

3. INTER RAO GROUP TODAY

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A diversified energy holding company managing assets in Russia, as well as in European and CIS countries.

The Group operates in the following segments:

- Electricity and heat generation
- Electricity supply and heat supply
- International electricity trading
- Engineering, power equipment export
- Management of electricity distribution grids outside Russia

Since 2010, PJSC Inter RAO has been rated in the List of Strategic Enterprises and Strategic Joint Stock Companies of the Russian Federation¹.

A leading electricity export and import operator in Russia. The Inter RAO Group's supply geography comprises Finland, Belarus, Lithuania, Latvia, Estonia, Poland, Norway, Ukraine, Georgia, Azerbaijan, South Ossetia, Kazakhstan, China and Mongolia.

Effectively manages power supply companies – guaranteed suppliers in 12 regions of Russia.

Owns independent suppliers of electricity to large industrial consumers.

GENERATING ASSETS



41 THERMAL POWER PLANTS



10 HYDROPOWER PLANTS
(including 5 low capacity HPPs)



2 WIND FARMS



SUPPLY ACTIVITIES



IN 62 REGIONS OF RUSSIA

ELECTRICITY EXPORT

in 2016

17.0 bn kWh



ELECTRICITY IMPORT

in 2016

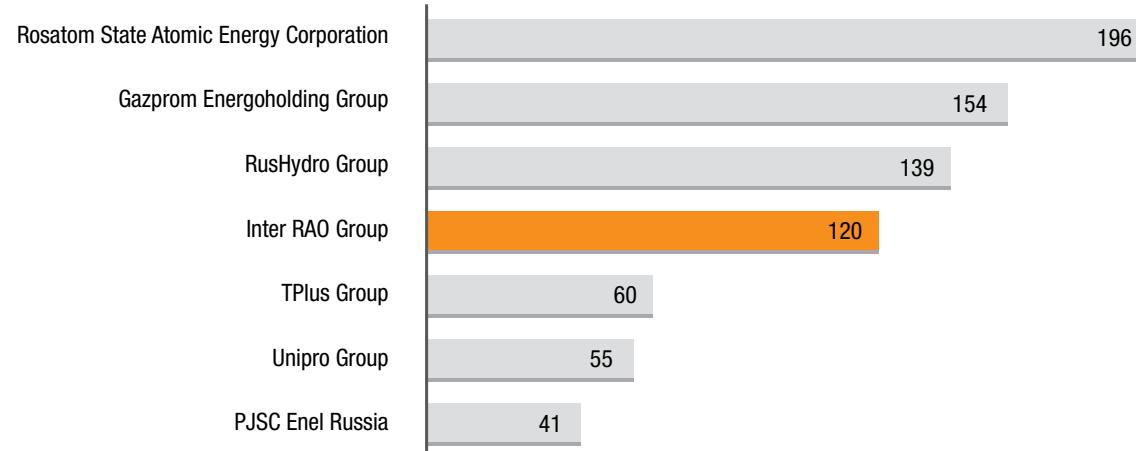
3.1 bn kWh



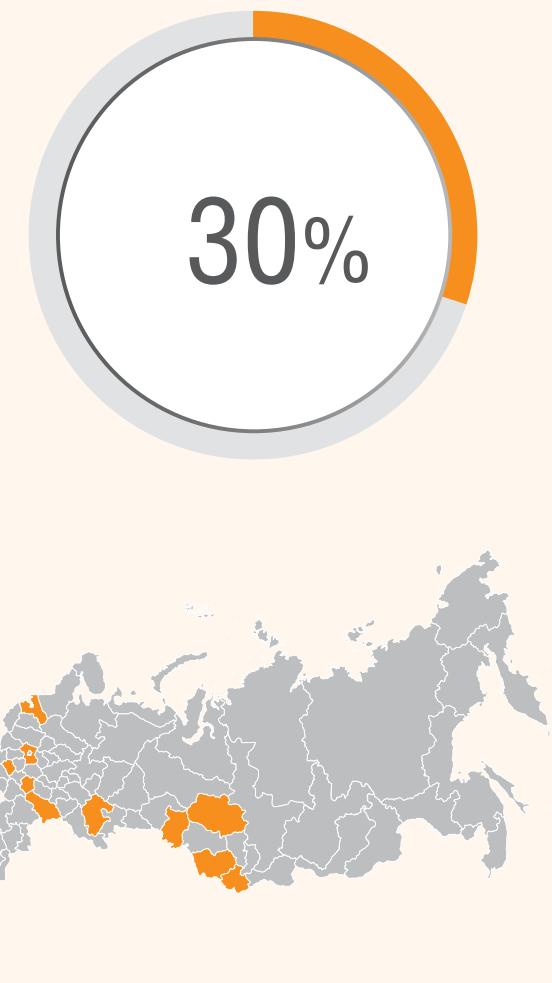
¹ According to the Decree of the President of Russia No. 1190 dated 30.09.2010 PJSC Inter RAO was included in the List of Strategic Enterprises and Strategic Joint-Stock Companies (Section 2 of the List of Open Joint Stock Companies with its assets held in federal ownership managed by the Russian Federation in order to ensure strategic interests of State defence and security, moral values, healthcare, rights and legitimate interests protection of the citizens of the Russian Federation).

LEADING POSITION IN ELECTRICITY AND HEAT GENERATION AND SUPPLY

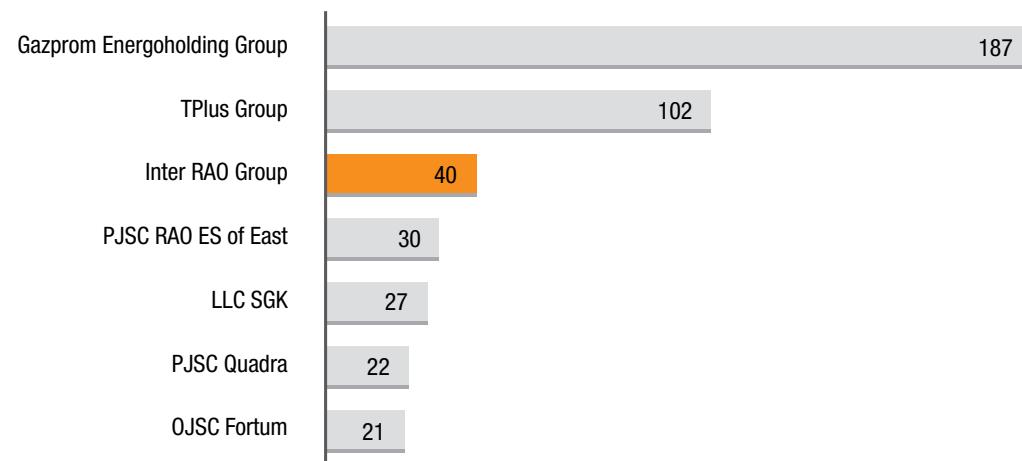
RUSSIA'S LARGEST PRODUCERS IN THE ELECTRICITY INDUSTRY, bn kWh*



SHARE OF INTER RAO GROUP'S GUARANTEED SUPPLIERS IN THE AGGREGATE AMOUNT OF GUARANTEED SUPPLIERS IN RUSSIA IN 2016



RUSSIA'S LARGEST HEAT PRODUCERS, m Gcal*



* Data was obtained from the Company's official websites available at the time of Report preparation.

3.1. KEY RESULTS 2016

Type of operations	Key strategic initiatives	Main achievements in 2016
Electricity and heat generation	Ensuring reliability, security and technological development of the existing production assets	All necessary retooling/modernisation, repair and maintenance measures for 2016 aimed at ensuring reliability and safe operation of the production assets were implemented.
	Implementing construction and modernisation projects, including those under CDAs (capacity delivery agreement)	120 MW of new generating capacities were commissioned under CDA at Omskaya CHPP-3 (JSC TGK-11). CDA transfer to the Verkhnetagilskaya TPP site from the Serovskaya TPP site (PJSC OGK-2) was secured.
	Increasing the operating efficiency of production assets	Measures under the cost management, energy saving and energy efficiency programmes approved for 2016 were implemented. Detailed information about the Energy Saving and Energy Efficiency Programme implementation is provided in Section 4.6.
	Decommissioning of low-performing generating capacities	The decommissioning of outdated low-performing generating equipment with installed capacity of 835 MW was secured.
	Elaborating and promoting offers to develop the regulatory framework in the industry	A considerable amount of work on monitoring amendments to the industry laws was performed; the Company continuously cooperated with the key federal executive authorities (FEAs) and industry expert platforms, in particular: — in 2016, the draft main industry planning document – Energy Strategy 2035 – was reviewed. PJSC Inter RAO provided its comments and suggestions, which have been largely considered by the drafters; — the Company contributed to shaping the draft law with respect to using the “alternative boiler house” heat supply method. At the end of 2016, the draft law was adopted by the State Duma in the first reading.
Fuel supply	Mitigating fuel supply risks to generating facilities	In 2016, the coal supply from in-house deposits (LLC Ugolny Razrez) amounted to 15.2% for Russian assets of the Group.

