

## DEVELOPMENT STRATEGY

### COMPANY'S MISSION

Inter RAO's mission is to promote sustainable economic development and improve the quality of life in all regions where the Company operates by ensuring reliable energy supplies, meeting the growing demand for electricity, and using innovative energy efficiency and conservation technologies.

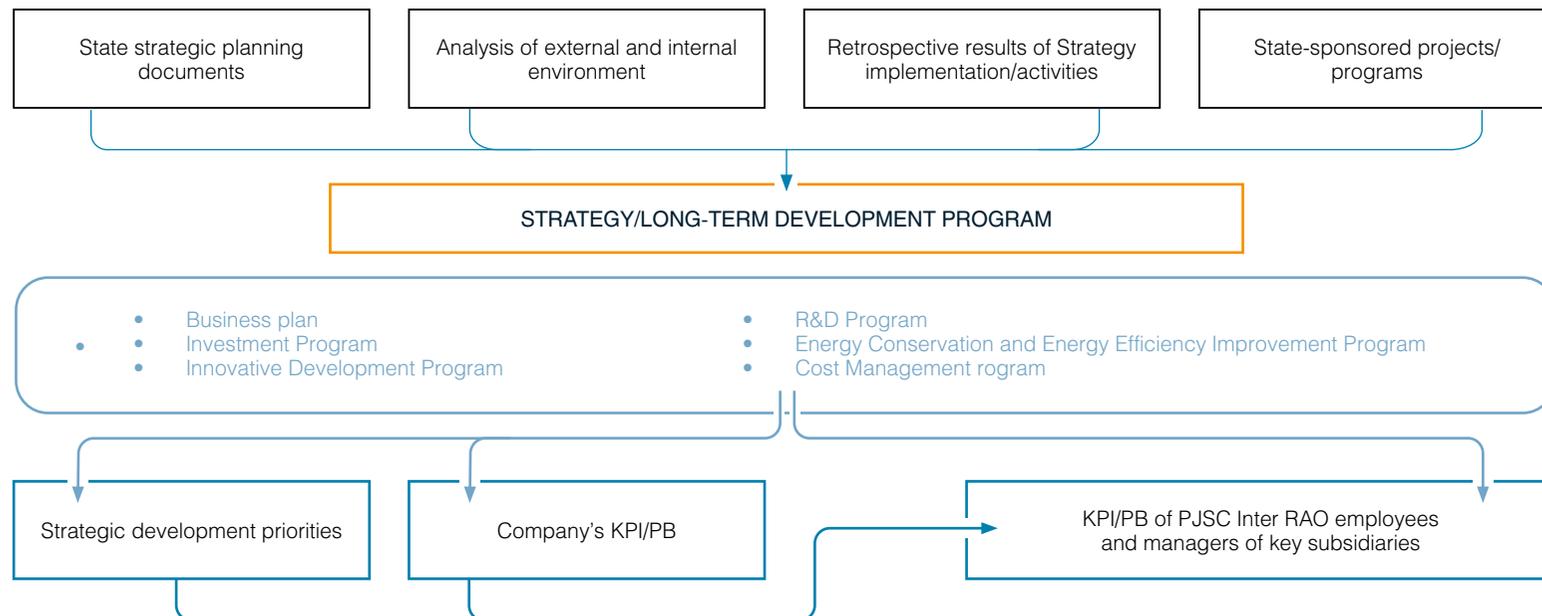
### STRATEGIC PLANNING SYSTEM

In 2010, the Inter RAO Board of Directors approved the Group's Development Strategy, which aims to ensure the Group attains leading positions in the Russian energy sector by 2020 and expands its presence on international markets.

The updated Inter RAO Development Strategy until 2020 (hereinafter the Strategy) was approved by a resolution of the PJSC Inter RAO Board of Directors on March 13, 2014<sup>1</sup>. In December 2014, the Strategy was submitted for review to the Government Commission on the Development of the Electric Power Industry as a Long-Term Development Program and approved without changes<sup>2</sup>.

The Strategy includes the Group's target vision, mission, strategic goals, and consolidated indicators for the period until 2020 as well as a list of priority development areas, key measures, strategic objectives, and their values within these development areas.

