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**WE ARE PROUD OF OUR RESULTS AND NEVER FORGET: THE BROADER A COMPANY'S ACTIVITIES, THE GREATER ITS RESPONSIBILITY**



This Annual Report is also available online as an interactive document at <https://ar2018.interrao.ru/en/>



## ABOUT THE REPORT

Annual Report of Public Joint-Stock Company Inter RAO UES (hereinafter PJSC Inter RAO or the Company) for 2018 includes the performance results of PJSC Inter RAO and other companies that are part of the Inter RAO Group (the Group). For the purposes of this Annual Report, the Inter RAO Group refers to all the companies that comprise PJSC Inter RAO and its controlled entities (hereinafter subsidiaries). The largest subsidiaries of the Inter RAO Group and the participatory interest of PJSC Inter RAO in their capital are presented in the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) for 2018 and in the Group Structure appendix. The Report was prepared taking into account the recommendations of the Central Bank of the Russian Federation (the Bank of Russia), the Federal Agency for State Property Management, the Moscow Exchange, and GRI Standards methodology.

## DISCLAIMER

The Report contains forward-looking statements concerning production, financial, economic, and social indicators that describe the Company's further development. The Company's plans and intentions are directly related to the political, economic, social, and legal situation in the Russian Federation and around the world. In this regard, the actual results of the Company's operations in the future may differ from the projected results.





# Annual Report of PJSC Inter RAO for 2018

SUSTAINABLE DEVELOPMENT AND ENVIRONMENTAL  
RESPONSIBILITY REPORT

Approved by the PJSC Inter RAO  
Board of Directors on May 20, 2019  
(Minutes No. 19 dated May 20, 2019)



**Boris Kovalchuk**  
*Chairman of the Management  
Board of PJSC Inter RAO*



**Alla Vainilavichute**  
*Chief Accountant of PJSC  
Inter RAO*

# MILESTONES

**440**  
MW

total electric power

## THE INTER RAO GROUP COMMISSIONED THE ZATONSKAYA COMBINED HEAT AND POWER PLANT (ZATONSKAYA CHPP)

The power plant consists of two power units with total electric power capacity of 440 MW.

## THE INTER RAO GROUP'S CREDIT RATING WAS ASSIGNED TO THE INVESTMENT CATEGORY

As part of an extraordinary revision by Moody's Investors Service, the Group's international credit rating was upgraded from Ba1 (Stable outlook) to Baa3 (Stable outlook).

**543**  
MW

total electric power

## NEW FACILITIES WERE COMMISSIONED IN THE KALININGRAD REGION

LLC Kaliningrad Generation, a joint venture between JSC ROSNEFTEGAZ and PJSC Inter RAO, completed construction on and commissioned the Mayakovskaya and Talakhovskaya Thermal Power Plants in the Kaliningrad Region with total capacity of 316 MW. In addition, two units at the Pregolskaya TPP with capacity of 227 MW were commissioned.

## FITCH RATINGS AFFIRMED THE INTER RAO GROUP'S INTERNATIONAL CREDIT RATING BY REVISING THE OUTLOOK FROM STABLE TO POSITIVE

The Inter RAO Group's rating "reflects the Group's strong position on the energy market and is a result of its top financial performance among electric power companies rated by the agency in Russia and the CIS."

### THE COMPANY REACHED A DEAL TO SELL 1.14% OF ITS SHARES THROUGH AN ACCELERATED BOOKBUILD (ABB) AS PART OF A MANAGEMENT OPTION PROGRAM

The transaction increased the volume of shares in free-float and boosted their market liquidity.

### THE INTER RAO GROUP BOUGHT TREASURY SHARES BACK FROM PJSC FEDERAL GRID COMPANY OF UNIFIED ENERGY SYSTEM (PJSC FGC UES) AND RUSHYDRO

The Company signed deals to acquire RUB 41.7 billion worth of treasury shares from RusHydro and FGC UES.

