

THE MAIN RISK FACTORS OF THE COMPANY

The risks information presented below contains the name of the risks most possible in the Company, a brief description of such risks, the main risk management measures implemented in 2018, as well as a graphical depiction of the risk significance assessment and the relevant dynamics compared to 2017

during 2018. The significance of risk is understood as a combination of the probability of occurrence of the risk and the scale of consequences for the Company in monetary and other terms. There was taken the following scale:

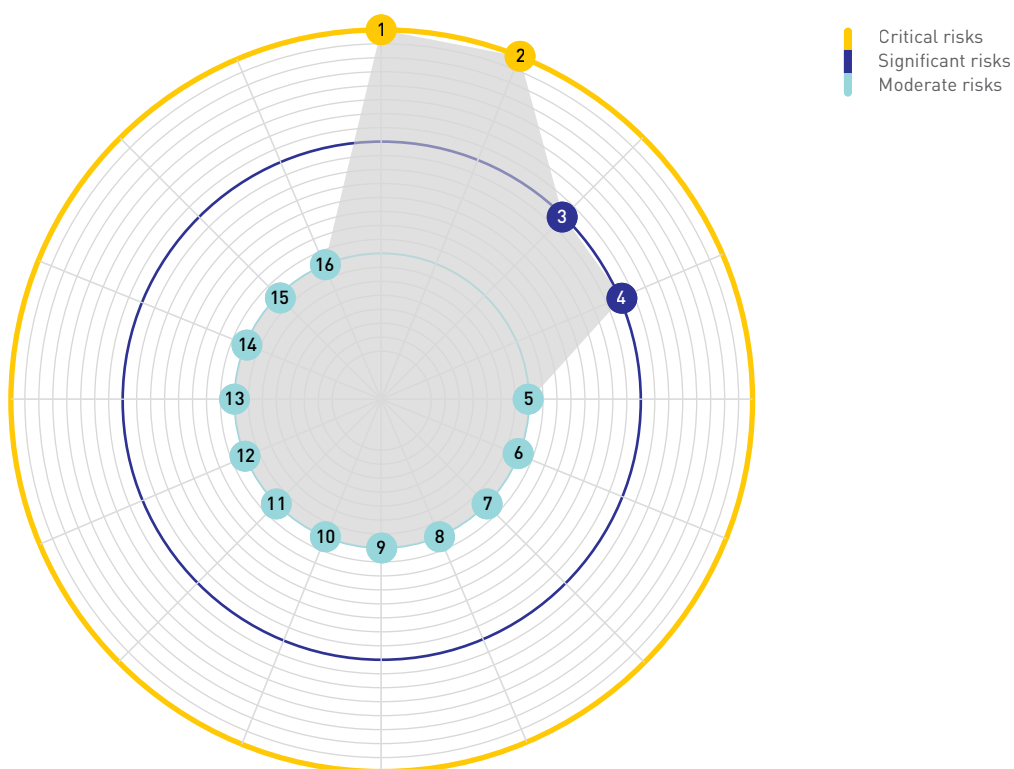
SIGNIFICANCE LEVEL		DYNAMICS	
Critical		No changes (or the dynamics is insignificant)	
Significant		Upward trend	
Moderate		Downward trend	

