> Being part of the unified power distribution grid complex of Russia and Rosseti Group PJSC, the Company strives to achieve the goals set by the state.
>
> The Company's primary objective is to ensure long-term, reliable, high-quality and affordable energy supplies to consumers in the Krasnodar Krai, the Republic of Adygeya and the Sirius federal territory. This objective is achieved through the organisation of a highly efficient grid infrastructure that complies with international standards for electricity transmission tariffs. The specified tariff standards keep electricity costs at a reasonable level for the Russian economy and make the industry attractive to investors through offering adequate returns on investment.
>
> **Edgar Armaganyan**
>
> First Deputy General Director — Director of Sochi Power Grids Branch

INDUSTRY OVERVIEW[1]

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 electric power industry makes a significant contribution to national security and the socio-economic development of the country. The Russian energy system consists of the Unified Energy System (UES) of Russia, which includes seven integrated energy system (IES) — IES of Centre, IES of East, IES of Central Volga, IES of Urals, IES of North-West, IES of South and IES of Siberia, as well as isolated territorial energy systems.

The Russian Federation has one of the cleanest (low-carbon) fuel-energy balances among the greatest economies in the world, with over one-third of electricity generation coming from nuclear power, hydropower and other renewable energy sources (RES), and about half — from natural gas.

The challenges facing the global energy sector are highly relevant to Russia's energy sector, while the specific threats are determined by the following issues common to 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
- Current and future demand for the main types of Russian fuel and energy products on the domestic market that is insufficient for innovative development, exacerbating dependence on demand and the situation on global markets for traditional energy resources
- Critical dependence of FEC companies on imported technology, equipment, materials, services and software in a number of the most promising areas of energy development
- Deficiency of investment resources (partly due to restraints on energy tariff growth, restricted access of fuel and energy companies to long-term financing from foreign investors, and underdevelopment of venture lending)
- Maintenance of non-market relations, alongside market relations, and burdens in the end-use of FEC products and services (including the cross-subsidisation)
- High uncertainty and often unpredictability of external conditions and factors affecting the development of the energy sector, including cultural conditions and factors, social changes, international relations, scientific discoveries and technical inventions
- Great challenges to scientific and technological development set out in the respective strategy (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)

Alongside problems common to the fuel and energy sector, the electric power sector also faces industry-specific problems and risk factors, such as:

- Mismatch between the declared power consumption values during the grid connection 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 process automation and increased vulnerability of facilities due to the higher complexity of their control systems and algorithms

[1] In accordance with the Energy Strategy of the Russian Federation until 2035 (approved by Decree of the Government of the Russian Federation No. 1523-r dated 9 June 2020).

Trends and challenges in the development of the energy sector

Changes in the population and rates of economic growth in various parts of the world are closely related to the potential for an increase in global energy consumption.

The global economy is expected to grow at a rate significantly higher than energy consumption (around 3% vs 1–1.2% per year).

The trend towards convergence in the contribution of major energy resources to the global fuel and energy balance will continue (a decline in the share of oil and coal against growth in the share of gas and non-carbon energy in the structure of global primary energy consumption). The share of electricity in end-use energy will increase.

Global energy markets, whose conditions have long ensured the robust development of the Russian Federation's energy sector and economy, are currently marked by a high degree of uncertainty and instability. They are undergoing profound transformations that could significantly alter the global energy landscape and pose new challenges to its development.

An important structural change in global energy will be the growth in the share of electricity in end-use energy — about 25% of overall energy consumption by 2040 — and, accordingly, an increase in the share of primary energy resources used to generate it. It is expected that over 40% of this increase will come from non-carbon resources.

During the forecast period, the electricity sector in most countries will be based on existing centralised power supply systems relying on large power plants that are either conventional (thermal, nuclear, hydroelectric) or solar and wind power plants operating as part of power supply systems.

New technologies for distributed power generation, microgeneration, controlled consumption, and virtual resource aggregation are creating fundamentally new conditions for the development of a competitive retail market based on automated local electricity trading platforms. On the one hand, this holds back electricity price increases and drives extra investment in developing flexibility management systems on the consumer side. On the other hand, there is less predictability for investors in terms of return on investment in wholesale generation facilities.

ELECTRICITY CONSUMPTION IN THE RUSSIAN FEDERATION IS EXPECTED TO GROW TO 1,310–1,380 BILLION KWH BY 2035, PARTLY DUE TO THE ELECTRIFICATION OF RAIL TRANSPORT AND THE SPREAD OF ELECTRIC VEHICLES.