KEY GROUP ACHIEVEMENTS AND MILESTONES IN 2016 BY DEVELOPMENT AREA

Type of operations	Key strategic initiatives	Main achievements in 2016
Retail supply business in Russia	Promoting retail market model proposals to the regulatory framework	Participation in the development of a draft bill on the establishment of marketing premiums for guaranteed suppliers using a comparative method.
	Expanding the list of additional services	Power supply companies of Inter RAO Group secured the implementation of measures to develop and promote additional paid services (APSs).
	Purchasing and integrating into the Inter RAO Group's periphery economically-attractive power supply companies	Inter RAO Group acquired 100% of shares in LLC PSCB from JSC Energy Supply Company RusHydro. Thus, the number of regions where guaranteed suppliers of Inter RAO Group operate reached 12.
Foreign trade operations	Preserving and strengthening the existing positions of the single Russian export/import operator	The total volume of PJSC Inter RAO's foreign trade operations considering agency agreements with JSC EEC (100% subsidiary of PJSC Inter RAO) roughly amounted to 20.1 billion kWh.
International operations	Expanding the footprint in foreign markets	On 12 May 2016, the contract between LLC Inter RAO – Export (a member of Inter RAO Group) and Energoimport, a Cuban state-owned company, for the construction of four power generating units with a capacity of 200 MW each at two operating Cuban power plants: one unit – at Maximo Gomez TPP, and three units – at East Havana TPP, became effective (total contract price – about EUR 1.2 billion). Furthermore, in 2016, the above mentioned companies entered into several contracts for the supply of equipment for heat power and hydropower industries in the Republic of Cuba totalling about EUR 2.7 million.
	Elaborating options for managing the existing assets in foreign markets	Tashir Group and Inter RAO Group completed the last (third) stage of the transaction for the sale of power assets in the Republic of Armenia, by results of which the ownership of 100% of shares in CJSC Power Grids of Armenia and JSC HrazTES passed to Tashir Group. Inter RAO completed the transaction for the sale of the 100% stake in Georgian LLC Mtkvari Energy.
Engineering	Development competencies in the following areas: general contracting, design, commissioning, etc.	In July 2016, the project on the construction of a TPP in the Kaliningrad Region (implemented by LLC Kaliningrad Generation – a JV of JSC Rosneftegaz and PJSC Inter RAO) was started, as part of which LLC Inter RAO – Engineering acts as an agent/general contractor.

Type of operations	Key strategic initiatives	Main achievements in 2016
Innovations	Contributing to the financing and implementation of major industry projects, in particular, as part of partnerships with the leading Russian enterprises and R&D centres	PJSC Inter RAO jointly with the Fund for Infrastructure and Educational Programs (Rusnano), NP Centre of Innovative Energy Technologies and NPO Saturn continued the implementation of the project on the creation of a production technology for GTD-110M and GTE-110M using nanotechnology.
	Developing cutting-edge technologies and innovations	Inter RAO Group acquired 33% in LLC INVENT, an electrical engineering company in Tatarstan.
	Implementing the innovative development and R&D programme	As part of the Innovative Development and R&D Programme, the Group implemented certain measures in the following areas: enhancement of energy efficiency and environmental compatibility of production, implementation of new technologies at production sites, introduction of quality control systems, innovation management improvement, development of cooperation with innovative environment actors, etc. Detailed information about the Innovative Development and R&D Programme implementation is provided in Section 4.5.
Management of minority interests		Inter RAO Group secured the sale of 40.29% of shares in PJSC Irkutskenergo to LLC Telmamskaya TPP – a subsidiary of JSC Eurosibenergo.
Asset structure optimisation		Sale of the 100% stake in LLC Mtkvari Energy; completion of the transaction for the sale of stakes in CJSC Power Grids of Armenia and JSC HrazTES; sale of Kumertauskaya CHPP.
Improvement of investment appeal and liquidity of Inter RAO Group shares		PJSC Inter RAO shares were included in the calculation basis of the MSCI Russia Standard and Market Vectors – Large indices. The share in other key indices (MICEX, FTSE, Stoxx and S&P) augmented as a result of inventorying the amount of free floating shares and increased capitalisation. The improved level and quality of communications with operating investment funds entailed the 5-fold increase in the average daily trading volume of shares (from USD 1 million to USD 5.5 million per day).

CREDIT RATINGS

- The Moody's Investors Service international agency confirmed the corporate credit rating for Inter RAO Group at the level of Ba2 on the global scale, stable outlook.
- The Fitch Ratings international rating agency confirmed the corporate credit rating for Inter RAO Group at the level of BBB- on the global scale and changed the outlook from "negative" to "stable", and AA+(rus) on the national scale, stable outlook.

KEY AWARDS 2016



The M&A Advisor: the sale of shares of PJSC "Irkutskenergo" has received the EMEA Corporate Development Awards in the category "Deal of the year (from £500 million to £1 billion)".



The sale of shares of PJSC "Irkutskenergo" was recognised as "Deal of the year 2016" according to Cbonds, Preqveca and Mergers.ru.



Winner of the Annual Report Competition held by the Moscow Exchange in the Best Annual Report of a Company with a Capitalisation of RUB 40 to 200 billion category.



IR magazine Russia & CIS Awards 2016. The IR Service of PJSC Inter RAO won the first place in the Corporates Best for Investor Relations – Russian Federation – Utilities and Best IR Professional categories for the second year in a row.



Best press service in the electricity industry.



Digital Communication Awards. The official Facebook page of PJSC Inter RAO was named the best in the social media & community category.



Digital Communication Awards. Our iOS and Android mobile application Energy Without Borders won the first place the Digital Media & Tools category.



Best corporate media of the year. Best corporate media system.



Maksim Shaskolsky, CEO of JSC St. Petersburg Power Supply Company, was named the best top manager in the power industry according to the Top 100 Award of Delovoy Peterburg.



At the regional stage of the ENES-2016 All-Russia Contest of Completed Energy Saving, Energy Efficiency Enhancement and Energy Development Projects, PJSC Tomskenergosbyt took the first place in the following categories: Implementation of Energy Service Contracts for Modernisation of Street Lighting in the Belovsky City District, Implementation of Energy Service Contracts for Modernisation of Street Lighting in the Pervomaysky District and Implementation of Energy Service Contracts in the Public Sector of the Belovsky City District.



PJSC Tambov Power Supply Company received a diploma as the winner of the regional stage of the ENES-2016 Contest of Completed Energy Saving and Energy Efficiency Enhancement Projects.



Yury Baranov, Deputy CEO for Sales of Electricity and Capacity of LLC OPSC, was awarded the medal "In Commemoration of the 300th Anniversary of Omsk". The medal was established by the Governor of the Omsk Region and is awarded to Omsk residents who have made a notable contribution to the city's development. The medals were awarded at the Government of the Omsk Region.



Second place diploma for the JSC Altai Energosbyt's project "Implementing an Automated System for Power Resources Recoding at the Facilities of PJSC MRSK Siberia – Altai Energo in the Best Project for Implementing an Automated System for Power Resources Recoding in the Retail Market category granted by the results of the third ENES All-Russia Contest of Completed Energy Saving and Energy Efficiency Enhancement Projects.

EVENTS AFTER THE REPORTING DATE

In June 2016, the Annual General Meeting of Shareholders of PJSC Mosenergosbyt decided to increase the Company's registered capital by placing common stock of the Company as a private offering. In February 2017, the Group participated in the placement of PJSC Mosenergosbyt stock. State registration of the report on the results of issuance of PJSC Mosenergosbyt stock was performed on 06.03.2017.

In January 2017, the Moody's Investors Service international rating agency upgraded the Group's credit rating to Ba1 on a global scale; the outlook is negative. The outlook of the Group's creditworthiness is consistent with the outlook of the sovereign credit rating of the Russian Federation. The improved credit rating is due to the Group's consistently high financial indicators, diversified business profile, and positive changes in the structure of the electric energy sector in the Russian Federation during the past year. In February 2017, the Moody's Investors Service international rating agency confirmed the corporate credit rating for PJSC Inter RAO at the level of Ba1 on a global scale, having changed the outlook from "negative" to "stable".

Also in February 2017, the Fitch Ratings rating agency withdrew the Group's corporate credit rating on a national scale. This decision was made after the introduction of a new system for regulating the credit rating industry in Russia. It imposes requirements that result in no longer being able to use Fitch Ratings' ratings on a Russia-wide scale for regulatory purposes.