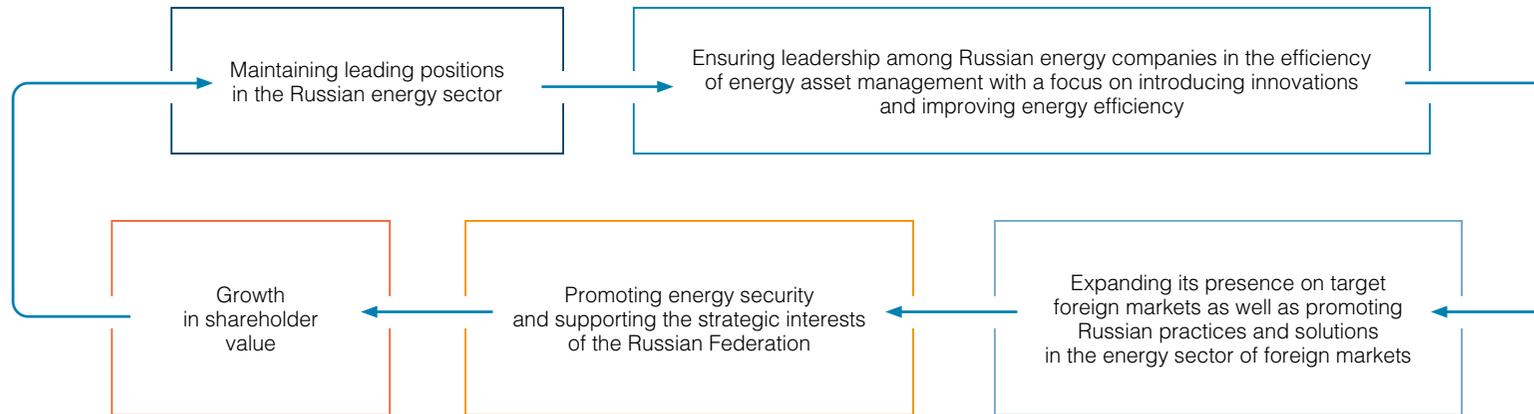
The goal of Inter RAO's Strategy is to become a global company, one of the key players on the global energy market, and a leader in the energy industry of the Russian Federation by 2020 by providing the most efficient asset management possible.



<sup>1</sup> Minutes No. 110 dated March 17, 2014.

<sup>2</sup> Minutes No. 18 dated December 27, 2014.

## Group's strategic goals



## Strategy implementation results

The key strategic indicators of the 2020 Strategy have now been achieved overall. During its previous stage of development, Inter RAO transitioned from a foreign trade operator on the electricity (capacity) market to a diversified energy holding that owns and manages various types of assets on the domestic and foreign markets. In 2010, Inter RAO shareholders voted to issue a large number of additional shares, which laid the foundation for a new stage in the Company's development.

In 2010-2014, the Company significantly bolstered its assets as part of an ambitious consolidation program and M&A activities, including:

- Since 2011, Inter RAO has acquired a number of power supply companies. The biggest transactions were for: JSC Mosenergosbyt, LLC RN-Energo, and JSC St. Petersburg Power Supply Company
- In 2012, the Inter RAO Group consolidated the generating and heating grid assets of the Republic of Bashkortostan (LLC BGC and LLC BashRTS)
- In 2013, together with regional authorities, the Group established settlement centers in the largest regions of the Russian Federation: LLC UISC of the Moscow Region and JSC UISC of the Leningrad Region

In 2014–2019, Inter RAO increased its presence on the retail electricity and capacity market:

- JSC St. Petersburg Power Supply Company was granted the status of a guaranteed electric power supplier in the Omsk Region
- LLC Oryol Energosbyt was granted the status of a guaranteed electric power supplier in the Oryol Region
- A guaranteed electric power supplier was acquired in the Republic of Bashkortostan (LLC ERCB)
- The status of guaranteed electric power supplier was granted in the Vladimir and Vologda Regions

**IN 2020 THE STRATEGIC TARGETS**

**HAVE BEEN ACHIEVED AS A WHOLE**

## STRATEGIC REPORT

The Company put together a management team that ensured the effective management of its activities with a focus on improving operational efficiency, optimizing the scope of assets, and increasing the Company's capitalization:

- Approximately 6.5 GW of new effective capacity has been commissioned since 2010, including the commissioning of about 5.7 GW under CDAs
- Effective participation in competitive auctions for modernization projects to build generating facilities of thermal power plants
- Some 3.7 GW of inefficient power was decommissioned from 2010 to 2019
- A project to ensure the energy security of the Kaliningrad Region is in its final stage
- Implementation of a program to reduce costs and increase the operational efficiency of assets
- A long-term gas supply contract was concluded
- Effective interaction was established with the Russian federal authorities, and the Group is actively involved in drafting a regulatory framework for the industry in key areas of its operations
- The Company had established a strong financial position as of the end of 2019 and has access to debt and equity capital markets
- The sale of minority blocks of shares in companies worth more than RUB 130 bln was secured in 2011-2018, and a transaction was concluded to sell a block of shares in Irkutskenergo worth about RUB 70 bln

- The Company withdrew from assets in Armenia, Georgia, Kazakhstan, and Turkey as part of asset optimization
- The Company's capitalization has increased by more than six-fold since 2014

#### Investment appeal factors

- Clear development strategy with a focus on improving operational efficiency and optimizing costs
- World-class and highly motivated management team that aims to generate and enhance shareholder value
- Application of international sustainable development standards
- Strong operating financial results and a reliable loan portfolio
- Exemplary level of corporate governance
- Clear growth prospects and substantial cash flow upon completion of the investment cycle and modernization program
- Effective risk management and internal control

Name	2010	2014	2019	Goals of 2020 Strategy
EBITDA, RUB bln	22.8 <sup>1</sup>	56.3 <sup>2</sup>	141.5	> 100
EBITDA margin, %	28.2 <sup>1</sup>	7.6 <sup>2</sup>	13.7	> 8.7
Installed electric power capacity, MW	20.6	35.0	31.9	> 34.6
Share of the Russian retail market, %	0	15.8	18.3	> 16.0
Volume of foreign trade transactions, bln kWh	21.6	17.5	20.9	> 10.7
Dividends, % of IFRS net profit	1.2	1.1	25	≥ 25

<sup>1</sup> Information for the year 2010 is presented in accordance with the Group's IFRS financial statements for the year ended December 31, 2010 (prior to retrospective restatement due to the acquisition of entities under common control in 2011). Information for the year 2010 was not retrospectively restated due to the entry into force of new or revised IFRS standards for the period from 2013 to 2019 as well as changes to EBITDA calculation in 2015 and the acquisition of an entity under common control in 2016.

<sup>2</sup> Information for the year 2014 was not retrospectively restated due to the acquisition of an entity under common control in 2016 and due to the entry into force of new IFRS standards from 2018.

### Development priorities for 2019 and 2020 [GRI 103<sup>1</sup>]

The implementation of the Strategy is monitored by annually preparing Strategic Development Priorities that consist of a set of high-level strategically important and priority tasks, including quantitative indicators and policy measures within the context of Inter RAO's activities. The Strategic Development Priorities also help to establish a correlation between the incentive of the CEO and members of the Management Board and the strategic management system. The Board of Directors assesses

the extent to which the Strategy was implemented in the reporting period by approving an annual report on the implementation of the Company's Strategic Development Priorities that is then audited by an independent auditor. The strategic priorities for 2019 were approved by the PJSC Inter RAO Board of Directors on December 21, 2018<sup>2</sup>. The strategic priorities for 2020 were approved by the PJSC Inter RAO Board of Directors on December 17, 2019<sup>3</sup> and remained virtually unchanged compared with the priorities for 2019.

### The strategic priorities for 2020



<sup>1</sup> Management Approach: Short and medium-term development plans.  
<sup>2</sup> Minutes No. 237 dated December 21, 2018.  
<sup>3</sup> Minutes No. 261 dated December 17, 2019.

