Auditor's report
of the independent auditor
on the consolidated financial statements
of Public Joint-Stock Company
ROSSETI SOUTH
and its affiliated subsidiaries
for the year ended December 31, 2023.

March 2024

Auditor's report
of an independent auditor
on the consolidated financial statements
Public Joint-Stock Company
ROSSETI South
and its affiliated subsidiaries

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НОВЫЕ ВЫЗОВЫ
НОВЫЕ РЕШЕНИЯ

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Auditor's report
of an independent auditor

for the Shareholders and Board of Directors
of Public Joint stock company ROSSETI South

Opinion

We carried out the audit of the consolidated financial statements of Public Joint-Stock Company ROSSETI South and its affiliated subsidiaries (Company, Group), consisting of the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2023, consolidated statement of financial position as of December 31, 2023, consolidated statement on changes in equity and consolidated statement on cash flows for the year ended December 31, 2023, as well as notes to the consolidated financial statements, consisting of the relevant information on the accounting policy and other explanatory information.

It is our opinion that the attached consolidated financial statements give a true and fair, in all material respects, view of the consolidated financial situation of Group as of December 31, 2023, as well as its consolidated financial results and consolidated cash flows for the year ended December 31, 2023 in accordance with international accounting standards (IAS).

Basis for our audit opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our obligations under these standards are described further in the section “Auditor's Responsibilities for the Audit of the consolidated financial statements” of our report. We are independent with respect to the Group in accordance with the ethical requirements of Code of Ethics for Professional Accountants and Rules of Independence for Auditors and Audit Organizations applicable to our audit of the consolidated financial statements in the Russian Federation and International Code of Ethics for Professional Accountants (including international independence standards) issued by International Ethics Standards Board for Accountants (IESBA Code). We fulfilled other ethic responsibilities in accordance with these requirements and IESBA Code. It is our belief that the obtained audit evidence are sufficient and appropriate to give occasion to express our opinion.

НОВЫЕ ВЫЗОВЫ
НОВЫЕ РЕШЕНИЯ

Key Audit Matters

Key audit matters mean matters that, according to our professional judgment, were the most important for our audit of the consolidated financial statements for the current period. These matters were reviewed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion on these statements, and we do not express 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 this context.

We fulfilled obligations described in the section "Auditor`s responsibility for the audit of the consolidated financial statements" of our opinion, including with respect to these matters. Consequently, our audit included the fulfillment of procedures developed in response to our assessment of risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including those performed as a part of the matters specified below, give occasion to the expression of our audit opinion on the attached consolidated financial statements.

Key Audit Matter	**How the relevant key matter was addressed in our audit**
Recognition and valuation of revenue from electricity transmission services	
Recognition and valuation of revenue from electricity transmission services was one of the most significant matters of our audit due to a 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. Information on revenue from electricity transmission services is disclosed in paragraph 7 of the notes to the consolidated financial statements.	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.
Allowance for expected credit losses on trade receivables	
The matter of the accumulation of expected credit loss provisions for trade receivables was among the most important for our audit due to the material balances of trade receivables as of December 31, 2023, as well as because of the fact that the management's assessment of the possibility of recovering this debt is based on assumptions, for example, on estimates of the Group's customers paying capacity. Information on the allowance for expected credit losses on trade receivables is disclosed in paragraphs 20 and 32 of the notes to the consolidated financial statements.	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. 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 in relation to the structure of receivables by terms of origin and repayment, tested the calculation of accrued stock amounts based on management's estimates.

Key Audit Matter	How the relevant key matter 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 judgment proceedings and claims of counter-parties (including territorial electric grid and power supply companies), as well as in relation to tax risks were among the key matters of our audit because of the fact that they require significant comments of the management in relation to material amounts debatable within the context of judgment proceedings or pre-trial conference. Information on reserves and contingent liabilities is disclosed in paragraphs 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 the presence as of December 31, 2023 of non-current assets impairment indicators, the Group conducted the impairment test. The value in use of fixed assets constituting a large proportion of the Group`s non-current assets as of December 31, 2023 was determined using the method of predictable cash flows. The issue of testing fixed assets for impairment was one of the most significant for our audit, because the fixed assets balance 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 paragraphs 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 predictable total revenues from electricity transmission, 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 fixed assets. We engaged valuation specialists to analyze the model used to determine the recoverable amount in the impairment test for fixed assets. 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.

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

Other information includes information 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 is not applied to other information, and we will fail to present conclusion voicing any confidence in relation to this information.

Relating to our audit of the consolidated financial statements, our obligation consists in studying other information mentioned above when it becomes available for us and in examining the matter whether there are material inconsistencies between other information and the consolidated financial statements or our audit findings and whether other information contains other material misstatements. If we conclude based on out work that such other information contains material misstatement, we are obliged to inform about this fact. We have no information on such facts.

Responsibility of the management and Board Audit Committee for the consolidated financial statements

The management is responsible for preparation and faithful representation of the specified consolidated financial statements in accordance with IFRS and for the internal control system which is considered by the management as necessary one for preparation of the consolidated financial statements free from material misstatements, whether due to fraud or error.

When preparing the consolidated financial statements, the management is responsible for appraising the Group`s ability for its continuous activities, for discovering, when applicable, information relating to continuous activities and for accounting based on going concern principle, except case where the management intends to kill off the Group, go out of its business or where the management has no viable option for such actions.

Board Audit Committee is responsible for supervision over preparing the consolidated financial statements of the Group.

Auditor`s responsibility for the consolidated financial statements audit

Our objectives involve getting a rational assurance to certify that the consolidated financial statements as a whole is free from material misstatements due to fraud or error and in issuing the audit report containing 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 may arise from fraud or error and are regarded as material ones if it is possible to suppose on a reasonable basis that they, individually or for a total, might impact on user`s economical decisions taken 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:

- define and assess risks of material misstatement of the consolidated financial statements due to fraud or error; develop and carry out audit procedures in response to these risks, procure sufficient and appropriate audit evidences to give occasion to the expression of 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;
- obtain understanding the internal control system material to audit for the purpose of developing audit procedures meeting the requirements of a situation but not for the purpose of the expression of opinion on efficiency of the Group`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 about appropriateness of the management's use of the going concern principle, and based on obtained audit evidence, conclude about the presence of a possible material uncertainty due to events or conditions that may cause considerable doubts about the Group`s ability to continue business. If we come to conclusion of the presence of material uncertainty, we must attract attention in our audit report to relevant disclosure of information in the consolidated financial statements or, if this disclosure of information is inappropriate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, the future events or conditions may result in a situation where the Group will lose ability to continue its business;
- assess the presentation of the consolidated financial statements as a whole, its structure and content, including disclosure of information, as well as whether the consolidated financial statements present its inherent operations and events in such a manner to provide their faithful representation;
- plan and perform the audit of the Group to obtain sufficient appropriate audit evidence relating to financial information of the entities or business units of the Group as a basis for the formation of opinion on the consolidated financial statements of the Group. We are responsible for management, supervision over the audit progress and audit work performed for the Group audit. We remain fully responsible for our audit opinion.

We carry out information interaction with the Board Audit Committee, bringing to its attention, among other things, information about the planned scope and timing of the audit, as well as substantial comments based on the audit results, including significant deficiencies in the internal control system if we identify them during the audit.

We also provide a statement to the Board Audit Committee that we met all relevant ethic requirements in relation to independence and informed these persons about all mutual relations and any other business that may be reasonably considered as having influence on the auditor`s independence and, where necessary, about actions taken to eliminate threats or precautions taken.

From those matters that we made known to the Board Audit Committee, we define the matters that were of most importance for the audit of the consolidated financial statements for the current period and that therefore constitute the 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 this audit report of the independent auditor was issued, is Tatiana Leonidovna Okolotina.

Tatiana Leonidovna 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 w/o No. dated January 18, 2024,
the head of the audit, based on the results of which the independent auditor's report was drawn up (ORNZ 21906110171)

March 15, 2024

Auditor Information

Name: Limited Liability Company Center of audit technologies and solutions - audit services
The entry was made in the Unified State Register of Legal Entities on December 5, 2002 and the state registration number 1027739707203 was assigned.
Location: 115035, Russia, Moscow, Sadovnicheskaya nab., 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 audited entity:

Name: Public Joint-Stock Company ROSSETI South
The entry was made in the Unified State Register of Legal Entities on June 28, 2007 and the state registration number 1076164009096 was assigned.
Location: 344002, Russia, the Rostov Region, the city of Rostov-on-Don, Bolshaya Sadovaya st, 49/42.

(in thousands of Russian rubles, unless otherwise indicated)

	Approx.	For the year ended December 31 2023	2022
Revenues:	7	51,034,446	44,142,877
Operating Cost	10	(46,394,416)	(41,705,704)
Recovery of allowance for expected credit losses		643,709	326,873
Net reversal / (accrual) of impairment loss of fixed assets and right-of-use assets	14, 16	184,640	(474,874)
Other revenues	8	704,210	992,590
Other expenses	9	(99,668)	(254,395)
Operating income		**6,072,921**	**3,027,367**
Financial income	12	352,621	520,066
Financial expenses	12	(2,406,413)	(2,730,036)
Total financial expenses		**(2,053,792)**	**(2,209,970)**
Before-tax income		**4,019,129**	**817,397**
income tax recovery	13	(1,004,537)	(478,772)
Profit for the period		**3,014,592**	**338,625**
Other comprehensive income			
Items that cannot be subsequently reclassified to profit or loss:			
Changes in the fair value of equity investments at fair value through other comprehensive income		20,196	1 299
Income tax on other comprehensive income	13	(4 039)	(260)
Revaluation of defined benefit plans	27	38,053	26,186
Total items that cannot be subsequently reclassified to profit or loss:		**54,210**	**27, 225**
Other comprehensive income for the period, after income tax		**54,210**	**27, 225**
Total comprehensive income for the period		**3,068,802**	**365,850**
Profit payable to:			
Company Owners		**3,014,592**	**338,625**
Total comprehensive income payable to:			
Company Owners		**3,068,802**	**365,850**
Income per share			
Basic and diluted earnings per share (rubles)	24	0.020	0.002

This consolidated financial statements were approved by the management on March 15, 2024 and signed on behalf of the management by the following persons:

Deputy Director General
in charge of Economics and Finance K.A. Iordanidi

Chief Accountant G.G. Savin

(in thousands of Russian rubles, unless otherwise indicated)

	Approx.	December 31, 2023	December 31, 2022
Assets			
Noncurrent assets			
Fixed assets	14	26,455,748	25,002,832
Intangible assets	15	212,776	190,628
Right-of-Use Assets	16	794,463	628,174
Long-term trade and other receivables	20	1,298,066	1,561,729
Other non-current financial assets	17	26,139	5,943
Deferred tax assets	18	373,673	983,808
Advances issued and other non-current assets	21	7,642	22,773
Total non-current assets		**29,168,507**	**28,395,887**
Current assets			
Inventories	19	3,147,270	1,185,144
Prepayment of current income tax		361,397	230,846
Trade and other receivables	20	6,423,912	18,695,673
Cash and cash equivalents	22	4,029,964	1,662,666
Advances issued and other current assets	21	6,635,343	1,617,727
Total current assets		**20,597,886**	**23,392,056**
Total assets		**49,766,393**	**51,787,943**
Equity and Liabilities			
Equity			
Authorized capital	23	15,164,143	15,164,143
Reserve		(231,049)	(285,259)
Accumulated loss		(12,344,511)	(15,359,103)
Total equity attributable to the Company owners		**2,588,583**	**(480,219)**
Non-current liabilities			
Non-current borrowings	25	15,506,210	16,057,825
Non-current trade and other payables	28	167,799	389,876
Employee benefit liabilities	27	284,326	289,751
Non-current advances received	30	462,287	310,996
Total non-current liabilities		**16,420,622**	**17,048,448**
Current liabilities			
Non-current borrowings and the non-current portion of long-term borrowings	25	8,022,172	7,250,915
Trade and other payables	28	10,606,743	22,975,852
Tax debt other than income tax	29	1,417,967	1,514,541
Advances received	30	9,980,768	2,583,292
Provisions	31	713,562	888,802
Debt for current income tax		15,976	6 312
Total current liabilities		**30,757,188**	**35,219,714**
Total liabilities		**47,177,810**	**52,268,162**
Total equity and liabilities		**49,766,393**	**51,787,943**

(in thousands of Russian rubles, unless otherwise indicated)

	Equity attributable to the Company owners			
	Authorized capital	**Other reserves**	**Retained earnings / (accumulated loss)**	**Total equity**
Balance as of January 1, 2023	**15,164,143**	**(285,259)**	**(15,359,103)**	**(480,219)**
Profit for the period	–	–	3,014,592	**3,014,592**
Net change in fair value of available-for-sale financial assets	–	20,196	–	**20,196**
Revaluation of defined benefit plans	–	38,053	–	**38,053**
Income tax on other comprehensive income	–	(4 039)	–	**(4 039)**
Total comprehensive income for the period	**–**	**54,210**	**3,014,592**	**3,068,802**
Balance as of December 31, 2023	**15,164,143**	**(231,049)**	**(12,344,511)**	**2,588,583**

	Equity attributable to the Company owners			
	Authorized capital	**Other reserves**	**Retained earnings / (accumulated loss)**	**Total equity**
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)**

(in thousands of Russian rubles, unless otherwise indicated)

	Approx.	For the year ended December 31 2023	2022
Cash flow from operating activities			
Profit for the period		**3,014,592**	**338,625**
Adjustments			
Depreciation of fixed assets, intangible assets and right-of-use assets	10	2,531,149	2,399,652
Net impairment loss on fixed assets and right-of-use assets	14, 16	(184,640)	474,874
Recovery of allowance for expected credit losses	32	(643,709)	(326,873)
Financial expenses	12	2,406,413	2,730,036
Financial income	12	(352,621)	(520,066)
Loss from disposal of fixed assets	9	99,668	183,677
Disposal of a subsidiary		–	70,358
Other non-cash transactions		62,840	(42,272)
Income tax expense	13	1,004,537	478,772
Total impact of adjustments		**7,938,229**	**5,786,783**
Change in employee benefit liabilities		(5 425)	2 354
Change in long-term trade and other receivables		242,381	1,085,742
Change in long-term advances issued and other non-current assets		15,131	(20,282)
Change in long-term trade and other payables		(222,077)	(1,893,318)
Change in long-term advances received		151,291	143,924
Cash flows from operating activities before changes in circulating capital and provisions		**8,119,530**	**5,105,203**
Change in circulating capital			
Change in trade and other receivables		13,204,826	(12,107,974)
Change in advances issued and other assets		(5,017,616)	(1,130,752)
Stock change		(1,968,328)	19,131
Change in trade and other payables		(10,820,666)	16,558,431
Use of estimated liabilities		(175,240)	(685,085)
Change in advances received		7,397,476	1,326,338
Cash flows from operating activities before income tax and interest		**10,739,982**	**9,085,292**
Income tax paid		(611,439)	(38,589)
Interest paid on lease agreements	26	(69,813)	(55,822)
Interest paid	26	(2 373 517)	(2 505 991)
Net cash received/(used) from/(in) operating activities		**7,685,213**	**6,484,890**
Cash flow from investing activities			
Acquisition of fixed assets and intangible assets		(5,417,650)	(5,268,166)
Proceeds from the sale of fixed assets and intangible assets		862	3 193
Disposal of financial assets		–	983
Interest received		165,191	138,630
Net cash used in investing activities		**(5,251,597)**	**(5,125,360)**

(in thousands of Russian rubles, unless otherwise indicated)

		For the year ended December 31	
	Approx.	**2023**	**2022**
Cash flow from financing activities			
Attracting of borrowed funds	26	13,711,986	17,577,703
Repayment of borrowed funds	26	(13,728,953)	(18,482,414)
Dividends paid to the owners of the Company	26	–	(36)
Payments on rental obligations	26	(49,351)	(78,636)
Net cash (used in) / received from financing activities		**(66,318)**	**(983,383)**
Net increase in cash and cash equivalents		**2,367,298**	**376,147**
Cash and cash equivalents at the beginning of the reporting period	22	1,662,666	1,286,519
Cash and cash equivalents at the end of the reporting period	22	**4,029,964**	**1,662,666**

1. General information

The Group and its activities

The main activity of ROSSETI South, PJSC (hereinafter referred to as the Company or ROSSETI South, PJSC) and its subsidiaries (hereinafter collectively referred to as the Group or 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 ROSSETI, PJSC.

Location of ROSSETI South, PJSC: 344002, Russia, the Rostov Region, the city of Rostov-on-Don, Bolshaya Sadovaya st, 49/42.

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, as represented by the Federal Agency for State Property Management, is the ultimate controlling party of the Company (hereinafter referred to as the “major shareholder of the parent Company”). The policy of the Government of the Russian Federation in the economic, social and other areas may have a significant impact on the activities of the Group.

The state influences on activities of the Group through the Board representation of the parent company, regulation of tariffs in the electricity industry, approval and control over the implementation of the investment program. The Group's counter-parties (consumers of services, suppliers and contractors) include a significant number of companies associated with the main shareholder of the parent company.

As of December 31, 2023 and December 31, 2022, the share of the Russian Federation in the authorized capital of the parent company ROSSETI, PJSC was 88.04%, in ordinary voting shares - 88.89%, in preferred shares - 7.01%.

On September 16, 2022, the extraordinary general meeting of shareholders of FGC UES, PJSC decided upon whether to reorganize Public Joint-Stock Company "Federal Grid Company of Unified Energy System" by merging it with Public Joint Stock Company "Russian Grids", Joint Stock Company "Far Eastern Energy Management Company - UNPG", Open Joint Stock Company "Tomsk Transmission System" and Joint Stock Company "Kuban Transmission System".

Public Joint Stock Company "Federal Grid Company of the Unified Energy System" changed its name to Public Joint Stock Company "ROSSETI" (abbreviated as ROSSETI, PJSC). Corresponding amendments were entered into the Uniform State Register of Legal Entities on October 12, 2022.

On January 9, 2023, the information on termination of activities of ROSSETI PJSC was entered into the Unified State Register of Legal Entities through reorganization in the form of merger with Public Joint-Stock Company "Federal Grid Company-ROSSETI" which is the universal legal successor of ROSSETI, PJSC. After reorganization, the share of participation of the Russian Federation represented by the Federal Agency for State Property Management in the authorized capital of ultimate parent company of Public Joint-Stock Company “Federal Grid Company-ROSSETI” was 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 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. Continuing geopolitical tension, as well as sanctions imposed by a number of countries against certain sectors of the Russian economy, Russian organizations and citizens, still affect the Russian economy.

In 2023, the action of outside sanctions against the Russian companies and individuals continues. These circumstances led to fluctuations of Russian ruble rates, increased volatility in financial and commodity markets, as well as significantly increased the level of uncertainty in the conditions of business activity in the Russian Federation. The scope and duration of these events remain uncertain and can affect the financial situation and performance of the Group. The future economic situation in the Russian Federation depends on external factors and measures taken by the Government of the Russian Federation. 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 future effects of the present economic conditions and the above measures are difficult to predict, and the management's current expectations and estimates may differ from actual results.

Functional and presentation currency

The Russian Federation currency is Russian ruble (hereinafter - ruble or BUB) used by the Group as functional currency and presentation currency of these consolidated financial statements. All numerical indicators are given in rubles and rounded-off to thousand, unless otherwise indicated, negative values are given in brackets.

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.

New standards, clarifications and amendments to existing standards

The Group used all new standards and modifications to them which took effect from January 1, 2023.

A number of new standards and interpretations that are mandatory for annual periods beginning on or after 1 January 2024 were published. The Group intends to adopt standards and amendments for use upon entry into force, a material impact on the Group's consolidated financial statements is not expected:

- *"Classification of liabilities as short-term and long-term"* – Amendments to IFRS (IAS) 1 (issued on January 23, 2020 and become valid for annual periods beginning on or after January 1, 2022, the effective date was subsequently extended to January 1, 2024 by the Amendments to IFRS (IAS) 1).
- 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 September 11, 2014 and effective for annual periods beginning on or after to be determined by the IFRS, or after that date).
- *"Lease Liabilities on Sale and Leaseback"* – Amendments to IFRS 16 (issued on September 22, 2022 and effective for annual periods beginning on or after January 1, 2024).
- *"Long-term liabilities with covenants"* – Amendments to IFRS (IAS) 1 (issued on October 31, 2022 and become valid for annual periods beginning on or after January 1, 2024).
- *"Accounts payable factoring operations"* – Amendments to IFRS (IAS) 7 and IFRS (IFRS) 7 (issued May 25, 2023 and become valid for annual periods beginning on or after January 1, 2024).
- *"Currency inconvertibility"* – Amendments to IFRS (IAS) 21 *"Effect of changes in foreign exchange rates"* (issued August 15, 2023 and become valid for annual periods beginning on or after January 1, 2025).

