

Grid Company Group

**IFRS® Accounting Standards
Consolidated Financial Statements and
Independent Auditor's Report**

31 December 2023

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Independent Auditor's Report

To the Shareholders and Board of Directors of Joint Stock Company «Grid Company»:

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Joint Stock Company «Grid Company» and its subsidiaries (together – the "Group") as at 31 December 2023, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2023;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Measurement of impairment of property, plant and equipment, right-of-use assets and intangible assets <i>Notes 3, 4 and 8 to the consolidated financial statements.</i> The total carrying amount of property, plant and equipment, right-of-use assets and intangible assets as at 31 December 2023 is RR 93,210,997 thousand. These are the most significant assets on the Group's consolidated statement of financial position, amounting to 91% of total assets. The Group management assessed whether there are indicators of impairment of property, plant and equipment, right-of-use assets and intangible assets and a potential reversal of previously recognised impairment losses, taking into account the analysis of the results of the Group's operations for the reporting period, industry outlook for the foreseeable period, the levers of government regulation, and operational plans. The Group's overall energy transmission activities have been identified as a cash-generating unit. The Group management identified the indicators of impairment and assessed the recoverable amount of property, plant and equipment, right-of-use assets and intangible assets. As a result of test performed, no need for impairment recognition or reversal has been identified. The impairment test is sensitive to reasonably possible changes in assumptions. The most significant judgments related to the discount rate and the interest rate of growth in the post-forecast period. We focused on the property, plant and equipment, right-of-use assets and intangible assets impairment assessment as this process is complex, requires significant management's judgements and based on assumptions that are affected by the projected future market and economic conditions that are inherently uncertain.	We have obtained and analysed the results of assessment of the recoverable amount of the property, plant and equipment, right-of-use assets and intangible assets. In forming of our conclusion on the assumptions and methodology used by management, among other things, we have relied on the work of our valuation experts. Our audit procedures in respect of the Group management assessment of the impairment of the property, plant and equipment, right-of-use assets and intangible assets included the following: • review of the methodology and mathematical accuracy of the financial model used by the Group management for the impairment test; • verification on a sample basis of the initial data and assumptions used in the financial model and their compliance with the budget data and conclusions of state bodies on setting tariffs for the energy transmission, available reliable external sources (including but not limited to macroeconomic forecasts), and our industry specific expertise; • assessment of potential impact of reasonably possible changes in key assumptions; • obtaining and analysing written representations from management regarding the property, plant and equipment, right-of-use assets and intangible assets impairment test. In addition, we assessed the sufficiency of information disclosure in Notes 3, 4, 8 to the consolidated financial statements by comparing with the requirements of IFRS Accounting Standards. The acceptability of the Group management's current estimates regarding the impairment of property, plant and equipment, right-of-use assets and intangible assets for the purpose of preparing the consolidated financial statements for the year ended 31 December 2023 does not guarantee that future events, that are inherently uncertain, would not lead to a significant change in these estimates. We note that management's financial model is sensitive to a significant extent to the changes in key assumptions. It could reasonably be expected, that if actual results differ from assumptions made, accordingly, there could arise either additional losses from impairment in the future or gains from the release of previously recognised impairment.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

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

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

26 April 2024

Moscow, Russian Federation



Derevyankin Denis Petrovich is authorised to sign on behalf of the General Director of Joint-Stock Company "Technologies of Trust - Audit" (Principal Registration Number of the Record in the Register of Auditors and Audit Organizations (PRNR) – 12006020338), certified auditor (PRNR – 21906105186)

Grid Company Group
Consolidated Statement of Financial Position
(in thousands of Russian Roubles)

	Note	31 December 2023	31 December 2022
ASSETS			
Non-current assets			
Property, plant and equipment	8	88,058,035	78,365,163
Intangible assets	9	1,417,230	1,169,997
Right-of-use assets	10	3,735,732	4,240,412
Investments in equity securities	12	306,304	219,478
Investments in associates	11	885,074	589,719
Other non-current assets	13	1,559,429	2,815,882
Total non-current assets		95,961,804	87,400,651
Current assets			
Property, plant and equipment held for sale		44,218	21,480
Inventories	14	206,752	224,088
Trade and other receivables	15	2,018,277	1,633,051
Short-term investments	16	47,104	50,009
Cash and cash equivalents	17	3,927,722	1,849,027
Total current assets		6,244,073	3,777,655
TOTAL ASSETS		102,205,877	91,178,306
EQUITY AND LIABILITIES			
Equity			
Share capital	18	8,326,168	7,932,212
Share premium	18	5,701,724	3,227,680
Accumulated income as a result of revaluation of net pension liability	21	21,920	1,799
Revaluation reserve for investments in equity securities	12	26,720	(42,740)
Retained earnings		66,439,357	59,132,045
Equity attributable to the Group's shareholders		80,515,889	70,250,996
TOTAL EQUITY		80,515,889	70,250,996
Non-current liabilities			
Deferred income tax liabilities	19	7,765,507	6,771,331
Lease liabilities	10	2,115,115	2,714,876
Advances from customers	20	807,410	85,747
Employee benefit obligations	21	644,130	638,222
Other non-current liabilities	22	205,627	190,922
Total non-current liabilities		11,537,789	10,401,098
Current liabilities			
Trade and other payables	23	4,627,558	3,625,306
Prepayment for share issues	18	-	2,409,586
Advances from customers	20	1,219,643	1,511,639
Provisions for legal and other claims	30	119,824	2,549
Lease liabilities	10	1,065,208	962,759
Income tax payable		165,150	92,398
Other taxes payable	24	829,728	1,093,032
Other current liabilities	22	2,125,088	828,943
Total current liabilities		10,152,199	10,526,212
TOTAL LIABILITIES		21,689,988	20,927,310
TOTAL EQUITY AND LIABILITIES		102,205,877	91,178,306

Approved for issue and signed:

Acting General Director

V.A. Lukin

Deputy General Director for Finance

L.A. Gimaltdinova

26 April 2024

The accompanying notes 1 to 33 are an integral part of these consolidated financial statements.

Grid Company Group**Consolidated Statement of Profit or Loss and Other Comprehensive Income**

(in thousands of Russian Roubles)

	Note	2023	2022
Revenue	25	33,640,256	29,658,836
Other operating income before release of provision for legal and other claims	26	661,537	873,382
Operating expenses before loss on disposal of property, plant and equipment and intangible assets, accrual of allowance for expected credit losses	27	(25,035,241)	(25,375,236)
Release of provision for legal and other claims	30	396	2,358,988
Reversal/(accrual) of ECL allowance	13, 15	(18,657)	29,565
Loss on disposal of property, plant and equipment and intangible assets		(40,081)	(114,987)
Profit from operating activities		9,208,210	7,430,548
Finance income	28	323,843	329,246
Finance costs	29	(289,065)	(333,835)
Share of results of associates	11	15,292	23,996
Profit before income tax		9,258,280	7,449,955
Income tax expense	19	(1,950,968)	(1,920,077)
Profit for the year		7,307,312	5,529,878
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation of net defined benefit liability	21	20,121	13,552
Changes in fair value of investments in equity securities	12	86,825	12,591
Income tax recorded directly in other comprehensive income	19	(17,365)	(2,518)
Total items that will not be reclassified to profit or loss		89,581	23,625
Other comprehensive income for the year		89,581	23,625
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		7,396,893	5,553,503

The accompanying notes 1 to 33 are an integral part of these consolidated financial statements.

Grid Company Group
Consolidated Statement of Cash Flows
(in thousands of Russian Roubles)

	Note	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		9,258,280	7,449,955
Adjustments for:			
Depreciation of property, plant and equipment, right-of-use assets and amortisation of intangible assets	27	4,654,636	4,090,539
Increase/(decrease) in allowance for expected credit losses	13, 15	18,657	(29,565)
Increase/(decrease) of provision for legal and other claims	26, 27, 30	124,863	(1,773,876)
Deferred employee benefit compensation		11,163	16,716
Finance income	28	(323,843)	(329,246)
Finance costs	29	289,065	333,835
Loss on disposal of property, plant and equipment and intangible assets		40,081	114,987
Share of results of associates	11	(15,292)	(23,996)
(Write-down) / reversal of write-down of inventory to net realisable value		(243)	394
Income from contribution to the authorised capital of OOO "Telecomenergo"	26	(280,062)	(367,734)
Free-of-charge receipt to property, plant and equipment		(95,280)	(67,528)
Other non-cash transactions		16,269	(1,725)
Cash flows from operating activities before changes in working capital and provisions		13,698,294	9,412,756
Changes in working capital:			
Decrease in inventories		105,974	38,365
(Increase)/decrease in trade and other receivables		(418,582)	172,978
Increase in advances received		429,941	250,260
Increase in trade and other payables		1,644,740	1,526,156
Decrease in provision for legal and other claims		(7,588)	(9,361)
(Decrease)/increase in taxes payable, other than income tax		(263,304)	1,015,196
Increase in other non-current liabilities		26,030	20,993
Cash flows from operating activities before income tax		15,215,505	12,427,343
Income tax paid		(901,405)	(524,728)
Net cash flows from operating activities		14,314,100	11,902,615
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from the sale of property, plant and equipment and intangible assets		26,129	39,939
Interest received		322,404	328,191
Purchases of property, plant and equipment and intangible assets		(11,746,115)	(12,282,063)
Purchases of investments in associates		(2)	(6)
Bank deposits placement		(97,000)	(138,000)
Closure of bank deposits		100,000	379,500
Net cash used in investing activities		(11,394,584)	(11,672,439)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of shares / prepayment for shares	18	144,363	239,053
Lease payments	10	(695,216)	(602,893)
Interest on lease	10	(289,968)	(333,835)
Net cash used in financing activities		(840,821)	(697,675)
Increase/(decrease) in cash and cash equivalents		2,078,695	(467,499)
Cash and cash equivalents at the beginning of the year	17	1,849,027	2,316,526
Cash and cash equivalents at the end of the year	17	3,927,722	1,849,027

The accompanying notes 1 to 33 are an integral part of these consolidated financial statements.

Grid Company Group
Consolidated Statement of Changes in Equity
(in thousands of Russian Roubles)

		Equity attributable to the Group's shareholders					
	Note	Share capital	Share premium	Accumulated income/(loss) as a result of revaluation of net pension liability	Revaluation reserve for investments in equity securities	Retained earnings	Total
At 1 January 2022		7,932,212	3,227,680	(11,753)	(52,813)	53,602,167	64,697,493
Profit for the year		-	-	-	-	5,529,878	5,529,878
Other comprehensive income for the year							
Changes in fair value of investments in equity securities	12	-	-	-	10,073	-	10,073
Revaluation of net defined benefits liability	21	-	-	13,552	-	-	13,552
Total comprehensive income for the year		-	-	13,552	10,073	5,529,878	5,553,503
31 December 2022		7,932,212	3,227,680	1,799	(42,740)	59,132,045	70,250,996
At 1 January 2023		7,932,212	3,227,680	1,799	(42,740)	59,132,045	70,250,996
Share issue		393,956	2,474,044	-	-	-	2,868,000
Profit for the year		-	-	-	-	7,307,312	7,307,312
Other comprehensive income for the year							
Changes in fair value of investments in equity securities	12	-	-	-	69,460	-	69,460
Revaluation of net defined benefits liability	21	-	-	20,121	-	-	20,121
Total comprehensive income for the year		393,956	2,474,044	20,121	69,460	7,307,312	7,396,893
31 December 2023		8,326,168	5,701,724	21,920	26,720	66,439,357	80,515,889

The accompanying notes 1 to 33 are an integral part of these consolidated financial statements.

Grid Company Group

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(in thousands of Russian Roubles)

1. Grid Company Group and its Operations

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards for the year ended 31 December 2023 for JSC “Grid Company” (the “Company”) and its subsidiary CHOU DPO “Centre of works under voltage” (jointly referred to as the “Group”).

JSC Grid Company was established on 11 December 2001 in accordance with the framework for Russian energy systems restructuring approved by Resolution of the Russian government No. 526 of 11 July 2001 “On Restructuring of the Russian Energy Industry”, and pursuant to Decree of the President of the Republic of Tatarstan No. UP-673 of 8 August 2001 “On Further Measures to Restructure the Energy Industry of the Republic of Tatarstan”.

The Company's principal activities are energy transmission and connection of consumers to the electric grid facilities in the Republic of Tatarstan. The Company is a territorial grid company which owns electricity grids of all voltage levels: from 0.4 kV to 500 kV.

From the date of its establishment and until 1 July 2009, the Company had been a subsidiary of OAO Tatenergo, a vertically integrated holding company, involved in generating, transmission, distribution and sale of electricity and heat within the Republic of Tatarstan. On 1 July 2009, JSC Grid Company and OAO Tatenergo were restructured. As a result, the Company became an independent entity with the Republic of Tatarstan represented by the Ministry of Land and Property Relations being its major shareholder.

At 31 December 2023, the Company has eleven branches located in the Republic of Tatarstan: Almetyevsk Grids, Bugulma Grids, Buinsk Grids, Elabuga Grids, Kazan Grids, Naberezhniye Chelni Grids, Nizhnekamsk Grids, Privolzhskie Grids, Chistopol Grids, Administration of construction projects and Administration of consumer services (at 31 December 2022: eleven branches).

As of 31 December 2023 and 31 December 2022, the Company exercises control over the activities of the subsidiary CHOU DPO “Centre for work under voltage”, which operates in the Republic of Tatarstan of the Russian Federation. The subsidiary's main activity is the provision of services of additional professional education under the programmes of training, professional retraining and advanced training of personnel of electric power enterprises.

