

Public Joint stock company Rosseti South
and its subsidiaries

Consolidated financial statements
prepared in accordance with International
Financial Reporting Standards
for the year ended 31 December 2022

Table of contents	Page
The independent auditor's report	3
Consolidated statement of profit or loss and other comprehensive income	9
Consolidated statement of financial position	10
Consolidated statement of changes in equity	11
Consolidated Statement of Cash Flows	12
Notes to the consolidated financial statements	
1. General information	14
2. Basis for the preparation of consolidated financial statements	15
3. Key Accounting Policies	18
4. Fair value measurement	28
5. Main subsidiaries	29
6. Segment Information	29
7. Revenues:	34
8. Other revenues	34
9. Other expenses	35
10. Operating Cost	35
11. Employee benefits expenses	35
12. Financial income and expenses	36
13. Income tax	36
14. Fixed assets	38
15. Intangible assets	42
16. Right-of-Use Assets	43
17. Other financial assets	44
18. Deferred tax assets	45
19. Inventories	47
20. Trade and other receivables	47
21. Advances issued and other assets	48
22. Cash and cash equivalents	48
23. Authorized capital	48
24. Income per share	49
25. Borrowed funds	49
26. Changes in liabilities arising from financing activities	51
27. Employee benefits	53
28. Trade and other payables	54
29. Tax debt other than income tax	55
30. Advances received	55
31. Provisions	56
32. Financial risk and capital management	56
33. Capital commitments	61
34. Contingent liabilities	61
35. Related party transactions	62
36. Events after the reporting date	64



"TSATR - audit services" LLC
Russia 115035 Moscow
Sadovnicheskaya emb. 77
building 1
Tel: +7 495 705 9700
+7 495 755 9700
Fax: +7 495 755 9701
OGRN: 1027739707203
ITIN: 7709383532
OKPO: 59002827
KPP: 770501001

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

Auditor's report of independent auditor

for Shareholders and Board of Directors
of Public Joint stock company Rosseti South

Opinion

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

In our opinion the accompanying consolidated financial statements present fairly in all material respects the consolidated financial position of the Group as of 31 December 2022 its consolidated financial results and consolidated cash flows for 2022 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 those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants (including International Standards of Independence) (IESBA Code) and the ethical requirements applicable to our audit of consolidated financial statements in the Russian Federation and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is adequate and appropriate to provide a basis for our audit opinion.

Key Audit Matters

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



We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report including with respect to these matters. Accordingly our audit included the performance of procedures designed in response to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures including those performed in response to the matters set out below form the basis for our audit opinion on the accompanying consolidated financial statements.

Key Audit Matter	How the relevant key issue was addressed in our audit
<p><i>Recognition and valuation of revenue from electricity transmission services</i></p> <p>Recognition and valuation of revenue from electricity transmission services was one of the most significant matters of our audit due to certain specifics of the electricity market mechanisms which causes disagreements between electric grids energy retailers and other companies regarding the volume and cost of electricity transmitted. The amount of revenue disputed by counterparties is material to the Group's financial statements. The assessment by the Group's management of the probability of resolving disputes in its favor is largely subjective. Revenue is recognized when based on assumptions the dispute is resolved in favor of the Group.</p> <p>Information on revenue from electricity transmission services is disclosed in paragraph 7 of the notes to the consolidated financial statements.</p>	<p>We reviewed the accounting policy applied in relation to the recognition of revenue from electricity transmission services assessed the system of internal control over the reflection of this revenue checked the determination of the relevant amounts of revenue based on the concluded electricity transmission contracts obtained confirmation of balances of receivables from counterparties on a sample basis conducted analysis of the results of litigation in relation to the disputed amounts of services rendered if any and conducted assessment of existing procedures for confirming the volumes of transmitted electricity.</p>
<p><i>Allowance for expected credit losses on trade receivables</i></p> <p>The matter of making allowance for expected credit losses on trade receivables was one of the most significant for our audit due to the significant balances of trade receivables as of 31 December 2022 and also due to the fact that management's assessment of the recoverability of these receivables is based on assumptions in particular on the forecast of solvency of the Group's customers.</p> <p>Information on the allowance for expected credit losses on trade receivables is disclosed in paragraph 20 of the notes to the consolidated financial statements.</p>	<p>We reviewed the Group's accounting policy for dealing with trade receivables to allow for expected credit losses on trade receivables and reviewed the valuation procedures made by the Group's management including analysis of payment of trade receivables maturity and delinquency analysis buyers solvency analysis.</p> <p>We performed audit procedures on the information used by the Group to determine the allowance for expected credit losses on trade receivables as well as on the composition of receivables by age and maturity and tested the calculation of accrued allowance amounts based on management's estimates.</p>



Key Audit Matter	How the relevant key issue was addressed in our audit
------------------	---

Recognition valuation and disclosure of reserves and contingent liabilities

Recognition valuation and disclosure of reserves and contingent liabilities in relation to litigation and claims of counterparties (including territorial electric grid and energy retail companies) as well as in relation to tax risks were among the most significant issues in our audit due to the fact that they require significant judgment guidance for material amounts disputed in litigation or in pre-trial settlement.

Information on reserves and contingent liabilities is disclosed in paragraph 31 and 34 of the notes to the consolidated financial statements.

The audit procedures included among others the analysis of decisions made by courts of various instances and consideration of management's judgments regarding the assessment of the likelihood of an outflow of economic resources due to the resolution of disputes the study of the compliance of the prepared documentation with the provisions of existing contracts and legislation the analysis of disclosures in the notes to the consolidated financial statements of information on reserves and contingent liabilities.

Impairment of non-current assets

Due to indications of impairment of non-current assets as of 31 December 2022 the Group performed an impairment test. The value in use of property plant and equipment which represents a significant portion of the Group's non-current assets as of 31 December 2022 was determined using the projected cash flow method.

The issue of testing property plant and equipment for impairment was one of the most significant for our audit because the balance of property plant and equipment represents a significant portion of the total assets of the Group at the reporting date and also because the process of management's assessment of value in use is complex largely subjective and based on assumptions in particular on the forecast of electricity transmission volumes electricity transmission tariffs as well as operating and capital costs which depend on the expected future market or economic conditions in the Russian Federation.

Information on the results of the analysis of non-current assets for impairment is disclosed by the Group in paragraph 14 and 16 of the notes to the consolidated financial statements.

As part of our audit procedures we have among other things evaluated the assumptions and methodologies used by the Group in particular those relating to forecasted electricity transmission revenues tariff decisions operating and capital costs long-term tariff growth rates and discount rates. We tested the inputs to the model and tested the arithmetic accuracy of the model used to determine the recoverable amount in the impairment test for property plant and equipment. We engaged valuation specialists to analyze the model used to determine the recoverable amount in the impairment test for property plant and equipment. We also analyzed the sensitivity of the model to changes in key valuation measures and the Group's disclosures on the assumptions on which impairment testing results are most dependent.

Emphasis of matter

We draw attention to paragraph 2 of the Consolidated Financial Statements Framework which states that the Group's net assets are negative. We express no modified opinion on this matter.



НОВЫЕ ВЫЗОВЫ
НОВЫЕ РЕШЕНИЯ

Other information included in the annual report of Public Joint Stock Company Rosseti South

Other information includes data contained in the annual report of Public Joint Stock Company Rosseti South but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for other information. The Annual Report of Public Joint Stock Company Rosseti South is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance opinion on that information.

In connection with our audit of the consolidated financial statements our responsibility is to review the other information referred to above when it is provided to us and in doing so consider whether there are material inconsistencies between the other information and the consolidated financial statements or our knowledge obtained in the course of audit and whether the other information contains other material misstatements.

Responsibilities of Management and 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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

In preparing the consolidated financial statements management is responsible for assessing the Group's ability to continue as a going concern for making disclosures relating to going concern as appropriate and for reporting on a going concern basis unless management intends to liquidate the Group terminate its operations or when management has no viable alternative to doing so.

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

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

Our objective is to be reasonably certain that the consolidated financial statements as a whole are free from material misstatement whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high degree of assurance although it is not a guarantee that an audit conducted in accordance with ISA will detect a material misstatement whenever it exists. Misstatements can result from fraud or error and misstatements are considered material if individually or in the aggregate they could reasonably be expected to influence the economic decisions of users made on the basis of these consolidated financial statements.



As part of an audit in accordance with ISAs we exercise professional judgment and we remain professional skeptics throughout the audit process. In addition we do 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 entity's internal control system;
- ▶ evaluate the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management and related disclosures;
- ▶ conclude how appropriately the management has applied the going concern assumption; and based on the audit evidence obtained we conclude whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw 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 communicate with the Board of Directors to bring among other things to their attention information on the planned scope and timing of the audit as well as significant comments on the results of the audit including significant shortcomings in the internal control system that we identify in the course of the audit.

We also provide the Board of Directors with a statement that we have complied with all relevant ethical requirements for independence and have kept those individuals informed of all relationships and other matters that could reasonably be considered to affect the auditor's independence and where appropriate of actions taken to elimination of threats or precautions taken.



**НОВЫЕ ВЫЗОВЫ
НОВЫЕ РЕШЕНИЯ**

From those matters that we have brought to the attention of the Board of Directors we determine the matters that were most significant to the audit of the consolidated financial statements for the current period and which therefore are key audit matters. We describe these matters in our auditor's report except when public disclosure of information on these matters is prohibited by law or regulation or when in extremely rare cases we conclude that information on a matter should not be disclosed in our conclusion since it can reasonably be assumed that the negative consequences of the communication of such information will exceed the socially significant benefit from its communication.

The head of the audit based on the results of which the independent auditor's report was drawn up – T.L. Okolotina.

T.L. Okolotina
acting on behalf of the Limited Liability Company
"Center for Audit Technologies and Solutions – Audit Services"
on the basis of a power of attorney No. dated April 18 2022
The head of the audit based on the results of which the independent auditor's report was drawn up (ORNZ 21906110171)

March 21 2023

Auditor Information

Name: Limited Liability Company "Center for Audit Technologies and Solutions - Audit Services"
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 emb. 77 building 1.
Limited Liability Company "Center for Audit Technologies and Solutions – Audit Services" is a member of the Self-Regulatory Organization of Auditors Association "Sodruzhestvo" (SRO AAS). Limited Liability Company "Center for Audit Technologies and Solutions – Audit Services" is included in the control copy of the register of auditors and audit organizations under the main registration number 12006020327.

Information about the auditee:

Name: Public Joint stock company Rosseti South
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 region Rostov-on-Don 49 Bolshaya Sadovaya Street.

Rosseti South Group of Companies
Consolidated statement of profit or loss and other comprehensive income
(in thousands of Russian rubles unless otherwise indicated)

	Approx.	For the year ended 31 December	
		2022	2021
Revenues:	7	44 142 877	43 444 339
Operating Cost	10	(41 705 704)	(41 076 522)
Recovery of allowance for expected credit losses		326 873	1 744 259
Net impairment loss on property plant and equipment and right-of-use assets		(474 874)	(7 691 622)
Other revenues	8	992 590	666 313
Other expenses	9	(254 395)	(136 185)
Operating profit/(loss)		3 027 367	(3 049 418)
Financial income	12	520 066	566 076
Financial expenses	12	(2 730 036)	(2 060 017)
Total financial expenses		(2 209 970)	(1 493 941)
Profit/(loss) before tax		817 397	(4 543 359)
Savings/(expenses) on income tax	13	(478 772)	810 307
Profit/(loss) for the period		338 625	(3 733 052)
Other comprehensive income			
<i>Items that cannot be subsequently reclassified to profit or loss:</i>			
Changes in the fair value of equity investments at fair value through other comprehensive income		1 299	224
Income tax	13	(260)	(45)
Revaluation of defined benefit plans		26 186	46 002
Total items that cannot be subsequently reclassified to profit or loss:		27 225	46 181
Other comprehensive income for the period net of income tax		27 225	46 181
Total comprehensive income/(loss)		365 850	(3 686 871)
Profit/loss attributable to:			
Company Owners		338 625	(3 733 052)
Total comprehensive income/(loss) attributable to:			
Company Owners		365 850	(3 686 871)
Income/(loss) per share			
Basic and diluted income/(loss) per share (RUB)	24	0.002	(0 025)

These consolidated financial statements were approved by management on 21 March 2023 and signed on behalf of management by the following persons:

Director General

B.B. Ebzeev

Chief Accountant

G.G. Savin

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

Rosseti South Group of Companies
Consolidated statement of financial position
(in thousands of Russian rubles unless otherwise indicated)

	<u>Approx.</u>	<u>December 31 2022</u>	<u>December 31 2021</u>
ASSETS			
Noncurrent assets			
Fixed assets	14	25 002 832	23 375 787
Intangible assets	15	190 628	197 141
Right-of-Use Assets	16	628 174	814 250
Long-term trade and other receivables	20	1 561 729	2 637 905
Other non-current financial assets		5 943	8 124
Deferred tax assets		983 808	1 473 042
Advances issued and other non-current assets	21	22 773	2 491
Total non-current assets		28 395 887	28 508 740
Current assets			
Inventories		1 185 144	1 202 791
Income tax advance		230 846	181 030
Trade and other receivables	20	18 695 673	6 075 204
Cash and cash equivalents	22	1 662 666	1 286 519
Advances issued and other fixed assets	21	1 617 727	486 975
Total fixed assets		23 392 056	9 232 519
Total assets		51 787 943	37 741 259
EQUITY AND LIABILITIES			
Equity			
Authorized capital	23	15 164 143	15 164 143
Reserve		(285 259)	(312 484)
Accumulated loss		(15 359 103)	(15 697 728)
Total equity attributable to the Company owners		(480 219)	(846 069)
Non-current liabilities			
Non-current borrowings	25	16 057 825	15 368 791
Non-current trade and other payables	28	389 876	2 283 194
Employee benefit liabilities		289 751	287 397
Non-current advances received	30	310 996	167 072
Total non-current liabilities		17 048 448	18 106 454
Current liabilities			
Non-current borrowings and the non-current portion of long-term borrowings	25	7 250 915	8 954 871
Trade and other payables	28	22 975 852	7 891 797
Tax debt other than income tax	29	1 514 541	801 882
Advances received	30	2 583 292	1 256 954
Provisions	31	888 802	1 573 887
Income tax debt		6 312	1 483
Total current liabilities		35 219 714	20 480 874
Total liabilities		52 268 162	38 587 328
Total equity and liabilities		51 787 943	37 741 259

