

To improve the efficiency of the Rosseti Kuban performance, as well as to update the methods for calculating KPIs under the decision of the Board of Directors of Rosseti Kuban of October 7, 2020 (Minutes No. 404/2020 dated October 9, 2020), the KPI system was revised in 2020, including:

1. the KPI system is based on the annual indicators, quarterly indicators are omitted;
2. new KPIs: "Total shareholder return", "Return on invested capital", "Ready to work during the heating season", "Implementation of the Company's Development Plan", have been introduced into the annual KPIs;
3. KPIs: "Reduction of per unit investment costs", "Consolidated net cash flow", "Increase in the process utilization of power grid equipment", were excluded;
4. KPIs: "Operating profit (EBITDA)", "Reduction of accounts receivable", "Debt/EBITDA", "No accidents at work", were transferred from quarterly to annual ones;
5. the calculation methods for the KPIs: "Reduction of unit operating expenses (costs)", "Electricity losses", "Increase in labor productivity", "Compliance with grid connection time-frames", "Compliance with the commissioning schedule", "Reliability of services provided" were upgraded.

The Key Performance Indicators system used in the Company is connected to the amount of variable remuneration of the management – specific ratio in the amount of paid bonuses is set for each index. Annual bonuses are paid on the condition of achieving relevant KPIs.

Integrated Management System



The pandemic, which has suddenly arisen everywhere, is nothing more than a new factor to be considered within the context of quality management standards.

A risk-based process approach is developed to help businesses survive in such situations. The Company uses management systems that meet the requirements of ISO 45001 and ISO 14001 standards, one of the requirements of which is the availability and implementation of an emergency response plan.

In 2020, a unique opportunity presented itself to see how efficient and effective these plans were.

Summing up the results of the year, it can be noted that the tasks were solved, including due to the presence of the described processes and procedures".



Head of the Internal Control and Risk Management Department
Nadezhda Mayakovskaya

Since 2008, the Company has applied a certified Integrated Quality Management System that includes:



- Quality Management System that is a part of the Company's overall management system with the own organizational structure, processes, procedures, and resources necessary for the general quality management;
- Environmental Management System that is a part of the Company's overall management system with the own organizational structure, mechanisms, procedures, and resources necessary for the management of the environmental aspects of activities through developing and achieving the environmental policy goals.
- Labor Safety and Health Protection Management System that is a part of the Company's overall management system, which allows to manage risks and improve the Company's performance in terms of labor safety and health protection indicators.
- Energy Management System that is a part of the Company's overall management system, which has a well-defined organizational structure and focuses on fulfilling the provisions stated in the energy policy through implementing the programs on energy saving and enhancing energy efficiency.

The Company's top managers show their leadership and commitment to the IMS by:

- stating the Company's mission and strategic goals;
- ensuring that the Quality Policies and Goals are in line with the Company's environment and Strategic Goals;
- assuming responsibility for the performance of the IMS;
- promoting a process-based approach and risk-oriented thinking;
- making available the resources the IMS needs;
- raising staff-wide awareness of the importance of effective management and IMS compliance in the Company;
- achievement of the planned results by the System;
- involving, guiding, and supporting the participation of, the employees in enabling the IMS;
- supporting governance system improvements;
- supporting other respective managers in their effort to show leadership in their areas of responsibility.

The Company uses the following hierarchy:



The Company's top managers arrange their IMS-related activities in such a way as to prove the performance of the processes, i.e. that:

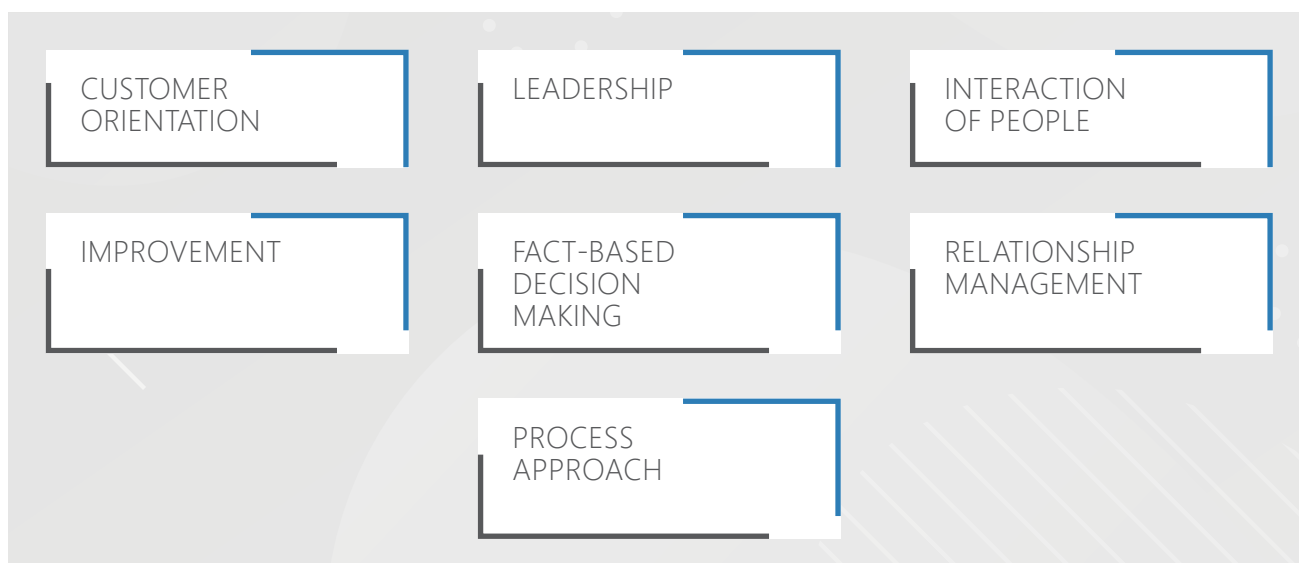
- process requirements are understood and met;
- processes perform well;
- processes are subject to continuous improvement.

Process owners and heads of units are responsible for process management in their structural units within the delegated powers. Responsibility and powers for the IMS processes are presented in the relevant internal regulatory documents.

The IMS policy is stated in four independent documents linked by common concepts, which are approved by the order of the General Director:

- the Quality Policy of Rosseti Kuban;
- the Environmental Policy of Rosseti Kuban;
- the Occupational Health and Safety Policy of Rosseti Kuban;
- the Energy Policy of Rosseti Kuban.

The company and its employees apply the following principles of the Quality Management System (QMS):



Company's IMS and certificates of compliance apply to transmission and distribution of electrical power through power grids of 220 kV and lower, and grid connection of consumers; design, construction, reconstruction, and overhaul of power facilities; other non-tariff services in the Krasnodar Territory and the Republic of Adygea.

The Company's stakeholders are:

- Guaranteeing suppliers and electricity sales companies having contracts for electricity transmission with Rosseti Kuban for the benefit of its consumers;
- customers requesting connection to the Company's grids;
- end users of electricity, whether directly or indirectly connected to the Company's grids;
- other electric power engineering entities (generating companies, SO UES, local and related grid organizations, etc.);
- the Company's personnel;
- the Company's shareholders;
- Rosseti as the Company's parent company;
- regional, municipal, and local authorities in the Company-served areas;
- Krasnodar Regional Public Organization "All-Russian Electric Trade Union";
- suppliers and providers

In 2020, Rosseti Kuban went through a transition phase from the compliance with the requirements of OHSAS 18001:2007 to the compliance of the occupational health and safety management system with the requirements of ISO 45001:2018.

Main participants of the management systems include:

- Company's Board of Directors;
- Executive bodies of the Company — (General Director, Management Board)
- Representative of the relevant Company's management
- structural unit that ensures operation of management systems;
- structural units of the Company and S&A participating in the operation of the management systems.

Key operating results of the Management Systems:

- Increased reliability and stability of electricity supply;
- Higher safety of power supplies;
- Labor safety and health protection during production activities, including reduction of the total number of accidents in keeping with Labor Safety and Environmental Protection legislative requirements;
- Enhanced energy efficiency;
- Environmental safety;
- Enhanced quality level of grid connection services.