The Company's registered address is: 420094 Russian Federation, The Republic of Tatarstan, Kazan, Bondarenko str., 3.

2. Operating Environment of the Group

The Group carries out its operations in the Republic of Tatarstan of the Russian Federation. Therefore, the Russian economy and financial markets which display certain characteristics of emerging markets have impact on the Group's business. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and possible varying interpretations. The Russian economy continues to be negatively impacted by ongoing political tension and international sanctions against certain Russian companies and individuals.

In 2023, there remains significant geopolitical tension which was developing since February 2022 with the situation with Ukraine. Sanctions and restrictions for multiple Russian entities, including removal of access to the Euro and US dollar markets, the international SWIFT system, and many other, have been imposed and continue being introduced. A number of multinational groups suspended or terminated their business activity in the Russian Federation. In December 2022, EU and some non-EU states introduced the price cap for Russian crude oil. The price cap has been set at USD 60 per barrel and will be subsequently reviewed regularly. In addition, in December 2022, EU imposed embargo on maritime transport of Russian crude oil. In February 2023, a price ceiling for supplies of Russian gas and an embargo on Russian oil products was introduced. Despite recovery in trading volumes the financial and commodity markets continue to demonstrate instability. In 2023, foreign currency exchange rates against the rouble significantly increased compared to the rates as at 31 December 2022. In 2023, the key interest rate was raised by the Bank of Russia from 7.5% to 16%. There is an expectation of further sanctions and limitations on foreign business activity affecting companies operating in the Russian Federation, as well as further negative consequences for the Russian economy in general, but the full extent and scale of possible effects of these are unknown. It is not possible to determine how long this increased volatility will last or at what level the above financial indicators will eventually level out.

2. Operating Environment of the Group (Continued)

The primary task of the energy complex has been and remains to ensure reliable energy supply to enterprises, the population and socially significant facilities: in the current geopolitical environment, the importance and significance of this task is only increasing.

Therefore, being a systemically important electric grid entity, the Group continues operating to secure reliable, uninterrupted and safe electricity supply to consumers in the Republic of Tatarstan.

The Group management takes all available steps to mitigate the adverse effect on the Group's operations, including:

- activities to secure reliable energy supply and implement priority investment projects;
- interaction with suppliers of equipment and materials to be able to substitute imported equipment and materials;
- monitoring projected and actual data on the effect of the sanctions pressure on the electric power industry and the Group's operations;
- securing financial stability through timely development and implementation of measures to offset possible adverse effects of the current situation.

However, the future effects of the current economic situation are difficult to predict, and management's current expectations and estimates could differ from actual results.

Relations with the government and their impact on the Group's operations

At 31 December 2023 and 31 December 2022, the Group is controlled by the Government of the Republic of Tatarstan. The Company's registered share capital has the following structure (Note 33):

At 31 December 2023:

73.23% owned by the Republic of Tatarstan, represented by the Ministry of Land and Property Relations;
12.03% – Joint Stock Commercial Bank “AK BARS” (a public joint stock company);
7.63% – State Unitary Enterprise of the Republic of Tatarstan “Electric Networks”;
7.11% – Other legal entities each holding less than 5% voting shares.

At 31 December 2022:

74.43% owned by the Republic of Tatarstan, represented by the Ministry of Land and Property Relations;
12.69% – Joint-Stock Company “Company “YUL””;
6.57% – State Unitary Enterprise of the Republic of Tatarstan “Electric Networks”;
6.31% – Other legal entities each holding less than 5% voting shares.

AO Tatenergosbyt (a state-owned company) is the Group's major customer for electricity transmission services (Note 7). In addition, the Government significantly influences certain Group's service and materials providers (Note 7).

The government also directly affects the Group's operations via regulation over electricity transmission and connection tariffs by the Federal Anti-Monopoly Service and the Tatarstan State Tariff Committee. The Company's tariffs are determined under regulations for electricity transmission, connection of power receivers to the power grids and under regulations applicable to natural monopolies.

The Company's investment programmes are approved and controlled by the authorised executive body of the Republic of Tatarstan represented by the Ministry of Industry and Trade of the Republic of Tatarstan.

3. Material Accounting Policy Information

Basis of preparation

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented in the consolidated financial statements, unless otherwise stated.

The Group companies maintain their own books of accounts and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The accompanying consolidated financial statements are based on the statutory records, which were adjusted and reclassified for the purpose of fair presentation in accordance with IFRS Accounting Standards.

In the reporting year the Group performed certain reclassification of items of the consolidated financial statement, this resulted in the changed comparative information to lead up to the current year's presentation.

Functional and reporting currency

The national currency of the Russian Federation is the Russian Rouble ("RR"), which is the functional currency of the Group companies and the currency in which these consolidated financial statements are presented. All financial information presented in RR has been rounded to the nearest thousand.

Consolidated financial statements.

Subsidiaries are those investees that the Group controls because the Group:

- (i) has power to direct the relevant activities of the investees that significantly affect their returns,
- (ii) has exposure, or rights, to variable returns from its involvement with the investees, and
- (iii) has the ability to use its power over the investees to affect the amount of the investor's returns.

The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have a practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of the holdings of other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or that apply only in exceptional circumstances, do not prevent the Group from controlling an investee.

Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to include subsidiaries in the consolidated financial statements. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated, unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies. When necessary amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

3. Material Accounting Policy Information (Continued)***Investments in associates***

Investments in associates are accounted for using the equity method of accounting based on the percentage of the Group's ownership in the charter capital of the associate and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of associates are recognised as follows: (a) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (b) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (c) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Financial instruments – key measurement terms

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Valuation methods such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of assets and liabilities for which external market pricing information is not available. The Group applies methods of fair value measurement which are the most acceptable in current conditions and uses the observable inputs as much as possible.

Fair value measurements are analysed by level in the fair value hierarchy as follows:

- (a) level one are measurements at quoted market prices (unadjusted) in active markets for identical assets or liabilities,
- (b) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and
- (c) level three measurements are valuations that are not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

3. Material Accounting Policy Information (Continued)***Financial instruments – key measurement terms (Continued)***

The *effective interest method* is a method of allocating and recognising interest income or interest expense over the relevant period to achieve a constant periodic rate of interest in each reporting period (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or a financial liability to the amortised cost of the financial asset (excluding its adjustment for the ECL allowance) or to the amortised cost of the financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Classification of financial assets

The Group's financial assets have the following categories:

- financial assets at amortised cost;
- financial assets at fair value through profit or loss;
- financial assets at fair value through other comprehensive income.

The classification depends on (a) the Group's business model for managing the related assets portfolio and (b) the cash flow characteristics of the asset.

- a) The business model reflects how the Group manages its financial assets in order to generate cash flows:
- If the Group's objective is to hold the assets to collect the contractual cash flows that represent solely payments of principal and interest, the financial assets are classified as measured at amortised cost;
 - If the Group's objective is to hold the assets to collect both the contractual cash flows and the cash flows arising from the sale of assets, and the cash flows are solely payments of principal and interest, in which case, the financial assets are classified as measured at fair value through other comprehensive income;
 - If the financial assets do not fall under any of the above categories, they are classified as other business models and measured at fair value through profit or loss.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed and how the assets' performance is assessed.

- (b) For determining the cash flow characteristics of the asset, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin. Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed at initial recognition of a financial asset and it is not subsequently reassessed.

Financial assets – reclassification

Financial assets are reclassified only when the business model for managing the portfolio changes as a whole. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Group did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets – initial recognition and subsequent measurement

Financial assets at fair value through profit or loss (FVTPL) are initially recognised at fair value. All other financial assets are initially recognised at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same financial instrument or by a valuation technique whose inputs include only data from observable markets.

3. Material Accounting Policy Information (Continued)

Financial assets – initial recognition and subsequent measurement (Continued)

An expected credit loss allowance is recognised for financial assets measured at amortised cost, resulting in an immediate accounting loss at initial recognition.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date on which the Group commits to purchase or sell a financial asset. All other purchases are recognised when the Group becomes a party to the contractual provisions of the instrument.

Dividends on equity financial assets measured at fair value through other comprehensive income (“FVOCI”) are recognised in profit or loss for the year when the Group’s right to receive payment is established and it is probable that the dividends will be collected.

Income and expenses attributable to financial assets measured at fair value through other comprehensive income are recognised in other comprehensive income and are not subsequently transferred to profit or loss.

Interest income on financial assets at amortised cost is included into finance income using the effective interest rate method. A gain or loss on derecognition of a financial asset is recognised directly in profit or loss.

Financial assets impairment – credit loss allowance for ECL

Under IFRS 9 “Financial Instruments”, the Group recognises an ECL allowance for financial assets measured at AC.

The Group applies two approaches to ECL measurement: the general model and the simplified model.

The simplified model provides for recognition of allowance for expected credit losses in the amount equal to the lifetime ECL for the financial asset. The model is applied to trade and other receivables, contract assets and lease receivables.

For other financial assets the Company applies the general model which provides for the recognition of allowance for expected credit losses based on changes in the credit quality of the financial instrument since initial recognition:

- if the credit risk on a financial instrument has not increased significantly since initial recognition, the Group estimates the loss allowance in the amount equal to 12-month expected credit losses;
- if the credit risk on a financial instrument has increased significantly since initial recognition, the Group estimates the loss allowance in the amount equal to lifetime expected credit losses;
- if the significant increase in credit risk (“SICR”) that was previously recognised is no longer supported at the current reporting date, the Group again estimates the loss allowance in the amount equal to 12-month expected credit losses.

The Group’s assessment of whether there has been a significant increase in credit risk (“SICR”) since initial recognition is based on the change in the risk of default for the financial instrument rather than on the change in the expected credit losses.

The Group measures ECL and recognises an allowance for credit losses at each reporting date. The measurement of ECL reflects: (a) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (b) time value of money and (c) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events and current conditions.

The allowance for expected credit losses is recognised in profit or loss. If in a subsequent period, the amount of the loss allowance for expected credit losses decreases and the decrease can be related objectively to an event occurring after the allowance for expected credit losses was recognised, the previously recognised loss is reversed as a profit. The carrying value of financial assets at the date of the ECL allowance reversal may not exceed the amortised cost that would have been recorded if no impairment had been recognised.

3. Material Accounting Policy Information (Continued)***Financial assets – write-off***

Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may also write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets – derecognition

The Group derecognises financial assets when (a) they are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Classification of financial liabilities

Financial liabilities are classified as subsequently measured at AC, except for financial liabilities at FVTPL: this classification is applied to derivatives and other financial liabilities designated as such at initial recognition.

The Group has no financial liabilities at fair value through profit or loss.

Initial recognition and subsequent measurement of financial liabilities

Financial liabilities that are subsequently measured at amortised cost, including trade and other payables and lease obligations, are initially recognised at their fair value, net of transaction costs, and are subsequently stated at amortised cost using the effective interest method.

Financial liabilities – derecognition

The Group derecognises financial liabilities when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled, expires, or there is a modification of the lease agreement).

Financial assets at amortised cost***Cash and cash equivalents***

Cash comprises cash on hand and cash deposited on demand at banks. Cash equivalents comprise current, highly liquid investments that are readily convertible into cash and have a maturity of three months or less from the date of acquisition and are subject to insignificant changes in value.

Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Loans issued and trade and other receivables

Loans issued and trade and other receivables are initially recognised at the fair value taking into account the market rate of interest for similar borrowers at the date of origination of the receivables and are subsequently carried at amortised cost using the effective interest method less ECL allowance. Receivables are recorded inclusive of value added tax.

Financial assets at fair value through other comprehensive income***Investments in equity securities***

Equity securities that are not quoted in an active market are recorded at fair value that is determined based on the comparative approach using market multipliers for similar organisations (investment objects).

3. Material Accounting Policy Information (Continued)

Financial liabilities at amortised cost

Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method. Trade and other payables are recorded inclusive of value added tax.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off must not be contingent on a future event and must be legally enforceable in all of the following circumstances: (a) in the normal course of business, (b) the event of default and (c) the event of insolvency or bankruptcy.

Share capital

Ordinary shares are classified as share capital and are recorded at their par value. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared and approved by shareholders before or on the reporting date. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.

Provisions for legal and other claims

Provisions for legal and other claims are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The Group's uncertain tax positions are reassessed by management at the end of each reporting period, and are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Provisions for uncertain tax positions are recognised based on the best estimates by the Group's management of the expenditure required to settle the obligations at the end of the reporting period.

Value-added tax

Output value added tax related to sales is payable to tax authorities on the earlier of: (a) collection of advances from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. The ECL allowance is recorded for the gross amount of the debtor, including VAT.

Other taxes

Obligations on payment of mandatory charges and levies, such as taxes other than income tax and duties, are recorded upon occurrence of an obligating event resulting in the obligation to make such payments in accordance with the law, even if the calculation of such mandatory payments is based on the data from the period preceding the period for which they are due. If a levy is paid before the obligating event, it is recognised as a prepayment.

3. Material Accounting Policy Information (Continued)

Property, plant and equipment

Property plant and equipment are stated at cost less accumulated depreciation and accrued impairment losses where required. The cost of property, plant and equipment held by the Group at 1 January 2011, the date of transition to IFRS, was determined by reference to its fair value. The fair value represented the assets' deemed cost and was the basis for charging depreciation on such property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with these costs will flow to the Group and the value of these costs can be measured reliably.

The costs of repair and maintenance are expensed as incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Property, plant and equipment includes assets under construction for future use as property, plant and equipment.

Gains and losses on disposals are determined by comparing proceeds from the sale with carrying amount and are recognised in profit or loss for the year.

