

## SUPPLY



## Description of business

The 'Supply in the Russian Federation' segment unites companies of the Inter RAO Group whose main business involves the supply (sale) of electric power (capacity). In 2019, the Group's power supply companies had an 18.3% share of the retail electric power market, while the customer base expanded to 16.8 mln customers. A higher level of market penetration, expansion in specialized services, and the enlargement of the product portfolio all combined to have a positive impact on the profit margins of this segment. Inter RAO sees great potential for business diversification in the segment through the development of additional customer services.

The segment is comprised of:

- 10 power supply companies (PSCs) that are guaranteed suppliers (GS) operating within 14 regions of the Russian Federation
- 5 Unified Information and Settlement Centers (UISCs) that provide face-to-face customer service for individuals
- 3 independent (unregulated) power supply companies (IPSCs) that supply electric power to major industrial consumers in 62 regions of the Russian Federation

One of the Group's key focuses is the development of additional paid services, such as the supply of goods and the provision of services related to the supply of electric power to consumers, for example, entering the electrical installation market for legal entities and individuals.

## Results of operating activities [EU3]

In 2019, electricity sales by companies in the 'Supply in the Russian Federation' segment exceeded the 2018 level by 3.4% and amounted to 198.456 mln kWh. The following factors had the biggest impact on this increase:

- Electricity sales increased by 4.199 mln kWh due to the launch of operating activities by LLC NSC as a guaranteed supplier in the Vologda Region starting from January 1, 2019
- Electricity sales by the PSK Group grew by 1.827 mln kWh, or 4.9%, due to a 3.9% increase in the customer base, including the conclusion of an electric power supply agreement with a major consumer in the Leningrad Region at the end of December 2018
- LLC Energosbyt Volga boosted sales by 943 mln kWh (36.4%) after it started working as a guaranteed supplier in the Vladimir Region starting from April 1, 2018
- Electricity sales by the MES Group remained virtually unchanged versus the previous period
- The companies PJSC Saratovenergo, JSC Altayenergosbyt, JSC Tomskenergosybt, LLC ERCB, and LLC Oryol Energosbyt all saw a cumulative decrease in electricity sales of 952 mln kWh. A decrease in sales by PJSC Saratovenergo (–634 mln kWh, or –9.5%) due to lower consumption among major large consumers as well as the climatic factor had the biggest impact on this change

Unregulated supply companies demonstrated a combined increase in electricity sales of 460 mln kWh primarily because of positive dynamics at LLC RN-Energo resulting from the conclusion of contracts with a number of network organizations as well as the enlistment of new consumers as part of a project to attract and maintain a customer base on the basis of fixed prices and other measures.

**STRATEGIC REPORT**

	2017	2018	2019	2018/2019
Net supply in Russia, bln kWh	1,059.5	1,076.1	<b>1,075.2</b>	-0.1%
Net supply by segment, mln kWh	184,069	191,908	<b>198,456</b>	+3.4%
Share of the segment's net supply in Russia <sup>1</sup> , %	17.4%	17.7%	<b>18.3%</b>	0.6 p.p.

The bulk of electricity sales by companies in the segment during the reporting period came from MES Group (44.8%), PSK Group (19.7%), LLC RN-Energo (14.8%), and LLC ERCB (7.0%).

The Group's customer base was expected to grow by 208,000 customers in 2019 compared with 2018, which would have resulted in 15.7 mln

total customers. However, the actual growth was 1.301 mln customers, which pushed the total number up to 16.8 mln customers, including 16.433 mln individuals and 387,000 legal entities. The main factor that influenced the increase in the customer base was that LLC NSC obtained the status of a guaranteed supplier in the Vologda Region starting from January 1, 2019.

**Number of customers served [EU3]**

	2017	2018	2019	2018/2019,%
Population, housing and utility services, management companies, homeowners associations, housing cooperatives and equivalent organizations	14,342,430	15,212,591	<b>16,488,029</b>	+8.4%
Industry	13,413	13,814	<b>14,875</b>	+7.7%
Transport and communication	325	335	<b>588</b>	+75.5%
Other commercial enterprises	236,850	247,503	<b>268,638</b>	+8.5%
Agriculture	9,219	9,620	<b>10,195</b>	+6.0%
Publicly-funded institutions	34,603	34,932	<b>37,554</b>	+7.5%
<b>Total</b>	<b>14,636,840</b>	<b>15,518,795</b>	<b>16,819,879</b>	<b>+8.4%</b>

<sup>1</sup> Excluding operations on the wholesale market.

## Financial results by segment

Indicator	'Supply in the Russian Federation' segment			
	2017	2018	2019	2018/2019
Revenue, RUB mln	580,846	632,368	<b>695,098</b>	9.9%
Share in Revenue of Inter RAO Group, %	67%	66%	<b>67%</b>	1 p.p.
<b>Operating expenses, including</b>				
Purchased electricity and capacity, RUB mln	(340,249)	(368,026)	<b>(412,102)</b>	12.0%
Electricity transmission fees, RUB mln	(201,689)	(218,047)	<b>(233,393)</b>	7.0%
EBITDA, RUB mln	19,086	24,960	<b>25,807</b>	3.4%
EBITDA margin <sup>1</sup> , %	3%	4%	<b>4%</b>	0 p.p.
Share in EBITDA of Inter RAO Group, %	19%	21%	<b>18%</b>	-3 p.p.