### PJSC INTER RAO AND THE GOVERNMENT OF THE IVANOVO REGION CONCLUDED A COOPERATION AGREEMENT

The agreement provides the ability to establish an information settlement center in the Ivanovo Region jointly with PJSC Inter RAO in order to issue a single payment document and will also help attract skilled professionals to companies in the region.

### A SUBSIDIARY OF THE INTER RAO GROUP SECURED THE STATUS OF A GUARANTEED SUPPLIER IN THE VLADIMIR REGION

The company Energosbyt Volga, which is part of the Inter RAO Group, has been granted the status of a guaranteed supplier of electric power to consumers in the Vladimir Region. The Group's share of the Russian retail market stood at 17.7% as of the end of the year.

**17.7%**

The Group's share  
of the Russian retail  
market



**ENERGY**  
**WITHOUT BORDERS**

**CULTURE**  
**OF CONSTANT**  
**IMPROVEMENTS**  
**AND INNOVATIONS**

**// COMPANY  
PROFILE**

# MISSION OF PJSC INTER RAO

TO PROMOTE SUSTAINABLE ECONOMIC DEVELOPMENT AND IMPROVE THE QUALITY OF LIFE IN ALL REGIONS WHERE THE COMPANY OPERATES BY ENSURING RELIABLE ENERGY SUPPLIES, MEETING THE GROWING DEMAND FOR ELECTRICITY, AND USING INNOVATIVE ENERGY EFFICIENCY AND CONSERVATION TECHNOLOGIES.



A detailed history of the Inter RAO Group is available on its corporate website:  
<http://www.interrao.ru/company/history/>

Open Joint-Stock Company Inter RAO UES (OJSC Inter RAO UES) was included in the list of strategic joint-stock companies of the Russian Federation under Decree No. 1190 of the President of the Russian Federation dated September 30, 2010.

## CREDIT RATINGS

**BBB–**  
Fitch  
Ratings

with a Positive  
outlook

### FITCH: BBB– WITH A POSITIVE OUTLOOK

On August 6, 2018, Fitch International Agency affirmed the international credit rating of PJSC Inter RAO at BBB– and revised its outlook from Stable to Positive. Fitch also revised the Company's independent credit rating, upgrading it from BB+ to BBB–.

**Baa3**  
Moody's  
Investors  
Service

with a Stable  
outlook

### MOODY'S: BAA3 WITH A STABLE OUTLOOK

On January 29, 2018, Moody's International Agency upgraded the international corporate credit rating of PJSC Inter RAO to Baa3 with a Stable outlook (from the previous Ba1 with a Stable outlook). Thus, the Inter RAO Group's credit rating has been assigned to the investment category.

# FACTORS BEHIND THE GROUP'S INVESTMENT APPEAL

A CLEAR DEVELOPMENT  
STRATEGY WITH A FOCUS  
ON IMPROVING OPERATIONAL  
EFFICIENCY AND OPTIMIZING  
COSTS

STRONG OPERATING FINANCIAL  
RESULTS AND A RELIABLE CREDIT  
PROFILE

CLEAR GROWTH PROSPECTS  
AND SUBSTANTIAL CASH FLOW  
FOLLOWING THE COMPLETION  
OF THE INVESTMENT CYCLE  
AND MODERNIZATION PROGRAM