Business continuity

The Group's consolidated financial statements for 2023 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.

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.

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.

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 fixed assets and right-of-use assets

At each reporting date, the Group's management assesses whether there is any indication of impairment of fixed assets 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, the Group estimates the expected cash flows from cash-generating units and calculates a discount rate for calculation of the current value of these cash flows. Cash-generating unit (hereinafter - CGU) means the smallest identifiable group of assets which provides cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The main criterion for determining CGU is the tariff indivisibility and the impossibility of further detailing accounting and planning.

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 uncancellable 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.

Obligations for non-state pension provision

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, the management uses estimates and judgments based on prior years' taxable income and future profit expectations that are reasonable in the circumstances.

3. Material information on accounting policy

Accounting policy provisions described below were consistently applied throughout the reporting periods presented in these consolidated financial statements.

The current standard amendments made effective in relation to annual accounting periods beginning on January 1, 2023 failed to have a significant impact on these consolidated financial statements of the Group.

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 were 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 acquirable enterprise; 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.

Transactions eliminated on consolidation

Inter-company balances and transactions, as well as unrealized income and expenses due to inter-company transactions are excluded in preparing the consolidated financial statements. Unrealized income 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 order as unrealized income but only to the extent as long as 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 estimated by amortized cost if the following conditions are met: the asset is held within a business model whose objective is to hold assets for receiving contract-stipulated cash flows, and terms of the contract provide receiving at specified dates of cash flows that are solely payments for principal and interest for the outstanding portion of principal debt.

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 de-recognition of financial assets estimated by amortized cost and fair value whose changes are recognized through profit or loss, the Group recognizes in the consolidated statement of profit or loss and other comprehensive income (through profit or loss) the financial result of their retirement equal to the difference between the fair value of recoveries and the book value of the asset.

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

- 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 de-recognition 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.

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. Due to repair, the book value of the asset should not exceed its cost upon which it would be recognized in the consolidated statement of financial position should the impairment loss was not recognized.

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.

Borrowing costs are recognized as expenses in the accounting period in which they were incurred unless they were related 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 fixed assets are recognized at cost price, less accumulated depreciation and impairment losses. The cost price of fixed assets as of 1 January 2007 (the date of transition to IFRS) was determined based on their fair value (notional cost) at that date.

The cost price includes all costs directly attributable to the acquisition of the respective asset. The cost price of self-erected (self-constructed) assets includes the costs of materials, direct labor costs and all other costs directly related to bringing the assets into working condition for their intended use, costs of dismantling and moving the assets and restoring the site they occupy, as well as capitalized interest on loans and borrowings. 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 fixed assets consists of significant separate components with different useful lives, each of them is accounted for as a separate item (significant component) of fixed assets.

Any profit or loss on disposal of an item of fixed assets 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 fixed assets 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 for routine repairs and maintenance of fixed assets items are recognized in the consolidated statement of profit or loss and other comprehensive income when incurred.

Depreciation

Each component of an item of fixed assets 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.

Useful lives expressed in years by type of fixed assets are presented below:

- buildings and constructions 7-105 years;
- power line networks 5-59 years;
- power transmission equipment 2-74 years;
- other assets 3-100 years.

Impairment

The management assesses at each reporting date whether there is any indication of impairment of fixed assets

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 sales expenses.

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.

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 paid out

Advances paid out 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 support works on prevention and elimination of accidents (emergency situations) at electrical grid facilities (emergency reserve) are reflected in the item “Inventories”.

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.

Revaluations 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.

Income tax

Income tax expense includes current income tax of the current period 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 relation to temporary differences arising between book value of assets and liabilities defined for their recognition in the consolidated 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.

When determining the amount of current and deferred tax, the Group considers the impact of uncertainty about the tax position and whether additional taxes, penalties and interest may be assessed. 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

Provision is recognized if due to any past event, the Group had a legal obligation or obligation stipulated by accepted practice whose value can be reliably estimated, and there is a strong possibility that an outflow of economic benefits will be required to settle this 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.

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.

Reserves on the equity side include:

- revaluation reserve of financial assets
- revaluation reserve of the net liability of the defined benefit program.

Revaluation reserve of financial assets.

The order of valuation of financial assets measurable at fair value through other comprehensive income, as well as the order of de-recognition of these financial assets are described in Appendix 32.

Revaluation reserve of the net liability of the defined benefit program.

Actuarial gains and losses recognized as part of reserve for revaluation of net obligation of the defined benefit program are calculated by a qualified independent actuary in accordance with the requirements of IFRS (IAS) 19 *"Employee benefits"*.

Retained earnings. Dividends

Retained earnings (uncovered loss) reflects net income (loss) with accrual character from the beginning of the Group's activities, not distributed among its shareholders or otherwise used.

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 (i.e. an asset) to a customer. The asset is transferred when (or as) the customer obtains control of this 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 Anti-Monopoly Service.

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 rendering of interconnection 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

Receivables represent the Group's right for compensation which is unconditional (i.e. the point at which such compensation 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.

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.

(in thousands of Russian rubles, unless otherwise indicated)

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.

5. Main subsidiaries

The consolidated financial statements of the Group as of December 31, 2023 and December 31, 2022 include the Company and its subsidiaries owned (founded) by the Company:

		Share of ownership, %	
	Country of registration	**December 31, 2023**	**December 31, 2022**
"Recreation center "Energetik" JSC	The Russian Federation	100	100
"Energoservice of the South" JSC	The Russian Federation	100	100
"VMES" JSC	The Russian Federation	100	100
YugStroyMontazh LLC	The Russian Federation	–	100

6. Segment Information

The Management Board of ROSSETI South, PJSC 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.

The Management Board of ROSSETI South, PJSC assesses the performance, assets and liabilities of the operating segments on the basis of internal management reports prepared on the basis of data compiled in accordance with Russian Accounting Standards.

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). This procedure for determining EBITDA may differ from the procedure used by other companies. 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.

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:

- ROSSETI South, PJSC branch Kalmenergo;
- ROSSETI South, PJSC branch Astrakhanenergo;
- ROSSETI South, PJSC branch Rostovenergo;
- ROSSETI South, PJSC branch Volgogradenergo;
- VMES JSC
- "Energoservice of the South" JSC;
- Yugstroymontazh LLC (until December 21, 2022);
- other segments

The “Other” segment includes operations of the Company's subsidiary "Recreation center "Energetik" JSC and ROSSETI South, PJSC branch Kubanenergo; These transactions do not meet the quantitative criteria for allocation to reportable segments for the year ended 31 December 2023.

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.

(in thousands of Russian rubles, unless otherwise indicated)

Information on reportable segments

Reportable segment information as of and for the year ended 31 December 2023:

	Astrakhan-energo	**Volgograd-energo**	**Kalmenergo**	**Rostovenergo**	**Subsidiary VMES JSC**	**Subsidiary "Energoservice of the South" JSC**	**Others**	**Total**
Revenue from external buyers	6,885,723	9,916,572	4,189,536	24,460,685	4,828,296	645,322	108,312	**51,034,446**
Cross-segment sales revenue	–	2,628,349	–	14,283	6,504	62,797	–	**2,711,933**
Segment revenue	**6,885,723**	**12,544,921**	**4,189,536**	**24,474,968**	**4,834,800**	**708,119**	**108,312**	53,746,379
Incl.								
Transmission	*6,685,468*	*12,286,526*	*2,020,011*	*23,998,912*	*4,589,969*	–	–	***49,580,886***
Technological connection to power grids	*145,514*	*131,844*	*25,864*	*303,766*	*210,014*	–	–	***817,002***
Sale of electricity and power	–	–	*2,098,994*	–	–	–	–	***2,098,994***
Revenue from lease agreements	*6,237*	*8,557*	*1,381*	*8,458*	*227*	*64,126*	*4,369*	***93,355***
Other revenue	*48,504*	*117,994*	*43,286*	*163,832*	*34,590*	*643,993*	*103,943*	***1,156,142***
Cost of technological connection to grids	(47 813)	(67 161)	(14 562)	(83 861)	(18 228)	–	–	**(231 625)**
Financial income	18,247	158,037	13,816	123,007	80,781	15,747	–	**409,635**
Financial expenses	(974 363)	(1 221 748)	(5 151)	(76 154)	(122 750)	(910)	–	**(2 401 076)**
Depreciation	(588 834)	(37 323)	(132 333)	(1 733 782)	–	–	–	**(2 492 272)**
EBIDTA	**1,623,554**	**567,407**	**(21 690)**	**5,920,393**	**1,954,966**	**265,014**	**13,970**	**10,323,614**
Segments assets	7,664,673	3,999,363	1,366,993	22,730,903	4,171,594	12,812,203	204,365	**52,950,094**
Incl. fixed assets and construction in progress	6,371,749	503,960	848,623	18,923,653	2 276 404	29,352	149,042	**29,102,783**
Capital investments	484,186	899,492	693,995	1 861 455	353,253	–	19 502	**4,311,883**
Segment liabilities	**2,465,049**	**2,631,431**	**934,874**	**4,952,749**	**2,501,725**	**12,586,131**	**150,722**	**26,222,681**

(in thousands of Russian rubles, unless otherwise indicated)

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

	Astrakhan-energo	**Volgograd-energo**	**Kalmenergo**	**Rostovenergo**	**Subsidiary VMES JSC**	**Subsidiary YugStroy-Montazh LLC**	**Others**	**Total**
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.								
Transmission	*5 781 819*	*10 672 176*	*1 563 631*	*21 123 179*	*3 953 059*	–	–	***43 093 864***
Technological connection to power grids	*102,833*	*80 134*	*189,246*	*230,388*	*61 568*	–	–	***664,169***
Sale of electricity and power	–	–	*2 019 875*	–	–	–	–	***2 019 875***
Revenue from lease agreements	*5 598*	*3 774*	*61*	*7 933*	*25*	*47 461*	*19 578*	***84 430***
Other revenue	*37 081*	*82 964*	*24 888*	*136,986*	*25 332*	–	*747,458*	***1 054 709***
Cost of technological connection to grids	(50 516)	(52 525)	(8 150)	(79 205)	(17 242)	–	–	**(207 638)**
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**

