Grid Company Group

Consolidated Financial Statements
in accordance with International Financial Reporting Standards
Financial Statements and
Independent Auditor's Report

31 December 2021

CONTENTS

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 (hereinafter referred to as the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") as at 31 December 2021, as well as the consolidated financial results and consolidated cash flows of the Group for the year ended on the specified date, in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2021;
- 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 significant accounting policies 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.

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Key audit matter	How our audit addressed the key audit matter
Measurement of impairment of non-current assets *The information to be disclosed and the relevant accounting policies, judgments and estimates are presented in notes 3, 4 and 8 of the consolidated financial statements.* Property, plant and equipment and right-of-use assets represent a significant part of the assets in the consolidated statement of financial position of the Group: the carrying amount of property, plant and equipment and right-of-use assets as of 31 December 2021 is RR 73,662,772 thousand which is equal to 89% of the total value of the Group's assets. The Group management analysed the Group's financial performance for the reporting year, industry outlook for the foreseeable period, the levers of state regulation, operational plans, as well as assessed whether there are indicators of impairment of property, plant and equipment and right-of-use assets by cash-generating unit. The Group's electricity transmission activities have been identified as a separate cash-generating unit, for which indicators of impairment have been identified and the Group management assessed the recoverable amount of non-current assets. As a result of Group management's impairment test a net impairment loss of RR 2,174,671 thousand was accrued in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021. The impairment test is sensitive to reasonably possible changes in assumptions. The most significant judgments are related to the discount rate and the interest rate of growth in the post-forecast period. We focused on the property, plant and equipment and right-of-use assets impairment assessment as this process is complicated, 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 property, plant and equipment and right-of-use assets impairment financial model used by management. We engaged our valuation experts to form conclusions about the assumptions and methodology that were used in the impairment assessment as well as for verification of mathematical accuracy of calculations and for the sensitivity analysis of the recoverable amount of non-current assets to key assumptions changes. We conducted the following audit procedures in terms of the Group management assessment of the impairment of property, plant and equipment and right-of-use assets: • verification of the methodology and mathematical accuracy of the financial model used by the Group management in conducting the impairment test; • verification on a sample basis of the accuracy and relevance of the data incorporated by management into financial model for assessing the impairment of non-current assets; • verification on a sample basis of the assumptions used in the financial model and compliance of the forecast information used with the approved budget data and conclusions of state bodies on setting tariffs for the transmission of electric energy, available reliable external sources (including macroeconomic forecasts, information on regulated and market electricity and capacity prices, etc.), and our industry-specific expertise; • assessment of the competence, skills, experience and objectivity of management experts; • assessment of potential impact of reasonably possible changes in key assumptions;

- obtaining and analysis management's written representations related to their property, plant and equipment and right-of-use assets impairment test;
- verification of the sufficiency of information disclosure in Note 8 to the consolidated financial statements in accordance with the requirements of IFRS.

The acceptability of the Group management's current estimates regarding the impairment of property, plant and equipment and right-of-use assets for the purpose of preparing the consolidated financial statements for the year ended 31 December 2021 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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, for disclosing information related to going concern, as appropriate, and for preparing statements based on the going concern assumption, unless management intends to liquidate the Group, terminate its operations or when it does not have another real alternative, other than liquidation or termination of activity.

Those responsible for corporate governance are responsible for overseeing the preparation of the Group's consolidated financial statements.

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. In addition, we perform the following:

- 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 of material misstatement as a result of unfair actions is higher than the risk of non-detection of material misstatement as a result of an error, since unfair actions may include collusion, forgery, intentional omission, distorted presentation of information or actions bypassing the internal control system.
- 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 the accounting policies applied and the reasonableness of the estimates calculated by management and the related disclosures.
- 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 presentation of the consolidated financial statements as a whole, their structure and content, including disclosure of information, as well as whether the consolidated financial statements represent the underlying transactions and events in such a way as to ensure their fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with 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.

AO PricewaterhouseCoopers Audit

28 April 2022

Moscow, Russian Federation

G.N. Nizamieva is authorised to sign on behalf of the general director of
AO PricewaterhouseCoopers Audit (Principal Registration Number of the Record
in the Register of Auditors and Audit Organizations (PRNR) – 12006020338), certified auditor
(PRNR – 21906105480)

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

	Note	31 December 2021	31 December 2020
ASSETS			
Non-current assets			
Property, plant and equipment	8	69,288,942	64,349,991
Intangible assets	9	1,021,681	887,493
Right-of-use assets	10	4,373,830	4,720,890
Investments in equity securities	12	206,889	141,923
Investments in associates		197,983	4,673
Other non-current assets	13	2,861,405	2,541,399
Total non-current assets		**77,950,730**	**72,646,369**
Current assets			
Property, plant and equipment held for sale		9,717	8,111
Inventories	14	185,009	261,236
Trade and other receivables	15	1,802,134	1,753,487
Income tax prepayment		352,046	188,379
Short-term investments	16	293,079	1,391,601
Cash and cash equivalents	17	2,316,526	620,008
Total current assets		**4,958,511**	**4,222,822**
TOTAL ASSETS		**82,909,241**	**76,869,191**
EQUITY AND LIABILITIES			
Equity			
Share capital	18	7,932,212	7,932,212
Share premium	18	3,227,680	3,227,680
Accumulated loss as a result of revaluation of net pension liability	21	(11,753)	(82,049)
Revaluation reserve for investments in equity securities	12	(52,813)	(104,785)
Retained earnings		53,602,167	49,210,303
Equity attributable to the Group's shareholders		**64,697,493**	**60,183,361**
TOTAL EQUITY		**64,697,493**	**60,183,361**
Non-current liabilities			
Deferred income tax liabilities	19	5,449,328	5,333,554
Lease liabilities	10	3,201,532	3,668,421
Provisions for legal and other claims	29	-	1,110,358
Advances from customers	20	687,706	406,398
Employee benefit obligations	21	630,780	715,928
Total non-current liabilities		**9,969,346**	**11,234,659**
Current liabilities			
Trade and other payables	22	3,444,366	3,082,539
Prepayment for share issues	18	1,014,922	634,426
Advances from customers	20	659,146	458,109
Provisions for legal and other claims	29	1,785,787	196,504
Lease liabilities	10	891,769	828,295
Other taxes payable	23	446,412	251,298
Total current liabilities		**8,242,402**	**5,451,171**
TOTAL LIABILITIES		**18,211,748**	**16,685,830**
TOTAL EQUITY AND LIABILITIES		**82,909,241**	**76,869,191**

Approved and signed:

General Director — I. Sh. Fardiev

Deputy General Director for Finance — N. A. Bomonina

28 April 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

(in thousands of Russian Roubles)

	Note	2021	2020
Revenue	24	27,695,690	24,100,340
Other operating income	25	282,124	171,987
Operating expenses (net) before impairment of property, plant and equipment, right-of-use assets, gain on disposal of property, plant and equipment and accrual of allowance for expected credit losses	26	(20,679,777)	(20,464,545)
Accrual of ECL allowance	13, 15	(71,305)	(32,918)
Recognition of impairment of property, plant and equipment and right-of-use assets	8, 10	(2,174,671)	(2,561,457)
Gain on disposal of property plant and equipment		55,770	13,984
Profit from operating activities		**5,107,831**	**1,227,391**
Finance income	27	175,771	265,448
Finance expenses	28	(370,287)	(358,327)
Share in results of associates		7,472	(227)
Profit before income tax		**4,920,787**	**1,134,285**
Income tax expense	19	(528,923)	(786,833)
Profit for the year		**4,391,864**	**347,452**
Other comprehensive income/(loss)			
Items that will not be subsequently reclassified to profit or loss			
Revaluation of net defined benefit liability	21	70,296	9,277
Changes in fair value of investments in equity securities	12	64,965	(54,632)
Income tax recorded directly in other comprehensive income	19	(12,993)	10,926
Total items that will not be subsequently reclassified to profit or loss		**122,268**	**(34,429)**
Other comprehensive loss for the year		**122,268**	**(34,429)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4,514,132**	**313,023**

The accompanying notes 1 to 32 are an integral part of these consolidated financial statements.

