

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 Board has adopted the list of risks for 2023⁷, consisting of 31 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 the Rosseti Group's strategic goals 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 2023 risk management action plan.

In 2023, the Board of Directors⁹ adopted the PAO Rosseti Ural's risk appetite. The risk appetite is an aggregate of risk appetite's target indicators, which the Company tries to maintain in the course of operations. Besides, the Company also adopted the Determination of Risk Appetite Procedures⁹ to ensure a unified approach to the specification (calculation) of the risk appetite and timely managerial decision-making focused on eliminating exposed downsides and enhancing efficiency of the Company's operations.

Target indicators of the Company's risk appetite are:

- The Company ensures a reliable and high-quality electricity supply
- The Company ensures the implementation of the Labor Protection Policy, development and improvement of the occupational health and safety management system
- The Company ensures the development and enhancement of grid infrastructure's accessibility
- The Company strives to reduce electricity losses in the course of electricity transmission and distribution processes
- The Company strives to retain a sustainable financial position
- The Company strives to reduce (minimize) a negative impact on the environment
- The Company ensures that shareholders' rights are respected
- The Company has a zero tolerance to the violations of statutory requirements
- The Company strives to ensure a technological and innovative development through the implementation of scientific research results
- The Company ensures the development of human resources of the electric grid complex and maintains a consistently high level of staffing

The list of the most significant risks impacting Company's operations as well as measures to minimize adverse impacts

Risk	Influence on performance	Risk materiality		Measures to manage the risks
		2022	2023	
FR01-01 Reduction of electricity transmission volumes for consumers connected to regional distribution networks	Achievement of consolidated operating profit (EBITDA)	<u>Crucial</u>	<u>Crucial</u>	<ul style="list-style-type: none"> · 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
FR01-09 Fines applied to GRR for failures to execute the investment program	Achievement of consolidated operating profit (EBITDA)	<u>Crucial</u>	<u>Crucial</u>	<ul style="list-style-type: none"> · 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
FR01-15 Change of bad debt reserves (in compliance with the rules for maintaining accounting records)	Achievement of consolidated operating profit (EBITDA)	<u>Crucial</u>	<u>Important</u>	<ul style="list-style-type: none"> · 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
FR02-01 Increase of funding of the investment program and/or standalone projects (in comparison to the set limits)	Achievement of consolidated Net Debt / EBITDA	<u>Important</u>	<u>Important</u>	<ul style="list-style-type: none"> · Control over inclusion of requests into the procurement plan in compliance with the investment program at the request approval stage. Approval of revision of the current period's procurement plan for the next period's needs. Approval of the procurement plan for the next period's needs