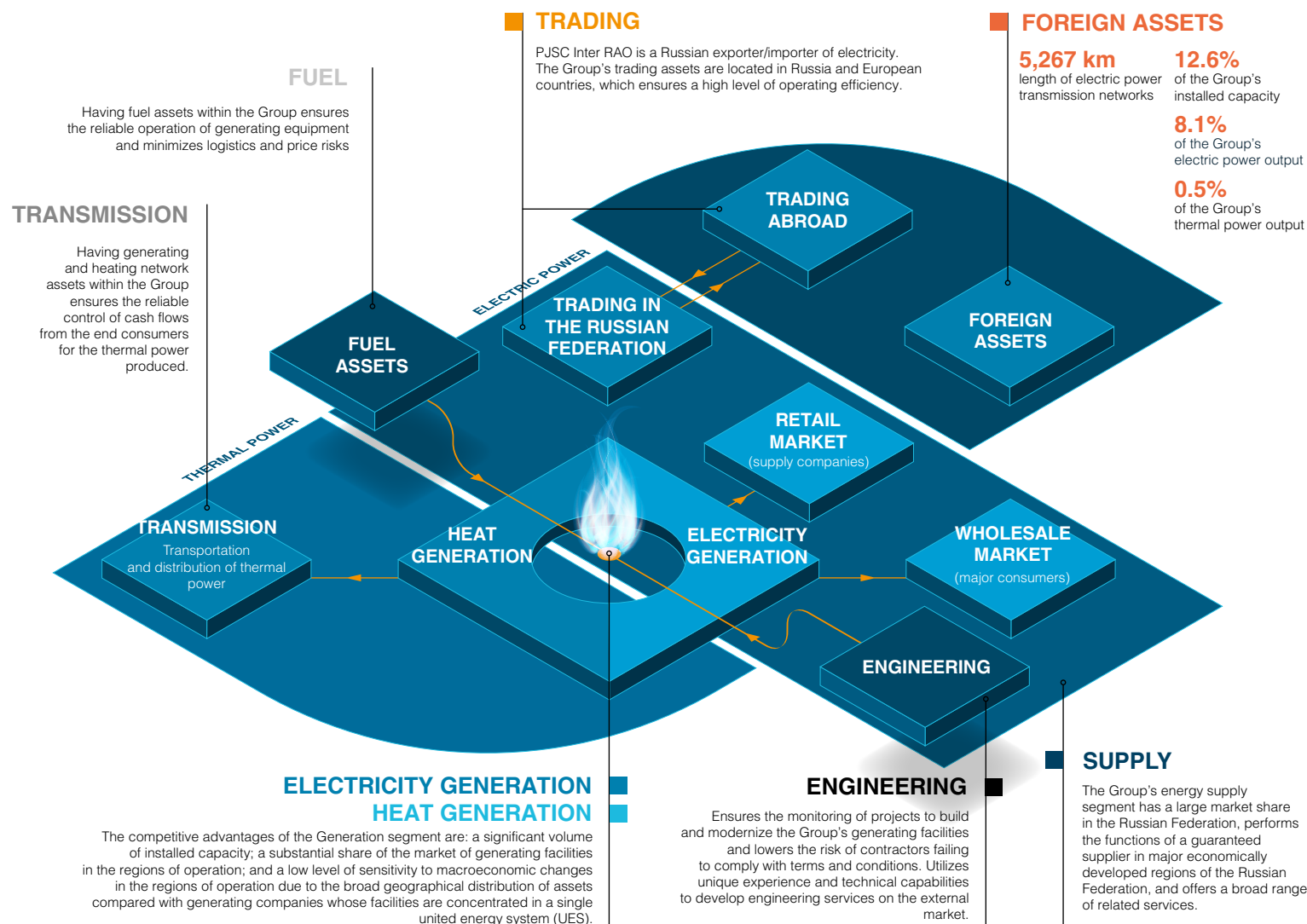
A WORLD-CLASS AND MOTIVATED  
MANAGEMENT TEAM THAT AIMS  
TO CREATE AND INCREASE  
SHAREHOLDER VALUE