(in thousands of Russian Roubles)

	Note	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**4,920,787**	**1,134,285**
Adjustments for:			
Depreciation of property, plant and equipment, right-of-use assets and amortisation of intangible assets	26	3,840,944	3,664 036
Increase in allowance for expected credit losses	13, 15	71,305	32,918
Increase of provision for legal and other claims	25, 26, 29	644,552	616,207
Deferred employee benefit compensation		12,006	11,661
Finance income	27	(175,771)	(265,448)
Finance expenses	28	370,287	358,327
Gain on disposal of property, plant and equipment		(55,770)	(13,984)
Loss from associates that are accounted for using the equity method		(7,472)	227
Write-off of inventory value to net possible selling price		4,000	-
Income from contribution to the authorized capital of OOO “Telekomenergo”		(185,801)	-
Recognition of impairment of property, plant and equipment and right-of-use assets	8, 10	2,174,671	2,561,457
Free-of-charge additions to property, plant and equipment		(35,563)	(120,463)
Other non-cash transactions		17,727	(4,074)
Operating cash flow before changes in working capital and provisions		**11,596,902**	**7,975,149**
Changes in working capital:			
Decrease in inventories		178,671	89,251
Increase in trade and other receivables		(139,267)	(129,299)
Increase in advances received		484,869	425,736
Increase/(decrease) in trade and other payables		236,525	(194,439)
Decrease in estimated liabilities		(165,628)	(239,474)
Increase/(decrease) in taxes payable, other than income tax		382,064	(523,844)
(Decrease)/increase in other non-current liabilities		(14 853)	12,572
Cash flows from operating activities before income tax		**12,558,283**	**7,415,652**
Income tax paid in cash		(782,412)	(634,764)
Net cash flows from operating activities		**11,775,871**	**6,780,888**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment and intangible assets		80,097	37,265
Interest received		183,791	319,812
Purchases of property, plant and equipment and intangible assets		(10,918,153)	(10,305,243)
Purchases of investments in associates		(37)	(2,280)
Bank deposits placement		(631,500)	(1,878,250)
Repayment of bank deposits		1,718,250	3,421,660
Net cash used in investing activities		**(9,567,552)**	**(8,407,036)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from share issue/ prepayment for shares	18	380,496	634,426
Lease payments	10	(522,010)	(456,243)
Interest on lease	10	(370,287)	(358,327)
Net cash used in financing activities		**(511,801)**	**(180,144)**
Increase/(decrease) in cash and cash equivalents		**1,696,518**	**(1,806,292)**
Cash and cash equivalents at the beginning of the year	17	620,008	2,426,300
Cash and cash equivalents at the end of the year	**17**	**2,316,526**	**620,008**

(in thousands of Russian Roubles)

		Equity attributable to the Group's shareholders					
	Note	**Share capital**	**Share premium**	**Accumulated loss as a result of revaluation of net pension liability**	**Revaluation reserve for investments in equity securities**	**Retained earnings**	**Total**
At 1 January 2020		**7,932,212**	**3,227,680**	**(91,326)**	**(61,079)**	**48,862,851**	**59,870,338**
Profit for the year		-	-	-	-	347,452	347,452
Other comprehensive income/(loss) for the year							
Changes in fair value of investments in equity securities		-	-	-	(43,706)	-	(43,706)
Revaluation of net defined benefit liability	21	-	-	9,277	-	-	9,277
Total comprehensive income for the year		**-**	**-**	**9,277**	**(43,706)**	**347,452**	**313,023**
At 31 December 2020		**7,932,212**	**3,227,680**	**(82,049)**	**(104,785)**	**49,210,303**	**60,183,361**
At 1 January 2021		**7,932,212**	**3,227,680**	**(82,049)**	**(104,785)**	**49,210,303**	**60,183,361**
Profit for the year		-	-	-	-	4,391,864	4,391,864
Other comprehensive income for the year							
Changes in fair value of investments in equity securities		-	-	-	51,972	-	51,972
Revaluation of net defined benefit liability	21	-	-	70,296	-	-	70,296
Total comprehensive income for the year		**-**	**-**	**70,296**	**51,972**	**4,391,864**	**4,514,132**
At 31 December 2021		**7,932,212**	**3,227,680**	**(11,753)**	**(52,813)**	**53,602,167**	**64,697,493**

1. Grid Company Group and Its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2021 for AO Grid Company (the "Company") and its subsidiary CHOU DPO "Centre of works under voltage" (jointly referred to as the "Group").

AO 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, OAO "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 2021, 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 2020 eleven branches).

As of 31 December 2021 and 31 December 2020 the Company exercises control over the activities of the subsidiary CHOU DPO "Centre for work under voltage", which operates in the Russian Federation, the Republic of Tatarstan, Zainsk. 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 economy and financial markets of the Russian Federation, which display certain characteristics of emerging markets, have an 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.

On 11 March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, Russian authorities have taken a range of measures to curb the spread and mitigate the impact of COVID-19, such as bans and restrictions on movement, self-isolation, and restrictions on commercial activities, including the closure of businesses. Some of the above measures were subsequently relaxed, however, as at 31 December 2021, the global infection levels remain high, vaccination rate is relatively low, and there is a risk that the Russian authorities would impose additional restrictions in subsequent periods, including due to emerging new variants of the virus.

In 2021, the Russian economy showed a positive trend of recovery after the pandemic. This trend was also supported by the global economic recovery and increasing prices on the world's commodity markets. However, higher prices in some of Russia's markets and across the world also trigger higher inflation in Russia.

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 a pandemic, the importance and significance of this task is only increasing.

2. Operating environment of the Group (continued)

Therefore, being a systemically important electric grid entity securing uninterrupted electricity supply to consumers in the Republic of Tatarstan; therefore, the Company continued operating during the whole period of restrictions introduced in the region due to the worsening epidemiological situation.

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

- interaction with the federal and regional authorities to contain the outbreak of COVID-19 and implement measures to ensure security, protection of life and health of its employees and counterparties;
- activities to secure reliable energy supply and implement priority investment projects;
- monitoring projected and actual data on the effect of the pandemic on the electricity sector, the operations of the Group and its counterparties;
- timely development and implementation of measures to neutralise potential negative consequences of the pandemic, securing financial stability.

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 2021 and 31 December 2020, the Group is controlled by the Government of the Republic of Tatarstan. At 31 December 2021 and 31 December 2020, the Company's share capital had the following structure:

74.43% owned by the Republic of Tatarstan, represented by the Ministry of Land and Property Relations;

12.69% –Joint Stock Commercial Bank “Ak Bars” (a public joint stock company);

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. Summary of Significant Accounting Policies

Basis of preparation

These consolidated financial statements have been prepared in accordance with IFRS 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.

3. Summary of Significant Accounting Policies (continued)

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:

(a) has power to direct the relevant activities of the investees that significantly affect their returns,

(b) has exposure, or rights, to variable returns from its involvement with the investees, and

(c) 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. The 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.

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.

3. Summary of Significant Accounting Policies (continued)

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 confirmation of fair value is a market quotation in an active market. A financial instrument is regarded as quoted in an active market if the 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 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.

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.

3. Summary of Significant Accounting Policies (continued)

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.

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

3. Summary of Significant Accounting Policies (continued)

Financial assets – initial recognition and subsequent measurement (continued)

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 though 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 – ECL allowance

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.

3. Summary of Significant Accounting Policies (continued)

Financial assets impairment – ECL allowance (continued)

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, current conditions and forecasts of future 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 through profit or loss. 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.

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.

3. Summary of Significant Accounting Policies (continued)

Financial liabilities – derecognition

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

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 they are held for collection of contractual cash flows and those cash flows represent SPPI, and 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 banks.

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) in the event of default and (c) in 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.

3. *Summary of Significant Accounting Policies (continued)*

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 the interpretation of tax legislation that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on similar 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 mandatory payment is made prior to occurrence of an obligating event, it is recognised as prepayment.

Property, plant and equipment

Except as noted below, all 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.

(in thousands of Russian Roubles)

3. Summary of Significant Accounting Policies (continued)

Property, plant and equipment (continued)

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	10 – 50
Electric power transmission grids	15 – 50
Transformers and transforming substations	15 – 30
IT measurement equipment	2 – 30
Other	2 – 30

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 is will obtain the title to the leased asset, the right-of-use asset is depreciated over the underlying asset's useful live. Right-of-use assets are tested for impairment.

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

Type of right-of-use assets	Useful life (in years)
Land	2 – 50
Buildings and installations	10 – 50
Electric power transmission grids	15 – 50
Transformers and transforming substations	15 – 30
IT measurement equipment	16
Other	2 – 30

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,

3. Summary of Significant Accounting Policies (continued)

Lease liabilities (continued)

- 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.

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 so as 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. 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.

Intangible assets

The carrying amount of intangible assets is based on the cost of their acquisition less accumulated amortisation. The Group’s intangible assets primarily include software and R&D deliverables related to designing and testing new or enhanced methods and technologies used in production and purchased from third parties. 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
Research and development, purchased from third parties	4 – 5

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.

3. Summary of Significant Accounting Policies (continued)

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: 1) the assets' fair value less costs to sell and 2) 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.

Non-current assets held for sale

Non-current assets are classified as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction and not from its continued use. Non-current assets are classified as 'non-current assets 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.

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 of in the normal course of the Group's business they are measured at FIFO, if they are disposed otherwise, they are measured using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost to sell.

3. Summary of Significant Accounting Policies (continued)

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. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. 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.

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.

3. Summary of Significant Accounting Policies (continued)

Post-employment benefits and other social obligations (continued)

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.

The Group provides services under fixed-price contracts. The customer pays the fixed amount based on a payment schedule. Contracts on provision of services to connect customers to the electricity grid network generally require prepayments.

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.

3. Summary of Significant Accounting Policies (continued)

Revenue recognition (continued)

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.

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 certain judgements, apart from those involving estimations, in the process of applying the accounting policies.