FR02-02 Implementation of standalone investment projects that are beyond the investment program	Achievement of consolidated Net Debt / EBITDA	<u>Important</u>	<u>Important</u>	<ul style="list-style-type: none"> Control over inclusion of requests into the procurement plan in compliance with the investment program at the request approval stage. Approval of revision of the current period's procurement plan for the next period's needs. Approval of the procurement plan for the next period's needs
FR02-04 Deviation of DEBT/EBITDA ratio	Achievement of consolidated Net Debt / EBITDA	<u>Crucial</u>	<u>Important</u>	<ul style="list-style-type: none"> Formation of forecast cash flows for a short-term period (quarter), calculation of forecast debt portfolio Execution of "Payments to electricity transmission services, %" indicator Claiming in the course of litigation on collection of accounts receivable
FR02-05 Increased losses from general-fee connection contracts (for filers requesting 150+ kW)	Achievement of consolidated Net Debt / EBITDA	<u>Crucial</u>	<u>Crucial</u>	<ul style="list-style-type: none"> Filing of documents to compensate shortfall in incomes related to increased construction scopes vs approved technical specifications Control over inclusion of a request for procurement procedures on connected facilities in the ACSPA in terms of compliance of value from requests with key parameters of the investment program Control of ceiling (initial) price calculation justification
FR03-01 Contractors' failures to pay for electricity transmission services within the contractual terms and/or Contractors' underpayments	Achievement of target level of electricity transmission receivables	<u>Crucial</u>	<u>Crucial</u>	<ul style="list-style-type: none"> 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
FR06-01 Failure to follow contractual connection schedules	Compliance with connection terms	<u>Crucial</u>	<u>Crucial</u>	<ul style="list-style-type: none"> Registration of "ready-for-connection within connection schedule" notices from applicants in the ACS on connection Filing of "approaching connection deadline" notices with applicants Control over target and actual execution of connection contracts according to the execution rate calculation format
FR07-01 Contractors' failure to follow the schedules of designing, supply, construction, commissioning	Compliance with the facility launch schedule, %	<u>Important</u>	<u>Important</u>	<ul style="list-style-type: none"> Control over achievement of milestones envisaged by high-priority schedules Control over achievement of milestones envisaged by pre-construction schedules
FR09-01 Casualties through the fault of the personnel	Zero increase of casualties among the employees	<u>Crucial</u>	<u>Crucial</u>	<ul style="list-style-type: none"> Execution of the activities from the Company's 2021-2023 Reduction of Personnel Injuries Risks Program Provision of safe working environment by acquiring certified, high-quality and compliant with requirements protective gear, detergents and decontaminants, 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
FR09-02 Casualties through the fault of outsiders and external factors beyond employee's control	Zero increase of casualties among the employees	<u>Crucial</u>	<u>Crucial</u>	<ul style="list-style-type: none"> 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)
FR11-02 Rise in prices of materials, equipment, construction due to external factors (climate, geographical factors, inflation, crisis, etc.), left out at the approval of the Company's investment program	Reduction of per-unit investment costs	<u>Crucial</u>	<u>Crucial</u>	<ul style="list-style-type: none"> Prices are controlled by executing the Regulations PL MRSK-DKS-08: cost estimate calculation (for objects with the value of over RUB 20 mln and any IATS objects of any value) is checked during approval of a design and estimate documentation prior to its approval

FR12-04 Involvement of the Company / Company's employees in corruption	Compliance with laws, incl. laws preventing and combating corruption and antimonopoly laws	<u>Crucial</u>	<u>Crucial</u>	<ul style="list-style-type: none"> · Implementation of measures from the corruption-combating plans for a correspondent year · Conduct of annual declaration campaigns
FR12-06 Imposition of fines by the Federal Antimonopoly Service	Compliance with laws, incl. laws preventing and combating corruption and antimonopoly laws	<u>Crucial</u>	<u>Crucial</u>	<ul style="list-style-type: none"> · Regulation of business processes and interaction procedures for Company's structural units related to operations, subject to antimonopoly regulation, control over compliance with antimonopoly legislation, creation of judicial practice related to disputing enactments issued by antimonopoly authorities
FR13-03 Malfunction and (or) breakdown of information and telecom infrastructure of grid facilities	Provision of integrated safety and security of Company's operations	<u>Important</u>	<u>Important</u>	<ul style="list-style-type: none"> · Implementation of activities from the Company's Build-Up of Integrated Information Security System Program. Implementation of the security system for important facilities of crucial information infrastructure in line with the schedule for commissioning in branches with deadlines due up to 2030
FR13-05 Undue influence on grid facilities and their information and telecom infrastructure (acts of terrorism, sabotage, crimes, etc.), incl. IT attacks	Provision of integrated safety and security of Company's operations	<u>Important</u>	<u>Important</u>	<ul style="list-style-type: none"> · Introduction of proposals on equipping Company's facilities with security equipment into the investment and other programs · Arrangement of guarding and physical protection of grid facilities · Inspection of grid facilities in terms of their compliance with security requirements
FR13-07 Wilful misconduct of corporates, individuals and employees bringing economic losses and harming business reputation	Provision of integrated safety and security of Company's operations	<u>Important</u>	<u>Important</u>	<ul style="list-style-type: none"> · 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 functional risks occurred in 2023

Risk ID and title	Occurrence of risks and risk consequences	Measures to minimize the consequences of the risk occurrence
FR09 Workplace accidents	5 workplace accidents (8 employees injured: 1 fatal accident and 7 minor injuries accident).	<ul style="list-style-type: none"> · Implementation and usage of technologies ensuring safe work performance and labor conditions · Video-recording of preparation and execution of works · Implementation of the Integral Reduction of Injury Risk Among Employees Program · Training of employees, incl. practical training on methods of safe work performance on power equipment and prevention of dangers at training grounds · Conduct of off-schedule trainings for employees · Control over execution of measures, stipulated by accident investigation acts



Cybersecurity risks

High level of computer attacks on IT infrastructure and grid facilities may result in significant IT threat probability.