## Strategy implementation in 2019

Business	Key strategic initiatives	Main achievements in 2019
<b>Generation and the thermal power business</b>	Ensuring reliability, safety, and technological development	The necessary measures were implemented for modernization, reconstruction, repairs, and maintenance for 2019 in order to ensure the reliability and safety of production assets.
	Decommissioning inefficient generating facilities	Inter RAO projects with capacity of 6.7 GW were chosen based on the selection of modernization projects for 2022-2025.
	Improving the operational efficiency of production assets	Obsolete and inefficient generating equipment with installed capacity of roughly 600 MW was decommissioned.
<b>Fuel supply</b>	Fuel supply for the Group's generating facilities	The measures of the Energy Conservation and Energy Efficiency Improvement Program for 2019 were implemented.
	Expansion in the Group's area of operations	Coal supplies by LLC Ugolny Razrez to the Gusinoozyorskaya TPP branch of JSC Inter RAO – Electric Power Generation were increased to 2.2 mln tons, an increase of 10.4% versus 2018.
<b>Retail business in Russia</b>	Proposals to draft a regulatory framework for the retail market model	LLC Northern Supply Company was integrated into the Inter RAO Group in the Vologda Region. The Group's share of the Russian retail market stood at 18.3% as of the end of the year.
	Achieving synergies for power supply companies in the regions where the Group's generating assets are located	Proposals have been drafted for by-laws due to changes in electricity metering in apartment buildings. Experts are taking part in the drafting/adjustment of regulatory acts regarding the development of demand aggregators, the development of electric car markets, etc.
	Expansion of the list of additional services	USICs were established in the Tomsk Region and the Republic of Bashkortostan to perform the function of face-to-face and remote customer service for individuals as an integrated client network in the regions of the Company's operation.
		The Group's power supply companies carried out measures to develop and promote additional services. Profit from these services increased by 16.7% compared with 2018.

Business	Key strategic initiatives	Main achievements in 2019
<b>Foreign trade activities</b>	Consolidating its existing positions as the sole Russian export/import operator	<p>The total volume of PJSC Inter RAO's foreign trade operations amounted to roughly 20.9 bln kWh taking into account agency agreements with JSC EEC (a wholly owned subsidiary of PJSC Inter RAO).</p> <p>In 2019, Inter RAO established a company that purchases electricity from Russia as a player on the Georgian energy market and subsequently sells it on the Georgian domestic market.</p>
<b>International activities</b>	Ensuring a presence on foreign markets	<p>An agreement was signed with Cuban state-owned electricity company Energoimport on a roadmap for a project to conduct major overhauls on ten units with 100 MW capacity each at three Cuban TPPs.</p>
<b>Engineering</b>	Developing expertise in: general contracting, design activities, and commissioning	<p>A TPP construction project is underway in the Kaliningrad Region. The construction and commissioning of the Pregolskaya TPP with capacity of 455.2 MW was completed in 2019.</p> <p>LLC Inter RAO – Engineering, as part of a consortium with LLC Integrated Energy Solutions, is building the Gukovskaya Wind Farm in the Krasnosulinsky District of the Rostov Region with capacity of 98.8 MW.</p>
<b>Innovation</b>	Implementing the Innovative Development and R&D Program	<p>The PJSC Inter RAO Board of Directors approved a new Innovative Development Program for 2020-2024 with a view to 2029 on December 20, 2019.</p> <p>As part of the Innovative Development and R&amp;D Program, the Group implemented measures in the following areas: improving energy efficiency and the eco-friendliness of production, developing new production technologies, introducing quality control systems, improving the organization of innovative activities, and developing collaboration with companies in the innovative environment.</p>
<b>Optimization of asset structure</b>		<p>PJSC Inter RAO completed the sale of a 50% stake in JSC Ekibastuzskaya TPP-2, a joint venture in the Republic of Kazakhstan, to the Samruk-Kazyna National Welfare Fund for a total of USD 25 mln.</p> <p>Inter RAO consolidated a 100% stake in PJSC Tomskenergosybt.</p>

### Strategy implementation audit

The audit firm LLC Ernst & Young conducted an audit of the Report on the Implementation of the Inter RAO Group's Strategic Development Priorities for 2019 and provided the Inter RAO Group with an Audit Report on the Implementation of the Inter RAO Group's Strategic Development Priorities for 2019, which confirmed that no facts were found that would suggest that the following information in the Report was not accurately reflected in all material aspects based on the procedures that were carried out:

- The results of the Group's activities to implement the Strategic Development Priorities and to meet the strategic indicators for 2019
- Reasons for the failure to meet the indicators and objectives included in the Strategic Development Priorities, and deviations of the actual values of the Group's performance results from those envisaged in the Strategic Development Priorities for 2019

Overall, Inter RAO deems the Strategic Development Priorities to have been implemented.