A HIGH LEVEL OF CORPORATE  
GOVERNANCE

EFFECTIVE RISK MANAGEMENT  
AND INTERNAL CONTROL

USE OF INTERNATIONAL  
SUSTAINABLE DEVELOPMENT  
STANDARDS

# BUSINESS MODEL



**33,714**  
**MW**

Installed capacity

**132.508**  
**bln kWh**

Electric power output

**216.102**  
**bln kWh**

Electric power sales

**41.739**  
**mln Gcal**

Thermal power output from collectors

**0.45**  
**g CO2/kWh**

Specific greenhouse gas emissions

**NET PROFIT**

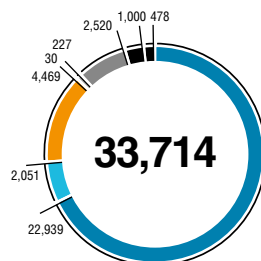
**71.7**  
**RUB bln**

# KEY INDICATORS OF THE GROUP

## KEY OPERATING RESULTS OF THE GROUP AS OF DECEMBER 31, 2018

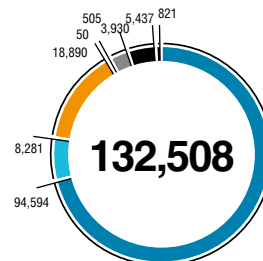
### INSTALLED CAPACITY,

MW



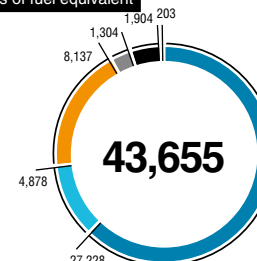
### ELECTRIC POWER GENERATION,

mln kWh



### TOTAL FUEL CONSUMPTION IN REFERENCE TERMS,

thousand tons of fuel equivalent



### FUEL CONSUMPTION IN PHYSICAL TERMS

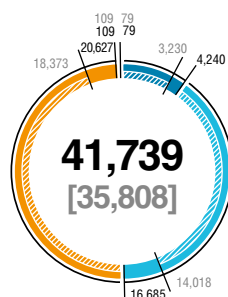
**29.749**  
bln m<sup>3</sup> of gas

**15.188**  
mln tons of coal

**77,000**  
tons of fuel oil

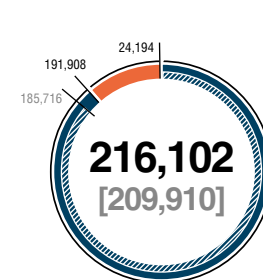
### THERMAL POWER OUTPUT FROM COLLECTORS,

thousand Gcal



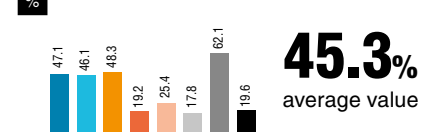
### SALE OF ELECTRIC POWER,

mln kWh



### INSTALLED CAPACITY UTILIZATION RATIO,

%



- Supply in the Russian Federation
  - Inter RAO - Power Generation Group
  - Thermal power generation of TGC-11
  - Thermal power generation in Bashkortostan
  - Trading in the Russian Federation
  - Foreign assets
  - Georgia
  - Moldova
  - Kazakhstan
  - Turkey
- ▨ excluding intra-group turnover

**FOREIGN  
ASSETS**

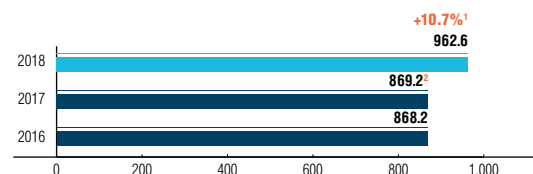
**KAZAKHSTAN**  
**GEORGIA**  
**TURKEY**  
**MOLDOVA**