Depreciation of property, plant and equipment. Depreciation on items of property, plant and equipment is accrued using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Land is not depreciated. The useful lives of assets by class of property, plant and equipment are as follows:

Type of facility	Useful life (in years)
Buildings and installations	15 – 50
Electric power transmission grids	15 – 50
Transformers and transforming substations	15 – 30
IT measurement equipment	2 – 30
Other	2 – 30

Other property, plant and equipment include motor vehicles, computer equipment, office fixtures and other equipment.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each balance sheet date.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date. Right-of-use asset arising under lease agreements are measured at original cost less accumulated amortisation and impairment losses. The cost of the right-of-use assets includes the following:

- the initial measurement amount of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred;
- costs to restore the asset to the condition required by lease agreements.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain that it will obtain the title to the leased asset, the right-of-use asset is depreciated over the underlying asset's useful live.

3. Material Accounting Policy Information (Continued)

Right-of-use assets (Continued)

Useful lives of right-of-use assets are presented as follows:

Type of right-of-use assets	Useful life (in years)
Land	3 – 50
Buildings and installations	3 – 50
Electric power transmission grids	4 – 48
Transformers and transforming substations	4 – 30
IT measurement equipment	10 – 29
Other	5 – 29

Other intangible assets primarily include trademarks and patents.

As a rule, options to extend and to terminate the lease are provided for in lease agreements. These options are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The options to extend are not included in the lease term unless it is reasonably certain that the lease will be extended.

Lease liabilities

At the lease commencement date the Group recognises a lease liability in the amount equal to the present value of lease payments to be made during the lease term. Lease payments include:

- fixed payments (including in-substance fixed payments), less any incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be payable under residual value guarantees,
- exercise price of a purchase option, provided that the Group is reasonably certain to exercise that option;
- lease payments to be made under reasonably certain extension options if the lease is reasonably certain to be extended.

In recognising lease liabilities related to energy service contracts classified as leases, the Group has applied the judgement that the tariff for the purchase of electricity in order to compensate losses and the tariff for the transmission of electricity, on the basis of which payments under these contracts are calculated, represent a rate the variable lease payments depend on.

The lease payments are discounted using the interest rate implicit in the lease. If this rate is not easily determinable, which is generally the case with the Group's existing lease contracts, the Group applies the incremental borrowing rate, i.e. the rate that the Group would pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset with a cost similar to the cost of the right-of-use asset in a similar economic environment.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, or when the lease term is changed, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments under contracts on the lease of land plots from the government and municipal authorities are based on their cadastral value and are variable but do not depend on an index or a rate; therefore, they are recognised within lease costs in the period in which the event triggering the payment takes place.

Short-term lease and lease of low value assets

The Group uses a practical expedient to leases for which the lease term ends within 12 months and which do not have the option to extend the lease or does not plan to use these options to extend. The Group also applies the practical expedient to leases for which the value of underlying asset is below RR 300,000. Lease payments under short-term leases and lease of low value assets are expensed on a straight-line basis over the lease term and are recorded as lease expenses in the profit or loss.

3. Material Accounting Policy Information (Continued)***Intangible assets***

Intangible assets are stated at the cost of their acquisition less accumulated amortisation and impairment, if necessary. The intangible assets primarily include computer software and other intangible assets, including trademarks and patents.

All existing intangible assets have definite useful lives. Amortisation is accrued on a straight-line basis over the estimated useful lives of intangible assets from the date when they are available for use. Amortisation charges for the period are included within the current period expenses.

The following useful lives are established for intangible assets:

Asset	Useful life (in years)
Software products	3–15
Other	10 – 20

Development costs that are directly associated with identifiable software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding these costs is probable. Costs associated with computer software maintenance are expensed when incurred.

Impairment of non-financial assets

At the end of each reporting period the Group's management assesses whether there is any indication of impairment of property, plant and equipment, right-of-use assets and intangible assets. If the Group identifies at least one such indication that their carrying amount may not be recoverable, management of the Group estimates the recoverable amount of property, plant and equipment, right-of-use assets and intangible assets, which is determined as the higher of: a) the assets' fair value less costs to sell and b) its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). The carrying amount of assets is reduced to the recoverable amount and the impairment loss is recognised in the profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a positive change in the estimates used to determine the recoverable amount of property, plant and equipment, right-of-use assets and intangible assets.

Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

Property, plant and equipment held for sale

Property, plant and equipment are classified as 'property, plant and equipment held for sale' if their carrying amount will be recovered principally through a sale transaction and not from its continued use. Property, plant and equipment are classified as 'property, plant and equipment held for sale' when all of the following conditions are met:

- a) the assets are available for immediate sale in their present condition;
- b) the Group's management approved and initiated an active programme to locate a buyer;
- c) the assets are actively marketed for a sale at a reasonable price;
- d) the sale is expected within one year;
- e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Impairment loss arising when the asset's carrying amount is written down to its fair value less transaction costs is recognised in the profit or loss for the year.

Non-current assets classified as held for sale are not depreciated.

3. Material Accounting Policy Information (Continued)***Advances issued***

Prepayments are carried at cost less provision for impairment. Advances paid are classified as non-current when goods or services relating to these advances are expected to be obtained after one year, or when these advances relate to an asset which will itself be classified as non-current upon initial recognition. Advances paid to acquire an asset are included in its carrying amount once the Group obtains control over this asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other advances paid are charged to profit or loss when goods or services relating to the prepayments are received. If there is an indication that assets, goods or services relating to advances paid will not be received, the carrying value of the advances is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year. Advances paid are recognised in the consolidated statement of financial position net of VAT on advances paid.

Inventories

Inventories are recorded at the lower of cost and net realisable value. When inventories are disposed they are measured at the cost of each unit. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost to sell.

Income tax

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating costs.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for consolidated financial statements purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Advances from customers

Advances received from customers are recorded in the consolidated financial statements at cost. Advances received are classified as non-current when services relating to the advances are expected to be obtained after one year. Advances from customers are recognised in the consolidated statement of financial position net of VAT on advances received.

Advances received under connection contracts, contracts for the sale of other services and electric-power transmission contracts represent obligations under contracts with customers in accordance with IFRS 15 "Revenue from contracts with customers".

3. Material Accounting Policy Information (Continued)

Post-employment benefits and other social obligations

The Group finances post-employment benefits plans in terms of employees who have less than ten years left to be awarded with their labour old-age pension under the Russian law. The programme is based on a defined benefit plan and allows employees to contribute a part of their salaries to the pension fund. The Group make additional payments of their own depending on the staff grade. The plan is managed by a non-state pension fund.

In the normal course of business the Group contributes to the Russian Federation State Pension Plan on behalf of its employees. Mandatory contributions to the State Pension Plan and under the additional retirement insurance plan are expensed when incurred.

The Group also provides a number of post employment and other long-term benefits which are defined benefit in nature. The programmes represent defined benefit plans. The plan covers most of the Group's employees and the closed group of pensioners retired before 1 January 2006. For current employees the Group provides lump sum payments upon retirement and jubilee payments at certain age or upon completion of a certain number of years of service.

The pensioners retired before 1 January 2006 receive regular life financial support. In addition, the Group makes annual payments to all retired employees for the International Day for Elderly People, compensates the expenses on SPA resort treatment and pays other benefits. All the benefits are fully unfunded. Expenses related to provision of post-employment and other long-term benefits are included in operating expenses in the consolidated statement of profit or loss and other comprehensive income.

The liability recognised in the consolidated statement of financial position in respect of the defined benefit pension plans is the net value of liabilities under the plans – the present value of liabilities at the reporting date less any unrecognised past service cost. The defined benefit obligation is calculated using the projected unit credit method. The net value of defined benefit obligations is determined through the discounting of the estimated future cash outflow using interest rates on government bonds of the Russian Federation which are denominated in the pension benefits currency and have a maturity term approximating the settlement terms of the related obligations.

Revaluation of net defined benefit liability is recognised immediately in other comprehensive income.

Payroll and current leave liabilities are recognised in the consolidated statement of profit or loss and other comprehensive income on an undiscounted basis as the employee's services are provided.

Environmental liabilities

Liabilities for environmental remediation are recorded where there is a present obligation, reliable estimates can be made and related expenses are probable.

Revenue recognition

Revenue is income arising in the course of the Group's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised services or goods to a customer, excluding amounts collected on behalf of third parties. Revenue is recognised net of value added tax.

The Group identifies the following performance obligations: rendering of electricity transmission services; rendering of services to connect the customers to the electricity grid network; other revenue.

The Group recognises revenue from rendering of electricity transmission services over time. Revenue from services is recognised in the reporting period in which they are rendered, based on the actual volume of services provided by the end of the reporting period.

Revenue from rendering of services to connect the customers to the electricity grid network and other revenues are recognised at a point in time. Revenue from rendering of services to connect the customers to the electricity grid network represents a non-refundable fee for connecting the customer to the electricity grid network. The terms, conditions and size of the fee are defined individually and do not depend on revenue from transmission services.

3. Material Accounting Policy Information (Continued)

Revenue recognition (Continued)

The Group provides services under fixed-price contracts. The customer pays the fixed amount based on the terms of payment established in the contract. Contracts on provision of services to connect customers to the electricity grid network require prepayments, the final payment is made no later than 15 days after the technological connection of consumers to the electricity grid network.

Contracts for all types of revenue do not include a significant financing component as the payment dates agreed with the parties to the contracts do not provide a significant benefit from financing to customers and the Group. As a consequence, the Group does not adjust revenue for the time value of money.

Contract assets. A contract asset is the consideration to which the Group is entitled in exchange for the transfer of goods or services to the customer when this right is depended on fulfilment of certain conditions other than the expiration period of time.

Trade receivables. Receivables represent the Group's right to unconditional consideration, i.e. only the passage of time is required before the payment of that consideration is due.

Contract liabilities. A contract liability is the Group's obligation to transfer goods or services to the customer for which the Group received a consideration from the customer. Contract liabilities are recognised as revenue when the Group has performed its contractual obligations. The Group's contract liabilities are recorded in line "Advances from customers" of the consolidated statement of financial position. Advances received from customers mainly represent deferred income for future services to connect the customers to the electricity grid infrastructure and are recognised at the nominal value, net of VAT.

Operating lease

When the Group leases out its assets under an operating lease, which does not transfer substantially all the risks and rewards incidental to ownership to the lessee, the lease payments receivable is recognised as lease income on a straight-line basis over the lease term.

Finance income and expenses

Finance income includes interest income on investments, interest income on loans issued, the effect from discounting financial instruments and interest income on cash and cash equivalents. Finance costs include interest expense under lease, effect of discounting financial instruments.

Interest income and expenses are recognised in profit and loss when incurred in the amount calculated using the effective interest rate method.

Government subsidies

Government subsidies are recognised if there is reasonable confidence that they will be received and all the conditions associated with them will be met. Government subsidies issued to finance specific expenses are recognised in profit or loss in the same periods as the corresponding expenses. Government subsidies related to assets are presented in the statement of financial position by reflecting the subsidy as deferred income, which is recognised in profit or loss on a systematic basis over the useful life of the asset.

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the carrying amounts of assets and liabilities recognised in these consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and assumptions are continually critically evaluated and are based on management's experience and other factors, including expectations of future events which are believed to be reasonable under the circumstances. The Group's management also makes judgements, apart from those involving estimations, in the process of applying the accounting policies.

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the consolidated financial statements and that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year are listed below:

Useful lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on the experience with similar assets. In determining the useful life of an asset, management considers its expected usage, estimated technical obsolescence, physical wear and tear and the physical environment and use of the asset. Changes in any of these assumptions may result in adjustments for future depreciation charge. Additional information is disclosed in Note 8.

Management regularly reviews the useful lives of property, plant and equipment based on standard useful lives of typical property, plant and equipment. Standard useful lives of typical property, plant and equipment are determined based on the useful lives set out in the regulatory and technical documentation and the expert evaluation based on the experience in operating similar PP&E assets constructed or upgraded using advanced technological solutions. The effect of any changes in estimate is accounted for on a prospective basis.

Lease term

The Group determines the lease term as the non-cancellable period of a lease, together with periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option. The Group uses judgement in assessing whether it is reasonable to exercise an option to extend a lease, considers all relevant facts and circumstances that create an economic incentive for the Group to exercise the option to extend the lease. In most cases when the Group decides to exercise an option, the expected lease term is determined by reference to the useful life of the items of property, plant and equipment on which the right-of-use asset is leased.

Post-employment benefit obligations

Employee benefit plan liabilities are estimated using actuarial techniques and assumptions. Actuarial results may differ from the estimates, and the Group estimates can be revised in the future.

The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of corporate bonds of the Russian Federation that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 21.

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

If any indication of impairment exists the Group tests property, plant and equipment, right-of-use assets and intangible assets for their impairment for each cash-generating unit. Electricity transmission activities of the Group are defined as a cash generating unit. The recoverable amounts of the cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions as further detailed in Note 8.

Provisions for legal and other claims

The assessment of the time-limit for execution and the value of the estimated obligations for legal and other claims is associated with a high degree of uncertainty. The Group uses professional judgement to assess the likelihood of an event that will require the outflow of resources, estimates of the due dates and the value of estimated obligations. Additional information is disclosed in Note 30.

5. Adoption of New or Revised Standards and Interpretations

The following revised standards, amendments and interpretations became effective from 1 January 2023, but did not have any material effect on the consolidated financial statements of the Group:

Disclosure of Accounting Policies – Amendments to IAS 1, Presentation of Financial Statements, and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12, Income Taxes (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).

Definition of Accounting Estimates – Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).

IFRS 17, Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021, the effective date subsequently modified to 1 January 2023 by the Amendments to IFRS 17 as discussed below).