The following cybersecurity risks were identified as key risks:

- Disruption and/or discontinuation of operations of crucial IT infrastructure facilities of the Company as a result of illegal access to information;
- Falsification, theft of sensitive information during obtainment, processing, storage and transmission;
- Illegal access to confidential information;
- Target attacks on the Company's IT infrastructure, incl. crucial IT infrastructure facilities.

To reduce cybersecurity risks and ensure resilience of crucial IT infrastructure facilities of the Company during computer attacks, execute requirements of federal laws on IT security, the Company continued to create an integral information security system. We continued to exploit centralized IT incident monitoring system by all branches and AO EESK, continued an ongoing 24/7 monitoring of IT incidents connected to the Rosseti Group's incident monitoring center (PAO Rosseti Tsyfra). We also arranged interaction with the National Coordination Center on Computer Incidents for collaboration in detection, prevention and liquidation of consequences of computer attacks and replaced imported means of information protection, used at most crucial sections, for domestic ones.

Sustainable Development Risks

The Board of Directors adopted¹⁰ the PAO Rosseti's Sustainable Development Policy as a Company's bylaw. The policy is focused on the identification of unified principles and approaches of the Company with regard to the sustainable development. The key goal of the Company in the sphere of sustainable development is maximizing its contribution to the achievement of the UN SDGs in the course of its operations and creating additional value for stakeholders in relation to relevant domestic and global challenges. The Company conducts an ongoing analysis of the environment, examining also risks and possibilities related to sustainable development.

Sustainable Development Goals	SDG Description	Possibilities	Risks
Good health and well-being	Provision of healthy life-style and facilitation of general well-being at all ages	The Company strives to ensure the safety of the population, preserve health and well-being of its employees in the course of its operations, incl.: <ul style="list-style-type: none"> · by ensuring safe working conditions and occupational safety · by insuring health and lives of employees · promotion of sport-oriented lifestyle 	<ul style="list-style-type: none"> · Risk of workplace accidents · Risks of personnel incapacity caused by epidemiological diseases
Affordable and clean energy	Provision of general access to affordable, reliable, sustainable and modern energy	The Company ensures reliable, high-quality and easy-access electricity supply at a cost acceptable by the consumers by: <ul style="list-style-type: none"> · meeting requirements to grids exploitation, focused on maintaining reliability and QoS indicators · simplifying connection of consumer's equipment and generating facilities (incl. renewable energy resources) · by implementing investment projects focused on executing connection activities on time and in a quality manner · minimizing consumer's costs related to access to electricity; · enhancing energy efficiency and reducing electricity losses level · enhancing quality of service · developing e-services for customers 	<ul style="list-style-type: none"> · Risk of reduced reliability of power supply · Failure to achieve QoS targets · Disruption of operations of crucial IT infrastructure facilities
Industry, innovation and infrastructure	Build-up of a resilient infrastructure, promotion of sustainable industrialization and fostering of innovation	The Company fosters the development of innovations and resilient green infrastructure by: <ul style="list-style-type: none"> · maintaining and upgrading backbone and distribution grid infrastructure · implementing investment projects · implementing Digital Transformation Strategy · technological and innovative development 	<ul style="list-style-type: none"> · Damage, loss, destruction of grid facilities · Violation of integrity, accessibility, confidentiality of information · Disruption of operations of crucial IT infrastructure facilities · Failure to achieve efficiency of innovation targets · Insufficient qualifications of production personnel
Sustainable cities and communities	Making cities safe, resilient and sustainable	The Company makes cities and communities safe, resilient and sustainable, incl. by: <ul style="list-style-type: none"> · ensuring reliability and high-quality of electricity supply · implementing projects related to the National "Comfortable and safe environment for living" objective and "Smart City" concept · providing connection services, arranging outdoor lightning and electricity metering · expanding charging infrastructure for public and personal e-vehicles in the service area · applying technical architectural solutions facilitating rational use of lands in cities and communities as well as preserving the integrity of architectural look 	<ul style="list-style-type: none"> · Failure to execute plans on creation/upgrade of metering systems within the deadlines · Limitation / Inability to attract the required funding · Violation of laws, local regulatory documents while executing requests for connection/disconnection of consumers
Responsible consumption and production	Provision of transition to sustainable consumption and production patterns	The Company adheres to the rational consumption and production policy, incl. by: <ul style="list-style-type: none"> · enhancing energy-efficiency and reducing losses · preferential use of clean technologies that do not cause significant damage to the environment · rational use of natural resources in operating activities · minimizing an adverse impact on the environment · effective functioning of the environmental management system 	<ul style="list-style-type: none"> · Lack of meters, their physical and moral wearing-out · Detection of unmetered and non-contracted consumption · Risk of reduced reliability of power supply

