

MESSAGE FROM THE CHAIRMAN OF THE MANAGEMENT BOARD



DEAR SHAREHOLDERS,

In 2018, Inter RAO Group continued implementing its Development Strategy for the period until 2020, which aims to preserve its leading position in the domestic power industry. As in previous years, Inter RAO's main priorities included enhancing production and economic efficiency, upgrading and modernizing existing assets, decommissioning inefficient facilities, and developing modern technologies for interaction with our customers.

Boris Kovalchuk

Chairman of the Management Board



In March 2018, we wrapped up an ambitious multi-year investment program to build new generating facilities as part of CDA projects. The last facility in the program was the Zatonetskaya CHPP in Ufa with capacity of 440 MW. The plant enabled the city to actively develop the Zabelye micro-district now that its residents can be provided with heat.

In total, we commissioned roughly 1 GW of generating capacity in 2018. In addition to the Zatonetskaya CHPP, this also included strategic facilities for Russia in the Kaliningrad Region – the Mayakovskaya, Talakhovskaya, and Pregolskaya TPPs, whose power units were commissioned well in advance of the government's schedule. Russian President Vladimir Putin has said they will not only provide reliable power supplies to the entire region both now and in the future, but will also create contingencies in the event of any unforeseen circumstances.

At the same time, our Company, one of the few that is consistently implementing the reforms, is decommissioning old assets and reducing the proportion of inefficient facilities used for generation. We have seen how this has had a positive effect on our production and economic indicators: installed capacity equals 3.1%, while the Group's EBITDA increased by 24.2%. As a result of this as well as systematic work to improve the culture of safe production, Inter RAO has boosted the reliability of its main equipment, while reducing the number of technological disruptions.

Key factors affecting the Company's financial performance not only include the enhanced quality of its assets, but also productive work on the heat generation market and supply activities. We had considerable success in terms of improving tariff regulation and increasing revenue in both market segments in almost all the regions where the Company operates. In addition, the Inter RAO Group secured the status of a guaranteed supplier in the Vladimir Region starting from April 1, 2018 and in the Vologda Region starting from January 1, 2019.

Efficiency also increased in the trading segment, primarily with Lithuania and Finland, to which supplies increased by 41% and 37%, respectively, as a result of technical solutions and good pricing on the NordPool market. As a result, EBITDA in the segment increased by RUB 8.9 billion, or 119%, in 2018.

All these successes not only enabled us to ensure the reliability and stability of power supplies to our customers, but to also raise the bar for the Company's progressive development.

In the near future, Inter RAO will focus on such projects as modernizing generating facilities and digitalizing production and business processes in an effort to enhance its investment appeal and boost shareholder value.

The upcoming modernization of thermal power generation in the electric power industry will require concentrated efforts from all power engineering specialists without exception. For its part, the Company has prepared as much as possible and addressed issues concerning the involvement of its facilities in the modernization program. A lot of work remains to be done in 2019 to practically achieve these objectives.

In addition, Inter RAO will continue to improve the operations of power supply companies within the standards that have been established and will actively enhance the efficiency of its thermal power business as well as trading, engineering, and other business segments.

The Inter RAO Group is ready to continue working effectively in the interests of its shareholders, customers, employees, and their families as well as for the benefit of society as a whole.