Analysis of operating results

FINANCIAL RESULTS

	2017	2018	2019
Revenue, RUB mln	869,204	962,582	**1,032,120**
Other operating income, RUB mln	8,817	10,492	**12,162**
Operating expenses, RUB mln	(821,779)	(885,785)	**(945,975)**
Operating profit, RUB mln	56,242	87,289	**98,307**
EBITDA, RUB mln	97,645	121,300	**141,547**
EBITDA margin, %	11.2%	12.6%	**13.7%**
Free cash flow, RUB mln	50,919	67,144	**84,849**
Net profit, RUB mln	54,662	71,675	**81,930**
Capital expenditures, RUB mln	31,508	25,770	**24,466**
Net assets, RUB mln	461,503	485,478	**552,779**
Intangible assets, RUB mln	13,183	13,849	**9,804**
Return on assets, %	9.25%	10.48%	**11.07%**
Return on invested capital (ROIC), %	11.02%	13.02%	**13.14%**
Return on equity (ROE), %	11.84%	14.76%	**14.82%**
Current liquidity ratio	2.07	2.02	**2.99**
equity concentration ratio	0.72	0.67	**0.74**
Equity-to-loans ratio	2.60	2.00	**2.79**
Net cash flow from operating activities, RUB mln	88,759	95,033	**105,347**
Loans and borrowings, RUB mln	16,154	9,738	**3,316**
Short-term, RUB mln	11,479	8,353	**2,842**
Long-term, RUB mln	4,675	1,385	**474**
Lease liabilities[1], RUB mln	12,698	50,093	**57,530**
Debt[2] / EBITDA	0.3	0.5	**0.4**
Net debt[2], RUB mln	–135,495	–166,706	**–196,525**
Net debt[2] / EBITDA	–1.4	–1.4	**–1.4**

[1] Including the share in lease liabilities of joint ventures.

[2] Including lease liabilities and the share in lease liabilities of joint ventures.

Key factors affecting financial results

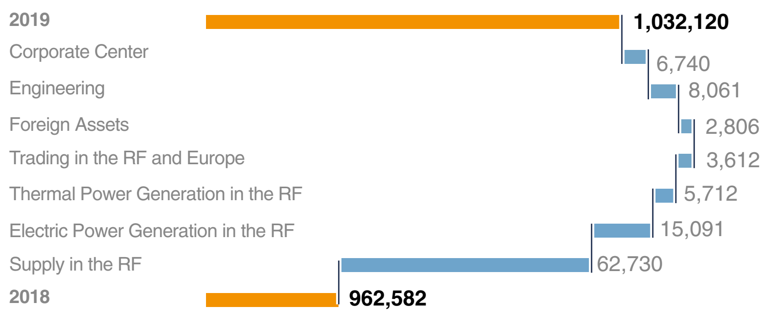
Changes in the Group's financial results were significantly influenced by the following key factors and events:

- The commissioning of leased stations in the Kaliningrad Region in 2018 and 2019: the Mayakovskaya TPP with installed capacity of 160 MW, Talakhovskaya TPP with installed capacity of 161 MW, and Pregolskaya TPP with installed capacity of 455 MW
- The commissioning of the Zatonskaya CHPP with installed capacity of 440 MW in the Republic of Bashkortostan in March 2018 as part of a CDA
- An increase in capacity charges under CDAs as a result of a CDA delta being included in capacity payment price for a number of generating facilities
- Price conditions on the day-ahead market: growth in the first pricing zone
- Growth in average selling prices for end consumers in the 'Supply in the Russian Federation' segment
- An increase in sales value in the 'Trading in the Russian Federation and Europe' segment due to favorable market conditions in the Nord Pool zone and, accordingly, growth in sales volumes for export from the Russian Federation
- The start of operating as guaranteed suppliers in the Vologda and Vladimir Regions by LLC NSC and LLC ESV, respectively
- The termination of the contract with Turkey in June 2019 for the operation of the Trakya Elektrik station and the transfer of the station to the authorized organization – the Turkish state-owned company EUAS
- The completion of major contracts in the 'Engineering' segment related to the construction of generating facilities in the Kaliningrad Region

Revenue analysis

The Group's revenue grew by 7.2%[1] (RUB 69.5 bln) and exceeded the RUB 1 trillion mark at RUB 1.032 trillion.