3.2. HISTORY OF INTER RAO GROUP

International electricity trade

1997–2002

- Launch of projects for trading in electricity produced outside Russia in foreign markets.
- Establishment of first subsidiaries to ensure operations in foreign power markets.
- Commencement of independent export of electricity from Russia.

Generation development

2003–2006

- Commencement of electricity production with the use of a leased power generating unit at Irkutskaya TPP.
- Active purchases of power assets in Russia and abroad.

– Consolidation of Russian and foreign assets, including JSC Ekibastuz TPP-2 (Kazakhstan), CJSC Moldova TPP (Moldova), Severo-Zapadnaya CHPP (Russia), and TGR Enerji (Turkey).

Rapid growth

2007–2011

- Merger of the Group's generating assets: Severo-Zapadnaya CHPP, Ivanovskiy CPP, Kaliningradskaya CHPP-2, and Sochinskaya TPP.
- Acquisition of the status of majority shareholder of JSC OGK-1, JSC OGK-3, JSC TGK-11, as well as five power supply companies, including JSC Mosenergosbyt (Moscow Power Supply Company), JSC St. Petersburg Power Supply Company, JSC Altai Energosbyt, etc.



Increase efficiencies and commission new generating capacity.

- Reorganisation of Inter RAO into an open joint stock company.
- Public trading in shares at the MICEX and RTS stock exchanges.

Consolidation of assets

2012–2014

- Completion of the reorganisation, which resulted in the transfer of 100% control of the Russian generating assets, JSC OGK-1 and JSC OGK-3, to Inter RAO – Electricity Plants.
- Acquisition of several promising assets, including assets of Bashkirenergo Group, Trakya Elektrik A.S. in Turkey, and PJSC Tomskenergosbyt.
- New power plant construction: commissioning of two power generating units of Yuzhnouralskaya TPP-2 with a installed capacity of 417.4 MW and 420 MW respectively.

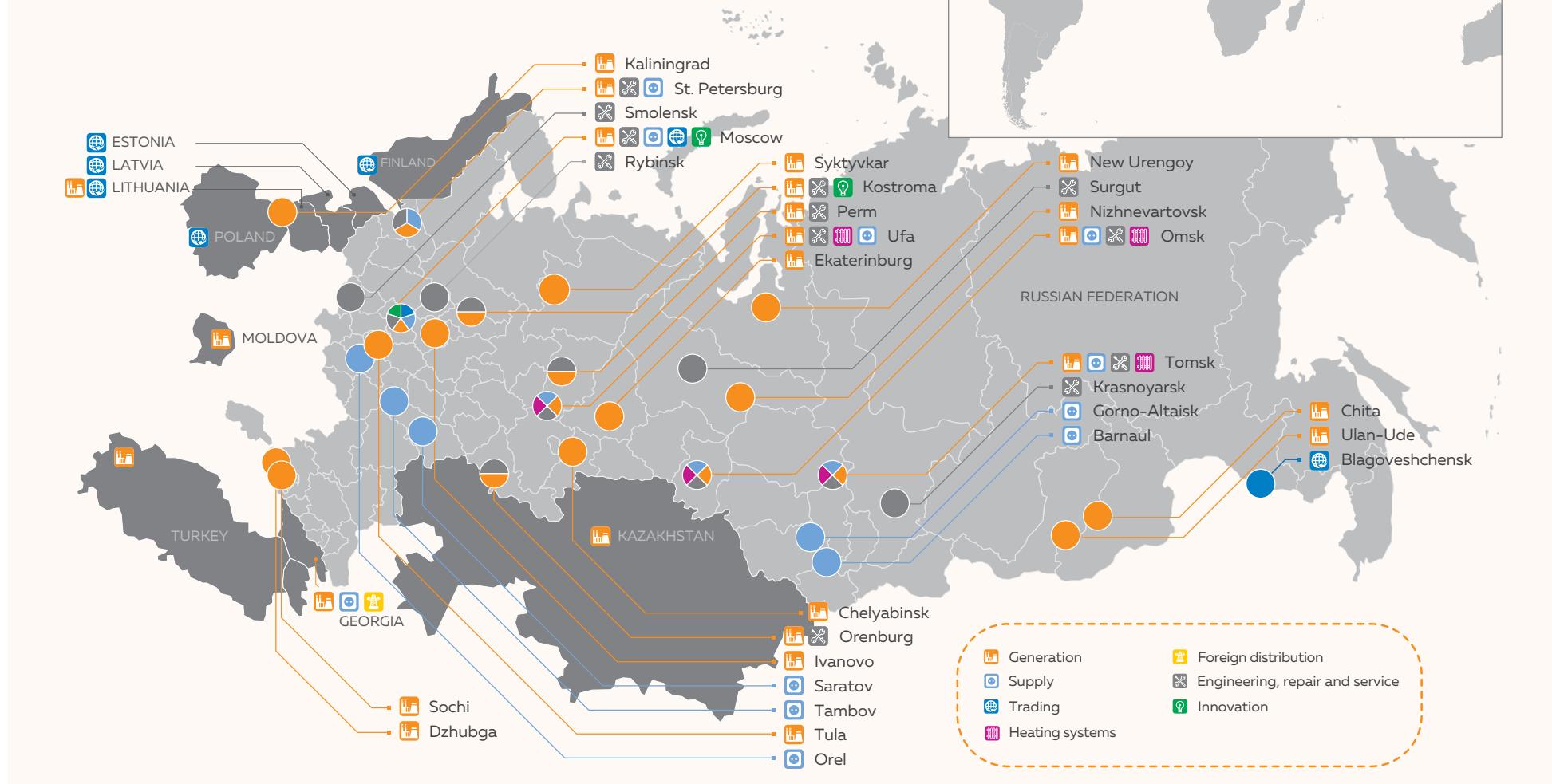
- Approval of the updated company development strategy until 2020 by the Inter RAO's Board of Directors.
- Launch of the plant (a joint venture of Inter RAO Group, GE, and JSC United Engine Corporation) for the production, sale and maintenance of 6FA (6F.03) gas turbines with a capacity of 77 MW in Rybinsk, the Yaroslavl Region.

Increase efficiencies and commission new generating capacity

2015–2016

- Completion of the consolidation of Inter RAO shares, and admission of PJSC Inter RAO shares with a new par value for trading on the Moscow exchange.
- Completion of the spin-off of JSC Tomsk Generation from JSC TGK-11 by Inter RAO Group.
- Execution of a protocol with respect to the project on the construction of Chuido-1 HPP with a capacity of 637 MW in Argentina.
- Commissioning of a new coal power generating unit with a installed capacity of 225 MW at Cherepetskaya TPP in the Tula Region.
- Approval of decommissioning of inefficient generating equipment.
- Launch of the investment project on the completion of Zatonskaya CHPP in Ufa, a branch of LLC BGC, with a installed capacity of 440 MW.
- Execution of the agreement for the sale and purchase of electricity assets (CJSC Power Grids of Armenia and JSC Hrazdan Energy Company) in the Republic of Armenia by and between Inter RAO Group and Tashir Group.
- Execution of the contract for the construction of four new power generating units with a installed unit capacity of 200 MW (one unit – at Maximo Gomez TPP, and three units – at East Havana TPP).
- Commissioning of a modernised turbine with a capacity of 100 MW at Omskaya CHPP-5 by Inter RAO Group, new gas turbine with a capacity of 120 MW at Omskaya CHPP-3.

3.3. INTER RAO GROUP FOOT PRINT



3.4. GROUP STRUCTURE

The Group is controlled by the parent company, PJSC Inter RAO.

