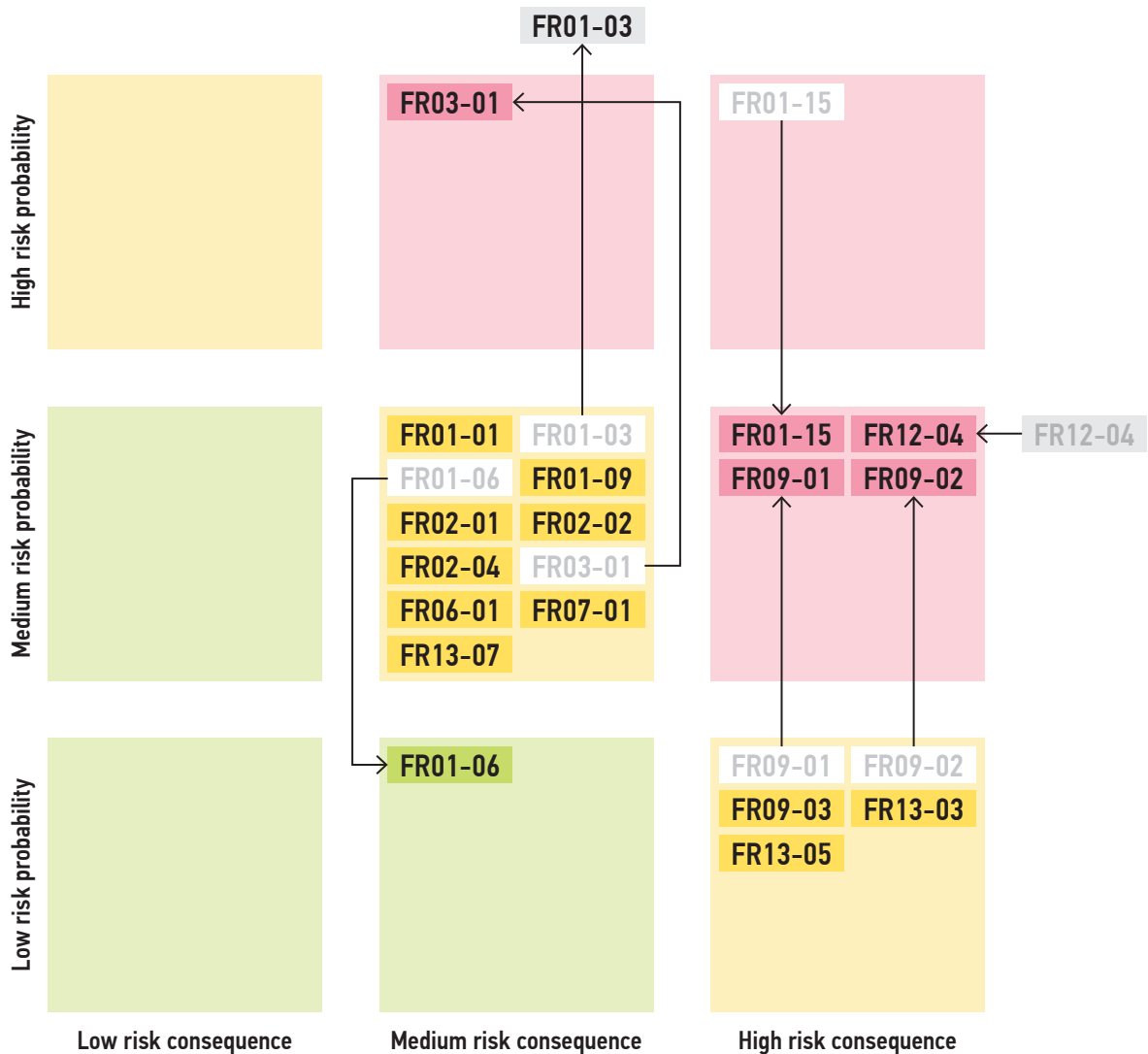


KEY RISKS

The Company regularly reveals, evaluates and controls risks, adapts its activities to reduce the likelihood and potential consequences of risk occurrence as well as informs shareholders and other stakeholders about it. As stated by the Risk Management Regulations, the Executive Board⁶ has adopted the list of risks for 2021 consisting of 41 functional risks. These are holistic risks of business processes and risks with material effect on Company’s operations, incl. on KPIs of the sole executive body of the Company, and on the achievement of the goals related to the grid management and enforcement of strategic goals of the Rosseti Group through the KPIs.

To measure the impact of the risks on Company’s operations, risk materiality is defined. Risks are classified into three materiality levels: moderate, important, crucial. Measures to minimize risks with “important” or “crucial” materiality are included into the 2021 risk management action plan. Changes in evaluations of risk importance in 2021 in comparison to 2020 are presented in the graphs.



The list of the most significant risks impacting Company’s operations as well as measures to minimize adverse impacts is presented below.

Management of the Company's key risks

Risk FR01-01 Important in 2020 Important in 2021

Reduction of electricity transmission volumes for consumers connected to regional distribution networks.