Change in revenue by segment in 2019 compared with 2018, RUB mln



Revenue in the 'Supply in the Russian Federation' segment increased by RUB 62.7 bln (9.9%) to RUB 695.1 bln due to growth in the average selling prices of guaranteed suppliers for end consumers, the launch of new guaranteed suppliers in the Vologda and Vladimir Regions as well as the acquisition of new customers for maintenance by guaranteed suppliers and unregulated supply companies.

Revenue in the 'Electric Power Generation in the Russian Federation' segment increased by RUB 15.1 bln (8.5%) to RUB 192.4 bln primarily due to the commissioning of the Pregolskaya TPP that the Group is leasing in the Kaliningrad Region. A CDA delta being included in capacity payment price and growth in electricity prices in the first pricing zone also generated an additional positive effect.

[1] Percentage ratios on financial indicators are calculated based on the data from the IFRS consolidated financial statements expressed in million rubles.

Revenue in the ‘Thermal Power Generation in the Russian Federation’ segment increased by RUB 5.7 bln (6.3%) to RUB 96.0 bln due to the commissioning of the Zatonskaya CHPP as part of a CDA in March 2018, an increase in electricity generation at the Karmanovskaya TPP as well as an increase in selling prices on the day-ahead market.

Revenue in the ‘Trading in the Russian Federation and Europe’ segment increased by RUB 3.6 bln (4.9%) to RUB 77.1 bln in 2019 compared with the previous year. Sales volumes increased in Lithuania and Poland.

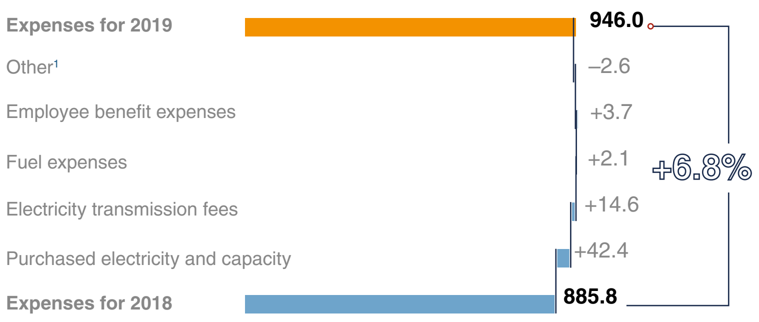
In the ‘Foreign Assets’ segment, revenue declined by RUB 2.8 bln (10.5%) to RUB 24.0 bln. The negative effect in this segment resulted from the Trakya Elektrik station in the Republic of Turkey shutting down virtually all generation in accordance with an order from the power system operator and also due to the fact that one of the largest consumers of JSC Telasi switched to direct deliveries from the Georgian energy market. Meanwhile, the Moldavskaya TPP showed positive trends due to an increase in exports to the Republic of Moldavia and average selling prices and also due to a 3.2% increase in the average USD exchange rate versus the ruble compared to the previous period.

Revenue in the ‘Engineering in the Russian Federation’ segment decreased by RUB 8.1 bln (26.3%) to RUB 22.6 bln in 2019 compared with 2018. The completion of the construction of energy facilities in the Kaliningrad Region was the main reason for this decrease in the segment.

Operating expenses

Operating expenses increased by RUB 60.2 bln (6.8%) and amounted to RUB 946.0 bln in 2019, which is slightly lower than the growth rate in revenue.

Changes in operating expenses, RUB bln



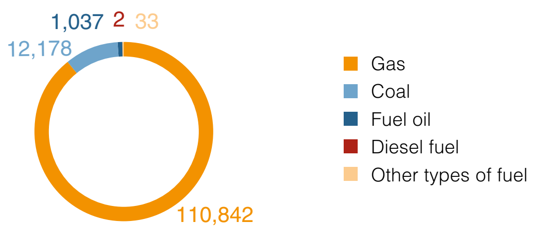
[1] Other expenses include depreciation and amortization, provisions for the impairment of accounts receivables, other provisions, and other operating expenses.

Expenses on purchased electricity and capacity increased by RUB 42.4 bln (11.4%) compared with the previous year to RUB 414.2 bln due to the growth in capacity prices primarily on account of the CDA sector, increase in the volume of purchased electricity and electricity prices, including the indexation of the price of CCAs and a higher premium over the CCA price, and due to guaranteed suppliers having started operations in the Vologda and Vladimir Regions, and a significant rise in the volume of deliveries to Poland

Electricity transmission fees grew by RUB 14.6 bln (6.4%) to RUB 241.8 bln primarily on account of companies in the 'Supply in the Russian Federation' segment, an increase in the volume of electricity sold, and the indexation of tariffs for electricity transmission services.

