

INDUSTRY REVIEW, STRATEGY, RISKS AND KPI

MACROECONOMIC AND INDUSTRY REVIEW, MARKET SHARE

Macroeconomic and Industry Review

In 2021, the global economy was in an active recovery, outperforming expectations of the majority of experts. The global growth was supported by incentive measures of budgetary policies in the largest developed countries. Strong global growth was accompanied by accelerated inflation both in developed and emerging markets. Amid recovery of demand, acceleration of inflation in most of the countries was driven by external factors — grown commodity prices, rise in prices for international logistics, bottlenecks of global supply chains.

According to the Federal State Statistics Service*, Russia's FY2021 GDP totaled RUB 130,795.3 billion. The GDP quantum index, as compared to 2020, totaled 104.7%. IPI and CPI totaled 105.3% and 106.7%, respectively**. According to the Russian Ministry of Economic Development***, consumer demand contributed the most to the recovery of economic activity. Production of key non-resource-based industries (manufacturing industry, agriculture, construction) exceeded pre-pandemic levels. At that, extraction of minerals lost 2%+, if compared to pre-pandemic levels, under OPEC+ agreement.

During 2021, the Bank of Russia changed its key rate 7 times due to several factors. Thus, at the beginning of 2021 the key rate was 4.25%, growing to 8.5% by the year-end.

Mid-term forecasts on macroeconomic fundamentals of the Russian economy were revised downwards.

Updated forecast of the Bank of Russia on macroeconomic fundamentals for 2022–2024 (market consensus based on the March 2022 polling of market insiders)****

Indicator	2020 (actual)	2021 (actual)	2022	2023	2024
CPI (% YoY)	4.9	8.4	20.0	8.0	4.8
Key rate (% p.a., year average)	5.1	5.8	18.9	14.1	7.8
GDP (% YoY)	-2.7	4.7	-8.0	1.0	1.5

* Source: https://rosstat.gov.ru/storage/mediabank/24_18-02-2022.htm

** Source: https://gks.ru/bgd/regl/b21_01/Main.htm

*** Source: https://economy.gov.ru/material/directions/makroec/ekonomicheskie_obzory/

**** Source: https://cbr.ru/statistics/ddkp/mo_br/

Electricity consumption in 2021 and demand outlook for 2022–2024

According to the UES of Russia's functioning report, 2021 electricity consumption by the UES of Russia totaled 1,090,437.0 mln kWh (+56,717.0 mln kWh or +5.5%). In 1Q 2021, in comparable temperature environment (net of leap year 2020) consumption grew 1.8% YoY. Energy consumption was impacted by partial continuation of oil-related restrictions as a result of the OPEC+ agreement. Absence of considerable influence of lockdown measures in 2021, in contrast to their large-scale deployment in 2020, became the driver of electricity consumption growth, starting from 2Q 2021. In 2Q 2021 partial lifting of oil-related restrictions also resulted in the growth of electricity consumption by oil-extracting and oil-transporting companies. Besides, in 2021 metallurgic, machine-building, chemical and lumber enterprises and electrified railroad transportation also increased their electricity consumption.

Electricity consumption in the Company's areas of service in 2021 totaled 103,104.6 million kWh (+3,849.2 million kWh or +3.88%).

Electricity consumption in the Company's areas of service in 2020–2021, million kWh

Energy system	2020	2021	YoY (+/-)
Perm region	22,397.3	23,287.3	+890
Sverdlovsk region	41,347.0	43,004.5	+1,657.5
Chelyabinsk region	35,511.1	36,812.8	+1,301.7
Total	99,255.4	103,104.6	+3,849.2

Source: 2021 UES of Russia's functioning report.

