cash and cash equivalents placed with government-related banks amounted to 577,747 thous. rub. (as of December 31, 2020: 1,056,615 thous. rub.).

As of December 31, 2021, there are no deposits with an initial placement period of more than three months placed with banks related to the principal shareholder of the parent company (as of December 31, 2020 there are no deposits).

As of December 31, 2021, lease obligations for government-related companies amounted to 694,688 thous. rub. (as of December 31, 2020: 884,602 thous. rub.).

Information on borrowed funds received from government-related banks and the balance of cash and cash equivalents placed with government-related banks is disclosed in Notes 25 "Borrowed Funds" and 22 "Cash and cash equivalents".

36. Events after the reporting period

Material events that have had or may have an impact on the financial state, cash flows or results of operations of the Group occurring between the reporting date and the date of signing of the Group's consolidated financial statements for the year, ended December 31, 2021 prepared in accordance with IFRS, none, except as disclosed in Note 1 with respect to the economic environment in which the Group operates.