Fuel expenses increased by RUB 2.1 bln (1.7%) to RUB 124.1 bln. The biggest increase occurred at the BGC Group due to higher generation levels at the Zatonskaya CHPP, which was commissioned in March 2018, and also at the Karmanovskaya TPP. The Moldavskaya TPP saw expenses rise due to an increase in electricity output for export to the Republic of Moldavia and higher gas tariffs. The growth at these plants was partially offset by a reduction in expenses at Trakya Elektrik on account of the almost complete lack of output during the reporting period due to a surplus of supply on the Turkish market.

Fuel expenses of Inter RAO in 2019, RUB mln[1]



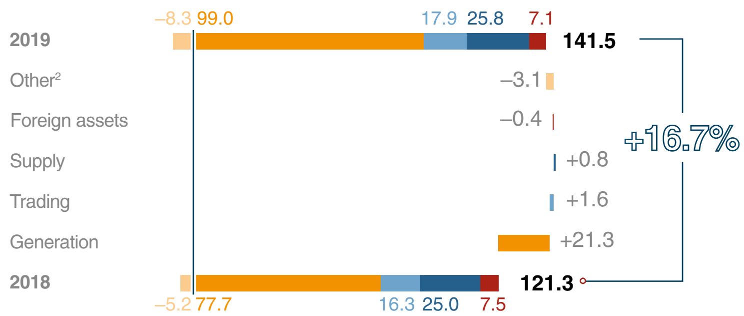
EBITDA

EBITDA amounted to RUB 141.5 bln in 2019, an increase of 16.7% compared with 2018.

The 'Electric Power Generation in the Russian Federation' segment accounted for the bulk of growth. EBITDA in the segment increased by RUB 19.4 bln (32.4%) to RUB 79.4 bln.

Changes in revenue and operating expenses led to the changes in EBITDA in different segments.

Changes in EBITDA, RUB bln



[1] Infrormation is presented based on the Group's IFRS financial statements for the year 2019. The Group's operating expenses do not include the expenses of JSC Ekibastuzskaya TPP-2 and JSC Nizhnevartovskaya TPP. A 50% stake in JSC Ekibastuzskaya TPP-2 was reclassified to assets classified as held-for-sale in December 2016. JSC Nizhnevartovskaya TPP is accounted for using the equity method.

[2] Includes the 'Engineering in the Russian Federation' and 'Corporate Center' segments.

Net profit

Net profit amounted to RUB 81.9 bln in 2019, an increase of RUB 10.3 bln (14.3%) compared with 2018.

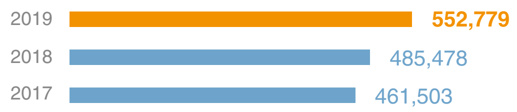
Profit generation in 2019, RUB mln

	2019
EBITDA of the reportable segments	**141 547**
Depreciation and amortization	(28,002)
Interest income	14,580
Interest expenses	(626)
Interest expense on lease liabilities	(5,569)
Foreign currency exchange loss, net	(4,139)
Other finance expenses	(1,182)
Provisions charge	(10,580)
Gain from disposal of Group entities, net	66
Loss from sale of asset classified as held-for-sale	(148)
Other	(1,422)
Share of loss of associates	(744)
Profit before tax	**103,781**
Income tax expense	(21,851)
Profit for the reporting period	**81,930**

Net assets

The value of the Group's net assets increased by RUB 67.3 bln (13.9%) to RUB 552.8 bln due to the accumulation of cash from operating activities.

Changes in net assets, RUB mln



Direct economic value generated, distributed, and retained [GRI 201–1]

RUB mln	2018[1]	2019
Revenue	962,582	**1,032,120**
Income from financial investments	10,693	**15,058**
Other income	10,199	**13,938**
Direct economic value generated	**983,474**	**1,061,116**
Operating expenses (excluding employee benefit expenses and payroll taxes and taxes other than income tax)	792,622	**846,434**
Employee benefit expenses and payroll taxes	51,935	**55,666**
Payments to capital providers	16,531	**19,829**
Payments to the government (excluding VAT and payroll taxes)	20,892	**24,532**
Local community investments	**748**	**1,107**
Economic value distributed	**882,728**	**947,568**
Economic value retained	**100,746**	**113,548**

Financial assistance received from the government [GRI 201–4]

The Group received a budget allocation of RUB 1.385 bln from state export credit funds based on an Intergovernmental Agreement between the Russian Federation and the Republic of Cuba dated October 22, 2015 and Financing Agreement No. 01-01-06/04-16 with the Ministry of Finance of the Russian Federation dated February 7, 2017 as part of a project to build four new units with installed capacity of 200 MW each in the Republic of Cuba.