Specificities of regional economies determine demand growth. Thus, in the energy system of the Sverdlovsk region large investment projects are mainly in metallurgy (AO KUMZ, AO NLMK-Ural, AO PNTZ, OAO Svyatogor, PAO Corporation VSMPO-AVISMA), electricity consumption growth is also forecast in the transportation system (OAO RZhD — in the Sverdlovsk region). In the energy system of the Chelyabinsk region electricity demand is defined by development of power-intensive metallurgy enterprises (PAO Magnitogorsk Metallurgical Plant, PAO Chelyabinsk Metallurgical Plant, PAO Ashinsky Metzavod, AO KMEZ, AO Tominsky GOK, FGUP PO Mayak, etc.). In the energy system of the Chelyabinsk region electricity demand is driven by production growth of PAO Uralkali, OOO Eurochem — Usolye Potash Plant, AO Solikamskbumprom.

Electricity demand outlook in the Company's areas of service for 2022–2024, billion kWh

Energy system	2022F	2023F	2024F
Perm region	23,860	24,611	25,102
Sverdlovsk region	43,492	44,159	44,652
Chelyabinsk region	36,840	37,675	38,473
Total	104,192	106,445	108,227

Source: Scheme and program of the UES of Russia's development for 2021–2027 (adopted by Ministry of Energy Decree dated as of 26.02.2021 No. 88).

Mid-term targets and forecasts on macroeconomic and industry fundamentals may be revised in future due to exacerbated geopolitical situation and economic pressures of sanctions on the Russian economy.

Pricing and tariffs in the Energy Sector for 2022–2024

According to the Ministry of Economic Development's Outlook of the socio-economic development of the Russian Federation till 2024, the national average growth of regulated tariffs for consumers, except for residential consumers, shall total 3.8% in 2022. This decision, on the back of consumption growth, will compensate the gridcos for a significant cost inflation, as a result of upsurge in prices for materials and equipment. In 2023–2024 indexation will correspond with long-term decisions, adopted earlier, that put a system pressure on growing costs of the gridcos. Indexation of tariffs for consumers other than residential consumers will not exceed 3.0% p.a. The above-mentioned indexation does not consider standalone decisions of the Government, made to eliminate local imbalances in standalone regions.

To reduce the scope of cross-subsidy in the sector, indexation of transmission tariffs for residential consumers, on country's average, shall remain at 5.0% p.a., regulated electricity transmission tariffs for residential consumers growing with the same pace. The dynamics of non-regulated prices for ultimate customers, except for residential consumers, on retail market in 2022 will be at an average of 4.7%. In 2023–2024 it will not exceed the target inflation, stipulated in the scenario conditions, and will be at an average of 2.1%.

Forecasts on changes of electricity tariffs in 2022–2024

Indexation of tariffs	2022F	2023F	2024F
for all consumer categories, except for residential sector	3.8%	3.0%	3.0%
for residential sector	5.0%	5.0%	5.0%

Source: Outlook of the socio-economic development of the Russian Federation for 2022 and 2023–2024 (Ministry of Economic Development), <https://economy.gov.ru/>

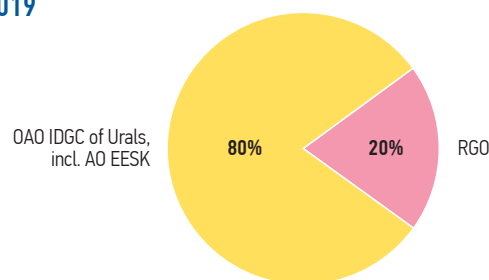
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Company's Market Share

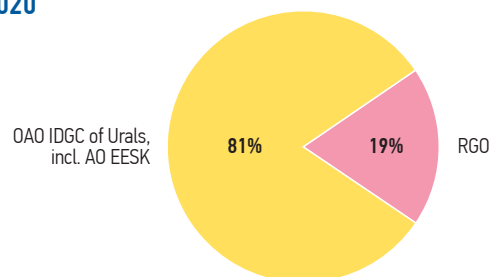
ОАО ИДГК Урала renders services to customers across the Perm, Sverdlovsk and Chelyabinsk regions. The Company is a natural monopoly with state-regulated electricity transmission and connection tariffs. The area of service is also abundant in other regional grid operators transmitting electricity mainly through low- and medium-voltage networks. In 2021, the Company's GRR-based share of the electricity transmission market totaled 81%, RGOs' share being 19%.