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 include:

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 rates. 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 liabilities

When recognising lease obligations for energy-service contracts classified as lease agreements in accordance with IFRS 16 "Leases", the Group applies the judgement that the electricity purchase rate to compensate for losses and the electricity transmission rate based on which payments under these contracts are determined represent the rate as set out in paragraph 27 (b) and 28 of IFRS 16.

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

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.

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 and right-of-use assets

If any indication of impairment exists the Group tests property, plant and equipment and right-of-use 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 29.

5. Adoption of New or Revised Standards and Interpretations

The following revised standards, amendments and interpretations became effective for the Group from 1 January 2021, but did not have any material effect on the consolidated financial statements of the Group:

COVID-19-Related Rent Concessions Amendment to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020) The amendment provides lessees with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease.

5. Adoption of New or Revised Standards and Interpretations *(continued)*

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one.

6. New Accounting Pronouncements

The following new standards, interpretations and amendments thereto have been issued that are mandatory for annual periods beginning on or after 1 January 2022, and which the Group has not early adopted:

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at a risk-adjusted present value of the future cash flows (the contractual cash flows) that incorporates all of the available information about the contractual cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) an amount representing the retained earnings for a group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The new standard is not expected to have any material impact on the Group's consolidated financial statements.

Classification of Liabilities as Current and 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). These narrow scope amendments clarify that liabilities are classified as current or non-current depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months.

The guidance no longer contains a requirement that such right is unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to postpone settlement exists only if the entity complies with all applicable covenants at the end of the period. The liability is classified as current if the covenant is violated as of or before the reporting date even if at the end of the reporting period the creditor releases the entity from the obligation to comply with such covenant.

At the same time, the liability is classified as a non-current if the loan agreement covenant is violated only after the reporting date. In addition, the amendments include clarify requirements to the classification of debt which an entity may repay by converting it into entity's equity. "Repayment" is determined as termination of the liability through settlements in the form of cash, other resources embodying economic benefits or the entity's instruments. There is an exception in relation for convertible instruments that may be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument being a separate component of a combined financial instrument. The amendments are not expected to have any material impact on the Group's consolidated financial statements. The amendments are not expected to have any material impact on the Group's consolidated financial statements.

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 amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022.

However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The amendments are not expected to have any impact on the Group's consolidated financial statements.

6. New Accounting Pronouncements (continued)

"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). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The amendments are not expected to have any impact on the Group's consolidated financial statements.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16 "Property, plant and equipment", IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and IFRS 3 "Business Combinations", and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1 "Presentation of Financial Statements", IFRS 9 "Financial Instruments", IFRS 16 "Leases" and IAS 41 "Agriculture" (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022). The amended to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management. The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS.

6. New Accounting Pronouncements (continued)

The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption. The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis. The amendments are not expected to have any impact on the Group's consolidated financial statements.

Amendments to IFRS 17 "Insurance Contracts" and IFRS 4 "Insurance Contracts" (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- Effective date: The effective date of IFRS 17 (revised) has been postponed by two years. The standard should apply to annual reporting periods beginning on or after 1 January 2023. The fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- Expected recovery of insurance acquisition cash flows: An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the consolidated financial statements.
- Contractual service margin attributable to investment services: Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.
    - Reinsurance contracts held – recovery of losses: When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held.

  The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.

- Other adjustments Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the consolidated statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments. The amendments are not expected to have any impact on the Group's consolidated financial statements.

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). IAS 1 was amended to include requirements for the entities to make material disclosures on its accounting policies instead of significant accounting policies.

6. New Accounting Pronouncements (continued)

The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendments include examples of accounting policies disclosure which is likely to be deemed material for the entity's financial statements. IAS 1 also clarifies that the entity is not required to disclose non-material information on the accounting policies. However, if it is disclosed, it should not obscure material accounting policy information. For supporting this amendment, changes were also made to IFRS Practice Statement 2: Making Materiality Judgements, which includes guidance on applying the concept of materiality to the disclosure of accounting policies. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors": "Definition of Accounting Estimates" (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). Amendment to IAS 8 clarifies that the entities should distinguish between changes in accounting policies and changes in estimates. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021). In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. The amendment, issued on 31 March 2021, extended the period of practical expedient from 30 June 2021 to 30 June 2022. The amendments are not expected to have any impact on the Group's consolidated financial statements.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 establish the accounting treatment of deferred tax on transactions such as leases and decommissioning obligations. Under certain circumstances, entities are exempt from deferred tax recognition upon initial recognition of assets or liabilities. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised.
The amendments clarify that the exemption is not applied, and entities should recognise deferred tax for such transactions. The amendments require that entities recognise deferred tax for transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. The amendments are not expected to have any impact on the Group's consolidated financial statements.

7. Transactions and Balances 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.

(in thousands of Russian Roubles)

7. Transactions and Balances with Related Parties (continued)

The following services represent a majority of the Group's transactions with these entities in 2021 and 2020:

	2021	2020
Services provided by the Group	**21,812,682**	**19,011,089**
Electricity transmission	21,668,269	18,934,285
Repair and maintenance of power supply items	91,885	76,804
Connection services	52,528	-
Finance income	**75,235**	**135,573**
Interest income on bank deposits and settlement accounts	75,235	135,573
Purchases of property, plant and equipment and other assets	**352,206**	**1,204,748**
Purchases of property, plant and equipment and intangible assets	266,588	218,478
Purchase of inventories	85,618	75,596
Recognition of right-of-use assets	-	910,674
Expenses incurred by the Group	**2,226,205**	**3,237,532**
Services by allied grid companies	1,475,194	1,681,992
Electricity transmission through Unified National Electric Grid	254,899	599,710
Social expenditures and charity	115,760	705,771
Electricity consumed in production	103,653	90,702
Payments for housing construction under a social mortgage programme	88,651	88,651
Verification of measuring units	74,745	-
Communication services	62,044	44,654
Purchase of trip vouchers	49,261	22,378
Accrual of ECL allowance	1,998	3,674

Balances on the above transactions are as follows:

	At 31 December 2021	At 31 December 2020
Trade and other receivables	1,517,764	1,461,509
Allowance for expected credit losses	(8,103)	(6,106)
Bank deposits	-	387,663
Cash and cash equivalents	2,101,076	549
Trade and other payables	483,779	471,309
Debt for compensation received due to the transfer and reconstruction of electric grid facilities	256,500	-
Prepayment for share issues	1,014,922	634,426
Lease liabilities	2,323,828	2,513,017
Advances received	197,101	-

Transactions with the Republic of Tatarstan and Russian Federation also include tax settlements disclosed in Notes 19 and 23.

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.

Remuneration to the key management personnel

Remuneration is paid to key management personnel of the Group 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 Russian statutory financial statements. During the reporting periods, the following remuneration was allocated:

	2021	2020
Salaries and bonuses	110,108	107,719
State pension and social security costs	18,700	18,494
Defined contribution plans	690	640
Retirement benefits and other long-term benefits	-	729
Total	**129,498**	**127,582**

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

(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 2021:								
Cost								
At 31 December 2020	**218,604**	**12,677,737**	**57,831,336**	**38,072,851**	**5,667,489**	**2,388,542**	**675,920**	**117,532,479**
Reclassification between PP&E categories	-	7	3	(6)	16,324	(16,328)	-	-
Additions	5,713	19,851	93,940	258,021	12,482	231,755	9,901,818	10,523,580
Transfer to/new PP&E items	-	396,995	4,715,619	1,938,908	2,358,873	82,385	(9,492,780)	-
Disposals	(3,151)	(50,185)	(150,364)	(112,781)	(49,835)	(21,165)	(2,251)	(389,732)
Transfer to assets held for sale	(8)	(14,015)	(155)	(30,156)	-	-	-	(44,334)
At 31 December 2021	**221,158**	**13,030,390**	**62,490,379**	**40,126,837**	**8,005,333**	**2,665,189**	**1,082,707**	**127,621,993**
Accumulated depreciation and impairment								
At 31 December 2020	**(75,907)**	**(5,199,947)**	**(25,901,019)**	**(18,259,653)**	**(2,363,972)**	**(1,307,446)**	**(74,544)**	**(53,182,488)**
Reclassification between PP&E categories	(1)	441	(150)	(76)	(12,529)	12,315	-	-
Depreciation charge	-	(277,977)	(1,454,322)	(1,075,153)	(439,738)	(148,995)	-	(3,396,185)
Written-off on disposal	1,204	28,584	105,558	74,659	37,238	19,431	-	266,674
Transfer to assets held for sale	7	10,620	92	20,045	-	-	-	30,764
Transfer to/new items to PP&E	-	(189)	(12,867)	(1,639)	(8,601)	-	23,296	-
Recognition of impairment	(4,037)	(209,276)	(978,417)	(571,395)	(144,722)	(34,849)	(109,120)	(2,051,816)
At 31 December 2021	**(78,734)**	**(5,647,744)**	**(28,241,125)**	**(19,813,212)**	**(2,932,324)**	**(1,459,544)**	**(160,368)**	**(58,333,051)**
Net book value								
At 31 December 2020	**142,697**	**7,477,790**	**31,930,317**	**19,813,198**	**3,303,517**	**1,081,096**	**601,376**	**64,349,991**
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**