SEQ NO.	RISK NAME	RISK DESCRIPTION	RISK MINIMIZATION MEASURES	RISK ASSESSMENT AND DYNAMICS
Industry risks				
1	Tariff risks	Tariff regulation policy, pursued by the state, takes into account the need to contain inflation and provides for changes in regulated tariffs of network organizations in the 2017-2019 biennium below the actual inflation index with the growth of prices in the wholesale market, which leads to the risk of establishing tariff menu regulatory authorities, does not provide a reasonable revenue collection cost	To mitigate the consequences of the implementation of this risk, the Company submits substantiating materials to the regulatory bodies confirming the level of economically justified expenses of the Issuer, defends the position for the necessary faster growth of costs as a backbone Company, the "holder of the boiler" of the Krasnodar Territory and the Republic of Adygea, forms and directs disagreements to the Federal Anti-Monopoly Service of Russia	 
2	Risk of reducing the volume of electricity transmission services	The risk is due to the possibility of reducing the demand for electricity and the optimization by large consumers of external power supply diagram	In view of the economic development of the regions, covered by the Company, there was a clear upward trend in electricity consumption over the past few years. Nevertheless, the Company carries out: - monitoring of the current and forecast economic situation; - conducts preparatory work for the proper functioning of power equipment in the respective seasons of the year, including carrying out maintenance and repair of power facilities; - carries out activities aimed at identifying the volume of unaccounted power consumption; - carries out activities aimed at identifying the volume of unaccounted power consumption;	 
3	Risks associated with the provision of technological connection services to the applicants	Risks are caused by the possible occurrence of a deficit in the source of funding for the implementation of contracts for the implementation of technological connection, failure of the applicants to fulfill obligations under contracts for the implementation of technological connection, failure to use by the applicants of the power obtained during technological connection. Due to the influence of these factors, a decrease in the Company's revenue is possible after technological connection	To mitigate the effects of the risk involvement, the Company: - cooperates with tariff regulators in regard to the justification of fees, confirming the cost of individual projects; - improves the process of technological connection	 
4	Risk associated with non-payment for electricity transmission services rendered (with appearing of contested and undisputed overdue receivables) on the part of consumers	This risk is conditioned by insufficiency of the existing mechanisms of bringing incentive to consumers for timely payments for electricity transmission services, same as the influence of macro-economic factors (reduction of consumer solvency)	To mitigate the consequences of this risk, the Company: - analyzes the reasons for the differences in the volume of transmitted electricity; - executes a schedule of measures to reduce receivables for electricity transmission services; - conducts a claim work; - accumulating the judicial practice to create a positive precedent in cases where the consumer unduly contesting his affiliation delivery points; - carries out mounting of collective electricity metering devices	 

SEQ NO.	RISK NAME	RISK DESCRIPTION	RISK MINIMIZATION MEASURES	RISK ASSESSMENT AND DYNAMICS
Country and regional risks				
5	Risks associated with the political and economic situation in the country and the region	The risks are subject to a decrease in the economic activity of the constituent entities of the Russian Federation in the regions of presence, with an increase in the cost of credit, which, in turn, may be caused by instability of the external environment, international sanctions, lower credit ratings, and rising of inflationary pressure. The influence of these factors may lead to a reduction in the Company's revenue, in its shareholder value.	With a view of the economic advancement of the regions, covered by the Company, there is a clear upward trend in electricity consumption over the past few years. In connection with the improvement of the country's macroeconomic indicators, including an acceptable level of inflation, the Company has seen a decrease in the average capital borrowing rate. To strengthen its position, the Company undertakes: • reduction of operating expenses; • improving the energy efficiency and introduction of energy-saving technologies; • import substitution to reduce the cost of purchased equipment	 
6	Risks associated with possible conflicts and their occurrence, the imposition of emergency state and strikes in the regions	Risks are caused by possible acts of unlawful interference in the activities of the Society, including terrorist acts, in particular, caused by representatives of international terrorism, and nationalist elements of individual states. Such actions may have a negative impact on the Company's activities.	To prevent the occurrence of risks, the Company: • carries out measures to protect against sabotage and terrorist acts of energy facilities; • interacts with law enforcement agencies; • insures property	 
7	Risks associated with the geographical features of the country or region, including increased risk of natural disasters, the possible termination of transport communication	Risks due to emergency situations of natural and climatic character (impact of hurricanes, torrential rains, floods and high water, snow debris, icing), the same as disruptions in power supply as a result of fires, domestic explosions, etc. As a result, electricity supply, transport can be interrupted in the region	To prevent the occurrence of risks, the Company: • insures property; • creates an emergency reserve; • if necessary, carries out the response of services crews to restore the supply of electricity; • if necessary, take other measures of crisis management	 
Financial risks				
8	Risks associated with currency fluctuations	Negative impact on the results of the Company's financial and economic activities due to changes in currency exchange rates	To prevent the occurrence of risks, the Company: • buys power equipment from Russian manufacturers; • reduces operating expenses; • analyzes the possible impact due to the dynamics of exchange rates	 
9	Risks associated with changes in interest rates	Influence on the possible growth of the Company's expenses of attracting credit funds for financing investment programs	In order to manage these risks, the Company: • pursues a balanced credit policy aimed at optimizing the structure of the debt portfolio and the available credit limit, together with optimizing the conditions of credit agreements; • works with creditors in order to reduce the cost of borrowed capital for the Company	 
10	The risks associated with the effects of inflation	The influence of consumer price index growth on interest expenses, costs, profitability, and, consequently, on the financial condition and the ability to meet obligations by the Company	To prevent the occurrence of risks, the Company: • draws up a business plan in accordance with the scenario conditions; • implements an effective procurement policy; • conducts a comprehensive analysis of financial risks	 
Legal risks				
11	Legal risks	Risks associated with changes in legislation, judicial practice on the issues of the Company's activities, disbalance of interests between the Company and other electric power engineering entities	For risks mitigation, the Company undertakes to: • prolongs the validity of licenses and permits necessary for conducting business activities; • complies with the laws and Internal Regulations; • monitors the legislation of the Russian Federation; • plans financial and economic activities in view of changes in legislation	 
12	Compliance risks	Risks associated with regulatory sanctions in the case of possible non-compliance of the Company's activities with the requirements of the legislation, local regulatory acts, and other mandatory regulatory documents	In order to manage these risks, the Company: • improves the management and control system; • complies with the laws and Internal Regulations; • eliminates violations identified by the external control bodies; • defends the interests of the Company in the courts	 

