

# BOARD OF DIRECTORS' PROGRESS REPORT



## LETTER TO STOCKHOLDERS

**Dear stockholders,**

The industrial complex of the Urals and Kama regions is one of the country's most heavy-duty ones. This is a territory with historically high growth rates of regional economies and social sphere. Evolution of the grid complex and enforcement of its reliability therefore remain the Company's tasks of strategic importance, and the Company brilliantly copes with them.

Summing up the results of the year and analyzing production and financial performance of the Company, I am happy to note that that Urals power engineers of the PAO Rosseti Group continue the traditions, inspired by fundamental philosophy of reliability, enormous responsibility and great efficiency.

The Year 2018 has brought the Company a train of milestone events and new challenges. Since the beginning of the year, large-scale reshuffles broke out on the energy market of the Urals Federal District, with three providers of the last resort, operating in the Sverdlovsk and Chelyabinsk regions, losing their status in a rapid-fire succession. In a move intended to avoid payment disruption, these functions were statutorily assigned to OAO IDGC of Urals for a limited time span.

We had to promptly set up three power sales units and staff the units with personnel previously employed by the faltering enterprises, secure payments on the wholesale and retail energy markets, fix software and customer data base issues, tune up and streamline payment services in payment centers and banks. Retention of comfortable conditions for residents of the Middle and South Urals stayed in the focus of our attention. The Company has tackled the task, with payment disruptions on the Urals energy market avoided and payments of residents and corporates propelled to the highest levels.

It is essential to recall that the debt of AO Roskommunenergo, PAO Chelyabenergosbyt and Novouralsk Energy Sales Company (or NUESK), all three divested of the PoLR status, for electricity transmission amounted to several billion rubles. This enormous debt burden could not but affect the Company's FY2018 performance. Despite this, our team has managed to generate the RUB 797.5 million net income. By the year-end, the Company retained its position in the Russia's Top-100 public companies by their market value.

## What is a data factory and for whose benefit does it work?

A data factory is a set of distributed technologies and instruments (cloud technologies) helping process data and business intelligence, based on technologies of big data processing, using network-centric artificial intelligence and machine learning systems. The data factory works for the benefit of the power grid, authorities of all levels, external agencies and consumers.

OAO IDGC of Urals' team continued to secure stable operations of the networks, also achieving positive performance dynamics in key production indicators. Thus, our activities in enhancing access to the grid infrastructure made a serious contribution to driving the areas of our presence upwards in the National Regional Investment Climate Ranking. In particular, the Sverdlovsk region has considerably boosted its stance from No.33 to No.20 in the 85-region ranking.

A consummate professionalism of our engineer team allowed us to complete large-scale repair and investment programs, discharge liabilities related to connection of new customers to the networks and provide support to our colleagues during large-format PAO Rosseti's drills.

The 2018 FIFA World Cup Russia became a highly important event for our country. It should be noted that our engineer team ensured that there were no technological disturbances on the World Cup facilities. Their efforts and contribution of colleagues from other Rosseti's affiliates were highly appraised by the Russian Ministry of Energy. This priceless experience will help the Company cope with the summits of the Shanghai Cooperation Organization and BRICS countries to be conducted in Chelyabinsk in 2020.

Efficient governance, annual execution of KPIs, completion of the enhanced efficiency and cost-cutting programs helped us achieve the solid performance figures. Furthermore, large-format projects under the Digital Transformation 2030 Concept, meaning new challenges, interesting and strategically important objectives, also wait us ahead.

The Board of Directors and C-level executives will put best foot forward to retain and consolidate economic sustainability of the Company going side by side with enormous plans related to digital transformation of the grid complex and Russian economy.



Kind regards,  
The Chair of the Board of Directors  
of OAO IDGC of Urals  
Y.V. Goncharov