Starting from January 1, 2018, the Group has employed IFRS 15 “Revenue from Contracts with Customers” and IFRS 16 “Leases.” For this reason, comparable data for 2017 has been retrospectively recalculated in accordance with the requirements of the standards. The ratios for 2016 are calculated based on the consolidated financial statements of PJSC Inter RAO and its subsidiaries for 2017 due to the lack of a retrospective restatement of the consolidated statement of comprehensive income for 2016.

Management analysis of financial and economic results

Key factors affecting the financial results:

- the commissioning of Unit No. 12 at the Verkhnetagilskaya TPP with installed capacity of 447 MW and Unit No. 4 of the Permskaya TPP with installed capacity of 903 MW in June-July 2017 as well as the Zatonskaya CHPP with installed capacity of 440 MW in Bashkortostan in March 2018 as part of capacity delivery agreements (CDA)
- the commissioning of leased plants in the Kaliningrad Region over the course of 2018: the Mayakovskaya TPP and Talakhovskaya TPP with installed capacity of 316 MW and two units of the Pregolskaya TPP with installed capacity of 227 MW
- growth in average heat tariffs for end-users as well as an increase in heat supply to the Group’s Russian assets
- growth in the average selling prices for end consumers in the Group’s supply segment
- an increase in sales margins in the Group’s trading segment

The main factor that significantly impacted growth in profitability indicators was net profit of RUB 71.7 billion compared with RUB 54.7 billion at the end of 2017, which was mainly due to revenue growth of RUB 93.4 billion (10.7%).

ROE

The actual ROE index for 2018 increased by 2.92 percentage points compared with the 2017 indicator from 11.84% to 14.76% due to an increase in the Group’s net profit by RUB 17 billion (+ 31.1%). The growth in net profit resulted from an increase in EBITDA in the segments ‘Trading in the Russian Federation and Europe,’ ‘Electric Power Generation in the Russian Federation,’ ‘Thermal Power Generation in the Russian Federation,’ and ‘Supply in the Russian Federation,’ growth in interest income due to an increase in the placement of funds, and a decrease in option program costs in 2018 resulting from a change in the write-off price of shares of PJSC Inter RAO on account of revaluation at the end of 2017.

ROIC

The 2.00 p.p. increase in the actual ROIC for 2018 compared with 2017 to 13.02% is also due to the increase in net profit combined with a less significant increase in equity capital.

The decrease in the current liquidity ratio (2.02 at the end of 2018 vs. 2.07 at the end of 2017) was due to the growth rate of short-term liabilities, which outpaced the growth rate of current assets.

The growth in short-term liabilities is due to the recognition of payables for the shares of PJSC Inter RAO acquired from PJSC FGC UES and the RusHydro Group as well as the short-term portion of liabilities under the long-term lease agreement for the Mayakovskaya, Talakhovskaya, and Pregolskaya TPPs.

Growth in the value of current assets was most affected by the placement of cash from operating activities in short-term deposits as well as the repayment of receivables for the stake in PJSC Irkutskenergo that was sold in 2016.

The equity concentration ratio, which provides an indicator of the share of the Company’s assets that are covered by equity, was 0.67 at the end of the reporting period, which indicates a high level of financial sustainability, stability, and independence of external creditors.

EBITDA

EBITDA amounted to RUB 121.3 billion in 2018, an increase of 24.2% compared with 2017.

EBITDA in the ‘Supply in the Russian Federation’ segment increased by RUB 5.9 billion (30.8%) to RUB 25.0 billion in 2018. This improvement resulted from both growth in the average selling prices of guaranteed suppliers and unregulated sales companies as well as an increase in the net output of electricity.

In the ‘Electric Power Generation in the Russian Federation’ segment, EBITDA grew by RUB 2.9 billion (5.2%) to RUB 60.0 billion. The greatest positive effect came from the CDA sector due to the commissioning of power units at the Verkhnetagilskaya and Permskaya TPPs in 2017 as well as the commissioning of the leased Talakhovskaya and Mayakovskaya TPPs in the Kaliningrad Region in March 2018 and the start of electricity and capacity supplies.

In the ‘Thermal Power Generation in the Russian Federation’ segment, EBITDA increased by RUB 3.8 billion (27.2%) to RUB 17.7 billion. This substantial growth was a result of the commissioning of the Zatonskaya CHPP in March 2018. Growth in thermal power tariffs and an increase in net thermal power supply in Bashkortostan and the Tomsk and Omsk Regions also had a positive effect.