(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 December 31	
	2023	**2022**
Segment revenue	**53,746,379**	**46 917 047**
Eliminate cross-segment sales revenue	(2 711 933)	(2 774 170)
Revenue in the statement of profit or loss and other comprehensive income	**51,034,446**	**44,142,877**

EBITDA reconciliation of reportable segments:

	For the year ended December 31	
	2023	**2022**
EBITDA of reportable segments	**10,323,614**	**4 951 287**
Discounting financial instruments	(26 683)	(266 556)
Adjustment for allowance for expected credit losses	–	–
Lease Adjustment	6,652	47 663
Recognition of pension and other non-current liabilities to employees	(32 628)	(28 540)
Adjustment for assets related to employee benefit liabilities	–	–
Adjustment of the cost of fixed assets	(64 366)	10 023
Adjustment for impairment allowance for intra-group financial assets	(1 424 725)	1 474 815
Write-off adjustment for other current and non-current assets	(9 149)	(90 675)
Result of disposal of controlling interest	–	70,358
Other adjustments	(70 545)	(80 485)
Unallocated indicators	(24 085)	(11 492)
EBIDTA	**8,678,085**	**6 076 398**
Depreciation of property, plant and equipment, right-of-use assets and intangible assets	(2 531 149)	(2 399 652)
Net impairment loss on property, plant and equipment and right-of-use assets	184,640	(474 874)
Interest expense on financial liabilities carried at amortized cost	(2 240 372)	(2 325 955)
Interest expense on lease liabilities	(72 075)	(58 520)
expenses on income tax	(1,004,537)	(478,772)
Consolidated profit for the period in the consolidated statement of profit or loss and other comprehensive income	**3,014,592**	**338,625**

Reconciliation of total reportable segment assets:

	For the year ended December 31	
	2023	**2022**
Total Segment Assets	**52,950,094**	**56 052 232**
Settlements between segments	(1 775 682)	(1 875 909)
Intragroup financial assets	(2 767 917)	(2 767 917)
Adjustment of the cost of fixed assets	(1 454 960)	(2 475 145)
Right-of-Use Asset Recognition	–	–
Impairment of fixed assets	(1 326 840)	(538 840)
Adjustment for allowance for expected credit losses	108,808	108,808
Adjustment of deferred tax assets	(3 082 840)	(2 538 406)
Recovery of provision for impairment of financial assets	1,081,788	2 506 026
Other adjustments	(955 721)	259,339
Unallocated indicators	6,989,663	3 057 755
Total assets in the consolidated statement of financial position	**49 766 393**	**51,787,943**

(in thousands of Russian rubles, unless otherwise indicated)

Reconciliation of total reportable segment liabilities:

	For the year ended December 31	
	2023	**2022**
Total segment liabilities	**26,222,681**	**32 927 636**
Settlements between segments	(1 775 682)	(1 875 909)
Adjustment of deferred tax liabilities	(3 285 220)	(2 483 985)
Recognition of pension and other non-current liabilities to employees	284,326	289,751
Recognition of lease liabilities	–	–
Discounting accounts payable	(16 544)	(70 539)
Other adjustments	(868 915)	(164 471)
Unallocated indicators	26,617,164	23 645 679
Total liabilities in the consolidated statement of financial position	**47,177,810**	**52,268,162**

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 2023, 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 2023 amounted to RUB 12,449,080 or 23.45% of the Group's total revenue (for the year ended 31 December 2022 – RUB 12,022,287 or 27.23%). The total amount of revenue received from PJSC Volgogradenergosbyt for the year ended December 31, 2023 amounted to RUB 7,138,043 or 13.44% of the Group's total revenue (for the year ended 31 December 2022 – RUB 6,208,384 or 14.06%). The total amount of revenue received from PJSC Astrakhan Energy Retail Company for the year ended December 31, 2023 amounted to RUB 5,776,233 or 10.88% of the Group's total revenue (for the year ended 31 December 2022 – RUB 4,987,450 or 11.36%).

7. Revenues:

	For the year ended December 31	
	2023	**2022**
Transmission	46,957,708	40 927 213
Technological connection to power grids	815,331	664,104
Sale of electricity and power	2,098,994	2 019 875
Other revenue	1,134,164	512,527
Revenue from contracts with customers	**51,006,197**	**44 123 719**
Income from lease agreements	28,249	19 158
	51,034,446	**44,142,877**

Other revenue includes mainly maintenance and repair services.

8. Other revenues

	For the year ended December 31	
	2023	**2022**
Income in the form of fines, penalties and forfeits under business contracts	473,130	313,434
Insurance compensation	153,392	651,179
Income from identified non-contractual electricity consumption	37,099	17 321
Write-off of accounts payable	39,478	10 509
Other revenues	1,111	147
	704,210	**992,590**

(in thousands of Russian rubles, unless otherwise indicated)

9. Other expenses

	For the year ended December 31	
	2023	**2022**
Effect of a subsidiary disposal	–	70,358
Loss from disposal (sale) of fixed assets	99,668	183,677
Other expenses	–	360
	99,668	**254,395**

10. Operating Cost

	For the year ended December 31	
	2023	**2022**
Employee benefits expenses	13,463,771	12 212 475
Depreciation of fixed assets	2,426,628	2,272,510
Depreciation of intangible assets	50,483	62,574
Depreciation of right-of-use assets	54,038	64,568
Material expenses, incl.	13,859,191	12 309 001
- Electricity to compensate for technological losses	*10,533,149*	*9 445 909*
- Purchased electricity and heat for own needs	*304,052*	*282,073*
- Electricity for sale	*852,039*	*785,030*
- Other material expenses	*2,169,951*	*1 795 989*
Works and services of an industrial nature, incl.	13,943,148	11 879 466
- Electricity transmission services	*13,166,254*	*11 404 059*
- Repair and maintenance services	*275,856*	*310,596*
- Other works and services of an industrial nature	*501,038*	*164,811*
Other services of third parties, incl.	1,222,540	1 227 168
- Consulting, legal and audit services	*101,190*	*176,642*
- mgmt. services	–	*81 327*
- Expenses related to the maintenance of property	*202,236*	*246,427*
- Security	*137,925*	*129,182*
- Communication services	*68,470*	*120,444*
- Transport services	*45,602*	*39 755*
- Software and maintenance costs	*216,838*	*88 800*
- Other services	*450,279*	*344,591*
Provisions	148,462	46 592
Fines, penalties, forfeits for violation of the terms of contracts	288,940	295,435
Taxes and fees other than income tax	204,926	209,818
Travel expenses	188,997	179,445
Insurance	103,689	108,029
Other expenses	439,603	838,623
	46,394,416	**41 705 704**

11. Employee benefits expenses

	For the year ended December 31	
	2023	**2022**
Salary, including changes in allowance for bonuses and unused vacations	9,845,322	8 999 040
Payroll taxes	3,035,237	2 750 515
The cost of current services	15,533	17 340
Remeasurement of liabilities for other long-term employee benefits	1,597	(1 196)
Other employee expenses	566,082	446,776
Total employee benefit expense	**13,463,771**	**12 212 475**

During the year ended 31 December 2023, contributions under defined contribution programs amounted to RUB 7,772 (for the year ended 31 December 2022: RUB 7,192).

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

(in thousands of Russian rubles, unless otherwise indicated)

12. Financial income and expenses

	For the year ended December 31	
	2023	**2022**
Financial income		
Interest income on loans issued, bank deposits	164,104	139,028
Interest income on restructuring agreements for receivables	149,738	327,761
Depreciation of discount on financial assets on income	27,312	53,128
Effect of discounting financial liabilities at initial recognition	11,467	–
Other financial income	–	149
	352,621	**520,066**

	For the year ended December 31	
	2023	**2022**
Financial expenses		
Interest expense on financial liabilities carried at amortized cost	2,240,372	2 325 955
Effect of initial discounting of financial instruments on expenses	–	163,082
Depreciation of discount on financial liabilities on expenses	65,462	156,602
Interest expense on lease liabilities	72,075	58,520
Other financial expenses	28,504	25 877
	2,406,413	**2,730,036**

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

13. Income tax

	For the year ended December 31	
	2023	**2022**
Current income tax		
Calculation of the current tax	(424 728)	(79 861)
Adjustments for Prior Years	26,287	90 058
Total	**(398 441)**	**10 197**
Deferred income tax	(606 096)	(488 969)
Total expense on income tax	**(1,004,537)**	**(478,772)**

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

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

The adjustment for prior years includes a restatement of income tax of prior periods due to the filing of revised tax returns. The filing of declarations is related to the pre-trial settlement of disagreements with counterparties.

Excess income tax expense

On August 4, 2023, the President of the Russian Federation signed Federal Law No. 414-FZ *“On Excess Income Tax”* (published on August 4, 2023, the “Law”).

In accordance with the provisions of the Law, ROSSETI South, PJSC is not a payer of excess income tax.

(in thousands of Russian rubles, unless otherwise indicated)

Income tax recognized in other comprehensive income:

	For the year ended December 31, 2023		
	Before tax	**Income tax**	**After tax**
Financial assets at fair value through other comprehensive income	20,196	(4 039)	16,157
Remeasurement of defined benefit liabilities	38,053	−	38,053
	58,249	**(4 039)**	**54,210**

	For the year ended December 31, 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**

At December 31, 2023 and December 31, 2022, deferred income tax assets and liabilities are calculated at the 20% rate expected to be applicable upon realization of the related assets and liabilities. The official Russian statutory income tax rate for 2023 and 2022 is 20%.