MAJOR INTER RAO GROUP COMPANIES AS OF THE END OF 2016 BY TYPE OF OPERATIONS:



ELECTRICITY PRODUCTION

Inter RAO – Electricity Plants Group:

- Verkhnetagilskaya TPP
- Gusinoozyorskaya TPP
- Dzhubginskaya TPP
- Ivanovskiye CCGT
- Irklikinskaya TPP
- Kaliningradskaya CHPP-2
- Kashirskaya TPP
- Kostromskaya TPP
- Permskaya TPP
- Pechorskaya TPP
- Severo-Zapadnaya CHPP
- Sochinskaya TPP
- Urengoyskaya TPP
- Kharanorskaya TPP
- Cherepetskaya TPP
- Yuzhnouralskaya TPP
- Yuzhnouralskaya TPP-2

JSC Nizhnevartovskaya TPP

(accounted for under the equity method)



HEAT GENERATION

JSC TGK-11
JSC Tomsk Generation
JSC Tomsk RTS
JSC Omsk RTS
LLC BGC (including LLC BashRTS)



SUPPLY

Guaranteed suppliers

- PJSC Mosenergosbyt (group of companies)
- JSC Altai Energosbyt
- JSC St. Petersburg Power Supply Company (including LLC Omsk Power Supply Company)
- PJSC Saratovenergo
- PJSC Tambov Power Supply Company
- PJSC Tomskenergosbyt
- LLC Oryol Power Supply Company
- LLC PSCB

Non-regulated energy supply companies

- LLC RN – Energo
- PJSC Promishlennaya Energetika
- LLC RT – Energotradeing (accounted for under the equity method)

Information and computing centre

- JSC UICC LR
- LLC MosOblUIAC



TRADING

PJSC Inter RAO
RAO Nordic Oy
AB INTER RAO Lietuva
SIA INTER RAO Latvia
INTER RAO Eesti OU
SOO IRL POLSKA
JSC Eastern Energy Company



“ENGINEERING IN THE RUSSIAN FEDERATION” SEGMENT

LLC Inter RAO – Engineering
LLC Quartz – New Technologies (accounted for under the equity method until 07 October 2016)
LLC Quartz Group
LLC InterRAO-WorleyParsons (accounted for under the equity method until 01 April 2014)
LLC INTER RAO – Export



FOREIGN ASSETS

Georgia

- JSC Telasi
- JSC Khrami HPP-I
- JSC Khrami HPP-II
- LLC Mtkvari Energy until 01 June 2016

Moldova

- CJSC Moldova TPP

Kazakhstan

- JSC Ekibastuz TPP-2 (accounted for under the equity method until 01 December 2016)
- LLC INTER RAO – Central Asia (until 21.09.2016)

Turkey

- Trakya elektrik Uretim Ve Ticaret A.S.

Armenia

- CJSC Power Grids of Armenia JSC HrazTES (accounted for under the equity method from 30.10.2015 until 29.12.2016)



INNOVATIONS

Energy Without Borders Foundation
LLC Energy Without Borders Technology
Commercialisation Centre



ENERGY EFFICIENCY

LLC INTER RAO UES Energy Efficiency Centre
 (accounted for under the equity method)

OTHER

JSC Inter RAO Capital
LLC Inter RAO Service
JSC Elektroluch
LLC Inter RAO Invest
LLC Inter RAO IT
LLC Inter RAO Finance
CJSC Kambaratinskaya HPP-1
 (accounted for under the equity method)
LLC INTER SMART
 (accounted for under the equity method)
LLC Cosy House
 (accounted for under the equity method)
Vydmantai Wind Park UAB

3.5. KEY INDICATORS OF THE GROUP FOR 2014–2016

Key indicators	UOM	2014	2015 ²	2016	2016/2015
Revenue	RUB bn	741.1	832.0	868.2	+4.4%
Net profit	RUB bn	9.8	23.8	61.3	by 2.6 times
Net assets	RUB bn	348.2	366.2	419.2	+14.5%
Intangible assets	RUB bn	12.5	13.7	9.9	-27.4%
EBITDA	RUB bn	56.3	72.4	96.3	+33.0%
EBITDA per kWh	RUB bn/kWh	0.30	0.35	0.56	+60.3%
Installed capacity, total	MW	35,035	34,968	32,524	-7.0%
Including: Installed capacity, Russia	MW	29,070	29,003	28,269	-2.5%
New capacity commissioning in Russia ³ (CDA)	MW	1,493	269.5	166.4	-38.3%
Decommissioning of inefficient capacity	MW	60.00	362.00	835.36	+131%
Electricity production	bn kWh	146	141	134	-4.9%
Sale of electricity	bn kWh	166	168	169	+0.5%
Average electricity selling price in Russia	RUB/kWh	1.6	1.67	1.79	+6.9%
Year-end number of employees	people	58,479	50,797	48,945	-3.6%
Average number of employees per MW of installed capacity (Generation in Russia segment)	people/MW	0.97	0.88	0.85	-3.9%
Wages, benefits and payroll taxes	RUB bn	42.9	48.0	49.9	+4.0%
Average age of employees	years	42	42	41	-2.4%
Investments in personnel training	RUB bn	0.21	0.19	0.19	0
Expenses from the implementation of social programs for personnel	RUB bn	5.77	5.10	5.20	+2.0%
Injury frequency rate (LTIFR)		0.29	0.32	0.22	-31%
Specific greenhouse gas emissions per unit of electricity generated	g CO ₂ /kWh	0.49	0.49	0.49	0%
Total environmental costs	RUB bn	2.98	3.08	2.43	-21.2%
Procurement costs excluding agency fees and intra-group procurement	RUB bn	191.0	161.3	170.0	+5.4
Retained economic value ⁴	RUB bn	-18.0	-35.6	+10.0	not applicable

² Considering the acquisition of 100% of shares in LLC Power Supply Company of Bashkortostan

³ Considering the remarking of the generating equipment

⁴ Retained economic value is a parameter provided by the GRI Sustainability Reporting Guidelines (EC1) and calculated as the difference between Group's generated and distributed economic value that shows the amount of funds after

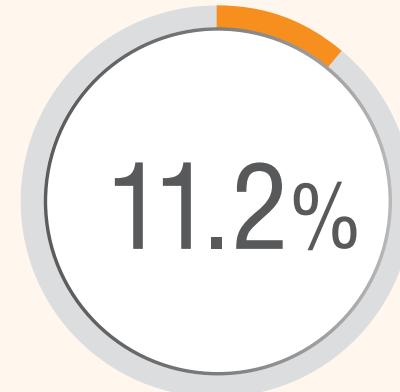
material value is generated for stakeholders. The data for 2013 and 2014 has been amended due to elaboration of calculating methods.

3.6. POSITION AND MAIN COMPETITIVE STRENGTHS OF INTER RAO GROUP IN THE ENERGY MARKET

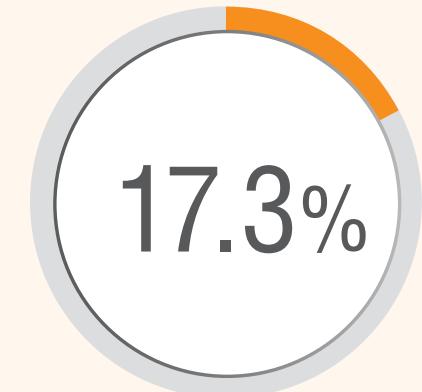
Inter RAO Group holds stable positions in the markets where it operates. The strategy of Inter RAO Group is aimed at creating an efficient and diversified international holding company operating in all key segments of the electricity industry. The implementation of this strategy will enable Inter RAO Group to join the world's top ten largest energy companies by 2020.

INTER RAO GROUP'S LEADING POSITIONS IN EACH BUSINESS SEGMENT

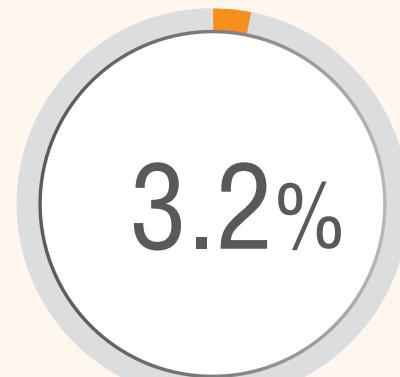
ELECTRICITY PRODUCTION, % OF THE RUSSIAN MARKET



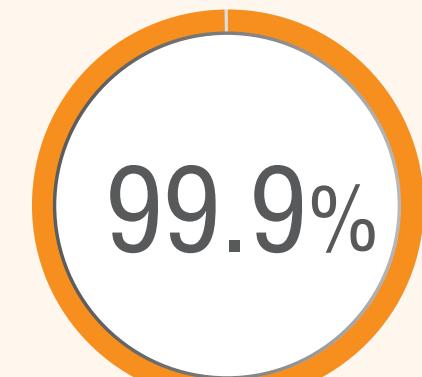
SALE OF ELECTRICITY, % OF THE RUSSIAN MARKET



HEAT GENERATION, % OF THE RUSSIAN MARKET



EXPORT/IMPORT, % OF THE RUSSIAN MARKET



GENERATION IN THE RUSSIAN FEDERATION

The “Generation in the Russian Federation” segment includes two operating subsegments: Electricity Production and Heat Generation. Generating enterprises of the sub-segments are located in 19 regions of the Russian Federation and are part of the five integrated energy systems (IES) of Russia. 86% of the electricity produced by the segment falls on the European part of the Russian Federation and the Urals, and 14% on Siberia. Due to decommissioning in 2016, we managed to achieve a redistribution of 835 MW to more efficient equipment. Over the reporting period, 166.4 MW of new capacities (46.4 MW as a result of reconstruction/modernisation of equipment) were commissioned, and the units previously commissioned, including those under capacity delivery agreements (CDA), were re-qualified.