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

Rosseti South Group of Companies
Consolidated statement of changes in equity
(in thousands of Russian rubles unless otherwise indicated)

	Equity attributable to the Company owners			Total equity
	Authorized capital	Other reserves	Retained earnings / (cumulative loss)	
Balance as of January 1 2022	15 164 143	(312 484)	(15 697 728)	(846 069)
Profit for the period	–	–	338 625	338 625
Net change in fair value of available-for-sale financial assets	–	1 299	–	1 299
Revaluation of defined benefit plans	–	26 186	–	26 186
Income tax on other comprehensive income	–	(260)	–	(260)
Total comprehensive income for the period	–	27 225	338 625	365 850
Balance as of December 31 2022	15 164 143	(285 259)	(15 359 103)	(480 219)
	Equity attributable to the Company owners			Total equity
	Authorized capital	Other reserves	Retained earnings / (cumulative loss)	
Balance as of January 1 2021	15 164 143	(358 665)	(11 964 676)	2 840 802
Loss for the 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)

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

Rosseti South Group of Companies
Consolidated Statement of Cash Flows
(in thousands of Russian rubles unless otherwise indicated)

	Approx.	For the year ended 31 December	
		2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) for the period		338 625	(3 733 052)
<i>Adjustments</i>			
Depreciation of property plant and equipment right-of-use assets and intangible assets	14	2 399 652	2 823 434
Recovery of allowance for expected credit losses		(326 873)	(1 744 259)
Financial expenses	12	2 730 036	2 060 017
Financial income	12	(520 066)	(566 076)
Net impairment loss on property plant and equipment and right-of-use assets		474 874	7 691 622
Loss on disposal of property plant and equipment	9	183 677	93 940
Disposal of a subsidiary	9	70 358	42 245
Other non-cash transactions		(42 272)	69 469
Income tax expense	13	478 772	(810 307)
Total impact of adjustments		5 786 783	5 927 033
Change in employee benefit liabilities		2 354	(23 169)
Change in long-term trade and other receivables		1 085 742	478 465
Change in long-term advances issued and other non-current assets		(20 282)	777
Change in long-term trade and other payables		(1 893 318)	(3 480 172)
Change in long-term advances received		143 924	(213 912)
Cash flows from operating activities before changes in working capital and reserves		5 105 203	2 689 022
<i>Changes in working capital and reserves</i>			
Change in trade and other receivables		(12 107 974)	2 260 457
Change in advances issued and other assets		(1 130 752)	5 123
Stock change		19 131	(291 771)
Change in trade and other payables		16 558 431	731 221
Use of estimated liabilities		(685 085)	(66 449)
Change in advances received		1 326 338	(827 077)
Cash flows from operating activities before income tax and interest		9 085 292	4 500 526
Income tax paid		(38 589)	122 700
Interest paid on lease agreements	26	(55 822)	(71 251)
Interest paid	26	(2 505 991)	(1 871 116)
Net cash received/(used) from/(in) operating activities		6 484 890	2 680 859
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of fixed assets and intangible assets		(5 268 166)	(5 682 368)
Proceeds from the sale of property plant and equipment and intangible assets		3 193	4 358
Disposal of financial assets		983	–
Cash from disposal of subsidiaries		–	47 948
Dividends received		–	158
Interest received		138 630	65 893
Net cash used in investing activities		(5 125 360)	(5 564 011)

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

Rosseti South Group of Companies
Consolidated Statement of Cash Flows
(in thousands of Russian rubles unless otherwise indicated)

	Approx.	For the year ended 31 December	
		2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES			
Attracting of borrowed funds	26	17 577 703	14 270 109
Repayment of borrowed funds	26	(18 482 414)	(11 111 171)
Dividends paid to the owners of the Company	26	(36)	(35)
Payments on rental obligations	26	(78 636)	(45 882)
Net cash (used in) / received from financing activities		(983 383)	3 113 021
Net increase in cash and cash equivalents		376 147	229 869
Cash and cash equivalents at the beginning of the reporting period	22	1 286 519	1 056 650
Cash and cash equivalents at the end of the reporting period	22	1 662 666	1 286 519

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

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

1. General information

The Group and its activities

The main activity of PJSC Rosseti South (hereinafter referred to as the "Company" or PJSC Rosseti South) and its subsidiaries (hereinafter collectively referred to as the "Group" or "Rosseti South Group of Companies") is the provision of services for the transmission and distribution of electricity by electric networks provision of services for the technological connection of consumers to networks as well as the sale of electricity to the final consumer in the Republic of Kalmykia.

Revenue and operating expenses from this type of activity are disclosed in Notes 7 and 10.

The parent company is PJSC Rosseti.

Location of PJSC Rosseti South: 344002 Russia Rostov-on-Don 49 Bolshaya Sadovaya Street

Information about the structure of the Group is presented in Note 5 "Main subsidiaries".

Information about the Group's relationships with other related parties is presented in Note 35 Related Party Transactions.

Relations with the state. Head parent company

The Government of the Russian Federation represented by the Federal Agency for State Property Management is the ultimate controlling party of the Company.

The policy of the Government of the Russian Federation in the economic social and other areas may have a significant impact on the activities of the Group.

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

The share of the Russian Federation in the authorized capital of PJSC Rosseti the parent company of the Group amounted to 88.04%; in ordinary voting shares – 88.89% in preference shares – 7.01% as of December 31 2022 and as of December 31 2021. PJSC Rosseti in turn as of December 31 2022 and December 31 2021 owns 84.12% of the shares of PJSC Rosseti South.

The Extraordinary General Meeting of Shareholders of PJSC Rosseti held on September 16 2022 decided to reorganize PJSC Rosseti in the form of a merger with Federal Grid Company – Rosseti PJSC in the manner and on the terms provided for in the merger agreement.

On January 9 2023 information was entered into the Unified State Register of Legal Entities on the termination of the activities of PJSC Rosseti through reorganization in the form of a merger with the Public Joint Stock Company Federal Grid Company - Rosseti which is the universal successor of PJSC Rosseti. As a result of the reorganization the share of participation of the Russian Federation in the authorized capital of the parent company of the Group Public Joint Stock Company Federal Grid Company –Rosseti amounted to 75.000048%.

Economic environment which the Group operates in

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

The economy of the Russian Federation exhibits some of the characteristics of emerging markets. The country's economy is particularly sensitive to oil and gas prices. The legal tax and regulatory systems continue to evolve and are subject to frequent change and are subject to varying interpretations.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

In 2022 the effect of external sanctions on legal entities and individuals in the Russian Federation continues in connection with which the influence of economic and other factors as well as the uncertainty factor on the conditions for doing business in the Russian Federation is increasing. In 2022 the high uncertainty of the impact of external and internal factors on the economy of the Russian Federation continues to persist as well as the volatility of financial indicators. Sanctions have been imposed on a number of Russian banks by the US the UK and the EU. All of the above has a negative impact on the economy of the Russian Federation. At the same time during the reporting year a structural restructuring of the economy was observed a number of legislative measures made it possible to maintain the stability of the economy of the Russian Federation and adapt to the ongoing changes.

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

2. Basis for the preparation of consolidated financial statements

Statement of compliance with IFRS

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

Each Group entity 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 fair presentation in accordance with IFRS.

Business continuity

The Group's consolidated financial statements for 2022 have been prepared on a going concern basis which means that the Group is able to realize its assets and settle its liabilities in the normal course of business for the foreseeable future.

As of December 31 2022 there was a current liquidity deficit. As at 31 December 2022 the excess of the Group's current liabilities over current assets is RUB 11 827 658. (31 December 2021: RUB 11 248 355).

As at 31 December 2022 the Group had negative net assets in the amount of RUB 480 219. (31 December 2021: positive net assets in the amount of RUB 846 069).

In order to maintain financial stability PJSC Rosseti South has developed a number of measures aimed among other things at bringing the value of the Company's net assets in line with the amount of the authorized capital transmission of electric energy in excess of the parameters provided for by the current Forecast of the socio-economic development of the Russian Federation adjustment of the investment program reduction of the debt burden and others.

Based on the Group's management's forecasts the Group's net operating cash flow in 2023 taking into account unused credit facilities will be sufficient to cover non-current liabilities due in 2023. The amount of long-term open credit lines unused as of December 31 2022 is RUB 39 329 231.

Base for determining the cost

These consolidated financial statements have been prepared on a historical cost basis 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 Group's functional and presentation currency for these consolidated financial statements. All figures in Russian rubles have been rounded to the nearest thousand.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

New standards clarifications and amendments to existing standards

The following amendments to standards became mandatory on 1 January 2022 and did not have a material effect on the Group's consolidated financial statements:

- “Revenue received prior to the commencement of the intended use of the asset Onerous contracts – cost of fulfilling the contract”.
- “Reference to the Conceptual Framework” are amendments with limited scope to IAS 16 IAS 37 and IFRS 3.
- Annual Improvements to IFRS 2018-2020 relating to IFRS 1 IFRS 9 IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning 1 January 2022 or after that date).

A number of new standards and interpretations have been published and are mandatory for annual periods beginning on or after January 1 2023. The Group intends to adopt the standards and amendments for use upon entry into force; no material impact on the Group's consolidated financial statements is expected.

- IFRS 17 *Insurance Contracts* (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021 the effective date was subsequently moved to 1 January 2023 by the IFRS Amendments) 17 released on June 25 2020).
- “Classification of liabilities into current and non-current” – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022 the effective date was subsequently moved to 1 January 2024 by Amendments to IAS 1).
- Amendments to IAS 1 and IFRS Practice Guide 2: *Accounting Policies Disclosures* (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).
- Deferred tax on assets and liabilities arising from the same transaction – Amendments to IFRS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets in Transactions between an Investor and its Associate or Joint Venture* (issued on 11 September 2014 and effective for annual periods beginning on or after to be determined by the IFRS or after that date).
- Amendments to IFRS 17 and Amendments to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 8: *Determination of Accounting Estimates* (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).
- “Lease Liabilities on Sale and Leaseback” – Amendments to IFRS 16 (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024).
- “Long-term liabilities with covenants” – Amendments to IAS 1 (issued on 31 October 2022 and effective for annual periods beginning on or after 1 January 2024).

Representation changes. Reclassification of comparatives

Certain amounts in prior period comparative information have been reclassified to ensure comparability with the presentation of data in the current reporting period. All reclassifications made are immaterial.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

Use of Estimates and Professional Judgments

The preparation of consolidated financial statements in accordance with IFRS requires management's judgments assumptions and estimates that affect how accounting policies are applied and how assets liabilities income and expenses are reported. Actual results may differ from these estimates.

Management continually reviews its estimates and assumptions based on experience gained and other factors that have been used to determine the carrying amounts of assets and liabilities. Changes in estimates and assumptions are recognized in the period in which they are made if the change affects only that period or 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 effect on the amounts recognized in the consolidated financial statements estimates and assumptions that can cause a significant adjustment to the carrying amount of assets and liabilities within the next year include:

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

At each reporting date the Group's management assesses whether there is any indication of impairment of property plant and equipment and right-of-use assets. Indicators of impairment include changes in business plans tariffs and other factors that could have an adverse effect on the Group's business. When making value-in-use calculations 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.

Determining the lease term for contracts with an extension option or a lease termination option – the Group as a lessee

The Group defines a lease term as a non-cancellable period of the lease together with periods for which there is an option to extend the lease if it is reasonably certain that it will be exercised or periods for which there is an option to terminate the lease if there is any reasonable assurance that it will not be executed.

In making the judgment to assess whether the Group has reasonable certainty to exercise an extension option or an option to terminate a lease when determining the lease term the Group considers the following factors:

- whether the leased object is specialized;
- location of the object;
- whether the Group and the lessor have the practical ability to choose an alternative counterparty (selection of an alternative asset);
- costs associated with the termination of the lease and the conclusion of a new (replacing) contract;
- the presence of significant improvements to the leased facilities.

Impairment of receivables

The allowance for expected credit losses on accounts receivable is based on management's assessment of the likelihood of repayment of specific debts of specific debtors. For the purposes of measuring credit losses the Group consistently considers all reasonable and supportable information about past events current and forecast events that is available without undue effort and that is relevant to estimating receivables. Past experience is adjusted on the basis of data currently available to reflect current conditions that did not affect prior periods and to remove the effects of past conditions that no longer exist.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

Obligations to pay pensions

The costs of the defined benefit plan and related pension plan costs are determined using actuarial calculations. Actuarial valuations involve making assumptions on demographic and financial data. Since this program is a long-term one there is considerable uncertainty about such estimates.

