



Being part of the unified power distribution grid complex of Russia and the Group of Companies of Rosseti, PJSC, the Company strives to achieve the goals set by the state.

The strategic goal of Rosseti Kuban, PJSC is to upgrade the reliability and quality of power supply to consumers in the Krasnodar Territory, the Republic of Adygeya, and the Sirius Federal Territory to a level that is comparable to the best foreign counterparts, while ensuring the social and economic development of the regions covered and the economic efficiency of its services.

EDGAR ARMAGANYAN

First Deputy General Director, Director of Sochi Power Grids Branch

INDUSTRY OVERVIEW

The Company operates in the Russian electric power industry, which is the most important basic sector for generating, transmitting, distributing and selling electricity to consumers.

The Russian energy system consists of the Unified Energy System (UES) of Russia, which includes seven unified power systems (UPS) — UPS of Centre, UPS of Central Volga, UPS of Urals, UPS of North-West, South, Siberia and East, as well as technologically isolated territorial energy systems. Rosseti Kuban is part of the Integrated Energy System (IES) of South.

The Russian electric power sector faces the same challenges as the global electric power sector, but distinct hazards, as indicated by the following concerns shared by the fuel and energy complex (FEC):

- Slowdown in global economic growth, a change in consumption patterns and slumping demand for FEC products, overproduction of hydrocarbon energy resources and, as a consequence, persistently low prices for them

- Lack of investment resources, including due to the limited possibility of raising long-term foreign funding and the poor development of venture capital lending
- Maintenance of non-market relations, alongside market relations, and burdens in the end-use of FEC products and services, including the existence of cross-subsidisation
- Great challenges to scientific and technological development set out in the Strategy for Scientific and Technological Development, in particular the qualitative change in the nature of global and local energy systems, the growing importance of the power supply capacity of the economy and the ramp-up in the energy production and conservation, its transmission and efficient use

Along with the problems common to the whole fuel and energy complex, the power industry has the following sector-specific problems and risk factors:

- Disproportion between the claimed electricity consumption characteristics at the time the grid connection is made and their subsequent actual values
- Low payment discipline of consumers in the retail electricity market
- Imperfections in the current model of relations and pricing in the energy and heat supply sector and competitive problem in the electricity and capacity markets
- Persistence of cross-subsidisation that reduces the efficiency of the centralised energy supply system
- Insufficient automation of technological processes and increased vulnerability of facilities due to the higher complexity of their control systems and algorithms

Macroeconomic trends in the reporting year

According to IMF estimates, global GDP in 2023 totalled USD 104.5 trillion, including Russia's GDP of USD 1.9 trillion (11th place in the world). In the GDP ranking by purchasing power parity in the reporting year, Russia ranked 5th in the world.

The reporting year was quite successful for Russia, despite the ongoing drop in demand for Russian energy commodities and several restrictions related to finance, energy, technology, transportation and logistics. According to Rosstat, Russia's GDP grew by 3.6% in 2023. Positive momentum was seen in industrial production, construction works and consumer activity. The unemployment rate for 2023 stood at 3.2% (3.7% in 2022).

According to SO UPS¹, electricity generation by UES of Russia power plants in the reporting year totalled 1,134.0 billion kWh, while electricity consumption reached 1,126 billion kWh, rising by 1.4% year-on-year (and by 1.7%, given comparable temperature conditions). This testifies to the progressive development of the Russian economy, an increase in business activity, and the creation of new jobs.

1.9
USD trln

Russia's GDP (11th place in the world)

1,134.0
bln kWh

electricity generation by UES of Russia power plants in the reporting year

1,121.6
bln kWh

electricity consumption (increased by 1.4% vs. 2022)

Main factors that govern the overall health of the Russian economy and have an impact on the electrical sector²

Indicators	2023	2022
Changes in GDP (against the previous year)	103.6%	97.9%
Industrial production index (against the previous year)	103.5%	100.7%
Production index for "Provision of electric power, gas and steam; air conditioning" (against the previous year)	100.2%	100.5%
Inflation	5.9%	13.8%
Interest rates for loans and borrowings	During the year, the key rate of the Bank of Russia rose from 7.5% to 16.0%	During the year, the key rate of the Bank of Russia changed several times: at the beginning of the year — 8.5%, then an upsurge to 20% and a gradual decrease to 7.5%

Specific factors that determine the industry growth dynamics, in descending order of importance

Factors	Description	Current state	Mitigation measures (if possible)
State tariff regulation	Electricity transmission and grid connection services are state-regulated activities. Tariffs for the Company's services approved by regulators directly affect the amount of revenues received	Tariffs for the Company's electricity transmission services are set with an increase within the growth rate specified by the Russian Federation's socio-economic development forecast	<ul style="list-style-type: none"> • Economic justification of tariff-covered costs, including economically justified over-tariff costs and shortfalls of previous periods lost due to reasons beyond the Company's control • Industry improvement pricing measures, jointly with Rosseti, PJSC

¹ Source: Functional report of the UES of Russia in 2023.

² Sources: Rosstat, Bank of Russia.