## Changes in key indicators

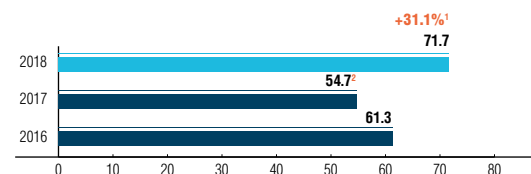
### REVENUE

RUB bln



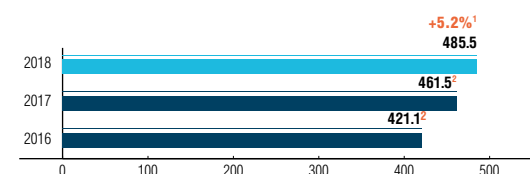
### NET PROFIT

RUB bln



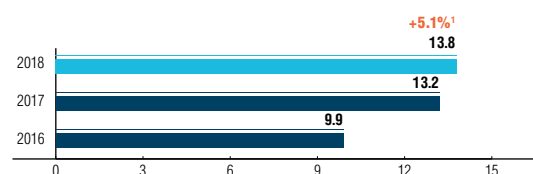
### NET ASSETS

RUB bln



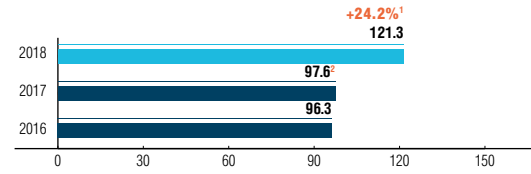
### INTANGIBLE ASSETS

RUB bln



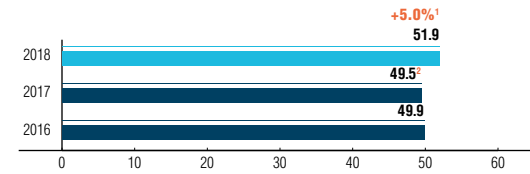
### EBITDA

RUB bln



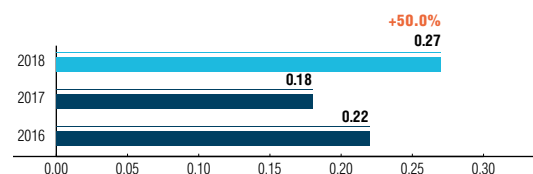
### WAGES, EMPLOYEE BENEFITS, AND PAYROLL TAXES

RUB bln



### INJURY FREQUENCY RATE³

LTIFR



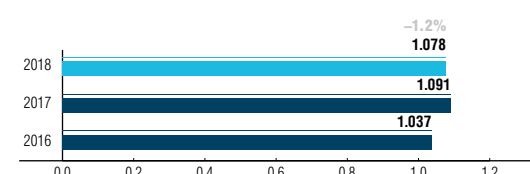
### SPECIFIC GREENHOUSE GAS EMISSIONS PER UNIT OF ELECTRICITY PRODUCED,

grams of CO₂/kWh



### INVESTMENT IN ENVIRONMENTAL PROTECTION

RUB bln



<sup>1</sup> Percentage ratios are calculated based on the data from the IFRS consolidated financial statements expressed in million rubles

<sup>2</sup> Information was retrospectively restated due to implementation of IFRS 15 "Revenue from Contracts with Customers" and IFRS 16 "Leases". Consolidated statement of financial position as at 31 December 2016 was retrospectively restated. Consolidated statement of comprehensive income for the year ended 31 December 2016 was not subject to retrospective restatement.

<sup>3</sup> For 2018, the Group's management approved the key indicator "Absence of Emergencies or Accidents, or the Fulfillment of the Injury Frequency Rate" in accordance with the Methodological Guidelines for Assessing the Fulfillment of the Inter RAO Group's Strategy Implementation Plan. The injury frequency rate established by the Methodological Guidelines for Assessing the Fulfillment of the Inter RAO Group's Strategy Implementation Plan, which was approved by Order No. IRAO/689 of PJSC Inter RAO dated December 27, 2018, is 0.3560 for 2018 and 0.3530 for 2019.

# MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

**DEAR SHAREHOLDERS,**



**Igor Sechin**

*Chairman of the Board of Directors*

A handwritten signature in black ink, likely of Igor Sechin, consisting of a stylized 'I' and 'S' followed by a horizontal line.

We are pleased to present the Inter RAO Group's results for 2018. This last reporting period marked an important and crucial stage in the Company's evolution during which we managed to complete major investment projects, adjust our activities based on the requirements of the times, and achieve solid production and financial indicators. The Company was essentially able to maintain and strengthen a platform for further sustainable development.

In 2018, the Inter RAO Group successfully completed a multi-year state-sponsored for the construction of new facilities under Capacity Delivery Agreements (CDA) as part of which the Company built 6.1 GW of new generating facilities. In March 2018, the last facility of this program was put into operation – the Zatonskaya CHPP in Bashkortostan with installed capacity of 440 MW.