Recognition of deferred tax assets

Management evaluates deferred tax assets at each reporting date and determines the amount to be recognized to the extent that it is probable that tax deductions will be used. In determining future taxable income and tax credits management uses estimates and judgments based on prior years' taxable income and future profit expectations that are reasonable in the circumstances.

3. Key Accounting Policies

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

Consolidation principles

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls a subsidiary when the Group is exposed to or entitled to variable income from participation in an investee and has the ability to exercise its power over the company to influence the amount of such income. Financial statements of subsidiaries are reflected in the consolidated financial statements from the date control is acquired until the date it is terminated.

The accounting policies of subsidiaries have been subject to change when they needed to be brought in line with the accounting policies adopted by the Group.

Business combinations

Business combinations are accounted for using the acquisition method as of the acquisition date i.e. the date when control is transferred to the Group.

The Group measures goodwill at the acquisition date as follows:

- the fair value of the consideration transferred; plus
- the amount of recognized non-controlling interest in the acquiree; plus
- the fair value of the equity interest already held in the acquiree if the business combination was achieved in stages; minus
- The net amount of the recognized amounts (usually fair value) of the identifiable assets acquired less the liabilities assumed.

If the difference is negative then gain or loss on a bargain purchase is recognized immediately in profit or loss.

The amount transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss for the period.

Transaction costs incurred by the Group as a result of a business combination other than costs associated with the issuance of debt or equity securities are expensed as incurred.

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

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

Transactions eliminated on consolidation

Intragroup balances and transactions and unrealized income and expenses from intragroup transactions are eliminated in the preparation of the consolidated financial statements. Unrealized gains on transactions with equity accounted investees are eliminated by reducing the cost of the investment to the extent of the Group's interest in the respective investee. Unrealized losses are eliminated in the same way as unrealized gains 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 amortized 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 the contractual characteristics of the cash flows.

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

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

- trade and other receivables that meet the definition of financial assets if the Group does not intend to sell them immediately or in the near future;
- bank deposits that do not meet the definition of cash equivalents;
- bills and bonds not intended for trading;
- loans issued;
- cash and cash equivalents

For financial assets classified as measured at amortized cost an allowance is made for expected credit losses ("ECL").

Upon derecognition of financial assets measured at amortized cost and fair value through profit or loss the Group reflects in the statement of profit or loss and other comprehensive income (through profit or loss) the financial result from their disposal equal to the difference between the fair value the value of the consideration received and the carrying amount of the asset.

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

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

On derecognition of equity instruments of other companies designated by the Group as measured at fair value through other comprehensive income previously recognized components of other comprehensive income are transferred from the fair value reserve to retained earnings.

Impairment of financial assets

Allowances for impairment are measured either on the basis of 12-month ECL which is the result of possible defaults within 12 months after the reporting date or lifetime ECL which is the result of all possible defaults over the expected life of the financial instrument.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

For trade receivables or contract assets that arise from transactions within the scope of IFRS 15 *Revenue from Contracts with Customers* (including those with a significant financing component) and lease receivables the Group applies a simplified approach to estimating the allowance for expected credit losses – an estimate at an amount equal to lifetime expected credit losses.

Allowances for impairment of other financial assets classified as measured at amortized cost are measured based on 12-month ECLs unless there has been a significant increase in credit risk since recognition. The allowance for expected credit losses on a financial instrument is measured at each reporting date at an amount equal to lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition taking into account all reasonable and supportable information including forecasting.

As indicators of a significant increase in credit risk the Group considers actual or expected difficulties of the issuer or debtor of an asset actual or expected breach of contract expected renegotiation of the terms of the contract due to the financial difficulties of the debtor on terms that are unfavorable for the Group to which it would otherwise not agree.

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

An impairment credit loss on a financial asset is reflected by recognizing an allowance for its impairment. For a financial asset carried at amortized cost the amount of the impairment loss is the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate.

If in subsequent periods the credit risk of a financial asset decreases as a result of an event occurring after the loss was recognised then the previously recognized impairment loss is reversed by reducing the related allowance. As a result of the reversal the asset's carrying amount should not exceed the amount at which it would have been carried in the statement of financial position had no impairment loss been recognised.

Financial obligations

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

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

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

Loans and borrowings (borrowed funds) are initially recognized at fair value taking into account transaction costs directly attributable to raising these funds. Fair value is determined by taking into account prevailing market interest rates for similar instruments if it differs significantly from the transaction price. In subsequent periods borrowings are carried at amortized cost using the effective interest method; any difference between the fair value of the proceeds received (net of transaction costs) and the amount payable is recognized in profit or loss as interest expense over the life of the obligation to repay the borrowings.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

Borrowing costs are expensed in the reporting period in which they are incurred unless they relate to the acquisition or construction of qualifying assets. Borrowing costs relating to the acquisition or construction of assets that take a significant amount of time to get ready for use (qualifying assets) are capitalized as part of the cost of the asset. Capitalization occurs when the Group:

- incurs costs on qualifying assets;
- incurs borrowing costs; and
- carries out activities related to the preparation of assets for use or sale.

Capitalization of borrowing costs continues until the date the assets are ready for use or sale. The Group capitalizes those borrowing costs that could have been avoided if it had not incurred costs on qualifying assets. Borrowing costs are capitalized on the basis of the Group's average financing cost (the weighted average interest expense relating to the costs incurred on qualifying assets) except for loans received directly for the purpose of acquiring a qualifying asset. Actual borrowing costs less investment income from the temporary investment of loans are capitalized.

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

Fixed assets

Recognition and evaluation

Items of property plant and equipment are carried at cost price less accumulated depreciation and impairment losses. The cost of property plant and equipment as of 1 January 2007 (the date of transition to IFRS) was determined based on their fair value (notional cost) at that date.

Cost includes all costs directly attributable to the acquisition of the respective asset. The cost of assets erected (built) using own resources includes the costs of materials direct labor costs all other costs directly related to bringing the assets into working condition for their intended use the costs of dismantling and moving assets and restoring the area occupied by them and capitalized interest on loans. The cost of acquiring software that is integral to the functionality of the related equipment is capitalized as part of the cost of that equipment.

If an item of property plant and equipment consists of significant separate components with different useful lives each of them is accounted for as a separate item (significant 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 from its disposal with its carrying amount and is recognized net in profit or loss for the period under items "Other income" "Other expenses".

Subsequent costs

The cost of replacing a part (significant component) of an item of property plant and equipment increases the carrying amount of that item if it is highly probable that the Group will receive future economic benefits from that part and its cost can be measured reliably. The carrying amount of the replaced part is written off. Costs of current repairs and maintenance of property plant and equipment are recognized in the statement of profit or loss and other comprehensive income when they are incurred.

Depreciation

Each component of an item of property plant and equipment is depreciated from the date it is ready for use on a straight-line basis over its expected useful life as this method most accurately reflects the expected consumption of future economic benefits embodied in the asset. Leased assets are depreciated over the lease term. Land plots are not depreciated.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

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

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

Impairment

Management assesses at each reporting date whether there is any indication of impairment of property plant and equipment.

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

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

The Group's general (corporate) assets do not generate independent cash flows and are used by more than one cash generating unit. The cost of a corporate asset is allocated between units on a reasonable and consistent basis and is tested for impairment as part of the testing of the unit which the corporate asset was allocated to.

Impairment losses are recognized in profit or loss. Impairment losses on cash generating units are first recognized as a reduction in the carrying amount of the goodwill allocated to those units and then prorated against the carrying amount of other assets within the unit (group of units).

Amounts written off for impairment losses on goodwill are not reversed. For other assets an impairment loss recognized in a prior period is reviewed at each reporting date to determine whether there is any indication that the loss should be reduced or no longer recognized.

Amounts written off for impairment losses are reversed if there is a change in the valuation factors used in calculating the respective recoverable amount. An impairment loss is reversed only to the extent that the assets can be restored to their carrying amount (less accumulated depreciation) if no impairment loss had been recognised.

Intangible assets

Intangible assets primarily include capitalized computer software and licenses. Acquired software and licenses are capitalized on the basis of the costs incurred to acquire and bring them to a usable condition.

Research costs are expensed as incurred. Development costs are recognized as intangible assets only when the Group can demonstrate the following: it is technically feasible to create the 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; the availability of resources to complete development; and the ability to reliably estimate the costs incurred during development. Other development costs are expensed as incurred. Development costs previously expensed are not recognized as assets in a subsequent period. The carrying value of development costs is reviewed annually for impairment.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

Subsequent to initial recognition intangible assets are carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation of intangible assets is charged on a straight-line basis over their useful lives. Depreciation of intangible assets is charged on a straight-line basis over their useful lives. If impaired the carrying amount of intangible assets is written down to the higher of the asset's value in use and the asset's fair value less costs to sell.

Lease

At the time the contract is entered into the Group evaluates whether the contract as a whole or its individual components is a lease. A contract or parts of it is a lease if the contract conveys the right to control the use of an identified asset for a specified period in exchange for consideration.

Right-of-use assets are initially measured at cost and depreciated up to the end of the lease term. The cost of a right-of-use asset includes the amount of the initial measurement of the lease liability lease payments made to or at the commencement date of the lease and initial direct costs. After recognition right-of-use assets are carried at cost less accumulated depreciation and accumulated impairment losses. Right-of-use assets are presented as a separate line item in the consolidated statement of financial position.

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

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

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

Advances issued

Advances paid are classified as non-current assets if the advance is related to the acquisition of an asset that would be classified as non-current on initial recognition. Advances to acquire an asset are included in its carrying amount when the Group obtains control of the asset and it is highly probable that the Group will obtain economic benefits from its use.

Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using the weighted average cost method and includes the cost of acquiring inventory the cost of manufacturing or processing and other costs to bring inventory to its present location and condition.

Net realizable value is the estimated selling price of an item of reserves in the ordinary course of the Group's business less the estimated costs of completing the item and selling it.

Inventories intended to ensure the prevention and elimination of accidents (emergency situations) at electric grid facilities (industry emergency reserve) are reflected in the "Inventories" article.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

Value added tax

Value added tax arising from the sale of products is payable to the state budget on the earlier of (a) receipt of payment from buyers or (b) delivery of goods or services to the buyer. Input VAT is refundable by offset against the amount of output VAT upon receipt of the invoice. Advances issued and other assets reflect (on a net basis) amounts of VAT accrued on advances received and advances issued as well as VAT recoverable and VAT prepayments. VAT amounts payable to the budget are disclosed separately as current liabilities. When creating a provision for expected credit losses on receivables the entire amount of doubtful debts including VAT is set aside.

Employee benefits

Defined Benefit Programs

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognized in the consolidated statement of financial position in respect of defined benefit plans represents the discounted value of liabilities at the reporting date.

The discount rate is the year-end rate of return on government bonds that have a maturity approximating the term of the Group's related obligations and are denominated in the same currency as the premiums expected to be paid. These calculations are made annually by a qualified actuary using the projected unit credit method of accumulating future benefits. Remeasurements of the net defined benefit obligation including actuarial gains and losses and the effect of the application of the asset ceiling (excluding interest if any) are recognized immediately in other comprehensive income. The Group determines the net interest expense on the program's net obligation for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the program's net obligation at that date taking into account any change in the program's net obligation for the period as a result of contributions and payments. Net interest and other expenses related to defined benefit plans are recognized in profit or loss. Actuarial General (Corporate) Assets of the Group and gains or losses resulting from changes in actuarial assumptions are recognized in other comprehensive income/loss.

In the event of a change in benefits under the program or its sequestration the resulting change in benefits relating to past service or the gain or loss on the sequestration is recognized immediately in profit or loss. The Group recognizes a gain or loss on settlement of program obligations when settlement occurs.

Other long-term employee benefits

The Group's net liability for long-term employee benefits other than defined benefit pension payments is the amount of future benefits to which employees have earned entitlement in the current and prior 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 maturity dates approximating the terms of the Group's respective obligations and are denominated in the same currency in which the benefits are expected to be paid. Liabilities are measured using the projected unit credit method. Revaluations are recognized in profit or loss in the period which they occur in.

Short term benefits

Discounting is not applied in determining the liability for short-term employee benefits and related expenses are recognized as employees perform their duties.

For amounts expected to be paid under a short-term bonus or profit sharing plan a liability is recognized if the Group has a present legal or constructive obligation to pay the related amount arising from the employee's past employment and the amount this liability can be measured reliably and there is a high probability of an outflow of economic benefits.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

Income tax

Income tax expense includes current income tax and deferred tax. Current and deferred income taxes are recognized in profit or loss for the period except to the extent that it relates to business combinations items recognized in other comprehensive income or directly in equity.

Current income tax is the amount of tax payable on taxable income for the year calculated on the basis of the current or substantively enacted tax rates at the reporting date as well as any adjustments to the amount of income tax liability for previous years.

Deferred tax is recognized in respect of temporary differences arising between the carrying amounts of assets and liabilities which are determined for the purposes of their recognition in the financial statements and their tax base. Deferred tax is not recognized for:

- temporary differences arising on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences relating to investments in subsidiaries and associates to the extent that the Group is able to control the timing of the reversal of those temporary differences and it is probable that these temporary differences will not reverse in the foreseeable future; And
- taxable temporary differences arising on the initial recognition of goodwill.

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

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

In determining the amount of current and deferred tax the Group takes into account the impact of uncertainty in relation to the tax position as well as in assessing whether additional taxes penalties and interest may be accrued. The Group calculates tax based on the assessment of many factors including interpretations of tax laws and previous experience. Such an estimate is based on assumptions and estimates and may include a number of judgments on future events. When 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 liability will affect income tax expense in the period which the judgment is made in.