(in thousands of Russian Roubles)

8. Property, Plant and Equipment (continued)

	Land	Buildings and installations	Electric power transmission grids	Transfor-mers and transforming substations	IT measure-ment equipment	Other	Construc-tion in progress	Total
For 2020:								
Cost								
At 31 December 2019	**218,322**	**11,344,699**	**54,294,411**	**35,679,927**	**4,205,590**	**2,293,256**	**545,822**	**108,582,027**
Reclassification between PP&E categories	-	25,254	-	(3,272)	3,218	(25,200)	-	-
Additions	469	8,874	272,383	138,292	11,378	30,678	8,760,865	9,222,939
Transfer to/new PP&E items	337	1,332,642	3,371,823	2,323,939	1,499,786	98,932	(8,627,459)	-
Disposals	(524)	(17,274)	(107,281)	(66,035)	(52,483)	(9,116)	(3,308)	(256,021)
Transfer to assets held for sale	-	(16,458)	-	-	-	(8)	-	(16,466)
At 31 December 2020	**218,604**	**12,677,737**	**57,831,336**	**38,072,851**	**5,667,489**	**2,388,542**	**675,920**	**117,532,479**
Accumulated depreciation and impairment								
At 31 December 2019	**(70,796)**	**(4,653,264)**	**(23,256,182)**	**(16,482,192)**	**(2,030,090)**	**(1,184,665)**	**(94,489)**	**(47,771,678)**
Reclassification between PP&E categories	-	(6,786)	-	1,463	(1,318)	6,641	-	-
Depreciation charge	-	(264,929)	(1,523,171)	(1,078,988)	(244,332)	(98,907)	-	(3,210,327)
Written-off on disposal	180	12,541	67,283	51,167	36,672	9,705	-	177,548
Transfer to assets held for sale	-	8,349	-	-	-	6	-	8,355
Transfer to/new items to PP&E	-	(18,278)	(4,985)	(16,435)	(2,410)	(139)	42,247	-
Recognition of impairment	(5,291)	(277,580)	(1,183,964)	(734,668)	(122,494)	(40,087)	(22,302)	(2,386,386)
At 31 December 2020	**(75,907)**	**(5,199,947)**	**(25,901,019)**	**(18,259,653)**	**(2,363,972)**	**(1,307,446)**	**(74,544)**	**(53,182,488)**
Net book value								
At 31 December 2019	**147,526**	**6,691,435**	**31,038,229**	**19,197,735**	**2,175,500**	**1,108,591**	**451,333**	**60,810,349**
At 31 December 2020	**142,697**	**7,477,790**	**31,930,317**	**19,813,198**	**3,303,517**	**1,081,096**	**601,376**	**64,349,991**

At 31 December 2021 and 31 December 2020, 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 most significant commissioning of fixed assets in 2021 is associated with the construction of the110-220 kV facilities in Nizhnekamsky energy district in the amount of RR 383,565 thousand, with the reconstruction of high voltage line 220 kV Kinderi – Tsentralnaya in the amount of RR 318,818 thousand and the construction of 35 kV indoor switchgear, including reconstruction of 220 kV switchgear at 500 kV substation in Bugulma (1 stage) in the amount of RR 258,457 thousand.

The most significant commissioning of fixed assets in 2020 is associated with the reconstruction of the 220 kV Zelenodolskaya PS in the amount of RR 616,205 thousand, the construction of an industrial building of an administrative building with the reconstruction of the power grid complex of the 110 kV Chistopolskaya PS in the amount of RR 595,375 thousand and the construction of the 110 kV substation Verkhniy Uslon in the amount of RR 364,573 thousand.

(in thousands of Russian Roubles)

8. Property, Plant and Equipment (continued)

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

At 31 December 2021, property, plant and equipment include assets, which are fully depreciated but still in use, with historical cost of RR 3,180,990 thousand (at 31 December 2020: RR 3,352,752 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 2021 would have been RR 368,253 thousand higher or RR 303,114 thousand lower, respectively (31 December 2020: RR 358,538 thousand higher or RR 295,004 thousand lower, respectively).

Recoverable amount of property, plant and equipment and right-of-use 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 2021 and 31 December 2020, the Group performed an impairment test of its property, plant and equipment and right-of-use assets to determine their recoverable amount.

At 31 December 2021, the carrying value of property, plant and equipment and right-of-use assets was RR 73,662,774 thousand (at 31 December 2020: RR 69,070,882 thousand). The recoverable amount of the PP&E and right-of-use assets (value in use) was calculated using the discounted cash flow method. This method allows determining future net cash flows to be generated by these property plant and equipment and right-of-use 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 and right-of-use assets:

Assumptions used for the impairment testing purposes	**Year ended 31 December 2021**	**Year ended 31 December 2020**
Forecast period*	7 years (from 2022 to 2028)	7 years (from 2021 to 2027)
Discount rate before taxes (WACC-based)	14.84%	13.01%
Forecast electricity transmission tariffs	For 2022 – in accordance with the tariff decision of the regulator. Starting from 2023 – based on the method of long-term indexation of the required gross revenue, applicable at the reporting date	For 2021 – in accordance with the tariff decision of the regulator. Starting from 2022 – based on the method of long-term indexation of the required gross revenue, applicable at the reporting date
Productive supply	In 2022 – 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 2022. By applying from the year 2023 the electricity consumption growth index of 102.07% for each year	In 2021 – 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 2021. and using the electricity consumption growth index of 100.7% in 2022, 101.5% in 2023 and 101.6% for each year starting from 2024
Losses	The volume of losses for 2022 was adopted on the basis of the approved Consolidated Forecast Balance and the supply of electricity and capacity for 2022 in the Republic of Tatarstan, from 2023 it corresponds with the dynamics of changes in the volume of productive supply	The volume of losses for 2021 was adopted on the basis of the approved Consolidated Forecast Balance (Order of the FAS Russia dated 26 November 2020 No. 1164/20-DSP), from 2022 it corresponds with the dynamics of changes in the volume of productive supply.

(in thousands of Russian Roubles)

8. Property, Plant and Equipment (continued)

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

Assumptions used for the impairment testing purposes	**Year ended 31 December 2021**	**Year ended 31 December 2020**
Projected loss value	For 2022 – 2028 it was adopted based on the forecast of the Company at an unregulated price in the wholesale electricity and capacity market	For 2021 – 2027 it was adopted based on the forecast of the Company at an unregulated price in the wholesale electricity and capacity market
Projected capital expenditures	For 2022–2024 – based on 2020–2024 investment programme items approved by the Russian Ministry of Energy and Trade of the Republic of Tatarstan; In 2025-2028 – based on management's assessment of the required capital expenditures for maintenance of existing PP&E	For 2021–2024 – based on 2020–2024 investment programme items approved by the Russian Ministry of Energy and Trade of the Republic of Tatarstan; In 2025-2027 – based on management's assessment of the required capital expenditures for maintenance of existing PP&E
Working capital needs	Set at − 6.89% of the necessary gross revenue, based on the analysis of the Group's actual working capital requirements	Set at − 6.02% of the necessary gross revenue, based on the analysis of the Group'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.*

As a result of the testing performed at 31 December 2021, the Group recognised net decrease in the carrying value of property, plant and equipment and right-of-use assets (Note 10) in the amount of RR 2,174,671 thousand (at 31 December 2020, the Group recognised a net decrease in the carrying value of property, plant and equipment in the amount of RR 2,561,457 thousand). The impairment of fixed assets and assets in the form of right of use of the Group at 31 December 2021 is due to an increase in the discount rate by 1.83%. The impairment of fixed assets and assets in the form of right of use of the Group as at 31 December 2020 is due to the fact that the established tariffs do not fully reimburse the capital costs incurred.

The most sensitive indicators in determining the recoverable amount of PP&E assets and right-of-use 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 and right-of-use assets would have decreased by RR 6,407,577 thousand (at 31 December 2020: RR 7,354,718 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 8,009,501 thousand (at 31 December 2020: RR 9,719,487 thousand).

Had the growth interest rate in the post-forecast period been 1.0% higher, the carrying value of property, plant and equipment and right-of-use assets would have increased by RR 5,083,764 thousand (at 31 December 2020: RR 6,793,416 thousand). Had the growth interest rate in the post-forecast period been 1.0% lower, the carrying value of property, plant and equipment and right-of-use assets would have decreased by RR 4,028,494 thousand (at 31 December 2020: RR 5,110,260 thousand).