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

	For the year ended December 31	
	2023	**2022**
Before-tax income	**4,019,129**	**817,397**
The theoretical amount of expense for income tax at a rate of 20%	**(803 826)**	**(163 479)**
Tax effect of items not taxable or non-deductible for tax purposes	(226 998)	(405 351)
Adjustments for prior periods	26,287	90 058
	(1,004,537)	**(478,772)**

(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
Initial / conditionally initial cost						
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**
Accumulated depreciation						
As of January 1, 2022	**(1 882 333)**	**(15 778 040)**	**(9 672 515)**	**(7 133 727)**	**–**	**(34 466 615)**
Reclassification between groups	870,196	(69 789)	214,654	(1 015 061)	–	–
Accrued depreciation	(188 604)	(1 156 138)	(866 889)	(1 013 932)	–	**(3 225 563)**
Retirement	9,609	60,810	102,487	574,695	–	**747,601**
As of December 31, 2022	**(1 191 132)**	**(16 943 157)**	**(10 222 263)**	**(8 588 025)**	**–**	**(36 944 577)**
Accumulated impairment						
As of January 1, 2022	**(1 269 879)**	**(3 921 273)**	**(2 447 909)**	**(3 211 290)**	**(906 273)**	**(11 756 624)**
Reclassification between groups	203,880	(119 888)	(33 765)	(50 227)	–	–
Commissioning	(1 651)	(77 405)	(71 745)	(12 629)	163,430	–
Depreciation of impairment	66,749	331,443	239,144	315,682	–	**953,018**
Recognition of impairment losses/recovery of previously recognized impairment losses	127,201	244,313	44 872	(60 014)	(732 316)	**(375 944)**
Retirement	187	1,835	2,508	40,519	245,582	**290,631**
As of December 31, 2022	**(873 513)**	**(3 540 975)**	**(2 266 895)**	**(2 977 959)**	**(1 229 577)**	**(10 888 919)**
Depreciation (including depreciation of impairment)	**(121 855)**	**(824 695)**	**(627 745)**	**(698 250)**	**–**	**(2 272 545)**
Residual value						
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**

(in thousands of Russian rubles, unless otherwise indicated)

	Land plots and buildings	Power line networks	Power transmission equipment	Others	Construction in progress	Total
Initial / conditionally initial cost						
As of January 1, 2023	**3 356 258**	**29 249 287**	**18 100 745**	**18 916 212**	**3 213 826**	**72 836 328**
Income	–	4,228	3,584	221,983	3,624,429	**3,854,224**
Commissioning	25,986	1,869,919	872,709	875,185	(3 643 799)	–
Retirement	(3 399)	(14 190)	(33 902)	(21 998)	(237 729)	**(311 218)**
As of December 31, 2023	**3,378,845**	**31,109,244**	**18,943,136**	**19,991,382**	**2,956,727**	**76,379,334**
Accumulated depreciation						
As of January 1, 2023 (recalculated)	**(1 191 132)**	**(16 943 157)**	**(10 222 263)**	**(8 588 025)**	–	**(36 944 577)**
Accrued depreciation	(107 959)	(1 156 808)	(876 293)	(1 137 428)	–	**(3 278 488)**
Retirement	1,815	12,767	18,175	12,571	–	**45,328**
As of December 31, 2023	**(1 297 276)**	**(18 087 198)**	**(11 080 381)**	**(9 712 882)**	–	**(40 177 737)**
Accumulated impairment						
As of January 1, 2023 (recalculated)	**(873 513)**	**(3 540 975)**	**(2 266 895)**	**(2 977 959)**	**(1 229 577)**	**(10 888 919)**
Commissioning	(16)	(441 130)	(57 493)	(31 792)	530,431	–
Depreciation of impairment	39,877	295,765	231,480	283,727	–	**850,849**
Recognition of impairment losses/recovery of previously recognized impairment losses	361,869	769,230	(328 726)	(217 356)	(371 098)	**213,919**
Retirement	1,575	224	2,332	2	74,169	**78,302**
As of December 31, 2023	**(470 208)**	**(2 916 886)**	**(2 419 302)**	**(2 943 378)**	**(996 075)**	**(9 745 849)**
Depreciation (including depreciation of impairment)	**(68 082)**	**(861 043)**	**(644 813)**	**(853 701)**	–	**(2 427 639)**
Residual value						
As of January 1, 2023	**1 291 613**	**8 765 155**	**5 611 587**	**7 350 228**	**1 984 249**	**25,002,832**
As of December 31, 2023	**1,611,361**	**10,105,160**	**5,443,453**	**7,335,122**	**1,960,652**	**26,455,748**

As of December 31, 2023 and December 31, 2022, there were no property, plant and equipment used as collateral for loans and borrowings.

As of December 31, 2023, the cost of fully depreciated property, plant and equipment was RUB 23,514,415 (December 31, 2022: RUB 14,945,815).

As of December 31, 2023, there are no advances for the acquisition of fixed assets (as of December 31, 2022: none), materials for the construction of fixed assets amount to RUB 615,017 (December 31, 2022: RUB 588,818).

For the year ended December 31, 2023 capitalized interest amounted to RUB 173,073 (for the year ended December 31, 2022: RUB 194,359), the capitalization rate was 10.89% (for the year ended December 31, 2022: 10.29%).

For the year ended December 31, 2023, there were no depreciation charges capitalized in the cost of capital construction projects (for the year ended December 31, 2022: none).

Impairment of fixed assets

The Group considered the current economic conditions in certain regions of the Group's operations as an indicator (sign) of possible impairment and recovery of property, plant and equipment.

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. Accordingly, the recoverable amount of special purpose items was determined as value in use using the projected 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 Group tested property, plant and equipment for impairment as at December 31, 2023 in respect of cash-generating units:

- ROSSETI South, PJSC branch Kalmenergo;
- ROSSETI South, PJSC branch Astrakhanenergo;
- ROSSETI South, PJSC branch Rostovenergo;
- ROSSETI South, PJSC branch Volgogradenergo;
- VMES JSC.

(in thousands of Russian rubles, unless otherwise indicated)

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

Key assumptions	As of December 31, 2023
Forecast period	Forecast cash flows have been determined for the period 2024-2028 for all CGUs based on management's best estimate of transmission volumes, operating and capital costs, and tariffs approved by regulators for 2024.
Percentage rate of net cash flow growth in the post-forecast period	4%
Forecast of electricity transmission tariffs	Based on the tariff calculation methodology adopted by the regulatory authorities.
Forecast of sales volume	In accordance with the approved business plan. Outside business planning - fixed volume (at the level of the last year of the business planning period).
Discount rate (Nominal discount rate determined for the purpose of the test based on the weighted average cost of capital before income tax)	11,97%

Based on the results of the impairment testing, the recoverable amount of the non-current assets of the tested CGUs was as of December 31, 2023:

- ROSSETI South, PJSC branch Kalmenergo - RUB 920,917;
- ROSSETI South, PJSC branch Astrakhanenergo - RUB 13,920,148;
- ROSSETI South, PJSC branch Rostovenergo - RUB 52,189,867
- ROSSETI South, PJSC branch Volgogradenergo - RUB 454,307;
- VMES SC - RUB 3,211,156.

Based on the results of testing as of December 31, 2023, an impairment loss in the amount of RUB 1,602,417 was recognized, including RUB 934,346 for CGUs of ROSSETI South, PJSC Kalmenergo, RUB 668,071 for CGUs of ROSSETI South, PJSC Volgogradenergo.

As of December 31, 2023, the impairment loss recognized in previous reporting periods in the total amount of RUB 1,787,057 was reversed for CGUs of VMES JSC.

Deferred tax expense recognized in profit or loss in respect of reversal of impairment loss on property, plant and equipment, intangible assets and right-of-use assets at the applicable rate amounted to RUB 36,928.

Recognition of reversal of impairment loss on account of CGUs of VMES JSC is mainly due to the fact that within the framework of tariff decisions approved in 2023 for 2024 and subsequent periods for the Volgograd region, the Committee for Tariff Regulation of the Volgograd region eliminated for VMES JSC the skewness in terms of balance sheet indicators at the expense of deterioration of indicators for the Volgogradenergo branch (CGU of ROSSETI South, PJSC Volgogradenergo).

This situation resulted in the redistribution of tariff revenue in favor of VMES JSC by reducing payments to ROSSETI South, PJSC, Volgogradenergo.

(in thousands of Russian rubles, unless otherwise indicated)

15. Intangible assets

	Software	R&D	Others	Total
Historic cost				
As of January 1, 2022	**210,043**	**66 931**	**6 120**	**283,094**
Income	44 624	19 505	4	**64 133**
Reclassification between groups	–	(66 933)	66 933	**–**
Retirement	(30 518)	–	(10 671)	**(41 189)**
As of December 31, 2022	**224,149**	**19 503**	**62 386**	**306,038**
Accumulated depreciation				
As of January 1, 2022	**(55 751)**	**(27 452)**	**(2 750)**	**(85 953)**
Accrued depreciation	(49 450)	–	(13 124)	**(62 574)**
Reclassification between groups	–	27 452	(27 452)	**–**
Retirement	22 529	–	10 588	**33 117**
As of December 31, 2022	**(82 672)**	**–**	**(32 738)**	**(115 410)**
Residual value				
As of January 1, 2022	**154,292**	**39 479**	**3 370**	**197,141**
As of December 31, 2022	**141,477**	**19 503**	**29 648**	**190,628**

	Software	R&D	Others	Total
Historic cost				
As of January 1, 2023	**224,149**	**19 503**	**62 386**	**306,038**
Income	72,561	26,432	–	**98,993**
Retirement	(28 941)	–	–	**(28 941)**
As of December 31, 2023	**267,769**	**45,935**	**62 386**	**376,090**
Accumulated depreciation				
As of January 1, 2023	**(82 672)**	**–**	**(32 738)**	**(115 410)**
Accrued depreciation	(39 936)	–	(10 547)	**(50 483)**
Retirement	2,579	–	–	**2,579**
As of December 31, 2023	**(120 029)**	**–**	**(43 285)**	**(163 314)**
Residual value				
As of January 1, 2023	**141,477**	**19 503**	**29 648**	**190,628**
As of December 31, 2023	**147,740**	**45,935**	**19,101**	**212,776**

Amortization of intangible assets included in operating expenses in the consolidated statement of profit or loss and other comprehensive income amounted to RUB 50,483 (for the year ended December 31, 2022: RUB 62,574). For the year ended December 31, 2023 and December 31, 2022 no interest was capitalized. Intangible assets are amortized using the straight-line method.