Amendments to IFRS 17 and an amendment to IFRS 4, Insurance Contracts (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).

Transition option to insurers applying IFRS 17 – Amendments to IFRS 17, Insurance Contracts (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023).

International Tax Reform – Pillar Two Model Rules – Narrow-scope amendments to IAS 12 (issued on 23 May 2023 and effective for annual periods beginning on or after 1 January 2023). The amendments have not been approved for application in Russia and did not have an impact on the consolidated financial statements of the Group.

6. New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2024 or later, and which the Group has not early adopted:

Classification of liabilities as current or non-current – Amendments to IAS 1, Presentation of Financial Statements (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022, the effective date subsequently modified to 1 January 2024 by the Amendments to IAS 1).

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1, Presentation of Financial Statements (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023, the effective date was subsequently modified to 1 January 2024 by the amendments to IAS 1).

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10, Consolidated Financial Statements, and IAS 28, Investments in Associates and Joint Ventures (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the International Accounting Standard Board).

Lease Liability in a Sale and Leaseback – Amendments to IFRS 16, Leases (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024).

Non-current Liabilities with Covenants – Amendments to IAS 1, Presentation of Financial Statements (issued on 31 October 2022 and effective for annual periods beginning on or after 1 January 2024).

Supplier Finance Arrangements (reverse factoring) – Amendments to IAS 7, Cash Flow Statement, and IFRS 7, Financial Instruments: Disclosure (issued on 25 May 2023 and effective for annual periods beginning on or after 1 January 2024).

Lack of Exchangeability – Amendments to IAS 21, The Effects of Changes in Foreign Exchange Rates (issued on 15 August 2023 and effective for annual periods beginning on or after 1 January 2025).

The new amendments will not have any significant impact on the Group's consolidated financial statements.

Grid Company Group**Notes to the Consolidated Financial Statements for the year ended 31 December 2023**

(in thousands of Russian Roubles)

7. Balances and Transactions with Related Parties

The Republic of Tatarstan owns the majority of the Company's shares and is the controlling party of the Company.

In the course of their business, the Group companies operate with other companies, on which the Republic of Tatarstan or Russian Federation have significant influence or control, including industrial undertakings, financial institutions and various governmental agencies. Related party transactions are mainly based on regulated tariffs. The Group has part of its deposits opened with government related banks and at effective market rates.

The following services represent a majority of the Group's transactions with these entities in 2023 and 2022:

	2023	2022
Services provided by the Group	26,934,173	23,934,137
Electricity transmission	26,747,340	23,840,794
Repair and maintenance of power supply items	35,952	93,343
Connection services	126,674	-
Lease	24,207	-
Other operating income	15,358	30,948
Income from the received government subsidy	15,358	30,948
Finance income	314,443	214,140
Interest income on bank deposits and settlement accounts	314,443	214,140
Purchases of property, plant and equipment and other assets	98,378	275,180
Purchases of property, plant and equipment and intangible assets	-	177,691
Purchase of inventories	98,378	97,489
Expenses incurred by the Group	3,101,802	5,252,311
Services by allied grid companies	1,361,373	1,546,371
Electricity transmission through Unified National Electric Grid	768,188	1,144,315
Social expenditures and charity	576,766	2,186,229
Electricity consumed in production	117,563	114,928
Payments for housing construction under a social mortgage programme	92,197	92,197
Purchase of trip vouchers	60,825	51,994
Verification of measuring units	59,292	66,731
Communication services	47,335	45,649
Accrual of ECL allowance	18,263	3,897

Balances on the above transactions are as follows:

	At 31 December 2023	At 31 December 2022
Trade and other receivables, advances issued	1,602,564	1,357,726
Allowance for expected credit losses	(30,263)	(12,000)
Cash and cash equivalents	3,914,961	1,825,944
Trade and other payables	621,680	598,855
Prepayment under agreements for compensation of losses due to the reconstruction of electric grid facilities	767,274	627,879
Prepayment for share issues	-	2,409,586
Lease liabilities	1,653,140	1,928,976
Advances from customers	572,682	345,856
Deferred income on government subsidy received	271,100	145,752

Prepayment for share issues as at 31 December 2022 was redeemed based on the completion of the additional issue of ordinary shares including additional contributions for 2023 in amount of RR 458,414 thousand (Note 18).

Transactions with the Republic of Tatarstan and Russian Federation also include tax settlements disclosed in Notes 19 and 24.

The Group makes contributions to a non-state pension fund which is controlled by the Russian Federation. Transactions with a non-state pension fund are disclosed in Note 21.

Grid Company Group**Notes to the Consolidated Financial Statements for the year ended 31 December 2023**(in thousands of Russian Roubles)

7. Balances and Transactions with Related Parties (continued)***Remuneration to the key management personnel***

Remuneration is paid to key management personnel of the Group for their services for their services and is comprised of a contractual salary and performance bonuses, which are dependent on the results for the period according to the financial statements under RAS.

During the reporting periods, the following remuneration was allocated:

	2023	2022
Salaries and bonuses	136,184	97,051
State pension and social security costs	23,750	17,193
Defined contribution plans	933	1,160
Retirement benefits and other long-term benefits	375	2,552
Total	161,242	117,956

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

At 31 December 2023, the present value of employee benefits obligations reported in the consolidated statement of financial position includes obligations in relation to the key management personnel of RR 42,898 thousand (31 December 2022: RR 32,947 thousand), including long-term obligations of RR 11,156 thousand (31 December 2022: RR 9,932 thousand).

Grid Company Group
Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(in thousands of Russian Roubles)

8. Property, Plant and Equipment

	Land	Buildings and installations	Electric power transmission grids	Transformers and transforming substations	IT measurement equipment	Other	Construction in progress	Total
For 2023:								
Cost								
At 31 December 2022	309,326	13,434,103	68,094,116	43,636,928	10,666,726	3,152,447	669,788	139,963,434
Reclassification between PP&E categories	-	(14,527)	(549)	20	5,254	9,802	-	-
Transfer from right-of-use assets	-	-	-	481,187	44,207	-	-	525,394
Additions from R&D	-	-	-	8,500	6,564	9,292	-	24,356
Additions	5,894	4,177	50,053	9,488	19,093	164,378	13,391,598	13,644,681
Transfer to PP&E	-	764,502	4,735,696	4,452,753	2,327,584	144,465	(12,425,000)	-
Disposals	(57)	(14,169)	(149,193)	(120,958)	(49,598)	(23,630)	(955)	(358,560)
Transfer to assets held for sale	(335)	(114,806)	-	-	-	(14,897)	-	(130,038)
At 31 December 2023	314,828	14,059,280	72,730,123	48,467,918	13,019,830	3,441,857	1,635,431	153,669,267
Accumulated depreciation and impairment								
At 31 December 2022	(78,591)	(5,823,049)	(29,697,260)	(20,904,514)	(3,505,017)	(1,584,383)	(5,457)	(61,598,271)
Reclassification between PP&E categories	-	6,592	(51)	(1)	(1,747)	(4,793)	-	-
Transfer from right-of-use assets	-	-	-	(137,399)	(18,973)	-	-	(156,372)
Depreciation charge	-	(296,515)	(1,674,632)	(1,295,973)	(740,472)	(197,870)	-	(4,205,462)
Written-off on disposal	38	12,367	98,481	81,727	48,242	22,745	-	263,600
Transfer to assets held for sale	134	71,324	-	-	-	13,815	-	85,273
Transfer to PP&E (transfer of impairment losses)	-	-	(2,099)	-	(156)	(81)	2,336	-
At 31 December 2023	(78,419)	(6,029,281)	(31,275,561)	(22,256,160)	(4,218,123)	(1,750,567)	(3,121)	(65,611,232)
Net book value								
At 31 December 2022	230,735	7,611,054	38,396,856	22,732,414	7,161,709	1,568,064	664,331	78,365,163
At 31 December 2023	236,409	8,029,999	41,454,562	26,211,758	8,801,707	1,691,290	1,632,310	88,058,035

Grid Company Group

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(in thousands of Russian Roubles)

8. Property, Plant and Equipment (Continued)

	Land	Buildings and installations	Electric power transmission grids	Transformers and transforming substations	IT measurement equipment	Other	Construction in progress	Total
For 2022:								
Cost								
At 31 December 2021	221,158	13,030,390	62,511,962	40,141,063	8,005,333	2,665,189	1,041,526	127,616,621
Reclassification between PP&E categories	-	(1,260)	(28,234)	(778)	28,999	1,273	-	-
Additions	89,107	41,359	276,995	936,851	21,104	128,731	11,431,037	12,925,184
Transfer to PP&E	-	504,252	5,503,307	2,690,365	2,629,659	376,688	(11,704,271)	-
Disposals	(766)	(74,990)	(169,914)	(130,573)	(18,369)	(19,434)	(98,504)	(512,550)
Transfer to assets held for sale	(173)	(65,648)	-	-	-	-	-	(65,821)
At 31 December 2022	309,326	13,434,103	68,094,116	43,636,928	10,666,726	3,152,447	669,788	139,963,434
Accumulated depreciation and impairment								
At 31 December 2021	(78,734)	(5,647,744)	(28,262,708)	(19,827,438)	(2,932,324)	(1,459,544)	(119,184)	(58,327,676)
Reclassification between PP&E categories	-	229	15,611	711	(16,310)	(241)	-	-
Depreciation charge	-	(269,547)	(1,525,208)	(1,132,317)	(573,747)	(141,779)	-	(3,642,598)
Written-off on disposal	75	51,236	94,371	56,087	17,751	17,490	90,724	327,734
Transfer to assets held for sale	68	43,411	-	-	-	-	-	43,479
Transfer to PP&E (transfer of impairment losses)	-	(793)	(19,326)	(1,557)	(393)	(309)	22,378	-
Reversal of impairment	-	159	-	-	6	-	625	790
At 31 December 2022	(78,591)	(5,823,049)	(29,697,260)	(20,904,514)	(3,505,017)	(1,584,383)	(5,457)	(61,598,271)
Net book value								
At 31 December 2021	142,424	7,382,646	34,249,254	20,313,625	5,073,009	1,205,645	922,339	69,288,942
At 31 December 2022	230,735	7,611,054	38,396,856	22,732,414	7,161,709	1,568,064	664,331	78,365,163

At 31 December 2023 and 31 December 2022, construction in progress was primarily represented by projects for the construction of new and reconstruction of existing PP&E assets aimed at ensuring reliable and uninterrupted power supply to consumers.

The 2023 additions included purchases of electric grid facilities under barter agreements with the Ministry of Land and Property Relations contributed as a consideration for ordinary shares in the amount of RR 314,052 thousand (2022: RR 1,155,611 thousand).

The most significant commissioning of fixed assets in 2023 is associated with the reconstruction of the Toima 220 kV substation (Stage 1) in the amount of RR 1,059,280 thousand, reconstruction of the Vodozabor 110 kV substation (Stage 1) in the amount of RR 846,894 thousand and reconstruction of 220 kV open switchgear at 500 kV substation Bugulma (Stage 2) in the amount of RR 780,865 thousand.

Grid Company Group**Notes to the Consolidated Financial Statements for the year ended 31 December 2023**

(in thousands of Russian Roubles)

8. Property, Plant and Equipment (Continued)

The most significant commissioning of fixed assets in 2022 is associated with the construction of 110kV substation in Azino (Stage 1) in the amount of RR 714,823 thousand and construction of 35 kV indoor switchgear, including reconstruction of 220 kV open switchgear at 500 kV substation in Bugulma (Stage 1) in the amount of RR 492,242 thousand.

At 31 December 2023, property, plant and equipment include assets, which are fully depreciated but still in use, with historical cost of RR 3,067,800 thousand (at 31 December 2022: RR 3,165,627 thousand), with the carrying amount of RR 17,536 thousand (31 December 2022: RR 16,955 thousand).

Had the useful life of property, plant and equipment been 10% shorter or longer than the Group management's estimates, the depreciation charge for the year ended 31 December 2023 would have been RR 407,422 thousand higher or RR 354,240 thousand lower, respectively (31 December 2022: RR 359,398 thousand higher or RR 303,408 thousand lower, respectively).

Recoverable amount of property, plant and equipment, right-of-use assets and intangible assets

The Russian government policy has been aimed at controlling the electricity tariff growth which evidences that there are objective indicators of the impairment of the Group's assets. At 31 December 2023 and 31 December 2022, the Group performed an impairment test of its property, plant and equipment, right-of-use assets and intangible assets to determine their recoverable amount.

The recoverable amount of the property, plant and equipment, right-of-use assets and intangible assets was calculated as value in use by the method of the forecast discounted cash flow. This method allows determining future net cash flows to be generated by these assets in the process of their operation until retirement.

The following inputs and assumptions were used for establishing the recoverable amount of the property, plant and equipment, right-of-use assets and intangible assets:

Assumptions used for the impairment testing purposes	Year ended 31 December 2023	Year ended 31 December 2022
Forecast period*	7 years (from 2024 to 2030)	7 years (from 2023 to 2029)
Discount rate before taxes (WACC-based)	15.27%	13.18%
Forecast electricity transmission tariffs	In 2024 – in accordance with the tariff decision of the regulator. Starting from 2025 – based on the method of long-term indexation of the required gross revenue, applicable at the reporting date	In 2023 – in accordance with the tariff decision of the regulator. Starting from 2024 – based on the method of long-term indexation of the required gross revenue, applicable at the reporting date
Productive supply	In 2024 – based on the Company's forecast prepared based on the consolidated forecast of electricity and capacity production and supply balance approved by the Russian Federal Anti-Monopoly Service for the Republic of Tatarstan for 2024. Starting from 2025 – using the electricity consumption growth index in the range between 100.6% and 101.5%	In 2023 – based on the Company's forecast prepared based on the consolidated forecast of electricity and capacity production and supply balance approved by the Russian Federal Anti-Monopoly Service for the Republic of Tatarstan for 2023. Using the electricity consumption growth index of 101.7% per year starting from 2024.