Climate action	Urgent action on climate change and its consequences	The Company is active in combating climate change, incl. by: <ul style="list-style-type: none"> · reducing greenhouse gas emissions through: <ul style="list-style-type: none"> · loss reduction in electricity transmission and distribution · development of charging infrastructure · reduction of consumption of fuel and energy resources for own needs · ensuring supply of low-carbon electricity · recultivating lands · enhancing reliability and adaptability of the grids to dangerous climatic phenomena · promoting energy-saving and energy-saving lifestyle · implementing activities on energy-saving and enhancement of energy efficiency 	<ul style="list-style-type: none"> · Acts of nature (increased velocity of winds and repeat frequency of strong icing, accumulation of wet snow, increased repetition and intensity of extreme heat or cold, degradation of permafrost) result in accidents with power lines, cable breaks, damages of transmission towers and metal constructions, transformer substations, reduction of supporting capacity of foundations of buildings and constructions, incl. transmission towers
Partnership for the goals	Strengthening of means and revitalization of the global partnership for sustainable development	The Company focuses on promoting the implementation of global sustainable development policy, incl. by: <ul style="list-style-type: none"> · efficient liaisons with stakeholders · presence in international associations and organizations · examining and applying global best practices through international scientific and technical exchange mechanisms · support of small and medium-size businesses 	<ul style="list-style-type: none"> · Violation of deadlines for design, delivery, construction, commissioning by contractors · Unpreparedness of filer's facilities for connection and filer's failure to discharge liabilities regarding payment for connection · Involvement of the Company or its employees into corruption activities · Bankruptcy or liquidation of contractors · Violation by the Company or its employees of prohibitions and restrictions of antimonopoly legislation

The Board of Directors adopted¹⁰ PAO Rosseti's Climate Change Policy as a Company's bylaw. The policy is focused on the alignment of approaches with regard to the climate change in the course of Company's operations. The Company has arranged identification, registration and management of climate change risks.

Climate risks are divided into two groups in terms of their impact on the energy sector:

- physical risks: risks related to natural phenomena occurring due to climate change and able to influence the status and functioning of the energy system elements (generation, distribution and consumption of electricity)
- transition risks: risks related to transition to low-carbon economy, able to influence the industry economics

