

INTERNATIONAL ELECTRIC POWER MARKETS [GRI 102–6]

Excluding Russia, Inter RAO delivers its products to 14 countries. The Company carried out trading operations in Finland, Lithuania, Poland, Georgia, Azerbaijan, Kazakhstan, Mongolia, and China, among other countries in 2019.

The main countries that Russia exports to are Finland, Lithuania, China, and Kazakhstan. The Company's main import trading activities are with Kazakhstan.

Trading operations are carried out based on the existing technical capabilities of the UES of Russia and energy systems of other countries, including the throughput capacity of interstate electrical connections of countries with which the Company trades electricity, taking into account the specifics of the actual technological process of electricity production and consumption. One of the essential technological conditions for ensuring the export/import of electricity supplies by Inter RAO is the parallel work of the UES of Russia with the electric power systems of neighboring countries.

EAEU common energy market

In May 2019, five Eurasian Economic Union (EAEU) member states (Russia, Armenia, Belarus, Kazakhstan, and Kyrgyzstan) signed the Protocol on the Establishment of a Common Electricity Market. Its goal is to ensure free trade in electricity, its transit through EAEU countries, the distribution of throughput capacity of interstate power transmission lines, and the exchange of information on the market.

All EAEU countries, except Kyrgyzstan, have excess capacity and are net energy exporters. Belarus is expected to significantly increase its export potential after the commissioning of the Belarusian NPP in 2020. However, legal regulation in the electric power industry is different in each country.

Whereas the market in Russia is liberalized, regulated tariffs apply in most EAEU countries. Under the current conditions, the unimpeded supply of electricity from countries with lower prices threatens to cut into the market share of Russian companies. In addition, due to the inequality of regulatory rules, Russia will have to act as a balancing system (regulating the frequency of electric current). Consequently, the Russian power generation industry may suffer additional losses due to the fact that it will be involved in balancing the active power that is generated and consumed in a single energy system with other members of the union.

Strategic risks and opportunities

The launch of the common energy markets of EAEU member states and the Union State of the Republic of Belarus is among the strategic risks faced by Inter RAO, which are monitored by the Board of Directors. Measures to manage strategic and sustainable development risks have been incorporated into the Company's Strategy.

A legal framework for the market's operation is currently being developed. The Eurasian Energy Commission plans to submit a plan for the adoption of the documents required for the market's operation to the EAEU heads of state for approval. A draft plan was endorsed at a meeting of the Advisory Committee in 2019. It was also announced at the meeting that the common electricity market needs to be launched no later than January 1, 2025. Until the related tariff and technological issues of the EAEU countries are resolved, national regulators will operate on the common market, after which access is expected to be open to everyone.