(in thousands of Russian Roubles)

9. Intangible Assets

Cost	Software products	Research and development	Total
At 31 December 2020	973,203	151,274	1,124,477
Additions	237,549	7,885	245,434
Disposals	(2,344)	(67,857)	(70,201)
At 31 December 2021	**1,208,408**	**91,302**	**1,299,710**
Accumulated depreciation			
At 31 December 2020	(145,728)	(91,256)	(236,984)
Charge for the period	(87,990)	(19,701)	(107,691)
Disposals	463	66,183	66,646
At 31 December 2021	**(233,255)**	**(44,774)**	**(278,029)**
Net book value at 31 December 2020	**827,475**	**60,018**	**887,493**
Net book value at 31 December 2021	**975,153**	**46,528**	**1,021,681**

Cost	Software products	Research and development	Total
At 31 December 2019	699,848	147,745	847,593
Additions	275,035	12,926	287,961
Disposal	(1,680)	(9,397)	(11,077)
At 31 December 2020	**973,203**	**151,274**	**1,124,477**
Accumulated amortisation			
At 31 December 2019	(97,307)	(76,818)	(174,125)
Charge for the period	(51,752)	(16,516)	(68,268)
Disposal	3,331	2,078	5,409
At 31 December 2020	**(145,728)**	**(91,256)**	**(236,984)**
Net book value at 31 December 2019	**602,541**	**70,927**	**673,468**
Net book value at 31 December 2020	**827,475**	**60,018**	**887,493**

Intangible assets primarily include purchased software and intangible assets representing research and development materials (design documentation, methods and technologies used in production) purchased from third parties.

(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 2021:							
Cost							
At 31 December 2020	**108,081**	**401,976**	**1,010,704**	**691,652**	**3,507,809**	**49,214**	**5,769,436**
Additions	4,419	34,862	-	2,169	-	219,354	260,804
Changes in lease terms	(30,208)	(113,354)	(24,885)	26,238	-	-	(142,209)
Disposals	(10,383)	(5,371)	-	-	-	-	(15,754)
At 31 December 2021	**71,909**	**318,113**	**985,819**	**720,059**	**3,507,809**	**268,568**	**5,872,277**
Accumulated depreciation impairment							
At 31 December 2020	**(26,635)**	**(80,274)**	**(184,254)**	**(139,064)**	**(604,846)**	**(13,473)**	**(1,048,546)**
Depreciation charge	(6,924)	(27,956)	(20,041)	(55,375)	(203,101)	(21,166)	(334,563)
Disposals	2,146	5,371	-	-	-	-	7,517
Recognition of impairment	(1,106)	(5,881)	(21,352)	(14,361)	(73,764)	(6,391)	(122,855)
At 31 December 2021	**(32,519)**	**(108,740)**	**(225,647)**	**(208,800)**	**(881,711)**	**(41,030)**	**(1,498,447)**
Net book value							
At 31 December 2020	**81,446**	**321,702**	**826,450**	**552,588**	**2,902,963**	**35,741**	**4,720,890**
At 31 December 2021	**39,390**	**209,373**	**760,172**	**511,259**	**2,626,098**	**227,538**	**4,373,830**

	Land	Buildings and installations	Electric power transmission grids	Transformers and transforming substations	IT measurement equipment	Other	Total
For 2020:							
Cost							
At 31 December 2019	**48,568**	**149,083**	**246,604**	**481,187**	**3,507,809**	**45,281**	**4,478,532**
Additions	23,493	71,528	15,351	210,465	-	993	321,830
Changes in lease terms	36,148	181,365	748,749	-	-	2,940	969,202
Disposal	(128)	-	-	-	-	-	(128)
At 31 December 2020	**108,081**	**401,976**	**1,010,704**	**691,652**	**3,507,809**	**49,214**	**5,769,436**
Accumulated depreciation impairment							
At 31 December 2019	**(7,922)**	**(21,825)**	**(46,556)**	**(58,985)**	**(277,953)**	**(8,378)**	**(421,619)**
Changes in lease terms	(8,219)	(19,849)	(66,915)	-	-	-	(94,983)
Depreciation charge	(7,482)	(26,670)	(40,134)	(59,587)	(219,238)	(3,770)	(356,881)
Disposal	8	-	-	-	-	-	8
Recognition of impairment	(3,020)	(11,930)	(30,649)	(20,492)	(107,655)	(1,325)	(175,071)
At 31 December 2020	**(26,635)**	**(80,274)**	**(184,254)**	**(139,064)**	**(604,846)**	**(13,473)**	**(1,048,546)**
Net book value							
At 31 December 2019	**40,646**	**127,258**	**200,048**	**422,202**	**3,229,856**	**36,903**	**4,056,913**
At 31 December 2020	**81,446**	**321,702**	**826,450**	**552,588**	**2,902,963**	**35,741**	**4,720,890**

To recognise lease liabilities in 2021 and 2020, the Group used the lessee's weighted average incremental borrowing rate, determined at the date of entering the lease agreement.

(in thousands of Russian Roubles)

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

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

	31 December 2021	31 December 2020
Lease liabilities at the beginning of the period	**4,496,716**	**3,757,097**
Lease liabilities under new contracts	260,804	321,830
Revaluation of liabilities as a result of changes in lease terms	(142,209)	874,032
Changes related to cash flows from operations		
Settlement of liabilities and interest under lease agreements	(892,297)	(814,570)
Total changes related to cash flows from operations	**(892,297)**	**(814,570)**
Other changes		
Interest expenses	370,287	358,327
Total other changes	**370,287**	**358,327**
Lease liabilities at the end of the period	**4,093,301**	**4,496,716**

Interest expenses included in finance costs in 2021 amounted to RR 370,287 thousand (in 2020: RR 358,327 thousand).

As at 31 December 2021 and 31 December 2020, 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 2021 would be RR 35,857 thousand less or RR 23,298 thousand more, respectively (as at 31 December 2020: RR 28,445 thousand less or RR 22,525 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.

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

	31 December 2021	31 December 2020
Less than one year	15,753	6,457
One to five years	57,891	22,557
Over five years	334,383	171,030
Total	**408,027**	**200,044**

Had the cadastral value of land plots grown by 10% under such contracts, the total lease payments would have grown approximately by RR 39,137 thousand at 31 December 2021 (at 31 December 2020: RR 20,004 thousand).

(in thousands of Russian Roubles)

11. Subsidiaries and Associates

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

Company	Principal activity	Type	Ownership interest at 31 December 2021, %	Ownership interest at 31 December 2020, %
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, AO Grid Company jointly with OOO "TTK-Digital" and AO "Svyazinvestneftekhim" established OOO "Telecomenergo" for implementing joint investment projects in wireless telecommunications.

12. Investments in Equity Securities

	At 31 December 2021		At 31 December 2020	
	Ownership %	**Carrying value**	**Ownership %**	**Carrying value**
PAO "Akibank"	8.24%	206,889	8.24%	141,923
Total		**206,889**		**141,923**

At 31 December 2021 and 31 December 2020, the Group's investments in the shares of PAO "Akibank" were carried at fair value determined based on the comparative approach using market multipliers for similar banks, since PAO "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 2021, the Group recognised a RR 64,965 thousand increase in the fair value of investments in PAO "Akibank", which was recognised within other comprehensive income for the year ended 31 December 2021 (2020: a RR 54,632 thousand decrease in the fair value of investments). A revaluation provision of RR 52,813 thousand (at 31 December 2020: RR 104,785 thousand) for investments in equity securities, including deferred taxes, was recognised in the consolidated statement of financial position.

Had the market multiplier for the carrying value or equity of PAO "Akibank" at 31 December 2021 been 10% higher or 10% lower than the Group management's estimates, the fair value of investments in the shares of PAO "Akibank" for the year ended 31 December 2021 would have been RR 20,689 thousand higher or lower, respectively (31 December 2020: RR 14,192 thousand higher or lower, respectively).

13. Other Non-Current Assets

	At 31 December 2021	At 31 December 2020
Long-term loans issued	5,736	6,680
Long-term trade receivables	1,599	1,313
Long-term other receivables	-	15,766
ECL allowance for trade receivables	(6)	(3)
Total financial assets within other non-current assets	**7,329**	**23,756**
Advances to construction companies and suppliers of PP&E	2,821,676	2,493,101
Deferred employee benefits	32,400	24,542
Total	**2,861,405**	**2,541,399**

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 as deferred employee benefits. Long-term loans issued to the employees are secured by third party guarantees. At 31 December 2021, the guarantee amount in accordance with the terms of the agreement is RR 58,110 thousand (31 December 2020: RR 50,132 thousand).

(in thousands of Russian Roubles)

13. Other Non-Current Assets (continued)

At 31 December 2021, most significant advances paid to construction companies and suppliers of property, plant and equipment are attributable as follows: RR 694,224 thousand – to contract with OOO "UK KER Holding" for the construction of 35 kV indoor switchgear, including reconstruction of 220 kV switchgear at 500 kV substation in Bugulma; RR 604,116 thousand for the construction of 110kV substation in Azino; RR 401,008 thousand for the reconstruction of 220kV substation Toyma-2.

At 31 December 2020, most significant advances paid to construction companies and suppliers of property, plant and equipment are attributable as follows: RR 385,149 thousand – to the contract with OOO "SVSESS" for the construction of 35 kV indoor switchgear, including reconstruction of 220 kV switchgear at 500 kV substation in Bugulma, and RR 351,984 thousand – to the contract with OOO "UK KER Holding" for the construction and reconstruction of a complex of 110-220 kV facilities in Nizhnekamsky energy district.