(in thousands of Russian rubles, unless otherwise indicated)

16. Right-of-Use Assets

	Land plots and buildings	Power transmission networks	Power transmission equipment	Other fixed assets	Total
Historic cost					
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**
Proceeds on acquisition of the company	–	–	–	–	**–**
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**
Accumulated depreciation					
As of January 1, 2022	**(48 710)**	**(26 779)**	**(34 791)**	**(26)**	**(110 306)**
Accrued depreciation	(29 093)	(14)	(35 471)	(27)	**(64 605)**
Disposal or termination of leases	2 748	26 779	31 367	–	**60 894**
As of December 31, 2022 (recalculated)	**(75 055)**	**(14)**	**(38 895)**	**(53)**	**(114 017)**
Accumulated impairment					
As of January 1, 2022					
Recognition of impairment losses/recovery of previously recognized impairment losses	(35 495)	–	(63 436)	–	**(98 931)**
As of December 31, 2022 (recalculated)	**(35 495)**	**–**	**(63 436)**	**–**	**(98 931)**
Depreciation (including depreciation of impairment)	**(29 093)**	**(14)**	**(35 471)**	**(27)**	**(64 605)**
Residual value					
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**

(in thousands of Russian rubles, unless otherwise indicated)

	Land plots and buildings	**Power line networks**	**Power transmission equipment**	**Other fixed assets**	**Total**
Historic cost					
As of January 1, 2023	**704,276**	**1 827**	**123,325**	**11 694**	**841,122**
Income	21,777	–	53,375	10,443	**85,595**
Changing the terms of the contract	186,354	–	14,844	200	**201,398**
Termination of the lease agreement	(13 156)	–	(3 557)	(11 669)	**(28 382)**
As of December 31, 2023	**899,251**	**1 827**	**187,987**	**10,668**	**1,099,733**
Accumulated depreciation					
As of January 1, 2023 (recalculated)	**(75 055)**	**(14)**	**(38 895)**	**(53)**	**(114 017)**
Accrued depreciation	(39 986)	(303)	(36 970)	(1 289)	**(78 548)**
Changing the terms of the contract	(6 252)	–	(10 081)	82	**(16 251)**
Termination of the lease agreement	6,700	–	620	–	**7,320**
As of December 31, 2023	**(114 593)**	**(317)**	**(85 326)**	**(1 260)**	**(201 496)**
Accumulated impairment					
As of January 1, 2023 (recalculated)	**(35 495)**	**–**	**(63 436)**	**–**	**(98 931)**
Depreciation of impairment	973	–	23,463	–	**24,436**
Recognition of impairment losses/recovery of previously recognized impairment losses	(425)	–	(28 854)	–	**(29 279)**
As of December 31, 2023	**(34 947)**	**–**	**(68 827)**	**–**	**(103 774)**
Depreciation (including depreciation of impairment)	**(39 013)**	**(303)**	**(13 507)**	**(1 289)**	**(54 112)**
Residual value					
As of January 1, 2023	**593,726**	**1 813**	**20 994**	**11 641**	**628,174**
As of December 31, 2023	**749,711**	**1,510**	**33,834**	**9,408**	**794,463**

(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.

Based on the results of testing as of December 31, 2023, an impairment loss on right-of-use assets in the amount of RUB 29,279 was recognized, including RUB 1,103 for CGU of ROSSETI South, PJSC, Kalmenergo, and RUB 28,176 for CGU of ROSSETI South, PJSC, Volgogradenergo.

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, 2023 is disclosed in Note 14 Property, plant and equipment.

17. Other financial assets

	December 31, 2023	December 31, 2022
Non-current		
Financial assets at fair value through other comprehensive income	26,139	5,943
	26,139	**5,943**

Included in other financial assets are shares of Volgogradenergosbyt PJSC with fair value based on published market quotations equal to RUB 25,450 as of December 31, 2023 (December 31, 2022: RUB 5,741).

(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, 2023	**December 31, 2022**	**December 31, 2023**	**December 31, 2022**	**December 31, 2023**	**December 31, 2022**
Fixed assets	–	–	(480 880)	(73 392)	(480 880)	(73 392)
Right-of-Use Assets	–	–	(158 893)	(123 423)	(158 893)	(123 423)
Trade and other receivables and advances paid	–	–	84,548	(3 580)	84,548	(3 580)
Lease obligations	195,647	152,511	–	–	195,647	152,511
Provisions	142,713	221,645	–	–	142,713	221,645
Trade and other payables	238,705	233,566	–	–	238,705	233,566
Tax losses to be carried forward	323,436	552,429	–	–	323,436	552,429
Other	39,662	27 745	(11 265)	(3 693)	28,397	24 052
Tax assets/(liabilities)	**940,163**	**1 187 896**	**(566 490)**	**(204 088)**	**373,673**	**983,808**
Tax offset	(566 490)	(204 088)	566,490	204,088	–	–
Net deferred tax assets/(liabilities)	**373,673**	**983,808**	**–**	**–**	**373,673**	**983,808**

(in thousands of Russian rubles, unless otherwise indicated)

Movement in deferred tax assets and liabilities during the year

	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
Other	(17 106)	41,418	(260)	24 052
Net deferred tax assets/(liabilities)	**1 473 042**	**(488 974)**	**(260)**	**983,808**

	January 1, 2023	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2023
Fixed assets	(73 392)	(407 488)	–	(480 880)
Right-of-Use Assets	(123 423)	(35 470)	–	(158 893)
Trade and other receivables	(3 580)	88,128	–	84,548
Lease obligations	152,511	43,136	–	195,647
Provisions	221,645	(78 932)	–	142,713
Trade and other payables	233,566	5,139	–	238,705
Tax losses to be carried forward	552,429	(228 993)	–	323,436
Other	24 052	8,384	(4 039)	28,397
Net deferred tax assets/(liabilities)	**983,808**	**(606 096)**	**(4 039)**	**373,673**

(in thousands of Russian rubles, unless otherwise indicated)

19. Inventories

	December 31, 2023	December 31, 2022
Raw materials and supplies	885,352	685,289
Provision for depreciation of raw materials and supplies	(13 043)	(6 805)
Other inventories*	2,275,182	506,917
Provision for impairment of other inventories	(221)	(257)
	3,147,270	**1,185,144**

* Included in other inventories are capitalized costs under a subcontract for design, survey and construction works where the Group acts as a subcontractor in the amount of RUB 2,060,752. The amount of capitalized costs (contract asset) is subject to reimbursement by the customer as the work is completed and technical expertise is passed. The amount is measured at the net realizable value of the costs incurred in accordance with the contract. The related advances received in the amount of RUB 7,344,814 are disclosed in Note 30. As this transaction is a related party transaction, advances received are also disclosed in Note 35.

As of December 31, 2023 and December 31, 2022 the Group did not have any inventories pledged under loan or other agreements.

As of December 31, 2023, the industry emergency reserve is RUB 314,923 (as of December 31, 2022: RUB 237,531).

During the year ended December 31, 2023, inventories included in operating expenses under the article “Other material expenses” amounted to RUB 2,169,951 (during the year ended December 31, 2022: RUB 1,795,989).

20. Trade and other receivables

	December 31, 2023	December 31, 2022
Trade and other non-current receivables		
Trade receivables	181,542	477,179
Provision for impairment of trade receivables	(29 619)	(10 695)
Other accounts receivable	1,148,501	1 095 245
Provision for impairment of other receivables	(2 358)	–
Total financial assets	**1,298,066**	**1,561,729**
Trade and other current receivables		
Trade receivables	7,195,554	8 937 334
Provision for impairment of trade receivables	(2 200 058)	(3 064 758)
Other accounts receivable	1,952,574	13 427 324
Provision for impairment of other receivables	(524 158)	(604 227)
Total financial assets	**6,423,912**	**18,695,673**

Long-term other receivables include settlements with Volgogradenergosbyt PJSC totaling RUB 984,404 by type:

- interest on restructured trade receivables in the amount of RUR 651,793.

- interest and penalties for the use of alien monetary funds under the ruling of the Arbitration Court dated January 20, 2023 in the amount of RUB 186,990 with installment payment until January 2028. The market rate as of the date of the judgment was 8.6%. As of December 31, 2023, the total unamortized discount amounted to RUB 70,115.

- interest and penalties for the use of alien monetary funds under the rulings of the Arbitration Court, received in the period from January 21, 2022 to December 01, 2023, in the amount of RUB 145,621 with installment payment until March 2027. The market rate as of the date of the judgment was 6.58% - 14.08%. As of December 31, 2023, the total unamortized discount amounts to RUB 39,348.

Current trade receivables as of December 31, 2023 include restructured receivables from PJSC Volgogradenergosbyt for electricity transmission services in the total amount of RUB 464,666. Until June 30, 2023 and during 2022, the restructuring agreements were subject to an interest rate equal to the “MOSPRIME 3M” credit rate in effect at the beginning of each settlement period (quarter), increased by 3.52 percentage points. From July 1, 2023, receivables in 2024-2027 are repaid using an interest rate at the level of the weighted average rate for the Group's debt portfolio in effect at the beginning of the settlement period (quarter) as of the date prior to the start date of the settlement period. As of 31.12.2023, this rate was 16%. This rate is used to calculate the fair value of the recovery of these receivables at the date of initial recognition. The rate reflects the fair value of the recovery of these receivables at the date of initial recognition.

Trade receivables as of December 31, 2023 include restructured receivables from SUE RO “Water Supply Systems Development Department” for electricity transmission services in the total amount of RUB 312,711. The terms of the agreement assume repayment of receivables in 2023-2026 and application of an interest rate equal to the Key rate of the Central Bank of the Russian Federation effective at the beginning of the settlement period (month) increased by 4.0 percentage points. This rate is used to calculate the fair value of the recovery of these receivables at the date of initial recognition.

(in thousands of Russian rubles, unless otherwise indicated)

During 2023, there was a significant repayment of other receivables due to netting under agency agreements, including with related parties, totaling RUB 9,810,859, which also resulted in a decrease in other payables disclosed in Note 28.