Deferred tax assets and liabilities are offset to the extent that there is a legal right to set off current tax assets and liabilities against each other and they relate to income tax levied by the same tax authority on the same taxable enterprise or from different taxable enterprises but these enterprises 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.

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

Provisions

A provision is recognized if as a result of a past event the Group has entered into a legal or constructive obligation that can be measured reliably and it is highly probable that an outflow of economic benefits will be required to settle the obligation. The amount of the provision is determined by discounting expected cash flows at a pre-tax rate that 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 the "discount depreciation" are recognized as finance costs.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

Authorized capital

Ordinary shares and non-redeemable preference shares are classified as equity.

Own redeemed shares

In the event that any company of the Group acquires shares in the Company (treasury shares) the amount paid including any additional costs directly attributable to the acquisition (net of income tax) is deducted from equity attributable to shareholders of the Company until the shares are cancelled, reissued or sold. Where such shares are subsequently reissued or sold the amounts received net of directly attributable transaction costs and related tax charges are included in equity attributable to shareholders of the Company. Repurchased treasury shares are accounted for at their weighted average cost. Gains and losses arising from the subsequent sale of shares are presented 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) on or before the reporting date. Dividends are subject to disclosure if they are declared after the balance sheet date but before the signing of the consolidated financial statements.

Revenue from contracts with customers

The Group recognizes revenue when (or as) a performance obligation is satisfied by transferring a promised good or service (ie an asset) to a customer. The asset is transferred when (or as) the acquirer obtains control of the asset.

When (or as) the performance obligation is satisfied the Group recognizes revenue in the amount that the Group expects to receive in exchange for transferring the promised assets to the customer excluding VAT.

Transmission

Electricity transmission revenue is recognized over a period (calculated month) and valued using the results method (cost of electricity volumes transferred).

Tariffs for electricity transmission services 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 power

Electricity transmission revenue is recognized over a period (calculated month) and valued using the results method (cost of electricity volumes transferred).

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

Services for technological connection to power grids

Revenue from the provision of technological connection services to power grids is a non-refundable fee for connecting consumers to power grids. The Group transfers control of the service at a point in time (when a customer connects to the grid or for certain categories of customers when the Group enables the customer to connect to the grid) and therefore satisfies the performance obligation at a point in time.

Payment for technological connection according to an individual project standardized tariff rates payment rates for a unit of maximum capacity and payment formulas for technological connection are approved by the regional energy commission (the department of prices and tariffs of the corresponding region) and do not depend on the revenue from the provision of electricity transmission services. Payment for technological connection to the unified national (all-Russian) electric grid is approved by the Federal Antimonopoly Service.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

The Group has applied the judgment that grid connection is a separate performance obligation that is recognized when the related services are provided. The technological connection agreement does not contain any further obligations after the provision of the connection service. According to the established practice and laws governing the electricity market technological connection and transmission of electricity are subject to 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 and organizational and technical services communication and information technology services other services) as well as revenue from other sales is recognized at the time the buyer obtains control over the asset.

Trade receivables

Accounts receivable represent the Group's right to consideration which is unconditional (ie the point at which such consideration becomes payable is due only to the passage of time). The accounting policy for recording trade and other receivables is set out in the Financial Assets section.

Obligations under the contract

A contract liability is an obligation to transfer to a customer goods or services for which the Group has received consideration (or a consideration payable) from the customer. If the customer pays the consideration before the Group transfers the good or service to the customer a contract liability is recognized when the payment is made or when the payment becomes payable (whichever occurs first). Contract liabilities are recognized as revenue when the Group fulfills its obligations under the contract. The Group records liabilities under contracts with customers in the "Advances received" article considering the value added tax (VAT).

Advances received mainly represent deferred income under grid connection agreements.

Advances received are analyzed by the Group to determine whether there is a financial component. If there is a time interval 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 technological connection to power grids) interest expense on advances is not recognized as received. Such advances are recognized at the fair value of assets received by the Group from buyers and customers on a prepaid basis.

Financial income and expenses

Financial income includes interest income on funds invested dividend income gains on disposal of financial assets measured at fair value and measured at amortized cost the effect of discounting financial instruments. Interest income is recognized in profit or loss when incurred and calculated using the effective interest method. Dividend income is recognized in profit or loss when the Group is entitled to receive the related payment.

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

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

Government grants

Government grants are recognized when there is reasonable assurance that they will be received and all related conditions will be met. If a grant is given to finance certain expenses it is recognized as income on a systematic basis in the same periods in which the related costs that it is supposed to offset are expensed. If a grant is given to finance an asset it is recognized as income net of related expense in equal installments over the expected useful life of the related asset.

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

Social payments

When the Group's contributions to social programs benefit society as a whole and are not limited to payments to employees of the Group they are recognized in profit or loss as incurred. Expenses of the Group related to the financing of social programs without incurring obligations regarding such financing in the future are recognized in the consolidated statement of profit or loss and other comprehensive income as incurred.

Income per share

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

4. Fair value measurement

Certain accounting policies of the Group and a number of disclosures require the fair value of both financial and non-financial assets and liabilities to be measured.

When estimating the fair value of an asset or a liability the Group uses observable market data to the extent possible. Fair value measurements are assigned to different levels of the fair value hierarchy depending on the inputs used in the respective valuation techniques:

- Tier 1: quoted (unadjusted) prices for identical assets and liabilities in active markets.
- Tier 2: inputs other than quoted prices used for Tier 1 estimates that are observable either directly (ie such as prices) or indirectly (ie determined from prices).
- Tier 3: inputs for assets and liabilities that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability can be assigned to different levels of the fair value hierarchy then the fair value measurement is generally assigned to the level of the hierarchy that corresponds to the lowest level input that is material to the overall measurement.

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

The point in time at which transfers to and from certain levels are recognized is the date on which the event or change in circumstances that caused the transfer occurs.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

5. Main subsidiaries

The consolidated financial statements of the Group as of December 31 2022 and December 31 2021 include the Company and its subsidiaries owned (founded) by the Company:

	Country of registration	Share of ownership %	
		December 31 2022	December 31 2021
"Recreation center "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

Disposal of a subsidiary

On December 21 2022 the liquidation procedure for YugStroyMontazh LLC was completed. The property was transferred to the participants of the liquidated company – "Energoservice of the South" JSC (99%) in the form of fixed assets and cash and "VMES" JSC (1%) in the form of cash. Until the end of the third quarter of 2023 PJSC Rosseti South plans to acquire the fixed assets of the liquidated company from Energoservice of the South JSC. For the purposes of these financial statements Energoservice of the South JSC accepted the fixed assets of the liquidated subsidiary at the cost of these assets in the IFRS assessment accounted for by YugStroyMontazh LLC as of the date of liquidation. As of the date of liquidation the carrying amount of the assets and liabilities of the subsidiary was:

	Carrying amount of property plant and equipment at the date of liquidation
Net identifiable assets	203 662
Repaid in cash to shareholders	(20 194)
Fixed assets transferred in favor of the shareholder	(113 110)
Liquidation loss	70 358

In the statements of YugStroyMontazh LLC prepared in accordance with the Group's accounting policy under IFRS as of the date of liquidation the accumulated impairment of non-current assets amounted to 77 451 thousand rubles. Since property plant and equipment relates to the CGU of the Rostovenergo branch which is not impaired based on the results of impairment testing as at December 31 2022 the previously recognized accumulated impairment was reversed.

6. Segment Information

The Management Board of PJSC Rosseti South is the highest decision-making body on operational activities.

The internal management reporting system is based on segments (branches formed on a territorial basis) related to the transmission and distribution of electricity technological connection to electric networks and the sale of electricity to end consumers in a number of regions of the Russian Federation.

EBITDA is used to reflect the performance of each reportable segment: profit or loss before interest taxes depreciation (subject to 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 (according to IFRS). Management believes that EBITDA calculated in this way is the most representative measure of the performance of the Group's operating segments.

For the purposes of presenting a reconciliation of EBITDA to prior period consolidated income the comparative information has moved the net impairment loss from property plant and equipment and right-of-use assets from the adjustments section to the second section.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

In accordance with the requirements of IFRS 8 based on segment revenue EBITDA and total assets reported to the Board the following reportable segments have been identified:

- PJSC Rosseti South branch Kalmenergo;
- PJSC Rosseti South branch Astrakhanenergo;
- PJSC Rosseti South branch Rostovenergo;
- PJSC Rosseti South branch Volgogradenergo;
- VMES JSC
- Yugstroyontazh LLC (until December 21 2022);
- other segments

The “Other” segment includes operations of the Company’s subsidiaries (JSC PSH Sokolovskoye until the date of disposal on May 26 2021 JSC Recreation Center Energetik JSC Energoservice of the South) and a branch of PJSC Rosseti South Kubanenergo. These transactions do not meet the quantitative criteria for allocation to reportable segments for the year ended 31 December 2022.

Unallocated figures include the general figures of the Company's executive office which is not an operating segment in accordance with the requirements of IFRS 8.

Segment figures are based on management information prepared on the basis of RAS financial statements and may differ from those presented in financial statements prepared in accordance with IFRS. The reconciliation of the estimates presented to the Board and those in these consolidated financial statements includes those reclassifications and adjustments that are necessary to present the financial statements in accordance with IFRS.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

Information on reportable segments

Reportable segment information as of and for the year ended 31 December 2022:

	<u>Astrakhan- energo</u>	<u>Volgograd- energo</u>	<u>Kalmenergo</u>	<u>Rostovenergo</u>	<u>Subsidiary VMES JSC</u>	<u>Subsidiary YugStroy- Montazh LLC</u>	<u>Others</u>	<u>Total</u>
Revenue from external buyers	5 927 331	8 668 381	3 797 701	21 497 873	4 035 461	570	215 560	44 142 877
Cross-segment sales revenue	–	2 170 667	–	613	4 523	46 891	551 476	2 774 170
Segment revenue	5 927 331	10 839 048	3 797 701	21 498 486	4 039 984	47 461	767 036	46 917 047
Incl.								
<i>Transmission</i>	5 781 819	10 672 176	1 563 631	21 123 179	3 953 059	–	–	43 093 864
<i>Technological connection to power grids</i>	102 833	80 134	189 246	230 388	61 568	–	–	664 169
<i>Sale of electricity and power</i>	–	–	2 019 875	–	–	–	–	2 019 875
<i>Revenue from lease agreements</i>	5 598	3 774	61	7 933	25	47 461	19 578	84 430
<i>Other revenue</i>	37 081	82 964	24 888	136 986	25 332	–	747 458	1 054 709
Financial income	65 892	330 744	8 778	70 159	172 227	–	7 575	655 375
Financial expenses	(970 792)	(1 169 093)	(132 266)	(75 899)	(218 589)	–	(55)	(2 566 694)
Depreciation	(612 786)	(43 674)	(29 915)	(1 803 389)	–	–	–	(2 489 764)
EBIDTA	510 001	(1 359 553)	1 629 841	3 781 127	313 186	64 649	12 036	4 951 287
Segments assets	7 740 832	6 012 372	2 862 683	22 335 462	2 793 408	–	14 307 475	56 052 232
Incl. fixed assets and construction in progress	6 117 781	391 925	1 679 904	18 671 731	280 712	–	154 089	27 296 142
Capital investments	484 186	899 492	693 995	1 861 455	250 301	–	19 502	4 208 931
Segment liabilities	3 189 185	4 103 484	988 380	7 358 008	2 547 310	–	14 741 269	32 927 636

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

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

	<u>Astrakhan- energo</u>	<u>Volgograd- energo</u>	<u>Kalmenergo</u>	<u>Rostovenergo</u>	<u>Subsidiary VMES JSC</u>	<u>Subsidiary YugStroy- Montazh LLC</u>	<u>Others</u>	<u>Total</u>
Revenue from external buyers	5 811 449	8 940 727	2 756 342	21 583 830	4 091 969	4 345	256 985	43 445 647
Cross-segment sales revenue	–	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
Incl.								
<i>Transmission</i>	5 698 406	10 487 866	1 010 237	20 601 658	4 012 516	193 425	–	42 004 108
<i>Technological connection to power grids</i>	83 361	723 247	373 905	844 823	60 812	2 890	–	2 089 038
<i>Sale of electricity and power</i>	–	–	1 353 974	–	–	–	–	1 353 974
<i>Revenue from lease agreements</i>	5 126	955	81	7 630	14	14 080	2 182	30 068
<i>Other revenue</i>	24 556	50 259	18 145	130 197	18 682	844	254 992	497 675
Financial income	86 142	250 813	4 406	37 520	138 657	–	1 666	519 205
Financial 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)
EBIDTA	1 592 696	1 383 510	(39 969)	4 627 839	(80 854)	46 855	18 281	7 548 358
Segments assets	8 232 446	13 367 158	4 675 671	21 830 616	4 343 139	224 235	636 889	53 310 154
Incl. fixed assets 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

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

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

Segment revenue reconciliation:

	For the year ended 31 December	
	2022	2021
Segment revenue	46 917 047	45 974 863
Eliminate cross-segment sales revenue	(2 774 170)	(2 530 524)
Revenue in the statement of profit or loss and other comprehensive income	44 142 877	43 444 339

EBITDA reconciliation of reportable segments:

	For the year ended 31 December	
	2022	2021
EBITDA of reportable segments	4 951 287	7 548 358
Discounting financial instruments	(266 556)	(102 538)
Adjustment for allowance for expected credit losses	–	424
Lease Adjustment	47 663	145 473
Recognition of pension and other non-current liabilities to employees	(28 540)	(22 213)
Adjustment for assets related to employee benefit liabilities	–	(620)
Adjustment of the cost of fixed assets	10 023	(45 819)
Adjustment for impairment allowance for intra-group financial assets	1 474 815	191 161
Write-off adjustment for other current and non-current assets	(90 675)	(11 364)
Result of disposal of controlling interest	70 358	90 245
Other adjustments	(80 485)	(27 492)
Unallocated indicators	(11 492)	(15 756)
EBIDTA	6 076 398	7 749 859
Depreciation of property plant and equipment right-of-use assets and intangible assets	(2 399 652)	(2 823 434)
Net impairment loss on property plant and equipment and right-of-use assets	(474 874)	(7 691 623)
Interest expense on financial liabilities carried at amortized cost	(2 325 955)	(1 700 822)
Interest expense on lease liabilities	(58 520)	(77 339)
expenses on income tax	(478 772)	810 307
Consolidated profit/(loss) for the period in the consolidated statement of profit or loss and other comprehensive income	338 625	(3 733 052)

Reconciliation of total reportable segment assets:

	For the year ended 31 December	
	2022	2021
Total Segment Assets	56 052 232	53 310 154
Settlements between segments	(1 875 909)	(2 195 175)
Intragroup financial assets	(2 767 917)	(2 927 164)
Adjustment of the cost of fixed assets	(2 475 145)	(4 505 246)
Right-of-Use Asset Recognition	–	814 250
Impairment of fixed assets	(538 840)	(11 756 908)
Adjustment for allowance for expected credit losses	108 808	108 808
Adjustment of deferred tax assets	(2 538 406)	(132 077)
Recovery of provision for impairment of financial assets	2 506 026	1 029 488
Other adjustments	259 339	(41 035)
Unallocated indicators	3 057 755	4 036 164
Total assets in the consolidated statement of financial position	51 787 943	37 741 259

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

Reconciliation of total reportable segment liabilities:

	For the year ended 31 December	
	2022	2021
Total segment liabilities	32 927 636	18 916 237
Settlements between segments	(1 875 909)	(2 195 175)
Adjustment of deferred tax liabilities	(2 483 985)	(2 968 810)
Recognition of pension and other non-current liabilities to employees	289 751	287 397
Recognition of lease liabilities	–	882 743
Discounting accounts payable	(70 539)	(200 320)
Other adjustments	(164 471)	(28 825)
Unallocated indicators	23 645 679	23 894 081
Total liabilities in the consolidated statement of financial position	52 268 162	38 587 328

The Group operates in the Russian Federation. The Group does not receive revenue from foreign customers and has no assets abroad.

For the year ended 31 December 2022 the Group had three main customers – distribution companies in three regions of the Russian Federation each accounted for more than 10% of the Group's total revenue. Revenue received from these counterparties is reflected in the financial statements of the operating segments of Rostovenergo Astrakhanenergo Volgogradenergo.

The total amount of revenue received from PJSC TNS Energo Rostov-on-Don for the year ended 31 December 2022 amounted to RUB 12 022 287 or 27.23% of the Group's total revenue (for the year ended 31 December 2021 – RUB 11 481 312 or 26.43%). The total amount of revenue received from PJSC Volgogradenergosbyt for the year ended December 31 2022 amounted to RUB 6 208 384 or 14.06% of the Group's total revenue (for the year ended 31 December 2021 – RUB 6 291 442 or 14.48%). The total amount of revenue received from PJSC Astrakhan Energy Retail Company for the year ended December 31 2022 amounted to RUB 4 987 450 or 11.36% of the Group's total revenue (for the year ended 31 December 2021 – RUB 4 933 763 or 11.3%).

7. Revenues:

	For the year ended 31 December	
	2022	2021
Transmission	40 927 213	39 489 083
Technological connection to power grids	664 104	2 088 983
Sale of electricity and power	2 019 875	1 353 974
Other revenue	512 527	494 345
Revenue from contracts with customers	44 123 719	43 426 385
Income from lease agreements	19 158	17 954
	44 142 877	43 444 339

Other revenue includes mainly maintenance and repair services.

8. Other revenues

	For the year ended 31 December	
	2022	2021
Income in the form of fines penalties and forfeits under business contracts	313 434	455 588
Insurance compensation	651 179	144 134
Income from identified non-contractual electricity consumption	17 321	27 447
Write-off of accounts payable	10 509	31 094
Other revenues	147	8 050
	992 590	666 313

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

9. Other expenses

	For the year ended 31 December	
	2022	2021
Effect of a subsidiary disposal	70 358	42 245
Loss from disposal (sale) of fixed assets	183 677	93 940
Other expenses	360	-
	254 395	136 185

10. Operating Cost

	For the year ended 31 December	
	2022	2021
Employee benefits expenses	12 212 475	11 348 005
Depreciation of property plant and equipment right-of-use assets and intangible assets	2 399 652	2 823 434
Material expenses incl.	12 309 001	11 490 171
- Electricity to compensate for technological losses	9 445 909	9 200 460
- Purchased electricity and heat for own needs	282 073	293 259
- Electricity for sale	785 030	501 341
- Other material expenses	1 795 989	1 495 111
Works and services of an industrial nature incl.	11 879 466	11 801 819
- Electricity transmission services	11 404 059	11 290 320
- Repair and maintenance services	310 596	268 221
- Other works and services of an industrial nature	164 811	243 278
Other services of third parties incl.	1 227 168	1 114 107
- Consulting legal and audit services	176 642	37 798
- mgmt. services	81 327	81 327
- Expenses related to the maintenance of property	246 427	296 275
- Security	129 182	131 198
- Communication services	120 444	112 756
- Transport services	39 755	34 929
- Software and maintenance costs	88 800	121 835
- Other services	344 591	297 989
Provisions	46 592	801 703
Fines penalties forfeits for violation of the terms of contracts	295 435	105 572
Taxes and fees other than income tax	209 818	359 021
Travel expenses	179 445	116 585
Insurance	108 029	98 865
Other expenses	838 623	1 017 240
	41 705 704	41 076 522

11. Employee benefits expenses

	For the year ended 31 December	
	2022	2021
Salary including changes in allowance for bonuses and unused vacations	8 999 040	8 298 139
Payroll taxes	2 750 515	2 545 319
The cost of current services	17 340	17 049
Remeasurement of liabilities for other long-term employee benefits	(1 196)	(620)
Other employee expenses	446 776	488 118
Total employee benefit expense	12 212 475	11 348 005

During the year ended 31 December 2022 contributions under defined contribution programs amounted to RUB 7 192 (for the year ended 31 December 2021: RUB 7 601).

Key management personnel compensation is disclosed in Note 35 Related Party Transactions.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

12. Financial income and expenses

	For the year ended 31 December	
	2022	2021
Financial income		
Interest income on loans issued bank deposits	139 028	109 255
Interest income on restructuring agreements for receivables	327 761	289 976
Depreciation of discount on financial assets on income	53 128	161 081
Other financial income	149	5 764
	520 066	566 076
	For the year ended 31 December	
	2022	2021
Financial expenses		
Interest expense on financial liabilities carried at amortized cost	2 325 955	1 700 822
Effect of initial discounting of financial instruments on expenses	163 082	–
Depreciation of discount on financial liabilities on expenses	156 602	263 619
Interest expense on lease liabilities	58 520	77 339
Other financial expenses	25 877	18 237
	2 730 036	2 060 017

Information on discounting of long-term trade and other payables is disclosed in Note 28.

13. Income tax

	For the year ended 31 December	
	2022	2021
Current income tax		
Calculation of the current tax	(79 861)	(11 841)
Adjustments for Prior Years	90 058	107 279
Total	10 197	95 438
Deferred income tax	(488 969)	714 869
Total savings/(expense) on income tax	(478 772)	810 307

The income tax rate established by Russian legislation is 20%.

Income tax expense is recognized based on the Group's best estimate at the reporting date of the expected income tax rate for the full financial year.

Income tax recognized in other comprehensive income:

	For the year ended 31 december 2022		
	Before tax	Income tax	After tax
Financial assets at fair value through other comprehensive income	1 299	(260)	1 039
Remeasurement of defined benefit liabilities	26 186	–	26 186
	27 485	(260)	27 225
	For the year ended 31 December 2021		
	Before tax	Income tax	After tax
Financial assets at fair value through other comprehensive income	224	(45)	179
Remeasurement of defined benefit liabilities	46 002	–	46 002
	46 226	(45)	46 181

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

As of December 31 2022 and December 31 2021 deferred income tax assets and liabilities are calculated at the rate of 20% which is expected to be applicable to the disposal of the respective assets and liabilities The official Russian tax rate for 2022 and 2021 is 20% .

Profit before tax is related to income tax expense as follows:

	For the year ended 31 December	
	2022	2021
Profit/(loss) before tax	817 397	(4 543 359)
The theoretical amount of expense/(savings) for income tax at a rate of 20%	(163 479)	908 672
The effect of applying a lower tax rate	–	22
Tax effect of items not taxable or non-deductible for tax purposes	(405 351)	(205 666)
Adjustments for prior years	90 058	107 279
	(478 772)	810 307

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

14. Fixed assets

	Land plots and buildings	Power line networks	Power transmission equipment	Others	Construction in progress	Total
<i>Initial / conditionally initial cost</i>						
As of January 1 2021	4 269 772	25 915 890	15 708 222	14 858 709	3 910 308	64 662 901
Income	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)	–
Retirement	(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
<i>Accumulated depreciation and impairment</i>						
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
Retirement	3 541	11 985	12 203	29 059	1 082	57 870
As of December 31 2021	(3 152 212)	(19 699 313)	(12 120 424)	(10 345 017)	(906 273)	(46 223 239)
<i>Residual value</i>						
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

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

	<u>Land plots and buildings</u>	<u>Power line networks</u>	<u>Power transmission equipment</u>	<u>Others</u>	<u>Construction in progress</u>	<u>Total</u>
<i>Initial / conditionally initial cost</i>						
As of January 1 2022	4 903 352	27 846 278	17 331 245	16 779 562	2 738 589	69 599 026
Reclassification between groups	(1 599 597)	211 530	(301 332)	1 689 399	–	–
Income	702	4 921	2 767	204 944	4 363 167	4 576 501
Commissioning.	74 232	1 274 054	1 185 065	921 407	(3 454 758)	–
Retirement	(22 431)	(87 496)	(117 000)	(679 100)	(433 172)	(1 339 199)
As of December 31 2022	3 356 258	29 249 287	18 100 745	18 916 212	3 213 826	72 836 328
<i>Accumulated depreciation and impairment</i>						
As of January 1 2022	(3 152 212)	(19 699 313)	(12 120 424)	(10 345 017)	(906 273)	(46 223 239)
Reclassification between groups	1 074 076	(189 677)	180 889	(1 065 288)	–	–
Commissioning.	(1 651)	(77 405)	(71 745)	(12 629)	163 430	–
Accrued depreciation	(121 855)	(824 695)	(627 745)	(698 250)	–	(2 272 545)
Retirement	9 796	62 645	104 995	615 214	245 582	1 038 232
Impairment/reversal of impairment	127 201	244 313	44 872	(60 014)	(732 316)	(375 944)
As of December 31 2022	(2 064 645)	(20 484 132)	(12 489 158)	(11 565 984)	(1 229 577)	(47 833 496)
<i>Residual value</i>						
As of January 1 2022	1 751 140	8 146 965	5 210 821	6 434 545	1 832 316	23 375 787
As of December 31 2022	1 291 613	8 765 155	5 611 587	7 350 228	1 984 249	25 002 832

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

As of December 31 2022 and December 31 2021 there were no property plant and equipment used as collateral for loans and borrowings.

As at December 31 2022 the cost of fully depreciated property plant and equipment was RUB 14 945 815 (December 31 2021: RUB 14 283 447).

As of December 31 2022 there are no advances for the acquisition of fixed assets (as of December 31 2021: RUB 561 160) materials for the construction of fixed assets amount to RUB 588 818 (December 31 2021: RUB 559 242).

For the year ended December 31 2022 capitalized interest amounted to RUB 194 359 (for the year ended December 31 2021: RUB 160 332) the capitalization rate was 10.29% (for the year ended December 31 2021: 7.60%).

For the year ended December 31 2022 there were no depreciation charges capitalized in the cost of capital construction projects (for the year ended December 31 2021 in the amount of RUB 19 000).

Impairment of fixed assets

Due to indications of impairment of non-current assets the Group performed an impairment test as at December 31 2022.

The majority of the Group's property plant and equipment are specialized items that are rarely traded on the open market unless they are sold as part of going concern. The market for such property plant and equipment is not active in the Russian Federation and does not provide sufficient examples of sales and purchases to enable a market approach to be used to determine the fair value of these property plant and equipment.

As a result the value in use of property plant and equipment as at 31 December 2022 was determined using the discounted cash flow method. This method takes into account the future net cash flows that these property plant and equipment will generate in the course of operations as well as on disposal in order to determine the recoverable amount of these assets.

Cash generating units are determined by the Group based on the geographic location of branches and subsidiaries and represent the smallest identifiable group of assets that generate cash inflows independent of the Group's other assets.

The following key assumptions were used when assessing the recoverable amount of assets of cash-generating units.

Forecast cash flows have been determined for the period 2023-2027 for all CGUs based on management's best estimate of transmission volumes operating and capital costs and tariffs approved by regulators for 2023.

The source for the forecast of electricity transmission tariffs for the forecast period is the indicators of business plans which are based on tariff models formed taking into account the average annual growth in the tariff for electricity transmission services in accordance with the approved tariff and balance decisions for 2023 from 2024 – in accordance with the scenario conditions of the parent company and the parameters of the Forecast of socio-economic development of the Russian Federation.