8. Property, Plant and Equipment (Continued)

Recoverable amount of property, plant and equipment, right-of-use assets and intangible assets (Continued)

Assumptions used for the impairment testing purposes	Year ended 31 December 2023	Year ended 31 December 2022
Losses	The volume of losses for 2024–2030 was adopted on the basis of the grid loading mode calculation given the Company's electricity consumption forecast for consumers in the Republic of Tatarstan.	The volume of losses for 2023 was adopted on the basis of the grid loading mode calculation given the Company's electricity consumption forecast for consumers in the Republic of Tatarstan, from 2024 it corresponds with the dynamics of changes in the volume of productive supply
Projected loss value	For 2024 – 2030 it was adopted based on the forecast of the Company at an unregulated price in the wholesale electricity and capacity market	For 2023 – 2029 it was adopted based on the forecast of the Company at an unregulated price in the wholesale electricity and capacity market
Projected capital expenditures	In 2024 – based on draft changes made to 2020–2024 investment programme. In 2025 – 2029 – based on the draft 2025–2029 investment programme. In 2030 – based on management's assessment of the required capital expenditures for maintenance of existing PP&E	In 2023 – 2024 – based on draft changes made to 2020–2024 investment programme; In 2025 – 2029 – based on management's assessment of the required capital expenditures for maintenance of existing PP&E
Working capital needs	Set at – 7.51% of the necessary gross revenue, based on the analysis of the Company's actual working capital requirements	Set at – 7.76% of the necessary gross revenue, based on the analysis of the Company's actual working capital requirements
Growth interest rate after the forecast period	4% (as per a CPI forecast published by the Ministry of Economic Development)	4% (as per a CPI forecast published by the Ministry of Economic Development)

** The management believes that the forecast period exceeding five years is more reliable as cash flows will not flatten out within five years.*

At 31 December 2023 and 31 December 2022, the recoverable amount of property, plant and equipment, right-of-use assets and intangible assets slightly differs from the carrying value of property, plant and equipment, right-of-use assets and intangible assets. Thus, as a result of the testing performed at 31 December 2023 and 31 December 2022, no impairment of property, plant and equipment, right-of-use assets and intangible assets was identified.

The most sensitive indicators in determining the recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are the discount rate and the growth rate in the post-forecast period. Had the discount rate been 1.0% higher, the carrying value of property, plant and equipment, right-of-use assets and intangible assets would have decreased by RR 8,934,041 thousand (at 31 December 2022: RR 9,264,003 thousand). Had the discount rate been 1.0% lower, the carrying value of property, plant and equipment and right-of-use assets would have increased by RR 11,123,538 thousand (at 31 December 2022: RR 12,119,616 thousand).

Had the growth interest rate in the post-forecast period been 1.0% higher, the carrying value of property, plant and equipment, right-of-use assets and intangible assets would have increased by RR 7,205,680 thousand (at 31 December 2022: RR 8,488,073 thousand). Had the growth interest rate in the post-forecast period been 1.0% lower, the carrying value of property, plant and equipment, right-of-use assets and intangible assets would have decreased by RR 5,788,090 thousand (at 31 December 2022: RR 6,475,386 thousand).

Grid Company Group
Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(in thousands of Russian Roubles)

9. Intangible Assets

	Software products	Other	IA and R&D in progress	Total
For 2023:				
Cost				
At 31 December 2022	1,263,077	24,780	255,643	1,543,500
Additions	144,134	-	290,065	434,199
Transfer to IA	230,888	-	(230,888)	-
Recognised as fixed assets	-	-	(24,356)	(24,356)
Written off to expenses (without positive results)	-	-	(11)	(11)
Disposals	(130,284)	(17,063)	(13,610)	(160,957)
At 31 December 2023	1,507,815	7,717	276,843	1,792,375
Accumulated amortisation				
At 31 December 2022	(363,872)	(9,631)	-	(373,503)
Charge for the period	(144,585)	-	-	(144,585)
Disposals	134,925	8,018	-	142,943
At 31 December 2023	(373,532)	(1,613)	-	(375,145)
Net book value at 31 December 2022	899,205	15,149	255,643	1,169,997
Net book value at 31 December 2023	1,134,283	6,104	276,843	1,417,230
	Software products	Other	IA and R&D in progress	Total
For 2022:				
Cost				
At 31 December 2021	1,089,516	13,137	197,057	1,299,710
Additions	136,661	12,059	123,334	272,054
Transfer to IA	64,748	-	(64,748)	-
Disposals	(27,848)	(416)	-	(28,264)
At 31 December 2022	1,263,077	24,780	255,643	1,543,500
Accumulated amortisation				
At 31 December 2021	(272,756)	(5,273)	-	(278,029)
Charge for the period	(118,963)	(4,358)	-	(123,321)
Disposals	27,847	-	-	27,847
At 31 December 2022	(363,872)	(9,631)	-	(373,503)
Net book value at 31 December 2021	816,760	7,864	197,057	1,021,681
Net book value at 31 December 2022	899,205	15,149	255,643	1,169,997

Grid Company Group
Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(in thousands of Russian Roubles)

10. Right-of-Use Assets and Lease Liabilities

	Land	Buildings and installations	Electric power transmission grids	Transformers and transforming substations	IT measurement equipment	Other	Total
For 2023:							
Cost							
At 31 December 2022	79,799	374,705	962,714	494,322	3,508,730	498,292	5,918,562
Reclassification between groups	727	(727)	-	-	49,174	(49,174)	-
Additions	17,051	-	175	-	162,498	15,657	195,381
Changes in agreements' and lease terms	862	7,355	-	96	(39)	(390)	7,884
Transfer to PP&E	-	-	-	(481,187)	(44,207)	-	(525,394)
Disposals	-	(1,955)	(236)	(1,917)	-	-	(4,108)
At 31 December 2023	98,439	379,378	962,653	11,314	3,676,156	464,385	5,592,325
Accumulated depreciation and impairment							
At 31 December 2022	(34,700)	(127,971)	(235,330)	(131,835)	(1,070,230)	(78,084)	(1,678,150)
Reclassification between groups	(501)	501	-	-	(19,623)	19,623	-
Charge for the period	(8,451)	(45,801)	(16,465)	(8,798)	(205,012)	(51,354)	(335,881)
Transfer to PP&E	-	-	-	137,399	18,973	-	156,372
Disposals	-	132	118	816	-	-	1,066
At 31 December 2023	(43,652)	(173,139)	(251,677)	(2,418)	(1,275,892)	(109,815)	(1,856,593)
Net book value							
At 31 December 2022	45,099	246,734	727,384	362,487	2,438,500	420,208	4,240,412
At 31 December 2023	54,787	206,239	710,976	8,896	2,400,264	354,570	3,735,732

	Land	Buildings and installations	Electric power transmission grids	Transformers and transforming substations	IT measurement equipment	Other	Total
For 2022:							
Cost							
At 31 December 2021	71,909	318,113	985,819	720,059	3,507,809	268,568	5,872,277
Reclassification between groups	5,174	4,124	3	(10,741)	1,440	-	-
Additions	6,771	84,976	236	1,916	-	220,046	313,945
Changes in agreements' and lease terms	2,635	28,053	(6,941)	(72,376)	50,186	9,678	11,235
Disposals	(6,690)	(60,561)	(16,403)	(144,536)	(50,705)	-	(278,895)
At 31 December 2022	79,799	374,705	962,714	494,322	3,508,730	498,292	5,918,562
Accumulated depreciation and impairment							
At 31 December 2021	(32,519)	(108,740)	(225,647)	(208,800)	(881,711)	(41,030)	(1,498,447)
Reclassification between groups	(659)	(923)	-	1,367	215	-	-
Charge for the period	(6,124)	(47,438)	(19,310)	(12,486)	(216,362)	(37,054)	(338,774)
Disposals	4,602	29,130	9,627	88,084	27,628	-	159,071
At 31 December 2022	(34,700)	(127,971)	(235,330)	(131,835)	(1,070,230)	(78,084)	(1,678,150)
Net book value							
At 31 December 2021	39,390	209,373	760,172	511,259	2,626,098	227,538	4,373,830
At 31 December 2022	45,099	246,734	727,384	362,487	2,438,500	420,208	4,240,412

In the reporting period, assets under lease agreements were repurchased resulting in the transfer of right-of-use assets to property, plant and equipment. The cost of transferred assets is RR 525,394 thousand and the accumulated depreciation and impairment is RR 156,372 thousand.

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(in thousands of Russian Roubles)

10. Right-of-Use Assets and Lease Liabilities (Continued)

To recognise lease liabilities in 2023 and 2022, the Group used the lessee's weighted average incremental borrowing rate, determined at the date of entering the lease agreement or at the date of changing the lease conditions/expected lease term.

Reconciliation of changes in liabilities and cash flows from operations is presented below:

	At 31 December 2023	At 31 December 2022
Lease liabilities at the beginning of the period	3,677,635	4,093,301
Lease liabilities under new contracts	194,044	312,661
Revaluation of liabilities as a result of changes in conditions, expected lease terms, and disposals under lease agreements	3,860	(125,434)
Changes related to cash flows		
Settlement of liabilities and interest under lease agreements	(985,184)	(936,728)
Total changes related to cash flows	(985,184)	(936,728)
Other changes		
Interest expenses	289,968	333,835
Total other changes	289,968	333,835
Lease liabilities at the end of the period	3,180,323	3,677,635

Interest expenses included in finance costs in 2023 amounted to RR 289,968 thousand (in 2022: RR 333,835 thousand), in the cost of property, plant and equipment – RR 903 thousand (2022: none).

At 31 December 2023 and 31 December 2022, the Group revalued the lease liability and the value of the right-of-use assets in connection with the revision of the expected lease terms of the assets, taking into account the option to extend and terminate the lease.

If the expected lease term of the assets was 10% less or 10% more, the amount of the lease liability and the value of the right-of-use assets as at 31 December 2023 would be RR 30,616 thousand less or RR 24,292 thousand more, respectively (as at 31 December 2022: RR 28,846 thousand less or RR 22,430 thousand more respectively).

The Group leases land plots owned by local governments and other enterprises and institutions under operating leases. Lease agreements are made for fixed periods but may have extension options. Lease payments under such agreements depend on the land cadastral value and are recognised as current period expenses.

The future (undiscounted) cash flows that are expected to be paid by the Group over the lease term and were not included in the lease liability because they included variable lease payments under land leases that depend on the cadastral value and relate to short-term leases and low value asset leases amount to:

	31 December 2023	31 December 2022
Less than one year	18,957	16,371
One to five years	43,346	55,010
Over five years	260,271	311,430
Total	322,574	382,811

Had the cadastral value of land plots under land lease agreements with lease payments depending on the cadastral value grown by 10%, the total lease payments would have increased approximately by RR 29,650 thousand at 31 December 2023 (at 31 December 2022: RR 36,249 thousand).

Expenses under lease agreements that were not included in the lease liability, as they include variable lease payments under land lease agreements that depend on the cadastral value, or relate to short-term lease agreements and lease of low-value assets recognised in the reporting period, are disclosed in Note 27.

Grid Company Group

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

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11. Subsidiaries and Associates

The table below includes information about the companies that are under control or significant influence of JSC “Grid Company”:

Company	Principal activity	Type	Ownership interest at 31 December 2023, %	Ownership interest at 31 December 2022, %
CHOU DPO “Centre for work under voltage”	Additional professional education	subsidiary	100.00	100.00
OOO Telecomenergo	Telecommunications based on wire technologies	associate	49.00	49.00

On 16 July 2020, JSC “Grid Company” jointly with OOO “TTK-Digital” and JSC “Svyazinvestneftekhim” established OOO “Telecomenergo” for implementing joint investment projects based on wired telecommunication technologies.

The table below summarises the financial information on the associated company OOO “Telecomenergo” for the years ended 31 December 2023 and 31 December 2022, and as of these dates:

31 December	2023	2022
Non-current assets	1,563,602	1,084,106
Current assets	311,978	161,126
Non-current liabilities	28,553	15,652
Current liabilities	40,754	26,071
Net assets	1,806,273	1,203,509
For the year ended 31 December	2023	2022
Revenue	510,635	233,226
Operating Expenses	(290,688)	(116,942)
<i>including depreciation of property, plant and equipment, intangible assets and right-of-use assets</i>	<i>(51,017)</i>	<i>(21,801)</i>
Profit for the year	157,979	85,049

The table below shows a reconciliation of the consolidated financial information of the associated company OOO “Telecomenergo” with the book value of the Group’s investments:

	2023	2022
Net assets at the beginning of the period	1,203,509	404,046
Profit for the year	157,979	85,049
Net assets at the end of the period	1,361,488	489,095
Share in net assets	667,129	239,656
Additional issue of shares	280,064	367,740
Dividends	(62,119)	(17,677)
Book value at the end of the period	885,074	589,719

12. Investments in Equity Securities

	At 31 December 2023		At 31 December 2022	
	Ownership %	Carrying value	Ownership %	Carrying value
PJSC Akibank	8.24%	306,304	8.24%	219,478
Total		306,304		219,478

At 31 December 2023 and 31 December 2022, the Group’s investments in the shares of PJSC “Akibank” were carried at fair value determined based on the comparative approach using market multipliers for similar banks, since PJSC “Akibank”’s shares are not quoted at the exchange, and public sources do not contain any information on the price of recent trading transactions with the shares. In 2023, the Group recognised a RR 86,825 thousand increase in the fair value of investments in PJSC “Akibank”, which was recognised within other comprehensive income for the year ended 31 December 2023 (2022: a RR 12,591 thousand increase in the fair value of investments). A revaluation provision of RR 26,720 thousand (at 31 December 2022: RR 42,740 thousand) for investments in equity securities, including deferred taxes, was recognised in the consolidated statement of financial position.

