

Key performance indicators



Whether the Company's strategic goals are accomplished is determined through the Key Performance Indicators (KPI).

The key performance indicators set for the Company's General Director were based on:

- *Cl. 15.1 of Article 15 of the Company's Charter;*
- *Resolution of the Company's Board of Directors dated October 7, 2020 (Minutes No. 404/2020 dated October 9, 2020).*

Key performance targets are approved by the Company's Board of Directors by a decision of October 7, 2020 (Minutes No. 404/2020 dated October 9, 2020)".



Head of the Human Resources Department
Ivan Treputin

In accordance with the above mentioned resolutions of the Company's Board of Directors the following structure for Key Performance Indicators for 2020 were established:

KPI	Calculation
Total shareholder return	Comparison of the accrued dividends of the reporting year with the average value of the same indicator of previous three years and with the value in the business plan of the Company
Return on invested capital (ROIC)	The ratio of profit before taxes and interest to the sum of capital and long-term loans and borrowings
Consolidated operating profit (EBITDA)	Section 1. The year-on-year growth of the actual EBITDA exceeds the average annual rate of tariff growth. Section 2. If the condition above is not met, the achievement of the EBITDA indicator to the planned value calculated based on the approved business plan is estimated
Reduction of unit operating expenses (costs)	Year-on-year reduction of the ratio of unit operating costs to the volume of serviced equipment (c.u.) in the reporting year
Electricity losses	The ratio of electricity supply to the grid by deducting the electricity supplied from the grid and consumption for household needs to the supply to the grid by deducting the internal balance flows
Increase in labor productivity	By the order No. 576 of the Russian Federal Service for State Statistics dated September 23, 2014: the ratio of revenue from electricity transmission to the number of man-hours of work
Innovation performance	The integral indicator of the effectiveness of innovation activity estimates the degree of performance of three composite indicators: the indicator of R&D expenditures, the indicator of the purchase of innovative products, the indicator of the quality of R&D development (updating) / R&D performance.

KPI	Calculation
Reduction of accounts receivable	Reduction of the actual overdue receivables by the Company (excluding moratorium and restructured debts, as well as debts of counterparties deprived of the status of a subject of the wholesale electricity market and/or a supplier of last resort)
Compliance with grid connection time-frames	A complex indicator that estimates the quality level of the Company's grid connection and includes three components: the quality of consideration of applications for grid connection, the quality of execution of contracts on the implementation of grid connection of applicants, compliance with the anti-trust legislation of the Russian Federation
Debt/EBITDA	Section 1. It is estimated by the results of the debt-to-EBITDA ratio performance. In case of financial stability of the Company, the target value is ≤ 3.0 ; otherwise - an improvement of at least 10% from the fact of the previous year, but not less than 3.0. Section 2. If the condition above is not met, the achievement of the planned Debt/EBITDA indicator calculated on the basis of the approved business plan is estimated
Compliance with the commissioning schedule	The ratio of the total actual fixed assets put in accounting records (in monetary terms, in relation to completed construction facilities and taken into fixed assets in the reporting segregated by quarter) to the planned volume in accordance with the approved Investment Program of the Company and its schedules
Ready to work during the heating season	Indicator that estimates the readiness of the Company to work during the heating season based on monthly monitoring of the Ministry of Energy of Russia
Implementation of the Company's Development Plan	Depreciation indicator, the amount of which is calculated depending on the number of unfulfilled activities of the Company's Development Plan approved by the ROSSETI Board of Directors in the reporting period
Reliability of services provided	Indicators of reliability of tariff regulation (SAIDI, SAIFI), as well as the number of major accidents in relation to average annual values for three years
No accidents at work	The number of injured employees of the Company in accidents (with mild, severe, or fatal outcomes) associated with the failure of officials to fulfill their duties, for the reporting year

