

**Target performances in quality**

No.	Performance	Unit	2021 target	2024 forecast
1	Average power outage duration (Psaidi) (duration of electricity supply interruption per a consumer)	h	1.08	0.97
2	Average power interruption frequency (Psaidi) (number of interruptions of power supply per a consumer)	events	0.46	0.43
3	Electricity losses	%	10.55	8.97
4	R&D costs indicator	%	0.15	0.19
5	Workforce productivity	%	Growth of at least 5% annually	
6	Reduction of unit operating expenses (costs)			
6.1	Reduction of unit operating expenses (costs) year-on-year	%	≥2	
6.2	Reduction of unit operating expenses (costs) vs. the level of 2018	%	≥4	≥10
7	Percentage of non-tariff revenue from other activities	%	2.71	5.14

**Risk Management System**

THE COMPANY HAS A RISK MANAGEMENT SYSTEM (RMS) ENSURING SUSTAINABLE CONTINUOUS OPERATION AND DEVELOPMENT OF THE COMPANY THROUGH TIMELY IDENTIFICATION, ASSESSMENT, AND MANAGEMENT OF RISKS THAT POSE A THREAT TO THE EFFECTIVE IMPLEMENTATION OF THE COMPANY'S BUSINESS AND REPUTATION, THE HEALTH OF ITS EMPLOYEES, THE ENVIRONMENT, OR PROPERTY INTERESTS OF SHAREHOLDERS AND INVESTORS.

**Goals of Rosseti Kuban Risk Management System**

ENSURING THE EFFICIENCY OF FINANCIAL AND BUSINESS ACTIVITIES AND ECONOMIC USE OF RESOURCES, AS WELL AS ENSURING THE SAFETY OF THE COMPANY'S ASSETS

PROVIDING FOR FULL AND RELIABLE ACCOUNTING (FINANCIAL), STATISTICAL, MANAGEMENT AND OTHER REPORTING;

COMPLIANCE WITH APPLICABLE LAWS AND LOCAL REGULATIONS.

**RMS Organization**

The tasks of the Company's Risk Management System are to ensure reasonable confidence in achieving the goals set for the Company under the Strategy of the Russian Federation for Development of the Electric Grid Complex, development software documents and the Company's Articles of Associations, and the growth of the Company's value while maintaining the balance of interests of all stakeholders.

The Board of Directors, the executive bodies of Rosseti Kuban, managers, and employees at all levels of the Company's management shall implement the Company's Risk Management, i.e. risk identification, evaluation, and ranking, as well as risk treatment to ensure a reasonable guarantee of the Company's goal achieving.

The Board of Directors has approved the Risk Management Policy (Minutes No.233/2016 dated March 18, 2016) to ensure the functioning of the RMS in the Company. The Policy is a Company's internal document, which determines its attitude to risks, establishes the general principles, objectives, and tasks of the RMS, approaches to RMS organization, the allocation of responsibility between RMS participants, and the nature of their cooperation, risk management milestones.

In addition, the Company follows the regulations on risk management approved by the Company's Order No.228 dated April 10, 2020, and Company's Order No. 162 dated April 27, 2020:

- Regulation on Company's risk management;
- "Tree" risk model;
- Model of Company's risk management system maturity;
- List of basic risk management activities.

The Company's Internal Control and Risk Management Department is responsible for the coordination and methodological support of the Company's risk management activities.

The RMS participants interact under the Law pursuant to the requirements of the Company's Policy and Internal documents, which regulate the interaction of structural units in the risk management.

Risk management is a continuous, constantly active process.

**Rosseti Kuban's risk management system relies on the following principles:**

1

RISK MANAGEMENT IS AN INTEGRAL PART OF ALL ORGANISATIONAL PROCESSES;

2

RISK MANAGEMENT IS A PART OF THE DECISION-MAKING PROCESS;

3

RISK MANAGEMENT IS A SYSTEMATIC, STRUCTURED AND WELL-TIMED PROCESS;

4

RISK MANAGEMENT IS BASED ON BEST AVAILABLE INFORMATION;

5

RISK MANAGEMENT IS A TRANSPARENT PROCESS AND ACCOMMODATES THE INTERESTS OF STAKEHOLDERS;

6

RISK MANAGEMENT IS A DYNAMIC, ITERATIVE (REPEATED) PROCESS SENSITIVE TO CHANGES;

