



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.

Factors	Description	Current state	Mitigation measures (if possible)
Power consumption dynamics	Change in energy consumption volumes has direct impact on the industry	Actual electricity consumption in the UES of Russia in 2023 was 1,121.6 billion kWh, up 1.4% year-on-year ¹ . Actual electricity consumption in the IES of South in 2023 was 113.5 billion kWh, up 2.3% year-on-year ¹ .	Development of new (non-tariff) business types and increase in non-tariff sources of income
WECM price behaviour	Changes in electricity prices in the wholesale electricity and capacity market (WECM) have a direct impact on the size of compensation for electricity losses in power grids and, accordingly, on all activities of the Company	The unregulated purchase price of electricity to compensate for losses on the WECM in 2023 increased by 7.9% year-on-year	Changes in the price of electricity on the WECM are beyond the Company's influence. In order to cut down the costs of purchasing electricity to compensate for its losses, the Company is making continuous efforts to reduce the volume of electricity losses in power grids
Current state of the industry	All aspects of the Company's operations are directly impacted by the state of the industry	<ul style="list-style-type: none"> High wear and tear of main generating and grid equipment Cutback of industry-specific investment programmes Default in payment 	Measures for retrofitting, upgrade and renovation of existing power grid facilities Introduction of the up-to-date Company's management tools, automation of key functions to improve management decision-making

Outlook for the industry

According to the forecast of socio-economic development of the Russian Federation for 2024 and the planned period of 2025 and 2026³ in the medium term:

- Global price levels and the rouble exchange rate will stabilise
- In 2024, the growth of Russian exports will accelerate to 2.6% year-on-year and stabilise at 2.4–2.7% per annum from 2025–2026 on
- Growth rate of import volumes will slow down
- Inflation rate is expected to be 7.2% in 2024, 4.2% — in 2025, and from 2026 — 4.0%
- GDP is projected to grow by 2.2–2.3% per annum in real terms in 2024–2026 through economic policy measures aimed at promoting structural adjustment of the economy
- Investments in fixed assets are predicted to grow at an average annual rate of up to 3%, retail trade turnover is expected to grow by 3.4–3.6%

annually in 2024–2026, and the volume of paid services to the households is projected to increase to an average annual rate of 2.6%; consumer demand will be supported by an average annual growth in real disposable income of the population by 2.6%

- The situation on the labour market will remain stable, and the system of professional reorientation of personnel will continue to develop
- A key external risk — a slowdown in the global economy — is likely to materialise, which may adversely affect demand for traditional Russian export goods and lead to a decline in export prices; this poses risks for the development of export-oriented industries and the budget
- There may be a shortage of workforce on the labour market
- Indexation of electricity transmission tariffs for consumers, including households, will be 9.1% in 2024, 6.0% in 2025, and 5.0% in 2026

In accordance with the Scheme and Programme of Development of Electric Power Systems of Russia for 2024–2029 approved by the Ministry of Energy of Russia:

- Electricity consumption in the UES of Russia is forecast to grow to 1,274.5 billion kWh by 2029, with an average annual growth rate of 2.04%
- Expected capacity demand in 2029 will be 183.4 GW, which is 24.5 GW more than in 2022, with an average annual growth rate of 2.07% for maximum capacity consumption
- The south-western part of the UES of the South (the Company's area of operation) was identified as one of the territories of technologically necessary generation: a power shortfall of at least 857 MW is forecasted here by 2029

¹ Source: Functional report of the UES of Russia in 2023.
² Source: Ministry of Economic Development of Russia.

DEVELOPMENT STRATEGY

The goals and objectives of the Company's development strategy are in line with the national development goals of Russia and strategic objectives set for the power grid sector at the federal level:



Presidential Decrees No. 204 dated 7 May 2018 "On National Goals and Strategic Objectives for the Development of the Russian Federation until 2024" and No. 203 dated 9 May 2017 "On the Strategy for the Development of Information Society in the Russian Federation for 2017–2030"



Comprehensive plan for the modernisation and expansion of trunk infrastructure until 2024 approved by the Russian Government Order No. 2101-r dated 30 September 2018



Energy Strategy of the Russian Federation until 2035 approved by Order No. 1523-r of the Government of the Russian Federation dated 9 June 2020, and other state documents related to the electric power industry

Strategic goals of the Company



Reliability

More reliable electricity supply in the Krasnodar Territory and the Republic of Adygeya



Growth

Stronger investment appeal and higher capitalisation



Quality

Better customer service quality and more accessible power grid infrastructure



Working conditions

Decent working conditions, improvement of professional competence and loyalty of the Company's personnel



Development

Advance grid development and adoption of new technologies

¹ As amended by Presidential Decree No. 474 dated 21 July 2020.