At 31 December 2021, repayment of advances paid to construction companies and suppliers of property, plant and equipment is secured by bank guarantees issued for RR 892,611 thousand (31 December 2020: RR 1,223,324 thousand).

14. Inventory

	At 31 December 2021	At 31 December 2020
Raw and other materials	168 598	150,631
Work clothes	3,834	100,461
Other	12,577	10,144
Total	**185,009**	**261,236**

The cost of inventories recognised over the reporting period represents as expenses on raw and other materials is RR 839,751 thousand (2020: RR 763,926 thousand) (Note 26).

At 31 December 2021 and 31 December 2020, none of the Group's inventories were under pledge.

15. Trade and Other Receivables

	At 31 December 2021	At 31 December 2020
Trade accounts receivables	1,799,190	1,710,693
ECL allowance for trade receivables	(124,279)	(62,861)
Other accounts receivables	70,684	59,214
ECL allowance for other accounts receivable	(32,740)	(23,999)
Short-term loans issued	2,744	3,902
Total financial assets within trade and other receivables	**1,715,599**	**1,686,949**
Prepayments to suppliers	71,583	48,292
Deferred employee benefits (current portion)	13,915	13,470
Taxes prepaid	1,036	4,645
VAT recoverable	1	131
Total	**1,802,134**	**1,753,487**

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: a general model and a simplified model. Note 30 provides information about inputs, assessment criteria and assumptions used for ECL calculation purposes.

(in thousands of Russian Roubles)

15. Trade and Other Accounts Receivables (continued)

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.

Movements in allowance for expected credit losses are as follows:

	Trade receivables	Other receivables	Total
Balance at 1 January 2021	**62,864**	**23,999**	**86,863**
Accrued ECL allowance	78,486	18,884	97,370
Amounts written off as uncollectable	(690)	(453)	(1,143)
Released ECL allowance	(16,375)	(9,690)	(26,065)
Balance at 31 December 2021	**124,285**	**32,740**	**157,025**

	Trade receivables	Other receivables	Total
Balance at 1 January 2020	**14,995**	**39,924**	**54,919**
Accrued ECL allowance	58,580	10,684	69,264
Amounts written off as uncollectable	(193)	(781)	(974)
Released ECL allowance	(10,518)	(25,828)	(36,346)
Balance at 31 December 2020	**62,864**	**23,999**	**86,863**

16. Short-Term Investments

		At 31 December 2021		At 31 December 2020	
Rating	**Rating agency**	**Rate, %**	**Carrying amount**	**Rate, %**	**Carrying amount**
Bank deposits					
BB	ACRA	5.5 - 7.3	293,079	4.65	1,003,939
Ba1	Moody's	-	-	4.95	387,662
Total			**293,079**		**1,391,601**

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

17. Cash and Cash Equivalents

Rating	Rating agency	At 31 December 2021	At 31 December 2020
Cash at bank			
BB	ACRA	200,222	576,396
Baa3	Moody's	1,841	497
B1	Moody's	653	7
Ba1	Moody's	58	6
Ba2	Moody's	9	4
Ba3	Moody's	-	41
Total cash at bank		**202,783**	**576,951**
Cash equivalents			
Baa3	Moody's	1,480,843	-
Ba1	Moody's	619,829	-
BB	ACRA	13,071	43,057
Total cash equivalents		**2,113,743**	**43,057**
Total cash and cash equivalents		**2,316,526**	**620,008**

The maximum exposure to credit risk at the reporting date is the carrying value of cash and cash equivalents. Cash equivalents represent deposits with maturities less than three months.

(in thousands of Russian Roubles)

18. Equity

Share capital

	Number of shares issued, set out in the Charter and fully paid, items		Share capital	
	At 31 December 2021	**At 31 December 2020**	**At 31 December 2021**	**At 31 December 2020**
Ordinary shares	14,405,345,396	14,405,345,396	7,932,212	7,932,212
Total	**14,405,345,396**	**14,405,345,396**	**7,932,212**	**7,932,212**

Share capital consists of 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. The Company has the right to issue, in addition to the outstanding shares, 1,000,000,000 ordinary registered uncertified shares which provide the same rights as the placed ordinary registered uncertified shares.

Additional issue of shares. On 22 September 2020, the extraordinary general shareholders' meeting adopted a resolution to increase the Company's share capital by placement through private subscription of additional 830,000,000 ordinary shares with a par value of RR 3.64 per share. On 10 November 2020, the Bank of Russia completed the state registration of additional issue of the Company's ordinary shares with the placement period of 10 November 2021. By the decision of the Board of Directors dated 29 October 2021, the term for the placement of this additional issue was extended until 10 November 2022. At 31 December 2021, 106,332,849 ordinary shares of additional issue have been prepaid by Non-Profit "The President's State Housing Fund of the Republic of Tatarstan", 164,082,225 ordinary shares of additional issue have been prepaid by the State Unitary Enterprise of the Republic of Tatarstan "Electric Grids" and 8,409,646 ordinary shares of additional issue have been prepaid by PAO "Tatneft" named after V.D. Shashin. Changes to the Company's share capital will be registered in accordance with the Russian legislation upon placement of additional registered ordinary shares and registration of the report on additional issue of shares.

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 2021 was RR 3,561,208 thousand (for the year ended 31 December 2020: RR 264,744 thousand). The General Meeting of the Company's shareholders held on 14 July 2021 decided not to pay (not to declare) dividends on ordinary shares based on the 2020 results

19. Income Tax

The Group's income tax expense comprises the following:

	2021	**2020**
Current income tax expense	426,142	445,515
Deferred income tax expense	102,781	341,318
Income tax expense	**528,923**	**786,833**

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:

	2021	**2020**
Profit before tax	**4,920,787**	**1,134,285**
Theoretical income tax expense at the rate of 20%	984,157	226,857
Tax effect of non-taxable income and non-deductible expenses	(468,841)	557,856
Tax effect of other comprehensive income items	14,060	1,855
Other	(453)	265
Total income tax expense	**528,923**	**786,833**

(in thousands of Russian Roubles)

19. Income Tax (continued)

Net deferred tax liabilities are attributable to the following:

	At 31 December 2021	At 31 December 2020
Deferred income tax assets	(1,528,693)	(1,237,955)
Deferred income tax liabilities	6,978,021	6,571,509
Net deferred income tax liabilities	**5,449,328**	**5,333,554**

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% (2020: 20 %).

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

	At 31 December 2020	Recognised in profit or loss	Recognised within other comprehensive income	At 31 December 2021
Deferred tax liabilities				
Property, plant and equipment	5,592,571	506,196	-	6,098,767
Right-of-use assets	944,178	(69,412)	-	874,766
Intangible assets	12,586	(12,586)	-	-
Inventories	22,174	(17,686)	-	4,488
Total deferred income tax liabilities	**6,571,509**	**406,512**	**-**	**6,978,021**
Deferred income tax assets				
Intangible assets	-	(7,444)	-	(7,444)
Investments in equity securities	(29,330)	45	12,993	(16,292)
Other Non-current Assets	(14,589)	8,996	-	(5,593)
Trade and other receivables	(55,454)	19,138	-	(36,316)
Cash and cash equivalents	(4)	(19)	-	(23)
Lease liabilities	(899,343)	80,683	-	(818,660)
Employee benefit obligations	(39,474)	650	-	(38,824)
Provisions for legal and other claims	(4,377)	(352,779)	-	(357,156)
Trade and other payables	(195,384)	(53,001)	-	(248,385)
Total deferred tax assets	**(1,237,955)**	**(303,731)**	**12,993**	**(1,528,693)**
Deferred tax liabilities, net	**5,333,554**	**102,781**	**12,993**	**5,449,328**

	At 31 December 2019	Recognised in profit or loss	Recognised within other comprehensive income	At 31 December 2020
Deferred tax liabilities				
Property, plant and equipment	5,345,499	247,072	-	5,592,571
Right-of-use assets	811,383	132,795	-	944,178
Intangible assets	11,293	1,293	-	12,586
Inventories	21,389	785	-	22,174
Total deferred tax liabilities	**6,189,564**	**381,945**	**-**	**6,571,509**
Deferred income tax assets				
Investments in equity securities	(18,360)	(44)	(10,926)	(29,330)
Other non-current assets	(27,122)	12,533	-	(14,589)
Trade and other receivables	(16,836)	(38,618)	-	(55,454)
Cash and cash equivalents	(25)	21	-	(4)
Lease liabilities	(751,418)	(147,925)	-	(899,343)
Advances from customers	(12,422)	12,422	-	-
Employee benefit obligations	(39,167)	(307)	-	(39,474)
Provisions for legal and other claims	(186,026)	181,649	-	(4,377)
Trade and other payables	(135,026)	(60,358)	-	(195,384)
Total deferred tax assets	**(1,186,402)**	**(40,627)**	**(10,926)**	**(1,237,955)**
Deferred tax liabilities, net	**5,003,162**	**341,318**	**(10,926)**	**5,333,554**

(in thousands of Russian Roubles)

20. Advances from Customers

	At 31 December 2021	At 31 December 2020
Advances received under connection contracts	687,706	406,398
Total long-term advances received	**687,706**	**406,398**
Advances received under connection contracts	363,720	272,151
Advances received under contracts for the sale of other services	294,795	178,074
Advances received under assets purchase-and-sale contracts	531	6,490
Advances received under electric-power transmission contracts	100	1,394
Total short-term advances received	**659,146**	**458,109**

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”.