22,112 MW

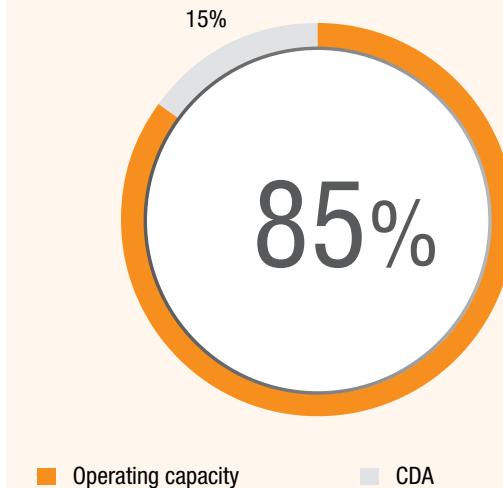
The total installed electric capacity of plants in the Electricity Production sub-segment.

5,838 Gcal/h

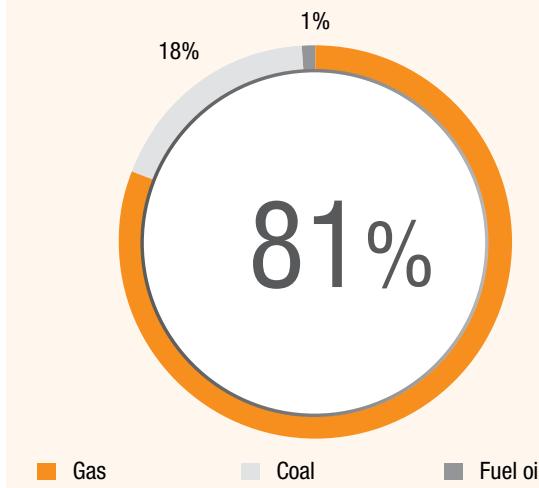
The total installed heat capacity of plants in the Electricity Production sub-segment.



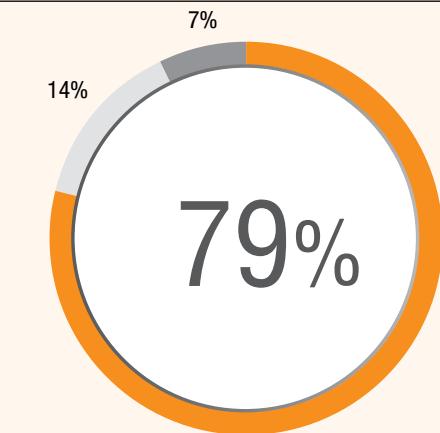
INSTALLED CAPACITY STRUCTURE



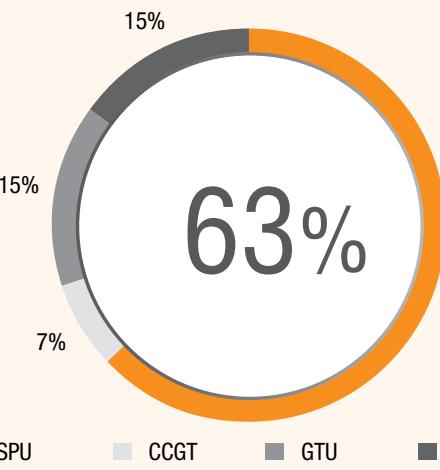
FUEL MIX



GENERATING CAPACITY DISTRIBUTION BY PRICING ZONE AS OF THE AND 2016



EQUIPMENT COMPOSITION*



* SPU – Steam powered unit.

CCGT – Combined cycle gas turbine plant.

GTU – Gas turbine unit.

OVER THE REPORTING PERIOD, 166.4 MW OF NEW CAPACITY WAS COMMISSIONED, INCLUDING THOSE THAT WERE RE-QUALIFIED.

Competitive strengths

- Closing cycle of the investment programme implementation in terms of the new construction (4.3 GW constructed under CDAs, which exceeds 70% of total obligations).
- Over 15% of high-performance capacities with a low fuel cost component.
- Approved long-term decommissioning of inefficient generating equipment. Total capacity to be decommissioned by 2020 will be more than 4.7 GW.
- Availability of competencies and experience in effective operation in the electricity and capacity market, including effective use of existing mechanisms to optimise the existing generating equipment load to achieve the maximum margin values.
- Effective long-term gas purchase contract considering a discount.
- Availability of high-mobility equipment in the assets structure.
- Availability of in-demand and competitive generating capacities with a wide geographical spread.
- Most enterprises within the Group are certified under the ISO 14001 international standard. The Group consistently exercises control over the implementation of measures under the target ecological programme, time limits for their implementation, and numerical values/indicators demonstrating the fulfilment of objectives. The programme is updated as necessary.

6,157 MW

The total installed electric capacity of plants in the Heat Generation sub-segment.



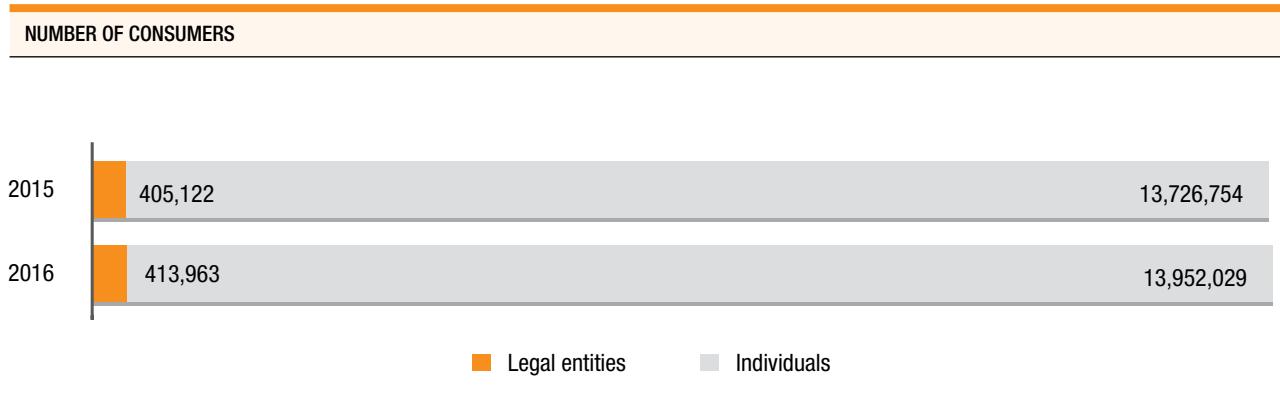
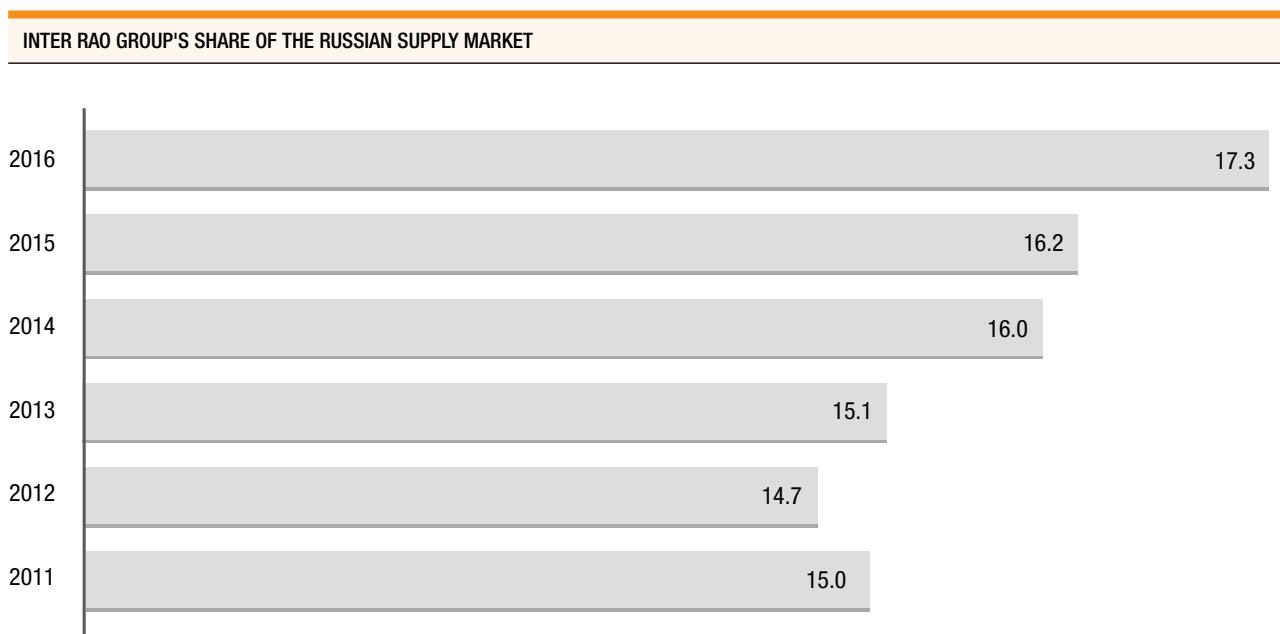
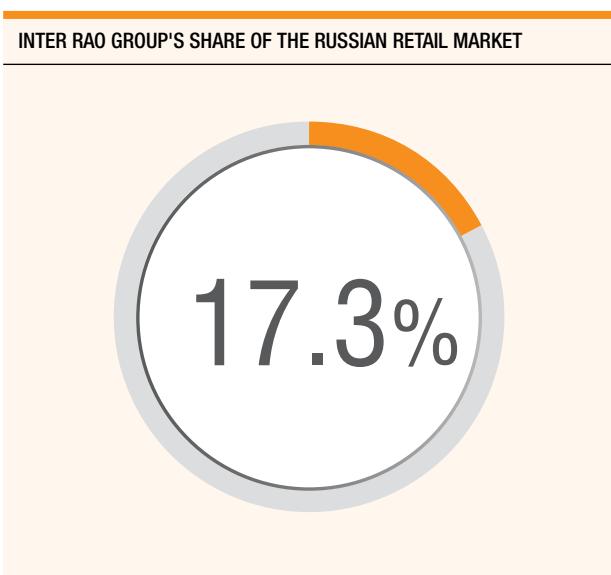
19,315 Gcal/h