The Company identifies two groups of physical risks

Climate factor	Risk description	Impact mechanism
Extreme weather		
Increased velocity of winds and frequency of dangerous phenomena (gusts, windflaws, tornadoes, etc.)	<ul style="list-style-type: none"> · Exposure of network infrastructure due to non-compliance of conditions with design conditions 	<ul style="list-style-type: none"> · Accidents on power lines, related to vibration, subspan oscillation, wire overlapping and wirebreak, as well as damages to towers and metal structures
Increased frequency of strong icing, accumulation of wet snow	<ul style="list-style-type: none"> · Exposure of network infrastructure due to non-compliance of conditions with design conditions 	<ul style="list-style-type: none"> · Accidents on power lines, related to wire slackness, wire overlapping and wirebreak as well as damages to towers and metal structures
Extreme rainfall and flooding	<ul style="list-style-type: none"> · Exposure of network infrastructure to floods · High water cut, relief deformation 	<ul style="list-style-type: none"> · Flooding of ground infrastructure, damage to equipment. High frequency of landslides, destruction of foundations of buildings and structures
High frequency and intensity of extreme heat, incl. urban heat islands effect	<ul style="list-style-type: none"> · Exposure of network infrastructure due to non-compliance of conditions with design conditions · Exposure of employees to weather factors 	<ul style="list-style-type: none"> · Accidents on power lines, related to wire slackness; damage to transformer substations · Higher mortality, morbidity and loss of productivity among employees
Irreversible climate processes		
Degradation of permafrost	<ul style="list-style-type: none"> · High exposure of network infrastructure structures and communications 	<ul style="list-style-type: none"> · Reduction of load-bearing capacity of the foundations of buildings and structures, incl. power line towers

The Company identifies the following transition risks:

- increased irregularity of supply from new generation facilities when the energy balance is shifted towards renewable energy resources
- changes in consumption due to the development of energy-saving technologies and electric transport
- introduction of financial mechanisms to reduce carbon dioxide emissions that will result in electricity prices to compensate network losses
- appearance of new large consumption centers, incl. centers producing low-carbon fuel

To reduce the physical risks the Company implements the following activities to adapt the grid complex

Climate risks	Activities
Extremely high / low temperature	<ul style="list-style-type: none"> · mandatory activities to ensure reliable operations of the grid equipment are implemented on an annual basis during fire and high temperatures seasons · revision of norms to enhance reliability of power lines and transformer substations · activities to maintain designed temperature modes of production buildings
Change of temperature-humidity conditions and precipitation regime, degradation of permafrost	<ul style="list-style-type: none"> · monitoring of the soil conditions at Company's production sites located in permafrost zones · monitoring of conditions of buildings' foundations and rooftops · arrangement of anti-erosion systems keeping foundations of structures, buildings and power lines frozen
Floods	<ul style="list-style-type: none"> · identification of flooding areas, prohibition to use the zones · engineering protection of grid facilities (dams, drainage channels and hydraulic obstacles) · inspection of structures against landslides, landfalls and mudslides, coast-protection structures; any damages found, measures to reconstruct them are undertaken
Hurricanes, tornadoes, hails, high winds, icing phenomena	<ul style="list-style-type: none"> · dismantling or replacement of obsolete or frail buildings and structures, power lines towers · clearing of woody and shrubby vegetation · strengthening of production buildings · determination of safe working conditions during high winds · strengthening of linear structures, icing monitoring · training of emergency repair teams
Mudslides, water-snow flows, landslides	<ul style="list-style-type: none"> · regulation of run-off flow through vertical leveling of territories and arrangement of a run-off flow system · agroforestry, artificial change of slope relief · arrangement of anti-mudslide systems, holding structures · establishment of protected zones

To reduce an adverse impact of the Company's operations on climate, we implement the following activities:

- reduction of consumption of fuel and energy resources for production and own needs
- reduction of electricity losses during its transmission to consumers
- reduction of deforestation areas during construction, reconstruction and exploitation
- minimal consumption of material and raw materials resources through improving the Company's environmental management system
- development and creation of e-vehicles charging infrastructure
- development of new solutions for energy storage devices, launch of energy storage devices

Key activities of the Company to manage the risks of adverse impact of climate change on grid infrastructure:

- arrangement of works on the expansion of climate monitoring system in the Company's areas of service, incl. through support of relevant initiatives on federal, regional and municipal levels
- risk management, based on short-term and mid-term forecasts of climate change, factoring in scientific data and blueprints on adaptation to climate change
- development and implementation of measures on mitigation of physical risks during climate change

The Company adheres to an ethical approach in doing business and strives to promote the approach among contractors as well as foster their economic development through:

- Support of small and medium-size businesses
- Combat against corruption
- Support of fair competition

As no risks of losses from interaction with suppliers and contractors to the extent, vital for the Company, have occurred, the Company estimates the possibility of such risks as low.