SEQ NO.	RISK NAME	RISK DESCRIPTION	RISK MINIMIZATION MEASURES	RISK ASSESSMENT AND DYNAMICS
Risk of loss of business reputation				
13	Reputation risk	The risk is associated with the possible default of the Company in full liabilities towards customers and counterparties	Due to the fact that the Company is the subject of a natural monopoly and there is an annual increase in the number of electricity consumers, the Company has worked out a positive practice for long-term interaction with counterparties	 
Strategic risk				
14	Strategic risk	The risk of failure to achieve the strategic goals and objectives of the Company due to potential changes in the internal and external environment of the Company	In order to manage this risk, the Company • elaborates proposals and scenarios for improving the implementation of a specific strategy or program; • analyzes the effectiveness of the implementation of a specific strategy; • introduces KPIs to fulfill strategies and their alignment with the bonus payment to managers;; • monitors the structural subdivisions of the Company in relation to the ratio of the costs of a specific strategy to the benefit received and submits this information for consideration by the Board of Directors of the Company for making management decisions (including defining the volume and quality of resources)	 
Risks associated with the Company's activities				
15	Operational and technological risk	Reducing the reliability of power supply to consumers, due to factors such as emergency situations of natural and man-made, leading to the disruption of the efficiency of electrical equipment; high proportion of equipment with excess service life; failure to comply with regulatory and technical requirements in terms of exceeding the established allowable values of the technological parameters of operation of electrical equipment	To prevent the implementation of risks, the Company carries out: • scheduled and unscheduled repairs and maintenance of power grid equipment; • technical re-equipment, reconstruction, and new construction; • technical control; • regular optimization of the structure and volume of components and spare parts; • ensuring industrial safety and production control; • introduction of a loss reduction program; • planning of emergency measures (according to the results of the investigation of technological violations) aimed at mitigating the realization of risk and preventing the occurrence of similar cases in the future	 
16	Investment risk	Reduction of sources of financing of the Company's investment programs in the event of a deterioration in its financial and economic condition and, as a result, reduction of tariff revenue in case investment programs are not implemented. Violation of the planned deadlines for the commissioning of investment program facilities for reasons of non-fulfillment/ untimely execution by contractors and suppliers of their obligations	To prevent the occurrence of risks, the Company: • forms (corrects) the individual development program (IDP) in accordance with the scenario conditions; • redistributes funds received from savings by results of bidding procedures for other IDP facilities; • implements measures to reduce the volume of unfinished construction; • controls compliance with the terms of the procurement procedures and contracts	 

Distribution of risk by significance level for 2018



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| 1. Tariff risks | 9. Geographical risks |
| 2. Risks of technological connection | 10. Investment risk |
| 3. Risk of non-payment for electricity transmission services | 11. Interest rate risk |
| 4. Operational and technological risk | 12. Currency risks |
| 5. Risk of reducing the volume of electricity transmission services | 13. Legal risks |
| 6. Risks of Conflicts and Emergency | 14. Compliance risks |
| 7. Inflation risks | 15. Reputation risk |
| 8. Political and economic risks | 16. Strategic risk |