Revenue in the segment increased by RUB 62.730 bln (9.9%) mainly due to increased revenue from electricity sales based on the tariff-and-balance decision approved for 2019, higher electricity sales volumes, including due to the launch of operations as a guaranteed supplier in the Vologda and Vladimir Regions, as well as the servicing of new consumers.

Expenses on purchased electricity and capacity grew by RUB 44.076 bln (12.0%) due to both an increase in purchase volumes (3.1%) and the weighted average price for purchased electricity and capacity (8.7%).

An increase in electricity consumption and transmission tariffs resulted in the cost of electricity transmission services growing by RUB 15.346 bln (7.0%).

EBITDA in the segment grew by RUB 847 mln (3.4%).

## Principles of power supply activities

The ideology behind Inter RAO's power supply activities is to improve the quality of customer service through competition in the power supply sector of the electricity business. In this regard, a power supply organization is a representative of customers' interests in the electric power industry (an agent) via the activities of guaranteed suppliers, independent power supply companies, and Unified Information and Settlement Centers, and releases enterprises from the burden of interacting with other energy companies (suppliers and network organizations) and infrastructure organizations (ATS, Market Council, and SO UES).

<sup>1</sup> EBITDA margin was calculated excluding inter-segment revenue in the 'Supply' segment in the Russian Federation in the amount of RUB 1.758 bln for 2019, RUB 1.674 bln for 2018, and RUB 1.533 bln for 2017.

**STRATEGIC REPORT**

In order to expand the areas of activities of the retail business, the Group is actively developing the following additional services:

- Installation and maintenance of electricity meters and other resources (including automated commercial electricity metering systems)
- Electrical, plumbing, and construction work
- Sales of electrical products
- Preparation of technical documentation and integrated solutions in such areas as energy conservation and energy efficiency
- Provision of consulting services on energy conservation matters
- Generation of a unified/single payment document

The Group's power supply assets and UISCs increased revenue from additional paid services by 4.1% in 2019 compared with 2018 to RUB 5.509 bln. The higher revenue was driven by growth in sales of basic services as well as the development of new businesses. The main additional paid service is the installation and maintenance of electricity metering devices, however its share decreased in 2019 primarily due to the introduction of the new service of a unified payment document at a number of the Group's energy retail companies. Electrical work and expert services also demonstrated growth in 2019.

### Development of electronic services

In 2019, the retail business devoted special attention to the development of the range and capacity of interactive customer services, such as IVR (interactive voice response), video consultants, and chat bots, and improving the quality of their work. Effective solutions have also been incorporated into replication projects for all companies in the retail business.

Existing services based on companies' official websites:

- Personal accounts
- Online consultation
- Transfer of meter readings
- Printing of receipts for cash payments
- Face-to-face consultation

The Group's companies are constantly working to develop services for customers to allow consumers to save time and utilize services remotely online. All companies have significantly expanded the capacity and features of the One-Stop Shop service when providing face-to-face services to individuals, individual entrepreneurs, and major customers. The features of retail asset mobile applications for individual and business customers have also been expanded. In addition, retail assets have successfully launched projects to introduce legally significant electronic document workflow with consumers and grid organizations.

### Cybersecurity [GRI 418<sup>1</sup>]

In order to improve information security mechanisms, projects are being implemented to update the personal data protection system. The Company has designated individuals responsible for ensuring the protection of confidential information. Commissions have been created to determine the level of protection required for personal data when it is processed in the information system used to manage power supplies to residential consumers.

Companies in the Supply segment use a multi-level software and hardware system to protect information. In addition to technical measures, employees regularly monitor security vulnerabilities. Additional information about information security risk management is provided in the Corporate Control section of this Report.

### Customer service assessment [GRI 103<sup>2</sup>]

Inter RAO devotes significant attention to building trusting relationships with its customers. The Company regularly verifies the level of quality of service and organizes training for employees. In an effort to identify customer needs, the Company regularly conducts surveys and research on its own and with the involvement of third-party organizations.

<sup>1</sup> Management Approach: Personal data protection system.

<sup>2</sup> Management Approach: Quality of customer relations.

A customer satisfaction survey was conducted for the first time in 2019 among individuals at all UISCs and Inter RAO power supply companies using the international methods TLR<sup>1</sup> (a combined assessment of the level of customer engagement and loyalty) and NPS (likelihood to recommend a company), which were adapted to the specifics of the Group's operations. The survey covered a total of 13,900 respondents.

The overall level of engagement and loyalty (TLR) among customers of the Group's power supply companies and UISCs amounted to 59%. This value is consistent overall with the average level of global companies working in the energy and utilities sector (the average TLR in 2018 was 65%).