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, 2023**	**December 31, 2022**
VAT on advances from buyers and customers	3,029	22,773
Advances paid out	4,613	–
	7,642	**22,773**

Current	**December 31, 2023**	**December 31, 2022**
Advances issued (current)	5,522,049	1 218 554
Provision for impairment of advances issued (current)	(241)	(179)
VAT recoverable	77,746	771
VAT on advances received and VAT on advances issued for the acquisition of fixed assets	866,716	308,104
Prepayment for taxes other than income tax	169,073	90,477
	6,635,343	**1,617,727**

22. Cash and cash equivalents

	December 31, 2023	**December 31, 2022**
Cash in bank accounts and on hand	3,909,919	1 626 082
Cash equivalents	120,045	36 584
	4,029,964	**1,662,666**

Cash equivalents as of December 31, 2023 and December 31, 2022 include short-term bank deposits. As of December 31, 2023, deposits are placed at an interest rate of 16.20% per annum (December 31, 2022: 5.9% per annum).

Cash in bank accounts includes earmarked funds in the amount of RUB 2,227,487.

As of December 31, 2023 and December 31, 2022 all cash and cash equivalent balances are denominated in RUB.

23. Authorized capital

	Ordinary shares	
	December 31, 2023	**December 31, 2022**
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 2023 and 2022.

24. Income per share

The calculation of earnings per share for the year ended December 31, 2023 and December 31, 2022 is based on the earnings attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding. The Company does not have dilutive financial instruments.

	For the year ended December 31	
In thousands of shares	**2023**	**2022**
Ordinary shares on January 1	**151 641 426**	**151 641 426**
Effect of the placement of shares	–	–
Weighted average number of shares for the period ended 31 December	**151 641 426**	**151 641 426**

	For the year ended December 31	
	2023	**2022**
Weighted average number of ordinary shares outstanding for the period ended December 31 (thousand shares)	**151 641 426**	**151 641 426**
Profit for the period attributable to ordinary shareholders	3,014,592	338,625
Profit per ordinary share - basic and diluted (in Russian rubles)	**0.020**	**0.002**

25. Borrowed funds

	December 31, 2023	**December 31, 2022**
Non-current liabilities		
Unsecured loans and borrowings	22,451,819	18,420,345
Lease obligations	981,842	771,298
Less: the current portion of non-current liabilities on loans and borrowings	(7 783 717)	(3 051 691)
Less: current part of non-current lease liabilities	(143 734)	(82 127)
	15,506,210	**16,057,825**
Current liabilities		
Unsecured loans and borrowings	94,721	4 117 097
The current portion of non-current liabilities on loans and borrowings	7,783,717	3,051,691
Current part of non-current lease liabilities	143,734	82,127
	8,022,172	**7,250,915**
Including:		
Interest payable on loans payable	48,467	23,737
Interest payable on loans payable	40,268	38,933
	88,735	**62,670**

(in thousands of Russian rubles, unless otherwise indicated)

As of December 31, 2023 and December 31, 2022, all balances of loans and borrowings are denominated in rubles.

		Effective interest rates		Nominal amount	
	Maturity	**December 31, 2023**	**December 31, 2022**	**December 31, 2023**	**December 31, 2022**
Unsecured bank loans*	2024	17.50%	-	4,061,766	5,288,347
Unsecured bank loans*	2026	KR+1,5%= 17,5%	KR+1,69% (KR=7,5%) 9,19%	1,549,977	1 405 453
Unsecured bank loans*	2025	KR+2%= 18%; KR+3%= 19%;	10,5%	252,275	135,000
Unsecured bank loans	2023	−	7,9%	−	1 599 059
Unsecured bank loans	2024-2026	KR+1,48=17,48%; KR+1,6=17,6%	KR+1,46% (KR=7,5%) 8,96% - KR+1,52% (KR=7,5%) 9,02%	6,096,106	2 002 953
Unsecured bank loans	2024-2025	KR+1,48=17,48%; KR+1,5=17,5%	KR+1,48% (KR=7,5%) 8,98% - KR+1,5% (KR=7,5%) 9,0%	2,014,624	2,007,284
Unsecured bank loans*	2025	KR+1,395=17,395%	KR(7,5%)+1,395%=8,895 %	3,000,000	3,000,000
Unsecured loans*	2023		7.93% - 10.18%	−	554,427
Unsecured loans*	2024	KR+1,36=17,36%	KR(7,5%)+1,36%=8,86%	5,986	5,986
Unsecured loans*	2024	7.07%	7.07%	3 039 515	3 038 933
Unsecured loans*	2025	KR+1,22=17,22%	-	1,500,000	−
Unsecured loans*	2025	KR+1,28=17,28%; KR+1,48=17,48%	-	1,026,291	−
Unsecured loans*			9.15%	−	3 500 000
Lease obligations	2024-2076	9,36%-12,35%	6,6-8,92%	981,842	771,298
				23,528,382	**23 308 740**

* 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.

(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, 2023	**15,368,654**	**7,106,118**	**75,759**	**771,298**	–	**23,321,829**
Changes in cash flows from financing activities						
Attracting of borrowed funds	8,402,786	5,309,200	–	–	–	**13,711,986**
Repayment of borrowed funds	(1 313 635)	(12 415 318)	–	–	–	**(13,728,953)**
Lease payments	–	–	–	(49,351)	–	**(49,351)**
Interest paid (operating activity, reference)	–	–	(2 373 517)	(69,813)	–	**(2 443 330)**
Total	**7,089,151**	**(7 106 118)**	**(2 373 517)**	**(119 164)**	**–**	**(2 509 648)**
Non-monetary changes						
Reclassification	(7 789 703)	7,789,703	–	–	–	**–**
Capitalized interest	–	–	173,073	–	–	**173,073**
Interest expenses	–	–	2,240,372	72,075	–	**2,312,447**
Income from lease agreements	–	–	–	85,595	–	**85,595**
Other changes, net	–	–	–	172,037	–	**172,037**
Total	**(7 789 703)**	**7,789,703**	**2,413,445**	**329,707**	**–**	**2,743,152**
As of December 31, 2023	**14,668,102**	**7,789,703**	**115,687**	**981,841**	**–**	**23,555,333**

(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, 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**

(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:

	December 31, 2023	December 31, 2022
Net Value of Post-Employee Benefit Liabilities	268,190	274,406
Net value of liabilities under other long-term employee benefit plans	16,136	15,345
	284,326	**289,751**

Changes in the present value of defined benefit liabilities:

	2023		2022	
	Post-employment benefits	Other long-term benefits	Post-employment benefits	Other long-term benefits
Defined Benefit Obligations as of 1 January	**274,406**	**15,345**	**273,147**	**14,250**
The cost of current services	12,146	3,387	12,297	5,043
Interest expenses	27,463	1,041	22,340	891
Revaluation effect:				
- changes in financial actuarial assumptions	*(41 550)*	*(1 745)*	*(23 546)*	*(724)*
- adjustments based on experience	*3,497*	*3,342*	*(2 640)*	*(472)*
Contributions to the plan	(7 772)	(5 234)	(7 192)	(3 643)
Defined Benefit Obligations as of December 31	**268,190**	**16,136**	**274,406**	**15,345**

Expenses recognized in profit or loss for the period:

Expense/(income) recognized in profit or loss for the period	For the year ended December 31 2023	For the year ended December 31 2022
Cost of employee services	15,533	17 340
Remeasurement of liabilities for other long-term employee benefits	1,597	(1 196)
Interest expenses	28,504	23,231
Total expenses recognized in profit or loss	**45,634**	**39,375**

Profit recognized in other comprehensive income for the period:

	For the year ended December 31 2023	For the year ended December 31 2022
(Profit) on change in financial actuarial assumptions	(41 550)	(23 546)
Loss/(profit) on experience adjustment	3,497	(2 640)
Total income recognized in other comprehensive income	**(38 053)**	**(26 186)**

(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 December 31	
	2023	**2022**
Balance as of January 1	**289,247**	**315,433**
Revaluation change	(38 053)	(26 186)
Balance as of December 31	**251,194**	**289,247**

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

	For the year ended December 31	
	2023	**2022**
Financial assumptions		
Discount rate	11,8%	10,3%
Inflation rate	5,6%	5,6%
Wage increase	6,1%	6,1%
Demographic Assumptions		
Expected retirement age		
Male	65	65
Femle	60	60
Average staff turnover	6,3%	6,3%

The amount of expected payments under long-term employee benefit programs for 2024 is RUB 19,100, including:

- under defined benefit programs, including non-state pension provision of employees - RUB 17,589;
- under programs of other long-term employee benefits - RUB 1,511.

Risks associated with pension and other long-term employee benefit plans reflect the fact that actual developments may differ from the long-term assumptions used to calculate the obligations. The Group's programs are subject to mortality and longevity risks and investment return risks, with no significant concentration of risks.

The weighted average duration of the defined benefit obligation is 10 years at December 31, 2023 (11 years at December 31, 2022).

	Changes in assumptions	Impact on liabilities
Discount rate	Growth/decrease by 0.5%	-4,3%
Future wage growth	Growth/decrease by 0.5%	2,6%
Future Benefit Growth (Inflation)	Growth/decrease by 0.5%	2,4%
Staff turnover rate	Growth/decrease by 10%	-1,0%
Death rate	Growth/decrease by 10%	-1,1%

28. Trade and other payables

	December 31, 2023	December 31, 2022
Long-term accounts payable		
Trade accounts payable	–	350,193
Other accounts payable	167,799	39 683
	167,799	**389,876**
Short-term accounts payable		
Trade accounts payable	5,331,288	7,901,598
Other accounts payable and accrued expenses	3,612,490	13,446,352
Debt to staff	1,662,965	1 627 902
	10,606,743	**22,975,852**

(in thousands of Russian rubles, unless otherwise indicated)

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, 2023 amounted to RUB 16,544 (as of December 31, 2022 - RUB 82,006). At initial recognition the Group applied the market rate of 8.82% per annum. Thus, as of December 31, 2023, long-term and short-term trade payables include debt under terminated energy service contracts with Counterparties in the amount of RUB 313,170 (December 31, 2022: RUB 1,246,113) including unamortised discount.

During 2023 there was a significant repayment of other accounts payable due to netting under agency agreements, including with related parties in the total amount of RUB 9,810,859, which also resulted in a decrease of other receivables disclosed in Note 20.