7

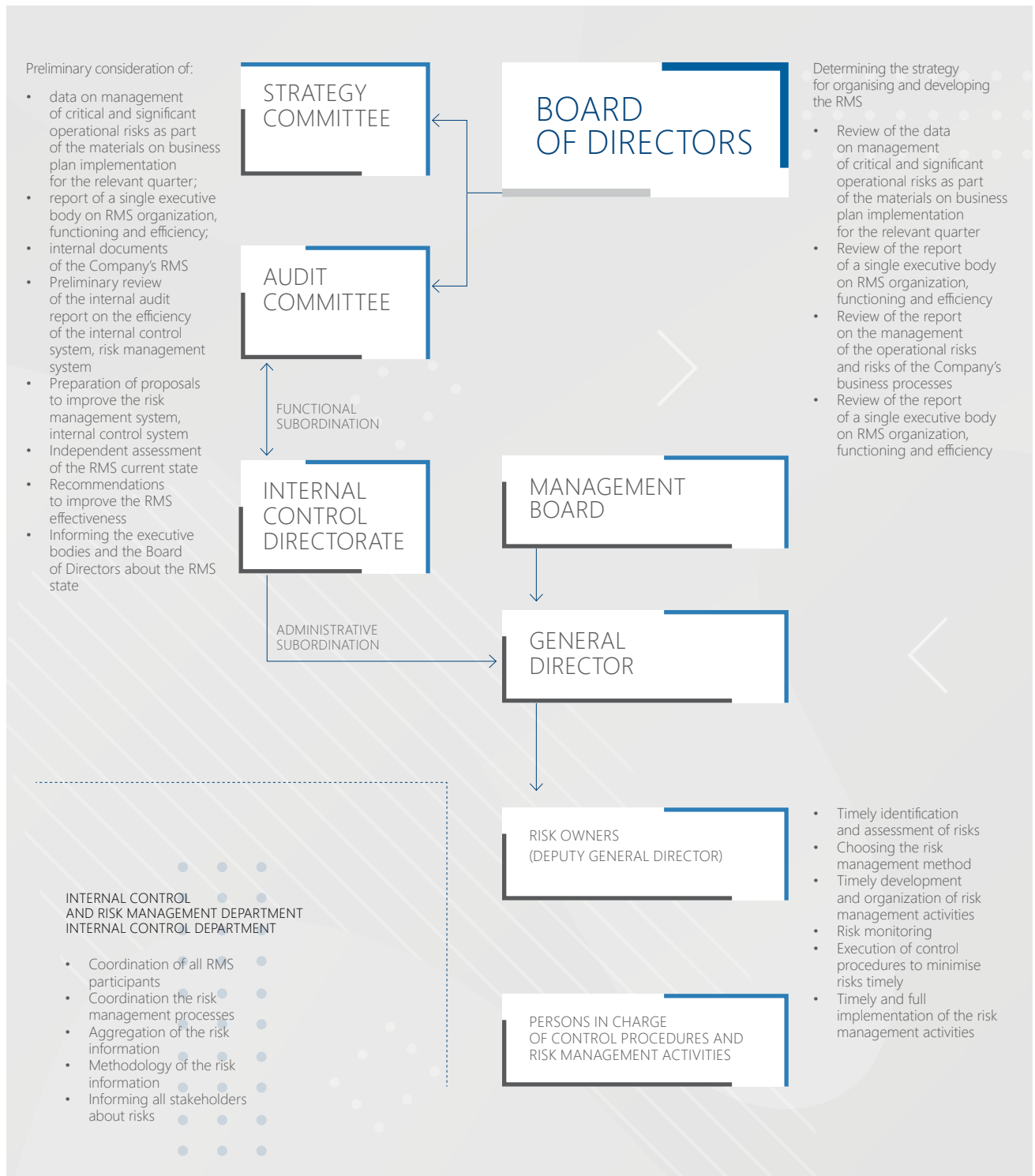
RISK MANAGEMENT CONTRIBUTES TO PERMANENT IMPROVEMENT OF ORGANISATION;

8

ALL RMS PARTICIPANTS ARE RESPONSIBLE FOR IDENTIFICATION, ASSESSMENT, ANALYSIS AND CONTINUOUS RISK MONITORING WITHIN THEIR ACTIVITIES, DEVELOPMENT AND IMPLEMENTATION OF THE NECESSARY RISK MANAGEMENT MEASURES, CONTINUOUS MONITORING OF THE EFFICIENCY OF RISK MANAGEMENT ACTIVITIES.