In addition, as far as the construction of new power plants is concerned, Inter RAO continues to implement a large-scale project in partnership with ROSNEFTEGAZ to ensure the energy security of our country's westernmost territory – the Kaliningrad Region. This work resulted in the Mayakovskaya and Talakhovskaya TPPs with total capacity of 316 MW being put into operation in 2018 and the start of the commissioning of the largest gas plant within this project – the Pregolskaya TPP with capacity of 455.2 MW. Going forward, we will complete construction on the Primorskaya TPP – a backup coal-fired power plant. All construction work is proceeding ahead of schedule.

For the year, the installed capacity of power plants that are part of and managed by the companies of the Inter RAO Group increased by 1,000 MW and reached 33,714 MW.

The completion of the program for the construction of new facilities under the CDA and the launch of the new plants in the Kaliningrad Region have become drivers for the economy and the Company's activities as a whole. PJSC Inter RAO has managed to considerably improve its financial and operating performance and strengthen its position in the industry. The best indicator – EBITDA – increased by 24.2% in 2018 and amounted to RUB 121.3 billion. IFRS net profit grew by 31.1% to RUB 71.7 billion.

Another milestone was the assignment of guaranteed supplier status in the Vladimir and Vologda Regions to power supply companies that are part of the Inter RAO Group. Given the changes in the state tariff policy on the retail electricity market, securing this status will enable Inter RAO to significantly enhance the efficiency of the supply segment in the Group's business. As of the end of 2018, the Inter RAO Group's share of the retail electricity market was up by 0.5 p.p. to 17.7%.

The strong financial, economic, and production results are the result of the Company's proper strategic, operational, and corporate management.

Today, the Russian electric power industry faces new major challenges – the modernization of aging facilities and the digitalization of the industry. I am confident that Inter RAO is appropriately implementing all the projects that have been developed to take part in this modernization and will also achieve strong results in localizing equipment production for the purposes of modernization and providing engineering services on the market. The Board of Directors and management of PJSC Inter RAO are focused on the active stage of digitalizing production and management processes. In the context of the state policy for creating a digital economy, these solutions will be key to the Company's successful development and a major advantage going forward.

Inter RAO's strategic goal is to maintain its leading positions on the Russian and international markets in the coming years. To achieve this objective, the Company will work to further improve the efficiency and profitability of all business segments, optimize investment activities, and enhance the value and financial stability of its assets.

# MESSAGE FROM THE CHAIRMAN OF THE MANAGEMENT BOARD



**DEAR SHAREHOLDERS,**

**Boris Kovalchuk**  
*Chairman of the Management Board*



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.

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 Zatonskaya 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 Zatonskaya 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.



**ENERGY**  
**WITHOUT BORDERS**

# **CLEAR** **SUSTAINABLE** **DEVELOPMENT** **GOALS**

**// STRATEGIC  
REPORT**

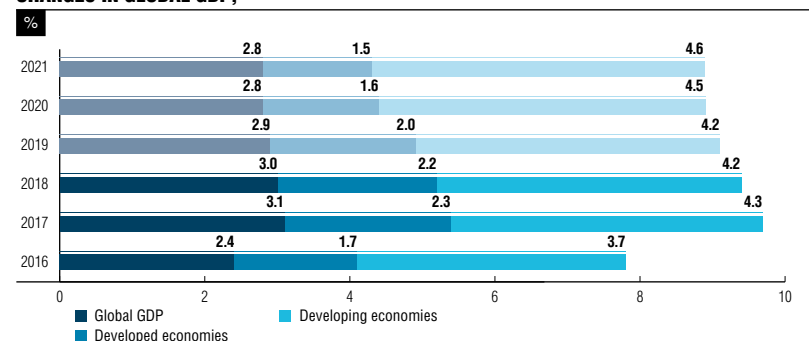
# MARKET OVERVIEW

## Macroeconomic overview

Global markets were highly volatile throughout 2018 due to the political decisions of a number of major economies: the United States, the United Kingdom, China, North Korea, and European Union countries. Despite ongoing negotiations on most issues, tensions remained fairly high as far as global trade issues are concerned. This situation, combined with the concerns about the growth prospects for the global economy, contributed to a decline in world stock market prices. The appreciation of the U.S. dollar, greater volatility on financial markets, and growing export-import risks led to increased capital outflow and foreign exchange pressure in emerging markets. Significant price fluctuations were seen on energy and metal markets over the course of 2018. As a result, prices for many commodities were down at the end of the year, which caused problems for export-oriented countries.