Projected electricity transmission volumes for all generating units were determined based on annual business plans for 2023-2027.

The forecast cash flows have been discounted to their present value using a weighted average cost of capital (WACC) of 10.2%.

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

The model for the impairment test for non-current assets was based on our best estimates that existed as of December 31 2022 including: maintaining a single tariff zone between the Rostov Region and the Republic of Kalmykia and establishing equal uniform (boiler) tariffs for electricity transmission services after 2027.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

As of December 31 2022 an impairment loss was recognized in the amount of RUB 474 844 including impairment accrued for: RUB 68 546 CGUs of VMES JSC and Volgogradenergo branch CGUs RUB 1 422 885 depreciation reversed: CGU Kalmenergo branch RUB 939 137 CGU Rostovenergo branch RUB 77 451. The reversal of impairment in Rostovenergo branch is described in Note 5 “Key subsidiaries”.

Value in use as of December 31 2022 was RUB 12 954 983 for Astrakhanenergo CGUs RUB 0 for Volgogradenergo CGUs and RUB 1 743 987 for Kalmenergo CGUs for the CGU of the branch "Rostovenergo" – RUB 46 732 778 for the CGDs of JSC "VMES" – RUB 313 019.

The sensitivity analysis performed showed that a change in the discount rate by 1% a change in the level of the tariff for electricity transmission 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 % do not result in a change in the amount of impairment chargeable (reversal) for all CGUs with the exception of VMES JSC CGUs the sensitivity of the impairment model of which is disclosed below:

	<u>Increase %</u>	<u>Decrease %</u>
Change in discount rate by 1%	-43.62	60.43
Change in the tariff level for electricity transmission by 3%	264.17	-100.00
Change in the growth rate of net cash flow in the post-forecast period by 1%	36.70	-26.50
Change in the level of operating expenses by 5%	-100.00	396.72
Change in the level of capital investments by 10%	-12.96	12.96

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

15. Intangible assets

	<u>Software</u>	<u>R&D</u>	<u>Others</u>	<u>Total</u>
<i>Historic cost</i>				
As of January 1 2021	294 299	95 977	5 541	395 817
Income	49 006	5 033	579	54 618
Retirement	(133 262)	(34 079)	–	(167 341)
As of December 31 2021	<u>210 043</u>	<u>66 931</u>	<u>6 120</u>	<u>283 094</u>
<i>Accumulated depreciation</i>				
As of January 1 2021	(137 442)	(16 875)	(898)	(155 215)
Accrued depreciation	(51 571)	(10 577)	(1 852)	(64 000)
Retirement	133 262	–	–	133 262
As of December 31 2021	<u>(55 751)</u>	<u>(27 452)</u>	<u>(2 750)</u>	<u>(85 953)</u>
<i>Residual value</i>				
As of January 1 2021	<u>156 857</u>	<u>79 102</u>	<u>4 643</u>	<u>240 602</u>
As of December 31 2021	<u>154 292</u>	<u>39 479</u>	<u>3 370</u>	<u>197 141</u>
	<u>Software</u>	<u>R&D</u>	<u>Others</u>	<u>Total</u>
<i>Historic cost</i>				
As of January 1 2022	210 043	66 931	6 120	283 094
Income	44 624	19 505	4	64 133
Reclassification between groups of intangible assets	–	(66 933)	66 933	–
Retirement	(30 518)	–	(10 671)	(41 189)
As of December 31 2022	<u>224 149</u>	<u>19 503</u>	<u>62 386</u>	<u>306 038</u>
<i>Accumulated depreciation</i>				
As of January 1 2022	(55 751)	(27 452)	(2 750)	(85 953)
Accrued depreciation	(49 450)	–	(13 124)	(62 574)
Reclassification between groups of intangible assets	–	27 452	(27 452)	–
Retirement	22 529	–	10 588	33 117
As of December 31 2022	<u>(82 672)</u>	<u>–</u>	<u>(32 738)</u>	<u>(115 410)</u>
<i>Residual value</i>				
As of January 1 2022	<u>154 292</u>	<u>39 479</u>	<u>3 370</u>	<u>197 141</u>
As of December 31 2022	<u>141 477</u>	<u>19 503</u>	<u>29 648</u>	<u>190 628</u>

Amortization of intangible assets included in operating expenses in the consolidated statement of profit or loss and other comprehensive income amounted to RUB 62 574 (for the year ended December 31 2021: RUB 64 000). For the year ended December 31 2022 and December 31 2021 no interest was capitalized. Intangible assets are amortized using the straight-line method.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

16. Right-of-Use Assets

	Land plots and buildings	Power line networks	Power transmission equipment	Other fixed assets	Total
<i>Historic cost</i>					
As of January 1 2021	931 135	32 720	96 770	56	1 060 681
Income	30 172	36 316	17 942	744	85 174
Changing the terms of the contract	(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
<i>Accumulated depreciation and impairment</i>					
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)
Changing the terms of the contract	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)
<i>Residual value</i>					
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
<i>Historic cost</i>					
As of January 1 2022	730 498	66 662	126 627	769	924 556
Reclassification between groups	–	164	(164)	–	–
Income	52 788	1 663	–	11 375	65 826
Changing the terms of the contract	(45 262)	–	28 229	(450)	(17 483)
Termination of the lease agreement	(33 748)	(66 662)	(31 367)	–	(131 777)
As of December 31 2022	704 276	1 827	123 325	11 694	841 122
<i>Accumulated depreciation and impairment</i>					
As of January 1 2022	(48 710)	(26 779)	(34 791)	(26)	(110 306)
Accrued depreciation	(29 093)	(14)	(35 471)	(27)	(64 605)
Termination of the lease agreement	2 748	26 779	31 367	–	60 894
Impairment	(35 495)	–	(63 436)	–	(98 931)
As of December 31 2022	(110 550)	(14)	(102 331)	(53)	(212 948)
<i>Residual value</i>					
As of January 1 2022	681 788	39 883	91 836	743	814 250
As of December 31 2022	593 726	1 813	20 994	11 641	628 174

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

For the purposes of the impairment test specialized right-of-use assets (including leased land plots under own and leased specialized facilities) are treated as CGU assets in the same way as own non-current 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 performed as of December 31 2022 is disclosed in Note 14 Property plant and equipment.

17. Other financial assets

	<u>December 31 2022</u>	<u>December 31 2021</u>
Non-current		
financial assets at fair value through other comprehensive income	<u>5 943</u>	<u>8 124</u>
	<u>5 943</u>	<u>8 124</u>

Investments in quoted equity instruments include shares of PJSC Volgogradenergosbyt with a fair value based on published market quotations of RUB 5 741 as of December 31 2022 (as of December 31 2021: RUB 6 165).

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

18. Deferred tax assets

Differences between IFRS and Russian tax legislation give rise to 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.

Deferred tax assets and liabilities recognized

Deferred tax assets and liabilities relate to the following items:

	Assets		Liabilities		Net	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Fixed assets	–	252 695	(73 392)	–	(73 392)	252 695
Right-of-Use Assets	–	–	(123 423)	(162 850)	(123 423)	(162 850)
Trade and other receivables and advances paid	–	88 876	(3 580)	–	(3 580)	88 876
Lease obligations	152 511	172 023	–	–	152 511	172 023
Provisions	221 645	371 775	–	–	221 645	371 775
Trade and other payables	233 566	225 224	–	–	233 566	225 224
Tax losses to be carried forward	552 429	542 405	–	–	552 429	542 405
Others	27 745	8 355	(3 693)	(25 461)	24 052	(17 106)
Tax assets/(liabilities)	1 187 896	1 661 353	(204 088)	(188 311)	983 808	1 473 042
Tax offset	(204 088)	(188 311)	204 088	188 311	–	–
Net deferred tax assets/(liabilities)	983 808	1 473 042	–	–	983 808	1 473 042

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

Movement in deferred tax assets and liabilities during the year

	January 1 2021	Recognized in profit or loss	Recognized in other comprehensive income	December 31 2021
Fixed assets	(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 obligations	205 675	(33 652)	–	172 023
Provisions	328 067	43 708	–	371 775
Trade and other payables	148 694	76 530	–	225 224
Tax losses to be carried forward	110 612	431 793	–	542 405
Others	(1 128)	(15 933)	(45)	(17 106)
Net deferred tax assets/(liabilities)	758 218	714 869	(45)	1 473 042
	January 1 2022	Recognized in profit or loss	Recognized in other comprehensive income	December 31 2022
Fixed assets	252 695	(326 087)	–	(73 392)
Right-of-Use Assets	(162 850)	39 427	–	(123 423)
Trade and other receivables	88 876	(92 456)	–	(3 580)
Lease obligations	172 023	(19 512)	–	152 511
Provisions	371 775	(150 130)	–	221 645
Trade and other payables	225 224	8 342	–	233 566
Tax losses to be carried forward	542 405	10 024	–	552 429
Others	(17 106)	41 418	(260)	24 052
Net deferred tax assets/(liabilities)	1 473 042	(488 974)	(260)	983 808

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

19. Inventories

	<u>December 31 2022</u>	<u>December 31 2021</u>
Raw materials and supplies	685 289	907 798
Provision for depreciation of raw materials and supplies	(6 805)	(8 150)
Other inventories	506 917	303 539
Provision for impairment of other inventories	(257)	(396)
	<u>1 185 144</u>	<u>1 202 791</u>

As of December 31 2022 and December 31 2021 the Group did not have any inventories pledged under loan or other agreements.

As of December 31 2022 the industry emergency reserve is RUB 237 531 (as of December 31 2021: RUB 192 032)

During the year ended December 31 2022 inventories included in operating expenses under the article “Other material expenses” amounted to RUB 1 795 989 (during the year ended December 31 2021 RUB 1 495 111).

20. Trade and other receivables

	<u>December 31 2022</u>	<u>December 31 2021</u>
Trade and other non-current receivables		
Trade receivables	477 179	1 873 246
Provision for impairment of trade receivables	(10 695)	(20 261)
Other accounts receivable	1 095 245	784 920
Total financial assets	<u>1 561 729</u>	<u>2 637 905</u>
Trade and other current receivables		
Trade receivables	8 937 334	9 080 053
Provision for impairment of trade receivables	(3 064 758)	(3 763 437)
Other accounts receivable	13 427 324	1 385 924
Provision for impairment of other receivables	(604 227)	(627 336)
Total financial assets	<u>18 695 673</u>	<u>6 075 204</u>

Non-current trade receivables as of December 31 2022 include restructured receivables from PJSC Volgogradenergosbyt for electricity transmission services in the total amount of RUB 464 666. Non-current other receivables as of December 31 2022 include interest on restructured trade receivables of PJSC Volgogradenergosbyt in the total amount of RUB 627 097. The terms of the agreement provide for the repayment of receivables in 2024-2027 and the application of an interest rate equal to the MOSPRIME 3M credit rate in force at the beginning of each billing period (quarter) increased by 3.52 percentage points. This rate is used to calculate the fair value of the recovery of these receivables at the date of initial recognition.

Non-current other receivables as of December 31 2022 include restructured receivables from PJSC Astrakhan Energy Retail Company for interest on borrowed funds in the total amount of RUB 146 599. The terms of the agreement provide for the repayment of receivables in 2020-2029 and the application of an interest rate equal to the MOSPRIME 3M credit rate in force at the beginning of each billing period (quarter) increased by 3.52 percentage points. This rate is used to calculate the fair value of the recovery of these receivables at the date of initial recognition.

According to the ruling of the Arbitration Court dated January 20 2022 PJSC Volgogradenergosbyt is obliged to pay interest and penalties to the Company for the use of a third party's funds in the amount of RUB 257 105 with payment by installments until January 2028 included in other non-current receivables. The market rate as of the date of signing the judgment was 8.6%. As of December 31 2022 the total amount of the unamortized discount included in long-term accounts receivable is RUB 84 923.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

According to the rulings of the Arbitration Court received in the period from January 21 2021 to December 01 2022 Volgogradenergosbyt PJSC is obliged to pay VMES JSC interest and penalties for the use of a third party's funds in the amount of RUB 187 492 with payment by installments until March 2027 included in non-current other receivables. The minimum market rate as of the date of signing the judgment was 6.58% the maximum -14.08%. As of December 31 2022 the total unamortized discount included in non-current accounts receivable is RUB 51 852.

Information on the Group's exposure to credit risk impairment of trade and other receivables and fair value is disclosed in Note 32.

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

21. Advances issued and other assets

Non-current	December 31 2022	December 31 2021
VAT on advances from buyers and customers	22 773	563
Advances issued	–	1 928
	22 773	2 491
Current	December 31 2022	December 31 2021
Advances issued (current)	1 218 554	198 643
Provision for impairment of advances issued (current)	(179)	(279)
VAT recoverable	771	5 071
VAT on advances received and VAT on advances issued for the acquisition of fixed assets	308 104	246 578
Prepayment for taxes other than income tax	90 477	36 962
	1 617 727	486 975

22. Cash and cash equivalents

	December 31 2022	December 31 2021
Cash in bank accounts and on hand	1 626 082	1 258 516
Cash equivalents	36 584	28 003
	1 662 666	1 286 519

Cash equivalents as of December 31 2022 and December 31 2021 include short-term bank deposits. As of December 31 2022 deposits are placed at an interest rate of 5.9% per annum (December 31 2021: 7.8% per annum).

As of December 31 2022 and December 31 2021 all cash and cash equivalent balances are denominated in RUB.