The total installed heat capacity of plants in the Heat Generation sub-segment.



SUPPLY

The “Supply in the Russian Federation” segment comprises eight power supply companies being guaranteed suppliers⁵ and three independent (non-regulated) power supply companies⁶. Footprint – 62 Russian regions.



⁵ Guarantee Supplier (GS) is a power supply company obliged to enter into a sale and purchase (power supply) agreement with any individual or legal entity requesting it to do so located in its area of operations. A GS operates within a particular area of operations. A GS performs retail sales of electricity (capacity) purchased by it in the wholesale market using the grid supply points (GSPs) corresponding to its area of operations, or in the retail market from power supply companies and electricity (capacity) producers.

⁶ Non-regulated energy supply companies (NRESC) is a power supply company with no GS status, which enters into a sale and purchase (power supply) agreement with a legal entity requesting it to do so. An IPSC purchases electricity (capacity) for the consumer from a GS in the retail market, or by itself in the wholesale market.

Competitive strengths

- Implementation of marketing activities in the largest regions of the Russian Federation: Moscow, Moscow Region, St. Petersburg, and Leningrad Region.
- High market share in regions of presence.
- Unification of the management system of power supply companies within Inter RAO Group.
- Single Billing project – a unified billing methodology for legal entities in the form of a package of business processes that govern the core operations of power supply companies.
- Presence in the portfolio of unregulated sales companies that have contracts for sale of electricity with the largest industrial consumers.
- Presence of unique competencies that make it possible to actively develop additional paid services aimed at maximizing customer satisfaction and improving the quality of service.
- Presence of a broad customer base, which allows the implementation of new energy supply services.
- Presence of a synergetic effect for sales companies in the regions where the generating assets operate.
- Customer-focused approach – building an effective system to assess the satisfaction with the quality of services provided.
- High level of payment collection in the retail market.
- Wide range of additional paid services offered.
- A unified model of the grouped brand of power supply companies: guaranteed suppliers of Inter RAO Group.

TRADING

PJSC Inter RAO is the leading Russian electricity export and import operator involved in both cross-border supplies of electricity and related trading operations in the domestic wholesale electricity and capacity market (WECM). The Group's supply geography comprises 14 countries, including Finland, Lithuania, Belarus, Kazakhstan, Georgia, Norway, Ukraine, Latvia, Estonia, Poland, Azerbaijan, South Ossetia, Mongolia and China.

Competitive strengths

- Unique competency and accumulated experience in foreign economic activities.
- Well-organised system of interaction with Russian and foreign partners.
- Optimal structuring of contract proposals, taking account of customer needs to the greatest possible extent.

ENGINEERING

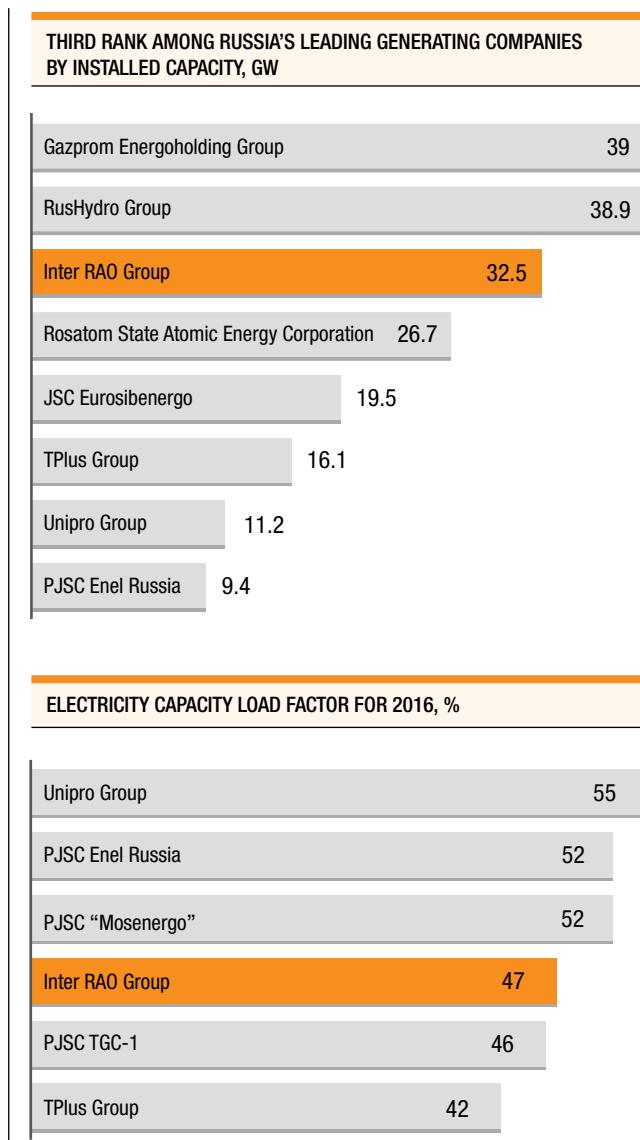
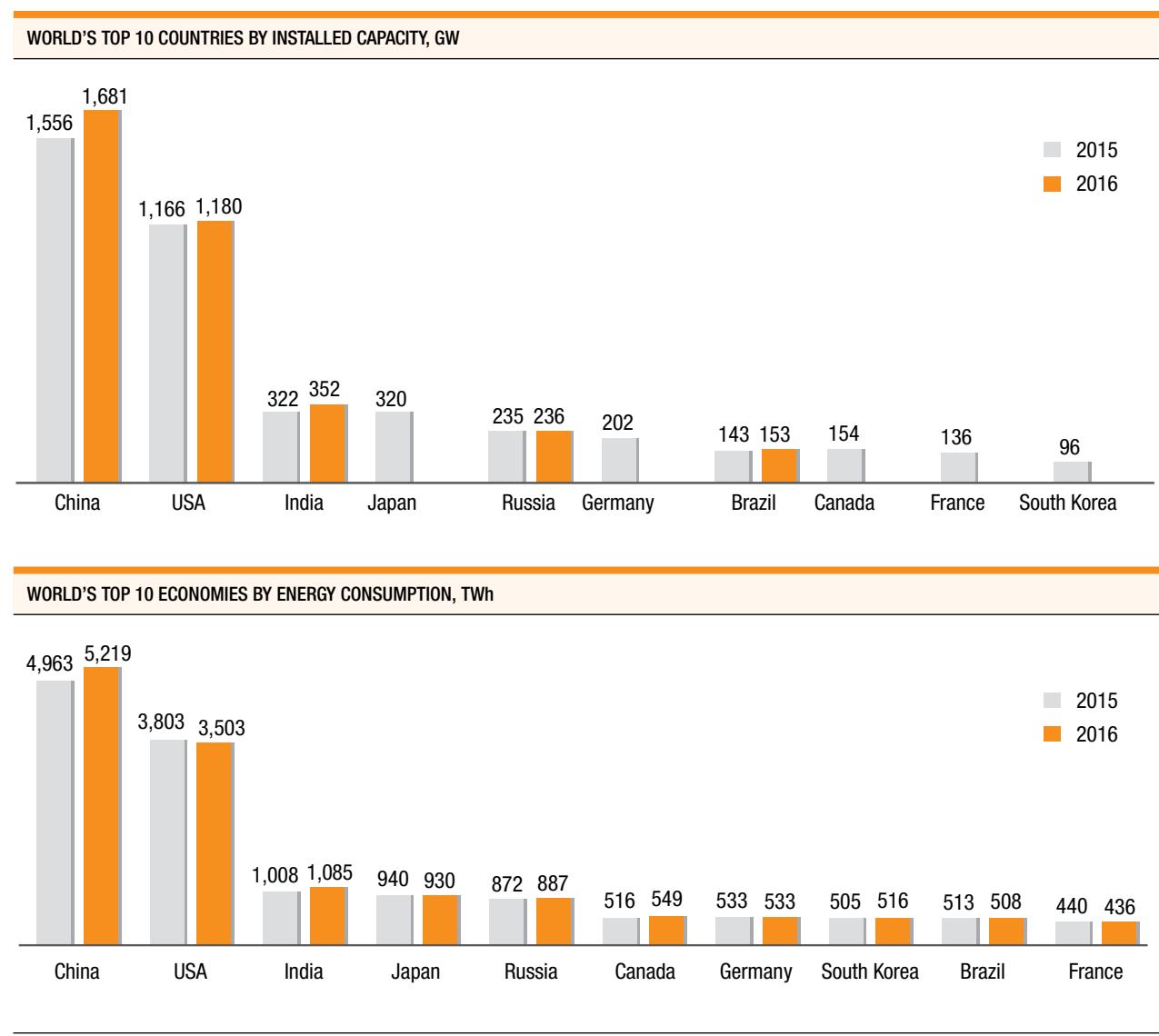
The development of in-house production of modern equipment serves as a tool of import substitution, where the Group implements projects involving the construction/modernisation of generating assets, which is especially relevant in the current political context. The Group currently has 15 constructed and modernised power facilities in Russia and CIS countries, and implements HPP and TPP construction projects in the South America. The presence in the "Engineering" segment enables the use of engineering experience gained in the course of implementing intra-Group projects, for its capitalisation in the external market.

