

Annual planning cycle

The annual planning cycle involves analyzing the external and internal environment of the Inter RAO Group in an effort to identify factors that may affect the Group's activities in the long term. The PEST and SWOT analysis technologies allow for correlating the most significant factors that are instrumental to implementing the Strategy in the long term and determining the list of development objectives for the coming year.

In accordance with the Standard for Auditing the Implementation of the Strategy/ Long-Term Development Program¹ approved by the Board of Directors, the extent to which the Strategy/Long-Term Development Program was implemented in the reporting period is assessed through an audit of the Report on the Implementation of the Company's Strategic Development Priorities.

The strategic priorities for 2019 are generated taking into account the priorities of 2018.

PRIORITIES OF THE ANNUAL STRATEGIC PLANNING CYCLE

Strategic priorities for 2018²

- Reliable and accident-free operation as well as improved operating and energy efficiency of production assets
- Developing repair and maintenance services
- Developing the retail business
- Improving the efficiency of foreign trade operations and developing international operations
- Developing Unified Information Settlement Centers
- Improving engineering business efficiency
- Developing innovations
- Improving labor productivity and developing the Group's human resources
- Improving investment appeal and ensuring financial stability
- Improving the efficiency of the management system, developing procurement activities, and import substitution

Strategic priorities for 2019³

- Reliable and accident-free operation as well as improved operating and energy efficiency of production assets
- Developing the retail business
- Improving the efficiency of foreign trade operations
- Developing international operations
- Improving engineering business efficiency and repair and maintenance services
- Developing innovations
- Improving labor productivity and developing the Group's human resources
- Improving investment appeal and ensuring financial stability
- Developing procurement activities and import substitution
- Improving the efficiency of the management system

The auditor of the Report on the Implementation of Strategic Development Priorities (SDP) for 2018, LLC Ernst & Young, conducted an audit of this report and, based on the procedures it carried out and the evidence it obtained, did not find any facts that would imply that the information contained in the Report does not reliably reflect the following in all material aspects:

- the Group's performance results as regards implementing the SDP and fulfilling the strategic indicators for the year ended December 31, 2018
- reasons for the failure to comply with the indicators and objectives included in the SDP or deviations in the actual values of the Group's performance indicators from those envisaged by the SDP for the year ended December 31, 2018

¹ Minutes No. 126 dated November 24, 2014.

² Approved by the PJSC Inter RAO Board of Directors on December 21, 2017 (Minutes No. 214 dated December 21, 2017).

³ Approved by the PJSC Inter RAO Board of Directors on December 21, 2018 (Minutes No. 237 dated December 21, 2018).

