DEVELOPMENT STRATEGY

A key change in the Group’s activities was switching to a business model based on advanced innovative infrastructure. Promoting the further enhancement of efficiency of current activities to develop the sector and ensuring reliability, quality and accessibility of infrastructure in the new digital environment is among the main strategic priorities. Strong focus is made on balancing the interests of all parties, including the state, customers, shareholders, and investors, as well as on developing new business lines.

It is planned to achieve the Group’s strategic priorities by the following activities:

- Technological and innovative development
- Digital transformation
- Business diversification
- Maintenance of information and technological security
- Further enhancement of operational and investment performance
- Promotion of legislative initiatives to improve pricing in the industry

THE COMPANY, AS PART OF THE UNIFIED ELECTRICITY DISTRIBUTION GRID COMPLEX OF RUSSIA AND ROSSETI GROUP, STRIVES TO ACHIEVE THE GOALS DEFINED AT THE STATE LEVEL IN ORDER TO IMPLEMENT THE GROUP’S DEVELOPMENT STRATEGY FOR THE PERIOD UNTIL 2030.

The strategy was approved by the resolution of the Board of Directors of PJSC Rosseti (Minutes No. 388 dated 26 December 2019).

Edgar Armaganyan
First Deputy General Director – Director of Sochi Power Grid branch

1. Ensuring reliable, stable and affordable electricity supply in new digital environment
2. Ensuring further improvement in the efficiency of the core business of electricity transmission
3. Promotion of legislative initiatives for development of the sector
4. Maintenance of the balance of interest for all parties: state/consumers/shareholders/investors
5. Development of new business areas (non-tariff services and consumer services) through the digital transformation to ensure the Company’s resilience to changes in the sector
6. Promotion of energy and environmental safety
IN IMPLEMENTING THE STRATEGY, THE COMPANY IS GUIDED BY THE OBJECTIVES PRIORITISED AS FOLLOWS.

Priorities and objectives of the state policy in the power grid sector based on the following documents:

- Order of the President of the Russian Federation No. 204 dated 7 May 2018 On National Goals and Strategic Objectives of the Russian Federation till 2024
- Comprehensive Plan for the Modernisation and Expansion of Backbone Infrastructure for the Period until 2024 approved by Order of the Government of the Russian Federation No. 2101-r dated 30 September 2018
- The Digital Transformation 2030 Concept approved by the Board of Directors of PJSC Rosseti on 28 December 2018 (Minutes No. 336)

The Company’s strategic objectives are developed taking into account those of Rosseti Group and approved by the Company’s Management Board (Minutes No. 7/2017 dated 12 April 2017).
<table>
<thead>
<tr>
<th>Objective</th>
<th>Results in the reporting year</th>
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| More reliable electricity delivery in the Krasnodar Territory and the Republic of Adygea | Annually, the Company performs a range of measures for retrofitting, modernisation and renovation of existing power grid facilities; those measures are aimed at achieving the following key objectives:  
  • Improving the reliability of power supply to consumers  
  • Providing safe working environment for the personnel  
  • Constraining the equipment physical deterioration growth rate  
  • Reducing the proportion of equipment that has reached service life specified in the regulatory documentation  
  • Improving the equipment performance  
  • Ensuring compliance with environmental protection and ecological safety requirements and regulations  
  • Cutting down operating costs in the long term  
  • Supporting the production activities in the course of operation of power grid facilities, including those related to preventing and responding the emergencies  
  
  **For more details, please see the Operating Results section.**  
  The Company’s reliability indicators (ISAIDI, ISAIFI) increased compared to the previous year, but did not exceed the target values set by the Regional Power Commission — the Price and Tariff Department of the Krasnodar Territory for the reporting year, taking into account the permissible deviation.  
  The number of accidents in the 110 kV and above grid decreased by 3% as compared to the previous year |
| Better customer service quality and more accessible power grid infrastructure | The indicator of the grid connection quality (I_{gc}) is 1.065; it is within the planned value established by the Regional Power Commission — the Price and Tariff Department of the Krasnodar Territory for the reporting year, taking into account the permissible deviation |
| Advanced development of the grid and adoption of new technologies       | During the reporting year, innovative technologies were introduced in the following key areas of the Innovation Development Programme:  
  • Transition to 35–110 (220) kV smart substations  
  • Transition to the grids featuring active adaptation and distributed smart automation and control system  
  • Transition to integrated efficiency of business processes and automation of control systems  
  • Application of advanced technology solutions and materials in power engineering  
  • Promotion of an innovative development management system and building an innovative infrastructure  
  
  **For more details, please see the Operating Results section.** |
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<td>Stronger investment appeal and capitalisation</td>
<td>The Board of Directors of the Company approved the Operational Efficiency Improvement and Cost Reduction Programme of PJSC Rosseti Kuban for 2021–2025; the Programme includes a list of measures to ensure that the Company achieves its strategic objectives and improves its internal efficiency. The performance indicators of the Programme take into account the Company’s performance targets. Revenue in 2021 is RUB 57,670 mn, up RUB 8,3 year-on-year. EBITDA in 2021 is RUB 8,879 mn, up RUB 4,124 mn year-on-year. The profit of RUB 1,711.8 mn was mainly due to an increase in revenue from electricity transmission as a result of higher electricity consumption. The net asset value at the end of the reporting year is RUB 40,466 mn, compared to RUB 37,989 mn at the end of 2020. The year-on-year increase in net assets was RUB 2,476 mn, driven by the increase in equity on account of the year-end profit. The market capitalisation of the Company at the end of 2021 (without taking into account the additional shares placed) is RUB 21.99 bn; if the additional shares placed are taken into account, it makes RUB 22.46 bn. At the end of 2020, that figure was RUB 22.69 bn. The maximum capitalisation in 2021 was RUB 28.8 bn, while the minimum level was RUB 21.1 bn. The weighted average price per share declined by 11.06% over the reporting year on the back of a 13% rise in the Moscow Exchange Index and a 16.3% decline in the Electric Power Industry index of the Moscow Exchange</td>
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<td>Decent working conditions, improvement of professional competence and loyalty of the Company’s personnel</td>
<td>In 2021, the level of average salary of production personnel in the branches of Rosseti Kuban is competitive; in all branches of the Company, it exceeds the accrued salary level being average in the region of operation, by 10–50%. In 2021, the progress on Personnel Training Plan was 112%</td>
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<td>Staying within the standard rates of electricity loss in transmission</td>
<td>The actual loss of electricity in transmission was 9.92% of the amount of delivery to the grid; the standard rate of loss was met, according to the results of the year</td>
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