For more details on the functions of RMS participants, refer to Appendix No. 7 to the Annual Report.

**Main RMS participants and their interaction in Rosseti Kuban**



## Key Risks in the Company's Activities

The Company regularly identifies, evaluates, and monitors risks, implements measures to reduce the probability and potential consequences of the implementation of risks, and informs shareholders and other stakeholders.

According to the Company's Risk Management Regulation, the Management Board approved the Company's 2020 Risk Register of 19 operational risks, i.e. aggregated risks of business processes and risks that have a significant impact on the Company's activities, including key performance indicators of the Company's sole executive body, and respectively on achieving goals in the management of the grid complex and meeting the strategic objectives of Rosseti Group.

A risk significance level helps to determine a level of risk impact on the Company's activities. Risks are ranked by three levels of significance: moderate, significant, critical.

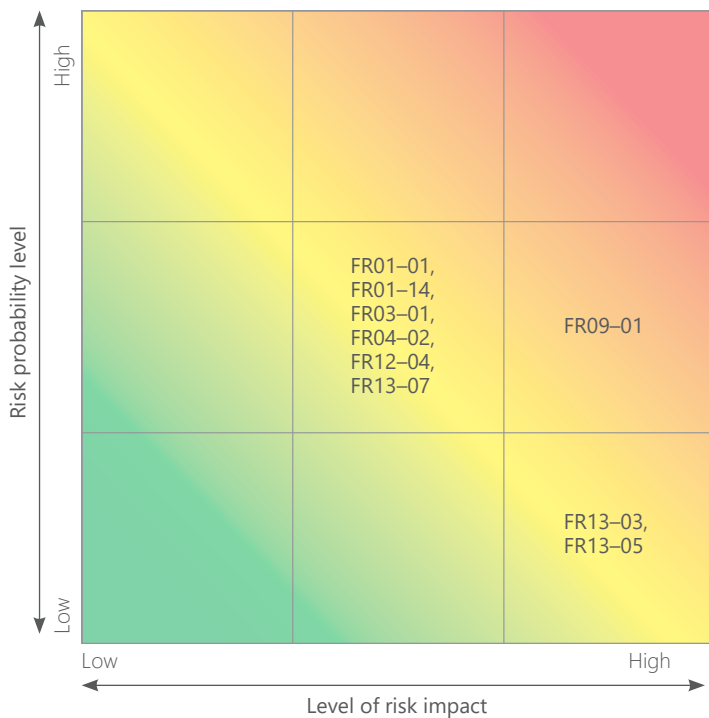
The Company's Risk Management Plan for 2020 includes measures to minimise risks with a significant or critical level of significance.

### Information about risk management of the Company with the significant and critical significance level in 2020

Description and designation	Impact on Key Performance Indicators	Risk significance level	Risk management activities
Reducing the scope of power transmission services to consumers connected to regional distribution grids (FR01-01)	Achieving Consolidated Operating Income Indicators (EBITDA)	Significant	<ol style="list-style-type: none"> <li>1. Monitoring and forecasting electrical consumption by voltage levels.</li> <li>2. Work with customers to agree on target scopes of services, including the required capacity, to be included in the relevant power supply services contracts and submitted to the State tariff regulation authorities.</li> <li>3. Scheduled inspections of accounting schemes to detect unaccounted electricity consumption.</li> <li>4. Introduction and distribution of the smart electricity metering systems, automated systems for collecting and processing data from electricity meters.</li> <li>5. Activities to resolve differences in determining the scope of obligations under electricity supply services contracts.</li> <li>6. Activities aimed at complying with the parameters of regulatory decisions by market participants.</li> <li>7. Pre-trial settlement by the responsible unit.</li> </ol>
Performance of judicial acts (settlement of disputes) on debt collection for electricity transmission services against the Company (FR01-14)	Achieving Consolidated Operating Income Indicators (EBITDA)	Significant	<ol style="list-style-type: none"> <li>1. Submission of documents for the claims work.</li> <li>2. Preparation of documents confirming the actual performance of the Company's obligations by the responsible unit</li> </ol>
Failure to meet obligations by the Contractors to pay for electricity transmission services within the terms of the agreement/contract and/or payment not in full (FR03-01)	Achieving the planned level of receivables for electricity transmission services	Significant	<ol style="list-style-type: none"> <li>1. Pre-trial claims work, legal receivable collection.</li> <li>2. Implementing the roadmap to reduce the accounts receivable for energy transmission services;</li> <li>3. Activities to resolve differences in determining the scope of obligations under electricity supply services contracts.</li> <li>4. Full and/or partial restriction of energy supply to debtor consumers on the applications of electricity retailers.</li> <li>5. Addressing issues of non-payment by Contractors at the meetings of the regional collegial bodies chaired by the executive body (administration) of the constituent of the RF.</li> </ol>
Increase in interest rates on loans and borrows (FR04-02)	Ensuring dividend flow	Significant	Negotiating with creditor banks, sending letters about considering the possibility of reducing interest rates on loans