The Group's companies also received subsidies in the amount of RUB 584 mln as well as tax benefits and preferences totaling RUB 3.504 bln in 2019.

Financial assistance received from the government in 2019, RUB mln

	2019
State Export Intergovernmental Credit	**1,385**
Subsidies, including	**584**
Compensation for the lost income of resource supplying organizations	354
Reimbursement of lost income due to the preferential tariff for the public	225
Other	5
Tax incentives and preferences (savings) received by the Group's companies, including	**3,504**
Corporate property tax	1,047
Corporate profit tax	2,346
Insurance premiums	111

[1] Information for the year 2018 was recalculated due to change in methodolody of calculation.

Cash flow

Net cash flow from operating activities amounted to RUB 105.3 bln in 2019 versus RUB 95.0 bln in 2018. This 10.9% increase was mainly due to growth in revenue outpacing operating expenses.

The net cash flow used for investing activities amounted to RUB –98.7 bln in 2019 compared with RUB –58.1 bln in 2018. The RUB –40.6 bln change in this indicator was primarily the result of an increase in the volume of free cash placed in deposit accounts with a net impact taking into account returns of RUB 38.2 bln.

The net cash flow used for financing activities amounted to RUB –63.7 bln in 2019 versus RUB –26.1 bln in 2018. The RUB –37.6 bln change in this indicator was mainly caused by:

- An increase in expenses on acquisition of treasury shares by RUB 33.4 bln
- A decrease in the Group's loan portfolio by RUB 6.4 bln
- An increase in the amount of dividends paid by RUB 2.1 bln

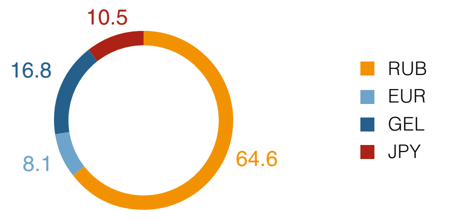
Free cash flow amounted to RUB 84.8 bln in 2019, up by 26.4% from 2018 (RUB 67.1 bln), due to growth in EBITDA and reduced funding for the Investment Program.

Debt obligations

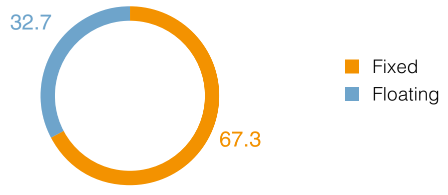
The Group's debt burden (excluding liabilities recognized under IFRS 16 'Leases') decreased by RUB 6.4 bln (65.9%) in 2019 and stood at RUB 3.3 bln as at December 31, 2019, primarily because of planned and early repayments by the Group's companies.

A RUB 7.4 bln increase in lease liabilities (including share in lease liabilities of joint ventures) (growth of 14.8%), mainly resulted from the commissioning of Power Units No. 3 and No. 4 at the Pregolskaya TPP in the first half of 2019.

Debt structure by currency, %



Debt structure by interest rate type, %



Monitoring the debt burden

Risk appetite: Inter RAO does not take on obligations that exceed its income by three-fold.

Russian rubles account for 64.6% of the Group's loan portfolio, Georgian lari – 16.8%, Japanese yen – 10.5%, and euro – 8.1%.

The ratio of the long-term to short-term loans and borrowings amounted to 14.3% versus 85.7% as at December 31, 2019 (14.2% versus 85.8% at December 31, 2018).

Structure of loans and borrowings by maturity, RUB bln

As a result, the Group's Debt (including liabilities recognized under IFRS 16 'Leases' and share in lease liabilities of joint ventures) to EBITDA ratio amounted to 0.4x in the reporting period, which indicates the Group has a high level of financial stability. The threshold level of the debt burden for the Company set by the Board of Directors is a Debt/EBITDA ratio of no more than 3.0. The Company aims to maintain/increase its credit ratings from leading international rating agencies and will thus fully comply with the metrics established by the relevant rating methodologies.