Influence on achievement of consolidated operating profit (EBITDA).

Measures to manage the risks:

- Monitoring and forecasting of electricity consumption on a disaggregated basis by voltage levels, which determine differentiation of the transmission prices (tariffs), by consumer categories, as well as monitoring of physical parameters of electricity balance and capacity, activities related to the enhancement of accuracy and integrity of electricity and capacity demand planning.
- Interaction with consumers to approve planned transmission volumes, incl. requested capacity, to be included into electricity transmission contracts and filed with the tariff regulators.

Risk FR01-03 Important in 2020 Absent in 2021

Application of negative smoothing of GRR during tariff approval procedures (for current reported period, net of accumulated volumes).

Influence on achievement of consolidated operating profit (EBITDA).

On the initiative of the risk owner, the risk was excluded from the list of risks, since negative smoothing of GRR during tariff approval procedures is applicable only to RAB tariffs.

Risk FR01-06 Important in Moderate in 2021

Inflation increase.

Influence on achievement of consolidated operating profit (EBITDA).

No measures were planned for 2021, since risk materiality declined.

Risk FR01-09 Important in 2020 Important in 2021

Fines applied to GRR for failures to execute the investment program.

Influence on achievement of consolidated operating profit (EBITDA).

Measures to manage the risks:

- Weekly control over the execution of the key investment program parameters by branches and Company at large;
- Control over target financing of the investment program projects with funds from the transmission tariff.

Risk FR01-15 Crucial in 2020 Crucial in 2021

Change of bad debt reserves (in compliance with the rules for maintaining accounting records).

Influence on achievement of consolidated operating profit (EBITDA).

Measures to manage the risks:

- Implementation of measures to reduce overdue transmission receivables and settle disputes, stipulated by the Regulations on Handling of Transmission Receivables Carried on the Balance Sheet.

Risk FR02-01 Important in 2020 Important in 2021

Increase of funding of the investment program and/or standalone projects (in comparison to the set limits).

Influence on achievement of consolidated Net Debt / EBITDA.

Measures to manage the risks:

- Control over compliance of requests included into the procurement plan with the investment program at the request approval stage.

Risk FR02-02 Important in 2020 Important in 2021

Implementation of standalone investment projects that are beyond the investment program.

Influence on achievement of consolidated Net Debt / EBITDA.

Measures to manage the risks:

- Control over compliance of requests included into the procurement plan with the investment program at the request approval stage.

Risk FR02-04 Important in 2020 Important in 2021

Deviation of DEBT/EBITDA ratio.

Influence on achievement of consolidated Net Debt / EBITDA.

Measures to manage the risks:

- Obtainment of economically viable tariffs with due regard to the compliance of the tariff levels with the levels in the approved business plan;
- Control over keeping opex at the approved levels and achievement of the set targets related to reduction of per-unit opex;
- Cost management, dependent on expected revenues (factoring in mandatory requirements to reliability and security);
- Control over the execution of debt restructuring agreements.
- Control over covenants, stipulated by credit contracts.

Risk FR03-01 Important in 2020 Crucial in 2021

Contractors' failures to pay for electricity transmission services within the contractual terms and/or Contractors' underpayments.

Influence on achievement of target level of electricity transmission receivables.

Measures to manage the risks:

- Timely claim administration to reduce receivables, control over timeliness of procedures;
- Cooperation with the Federal Bailiff Service in aid of execution, signing of cooperation contracts with the Federal Bailiff Service, control over debt repayment through enforcement proceedings on judicial decisions related to collection of overdue debt.

Risk FR06-01 **Important in 2020** **Important in 2021**

Failure to follow contractual connection schedules.

Influence on compliance with connection terms.

Measures to manage the risks:

- Registration of “ready-for-connection” notices from applicants in the ACS on connection;
- Filing of “approaching connection deadline” notices with applicants;
- Timely filing of “Company-ready-for-connection” notices with applicants.

Risk FR07-01 **Important in 2020** **Important in 2021**

Contractors’ failure to follow the schedules of designing, supply, construction, commissioning.

Influence on compliance with the facility launch schedule, %.

Measures to manage the risks:

- Control over the achievement of milestones of control;
- Control over the GMPS execution.

Risk FR09-01 **Important in 2020** **Crucial in 2021**

Casualties through the fault of the personnel.

Influence on zero increase of casualties among the employees.

Measures to manage the risks:

- Control over the execution of the activities from the Company’s 2021–2023 Reduction of Personnel Injuries Risks Program.
- Execution and control over the execution by the Company’s structural units of the HR Regulations in terms of personnel safety training, knowledge checks, OHS briefings and subsequent knowledge tests, etc.
- Provision of safe working environment by acquiring certified, high-quality and compliant with requirements protective gear, rinsing and deactivating PPE, serviceable tools and equipment, control over correctness of their usage, accounting, storage, testing, etc.
- Control over the execution of organizational and regulatory documents, programs, containing labor safety requirements.

Risk FR09-02 **Important in 2020** **Crucial in 2021**

Casualties through the fault of outsiders.