Implementation of the strategy in 2018

Areas of activity	Key strategic initiatives	Main achievements in 2018
Electric and thermal power generation	Ensuring the reliability, safety, and technological development of existing production assets	All the necessary measures were implemented for retooling and modernization as well as repair and maintenance for 2018 to ensure the reliability and safe operation of production assets.
	Implementing construction and modernization projects, including those under CDA	440 MW of new generating capacity were commissioned at the Zatonskaya CHPP (LLC BGC) under the CDA.
	Enhancing the operating efficiency of production assets	Measures were implemented as part of the energy conservation and efficiency programs approved for 2018.
	Drafting and promoting proposals to develop the regulatory framework in the industry	PJSC Inter RAO experts interacted on a regular basis with federal executive authorities in the sector and with industry experts. Work was carried out to monitor and analyze industry regulatory acts, and PJSC Inter RAO experts actively participated in the discussion of a regulatory structure that ensures the introduction of cost-effective mechanisms for the modernization of thermal power plants in the Russian Federation. The Company was actively involved in promoting a project to transition to a more long-term period of power supplies as part of competitive capacity auctions, while delivery time was increased during the counter revision of the price parameters for competitive capacity auctions.
Fuel supply	Fuel supply to the Inter RAO Group's generating facilities	Coal sales for the Inter RAO Group increased to 2 million tons. In relative terms, the increase was about 5% compared with 2017. Gas supplies for the Group's Russian generating assets is mainly provided under long-term contracts that offer a discount versus the regulated price. The Company had the ability to purchase gas in organized trading (on an exchange).
Retail business in the Russian Federation	Promoting proposals for the regulatory framework on retail market models	PJSC Inter RAO experts put together the necessary proposals that formed the basis of the recently adopted Federal Law No. 522-FZ of the Russian Federation dated December 27, 2017 "On Amendments to Certain Legislative Acts of the Russian Federation in Connection with the Development of Electric Power (Capacity) Metering Systems in the Russian Federation," which imposes obligations for electricity metering in apartment buildings on Guaranteed Suppliers and on regional grid organizations for other consumers.
	Expanding the list of additional services	The Inter RAO Group's power supply companies ensured the implementation of measures to develop and promote additional services as part of the programs approved by supply companies. Revenue from the sale of additional services amounted to RUB 5.1 billion in 2018, a more than 21% increase from last year (revenue of RUB 4.2 billion for 2017).
	Securing the status of a Guaranteed Supplier	The Inter RAO Group secured the status of a Guaranteed Supplier in the Vladimir and Vologda Regions
Foreign trade operations	Maintaining and strengthening the existing positions of the leading Russian export/import operator	The total volume of foreign trade operations of PJSC Inter RAO, taking into account agency agreements with JSC Eastern Energy Company (a wholly owned subsidiary of PJSC Inter RAO), amounted to approximately 21.8 billion kWh.

Areas of activity	Key strategic initiatives	Main achievements in 2018
International operations	Expanding presence on foreign markets	<p>As part of a project to build four power units with combined installed capacity of 200 MW in the Republic of Cuba, LLC INTER RAO – Export (a subsidiary of PJSC Inter RAO) conducted work in 2018 to design the generating facilities and draft cost estimate documentation.</p> <p>LLC INTER RAO – Export and Dongfang Electric International Corporation signed a memorandum of understanding in which the companies agreed to develop cooperation for the joint implementation of projects involving the construction and modernization of conventional (heat and hydro) and renewable (solar, wind) generation facilities as well as power grid infrastructure in Russia, Africa, Southeast Asia, and the Middle East.</p>
Engineering	Developing expertise in the following areas: general contracting, design, commissioning, etc.	<p>A project is being implemented to build thermal power plants in the Kaliningrad Region (by LLC Kaliningrad Generation – a joint venture between ROSNEFTEGAZ and PJSC Inter RAO) as part of which LLC Inter RAO – Engineering (a subsidiary of PJSC Inter RAO) acts as the agent/general contractor. In 2018, roughly 543 MW of new capacity were commissioned (Mayakovskaya and Talakhovskaya TPPs; 2 units at the Pregolskaya TPP¹).</p>
Innovations	Implementing the Innovative Development and R&D Program	<p>As part of the Innovative Development and R&D Program, the Group carried out measures in the following areas:</p> <ul style="list-style-type: none"> • increase in the energy efficiency and eco-friendliness of production • development of new production technologies • introduction of quality control systems and improvements to the organization of innovative activities • development of interaction with entities in the innovation environment
Target capital structure		<p>Transactions were concluded to acquire the Company's treasury shares from RusHydro and FGC UES for a total of RUB 41.7 billion. The consolidation of this block of shares made it possible to optimize the structure of share capital and boost the weight of anchor strategic shareholders that have a clear vision for the Group's development and have historically provided support to the Inter RAO Group's business and made it possible to achieve synergy in most businesses. PJSC Inter RAO is a strategic partner of PJSC FGC UES, therefore the joint decision was made to preserve the long-term participation of PJSC FGC UES in the share capital structure of PJSC Inter RAO. The companies of the RusHydro Group have fully sold their shares.</p>

¹ Certified in 2018.