Description and designation	Impact on Key Performance Indicators	Risk significance level	Risk management activities
Occupational injuries in the Company (FR09-01)	Zero increase in casualties	Critical	<ol style="list-style-type: none"> <li>1. Implementing the Comprehensive Program for mitigating injury risk aimed at the safe performance of works at electrical facilities.</li> <li>2. Control of the performance of regulatory and administrative documents, health, and labor safety programs.</li> <li>3. Timely and high-quality work with staff.</li> <li>4. Preliminary and periodic medical examinations of employees.</li> <li>5. Video recording of works at electrical facilities.</li> <li>6. Promoting public awareness about risks of electrical grid protection regulation breaking.</li> </ol>
Involvement of the Company/ Company's employees in corruption activities (FR12-04)	Compliance with legislation, including anti-corruption prevention and legislation and antitrust laws	Significant	<p>Implementation of the Anti-Corruption Plan in Rosseti Kuban for 2020, including:</p> <ol style="list-style-type: none"> <li>1. Conducting control measures to ensure that employees adhere to the principles of the Company's anti-corruption policy.</li> <li>2. Conducting official inspections and investigations of acts of infringing the Principles of the Company's Anti-Corruption Policy.</li> </ol>
Disruption and/or shutdown of information infrastructure and telecommunications systems of power grid complex (FR13-03)	Ensuring the comprehensive security of the Company's activities	Significant	<ol style="list-style-type: none"> <li>1. Introducing the information protection tools at information infrastructure facilities pursuant to statements of work.</li> <li>2. Monitoring the actions of the Company's employees via information security systems.</li> </ol>
Undue influence on the power grid facilities and their information and telecommunications systems (terror, sabotage, criminal and other nature), including using information technologies (FR13-05)	Ensuring the comprehensive security of the Company's activities	Significant	<ol style="list-style-type: none"> <li>1. Installation of technical security equipment, video surveillance systems, access control system, and security alarm system.</li> <li>2. Reconstruction of technical security equipment at the Fuel and Energy facilities under the Company's investment program.</li> <li>3. Ensuring the physical security of the most critical Fuel and Energy facilities of the Company.</li> </ol>
Deliberate illegal acts by both legal entities and individuals and Company's employees, causing economic damage and damage to business reputation (FR13-07)	Ensuring the comprehensive security of the Company's activities	Significant	<p>Implementing the action plan of the Department of Security of Rosseti Kuban for 2020, including:</p> <ol style="list-style-type: none"> <li>1. Strengthening the protection of the Company's facilities and property.</li> <li>2. Conducting controls and official inspections to identify signs of illegal actions on the part of legal and individuals, as well as employees of the Company.</li> <li>3. Sending applicant materials to law enforcement agencies, organising interaction with law enforcement agencies.</li> </ol>

**The Company's Key Risks Map for 2020**



Each business process has the own specific set of risks. Therefore, the list of risks is determined and analysed separately for each business process, after which they are included in the Company's Risk Register.

The operational risks of the Company include aggregated risks of business processes and risks that have a significant impact on the Company's activities, including key performance indicators of the Company's sole executive body, and respectively on achieving goals in the management of the grid complex and meeting the strategic objectives of Rosseti Group. In developing the scenario conditions for the Company's business plan, the Company's results from the beginning of this year and for previous periods are taken into account, as well as information about operational risks. The Company's business plan contains information about operational risks that have a final "significant" and "critical" rating.

One of the most critical consequences and the corresponding KPI of most impact are determined for each operational risk. Each operational risk is assessed separately from other risks affecting the same KPI.

**Impact of Risks on Achieving Strategic Goals**

In 2020, Rosseti Kuban introduced a new risk management methodology and expanded the conceptual framework.