Targets and achieved KPIs

KPI	Significance in the bonus system for 2020, %	Actual value for 2019 / Assessment of achievement for 2019	Target for 2020	Actual value for 2020 ¹ / % year-on-year ²	Assessment of achievement for 2020 / Reasons for the deviation	Target for 2021
Total shareholder return	10	Introduced in 2020	Not exceeding the arithmetic average amount of funds allocated for the payment of dividends by the decisions of the General Meetings of shareholders of the Company for three years preceding the reporting period, and the amount of funds provided for the payment of dividends in the reporting period under the Business Plan of the Company	–	The achievement of the indicator will be evaluated following the decision on the distribution of profits (loss) of the Company taken at the general meeting of shareholders at 2020 year-end.	Not exceeding the arithmetic average amount of funds allocated for the payment of dividends by the decisions of the General Meetings of shareholders of the Company for three years preceding the reporting period, and the amount of funds provided for the payment of dividends in the reporting period under the Business Plan of the Company
Return on invested capital (ROIC)	20	Introduced in 2020	$\geq 95.0\%$	116% / –	Achieved / –	$\geq 95.0\%$
Consolidated operating profit (EBITDA)	15	Introduced in 2020	Done	Done / –	Achieved / –	Done
Reduction of unit operating expenses (costs)	10	2.1% / Achieved	$\geq 2.0\%$	4.0% / 190%	Achieved / –	$\geq 2.0\%$

¹. Contains the expected level of KPI achievement for 2020, given the deadlines and procedure of reporting, which is the source of information for the calculation of KPIs. The final actual values are approved by the Board of Directors of Rosseti Kuban.

². Expected values for 2020 are compared with targets for 2020 and actual results for 2019 on the basis of metrics with comparable calculation methods.

KPI	Significance in the bonus system for 2020, %	Actual value for 2019 / Assessment of achievement for 2019	Target for 2020	Actual value for 2020 / % year-on-year	Assessment of achievement for 2020 / Reasons for the deviation	Target for 2021
Electricity losses	10	10.62% / Achieved	≤10.51%	10.04% / 106%	Achieved / –	≤10.50%
Increase in labor productivity	5	4.33% / Achieved	≥2.00%	4.36% / 101%	Achieved / –	≥5%
Innovation performance	20	121% / Achieved	≥90%	The KPI result will be summed up by the individual resolution of the Board of Directors of the Company / –	– / –	≥90%
Reduction of accounts receivable	10	Introduced in 2020	≤100%	74% / –	Achieved / –	≤100%
Compliance with grid connection time-frames	–10	1.0 points / Achieved	≤1.3 points	1.0 points / – ¹	Achieved / –	Not less than the previous-year actual value multiplied by 0.85, but no less than 1.1
Debt/EBITDA	–10	Introduced in 2020	Done	Achieved / –	Achieved / –	Done
Compliance with the commissioning schedule	–10	Introduced in 2020	≥90%	104% / – ³	Achieved / –	≥90%
Ready to work during the heating season	–10	Introduced in 2020	≥0.95 point	0.99 point / –	Achieved / –	Simultaneously: 1) ≥0.95; 2) failure to reach the established value of the specialised indicator "Outstanding activities to enforce the readiness by electric power engineering entities"
Implementation of the Company's Development Plan	–70	Introduced in 2020	0 (All measured are implemented)	0 / –	Achieved / –	0 (All measured are implemented)
Reliability of services provided	–10	Simultaneously: 1) KPI ≤ 1.00; 2) $K_{\text{saidi}} = 0.98$; $K_{\text{saffi}} = 0.93$	Simultaneously: 1) $K \leq 1$; 2) No significant deterioration in the rates set by tariff regulators; 3) Zero growth in major incidents	1) for $I_{\text{saidi}} = 0.81$; for $I_{\text{saffi}} = 0.98$ 2) for $I_{\text{saidi}} = 0.8870$; for $I_{\text{saffi}} = 0.45922$ 3) 0 / – ³	Achieved / –	Simultaneously: 1) no more than two victims with a severe or mild outcome; 2) no fatal accidents or ones with one or more severe injuries in a group accident
No accidents at work	–10	Introduced in 2020	Simultaneously: 1) No more than two injured persons 2) 0	Simultaneously: 1) 0 2) 1 / –	Not achieved / Fatal accident (Act N-1 No. 1 dated June 19, 2020)	Simultaneously: 1) no more than two victims with a severe or mild outcome; 2) no fatal accidents or ones with one or more severe injuries in a group accident

¹ The comparison is not made due to the update of the procedure for calculating KPIs in 2020.

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".



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