Influence on zero increase of casualties among the employees.

Measures to manage the risks:

- Execution of the target program related to the equipment of special-purpose vehicles and transport, used for operations and personnel transportation, with advanced safety technologies by upgrading or re-equipment.
- Training of Company’s drivers (professionalizing programs, defensive driving).
- Control over the execution of activities related to inspection of compliance of equipment with standard process documentation (examination of proper functionality of fences and doors of substations, examination of presence of warning signs and locks, detection of possible intrusion places in constructions and fences of grid facilities).

Risk FR09-03 **Important in 2020** **Important in 2021**

Casualties and occupational deceases resulting from production factors.

Influence on zero increase of casualties among the employees.

Measures to manage the risks:

- Arrangement of special evaluation of working environment and laboratory and production control.
- Provision of safe working environment by acquiring certified, high-quality and compliant with requirements protective gear, rinsing and deactivating PPE, serviceable tools and equipment, control over correctness of their usage, accounting, storage, testing, etc.

Risk FR12-04 **Absent in 2020** **Crucial in 2021**

Involvement of the Company / Company’s employees in corruption.

Influence on compliance with laws, incl. laws preventing and combating corruption and antimonopoly laws.

Measures to manage the risks:

- Implementation of measures from the corruption-combating plans for a correspondent year.
- Conduct of annual declaration campaigns.

Risk FR13-03 **Important in 2020** **Important in 2021**

Malfunction and (or) breakdown of information and telecom infrastructure of grid facilities.

Influence on provision of integrated safety and security of Company’s operations.

Measures to manage the risks:

- Implementation of activities from the Company’s Build-Up of Integrated Information Security System Program.

Risk FR13-05 **Important in 2020** **Important in 2021**

Undue influence on grid facilities and their information and telecom infrastructure (acts of terrorism, sabotage, crimes, etc.), incl. IT attacks.

Influence on provision of integrated safety and security of Company’s operations.

Measures to manage the risks:

- Implementation of the target program on strengthening of counter-terrorist and anti-diversionary security of the Company’s facilities for 2016–2022.
- Arrangement of checks of counter-terrorist and anti-diversionary security of the Company’s facilities, equipment of facilities with technical security equipment, compliant with the requirements, execution of contractual liabilities by private security companies.

Risk FR13-07 **Important in 2020** **Important in 2021****Wilful misconduct of corporates, individuals and employees bringing economic losses and harming business reputation.**

Influence on provision of integrated safety and security of Company's operations.

Measures to manage the risks:

- Cooperation with the Federal Bailiff Service in aid of execution, signing of cooperation contracts with the Federal Bailiff Service, control over debt repayment through enforcement proceedings on judicial decisions related to collection of overdue debt.
- Inspections (investigations) related to identification of signs of unlawful actions by corporates, individuals and employees.
- Timely protection of the Company's interests involving law enforcements if necessary.

Key risks occurred in 2021**Risk FR01-15** **Crucial****Change of bad debt reserves (in compliance with the rules for maintaining accounting records).**

Influence on achievement of consolidated operating profit (EBITDA).

Risk occurred.

By the YE, a RUB 1,570.7 million bad debt allowance was formed (target: RUB 275.8 million). Deviation from the target totaled RUB 1,294.8 million.

Target balance = (-) RUB 1,631 million.

Actual balance = (-) RUB 1,584 million.

Deviation = 47 million. I.e. occurrence of the risk reduced net income by RUB 47 million.

Measures to compensate occurred risks:

- Filing of claims with non-paying contractors.
- Filing of actions and overdue debt enforcement.
- Negotiations with contractors.
- Introduction of restrictions of power consumption by non-paying consumers.
- Conclusion of direct contracts with consumers.
- Conclusion of contracts of assignment.
- Conclusion of agreements on debt restructuring.
- Examination of issues related to non-payments by regional commissions, liable for monitoring of payments for electricity supplied and transmission services.

Risk FR09-01 **Crucial****Casualties through the fault of the personnel.**

Influence on zero increase of casualties among the employees.

Risk occurred.

PD "Central Electric Grids" (Sverdlovenergo): a casualty with one injured person (fatality) (25.05.2021)

PD "Nizhny Tagil Electric Grids" (Sverdlovenergo): a casualty with one injured person (fatality) (31.05.2021).

Measures to compensate occurred risks:

- Execution of measures, stipulated by the acts⁷ and order⁸.
- Execution of measures, stipulated by the acts^{9,10} and order¹¹.

Risk FR09-02 **Crucial****Casualties through the fault of outsiders.**

Influence on zero increase of casualties among the employees.

Risk occurred.

PD "Magnitogorsk Electric Grids": RTA with 2 injured persons (serious and light injuries) (11.03.2021).

PD "Kungur Electric Grids" (Permenergo): RTA with 2 injured persons (light injuries) (01.08.2021).

Measures to compensate occurred risks:

- Execution of measures, stipulated by the acts^{12,13}.
- Execution of measures, stipulated by the acts^{14,15}.