In the 'Trading in the Russian Federation and Europe' segment, EBITDA jumped by RUB 8.9 billion, or 119%, and totaled RUB 16.3 billion at the end of 2018. This improvement was mainly due to an increase in supplies to Finland and Lithuania amidst rising prices on the Nord Pool electricity exchange and the depreciation of the ruble versus the euro.

In the 'Foreign Assets' segment, EBITDA grew by RUB 1.4 billion (23.2%) to RUB 7.5 billion. A positive effect was seen in all the Group's assets.

Net profit amounted to RUB 71.7 billion in 2018, an increase of RUB 17.0 billion versus the previous year.

The value of the Group's total assets increased by RUB 89.5 billion (14.0%) to RUB 728.6 billion last year. This growth in total assets resulted from the entry into force of a lease agreement for the movable and immovable property of the Talakhovskaya, Mayakovskaya, and Pregolskaya TPPs. The value of the property of these power plants is recognized in the Inter RAO Group's statement of financial position as right-of-use assets. In addition, there was an increase in the volume of cash and deposits both as a result of the accumulation of cash from operating activities as well as the repayment of receivables for the block of shares in PJSC Irkutskenergo that was sold in 2016.

Revenue

The Inter RAO Group boosted revenue by RUB 93.4 billion to RUB 962.6 billion, a 10.7% increase from the 2017 figure.

Revenue in the 'Electric Power Generation in the Russian Federation' segment grew by RUB 7.5 billion (after excluding intersegment turnover), or 6.1%, compared with 2017 mainly due to higher revenue from the sale of capacity.

Key drivers of growth:
- the launch of sales of capacity from the Talakhovskaya, Mayakovskaya, and Pregolskaya TPPs leased from LLC Kaliningrad Generation
- an increase in revenue for CDAs, mainly due to the commissioning of new units at the Permskaya and Verkhnetagilskaya TPPs as part of power supply contracts
- growth in capacity sales prices in the CDA segment for the Gusinoozyorskaya and Kharanorskaya TPPs and the Ivanovskiye CCGT

Meanwhile, revenue from electric power sales decreased slightly compared with the previous year due to a decrease in generation in accordance with current market conditions and the need for repairs.

Revenue in the 'Thermal Power Generation in the Russian Federation' segment increased by RUB 3.7 billion (after excluding intersegment turnover), or 5.2%, as a result of such factors as:
- the commissioning of the Zatonskaya CHPP in March 2018 and revenue generated from the sale of capacity
- growth in average thermal power selling prices in Bashkortostan and the Omsk and Tomsk Regions as well as the volume of thermal power output due to the heating season ending later in 2018

Revenue in the 'Supply in the Russian Federation' segment grew by RUB 51.4 billion (after excluding intersegment turnover), or 8.9%, in 2018. This growth was the result of higher average selling prices by guaranteed suppliers for end users, the provision of services to new consumers by guaranteed suppliers and unregulated sales companies as well as the launch of a new guaranteed supplier in the Vladimir Region.

The 'Trading in the Russian Federation and Europe' segment saw revenue increase by RUB 15.1 billion (after excluding intersegment turnover), or 26.8%. The higher revenue was due to an increase in prices on the Nord Pool electricity exchange in the Lithuania and Finland zones and the supply volumes in these areas as well as the depreciation in the average ruble exchange rate versus the euro by 12.2%. At the same time, the lack of commercial supplies to Belarus had a negative impact on revenue.

Revenue in the 'Engineering in the Russian Federation' segment skyrocketed by 128.9%, or RUB 15.1 billion (after excluding intersegment turnover), primarily due to projects involving the construction of power facilities in the Kaliningrad Region and the implementation of a project in the Republic of Cuba.

Cash flow

Net cash flow from operating activities edged up 6.4% compared with 2017 due to growth in revenue outpacing operating expenses.