Grid Company Group**Notes to the Consolidated Financial Statements for the year ended 31 December 2023**

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12. Investments in Equity Securities (continued)

Had the market multiplier for the carrying value or equity of PJSC “Akibank” at 31 December 2023 been 10% higher or 10% lower than the Group management's estimates, the fair value of investments in the shares of PJSC “Akibank” for the year ended 31 December 2023 would have been RR 30,630 thousand higher or lower, respectively (31 December 2022: RR 21,948 thousand higher or lower, respectively).

13. Other Non-current Assets

	At 31 December 2023	At 31 December 2022
Long-term trade receivables	7,240	2,297
Long-term loans issued	3,696	5,081
ECL allowance for trade receivables	(31)	(5)
Total financial assets within other non-current assets	10,905	7,373
Advances to construction companies and suppliers of PP&E	1,519,224	2,779,192
Deferred employee benefits	29,197	29,260
Other advances issued	103	57
Total	1,559,429	2,815,882

Long-term loans represent loans issued to employees. The Group provides interest-bearing long-term loans to its employees on the terms of partial or full write-off of the debt if the employee is employed by the Company until the expiration of the loan agreement. These are classified by the Group as deferred employee benefits. Long-term loans issued to the employees are secured by third party guarantees. At 31 December 2023, the guarantee amount in accordance with the terms of the agreements is RR 55,366 thousand (31 December 2022: RR 51,796 thousand).

At 31 December 2023, most significant advances paid to construction companies and suppliers of property, plant and equipment are attributable to agreements with ООО Opora Plyus in the amount of RR 558,674 thousand for the reconstruction of 110 kV aerial cable line TPP-1-Zapadnaya, 110 kV aerial cable line Novokremlevskaya-Zapadnaya (with the branch line at 110 kV substation Zarechye) and with ООО Smartenrgo in the amount of RR 285,422 thousand for the expansion of automated information and measurements systems of electric grid districts.

At 31 December 2022, most significant advances paid to construction companies and suppliers of property, plant and equipment are attributable as follows: RR 1,028,792 thousand – to contract with ООО “UK KER Holding” for the reconstruction of 220kV substation Toyma-2; RR 822,748 thousand – to the construction of 35 kV indoor switchgear, including reconstruction of 220 kV open switchgear at 500 kV substation Bugulma; RR 719,365 thousand – to the reconstruction of 110 kV substation Vodozabor.

At 31 December 2023, repayment of advances paid to construction companies and suppliers of property, plant and equipment is secured by bank guarantees issued for RR 523,732 thousand (31 December 2022: RR 911,148 thousand), surety agreements in the amount of RR 423,007 thousand (31 December 2022: none).

14. Inventory

	At 31 December 2023	At 31 December 2022
Raw and other materials	197,474	204,769
Work clothes	5,140	14,723
Other	4,138	4,596
Total	206,752	224,088

The cost of inventories recognised over the reporting period represented as expenses on raw and other materials is RR 937,472 thousand (2022: RR 801,843 thousand) (Note 27).

At 31 December 2023 and 31 December 2022, none of the Group's inventories were under pledge.

Grid Company Group

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(in thousands of Russian Roubles)

15. Trade and Other Receivables

	At 31 December 2023	At 31 December 2022
Trade accounts receivable	1,987,840	1,624,294
ECL allowance for trade receivables	(110,568)	(95,852)
Other accounts receivable	61,181	48,703
ECL allowance for other accounts receivable	(24,987)	(30,299)
Short-term loans issued	2,352	2,978
Total financial assets within trade and other receivables	1,915,818	1,549,824
Prepayments to suppliers	75,547	68,059
Taxes prepaid	13,601	652
Deferred employee benefits (current portion)	13,251	14,513
VAT recoverable	60	3
Total	2,018,277	1,633,051

Short-term loans issued include current portion of loans issued to employees.

The Group applies two approaches to assessment of its credit risk expose with respect to expected credit losses under IFRS 9, Financial Instruments: a general model and a simplified model. Note 31 provides information about inputs, assessment criteria and assumptions used for ECL calculation purposes.

Management believes that the Group will be able to settle its receivables through direct collection of cash and, therefore, the carrying amounts of these receivables approximate their fair values as at 31 December 2023 and 31 December 2022.

Movements in allowance for expected credit losses are as follows:

	Trade receivables	Other receivables	Total
Balance at 1 January 2023	95,857	30,299	126,156
Accrued ECL allowance	63,689	6,017	69,706
Amounts written off as uncollectable	(2,177)	(7,050)	(9,227)
Released ECL allowance	(46,770)	(4,279)	(51,049)
Balance at 31 December 2023	110,599	24,987	135,586

	Trade receivables	Other receivables	Total
Balance at 1 January 2022	124,285	32,740	157,025
Accrued ECL allowance	29,573	4,713	34,286
Amounts written off as uncollectable	(1,068)	(236)	(1,304)
Released ECL allowance	(56,933)	(6,918)	(63,851)
Balance at 31 December 2022	95,857	30,299	126,156

16. Short-Term Investments

		At 31 December 2023		At 31 December 2022	
Rating	Rating agency	Rate, %	Carrying amount	Rate, %	Carrying amount
Bank deposits					
BB+	ACRA	6.5 – 13.45	47,104	-	-
BB	ACRA	-	-	6.5	50,009
Total			47,104		50,009

Bank deposits are for a term of one year and are fixed rate deposits.

Grid Company Group

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17. Cash and Cash Equivalents

Rating	Rating agency	At 31 December 2023	At 31 December 2022
Cash at bank			
AAA	ACRA	238,198	23,010
A	ACRA	100,023	410
BB+	ACRA	629	-
AA	ACRA	71	20
AA+	ACRA	6	3,869
A-	Expert RA	3	20
BB	ACRA	-	10,798
Other		70	284
Total cash at bank		339,000	38,411
Cash equivalents			
AAA	ACRA	3,576,660	1,798,614
BB+	ACRA	12,062	-
BB	ACRA	-	12,002
Total cash equivalents		3,588,722	1,810,616
Total cash and cash equivalents		3,927,722	1,849,027

Cash equivalents represent deposits with maturities less than three months.

18. Equity

Share capital

	Number of shares issued, set out in the Charter and fully paid, items		Share capital	
	At 31 December 2023	At 31 December 2022	At 31 December 2023	At 31 December 2022
Ordinary shares	15,193,257,580	14,405,345,396	8,326,168	7,932,212
Total	15,193,257,580	14,405,345,396	8,326,168	7,932,212

At 31 December 2023, share capital consists of 15,193,257,580 (31 December 2022: 14,405,345,396) ordinary shares with a par value of RR 0.5 per share. Share capital was adjusted for the effects of inflation that existed in Russia up to the end of 2002.

In 2023, the share capital amount was increased by RR 393,956 thousand based on the report on the results of the additional issue of ordinary registered shares registered by the Bank of Russia on 25 December 2023.

Additional issue of shares. On 10 November 2020, the Bank of Russia registered the resolution on the additional issue of 830,000,000 ordinary shares of the Company with a par value of RR 3.64 per share. The additional issue was completed on 10 November 2023. The additional issue resulted in the placement of 787,912,184 ordinary shares with a par value of 0.5 per share, of which RR 1,398,337 thousand was paid in cash and RR 1,469,663 thousand was paid through the contribution of assets.

Dividends. In accordance with Russian legislation, the Company distributes net profit as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. Net statutory profit of the Company as reported in the published statutory financial statements for the year ended 31 December 2023 was RR 7,122,007 thousand (for the year ended 31 December 2022: RR 5,138,798 thousand). The General Meeting of the Company's shareholders held on 30 June 2023 decided not to pay (not to declare) dividends on ordinary shares based on the 2022 results.

Grid Company Group

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(in thousands of Russian Roubles)

19. Income Taxes

The Group's income tax expense comprises the following:

	2023	2022
Current income tax expense	974,157	600,592
Deferred income tax expense	976,811	1,319,485
Income tax expense	1,950,968	1,920,077

The following table presents a reconciliation of the theoretical income tax charge to the amount of actual income tax expense recorded in the consolidated statement of profit or loss and other comprehensive income:

	2023	2022
Profit before tax	9,258,280	7,449,955
Theoretical income tax expense at the rate of 20%	1,851,656	1,489,991
Tax effect of non-taxable income and non-deductible expenses	96,095	426,536
Tax effect of other comprehensive income items	4,025	2,710
Other	(808)	840
Total income tax expense	1,950,968	1,920,077

Net deferred tax liabilities are attributable to the following:

	At 31 December 2023	At 31 December 2022
Deferred income tax assets	(1,206,738)	(1,251,837)
Deferred income tax liabilities	8,972,245	8,023,168
Net deferred income tax liabilities	7,765,507	6,771,331

Differences between IFRS and Russian tax legislation give rise to temporary differences between the carrying amount of assets and liabilities for consolidated financial statements purposes and their profit tax base. The tax effect of the movements in these temporary differences for the reporting period is detailed below and is recorded at the rate of 20% (2022: 20%).

The deferred tax balances relate to the following assets and liabilities:

	At 31 December 2022	Recognised in profit or loss	Recognised within other comprehensive income	At 31 December 2023
Deferred tax liabilities				
Property, plant and equipment	7,173,436	1,047,795	-	8,221,231
Right-of-use assets	848,082	(100,937)	-	747,145
Intangible assets	1,285	(1,285)	-	-
Investments in equity securities	-	-	3,591	3,591
Inventories	365	(87)	-	278
Total deferred tax liabilities	8,023,168	945,486	3,591	8,972,245
Deferred income tax assets				
Investments in equity securities	(13,774)	-	13,774	-
Intangible assets	-	(4,523)	-	(4,523)
Other non-current assets	(1,509)	133	-	(1,376)
Trade and other receivables	(18,184)	(2,876)	-	(21,060)
Cash and cash equivalents	(12)	(5)	-	(17)
Lease liabilities	(717,712)	104,874	-	(612,838)
Employee benefit obligations	(40,950)	(240)	-	(41,190)
Provisions for legal and other claims	(509)	(23,457)	-	(23,966)
Trade and other payables	(459,187)	(42,581)	-	(501,768)
Total deferred tax assets	(1,251,837)	31,325	13,774	(1,206,738)
Deferred tax liabilities, net	6,771,331	976,811	17,365	7,765,507

Grid Company Group

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(in thousands of Russian Roubles)

19. Income Taxes (continued)

	At 31 December 2021	Recognised in profit or loss	Recognised within other comprehensive income	At 31 December 2022
Deferred tax liabilities				
Property, plant and equipment	6,098,767	1,074,669	-	7,173,436
Right-of-use assets	874,766	(26,684)	-	848,082
Intangible assets	-	1,285	-	1,285
Inventories	4,488	(4,123)	-	365
Total deferred tax liabilities	6,978,021	1,045,147	-	8,023,168
Deferred income tax assets				
Investments in equity securities	(16,292)	-	2,518	(13,774)
Intangible assets	(7,444)	7,444	-	-
Other non-current assets	(5,593)	4,084	-	(1,509)
Trade and other receivables	(36,316)	18,132	-	(18,184)
Cash and cash equivalents	(23)	11	-	(12)
Lease liabilities	(818,660)	100,948	-	(717,712)
Employee benefit obligations	(38,824)	(2,126)	-	(40,950)
Provisions for legal and other claims	(357,156)	356,647	-	(509)
Trade and other payables	(248,385)	(210,802)	-	(459,187)
Total deferred tax assets	(1,528,693)	274,338	2,518	(1,251,837)
Deferred tax liabilities, net	5,449,328	1,319,485	2,518	6,771,331

20. Advances from Customers

	At 31 December 2023	At 31 December 2022
Advances received under connection contracts	807,410	85,747
Total long-term advances received	807,410	85,747
Advances received under connection contracts	1,215,186	1,003,625
Advances received under contracts for the sale of other services	3,542	507,264
Advances received under electric-power transmission contracts	505	198
Advances received under assets purchase-and-sale contracts	410	552
Total short-term advances received	1,219,643	1,511,639

At 31 December 2023, most significant advances received under connection contracts relate to contracts with AO Avtostrada in the amount of RR 120,314 thousand, AO SZ Altyn in the amount of RR 51,498 thousand and OOO SZ Komostroy Bars in the amount of RR 38,826 thousand.

At 31 December 2022, most significant advances received under connection contracts relate to contracts with Kazan Public Joint Stock Company "Organichesky Sintez" in the amount of RR 255,546 thousand, Russian Highways Group in the amount of RR 255,546 thousand and AO SZ Altyn in the amount of RR 51,932 thousand.

At 1 January 2023, revenue of RR 884,499 thousand was recognised for short-term obligations under contracts with customers in the current reporting period. At 1 January 2022, revenue of RR 698,932 thousand was recognised for short-term obligations under contracts with customers in the amount of RR 659,146 thousand.

21. Employee Benefit Obligations

Defined contribution plans

The Group finances post-employment benefits plans in terms of employees who have less than ten years left to be awarded with their labour old-age pension under the Russian law. The programme is based on a defined benefit plan and allows employees to contribute a part of their salaries to the pension fund. The Group makes its own additional payments depending on the staff grade. The plan is managed by a non-state pension fund. The 2023 costs related to the plan made RR 25,571 thousand (2022: RR 25,708 thousand).