23. Authorized capital

	Ordinary shares	
	December 31 2022	December 31 2021
Nominal value of one share rub.	0.10	0.10
In circulation as of January 1 pcs.	151 641 426 354	151 641 426 354
In circulation at the end of the period and fully paid pcs.	151 641 426 354	151 641 426 354

Ordinary shares

The holders of ordinary shares have the right to vote on all issues on the agenda at the General Meetings of Shareholders of the Company to receive dividends in the manner prescribed 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 and dividends

No additional issue and dividends were announced in 2022 and 2021.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

As of December 31 2022 and December 31 2021 all balances of loans and borrowings are denominated in rubles.

	<u>Maturity</u>	Effective interest rates		Nominal amount	
		December 31 2022	December 31 2021	December 31 2022	December 31 2021
Unsecured bank loans*	2023-2024	9,00%	8,9-10,3%	5 288 347	8 944 527
Unsecured bank loans*	2025	KR+1,69% (KR=7,5%) 9,19%	–	1 405 453	–
Unsecured bank loans*	2023	10,50%	8,3-10%	135 000	2 579 075
Unsecured bank loans	2023	7,90%	7,90%	1 599 059	1 599 059
Unsecured bank loans	2024	KR + 1,46% (KR = 7,5%) 8,96% – KR + 1,52% (KR = 7,5%) 9,02%	–	2 002 953	–
Unsecured bank loans	2025	KR+1,48% (KR = 7,5%) 8,98% – KR +1,5% (KR = 7,5%) 9,0%	Key rate of the Central Bank of the Russian Federation KR + 1,48% – KR + 1,5%	2 007 284	1 829 906
Unsecured bank loans*	2025	KR (7,5%) + 1,395% = 8,895%	–	3 000 000	–
Unsecured loans*	2024	7,93-10,18%	7,93%	554 427	450 000
Unsecured loans*	2024	KR (7,5%) + 1,36% = 8,86%	–	5 986	–
Unsecured loans*	2025	7,07%	7,07%	3 038 933	3 038 352
Unsecured loans*	2023	9,15%	–	3 500 000	–
Unsecured bonds*	2022	–	9,24%	–	5 000 000
Lease obligations	2021-2069	6,6-8,92%	6,6-8,92%	771 298	882 743
				23 308 740	24 323 662

* Loans received from government-related companies.

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

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

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022
(in thousands of Russian rubles unless otherwise indicated)

26. Changes in liabilities arising from financing activities

	Borrowed funds		Interest payable on borrowed funds (except for % on lease agreements)	Lease obligations	Dividends payable	Total
	Long-term	Short-term				
As of January 1 2022	14 509 483	8 870 000	61 436	882 743	4 014	24 327 676
Changes in cash flows from financing activities						
Attracting of borrowed funds	10 099 746	7 477 957	–	–	–	17 577 703
Repayment of borrowed funds	(2 279 075)	(16 203 339)	–	–	–	(18 482 414)
Lease payments	–	–	–	(78 636)	–	(78 636)
Interest paid (operating activity reference)	–	–	(2 505 991)	(55 822)	–	(2 561 813)
Dividends paid	–	–	–	–	(36)	(36)
Total	7 820 671	(8 725 382)	(2 505 991)	(134 458)	(36)	(3 545 196)
Non-monetary changes						
Reclassification	(6 961 500)	6 961 500	–	–	–	–
Capitalized interest	–	–	194 359	–	–	194 359
Interest expenses	–	–	2 325 955	58 520	–	2 384 475
Income from lease agreements	–	–	–	48 774	–	48 774
Other changes net	–	–	–	(84 281)	(3 978)	(88 259)
Total	(6 961 500)	6 961 500	2 520 314	23 013	(3 978)	2 539 349
As of December 31 2022	15 368 654	7 106 118	75 759	771 298	–	23 321 829

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

	Borrowed funds		Interest payable on borrowed funds (except for % on lease agreements)	Lease obligations	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 in cash flows from financing activities						
Attracting of borrowed 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 activity 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-monetary changes						
Reclassification	(8 870 000)	8 870 000	–	–	–	–
Capitalized interest	–	–	160 332	–	–	160 332
Interest expenses	–	–	1 700 823	77 339	–	1 778 162
Income 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

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

27. Employee benefits

The Group has pension obligations and other long-term defined benefit obligations that apply to the majority of employees and retirees. Defined benefit liabilities consist of several unfunded programs that provide lump sums for retirement financial support for retirees death benefits anniversaries.

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

	<u>December 31 2022</u>	<u>December 31 2021</u>
Net Value of Post-Employee Benefit Liabilities	274 406	273 147
Net value of liabilities under other long-term employee benefit plans	15 345	14 250
	<u><u>289 751</u></u>	<u><u>287 397</u></u>

Changes in the present value of defined benefit liabilities:

	<u>2022</u>		<u>2021</u>	
	<u>Post-employment benefits</u>	<u>Other long-term benefits</u>	<u>Post-employment benefits</u>	<u>Other long-term benefits</u>
Defined Benefit Obligations as of 1 January	273 147	14 250	295 081	15 485
The cost of current services	12 297	5 043	14 133	2 916
Interest expenses	22 340	891	17 536	687
Revaluation effect:				
- changes in financial actuarial assumptions	(23 546)	(724)	(59 657)	(2 184)
- adjustments based on experience	(2 640)	(472)	13 655	1 564
Contributions to the plan	(7 192)	(3 643)	(7 601)	(4 218)
Defined Benefit Obligations as of December 31	<u><u>274 406</u></u>	<u><u>15 345</u></u>	<u><u>273 147</u></u>	<u><u>14 250</u></u>

Expenses recognized in profit or loss for the period:

Expense/(income) recognized in profit or loss for the period	<u>For the year ended 31 December</u>	
	<u>2022</u>	<u>2021</u>
The cost of employee services	17 340	17 049
Remeasurement of liabilities for other long-term employee benefits	(1 196)	(620)
Interest expenses	23 231	18 223
Total expenses recognized in profit or loss	<u><u>39 375</u></u>	<u><u>34 652</u></u>

Profit recognized in other comprehensive income for the period:

	<u>For the year ended 31 December</u>	
	<u>2022</u>	<u>2021</u>
(Profit)/loss on change in financial actuarial assumptions	(23 546)	(59 657)
(Profit)/loss on experience adjustment	(2 640)	13 655
Total income recognized in other comprehensive income	<u><u>(26 186)</u></u>	<u><u>(46 002)</u></u>

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

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

	For the year ended 31 December	
	2022	2021
Balance as of January 1	315 433	361 435
Revaluation change	(26 186)	(46 002)
Balance as of December 31	289 247	315 433

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

	For the year ended 31 December	
	2022	2021
Financial assumptions		
Discount rate	10 3%	8 4%
Inflation rate	5 6%	4 5%
Wage increase	6 1%	5 0%
Demographic Assumptions		
Expected retirement age		
Male	65	65
Female	60	60
Average staff turnover	6 3%	6 3%

The amount of expected payments under long-term employee benefit programs for 2023 is RUB 15 590 including:

- under defined benefit programs including non-state pension provision of employees RUB 14 102
- under programs of other long-term employee benefits RUB 1 488.

	Changes in assumptions	Impact on liabilities
Discount rate	Growth/decrease by 0.5%	-5,0%
Future wage growth	Growth/decrease by 0.5%	2,7%
Future Benefit Growth (Inflation)	Growth/decrease by 0.5%	3,0%
Staff turnover rate	Growth/decrease by 10%	-1,1%
Death rate	Growth/decrease by 10%	-1,1%

28. Trade and other payables

	December 31 2022	December 31 2021
Long-term accounts payable		
Trade accounts payable	350 193	2 245 433
Other accounts payable	39 683	37 761
	389 876	2 283 194
Short-term accounts payable		
Trade accounts payable (short-term)	7 901 598	6 018 139
Other accounts payable and accrued expenses	13 446 352	364 085
Debt to staff	1 627 902	1 505 559
Dividends payable	–	4 014
	22 975 852	7 891 797

As of December 31 2022 short-term trade and other payables include debt to PJSC Federal Grid Company – Rosseti in the amount of RUB 1 609 183 including current and restructured debt (as of December 31 2021: RUB 1 572 481).

In 2017 two agreements were signed with PJSC FGC UES dated June 27 2017 and December 31 2017 under which the Group's debt for the total amount of RUB 5 588 433 has been restructured. The initial debt repayment schedule provided for debt repayment by December 31 2021 and interest at 11% per annum. At the date of initial recognition of restructured accounts payable the Group applied market rates in the range of 9.17%-9.72%.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

On April 2 2020 additional agreements were concluded with PJSC FGC UES to the agreements dated June 27 2017 and December 31 2017 according to which the repayment period for accounts payable outstanding as of the date of additional agreements by the Group in the total amount of RUB 3 731 476 was changed until December 31 2023 and the interest rate was also changed which amounted to 10% per annum (hereinafter referred to as the “Additional Agreements”). At the date of initial recognition of restructured accounts payable under the Additional Agreements the Group applied a market rate of 7.27%. The discount amounts upon initial recognition of accounts payable under the Additional Agreements amounted to RUB 192 872 and RUB 81 677 respectively.

As of December 31 2022 the total unamortized discount included in long-term and short-term accounts payable was RUB 11 467 (December 31 2021: RUB 38 288).

On April 22 2020 the Group entered into agreements to terminate energy service contracts with LLC Kaskad-Energosbyt and JSC Electrotechnical Plants Energomera (the “Counterparties”). In accordance with the terms of the agreements the Group has undertaken to reimburse the Counterparties for the amount of RUB 5 233 123 by December 25 2024.

The amount of the unamortized discount under the agreement to terminate the energy service contract with Counterparties as of December 31 2022 amounted to RUB 82 006 (as of December 31 2021 – RUB 238 608). At initial recognition the Group applied the market rate of 8.82% per annum. Thus as of December 31 2022 long-term and short-term trade payables include debt under terminated energy service contracts with Counterparties in the amount of RUB 1 246 113 (December 31 2021: RUB 2 378 681) including unamortised discount.

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

29. Tax debt other than income tax

	December 31 2022	December 31 2021
Taxes payable		
VAT	684 517	352 268
Property tax	39 112	80 828
Social security contributions	695 382	267 832
Other taxes payable	95 530	100 954
	1 514 541	801 882

30. Advances received

In this note the amount of buyers' advances is indicated including VAT:

Long-term	December 31 2022	December 31 2021
Advance payments for technical connection services to power grids	306 224	148 481
Other advances received	4 772	18 591
	310 996	167 072
Short-term	December 31 2022	December 31 2021
Advance payments for technical connection services to power grids (short-term)	1 203 031	1 157 415
Other advances received (short-term)	1 380 261	99 539
	2 583 292	1 256 954

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

31. Provisions

	For the year ended 31 December	
	2022	2021
Balance as of January 1	1 573 887	1 640 336
Accrual (increase) for the period	516 418	1 360 852
Recovery (decrease) for the period	(395 280)	(559 149)
Use of estimated liabilities	(806 223)	(875 559)
Capitalized	–	7 407
Balance as of December 31	888 802	1 573 887

Estimated liabilities in relate to lawsuits and claims brought against the Group for ordinary activities as well as estimated liabilities for tax risks related to property tax as of December 31 2021 in the amount of RUB 202 050. As of December 31 2022 the estimated liability for tax risks for property tax was restored in connection with the received court decision in favor of the Company.

32. Financial risk and capital management

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

This note provides information on the Group's exposure to each of these risks discusses the objectives policies and procedures for assessing and managing risks as well as information on capital management. More detailed quantitative information is disclosed in the relevant sections of these consolidated financial statements.

In order to maintain or change the capital structure the Company may change the amount of dividends paid to shareholders return capital to shareholders or issue new shares as well as attract external financing.

Credit Risk

Credit risk is the risk that the Group will incur a financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations in full and when due. Credit risk relates primarily to the Group's accounts receivable bank deposits cash and cash equivalents.

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

Taking into account 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 an allowance for expected credit losses on trade and other receivables the estimated amount of which is determined based on the expected credit loss model weighted by the probability of default and can be adjusted both upwards and downwards. To do this the Group analyzes the creditworthiness of counterparties the dynamics of debt repayment takes into account changes in the terms of payment the presence of third-party guarantees bank guarantees and current economic conditions.

The carrying amount of accounts receivable net of allowance for expected credit losses represents the maximum amount exposed to credit risk. Although the collection of receivables may be affected by economic and other factors the Group believes that there is no significant risk of losses in excess of the provision.

The Group whenever possible uses a prepayment system in its relationships with counterparties. As a rule prepayment for technological connection of consumers to electric grids is stipulated by the contract. The Group does not require collateral for receivables.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

In order to effectively organize work with receivables the Group monitors changes in the volume of receivables and its structure highlighting current and overdue debts. In order to minimize credit risk the Group implements measures aimed at the timely fulfillment of contractual obligations by counterparties reducing and preventing the formation of overdue debts. Such activities in particular include: negotiating with consumers of services increasing the efficiency of the process of forming the volume of services for electricity transmission ensuring the implementation of schedules agreed with guaranteeing suppliers for the control taking of readings and technical verification of electricity meters limiting the mode of electricity consumption (implemented in accordance with norms of the legislation of the Russian Federation) claim work presentation of requirements for the provision of financial security in the form of independent (bank) guarantees sureties and other forms of security for the fulfillment of obligations.