### New Long-Term Development Strategy

The strategic objectives in the current Inter RAO Strategy for the period until 2020 have been achieved in full and its strategic cycle is close to being complete.

In 2019, the Company's management decided to launch work on an updated Inter RAO Strategy. The document is being drafted for the period until 2025 with a view to 2030. The Strategy is expected to be submitted to the Board of Directors for review in May 2020.

The updated Strategy/Long-Term Development Program will reflect the following current factors and events in the industry:

- The current technological development of the energy industry
- The thermal power plant modernization program approved by the Government of the Russian Federation
- The trend being pursued by the government of digitalizing the economy, including in the energy sector, and the potential for improving the efficiency of business processes within the Group using digital technologies
- The Company's accession to the UN Global Compact and the promotion of sustainable development goals within the Inter RAO Group and beyond
- The significant financial resources accumulated by the Group.

## Comparison of KPI achievement level

Annual KPIs	Indicator/goal achievement rate for 2017	Indicator/goal achievement rate for 2018	Indicator/goal achievement rate for 2019	Change vs. 2018, %
Return on equity (ROE)	1.2	1.2	1.2	0
EBITDA/person	1.1	1.2	1.2	0
Operating cash flow	1.09	1.2	1.2	0
Implementation of Investment Program	1.2	1.2	1.2	0
Implementation the integral innovation indicator	1.19	1.14	1.13	-0.88%
Total shareholder return (TSR)	1.0	1.2	1.0	-20%

### Report on key performance indicators

A system of key performance indicators (KPIs) is one of the mechanisms used to implement Inter RAO's strategic goals. The main objectives of the KPI system are to assess the achievement of the Company's strategic goals, monitor and control the implementation of the Strategy, and create the proper motivation for the Company's management taking into account the focus on achieving the strategic goals.

The list and values of KPIs are determined based on an approved business plan and the Strategic Development Priorities. The KPI target values for the Company's CEO and members of the Management Board are approved by the Board of Directors. At the end of the year, the Company's Board of Directors reviews the implementation of KPIs and performance benchmarks (PBs) for the relevant period based on the recommendations of the Nomination and Remuneration Committee. Detailed information about the KPI system is presented in the Corporate Governance Report of the Annual Report.

### Innovative Development Program [GRI 103<sup>1</sup>]

Based on Inter RAO's current management system, the strategic management system has been integrated with business planning systems, including through the detailed elaboration of the Strategy as part of the relevant key programs.

The Innovative Development Program of PJSC Inter RAO is a long-term planning and management document that is integrated into the Company's strategic planning and development system. The Innovative Development Program for the period until 2020 with a view to 2025 was approved by the Board of Directors on October 28, 2016<sup>2</sup>.

The KPIs were all met in 2019.

<sup>1</sup> Management Approach: Short and medium-term development plans.

<sup>2</sup> Minutes No. 183 dated October 31, 2016.