Grid Company Group**Notes to the Consolidated Financial Statements for the year ended 31 December 2023**

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21. Employee Benefit Obligations (continued)**Defined contribution plans (continued)**

The Group makes social insurance contributions under the Russian law. The 2023 costs associated with the social insurance contributions made RR 2,295,689 thousand (2022: RR 1,875,781 thousand).

Defined benefit plans

The Group employees are covered by defined benefit pension plans with employee benefits being paid to retiring employees. The amount of benefits depends on a participant's past service and the tariff at the time of retirement. In addition to the defined benefit plan the Group makes quarterly payments to its pensioners and yearly payments in connection with the International Day for Elderly People, and it compensates costs of sanatorium-resort therapy and pays other benefits. Moreover, there are seniority and jubilee payments the size of which also depends on the length of service and the tariff. All the payments are regulated by the collective employment agreement that is approved for a three year period. The Group's policy with regard to defined benefit plans does not provide for accumulation of assets to cover its pension obligations.

The Group's pension and other employee obligations and actuarial assumptions used in their determination are presented below.

Changes in the present value of liabilities under defined benefit plans of the Group are as follows:

	Pension liabilities		Other liabilities	
	2023	2022	2023	2022
Net liabilities at the beginning of the year	360,193	368,092	278,029	262,688
Current service cost	12,562	12,225	14,624	15,221
Interest expenses	35,502	28,930	26,579	20,689
Revaluation of net liabilities	(20,121)	(13,552)	(7,065)	10,750
Actuarial losses – experience	20,201	42,944	24,365	59,258
Actuarial gains – changes in financial assumptions	(37,218)	(62,079)	(17,887)	(47,580)
Actuarial (gains)/ losses – changes in demographic assumptions	(3,104)	5,583	(13,543)	(928)
Pensions /benefits paid	(24,360)	(35,502)	(31,813)	(31,319)
Net liabilities at the end of the year	363,776	360,193	280,354	278,029

Amounts recognised in the consolidated statement of profit or loss within payroll costs are presented below:

	Pension liabilities		Other liabilities	
	2023	2022	2023	2022
Current service cost	12,562	12,225	14,624	15,221
Interest expenses	35,502	28,930	26,579	20,689
Revaluation of net liabilities	-	-	(7,065)	10,750
Actuarial losses – experience	-	-	24,365	59,258
Actuarial gains – changes in financial assumptions	-	-	(17,887)	(47,580)
Actuarial gains – changes in demographic assumptions	-	-	(13,543)	(928)
Expense recognised within profit and loss	48,064	41,155	34,138	46,660

Amounts recognised within other comprehensive income:

	Pension liabilities		Other liabilities	
	2023	2022	2023	2022
Revaluation of net liabilities	(20,121)	(13,552)	-	-
Actuarial losses – experience	20,201	42,944	-	-
Actuarial gains – changes in financial assumptions	(37,218)	(62,079)	-	-
Actuarial (gains)/ losses – changes in demographic assumptions	(3,104)	5,583	-	-
Income recognised within other comprehensive income	(20,121)	(13,552)	-	-

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21. Employee Benefit Obligations (continued)**Defined benefit plans (continued)**

Defined benefit plan obligations recorded in the consolidated statement of financial position are as follows:

	Pension liabilities		Other liabilities	
	At 31 December 2023	At 31 December 2022	At 31 December 2023	At 31 December 2022
Present value of liabilities	363,776	360,193	280,354	278,029
Net value of liabilities	363,776	360,193	280,354	278,029

Principal actuarial assumptions are presented below:

Financial assumptions:

	At 31 December 2023, %	At 31 December 2022, %
Discount rate	12.04	10.19
Salary growth rate	4.91	4.00
Flat-rate benefit growth rates	4.34	4.50

Financial actuarial assumptions were based on market projections at the end of the reporting period as related to the period when the calculation of obligations should be made.

Demographic assumptions:

	At 31 December 2023	At 31 December 2022
Mortality table	2022	2020
Average staff turnover, males	6.30%	5.02%
Average staff turnover, females	6.41%	4.95%
Average term to maturity (years)	8	9

Average length of life, years:

	At 31 December 2023	At 31 December 2022
Males, 60 years of age	16	16
Females, 55 years of age	27	27

Due to the existing post-employment benefit obligations, the Group is exposed to various risks. The most significant risks are described below:

- 1) Interest rate risk. Lower yields on government bonds will lead to an increase in obligations on post-employment benefits.
- 2) Inflation risk. As a part of the Group's pension liabilities is adjusted based on the consumer price index, the pension plan is exposed to the inflation risk. Higher inflation will lead to an increase in post-employment benefit.

Grid Company Group

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21. Employee Benefit Obligations (continued)

Defined benefit plans (continued)

Sensitivity of pension and other long-term liabilities to changes in fundamental actuarial assumptions at 31 December 2023 and 31 December 2022 is shown below:

	Changes in assumptions	At 31 December 2023		At 31 December 2022	
		Change in pension liabilities	Changes in other liabilities	Change in pension liabilities	Changes in other liabilities
Discount rate	+ 1%	(23,721)	(16,735)	(26,164)	(18,437)
	- 1%	32,398	18,693	30,008	20,802
Future salary growth	+ 1%	18,694	19,841	19,712	21,899
	- 1%	(16,609)	(17,970)	(17,311)	(19,645)
Future flat-rate benefit growth	+ 1%	29,509	-	25,511	-
	- 1%	(15,979)	-	(22,655)	-
Average staff turnover	+ 1%	(23,966)	(19,629)	(25,599)	(21,180)
	- 1%	27,522	21,894	29,785	23,830
Mortality rate	+ 10%	(7,205)	(2,355)	(8,744)	(2,748)
	- 10%	7,537	2,385	9,233	2,789

The Group's best estimate of the pension plan contributions to be made in 2024 is RUB 86,672 thousand.

22. Other Long-Term and Short-Term Liabilities

	At 31 December 2023	At 31 December 2022
Deferred income on government subsidies received	205,627	131,027
Prepayment under agreements for compensation of losses due to the reconstruction of electric grid facilities	-	59,895
Total other long-term liabilities	205,627	190,922
Prepayment under agreements for compensation of losses due to the reconstruction of electric grid facilities	2,059,615	814,218
Deferred income on government subsidies received	65,473	14,725
Total other short-term liabilities	2,125,088	828,943

The most significant prepayment for compensation of losses due to the reconstruction of electric grid facilities relates to the construction of federal motor roads M5 Urals, M7 Volga and M12 Vostok at 31 December 2023 in the amount of RR 1,623,512 thousand (31 December 2022: RR 669,205 thousand).

23. Trade and Other Payables

	At 31 December 2023	At 31 December 2022
Payables to contractors and suppliers of property, plant and equipment	1,605,836	834,037
Payables to other suppliers and contractors	1,358,302	1,194,849
Other accounts payable	36,670	29,663
Total financial liabilities within trade and other payables	3,000,808	2,058,549
Short-term employee benefit payables and other accruals	1,626,750	1,566,757
Total	4,627,558	3,625,306

The most significant accounts payable to suppliers and contractors for capital construction at 31 December 2023 relates to the expansion of automated information and measurements systems of electric grid districts in the amount of RR 188,363 thousand and to the reconstruction of 100 kV substation Vodozabor facility in the amount of RR 113,832 thousand.

The most significant accounts payable to suppliers and contractors for capital construction at 31 December 2022 relates to the expansion of automated information and measurements systems of electric grid districts in the amount of RR 155,286 thousand.

Grid Company Group**Notes to the Consolidated Financial Statements for the year ended 31 December 2023**

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24. Other Taxes Payable

	At 31 December 2023	At 31 December 2022
Value-added tax	387,708	476,353
Insurance contributions	336,751	509,415
Property tax	88,030	89,941
Land tax	16,234	15,879
Other taxes	1,005	1,444
Total	829,728	1,093,032

25. Revenue

The following table summarises the revenue by types:

	2023	2022
Revenue from contracts with customers, including:	33,537,499	29,579,501
Electricity transmission	31,037,179	28,237,935
Connection services	1,691,951	1,171,527
Other revenue	808,369	170,039
Lease income	102,757	79,335
Total	33,640,256	29,658,836

Timing of revenue recognition under contracts with customers is as follows:

	2023	2022
Connection services	1,691,951	1,171,527
Other revenue	808,369	170,039
Total revenue recognised at a point in time	2,500,320	1,341,566
Electricity transmission	31,037,179	28,237,935
Total revenue recognised over time	31,037,179	28,237,935
Total revenue from contracts with customers	33,537,499	29,579,501

26. Other Operating Income

	2023	2022
Proceeds from contribution to charter capital of OOO "Telecomenergo"	280,062	367,734
Compensation of losses related to the reconstruction of electric grid facilities	159,813	36,930
Free-of-charge receipt to property, plant and equipment	95,280	67,528
Penalties, interest and forfeits receivable	35,959	13,450
Income on government subsidy received	14,725	30,948
Tax refund from tax authorities as a result of settlement of pre-trial and judicial disputes	-	299,185
Other operating income	75,698	57,607
Total	661,537	873,382

Grid Company Group**Notes to the Consolidated Financial Statements for the year ended 31 December 2023**

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27. Operating Expenses

	2023	2022
Payroll, employee benefits and payroll taxes	9,814,518	8,739,032
Depreciation/amortisation of property, plant and equipment, intangible assets and right-of-use assets	4,654,636	4,090,539
Repairs and maintenance	2,260,642	2,241,855
Services by allied grid companies	2,148,373	2,240,672
Motor transportation services	1,514,123	1,386,389
Expenses on raw materials and supplies	937,472	801,843
Electricity transmission through Unified National Electric Grid	768,188	1,144,315
Social expenditures and charity	652,329	2,261,632
Expenses on security, including fire safety	374,205	310,421
Property tax	357,167	354,802
Information services	270,646	256,910
Communication services	127,591	115,929
Accrual of provisions for legal and other claims	125,259	585,112
Electricity consumed in production	117,563	114,928
Expenses on personnel training and development	104,343	25,245
Commissioning and start-up "under load"	97,411	43,594
Payments for housing construction under a social mortgage programme	92,197	92,197
Land tax	64,013	63,517
Rental services	32,468	16,544
Foundation settlement monitoring services	22,147	39,786
Expenses for title registration and cadastral registration	22,029	15,823
Other expenses	477,921	434,151
Total	25,035,241	25,375,236

The Group recognises revenue from electricity transmission and expenses on compensation of losses under the contract with the guaranteeing supplier on a net basis. The compensation of losses for 2023 of RR 4,865,655 thousand (for 2022: RR 4,526,254 thousand) due to the guaranteeing supplier is allocated to a decrease in the revenue from electricity transmission services for the same period.

28. Finance Income

	2023	2022
Interest income on bank deposits and settlement accounts	318,635	323,296
Interest income on loans issued	4,521	5,950
Interest income on sales under payment in instalment conditions	687	-
Total	323,843	329,246

Discounting of loans gives rise to expense. Subsequent to the initial recognition, the discount is amortised over the period of repayment as finance income.

29. Finance Expenses

	2023	2022
Interest expense on lease	289,065	333,835
Total	289,065	333,835

30. Contingencies and Commitments***Capital commitments***

At 31 December 2023, future capital expenditures under existing contracts totalled RR 15,098,901 thousand (at 31 December 2022: RR 12,804,136 thousand). Expected capital expenditures primarily relate to construction and reconstruction of transmission lines, substations and IT measurement equipment.

30. Contingencies and Commitments (continued)

Insurance

The Group ensures certain assets, civil responsibility and other insurable risks. Accordingly, the Group may be exposed to those risks for which it does not have insurance.

Legal risks

Judicial practice is of great importance in the modern system of law enforcement in the Russian Federation and has an impact on the Group's activities. Being an integral part of an increasingly complex legal system, judicial practice has been constantly expanding and undergoing changes.

Legal proceedings

The Group has been and continues to be the subject of legal proceedings, and the Group's management believe that no material losses will be incurred in respect of any of the claims in excess of provisions which have been made in these consolidated financial statements.

At 31 December 2023, the Group made provisions totalling RR 119,824 thousand (31 December 2022: RR 2,549 thousand) for potential litigations and other legal claims resulting primarily from uncertainties in the interpretation of applicable law, excluding tax requirements, and third party property damage. For the year ended 31 December 2023, the Group used provisions totalling RR 7,588 thousand to settle liabilities recognised as a result of litigations (for the year ended 31 December 2022: RR 9,361 thousand).

Tax contingencies

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax noncompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review were made. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). This legislation provides for the possibility of additional tax assessments for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis. The Group's management has implemented internal controls to be in compliance with the new transfer pricing legislation.

Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained at 31 December 2023.

In 2022, legal proceedings related to the requirements of the tax authorities, resulting mainly from different approaches to classification of movable and immovable property when calculating the corporate property tax, were completed in favour of the Group. Consequently in 2022, the provision previously set aside was released in the amount of RR 2,237,783 thousand, including the provision recognised in 2022 in the amount of RR 414,869 thousand.

Environmental matters

The Group and its predecessor companies have operated in the electric power industry in the Russian Federation for many years. The environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under the environmental regulations.

Potential liabilities which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be reliably estimated, but could be material. In the current enforcement climate under existing legislation, the Company management believes that there are no significant liabilities for environmental damage.

31. Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk

The Group takes on exposure to credit risk, which is the risk that the other party to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products or services on credit terms, or deferred payments, and other transactions with counterparties giving rise to financial assets.

Financial assets which potentially subject the Group to credit risk, consist primarily of trade receivables, short-term investments, cash and cash equivalents.

Although collectability of receivables can be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance for expected credit loss already recorded.

The Group applies two approaches to assessment of its credit risk exposure with respect to expected credit losses under IFRS 9, Financial Instruments: a general model and a simplified model. The simplified model is applied to trade receivables and lease receivables, while the general model is applied to other financial assets in accordance with the rules described in Note 3.

In the absence of an independent evaluation of counterparties' solvency, for the purpose of reducing its credit risk, the Group evaluates its counterparties' solvency at the stage of signing the agreement, taking into account its financial position and credit history. The solvency of current counterparties is evaluated taking into account their past experience and other factors. The Group does not apply any forecasts of future conditions, as its receivables are mostly short-term.

For the purpose of evaluating the credit risk, receivables and other financial assets are split into following groups:

Group 1 – new and existing counterparties without any outstanding payments;

Group 2 – current counterparties with identified cases of overdue payments within the recent 12 months;

Group 3 – current counterparties for which cases of delay in payments of more than 12 months have been identified, or whose financial condition has signs of bankruptcy, the solvency has been lost.

At 31 December 2023 and 31 December 2022, receivables and other financial assets are mostly included in Group 1.

In respect of each financial asset, the Group also analyses whether there are any signs of increased credit risk and probability of default.

For assessing the probability of default on financial instruments, the Group's management defines default as an event where the risk exposure meets one or more of the following criteria:

- the counterparty is more than 12 months days past due on its contractual payments;
- analysis of the counterparty's financial position shows evidence of insolvency indicators;
- the counterparty is declared bankrupt or proceedings on deeming the counterparty insolvent are initiated;
- international/national rating agencies assign a default rating to the counterparty.

If at least one of the above criteria is met by a financial asset, the allowance for expected credit losses is set up for the total amount outstanding at the reporting date.

The Group regularly monitors existing receivables and is successfully engaged in claims to collect past due receivables.

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31. Financial Risk Management (continued)
Credit risk (continued)

Receivables past due for more than 12 months are split into groups by overdue period, and proportions of expected loss are defined for each of them based on assessment of credit risk according to previous experience.

The level of expected credit loss under the general model is provided below:

Overdue status of receivables		31 December 2023	
	Expected credit losses, %	Amount of receivables	Allowance for expected credit losses
Current	2.7%	34,389	927
Up to 1 month	54.3%	1,676	910
1 to 3 months	63.3%	650	411
3 to 6 months	65.5%	3,084	2,020
6 to 9 months	66.3%	1,237	820
9 to 12 months	66.5%	735	489
Over 12 months	100%	4,870	4,870
Individually impaired	100%	14,540	14,540
Total		61,181	24,987

Overdue status of receivables		31 December 2022	
	Expected credit losses, %	Amount of receivables	Allowance for expected credit losses
Current	8.2%	19,488	1,594
Up to 1 month	66.3%	781	517
1 to 3 months	88.5%	457	404
3 to 6 months	91.2%	836	763
6 to 9 months	92.0%	454	418
9 to 12 months	93.8%	1,347	1,263
Over 12 months	100%	10,637	10,637
Individually impaired	100%	14,703	14,703
Total		48,703	30,299

The level of expected credit loss under the simplified model is provided below:

Overdue status of receivables		31 December 2023	
	Expected credit losses, %	Amount of receivables	Allowance for expected credit losses
Current	0.42%	1,882,163	7,977
Up to 1 month	54.3%	11,862	6,441
1 to 3 months	63.3%	8,698	5,506
3 to 6 months	65.5%	2,553	1,672
6 to 9 months	66.3%	1,245	825
9 to 12 months	66.5%	1,136	755
Over 12 months	100%	16,595	16,595
Individually impaired	100%	70,828	70,828
Total		1,995,080	110,599

Overdue status of receivables		31 December 2022	
	Expected credit losses, %	Amount of receivables	Allowance for expected credit losses
Current	0.2%	1,523,748	3,528
Up to 1 month	31.5%	8,409	2,646
1 to 3 months	62.3%	11,305	7,043
3 to 6 months	89.5%	1,097	982
6 to 9 months	91.7%	3,925	3,602
9 to 12 months	92.7%	699	648
Over 12 months	100%	8,542	8,542
Individually impaired	100%	68,866	68,866
Total		1,626,591	95,857

Grid Company Group

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31. Financial Risk Management (continued)

Credit risk (continued)

The Company places its cash with banks that are considered to have minimal risk of default. The Group's management approves deposit banks as well as rules for placing cash, including making cash deposits. The Group performs regular review of financial institutions and monitors their ratings assigned by independent agencies. For banks with credit rating below investment grade, the Group's management performs monthly monitoring procedures to establish their compliance with CB RF's ratios and reviews changes in their financial performance.

The Group has not set up any allowance for expected credit losses related to cash and cash equivalents and bank deposits, as based on the investment level credit rating, such financial assets are not impaired, and fair value of cash and cash equivalents and bank deposits is not significantly different from their carrying amount. Allowance for expected credit losses in respect of these financial assets is not material for the purpose of these consolidated financial statements. The aggregate data on placement of cash and cash equivalents and bank deposits as at the end of the reporting period are provided in Notes 16 and 17.

The Group's maximum exposure to credit risk by class of assets approximates the carrying value of each financial asset at the reporting date.

	At 31 December 2023	At 31 December 2022
Cash and cash equivalents	3,927,722	1,849,027
Trade and other receivables	1,915,818	1,549,824
Short-term investments	47,104	50,009
Other non-current assets	10,905	7,373
Total	5,901,549	3,456,233

Concentration of credit risk. The Group is exposed to concentrations of credit risk. At 31 December 2023 and at 31 December 2022, the Group has a sole counterparty represented by AO Tatenergosbyt which is an ensured electricity supplier in the Republic of Tatarstan. Its share in total trade and other receivables at 31 December 2023 was 78% (31 December 2022: 81%). At 31 December 2023, these receivables totalled RR 1,493,020 thousand (at 31 December 2022: RR 1,259,431 thousand).

At 31 December 2023 cash and cash equivalents of the Group in amount of RR 2,928,228 thousand are placed with one credit institution with an assigned rating of AAA (at 31 December 2022: amount of RR 1,813,035 thousand is placed with one bank with a rating of AAA).

Other price risk. The Group assesses the price risk related to equity securities as remote due to the fact that the Group's investments are carried at fair value determined using the comparative approach.

Liquidity risk. The liquidity risk is related to potential inability of the Group to fulfil its payment obligations in due time. Liquidity risk management implies maintaining sufficient level of cash, ensuring reliable access to credit resources and ability to manage the market position. The table below presents analysis of financial obligations of the Group by maturity dates. The amount of liability represents undiscounted amount of contractual cash flows.

	Carrying amount	Total undiscounted contractual amount of cash flows	Due for repayment				
			Less than 6 months	6 to 12 months	1 to 2 years	2 to 5 years	Over 5 years
At 31 December 2023							
Lease liabilities	3,180,323	5,365,706	613,808	468,698	942,209	572,487	2,768,504
Trade and other payables	3,000,808	3,000,808	2,992,995	1,396	1,799	4,618	-
Total	6,181,131	8,366,514	3,606,803	470,094	944,008	577,105	2,768,504
At 31 December 2022							
Lease liabilities	3,677,635	6,126,166	556,036	431,641	1,036,359	1,227,827	2,874,303
Trade and other payables	2,058,549	2,058,549	2,009,405	44,904	1,800	2,440	-
Total	5,736,184	8,184,715	2,565,441	476,545	1,038,159	1,230,267	2,874,303

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31. Financial Risk Management (continued)

Liquidity risk (continued)

At 31 December 2023 and 31 December 2022, the Group's current liabilities exceeded its current assets. At 31 December 2023, the Group's working capital deficit (net of prepayment under agreements for compensation of losses due to the reconstruction of electric grid and deferred income on government subsidies received, advances received and issued) stood at RR 652,192 thousand (31 December 2022: RR 2,080,961 thousand). However, the Group has positive net assets and no borrowings at the reporting date.

As a result of the analysis of the cash flow forecast for 2024, the Group's management believes that, taking into account available current assets and cash that will be received from current operating activities, the Group will be able to repay its obligations on time and will continue its activities in the foreseeable future.

Currency risk

The Group is not exposed to the currency risk as the Company has no assets and liabilities denominated in foreign currency. The Group transmits electricity at fixed rates in Russian Roubles in Russia. The extent of exchange rates' impact on the Group's financial position, liquidity, financial sources and performance is insignificant as the Group has no plans to operate in foreign markets. Therefore the effect of exchange rates fluctuations on the financial results of the Group are deemed immaterial.

Interest rate risk

The Group's operating income and cash flows are substantially independent of changes in market interest rates. The Group does not have any floating rate borrowings. Interest rates on lease contracts are also fixed. The Group is exposed to fair value interest rate risk through market value fluctuations of lease liabilities.

Capital management

Equity is the key element of capital, in management's opinion. Capital management of the Group is aimed at retaining ability of the Group to continue its operations as a going concern ensuring profit to shareholders, accommodating the interest of parties and maintaining the optimal capital structure which allows minimising capital costs.

As at 31 December 2023 and 31 December 2022, the Company complied with all the requirements for share capital established by law.

The capital structure of the Company can be maintained and adjusted by issuing shares, raising credits and loans, selling non-core assets and revising the investment plans.

At the Group level monitoring of the capital structure is performed by determining the leverage level which is the ratio of net debt to equity. In its turn, the net debt is determined as the difference between total borrowings and cash and cash equivalents. Total equity is determined by summing up share capital and net debt.

The level of financial leverage at 31 December 2023 and 31 December 2022 is presented below:

	At 31 December 2023	At 31 December 2022
Trade and other payables and lease liabilities	6,181,131	5,736,184
Less: Cash and cash equivalents	(3,927,722)	(1,849,027)
Net debt	2,253,409	3,887,157
Equity	80,515,889	70,250,996
Total equity	82,769,298	74,138,153
Share of borrowings in the capital structure	2.7%	5.2%
Share of equity in the capital structure	97.3%	94.8%
Debt/equity ratio	0.028	0.055

Grid Company Group**Notes to the Consolidated Financial Statements for the year ended 31 December 2023**

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31. Financial Risk Management (continued)**Key categories of financial instruments**

Information on financial instruments in terms of categories is presented below:

At 31 December 2023	Financial assets at amortised cost	Financial assets at FVOCI	Financial liabilities at amortised cost	Total
Assets as per consolidated statement of financial position				
Investments in equity securities	-	306,304	-	306,304
Other non-current assets	10,905	-	-	10,905
Trade and other receivables	1,915,818	-	-	1,915,818
Short-term investments	47,104	-	-	47,104
Cash and cash equivalents	3,927,722	-	-	3,927,722
Total financial assets	5,901,549	306,304	-	6,207,853
Liabilities as per consolidated statement of financial position				
Lease liabilities	-	-	3,180,323	3,180,323
Trade and other payables	-	-	3,000,808	3,000,808
Total financial liabilities	-	-	6,181,131	6,181,131

At 31 December 2022	Financial assets at amortised cost	Financial assets at FVOCI	Financial liabilities at amortised cost	Total
Assets as per consolidated statement of financial position				
Investments in equity securities	-	219,478	-	219,478
Other non-current assets	7,373	-	-	7,373
Trade and other receivables	1,549,824	-	-	1,549,824
Short-term investments	50,009	-	-	50,009
Cash and cash equivalents	1,849,027	-	-	1,849,027
Total financial assets	3,456,233	219,478	-	3,675,711
Liabilities as per consolidated statement of financial position				
Lease liabilities	-	-	3,677,635	3,677,635
Trade and other payables	-	-	2,058,549	2,058,549
Total financial liabilities	-	-	5,736,184	5,736,184

32. Fair Value of Financial Instruments

When classifying financial instruments within a specific fair value hierarchy, management uses judgement. The fair value calculation procedure is described in Note 3.

Financial assets recognised at fair value. Investments in equity securities are recorded in the consolidated financial position at their fair value and relate to Level 2 of the fair value hierarchy (Note 12).

At the reporting date, the Group has financial assets and liabilities which are not measured at fair value, but for which fair value disclosure is required under IFRS. They relate to Level 2 and 3 of the fair value hierarchy.

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32. Fair value of financial instruments (continued)

With regard to such assets and liabilities, the Group management believes that their fair values approximate their carrying values. Presented below are the fair values of assets and liabilities that are not measured at fair value. Cash and cash equivalents are not recorded in the table below as their present value reasonably approximates their fair value due to their short-term nature or revision of discount rates in favour of current market rates.

	At 31 December 2023			At 31 December 2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Trade and other receivables	-	-	1,920,675	-	-	1,549,138
Short-term investments	-	47,104	-	-	50,009	-
Loans issued	-	6,048	-	-	8,059	-
Total financial assets	-	53,152	1,920,675	-	58,068	1,549,138
Lease liabilities	-	3,180,323	-	-	3,677,635	-
Trade and other payables	-	3,000,808	-	-	2,058,549	-
Total financial liabilities	-	6,181,131	-	-	5,736,184	-

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate financial instruments is based on estimated future cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Financial liabilities carried at amortised cost. Fair values of liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturities were estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities.

33. Events After the Reporting Date

On 6 February 2024, changes to the Company's Charter were registered due to increase of share capital and decrease of authorized shares based on the report on the results of the additional issue of securities registered by the Bank of Russia on 25 December 2023.