The net cash flow of funds used in investment activities amounted to RUB –58.1 billion in 2018 versus RUB –24.8 billion in 2017. The RUB –33 billion change in this indicator is mostly due to the following factors:
- a decrease in cash receipts from the sale of shares in PJSC Irkutskenergo by RUB 6.2 billion (receipts amounted to RUB 12.5 billion in 2017, while in 2018 settlements under the contract were completed in the first half of the year)
- an increase in the amount of idle cash placed in deposit accounts by RUB 75.4 billion
- an increase in the return of bank deposits by RUB 47.2 million
- a decrease in the funding of the Group's investment program by RUB 5.7 billion in 2018 compared with 2017

- a decrease in the repayment of loans issued in 2018 by RUB 12.5 billion (due to the completion of settlements by JSC Nizhnevartovskaya TPP in 2017 for a loan the plant received to build a third power unit)
- an increase in bank deposit interest by RUB 3.3 billion
- an increase in dividends by RUB 3.1 billion (JSC Nizhnevartovskaya TPP)

Net cash flow from financial activities amounted to RUB –25.6 billion in 2018 compared with RUB –17.8 billion in 2017. The RUB –7.8 billion change in this indicator is primarily due to:

- a decrease in the Group’s loan portfolio by RUB 7.0 billion
- a reduction in the amount of dividends paid by RUB 1.1 billion (dividend payments amounted to RUB 12.2 billion in 2017 and RUB 11.1 billion in 2018)
- a decrease in the amount of interest paid by RUB 1.3 billion on the back of a reduction in the Group’s debt portfolio (this figure amounted to RUB 2.3 billion in 2017, but decreased to RUB 0.9 billion in 2018)
- expenses by PJSC Inter RAO on the purchase of RUB 4.1 billion worth of treasury shares

Free cash flow amounted to RUB 67.1 billion in 2018, which is 31.8% higher than the 2017 value (RUB 50.9 billion) due to growth in EBITDA and a decrease in the amount of funding for the investment program.

Operating expenses

Operating expenses increased by RUB 64.0 billion (7.8%) compared with the previous year and amounted to RUB 885.8 billion, which is lower than the revenue growth rates.

Expenses associated with the transmission of electric power grew by RUB 18.9 billion (9.1%) to RUB 227.2 billion primarily on account of enterprises in the supply segment due to increased electricity consumption and higher tariffs for its transmission.

The cost of purchased electricity and capacity increased by RUB 26.8 billion (7.8%) to RUB 371.8 billion due to an increase in market prices for capacity, growth in the volume and market prices of electricity purchased in the supply segment as well as the launch of a guaranteed supplier in the Vladimir Region.

Process fuel expenses decreased by RUB 2.6 billion (2.1%) to RUB 122.0 billion. The most significant changes were seen in foreign assets: the effects of decreased electric power generation at the Trakya Elektrik plant due to the fulfillment of the power load schedule set by the grid operator were partially offset by a longer period of direct electricity supplies by CJSC Moldova TPP to Moldova in 2018.

Provisions accrued for the impairment of fixed assets. The Group recognized the impairment and restoration of the previously recognized impairment of fixed assets at a number of plants for a total of RUB 1.1 billion.

Total debt load

The Group’s debt load (excluding liabilities recognized under IFRS 16 “Leases”) decreased by RUB 6.4 billion (39.7%) to RUB 9.7 billion as of December 31, 2018, primarily as a result of the planned and early repayment of debt by the Group’s companies as well as a lesser need for debt financing among Russian generating and supply companies.

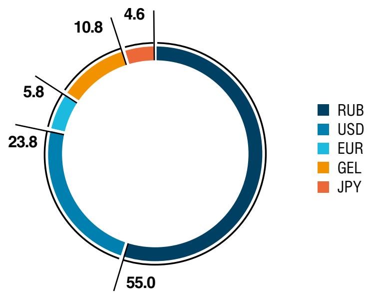
Right-of-use assets and lease obligations were retrospectively recognized in the statement of financial position as a result of the entry into force of IFRS 16 “Leases.” Liabilities increased 3.9 times in the current period primarily due to the conclusion of a long-term lease for the Mayakovskaya, Talakhovskaya, and Pregolskaya TPPs and the recognition of the corresponding lease obligations in the statement of financial position.

Debt obligations in Russian rubles make up 55.0% of the loan portfolio, U.S. dollars – 23.8%, Georgian lari – 10.8%, euros – 5.8%, and Japanese yens – 4.6%. The ratio of long-term and short-term loans and borrowings was 14.2% versus 85.8% as of December 31, 2018 (28.9% versus 71.1% as of December 31, 2017).

The Debt/EBITDA ratio (taking into account liabilities recognized under IFRS 16 “Leases,” including joint ventures) was 0.5 in 2018, which is indicative of a high level of financial stability at the Group. The debt load threshold for the company set by the Board of Directors is Debt/EBITDA of no more than 3.0. The Company aims to maintain/improve its credit ratings from leading international rating agencies and thus fully comply with the metrics set by the relevant rating methodologies.