### Assessment of the achievement of the planned KPIs in the Innovative Development Program in 2017-2019

KPI, measurement unit	Actual for 2017	Actual for 2018	Plan for 2019	Actual for 2019
1 CO <sub>2</sub> emissions per unit of electricity generated, g CO <sub>2</sub> /kWh	582.55	575.17	<b>575.77</b>	<b>551.83</b>
2 Specific fuel consumption for electric power output, g/kWh	307.74	302.0	<b>305.45</b>	<b>297.06</b>
3 Specific fuel consumption for thermal power output, kg/Gcal	144.13	144.36	<b>143.30</b>	<b>144.9</b>
4 Percentage of completed R&D projects recommended for introduction at the Group's facilities, %, no less than	100	100	<b>85</b>	<b>100</b>
5 Percentage of innovative solutions introduced by the Group's companies of the total number of innovative solutions recommended for introduction <sup>1</sup> , %, no less than	10	11.0	<b>12.1</b>	<b>13.8</b>
6 Number of intellectual property items (IPI), units, no less than	22	30	<b>24</b>	<b>31</b>
7 Number of applications proposed in the R&D Program, units	241	246	<b>250</b>	<b>259</b>
8 Number of staff per 1 MW of installed capacity, people/MW	0.705	0.6	<b>0.78</b>	<b>0.50<sup>2</sup></b>
9 Profit from sales of additional paid services on the retail market, RUB thousand/year	942,075	1,091,675	<b>593,563</b>	<b>1,269,177<sup>3</sup></b>
10 Share of R&D expenses vs. the Group's revenue, %	0.03	0.05	<b>0.39</b>	<b>0.03</b>
11 Group's income per employee, RUB thousand/year	28,214	26,957	<b>24,890</b>	<b>28,901<sup>2</sup></b>
12 Average operational efficiency, %	40.22	40.66	<b>40.22</b>	<b>41.36<sup>2</sup></b>
13 Percentage of the capacity of new advanced technologies in the total capacity of the Group's TPPs, %	18.76	19.5	<b>17.48</b>	<b>22.08<sup>4</sup></b>
<b>KPIs within the integral key efficiency target of innovative activities</b>				
1 Number of intellectual property items (IPO), units, no less than	22	30	<b>29</b>	<b>31</b>
2 Percentage of R&D expenses vs. the revenue of the Group's generating assets, %	0.11	0.14	<b>0.1</b>	<b>0.12</b>
3 Percentage of the capacity of new advanced technologies in the total capacity of the Group's TPPs, %	18.76	19.5	<b>20.41</b>	<b>22.08<sup>4</sup></b>
4 Quality of design work development (updating)/fulfillment, %	81.2	88.36	<b>100</b>	<b>&gt;90<sup>5</sup></b>

<sup>1</sup> Indicator is indicative.

<sup>2</sup> Excluding Ekibastuzskaya TPP 2.

<sup>3</sup> Excluding LLC ERCB, LLC Petroelektrosbyt, LLC Energosbyt Volga, and LLC NSC. The companies were not part of the approved design work circuit in 2019.

<sup>4</sup> Including the commissioning of the Kaliningrad generating facility and the decommissioning of Ekibastuzskaya TPP 2.

<sup>5</sup> Forecast value.

On December 20, 2019, the Board of Directors approved a new Innovative Development Program for 2020–2024 with a view to 2029 that was updated taking into account a comparison of the level of the Company’s technological development with its leading peer companies, including those overseas.

The main goals of the Program are to:

- Create competitive advantages for Inter RAO in order to maintain leading positions in the Russian energy sector and ensure growth in the Company’s value
- Promote the innovative development of the Russian energy sector
- Improve the reliability, safety, and quality of energy supply to consumers and the customer focus of the services offered.

### Science and innovation are highly important for the Group’s development

Risk appetite: Inter RAO funds research and development

The program also calls for:

- The development of partnerships in science and education
- The development of collaboration with third-party organizations and the use of the ‘open innovation’ principle
- The development of foreign economic activities and international cooperation in innovation
- The development of social responsibility mechanisms
- Conceptual provisions for the digital transformation of PJSC Inter RAO

The updated KPI system and target values of the Innovative Development Program for 2020–2024 with a view to 2029 are determined based on the results of a process audit and benchmarking and also taking into account the requirements of the policy documents of the Russian Federation. The profile of the updated Innovative Development Program for 2020–2024 with a view to 2029 is available here [https://www.interrao.ru/upload/Pasport\\_PIR\\_IRAO\\_05.022020.pdf](https://www.interrao.ru/upload/Pasport_PIR_IRAO_05.022020.pdf).

As in previous years, one of the tools that ensured the implementation of the Innovative Development Program in 2019 was Inter RAO’s R&D Program.

The main goals of the R&D Program are to provide the Group with competitive advantages and achieve scientific and technological leadership in the industry through the development and introduction of advanced technologies and innovative solutions that are consistent with the global level and the state policy of the Russian Federation in the energy sector.

In 2019, the following results of the R&D Program ensured that two of the four targets included in the integral key efficiency target of the Group’s innovative activities (hereinafter IKET) were met:

- The amount of financial resources disbursed
- The number of intellectual property items (IPI) or the results of intellectual activity (RIA)

**STRATEGIC REPORT**

In order to achieve these goals in 2019, as in previous years, R&D projects were implemented in the following areas:

1. Development of advanced energy technologies that measure modern scientific and technological progress in the industry:
  - Development and introduction of a system to analyze and forecast the technical condition of the equipment of the power unit of Station No. 2 at the Permskaya TPP in order to improve the quality of planning technological impacts on equipment (maintenance, repair, reconstruction, and modernization)
2. Enhancing the energy efficiency of existing equipment as well as its reliability and safety, and improving environmental indicators:
  - Feasibility study on replacing chemical reagents and oils used at the Group's power facilities manufactured in Europe and the United States with materials produced in Russia as well as BRICS and SCO member countries
  - Drafting of instructions to repair the welded joints of pipe systems of boilers and pipelines made of steel grades Rya 91/DI 82 by welding
  - Development of instructions to assess the condition of metal and extend the service life of the metal of the main components of foreign power gas turbine plants
  - Conducting research to develop innovative technical solutions for the reconstruction of the IMV 50 unit of Ufimskaya CHPP-2 in order to reach productivity of at least 60 tons/hour of demineralized water (Ufimskaya CHPP-2 of LLC BGC)
  - Conducting research to develop innovative technical solutions for technology to clean the heating surfaces of high-pressure heaters of turbine units taking into account the chemical composition of the deposits (Sterlitamaskaya CHPP of LLC BGC)

3. Development of organizational and marketing innovations as well as human capital as a factor to measure the progress of innovative development:
  - Development and introduction of simulator complexes at plants with mathematical models imitating the operation of TPP equipment

### Information technologies development and management

Inter RAO develops information technologies and digitalization in an effort to support the achievement of its strategic goals by creating a corporate IT management system that encompasses all business processes in an integrated digital information environment and has a production asset as central client objects.

The technical IT policy, which was approved on February 9, 2017, specifies the principles for expanding the use of domestic IT solutions and reducing technological dependence on imports. Given the policy that has been adopted for import substitution and the transition to domestic software, the targeted IT landscape is being built as a set of unified information systems that complement each other with respect to functionality, are compatible in terms of the basic data used (reference books and classifiers), and are united by a single analytics and forecasting system as well as a unified approach/technology for data exchange.

In order to ensure overall reliability, the target IT landscape is being built from corporate systems and integrated divisional systems, including elements of the corporate information security system. Integration is ensured by using a single set of directories and classifiers, typical integration solutions as well as unified methods for collecting and processing primary data.

### Training the Board of Directors

A seminar on digitalization was held for members of the Board of Directors as part of the Training and Development Program in 2019. Information was presented on the digitalization of the energy industry, digitalization at Inter RAO, key project achievements in terms of optimizing the collection of receivables from individuals as well as the cyber security risks posed by digital transformation.

In 2019, the project 'Replication of the 1C System: Salary and Staff Management' was completed for 22 of the Group's companies and took second place in the nomination 'Best Project of the Year 2019' in the category 'Large and Megaprojects' at the Project Olympus competition held annually by the Analytical Center under the Government of the Russian Federation. The project 'Transition of Automated Data Management System Components to Import-Substitute Configuration' won the competition in the category 'Project Management in Digitalization and Information Technologies.'

IT infrastructure continued to be centralized based on the Group's specialized IT company in 2019. Eighty percent of the Company's subsidiaries have been integrated into a single directory and email service system. Particular attention is paid to further developing the centralization of network and server equipment management. The IT infrastructure of companies that integrated into the Group in 2019 is managed centrally by a specialized IT company.

### Cost Management Program

Inter RAO's Cost Management Program for 2019–2023 was approved by the Board of Directors<sup>1</sup>. The program contains a detailed breakdown of the Strategy's measures to reduce operating costs in the medium and short term.

The list of measures contained in the Cost Management Program aims to conserve resources (cut costs) and ensure the maximum efficiency of their use in operational activities. It also pays special attention to maintaining a high level of reliability and the fail safe operation of assets.

Based on the performance results of the Group's companies, the economic effect from the implementation of the program's measures amounted to RUB 3.08 bln in 2019 and RUB 3.1 bln in 2018.

Specific managed operating expenses decreased by 2.12% versus the average annual consumer price index in 2019, which is within the target range (2–3%).

The list of measures in the program's focal points is updated annually. The Cost Management Program for 2020-2024 has been approved by the Board of Directors<sup>2</sup>. The economic effect from measures to optimize operating expenses is projected at RUB 13.9 bln in the period until 2024.

<sup>1</sup> Minutes No. 236 dated December 24, 2018.

<sup>2</sup> Minutes No. 262 dated December 23, 2019.