Company's market share in terms of GRR

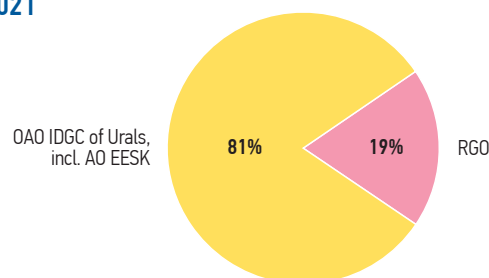
2019



2020



2021





Peers

There are no public peers in the Company's area of service. Usually, for evaluation purposes analysts compare Rosseti Ural with other interregional distribution grid companies (PAO Rosseti's affiliates, rendering services in other regions) that are not Company's peers.

Company*	Revenues, RUB billion	Net income, RUB billion	Revenues, RUB billion	Profit for the period, RUB billion	Market value, RUB billion as of 30.12.2021	2021 trading volumes, RUB billion
	RAS		IFRS			
Rosseti Moscow Region	182.0	11.6	184.7	10.5	60.3	2.1
Rosseti Lenenergo	93.4	19.8	93.5	15.5	87.2	12.2
Rosseti Volga	64.8	0.12	64.9	0.98	9.4	1.0
Rosseti North West	45.8	1.1	50.3	-0.88	4.9	0.7
Rosseti North Caucasus	34.6	-14.2	34.6	-27.9	23.9	0.2
Rosseti Siberia	60.6	1.1	60.7	0.7	33.0	1.6
Rosseti Ural	82.7	5.2	96.5	3.8	15.4	0.6
Rosseti Center	103.2	4.1	108.1	4.4	17.4	3.4
Rosseti Center and Volga	106.4	10.6	106.7	9.95	26.0	5.9
Rosseti South	41.5	2.1	43.4	-3.7	6.9	0.5
Rosseti Kuban	57.7	1.7	58.0	1.9	22.3	0.06

* Brands of the companies.

Source: open sources (columns 2–5), Moscow Exchange (columns 6–7).

DEVELOPMENT STRATEGY

Strategic planning in OAO IDGC of Urals is aligned with the goals and objectives, outlined in the Development Strategy of the Rosseti Group until 2030, and focused on the implementation of industry strategic planning documents, incl. Energy Strategy of the Russian Federation¹ and Strategy for Development of the Electric Grid Sector of the Russian Federation².

The Development Strategy of the Rosseti Group stipulates transition to a 'modern innovative infrastructure' business model. The primary strategic goals of the Rosseti Group are:

- provision of reliable and high-quality electricity supply at a given level;
- enhancement of total shareholder return;
- provision of resilience to changes of global and domestic electricity markets.

OAO IDGC of Urals' Policy is focused on strict compliance with statutory and other requirements in service delivery, holistic change and improvement of business by implementing digital technologies and expanding service areas as well as creating safe and comfortable labor conditions for the personnel.

To achieve the strategic goals of the Rosseti Group the following program documents on the key lines of business were developed and approved:

- The 2020–2030 Digital Transformation Program;
- The 2020–2024 Innovation Development Program to be potentially extended till 2030 and mid-term implementation roadmap for 2021–2025;
- The 2021–2025 Investment Development Program;
- The 2021–2025 Enhanced Operating Efficiency and Cost-Cutting Program;
- The Development of Smart Metering Program.

OAO IDGC of Urals' Goals for 2021 were set for a short-term period with consideration of unattainable goal risks (risks of business operations and functional risks), to comply with:

1. Strategic goals of the Rosseti Group.
2. Strategic priorities of industry development, as stated in the Strategy for Development of the Electric Grid Sector of the Russian Federation.
3. Figures of the Company's revised business plan for 2021–2025.
4. C-level KPI system of the Company.
5. RK ISM-MRSK-01 "OAO IDGC of Urals' Integrated Management System Guidelines".