At the same time, the Group's net debt (including liabilities recognized under IFRS 16 'Leases' and share in lease liabilities of joint ventures) amounted to RUB –196.5 bln versus RUB -166.7 bln at the end of 2018. The change in this indicator is attributable to the receipt of funds from the operating activities of the Group's subsidiaries along with a planned reduction in the debt burden of a number of Group companies.

The Group has no bonded loans. No bond placements are planned at the moment due to the lack of a need for long-term debt financing.

Financial ratios

Increasing trends were seen in **profit margins** in 2019. The primary factor that had a major impact on the growth in profit margins was the Group's net profit of RUB 81.9 bln versus RUB 71.7 bln in 2018, which can mainly be attributed to revenue growth of RUB 69.5 bln (7.2%).

The growth in the **Current liquidity ratio** (2.99 at the end of 2019 versus 2.02 at the end of 2018) was due to an increase in current assets and a decrease in short-term liabilities.

The allocation of cash from operating activities in short-term deposits had the biggest impact on the growth in current assets.

Short-term liabilities decreased due to the repayment of debt for the purchase of PJSC Inter RAO's own shares as well as the offsetting of advances received from LLC Kaliningrad Generation as part of the Pregolskaya TPP construction project.

The **equity concentration ratio**, which reflects the proportion of the Company's assets that are covered by equity, amounted to 0.74 at the end of the reporting period. This indicates a high level of financial resiliency, stability, and independence from external creditors.

Credit ratings

FitchRatings	On August 15, 2019, Fitch upgraded PJSC Inter RAO's global credit rating from BBB- with a positive outlook to BBB with a stable outlook.
Moody's	On February 15, 2019, Moody's affirmed the corporate credit rating of PJSC Inter RAO at Baa3 with a stable outlook.

Key financial results by segment in 2019

	Supply	Electric Power Generation in the Russian Federation	Thermal Power Generation in the Russian Federation		Trading	Foreign Assets			Engineering		
RUB mln	The Russian Federation	Inter RAO – Electricity Generation Group[1]	TGC-11[2]	Bashkir Generation[3]	The Russian Federation and Europe	Georgia	Moldavia	Turkey	The Russian Federation	Corporate Center	Total
Total revenue	695,098	192,449	33,943	62,022	77,107	10834	10,391	2,786	22,613	(75,123)	**1,032,120**
Share of the Segment's revenue in total	67%	19%	3%	6%	8%	1%	1%	0%	2%	–7%	**100%**
Operating expenses, including											
Purchased electricity and capacity	(412,102)	(6,852)	(2,702)	(4,563)	(53,340)	(5,668)	–	–	–	71,011	**(414,216)**
Electricity transmission fees	(233,393)	–	–	(4)	(6,659)	(1,636)	(78)	–	–	–	**(241,770)**
Fuel expenses	–	(77,501)	(12,446)	(31,913)	–	–	(5,688)	(18)	–	3,474	**(124,092)**
Share in profit/(loss) of joint ventures	–	3,125	–	–	(1)	–	–	–	30	–	**3,154**
EBITDA	**25,807**	**79,440**	**7,702**	**11,892**	**17,915**	**1,591**	**3,136**	**2,333**	**(513)**	**(7,756)**	**141,547**
EBITDA margin[4]	4%	56%	26%	25%	24%	15%	30%	84%	–3%	–	**14%**
Share of the Segment's EBITDA in total	18%	56%	5%	8%	13%	1%	2%	2%	0%	–5%	**100%**

[1] Represented by the Inter RAO – Electric Power Generation Group, including JSC Nizhnevartovskaya TPP (equity accounted investee).

[2] Represented by JSC Tomsk Generation, JSC TGC 11, JSC Omsk RTS, and JSC TomskRTS.

[3] Represented by Bashkir Generation Company Group, including LLC BashRTS.

[4] EBITDA margin was calculated taking into account the exclusion of inter-segment revenue in the 'Supply in the Russian Federation' segment in the amount of RUB 1.758 bln, the 'Electric Power Generation in the Russian Federation' segment in the amount of RUB 50.502 bln, the 'Thermal Power Generation in the Russian Federation' segment in the amount of RUB 17.592 bln (including TGC-11 in the amount of RUB 3.999 bln and Bashkir Generation in the amount of RUB 13.593 bln), the 'Trading in the Russian Federation and Europe' segment in the amount of RUB 1.424 bln, and the 'Engineering in the Russian Federation' segment in the amount of RUB 4.645 bln.