

2.4.3. Financial risks

Interest risks and liquidity risks

The formed loan portfolio of the Company possesses the following characteristics, which make it possible to highly assess its quality. A wide range of creditors, including those with unselected limits, allows the Company to vary in terms of raising borrowed funds and reduce interest rates with competing offers from banks. The presence of registered bond issues provides the necessary diversification of funding sources and the ability to quickly use the optimal conditions for attracting borrowed funds. As a result, the Company has relatively low interest rates on the current loan portfolio.

Given the sufficient level of free credit limit and the presence of registered bond issues, credit risks will not have a significant impact on the company's financial condition.

In order to reduce the interest rate risk, the Company pursues a balanced credit policy aimed at optimizing the structure of the loan portfolio.

Given the existing possibilities of raising funds under the concluded credit agreements and the absence of obligatory debt for maturity, the liquidity risk does not seem significant.

Changes in interest rates under existing loan agreements and newly attracted credit resources in the current environment may lead to an unplanned increase in the cost of servicing the loan debt and, accordingly, an increase in the Company's costs. However, given the state and structure of the loan portfolio, the ability to raise funds through various types of lending, the presence of undrawn credit lines in the country's largest banks, the risks associated with changes in the interest rate will not have a significant impact on the company's financial condition.

Inflation risk

The Consumer Price Index (CPI) is used as one of the key indicators reflecting the level of inflation in the Russian Federation. Any changes in the CPI have material effect on financial and business operations of the Issuer.

As the growth of electricity transmission tariffs is capped by being under the governmental control, tariffs cannot be changed depending on the fluctuating inflation rate. Moreover, the amount of the Issuer's expenses changes depending on changes in the CPI, and since all revenues of the Issuer face the inflation-driven devaluation of the real value of future estimated revenues.

The estimated CPI dynamics based on data of the Federal State Statistics Service (Rosstat) is shown in the table below:

Period	Inflation over the period*
2020	4.9 %
2019	3.0 %
2018	4.3 %
2017	2.5 %
2016	5.4 %
2015	12.9 %
2014	11.4 %
2013	6.5 %
2012	6.6 %
2011	6.1 %
2010	8.8 %
2009	8.8 %
2008	13.3 %

* according to the data of the Federal State Statistics Service

In general, in 2020, inflation in Russia amounted to 4.9 % against 3.0 % in 2019.

In such inflation rate, inflation-related risks are not likely to have any significant impact on the Issuer's ability to make payments under securities.

Sensitivity of indicators specified in the Issuer's financial statements issued under Russian Accounting Standards (RAS) to the above financial risks.

The financial risks have the highest impact on the following financial indicators:

- receivables (decrease in the actual value of receivables debts and increase in the overdue receivables);
- cash (reduced spare cash);
- payables (failure to pay off the debt according to contractual conditions);
- payable interests (increased cost of loan servicing);
- net profit (decrease).

To mitigate the above risks, the following measures were introduced:

- optimization of financial flows due to improved financial discipline;
- development of budget policy and strict fulfillment of income and cost plan;
- implementation of smart credit policy of the Company, financing in accordance with the payment deadline under terms of contracts and forwarding operating cash flow to reduce debt;
- analysis of financial activities in order to generate offers to increase profitability and margin, to save financial resources, to improve financial stability of the Company;
- optimization of cost management through reduction of expenses;
- receivables and payables management;
- improvement of receivables claim administration;
- corporate control over financial and business activities of the Issuer.