For more details see Operating Activities Performance and Sustainable Development.

Availability of Company's IMS Certificates

Management System	Certificate validity	Certification authority
ISO 9001. Quality management systems	05.03.2021	SGS Vostok Limited CJSC
ISO 14001. Environmental management system	05.03.2021	SGS Vostok Limited CJSC
OHSAS 18001. Occupational health and safety management system	05.03.2021	SGS Vostok Limited CJSC
ISO 50001. Energy Management System	28.12.2021	"Russian Register" Certification Association

SGS Vostok Limited (a member of the SGS Group) carried out the supervision audit in April 2020 and confirmed that the Company's Management System was compliant with the requirements of the International Standards for the Quality Management System ISO9001:2015, the Occupational Health and Safety Management System OHSAS 18001:2007, and the Environmental Management System ISO 14001:2015 in the Krasnodar and Ust-Labinsk power grids and the Executive Office. The certifying body thus concluded that the Management System of Rosseti Kuban was fully functional, well-designed, and capable of achieving the goals outlined in the Company's Quality, Environmental, and OHS Policies.

The results of the recertification audit carried out by the Russian Register Certification Association in 2020 showed that the Company's Management System was compliant with the International Standard ISO 50001:2018 for the Energy Management System in Leningradskaya, Timishevsk, Tikhoretsk power grids, and the Executive Office. The certifying body thus concluded that the Management System of Rosseti Kuban was fully functional, well-designed, and capable of achieving the goals outlined in the Company's Energy Policy.

Rosseti Kuban focuses on environmental protection and safety, as it recognises friendly environment as a constitutional human right and strives to continuously improve its image of an environmentally oriented company.

Rosseti Kuban's Environmental Management System is certified for compliance with the International Standard ISO 14001:2015 for the Environmental Management System. Requirements and directions for use. See the information on the operation of the system in Sustainable Development.

The COVID-19 pandemic affecting the world in 2020 left an indelible imprint on the Company's activities and the progress of the Company's IMS processes. Some aspects of the Company's activities went online, in particular, customer servicing, which previously took place in service centers. Such a transition was made without any particular difficulties due to the development of online services, such as "The Light Country" portal, the "Light-online" internet service, a user's account on the official website of Rosseti Kuban, and a call center.

External and internal IMS audits were also carried out remotely.

In general, the IMS performance in 2020 had positive results, which is confirmed by the conclusions of the certification bodies.

Grid Development in Rosseti Kuban and the Region

THE MAIN OBJECTIVE OF THE LONG-TERM DEVELOPMENT OF THE COMPANY'S POWER GRID CONSISTS IN FINDING THE BEST POSSIBLE DIRECTION OF MODERNIZATION AND EXPANSION OF THE GRID TO MAKE UP FOR A SHORTFALL OF GENERATING CAPACITIES AND SATISFY A POTENTIAL DEMAND FOR GENERATING CAPACITY IN THE LONG TERM.

In 2020, acting under Decree of the Russian Federation Government No. 823 dated October 17, 2009, On Roadmaps for Prospective Electric Power Industry Development, Rosseti Kuban participated in drafting such roadmaps for Krasnodar Territory and the Republic of Adygea for five year.

Representatives of Rosseti Kuban (Deputy Director General for Technical Issues, Chief Engineer and Deputy Director General for Development and Grid Connection) were included into the acting coordinating bodies of Krasnodar Territory and the Republic of Adygea responsible for drafting such roadmaps, namely:

- the interdepartmental Electric Power Industry Development Roadmap Panel of Krasnodar Territory established by Decree of the Governor No. 181-p dated February 11, 2011, On Establishing an Interdepartmental Panel to Draft the Electric Power Industry Development Roadmap for Krasnodar Territory;
- the Electric Power Industry Development Roadmap Panel of the Republic of Adygea (established by Order No. 26-p of the Ministry of Economic Development and Commerce of the Republic of Adygea dated February 1, 2011, On Establishing the Panel.