**Meaning of basic concepts**

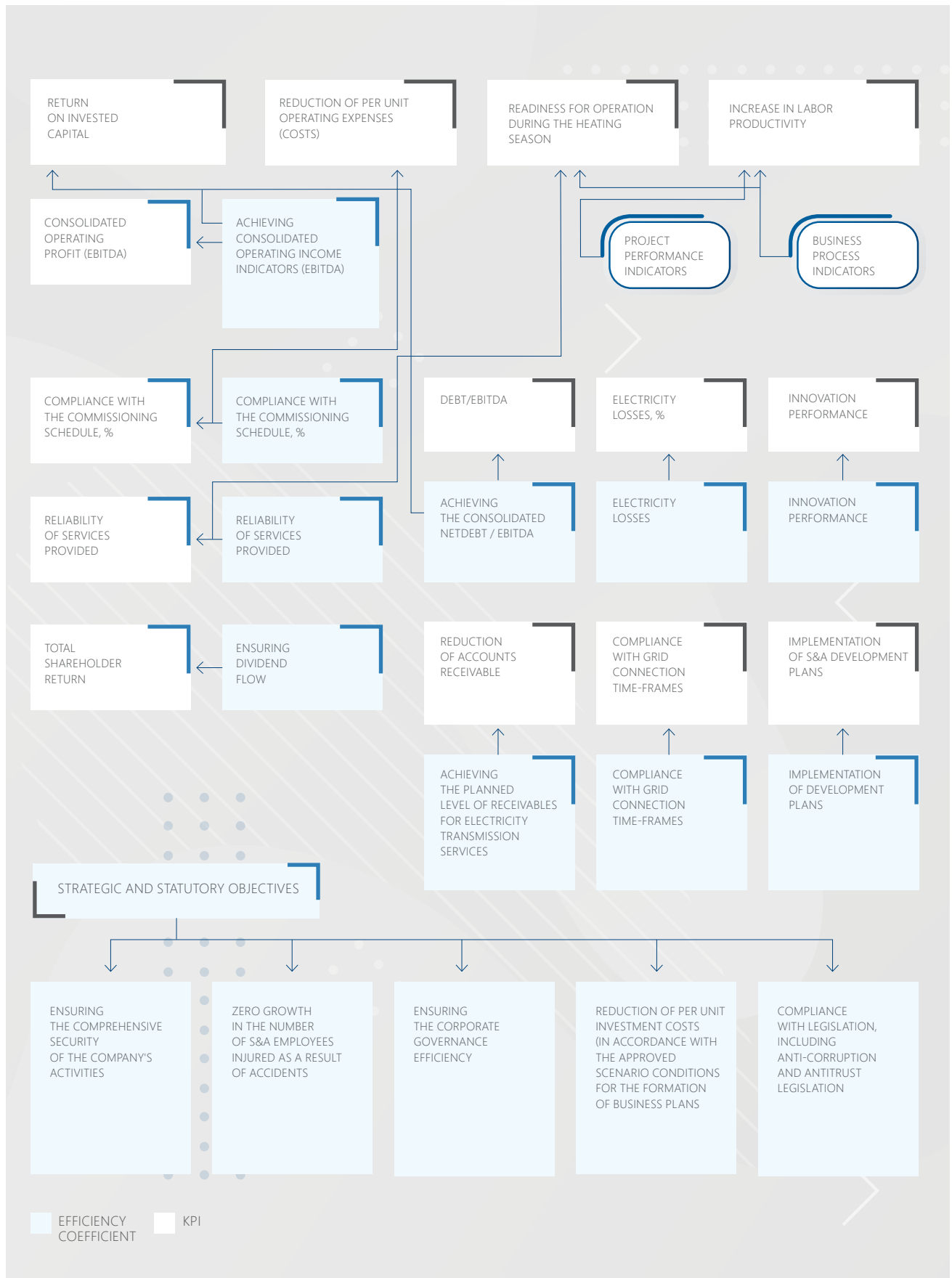
Key performance indicator (KPI)	The Company's performance indicators, which reflect the key operational and financial priorities, as well as possible strategic goals and objectives. A key performance indicator is used as a measure of the level of operational risk impact assessment
Operational risk	The impact of uncertainties on achieving the relevant key performance of the Company. Risks of certain business processes may be operational risk factors
Business process risk	Impact of uncertainty on achieving the performance targets of the business

KPIs:

- Achieving Consolidated Operating Income Indicators (EBITDA)
- Achieving the Consolidated Net Debt/ EBITDA
- Achieving the planned level of receivables for electricity transmission services
- Ensuring dividend flow
- Electricity losses, %
- Compliance with grid connection time-frames
- Compliance with the commissioning schedule, %
- Reliability of services provided
- Zero increase in casualties
- Innovation performance
- Reduction of per unit investment costs
- Compliance with legislation, including anti-corruption prevention and legislation and antitrust laws
- Ensuring the comprehensive security of the Company's activities

Risks of the Company's business processes include risks of the Company's primary, secondary business processes, Company's management and development business processes, These risks are taken into account in modelling business processes and arise in any Company's business processes, which influence the achievement of the goals of the relevant business process, and through the objectives of the business process - the achievement of company's operational objectives, the objectives of compliance with the company's applicable laws and regulations, timely and complete reporting on the all-kind activities of the Company (accounting (financial), tax, statistical, management, grid, etc.).

Efficiency coefficient and KPI relationship map



## Evaluating the RMS Effectiveness and Improvement

In order to guarantee that the RMS is efficient and complies with changing requirements and conditions, the Company's internal auditor assesses the RMS efficiency. The Internal Auditor's RMS Performance Report for 2019 was discussed by the Board of Directors (Minutes No. 399/2020 dated August 28, 2020), and the RMS was concluded to be "moderately" or "optimally" mature. By the end of 2020, the level of RMS maturity is assessed analogously.

The RMS Development and Improvement Plan was approved by the decision of the Company's Board of Directors (Minutes No. 373/2019 dated December 31, 2019) with a preview of the Strategy Committee (Minutes No. 105/2019 dated December 10, 2019). In 2020, pursuant to the Company's RMS Improvement Plan:

- the Register of Operational and Business Process Risks of the Company for 2020, the Risk Management Plan for 2020 was approved (Minutes of the Management Board meeting No.10/2020 dated April 30, 2020);
- the methodology documents on the Company's risks identification, analysis and assessment, risk responding, and documenting information concerning the assessment of the risk management maturity level in the Company, were approved;
- Representatives of the Company participated in the activities of the Commission on Risk Management and Internal Control Methodology in Rosseti Group, as well as the working group on updating the Commission's Risk Management Methodology;
- some employees of the Department of Internal Control and Risk Management joined the Association of Internal Auditors and participated in the Association's webinars.

## Activities to Improve the RMS for 2021

- Updating the Risk Management Policy based on the principles of the COSO concept "Enterprise Risk Management. Integrating with Strategy and Performance", and ISO 31000:2018 standard "Risk Management – Guidelines".
- Developing a methodology for determining risk appetite under the standards of Rosseti Group. Introducing the risk appetite rate for discussion by the Board of Directors.
- Conducting training for managers and employees regarding organization and functioning of the Internal Control System and the Risk Management System.

### Indicators in Internal Control and Risk Management System

Indicator	Unit of measurement	2018	2019	2020	Change 2020/2019, %
Number of risks of a critical level <sup>1</sup>				1	
Number of risks of a significant level				8	
Internal assessment of ICS performance	point	5.2	5.3	5.3 <sup>2</sup>	- <sup>3</sup>
Internal assessment of RMS performance	point	4.49	4.51	4.67 <sup>4</sup>	-
Number of counterparties, for which the bankruptcy procedure is initiated		19	23	23	0
The volume of the Company's claims included to the creditor claim list or submitted to the debtors, being under the bankruptcy procedure, regarding the current payments	RUB mln	759.38	768.91	760.61	-1.1
The total amount of cash flows received by the Company's budget from counterparties under the bankruptcy procedure	RUB mln	0	1.32	6.87	420.5
The amount of overdue debts of the counterparties under the bankruptcy procedure	RUB mln	759.38	768.91	760.61	-1.1
The amount of cash flows saved by the Company due to the purchase of its debt to debtors under the bankruptcy procedure	RUB mln	0	0	0	0
The total amount of transactions between the Company and the counterparties being under the bankruptcy proceedings and invalidated	RUB mln	0	0	0	0

<sup>1</sup> Due to the change of the Company's risk management methodology in 2020 and the updating of the Company's risk registry, indicators are given for the reporting period only.

<sup>2</sup> At the moment of Report writing, no assessment has been carried out. The information will be supplemented by the results of the assessment.

<sup>3</sup> At the moment of Report writing, no assessment has been carried out. The information will be supplemented by the results of the assessment.

<sup>4</sup> Preliminary assessment, materials are under negotiation.