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, 2023	December 31, 2022
Taxes payable		
VAT	813,029	684,517
Property tax	41,051	39,112
Social security contributions	492,322	695,382
Other taxes payable	71,565	95,530
	1,417,967	**1,514,541**

30. Advances received

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

Long-term	December 31, 2023	December 31, 2022
Advance payments for technical connection services to power grids	462,155	306,224
Other advances received	132	4,772
	462,287	**310,996**

Short-term	December 31, 2023	December 31, 2022
Advance payments for technical connection services to power grids	1,656,901	1,203,031
Other advances received	8,323,867	1,380,261
	9,980,768	**2,583,292**

31. Provisions

	For the year ended December 31	
	2023	2022
Balance as of January 1	**888,802**	**1,573,887**
Accrual (increase) for the period	654,122	516,418
Recovery (decrease) for the period	(505 660)	(395 280)
Use of estimated liabilities	(323 702)	(806 223)
Balance as of December 31	**713,562**	**888,802**

Estimated liabilities relate to legal actions and claims made against the Group in the ordinary course of business.

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.

As of December 31, 2023, the Group had an excess of current liabilities over current assets of RUB 10,159,302 (December 31, 2022: RUB 11,827,658).

As of December 31, 2023, the Group had an excess of current liabilities over current assets of RUB 10,159,302 (December 31, 2022: RUB 11,827,658). As of December 31, 2023, the Group's equity amounted to RUB 2,588,583 (December 31, 2022: - RUB 480,219).

Based on the Group's management's forecasts, the Group's net operating cash flow in 2024, taking into account unused credit facilities, will be sufficient to cover non-current liabilities due in 2024. The amount of long-term open credit lines unused as of December 31, 2023 is RUB 53,924,165.

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 adjust the capital structure, the Company may issue new shares or raise 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. Concentration risk is managed by placing cash in banks with minimal risk of default. Information on balances of deposits with original maturity of more than three months, balances of cash and cash equivalents placed with banks related to the Company's major shareholder is disclosed in Note 35 “Related party transactions”.

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.

(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), active 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, 2023	**December 31, 2022**
Trade and other receivables (net of allowance for expected credit losses)	7,721,978	7,598,771
Cash and cash equivalents	4,029,964	1,662,666
Financial assets at fair value through other comprehensive income	26,139	5,943
	11,778,081	**9,267,380**

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

	December 31, 2023		**December 31, 2022**	
	Total nominal amount	**Allowance for expected credit losses**	**Total nominal amount**	**Allowance for expected credit losses**
Buyers of electricity sales services	605,806	(460 503)	643,896	(296 781)
Buyers of electricity transmission services	6,547,727	(1 623 639)	8,479,741	(2 569 904)
Buyers of services for technological connection to networks	24,609	(9 300)	27,354	(18 670)
Other buyers	198,954	(136 235)	263,522	(190 098)
	7,377,096	**(2 229 677)**	**9,414,513**	**(3 075 453)**

The carrying amount of trade receivables attributable to the ten largest debtors of the Group amounted to RUB 3,999,940 as of December 31, 2023 (as of December 31, 2022: RUB 5,215,030).

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

	December 31, 2023		**December 31, 2022**	
	Total nominal amount	**Allowance for expected credit losses**	**Total nominal amount**	**Allowance for expected credit losses**
Undue debt	7,257,506	(202 557)	19,299,479	(25 286)
Less than 3 months past due	271,520	(27 640)	457,418	(103 329)
Overdue by more than 3 months and less than 6 months	232,673	(71 205)	228,720	(111 973)
Overdue by more than 6 months and less than a year	262,528	(154 886)	341,987	(211 218)
Overdue for more than a year	2,453,944	(2 299 905)	3,609,478	(3 227 874)
	10,478,171	**(2 756 193)**	**23,937,082**	**(3 679 680)**

(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:

	2023	**2022**
Balance as of January 1	**3,679,680**	**4,411,034**
Increase in provision for the period	512,399	619,192
Recovery of provisions for the period	(1 156 108)	(946 065)
Amounts of trade and other receivables written off against the previously accrued allowance	(279 778)	(404 481)
Balance as of December 31	**2,756,193**	**3,679,680**

As of December 31, 2023 and December 31, 2022, 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.

(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, 2023	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	**22,546,540**	28,632,374	11,152,846	11,126,360	6,353,168	–	–	–
Lease obligations	**981,842**	2,234,634	126,371	130,077	130,077	130,077	130,077	1,587,955
Trade and other payables	**10,774,542**	10,369,108	10,201,309	166,302	1,497	–	–	–
	34,302,924	**41,236,116**	**21,480,526**	**11,422,739**	**6,484,742**	**130,077**	**130,077**	**1,587,955**

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**

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.

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, 2023, the Group's financial liabilities with floating interest rates amounted to RUB 15,445,259 (December 31, 2022: RUB 8,421,676).

A possible change in interest rates by 100 basis points would have increased (decreased) the amount of income before income tax for 2023 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, 2023, 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, 2023 was 14.09%.

(in thousands of Russian rubles, unless otherwise indicated)

Reconciliation between the carrying amounts of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income at the beginning and end of the reporting period is presented in the table below:

	Financial assets at fair value through other comprehensive income	
	2023	**2022**
Balance as of January 1	**5,943**	**6,367**
Acquisition	–	–
Sale	–	–
Retirement	–	–
Change in fair value recognized in other comprehensive income	20,196	(424)
Balance as of December 31	**26,139**	**5,943**

Capital Management

Capital under management of the Group is the amount of capital attributable to owners of the Company as presented in the consolidated Statement of Financial Position.

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

The Group monitors the structure and return on equity using 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 4,758,004 including VAT as of December 31, 2023 (as of December 31, 2022: RUB 4,562,966).

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

The tax legislation of the Russian Federation, which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to certain facts of the Group's business activities. Consequently, tax positions taken by the Group's management and the documents supporting such positions may be challenged by tax authorities.

Tax control in the Russian Federation is getting tighter and as a result there is a higher risk of tax authorities reviewing taxable transactions without a clear business purpose or with tax non-compliant counterparties. Fiscal periods remain open to tax audits for three calendar years preceding the year in which the decision to conduct an audit is taken. Under certain circumstances reviews may cover earlier periods.

The Group's management currently believes that its tax positions and interpretations can be sustained; however, there is a risk that the Group will incur additional expenses if tax positions and interpretations are challenged by the tax authorities. The impact of any such development cannot be reliably estimated; however, it may be significant to the financial position and results of operations of the Group.

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. The Group's management does not exclude the risk of outflow of resources, however, the risk of such development is not assessed as probable.

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 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.

(in thousands of Russian rubles, unless otherwise indicated)

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 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, 2023 and December 31, 2022 and as of December 31, 2023 and December 31, 2022 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

	Transaction amount for the year ended December 31		Carrying amount	
Revenue, net other income	**2023**	**2022**	**December 31, 2023**	**December 31, 2022**
Parent company				
Leasing fee	1,231	1,641	270	–
Other revenue and income	144,184	33,708	–	–
Entities under common control of a parent company				
Other revenue and income	6,192	4,015	328,020	5,018,979
Accrual of allowance for expected credit losses	38,468	11,390	–	–
	190,075	**50,754**	**328,290**	**5,018,979**

(in thousands of Russian rubles, unless otherwise indicated)

Operating expenses, financial expenses	Transaction amount for the year ended December 31		Carrying amount	
	2023	2022	December 31, 2023	December 31, 2022
Parent company				
Management services	–	81 327	–	15 517
Electricity transmission services	9,138,608		689,548	
Other works and services of an industrial nature	40,945	28 537	–	–
Others	47,997	5,196	3,172,150	12,951,948
Interest expense on financial liabilities carried at amortized cost	451,111	550,391	40,268	38,933
Entities under common control of a parent company				
Electricity transmission services	82	7,770,811	13,591	1,606,118
Others	262,322	135,517	66,703	429,930
Interest expense on financial liabilities carried at amortized cost	26,229	154,092	–	–
	9,967,294	**8 725 871**	**3,982,260**	**15,042,446**

	Carrying amount	
	December 31, 2023	December 31, 2022
Parent company		
Advances paid out	8,814	–
Loans	5,525,538	6,500,000
Lease obligations	49,568	–
Entities under common control of a parent company		
Advances paid out	–	5 225
Loans received	5,986	560,413
Advances received	–	–
Lease obligations	49,568	37,806
	5,639,474	**7,103,444**

As of December 31, 2023, there is no debt to the parent company for the payment of dividends.

In 2023 and 2022, the Company paid no dividends to the parent company.

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:

- 17% of the Group's total revenue for the year ended December 31, 2023 (for the year ended December 31, 2022: 18%);
- 16% of the Group's electricity transmission revenue for the year ended December 31, 2023 (for the year ended December 31, 2022: 16%).

Electricity transmission costs and electricity purchase costs for compensation of technological losses, for companies related to the major shareholder of the parent company, accounted for 9% respectively of total electricity transmission costs and compensation of technological losses for the year ended December 31, 2023 (year ended December 31, 2022: 8%).

(in thousands of Russian rubles, unless otherwise indicated)

Interest accrued on borrowings from banks related to the parent company's major shareholder for the year ended December 31, 2023 amounted to RUB 1,313,781 (for the year ended December 31, 2022 RUB 1,345,586).

As of December 31, 2023, loans and borrowings received from banks associated with the parent company's major shareholder amounted to RUB 6,815,372 (as of December 31, 2022: RUB 11,790,775).

As of December 31, 2023, the balance of cash and cash equivalents placed with banks related to the major shareholder of the parent company amounted to RUB 3,896,659 (for the year ended December 31, 2022: RUB 1,117,784).

As of December 31, 2023, there are no deposits with an original maturity of more than three months placed with banks related to the main shareholder of the parent company (there are also none as of December 31, 2022).

As of December 31, 2023, the lease liabilities of companies related to the major shareholder of the parent company amounted to RUB 723,767 (December 31, 2022: RUB 576,007).

Transactions with companies related to the parent company's major shareholder include a subcontract for design, survey and construction works. The amount of advances received under this transaction and disclosed in Note 19 is RUB 7,344,814.

Operations with key management personnel

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

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

	For the year ended December 31	
	2023	**2022**
Short term employee benefits	170,806	149,749
Change in end-of-employment obligations and other long-term benefits (including pension plans)	536	1,114

As of December 31, 2023, the carrying amount of defined benefit liabilities in respect of key management personnel as reflected in the consolidated statement of financial position was RUB 1,650 (liabilities as of December 31, 2022: RUB 1,114).

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, 2023 prepared in accordance with IFRS.