The Customer Loyalty Index (NPS) of Inter RAO's power supply companies and UISCs was 19%. For global energy and utilities companies, the average NPS was 15% in 2018.

### Fulfillment of contractual obligations [EU27]

Inter RAO is working to improve customer payment discipline.

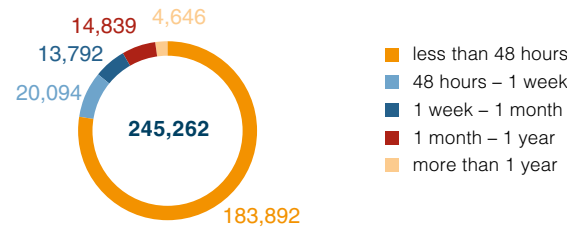
Collections improved in 2019 due to the partial repayment of debts for past periods by housing and utility service companies on the retail market (including the federal publicly funded enterprise Central Housing and Utility Service Office).

In its work with debtors, the Group pays particular attention to effective methods of influence, such as imposing restrictions on power consumption and litigation. Soft collection also increased in 2019, including through telephone calls to consumers and the sending of complaints.

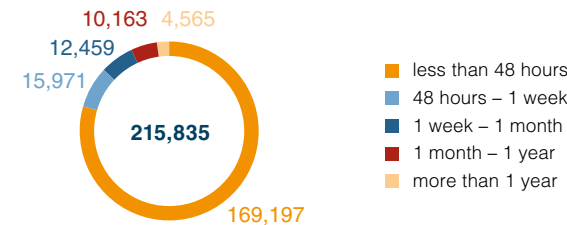
### Payment collection for electricity supplied

	2017	2018	2019
Payment collection for electricity supplied in the retail segment	99.2%	98.8%	99.6%

### Number of disconnections among residential subscribers for non-payment with a breakdown of the duration of disconnections in 2019 [EU27]<sup>2</sup>



### Number of disconnections among residential subscribers for non-payment with a breakdown of the duration of disconnections in 2018 [EU27]



**Each electricity consumer is our customer**

Risk appetite:  
A reduction in the number of electricity customers is not an option.

<sup>1</sup> The Temkin Loyalty Rating (TLR), now the Temkin Loyalty Index (TLI), developed by the Temkin Group (now Qualtrics XM Institute), to determine the level of loyalty and customer engagement at companies working in various businesses. Using this technique makes it possible to compare the results of the survey with similar companies at the international level.

<sup>2</sup> There is no accounting conducted for the length of time between debt settlement and a consumer's reconnection.

The number of disconnections increased in 2019 compared with 2018 due to growth in the number of non-paying consumers, which in turn led to an increase in the number of planned measures to partially (fully) restrict (restore) power consumption mode.

### Factors affecting the industry's development

The main changes in marketing activities include:

**Smart electric power metering systems (SEPMU).** Starting from July 1, 2020, responsibility for the installation, replacement, and operation of metering devices will pass from consumers to professional market participants – network organizations and guaranteed suppliers. Starting from January 1, 2022, guaranteed suppliers are required to provide access to the minimum set of SEPMU functions, which will be approved by the Government of the Russian Federation.

**Maximum capacity reserve (MCR).** A new obligation will be introduced for consumers to pay for electricity transmission services as regards payment for MCR. The obligation to pay for MCR will arise if the volume of MCR in an annual period was more than 40% of the maximum capacity in each consecutive month of the year (provided that the consumer did not redistribute the capacity to other consumers and/or did not sign over the available reserves to a network organization). MCR will be subject to payment taking into account a decreasing coefficient with the prospect of gradual transitioning to full payment for capacity.

**'Regulatory Guillotine.'** Plans are in the works to repeal obsolete regulatory legal acts of the USSR, the RSFSR, and the Government of the Russian Federation and also abolish regulatory legal acts containing mandatory requirements that are assessed for compliance during state control measures over the activities of companies (including energy sales).

**Unified Tariff Law.** A Unified Tariff Law is slated to be adopted in matters concerning tariff regulation. The law envisages methods of state regulation of prices (tariffs), requirements for the structure of the required gross revenue (RGR) of regulated entities, and a unified procedure for setting prices (tariffs).

**Consumer Debt.** There are plans to change the parameters for working with receivables through legislative amendments regarding the collection of commissions and the organization of out-of-court and judicial work for the recovery of overdue debts. Regulatory acts have been adopted restricting the ability to conduct judicial work without providing information on the identification data of debtors in addition to a ban on the transfer (concession) of citizens' debts for electricity to third parties (including collectors). A number of draft laws that restrict the rights of payment agents and bank payment agents, in particular, are under consideration by the state authorities and the expert community concerning the collection of fees from citizens for making payments for housing and utility services as well as a ban on involving third parties in work with citizens' debts (including making phone calls, the introduction of a mode limiting energy consumption, judicial protection, etc.). These changes may adversely affect the 'Sales in the Russian Federation' segment.