MACROECONOMIC TRENDS IN THE REPORTING YEAR

According to estimates by the International Monetary Fund (IMF), global gross domestic product (GDP) amounted to USD 109.02 trillion in 2024 (including Russia's GDP of USD 2.06 trillion, ranking 11th in the world). In the GDP ranking by purchasing power parity in the reporting year, Russia ranked fourth in the world.

Despite ongoing sanctions pressure from unfriendly countries, Russia's economy has demonstrated a high degree of resilience.

In 2024, Russia's GDP grew by 4.1%. Positive momentum was seen in industrial production, construction scope and consumer activity. The unemployment rate at the end of 2024 was 2.5% (in 2023 — 3.2%).

According to SO UES JSC, electricity generation by power plants in the UES of Russia amounted to 1,180.7 billion kWh in the reporting year, while consumption totalled 1,174.1 billion kWh, up 3.1% year-on-year (and up 2.7% when adjusted for comparable temperature conditions and excluding data for 29 February 2024). This testifies to the progressive development of the Russian economy, an increase in business activity, and the creation of new jobs.

4 TH IN THE WORLD

Russia's place in the GDP ranking by purchasing power parity in the reporting year

+4.1%

Russia's GDP growth in 2024

Key factors determining the state of the Russian economy and influencing the electric power industry, %[1]

Indicators (compared to the previous year)	2023	2024
Changes in GDP	104.1	104.1
Industrial production index	104.3	104.6
Production index for provision of electric power, gas and steam; air conditioning	100.0	102.3
Inflation	5.9	8.5
Changes in the key rate of the Bank of Russia	During the year, the key rate of the Bank of Russia rose from 7.5% to 16%	During the year, the key rate of the Bank of Russia rose from 16% to 21%

[1] Sources: Federal State Statistics Service (Rosstat; for 2023, the data provided are revised); Bank of Russia.

OUTLOOK FOR THE INDUSTRY

According to the forecast of socio-economic development of the Russian Federation for 2025 and the planned period of 2026 and 2027[1] in the medium term:

- Global prices will stabilise
- Rouble exchange rate will gradually depreciate to RUB 103.2 per US dollar in 2027
- Russian physical exports will continue to grow by 3.3% year-on-year throughout the forecast period
- Physical import volumes will rebound: in 2025, they will grow by 9.2% year-on-year, slowing to 4.3% by 2027
- Inflation rates at the end of 2025 are expected to stand at 4.5% year-on-year, with inflation reaching the target level of 4.0% from 2026 onwards
- In 2025–2027, GDP growth is expected to increase from 2.5% in 2025 to 2.8% in 2027
- Investment in fixed capital is projected to grow by an average of 2.1–3.3% per year
- Retail turnovers will slow down from 7.6% in 2025 to 4.1% by 2027, while the volume of paid services rendered to the population will fall from 6.4% in 2025 to 2.8% by 2027. Consumer demand will be supported by growth in real disposable household income in 2025–2027 by an average of 4.7% per year
- The labour market situation will remain stable as a result of support measures implemented by the Russian Federation Government
- The key external risk, namely a slowdown in the global economy, is likely to materialise. This turn of events could negatively affect demand for traditional Russian exports and lead to a decline in export prices. This, in turn, poses risks to the growth of export-oriented industries and to the budget
- There may be intensified sanctions pressure on the Russian economy
- There may be a shortage of workforce on the labour market
- The indexation of electricity transmission tariffs will be as follows:
  - in 2025, due to adjustments to the forecast inflation rate and wholesale gas price indexation rates for all consumer categories, as well as the implementation of major investment projects in the electricity sector, for the Unified National (All-Russian) Power Grid (UNPG) — 11.5%, for TGO grids — 11.6% with a 12.6% increase in the ultimate price of electricity for households
  - in 2026, for the UNPG — 8.5%, for the TGO grids — 6.3%. With that, the expected growth rate of the ultimate price of electricity for all consumer categories will be 5.2%
  - in 2027, regulated and ultimate electricity prices are expected to resume growth within the forecast inflation rate of 4.0% per annum

In accordance with the Scheme and Programme for the Development of Power Supply Systems in Russia for 2025–2030 approved by the Ministry of Energy of the Russian Federation:

- Electricity consumption in the UES of Russia is projected to grow to 1,298 billion kWh by 2030, with an average annual growth rate of 2.11%
- The expected maximum power consumption will increase to 186.7 GW by 2030, with an average annual growth rate of 1.46%
- The south-western part of the IES of South (the Company's catchment area) was identified as one of the areas where generation is technologically necessary.

[1] Source: Ministry of Economic Development of the Russian Federation (MED of Russia).