At 1 January 2021, revenue of RR 371,242 thousand was recognized for short-term obligations under contracts with customers in the current reporting period. At 1 January 2020, revenue of RR 368,537 thousand was recognized for short-term obligations under contracts with customers in the current reporting period, in 2020 revenue was recognised in the amount of RR 283,446 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 2021 costs related to the plan made RR 25,035 thousand (2020: RR 16,072 thousand).

The Group makes social insurance contributions under the Russian law. The 2021 costs related to the social insurance contributions made RR 1,793,112 thousand (2020: RR 1,619,604 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.

(in thousands of Russian Roubles)

21. Employee Benefit Obligations (continued)

Defined benefit plans (continued)

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

	Pension liabilities		Other liabilities	
	2021	**2020**	**2021**	**2020**
Net liabilities at the beginning of the year	429,475	422,542	286,453	290,091
Current service cost	12,931	16,319	15,792	18,066
Past service cost	-	-	(4,262)	-
Interest expenses	26,601	27,087	17,465	18,460
Revaluation of net liabilities	(70,296)	(9,277)	(25,126)	(12,547)
Actuarial losses – experience	*18,431*	*25,412*	*17,192*	*20,795*
Actuarial gains – changes in financial assumptions	*(67,543)*	*(30,304)*	*(32,261)*	*(32,595)*
Actuarial gains – changes in demographic assumptions	*(21,184)*	*(4,385)*	*(10,057)*	*(747)*
Pensions /benefits paid	(30,619)	(27,196)	(27,634)	(27,617)
Net liabilities at the end of the year	**368,092**	**429,475**	**262,688**	**286,453**

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

	Pension liabilities		Other liabilities	
	2021	**2020**	**2021**	**2020**
Current service cost	12,931	16,319	15,792	18,066
Past service cost	-	-	(4,262)	-
Interest expenses	26,601	27,087	17,465	18,460
Revaluation of net liabilities	-	-	(25,126)	(12,547)
Actuarial losses – experience	-	-	*17,192*	*20,795*
Actuarial gains – changes in financial assumptions	-	-	*(32,261)*	*(32,595)*
Actuarial gains – changes in demographic assumptions	-	-	*(10,057)*	*(747)*
Expense recognised within profit and loss	**39,532**	**43,406**	**3,869**	**23,979**

Amounts recognised within other comprehensive income:

	Pension liabilities		Other liabilities	
	2021	**2020**	**2021**	**2020**
Revaluation of net liabilities	(70,296)	(9,277)	-	-
Actuarial losses – experience	*18,431*	*25,412*	-	-
Actuarial gains – changes in financial assumptions	*(67,543)*	*(30,304)*	-	-
Actuarial gains – changes in demographic assumptions	*(21,184)*	*(4,385)*	-	-
Income recognised within other comprehensive income	**(70,296)**	**(9,277)**	**-**	**-**

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

	Pension liabilities		Other liabilities	
	At 31 December 2021	**At 31 December 2020**	**At 31 December 2021**	**At 31 December 2020**
Present value of liabilities	368,092	429,475	262,688	286,453
Net value of liabilities	**368,092**	**429,475**	**262,688**	**286,453**

Principal actuarial assumptions are presented below:

Financial assumptions:

	At 31 December 2021, %	**At 31 December 2020, %**
Discount rate	8.39	6.46
Salary growth rate	4.30	3.71
Flat-rate benefit growth rates	4.25	4.43

(in thousands of Russian Roubles)

21. Employee Benefit Obligations (continued)

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 2021	At 31 December 2020
Mortality table	2020	2018
Average staff turnover, males	4.95%	4.27%
Average staff turnover, females	4.63%	3.71%
Average term to maturity (years)	10	10

Average length of life, years:

	At 31 December 2021	At 31 December 2020
Males, 60 years of age	16	16
Female, 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.

Sensitivity of pension and other long-term liabilities to changes in fundamental actuarial assumptions at 31 December 2021 and 31 December 2020 is shown below:

		At 31 December 2021		At 31 December 2020	
	Changes in assumptions	Change in pension liabilities	Changes in other liabilities	Change in pension liabilities	Changes in other liabilities
Discount rate	+ 1%	(28,972)	(19,694)	(38,733)	(23,401)
	- 1 %	33,689	22,505	45,816	27,015
Future salary growth	+ 1%	20,943	23,214	25,774	27,500
	- 1 %	(18,150)	(20,600)	(22,061)	(24,195)
Future flat-rate benefit growth	+ 1%	27,561	-	35,377	-
	- 1 %	(24,203)	-	(30,726)	-
Average staff turnover	+ 1%	(27,513)	(22,259)	(35,044)	(25,914)
	- 1 %	32,477	25,347	42,038	29,750
Mortality rate	+ 10%	(9,432)	(2,778)	(11,405)	(2,886)
	- 10 %	10,018	2,823	12,177	2,931

The Group's best estimate of the pension plan contributions to be made in 2022 is RR 59,055 thousand.

(in thousands of Russian Roubles)

22. Trade and Other Payables

	At 31 December 2021	At 31 December 2020
Payables to other suppliers and contractors	1,158,801	1,080,360
Payables to contractors and suppliers of property, plant and equipment	1,155,801	1,084,440
Other accounts payable	9,019	9,348
Total financial liabilities within trade and other payables	**2,323,621**	**2,174,148**
Short-term employee benefit payables and other accruals	852,269	908,307
Debt for compensation received due to the transfer and reconstruction of electric grid facilities	268,447	-
Employee benefits payable	29	84
Total	**3,444,366**	**3,082,539**

23. Other Taxes Payable

	At 31 December 2021	At 31 December 2020
Value-added tax	355,265	160,116
Property tax	73,630	72,162
Land tax	15,975	16,104
Insurance contributions	626	772
Personal income tax	-	16
Other taxes	916	2,128
Total	**446,412**	**251,298**

24. Revenue

The following table summarises the revenue by types:

	2021	2020
Revenue from contracts with customers, including:	**27,640,064**	**24,049,539**
Electricity transmission	26,659,557	23,493,862
Connection services	500,146	382,092
Other revenue	480,361	173,585
Lease income	55,626	50,801
Total	**27,695,690**	**24,100,340**

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

	2021	2020
Connection services	500,146	382,092
Other revenue	480,361	173,585
Total revenue recognised at a point in time	**980,507**	**555,677**
Electricity transmission	26,659,557	23,493,862
Total revenue recognised over time	**26,659,557**	**23,493,862**
Total revenue from contracts with customers	**27,640,064**	**24,049,539**

25. Other Operating Income

	2021	2020
Proceeds from contribution to charter capital of OOO “Telecomenergo”	185,801	2,620
Free-of-charge additions to property, plant and equipment	35,563	120,463
Penalties, interest and forfeits receivable	26,974	31,543
Release of provision for legal and other claims	18,911	3,104
Payables write-off	2,312	1,908
Other operating income	12,563	12,349
Total	**282,124**	**171,987**

(in thousands of Russian Roubles)

26. Operating Expenses

	2021	2020
Payroll, employee benefits and payroll taxes	7,705,051	7,296,086
Depreciation of property, plant and equipment and right-of-use assets	3,840,944	3,664,036
Repairs and maintenance	2,186,819	1,745,369
Services by allied grid companies	2,162,914	2,325,258
Motor transportation services	1,142,760	1,118,744
Expenses on raw materials and supplies	839,751	763,926
Accrual of provisions for legal and other claims	663,463	619,311
Property tax	301,459	288,207
Expenses on security, including fire safety	291,489	278,893
Electricity transmission through Unified National Electric Grid	254,899	599,710
Information services	196,052	186,343
Social expenditures and charity	144,572	729,154
Communication services	114,359	105,832
Electricity consumed in production	105,919	97,170
Payments for housing construction under a social mortgage programme	88,651	88,651
Land tax	64,199	64,471
Foundation settlement monitoring services	21,973	18,442
Expenses on personnel training and development	17,982	26,163
Expenses for title registration and cadastral registration	13,375	36,029
Rental services	12,437	13,179
Other expenses	510,709	399,571
Total	**20,679,777**	**20,464,545**

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 2021 of RR 4,363,312 thousand (for 2020: RR 4,019,025 thousand) due to the guaranteeing supplier is allocated to decrease the revenue from electricity transmission services for the same period.

27. Finance Income

	2021	2020
Interest income on bank deposits and settlement accounts	166,483	257,123
Interest income on loans issued	9,288	8,325
Total	**175,771**	**265,448**

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

28. Finance Expenses

	2021	2020
Interest expense on lease	370,287	358,327
Total	**370,287**	**358,327**

29. Contingencies and Commitments

Capital commitments

At 31 December 2021, future capital expenditures under existing contracts totalled RR 11,457,955 thousand (at 31 December 2020: RR 11,401,101 thousand). Expected capital expenditures primarily relate to construction and reconstruction of transmission lines and substations and IT measurement equipment as well as capital repairs to be capitalised.