Competitive strengths

- Experienced management team with a large portfolio of implemented projects.
- Growing portfolio of implemented projects, and cooperation with the region's largest energy companies.
- Experience in attracting project financing and using state support.
- Using the world's best management practices consistent with the ISO 9001 quality management standard.
- Established relations with the authorities in Russia and key partner countries.

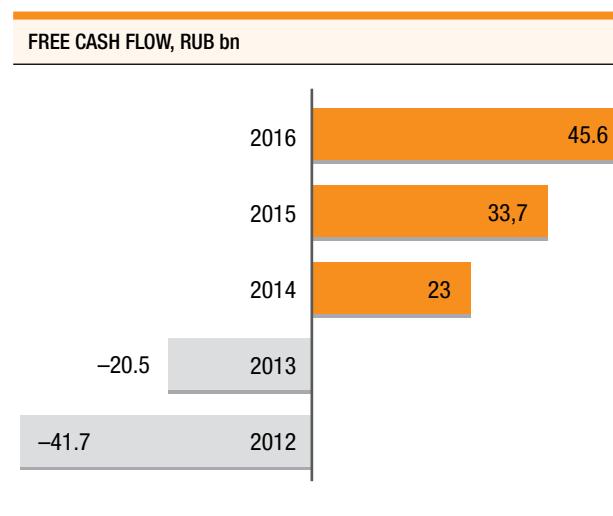
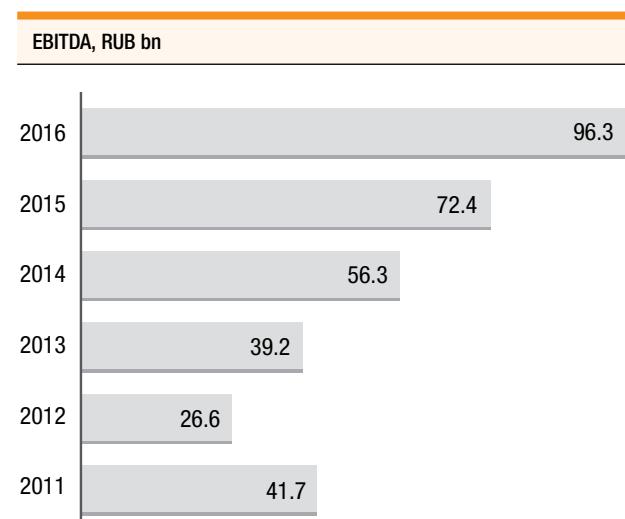
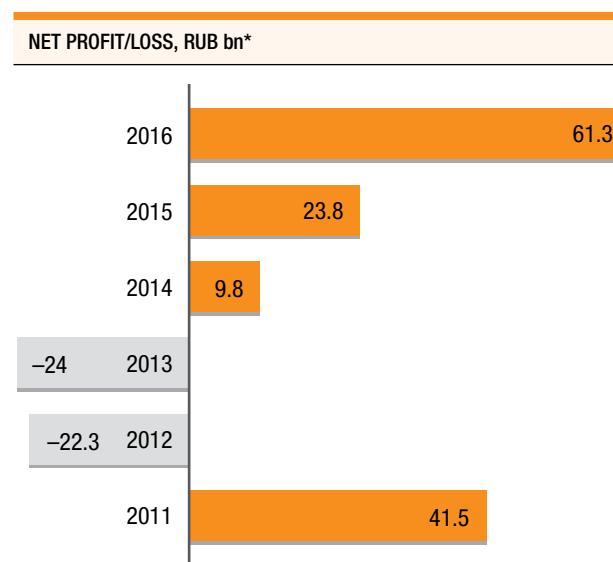
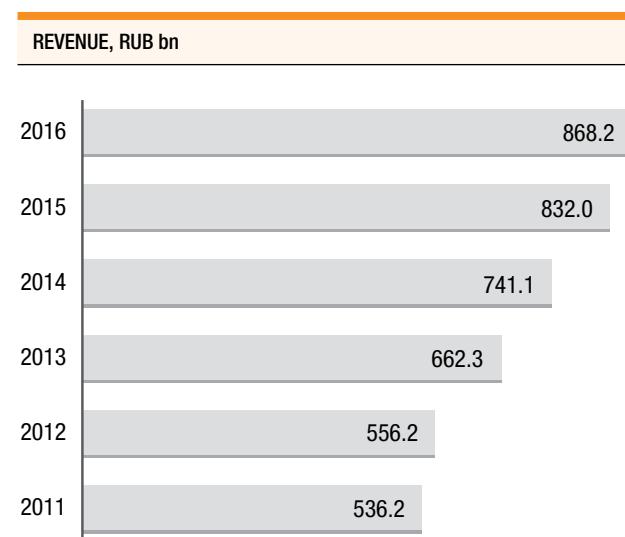
3.7. INVESTMENT ADVANTAGES

1. FOOTPRINT IN ONE OF THE WORLD'S LARGEST ENERGY MARKETS⁷



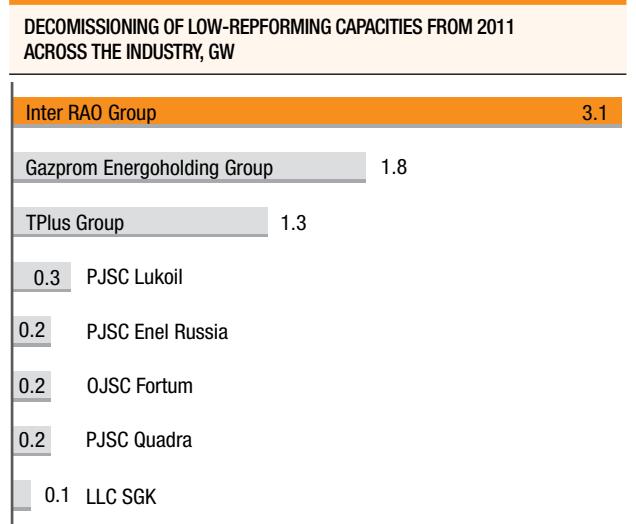
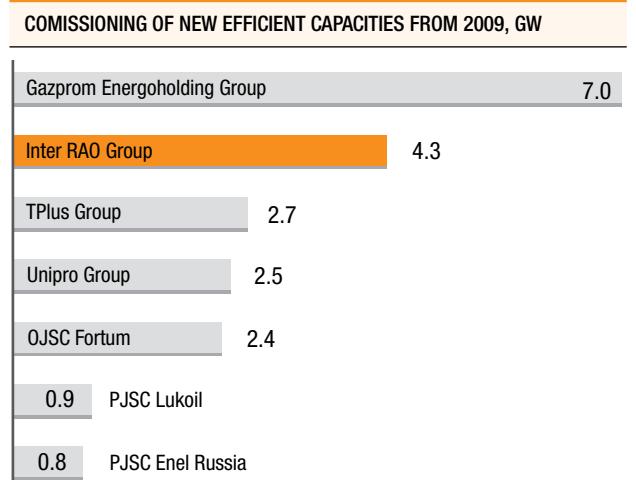
⁷ Source: <https://yearbook.enerdata.net/> (2016 data for Japan, Canada, Germany, France and South Korea are absent).