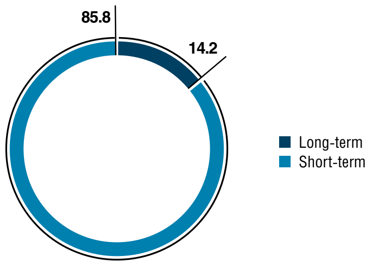
DEBT STRUCTURE BY CURRENCY

%



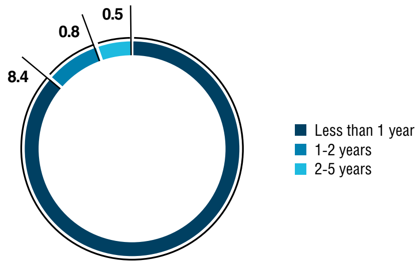
DEBT STRUCTURE BY MATURITY

%



STRUCTURE OF LOANS AND BORROWINGS BY MATURITY

RUB billion



At the same time, the Group's net debt (taking into account liabilities recognized under IFRS 16 "Leases," including joint ventures) amounted to RUB –166.7 billion versus RUB –135.5 billion at the end of 2017. The changes in this indicator are due to cash receipts generated from the operating activities of the Group's subsidiaries along with a planned reduction in the debt load of a number of the Group's companies.

The Group has approved and enacted a Financial Policy in an effort to centralize control over cash flows, manage liquidity and financial risks, and determine a uniform procedure for raising and placing funds as well as carrying out other financial operations.

In terms of debt obligations, the Financial Policy provides the ability to continuously finance the Group's companies, maintain a sufficient level of open debt limits, and also optimize debt servicing costs. Debt portfolio management is based on the following basic principles:

- minimizing the cost of borrowing while observing other conditions (terms, risk limits, etc.)
- minimizing the provision of collateral for agreements
- diversifying funding sources
- balancing the Group's debt portfolio in terms of currency, borrowing periods, and interest rate structures
- maintaining the solvency of the Group/subsidiaries and the Group's international credit rating

The Group has no bonded loans. At present, it is not planning to place bonds due to the lack of a need for long-term debt financing.

Distribution of net income and net assets

In accordance with the decision of the Annual General Meeting of Shareholders of PJSC Inter RAO[1] :

1) the net profit generated by PJSC Inter RAO based on the results of the 2017 reporting year in the amount of RUB 15,668,766,000 was spent on:

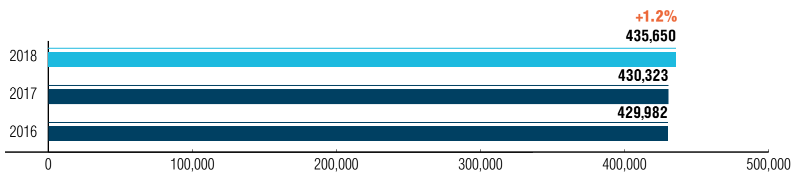
- the creation of a Reserve Fund – RUB 783,438,300
- the payment of dividends – RUB 13,612,000,000
- the repayment of losses of previous years – RUB 1,273,327,700

2) the Company's retained earnings of previous years in the amount of RUB 53,704,217,000 were used to repay losses of previous years.

[1] Minutes No. 18 dated May 21, 2018

NET ASSETS OF THE COMPANY

RUB mln



FORMATION OF DIRECT ECONOMIC VALUE GENERATED, DISTRIBUTED, AND RETAINED

RUB mln

Indicator	2016	2017	2018	Change vs. 2017, %
Revenue	868,182	869,204	962,582	10.7
Income from financial investments	874	940	1,037	10.3
Income from sale of assets	31,922	92	139	51.1
Direct economic value generated	900,978	870,236	963,758	10.7
Operating expenses (excluding employee benefit expenses and payroll taxes, other taxes)	775,446	767,614	829,695	8.1
Employee benefit expenses and payroll taxes	49,892	49,468	51,935	5.0
Payments to providers of capital	9,558	17,143	17,665	3.0
Payments to government	15,996	14,864	20,973	41.1
Investments in local communities	627	1,103	748	–32.2
Direct economic value distributed	851,519	850,192	921,016	8.3
Economic value retained	49,459	20,044	42,742	113.2