Credit risk level

The carrying amount of financial assets reflects the Group's maximum exposure to credit risk. As of the reporting date the maximum exposure to credit risk was:

	Carrying amount	
	December 31 2022	December 31 2021
Trade and other receivables (net of allowance for expected credit losses)	7 598 771	8 713 109
Cash and cash equivalents	1 662 666	1 286 519
Financial assets at fair value through other comprehensive income	5 943	8 124
	9 267 380	10 007 752

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

	December 31 2022		December 31 2021	
	Total nominal amount	Allowance for expected credit losses	Total nominal amount	Allowance for expected credit losses
Buyers of electricity sales services	643 896	(296 781)	550 473	(288 085)
Buyers of electricity transmission services	8 479 741	(2 569 904)	9 998 540	(3 278 072)
Buyers of services for technological connection to networks	27 354	(18 670)	33 024	(15 245)
Other buyers	263 522	(190 098)	371 262	(202 296)
	9 414 513	(3 075 453)	10 953 299	(3 783 698)

The carrying amount of trade receivables attributable to the ten largest debtors of the Group amounted to RUB 5 215 030 as of December 31 2022 (as of December 31 2021: RUB 6 139 942).

The aging breakdown of trade and other receivables is as follows:

	December 31 2022		December 31 2021	
	Total nominal amount	Allowance for expected credit losses	Total nominal amount	Allowance for expected credit losses
Undue debt	19 299 479	(25 286)	7 293 509	(93 800)
Less than 3 months past due	457 418	(103 329)	393 607	(163 101)
Overdue by more than 3 months and less than 6 months	228 720	(111 973)	288 328	(142 881)
Overdue by more than 6 months and less than a year	341 987	(211 218)	506 931	(209 921)
Overdue for more than a year	3 609 478	(3 227 874)	4 641 768	(3 801 331)
	23 937 082	(3 679 680)	13 124 143	(4 411 034)

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

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

	<u>2022</u>	<u>2021</u>
Balance as of January 1	4 411 034	6 631 394
Increase in provision for the period	619 192	885 191
Recovery of provisions for the period	(946 065)	(2 629 450)
Amounts of trade and other receivables written off against the previously accrued allowance	<u>(404 481)</u>	<u>(476 101)</u>
Balance as of December 31	<u>3 679 680</u>	<u>4 411 034</u>

As of December 31 2022 and December 31 2021 the Group has no contractual basis for offsetting financial assets and financial liabilities and the Group's management does not expect future offsets based on additional agreements.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Liquidity risk management involves maintaining a sufficient amount of cash and the availability of financial resources by attracting credit lines. The Group maintains a balanced working capital financing model using both short-term and long-term sources. Temporarily free funds are placed in the form of short-term financial instruments as transactions for a minimum balance.

The Group's approach to liquidity management is to ensure that the Group has sufficient liquidity at all times to meet its obligations when due without incurring unacceptable losses or putting the Group's reputation at risk. This approach is used to analyze the maturities of financial assets and forecast cash flows from operating activities.

The Group's approach to managing the current liquidity deficit is described in Note 2 in the going concern section.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

The contractual maturities of financial liabilities are presented below taking into account expected interest payments and excluding the effect of offsets. The cash flows included in the maturity analysis are not expected to occur significantly earlier or in significantly different amounts:

December 31 2022	Carrying amount	Cash flows under the contract	Up to 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years
Non-derivative financial liabilities								
Loans and borrowings	22 537 442	25 651 700	8 803 471	8 834 766	8 013 463	–	–	–
Lease obligations	771 298	1 589 225	92 602	92 321	91 180	53 503	59 181	1 200 438
Trade and other payables	23 365 728	23 417 099	23 015 756	43 126	–	–	356 759	1 458
	46 674 468	50 658 024	31 911 829	8 970 213	8 104 643	53 503	415 940	1 201 896
December 31 2021								
	Carrying amount	Cash flows under the contract	Up to 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years
Non-derivative financial liabilities								
Loans and borrowings	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 obligations	882 743	2 272 638	135 737	104 423	96 333	83 858	64 745	1 787 542
Trade and other payables	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

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

Market Risk

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

Currency risk

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

Interest risk

Changes in interest rates primarily affect loans and borrowings as 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 follow any established rules in determining the ratio between loans and borrowings at fixed and floating rates. At the same time at the moment when new loans and borrowings are raised – judgment is made as to which rate – fixed or floating – will be most beneficial for the Group for the entire settlement period until maturity.

Fair value sensitivity analysis of fixed rate financial instruments

The Group does not account for any fixed rate financial assets and liabilities as measured at fair value through profit or loss. Accordingly – a change in interest rates as at the reporting date would not have affected profit or loss.

Cash flow sensitivity analysis for floating rate financial instruments

As of December 31 – 2022 – the Group's financial liabilities with floating interest rates amounted to RUB 8 421 676 (December 31 – 2021: RUB 1 829 906).

A possible change in interest rates by 100 basis points would have increased (decreased) the amount of loss before income tax for 2022 by RUB 84 216 (2021: RUB 18 229) This analysis was performed on the assumption that all other variables remain constant and interest expense is not capitalized.

Fair and carrying value

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

Financial assets and financial liabilities of the Group – excluding those with market quotations of securities classified as financial investments (Tier 1 in the fair value hierarchy – Note 17) – cash and cash equivalents (Tier 1 of the hierarchy) loans and borrowings (Tier 2 of the hierarchy) belong to tier 3 of the fair value hierarchy.

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

The interest rate used to discount expected future cash flows on long-term accounts payable for the purposes of determining the disclosed fair value as of December 31 – 2022 and December 31 – 2021 was 7.27-8.82%.

Capital Management

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

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

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

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

33. Capital commitments

The amount of the Group's liabilities of a capital nature under contracts for the acquisition and construction of property plant and equipment is RUB 4 562 966 including VAT as of December 31 2022 (as of December 31 2021: RUB 8 173 307).

34. Contingent liabilities

Insurance

The Group has uniform requirements regarding the volume of insurance coverage the reliability of insurance companies and the procedure for organizing insurance coverage. The Group insures assets civil liability and other insurable risks. The Group's main production assets are insured including coverage in case of damage or loss of property plant and equipment. However there are risks of a negative impact on the Group's operations and financial position in the event of loss or damage to assets that are not insured or are not fully covered.

Contingent tax liabilities

Russian tax legislation is subject to varying interpretations in relation to the operations and activities of the Group. Accordingly management's interpretation of tax legislation and its formal documentation can be successfully challenged by the relevant regional or federal authorities. Tax administration in Russia is gradually being strengthened. In particular the risk of inspection of the tax aspect of transactions without obvious economic sense or with counterparties that violate tax laws increases. Tax audits may cover three calendar years preceding the year of the decision on the tax audit. Under certain conditions even earlier periods may be subject to verification.

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

Starting January 1 2019 transfer pricing controls have been abolished for a significant portion of domestic transactions. However the exemption from price controls may not apply to all transactions in the domestic market. At the same time in the case of additional charges the mechanism of counter-adjustment of tax liabilities can be used subject to certain legal requirements. Intra-group transactions that have fallen out of transfer pricing control since 2019 may still be subject to inspection by territorial tax authorities for unreasonable tax benefits and transfer pricing methods may be used to determine the amount of additional charges. The federal executive body authorized to control and supervise taxes and fees 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 fails to justify the market nature pricing in these transactions by providing transfer pricing documentation that meets the requirements of the legislation.

As the practice of applying property tax rules continues to develop the Group's criteria for classifying property as movable or immovable may be challenged by the tax authorities and courts. Management of the Group has accrued a provision for property tax risk in the amount of the most probable outflow of resources disclosed in note 31.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

Management believes that it has interpreted the relevant legal provisions correctly and that the Group's position in terms of tax compliance can be justified and defended.

Legal Proceedings

The Group is a party to a number of litigations (both as a plaintiff and a defendant) arising in the normal course of business. Management believes that there are currently no outstanding claims or other claims that could have a material effect on the Group's results of operations or financial position that would not be recognized or disclosed in the interim condensed consolidated financial statements.

Environmental Liabilities

The Group has been operating in the power industry in the Russian Federation for many years. Legislation on environmental protection in the Russian Federation continues to develop the duties of the authorized state bodies to oversee its compliance are being revised. Potential environmental liabilities arising from changes in the interpretation of existing legislation lawsuits or changes in legislation cannot be estimated. In the opinion of management under the current system of control and under current legislation there are no probable liabilities that could have a material adverse effect on the financial position results of operations or cash flows of the Group.

35. Related party transactions

Relationships of control

Parties are generally considered to be related if they are under common control or if one party has the ability to control the other party or can exercise significant influence over the other party in its financial decisions or joint control. 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 December 31 2022 and December 31 2021 and as of December 31 2022 and December 31 2021 were the parent company its subsidiaries key management personnel and companies related to the main shareholder of the parent company.

Transactions with the parent company its subsidiaries

Revenue net other income	Transaction amount for the year ended December 31		Carrying amount	
	2022	2021	December 31 2022	December 31 2021
Parent company				
Leasing fee	1 641	1 641	–	–
Other revenue and income	33 708	10 000	–	–
Entities under common control of a parent company				
Transmission	–	297 551	–	–
Other revenue and income	4 015	76 242	5 018 979	444 278
Accrual/Recovery of allowance for expected credit losses	11 390	(56 602)	–	–
	50 754	328 832	5 018 979	444 278

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

	Transaction amount for the year ended December 31		Carrying amount	
	2022	2021	December 31 2022	December 31 2021
Operating expenses financial expenses				
Parent company				
Mgmt. services	81 327	81 327	15 517	15 134
Other works and services of an industrial nature	28 537	28 537	–	–
Others	5 196	5 420	12 951 948	–
Interest expense on financial liabilities carried at amortized cost	550 391	732 888	38 933	38 352
Entities under common control of a parent company				
Electricity transmission services	7 770 811	7 825 181	1 606 118	1 365 419
Electricity to compensate for technological losses	–	293 917	–	–
Others	135 517	74 054	429 930	763 679
Provisions	–	74 546	–	74 546
Recovery of allowance for expected credit losses		56 602		
Interest expense on financial liabilities carried at amortized cost	154 092	206 329	–	–
	8 725 871	9 378 801	15 042 446	2 257 130

	Carrying amount	
	December 31 2022	December 31 2021
Parent company		
Loans	6 500 000	8 000 000
Entities under common control of a parent company		
Advances issued	5 225	25 036
Loans received	560 413	450 000
Advances received	–	15
Lease obligations	37 806	34 187
	7 103 444	8 509 238

As of December 31 2022 there is no debt to the parent company for the payment of dividends.

In 2022 and 2021 the Company paid no 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 PJSC Rosseti South the General Director and their deputies.

The remuneration of key management personnel consists of wages stipulated by the employment agreement non-monetary benefits as well as bonuses determined on the basis of results for the period and other payments. Remuneration or compensation is not paid to members of the Board of Directors who are simultaneously members of the collegial executive body of the Company or the sole executive body (General Director) of the Company.

The amounts of key management personnel compensation disclosed in the table represent current period costs of key management personnel included in employee benefits expense.

Rosseti South Group of Companies
Notes to the consolidated financial statements
for the year ended 31 December 2022

(in thousands of Russian rubles unless otherwise indicated)

	For the year ended 31 December	
	2022	2021
Short term employee benefits	149 749	160 262
Change in end-of-employment obligations and other long-term benefits (including pension plans)	1 114	1 061

As of December 31 2022 the carrying amount of defined benefit liabilities in respect of key management personnel as reflected in the consolidated statement of financial position was RUB 1 114 (liabilities as of December 31 2021: RUB 1 061).

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

As part of its day-to-day activities the Group enters into transactions with other companies associated with the parent company's major shareholder. These operations are carried out at regulated tariffs or at market prices. Raising and placing funds in financial institutions associated with the main shareholder of the parent company is carried out at market interest rates. Taxes are charged and paid in accordance with Russian tax legislation.

Revenue from companies associated with the parent company's major shareholder amounted to:

- 18% of the Group's total revenue for the year ended December 31 2022 (for the year ended December 31 2021: 19%);
- 16% of the Group's electricity transmission revenue for the year ended December 31 2022 (for the year ended December 31 2021: 15%).

Electricity transmission costs and expenses for the acquisition of electricity to compensate for technological losses for companies related to the state amounted to 8% of total transmission and loss compensation costs for the year ended December 31 2022 (for the year ended December 31 2021: 9%).

Interest accrued on loans and borrowings from government-related banks for the year ended December 31 2022 amounted to RUB 1 345 586 (for the year ended December 31 2021: RUB 733 307).

As of December 31 2022 loans and borrowings received from banks associated with the parent company's major shareholder amounted to RUB 11 790 775 (as of December 31 2021 RUB 11 509 610).

As of December 31 2022 the balance of cash and cash equivalents placed with government-related banks amounted to RUB 1 117 784 (as of December 31 2021: RUB 577 747).

As of December 31 2022 and December 31 2021 there are no deposits with an original placement period of more than three months placed with banks associated with the main shareholder of the parent company .

As of December 31 2022 lease liabilities from government-related entities amounted to RUB 576 007 (as of December 31 2021: RUB 694 688).

Details of borrowings received from government-related banks and the balance of cash and cash equivalents placed with government-related banks are disclosed in Notes 25 "Borrowings" and 22 "Cash and cash equivalents".

36. Events after the reporting date

There are no significant events that have had or may have an impact on the financial condition cash flows or results of operations of the Group that occurred between the reporting date and the date of signing of the Group's consolidated financial statements for the year ended December 31 2022 prepared in accordance with IFRS.