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 2021, the Group made provisions totalling RR 11,300 thousand (31 December 2020: RR 21,885 thousand) for potential litigations and other legal claims resulting primarily from uncertainties in the interpretation of applicable law, excluding tax requirements. For the year ended 31 December 2021, the Group used provisions totalling RR 229 thousand to settle liabilities recognised as a result of litigations(for the year ended 31 December 2020: RR 5,998 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 incompliant 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 was made. Under certain circumstances reviews may cover longer periods.

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 2021.

At 31 December 2021, the Group made provisions totalling RR 1,774,487 thousand (31 December 2020: RR 1,284,977 thousand) for potential tax claims resulting mainly from different approaches to classification of movable and immovable property when calculating the property tax. Since the utilisation date of the estimated tax liability is significantly deferred, at 31 December 2021 and at 31 December 2020, the corresponding liability is estimated at the discounted value: the increment of the discounted value for the year ended 31 December 2021 was RR 77,881 thousand (RR 28,245 thousand at 31 December 2020), the effect from change in discount rate was RR 71,042 thousand (RR 13971 thousand at 31 December 2020). For the year ended 31 December 2021, the Group recognised additional provisions for tax claims of RR 654,909 thousand (for the year ended 31 December 2020: RR 617,986 thousand) and used provisions totalling RR 165,399 thousand to settle liabilities under claims from the tax authorities (for the year ended 31 December 2020: RR 233,476 thousand).

29. Contingencies and Commitments (continued)

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.

30. 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 expose with respect to expected credit losses under IFRS 9: 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 2021 and 31 December 2020, 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.

(in thousands of Russian Roubles)

30. Financial risk management (continued)

Credit risk (continued)

For assessing the probability of default in 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.

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 loss under the general model is provided below:

	At 31 December 2021		
Overdue status of receivables	**Expected credit losses,%**	**Amount of receivables**	**Allowance for expected credit losses**
Current	8.5%	40,581	3,453
Up to 1 month	73.3%	1,990	1,458
1 to 3 months	86.3%	644	556
3 to 6 months	90.2%	1,155	1,041
6 to 9 months	92.6%	770	714
9 to 12 months	93.4%	389	363
Over 12 months	100%	10,274	10,274
Individually impaired	100%	14,881	14,881
Total		**70,684**	**32,740**

	At 31 December 2020		
Age of receivables	**Expected credit losses,%**	**Amount of receivables**	**Allowance for expected credit losses**
Current	11.6%	68,218	7,912
Up to 1 month	64.9%	1,483	962
1 to 3 months	78.6%	1,008	792
3 to 6 months	81.1%	1,672	1,357
6 to 9 months	81.9%	825	676
9 to 12 months	82.0%	312	256
Over 12 months	100%	9,922	9,922
Individually impaired	100%	2,122	2,122
Total		**85,562**	**23,999**

(in thousands of Russian Roubles)

30. Financial Risk Management (continued)

Credit risk (continued)

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

	At 31 December 2021		
Age of receivables	**Expected credit losses,%**	**Amount of receivables**	**Allowance for expected credit losses**
Current	0.40%	1,664,577	6,611
Up to 1 month	34.5%	8,792	3,033
1 to 3 months	76.3%	51,436	39,223
3 to 6 months	90.0%	3,009	2,709
6 to 9 months	93.2%	2,610	2,432
9 to 12 months	94.8%	1,687	1,599
Over 12 months	100.0%	4,545	4,545
Individually impaired	100.0%	64,133	64,133
Total		**1,800,789**	**124,285**

	At 31 December 2020		
Age of receivables	**Expected credit losses,%**	**Amount of receivables**	**Allowance for expected credit losses**
Current	0.2%	1,632,843	3,948
Up to 1 month	22.0%	21,442	4,723
1 to 3 months	51.1%	1,429	730
3 to 6 months	55.1%	4,398	2,425
6 to 9 months	58.1%	892	518
9 to 12 months	58.4%	1,159	677
Over 12 months	100%	1,913	1,913
Individually impaired	100%	47,930	47,930
Total		**1,712,006**	**62,864**

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 2021	**At 31 December 2020**
Cash and cash equivalents	2,316,526	620,008
Trade and other receivables	1,715,599	1,686,949
Short-term Investments	293,079	1,391,601
Other Non-current Assets	7,329	23,756
Total	**4,332,533**	**3,722,314**

Concentration of credit risk. The Group is exposed to concentrations of credit risk. At 31 December 2021 and at 31 December 2020, 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 2021 and 31 December 2020 was 83%. At 31 December 2021, these receivables totalled RR 1,419,520 thousand (at 31 December 2020: RR 1,398,891 thousand).

30. Financial Risk Management (continued)

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.At 31 December 2021, the Group's short-term liabilities exceeded short-term assets. At 31 December 2021, the working capital deficit of the Group (excluding prepayment for share issues , received and issued advances) amounted to RR 1,681,406 thousand. At the same time, the Group's net assets are positive, there are no borrowed funds at the reporting date.

As a result of the analysis of the cash flow forecast for 2022, 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.

(in thousands of Russian Roubles)

30. Financial Risk Management (continued)

Capital management (continued)

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 2021 and 31 December 2020 is presented below:

	At 31 December 2021	At 31 December 2020
Trade and other payables and lease liabilities	6,416,922	6,670,864
Less: Cash and cash equivalents	(2,316,526)	(620,008)
Net debt	4,100,396	6,050,856
Equity	64,697,493	60,183,361
Total equity	**68,797,889**	**66,234,217**
Share of borrowings in the capital structure	6.0%	9.1%
Share of equity in the capital structure	94.0%	90.9%
Debt/equity ratio	0.063	0.101

Key categories of financial instruments

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

At 31 December 2021	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	-	206,889	-	206,889
Other non-current assets	7,329	-	-	7,329
Trade and other receivables	1,715,599	-	-	1,715,599
Short-term investments	293,079	-	-	293,079
Cash and cash equivalents	2,316,526	-	-	2,316,526
Total financial assets	**4,332,533**	**206,889**	**-**	**4,539,422**
Liabilities as per consolidated statement of financial position				
Lease liabilities	-	-	4,093,301	4,093 301
Trade and other payables	-	-	2,323,621	2,323,621
Total financial liabilities	**-**	**-**	**6,416,922**	**6,416,922**

At 31 December 2020	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	-	141,923	-	141,923
Other non-current assets	23,756	-	-	23,756
Trade and other receivables	1,686,949	-	-	1,686,949
Short-term investments	1,391,601	-	-	1,391,601
Cash and cash equivalents	620,008	-	-	620,008
Total financial assets	**3,722,314**	**141,923**	**-**	**3,864,237**
Liabilities as per consolidated statement of financial position				
Lease liabilities	-	-	4,496,716	4,496,716
Trade and other payables	-	-	2,174,148	2,174,148
Total financial liabilities	**-**	**-**	**6,670,864**	**6,670,864**

(in thousands of Russian Roubles)

31. 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 financial assets and liabilities which are not measured at fair value, but for which fair value disclosure is required. They relate to Level 2 and 3 of the fair value hierarchy.

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 2021			**At 31 December 2020**		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Trade and other receivables	-	-	1,714,448	-	-	1,700,123
Short-term investments	-	293,079	-	-	1,391,601	-
Loans issued	-	8,480	-	-	10,582	-
Total financial assets	**-**	**301,559**	**1,714,448**	**-**	**1,402,183**	**1,700,123**
Lease liabilities	-	4,093,301	-	-	4,496,716	-
Trade and other payables	-	2,323,621	-	-	2,174,148	-
Total financial liabilities	**-**	**6,416,922**	**-**	**-**	**6,670,864**	**-**

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.

32. Events after the Reporting Date

Additional issue of shares. In January 2022, 8,409,646 ordinary shares of the additional issue were prepaid by PAO "Tatneft named after V.D. Shashin". In February 2022, 48,854,505 ordinary shares of the additional issue were prepaid by the State Unitary Enterprise of the Republic of Tatarstan "Electric Grids". In March 2022, 21,345,685 ordinary shares of the additional issue were transferred to the Ministry of Land and Property Relations of the Republic of Tatarstan in exchange for property under a barter agreement.

Operating environment

In 2022, the persisting political tension escalated due to further development of the situation with Ukraine, which had a negative impact on commodity and financial markets and increased volatility, particularly of foreign exchange rates. There is an increased volatility on financial and commodity markets. Further sanctions and restrictions on the business activities of organisations operating in the region are expected, along with implications for the economy on the whole, the full range and potential effect of which are impossible to assess.

Due to higher geopolitical tension in 2022, the Group analyses potential consequences and effects on the macro economic environment as well as commodity and financial markets on an ongoing basis. As of the consolidated financial statements issue date, there was no material adverse effect of the current situation on the Group's operations.