2. SUSTAINABLE INCREASE IN FINANCIAL INDICATORS



* According to IFRS.

3. HIGH LEVEL OF OPERATING EFFICIENCY – COMMISSIONING OF NEW CAPACITIES AND DECOMMISSIONING OF LOW-PERFORMING CAPACITIES



4. HIGH LEVEL OF CORPORATE GOVERNANCE

Pursuant to the results of the Corporate Governance Index 2016 study conducted by the Association of Independent Directors jointly with the expert panel comprising representatives of the Bank of Russia, Moscow Exchange and Russian Union of Industrialists and Entrepreneurs, PJSC Inter RAO is ranked second in the top 10 Russian companies with the highest corporate governance scores rating.



The study by the Association of Independent Directors is available at: http://www.nand.ru/upload/medialibrary/Russian_Corporate_Governance_Index_2016.pdf

5. PROFESSIONAL MANAGEMENT AIMED AT CREATING VALUE FOR SHAREHOLDERS



Detailed information is presented on the website:
<http://www.interraou.ru/company/rukovod/#pravlenie>

3.8. ELECTRICITY INDUSTRY DEVELOPMENT PROSPECTS UNTIL 2035

The electricity sector is a systemically important industry of the Russian economy. Inter RAO Group is proactive in terms of interaction with legislative and executive authorities of the Russian Federation and takes part in discussing the key documents and draft laws.

At the moment, the primary governing documents are as follows:

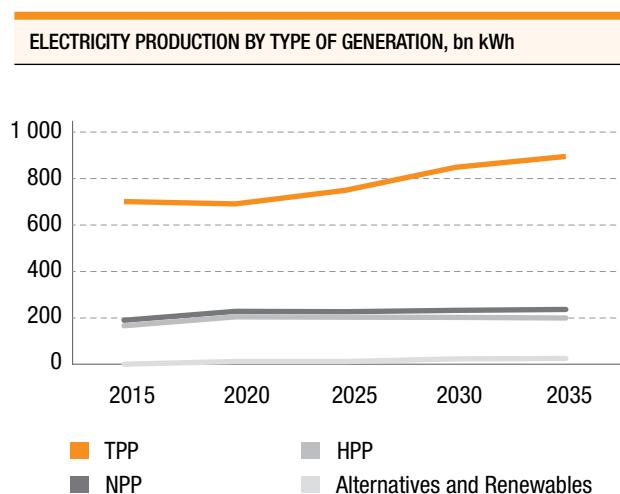
1. Draft. Energy Strategy of Russia until 2035 (Strategy).
2. Draft. General Layout of Electricity Facilities until 2030 with an extension until 2035 (General Layout).
3. Unified Energy System of Russia Development Scheme and Programme for 2016–2022 (DSP) adopted by Order of the Russian Federation Ministry of Energy No. 147 dated 1 March 2016.

The first two documents currently have “draft” status; they have been repeatedly discussed at various levels, including at the level of the Governmental Commission for Electricity Industry Development. All market players take guidance from them, as from the main government forecasts, with respect to the electricity industry development until 2035.

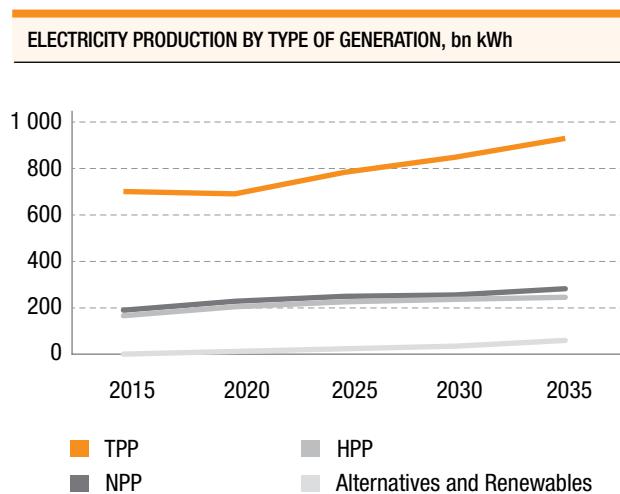
The implementation period of the Energy Strategy of Russia until 2035 is divided into two stages: Stage I – approximately until 2020 (with a possible extension until 2022) and Stage II – approximately from 2021 until 2035. To evaluate the proposed measures and prospects for the fuel and energy complex (FEC) development, two forecasting scenarios have been elaborated – conservative and optimistic, which determine the lower and the upper limits for possible changes in the fuel and energy balance (FEB) parameters.

In terms of electricity and heat supply, the Strategy lists the measures, the implementation of which may enable a 4–5% increment in electricity production by 2020, and a 30–38% increase by 2035, provided that the installed capacity of power plants rises by 13–16% (from 248 GW to 281–289 GW).

Conservative scenario



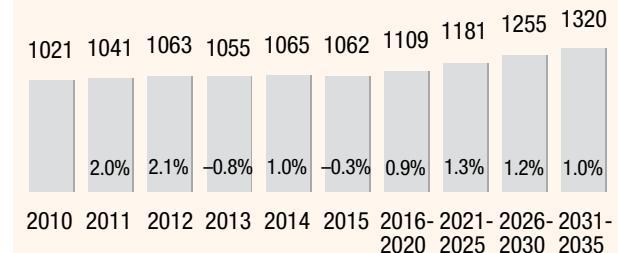
Optimistic scenario



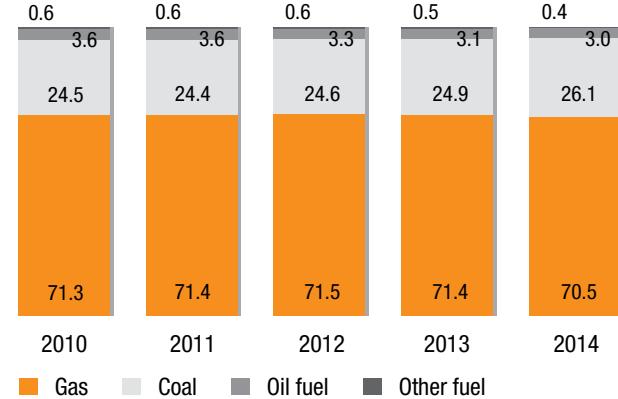
According to forecasts of the Russian Federation Ministry of Energy, electricity consumption demonstrates a steady growth exceeding 1% per year, which will actually lead to a 24% consumption increase by 2035. At the same time, both the government and companies understand that by 2035, equipment will become aged. At the moment, roughly 54% of equipment operating in the energy system (official data from the Russian Federation Ministry of Energy) is beyond its statutory service life or economic life.

According to the General Layout of Electricity Facilities until 2030 with an Extension until 2035, 129 GW of operating TPP capacities are approaching their economic life

ELECTRICITY CONSUMPTION UNDER THE BASELINE SCENARIO (RUSSIAN FEDERATION), bn kWh



FUEL UTILISATION STRUCTURE, %



limits, and modernising 76 GW of them has been found expedient. Therefore, to avoid any generation shortage in the longer term, it is necessary to develop mechanisms to support the generating equipment modernisation/replacement.

Pursuant to the draft General Scheme for Electricity Industry Development until 2035, certain changes in the heat generation structure are expected in Russia. Until 2030, the heat generation structure will remain in approximately the same condition, with some increase in the coal generation share as against the gas generation share to take place by 2035.

Today, Inter RAO is facing — as is the entire industry — a great challenge associated with a necessity of modernising ageing facilities and developing effective mechanisms for investment attraction into the corresponding projects.

One of the key projects aimed at improving both the efficiency and the reliability is the programme for the decommissioning of old capacities. Inter RAO Group was one of the first players in the industry to realise the need for changing the composition of equipment in operation, and in 2016 alone the Company decommissioned over 1.1 GW of low-performing capacities, which entailed a significant rise in electricity production profitability. Given the substantial positive effect for the Company's operating and financial performance, the improvement efforts in this area will be continued in the coming years. PJSC Inter RAO sets itself challenging tasks for 2017 in all business segments.