

MAIN RISK FACTORS IN THE COMPANY'S ACTIVITIES

Industry risk

The projected dynamics of the industry development is determined by the overall dynamics of the socio-economic development of the regions and sectors of the economy of the Russian Federation.

The demand for the Company's products from consumers is stable and subject to minor fluctuations. However, there are risks of a decrease in electricity consumption, mainly in the industrial sector, which may lead to a decrease in revenue from the sale of network services and, consequently, financial results.

The Company receives its main income from providing electric power transmission services to consumers in 7 regions: Saratov, Samara, Ulyanovsk, Penza and Orenburg regions, the Republic of Mordovia and the Chuvash Republic.

In addition to the Company, other large network organizations operate in the regions, each of which is limited by territorial boundaries:

- on the territory of the Samara region: JSC "Samara grid company", JSC "ORES-Togliatti", Kuibyshev Directorate of power supply - structure division of Transenergo - branch OJSC "Russian Railways", JSC "Samaraneftegaz", JSC "Transatlantictransatlantic", OJSC "Samara bearing plant", LLC "Samara grid company»;
- on the territory of the Saratov region: Oblkommunenergo JSC, SPGES CJSC, NESK CJSC, Eltreyt LLC, Electric Grid company LLC, Transport Energy Company LLC»;
- on the territory of the Ulyanovsk region: municipal unitary enterprise "Ulyanovsk city electric grids", JSC "Ulyanovsk grid company", LLC "Energomodul"; JSC "Aviastar-OPE"; LLC "Energoprom GROUP", JSC "SSC NIIR", LLC "IES»;
- on the territory of the Orenburg region: Gazprom Energo LLC, OKES, state unitary enterprise, South Ural Directorate for energy supply-a structural division of Transenergo-a branch of Russian Railways, Gaisky GOK PJSC; Oboronenergo JSC, Terra LLC;
- in the Penza region: CJSC "Penza Gorelektroset", Kuibyshev Directorate of power supply - structure division of Transenergo - branch OJSC "Russian Railways, JSC FS R&D Center "Start" named after M. V. Protsenko", JSC "Gorelektroset" (Kuznetsk), JSC "Grid company", JSC "PTPA", MP "Gorelektroset" (Zarechny);

- on the territory of the Republic of Mordovia: JSC Trading Company "Watt", LLC "Life support systems RM", LLC "Electroteploset", JSC "Mordovian electric grid»;
- on the territory of the Chuvash Republic: LLC "Municipal technologies", JSC "Kanash city electric networks", JSC "Chuvash Production division named after V. I. Chapaev", municipal unitary enterprise "CS of Novocheboksarsk", municipal unitary enterprise "Alatyr city electric networks", LLC "SK Olymp".

The Company does not have any risks associated with possible changes in prices for raw materials used in production, since the Company does not use raw materials for its main business activities.

However, it should be noted that there is a high risk of increasing the cost of purchasing purchased electricity to compensate for losses in distribution networks due to the liberalization of prices in the wholesale electricity market.

Risks of changes in prices for materials, equipment and services used by the Company for its activities are compensated by holding open auctions in accordance with the Unified procurement standard of PJSC ROSSETI (Procurement Regulations).

In accordance with the current legislation, an organization engaged in the provision of electricity transmission services is a subject of a natural monopoly in which there is no competition. The activity of such an organization is subject to state regulation.

Tariffs (prices) for the Company's services are set by the regulatory authorities of the relevant subjects of the Russian Federation (Samara, Saratov and Ulyanovsk, Penza and Orenburg regions, the Republic of Mordovia and the Chuvash Republic) within the powers defined by the Federal law of 26.03.2003. No. 35-FZ "on electric power industry", according to which the validity of tariffs is at least 12 months and can be revised only by a decision of the Government of the Russian Federation, including by the instructions of the Federal Antimonopoly service. Based on this, the risk of tariff changes within one fiscal year is possible, but not significant.

Country and regional risks

Risks associated with the political and economic situation in the country and region.

Country and regional risks are primarily caused by macroeconomic factors that are manifested at the global level, on the scale of the Russian Federation and individual regions. These factors may have a negative impact on the company's ability to raise debt capital, liquidity indicators, investment and operational efficiency, and, ultimately, on the company's shareholder value.

The current economic situation is characterized by unfavorable epidemic situation against the background of a weakening ruble exchange rate and a decrease in demand for fuel and energy resources. The Russian government is taking all measures to stabilize the ruble exchange rate, including using funds from the national welfare Fund. a number of decisions to support the economy have already been announced and are being implemented. Inflation for 2020 is moderate: and according to the ROSSTAT made 103.8%. The decrease of industrial index to the corresponding period of the previous years is expected to be 2.9%. For the 2020, the GDP decline is estimated at 3.5% in annual terms, which is close to the preliminary estimates of the Ministry of economic development of Russia. At the same time, the decline in the industrial production index is expected to reach 2.9% compared to the corresponding period last year.

The decrease in electricity and fuel industry production in the Russian economy, which was caused, among other things, by the weather factor of Q1 2020, had a negative impact on the company's revenue dynamics.

Risks associated with possible military conflicts, the introduction of a state of emergency and strikes in the country and region.

The Russian Federation is a multi-ethnic state that includes regions with different levels of social and economic development, and therefore it is impossible to exclude the possibility of internal conflicts in Russia, including the use of military force. Also, the Company cannot completely exclude the risks associated with the possible introduction of a state of emergency in the regions where the Company's branches are located, and in Russia as a whole. The Company's operations may be damaged by acts of terrorism, both domestic and international, which may also negatively affect the company's investments and the value of its securities. However, the probability of military conflicts and the introduction of a state of emergency in the country and in the regions where the Society is present is insignificant. In the event of possible military conflicts or terrorist acts, the Company's branches may bear the risk of disabling their fixed assets.

Risks associated with the geographical features of the regions of presence, including increased risk of natural disasters, possible termination of transport links due to remoteness and / or inaccessibility, etc.

In the regions where the Company operates, there is a possibility of emergency situations due to natural disasters (hurricanes, heavy rains, floods and floods, snow blockages, etc.), which may result in power supply and transport links in the region being interrupted.

The risks associated with the increased risk of natural disasters are considered minimal by the Company.

The risks associated with the possible termination of transport services due to remoteness and / or inaccessibility are considered by the Company as minimal.