The World Bank estimates that GDP growth slowed to 2.2% on average in developed economies and to around 4.2% in developing economies in 2018. A number of countries with heightened current account deficits experienced considerable pressure on their own financial markets in 2018, which triggered a slowdown in business activity within these countries. The World Bank predicts that global GDP will grow by 2.9% in 2019 and by 2.8% in 2020–2021, with the Russian economy expanding by 1.5% in 2019 and 1.8% in 2020–2021.

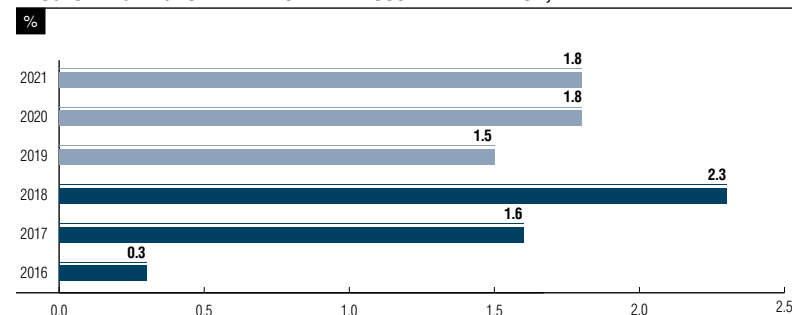
### CHANGES IN GLOBAL GDP,



Source: World Bank report, January 2019

## Changes in the GDP of the Russian Federation

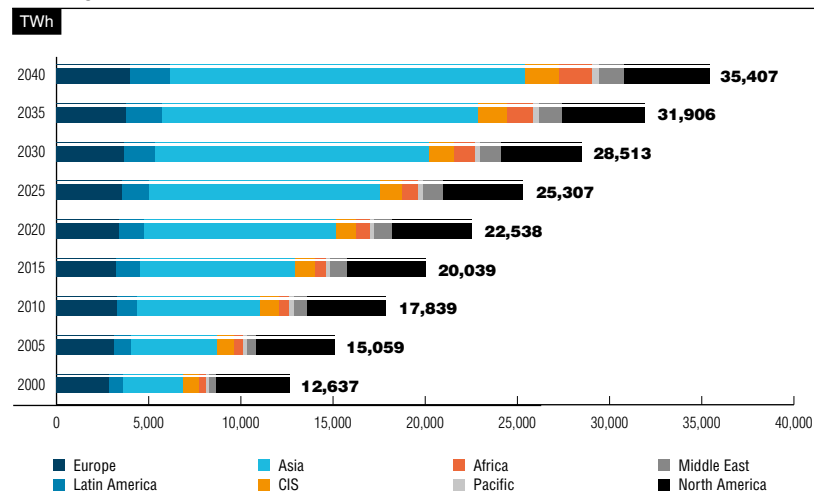
### PROJECTED GDP GROWTH RATES IN THE RUSSIAN FEDERATION,



Source: Ministry of Economic Development of the Russian Federation, January 2019, [Electronic resource]  
<http://economy.gov.ru/minrec/about/structure/depMacro/2019120201>. (reference date: March 29, 2019)

According to the Russian Federal State Statistics Service, GDP growth accelerated to 2.3% in 2018 from 1.6% a year earlier, which surpassed both the estimates of the Russian Ministry of Economic Development as well as the market consensus forecast. In terms of different sectors of the economy, industry and construction have become key drivers of economic growth (contributing 0.6 p.p. and 0.3 p.p. to economic growth, respectively). Retail (0.3 p.p.) and the transport industry (0.2 p.p.) also made positive contributions to the changes in GDP.

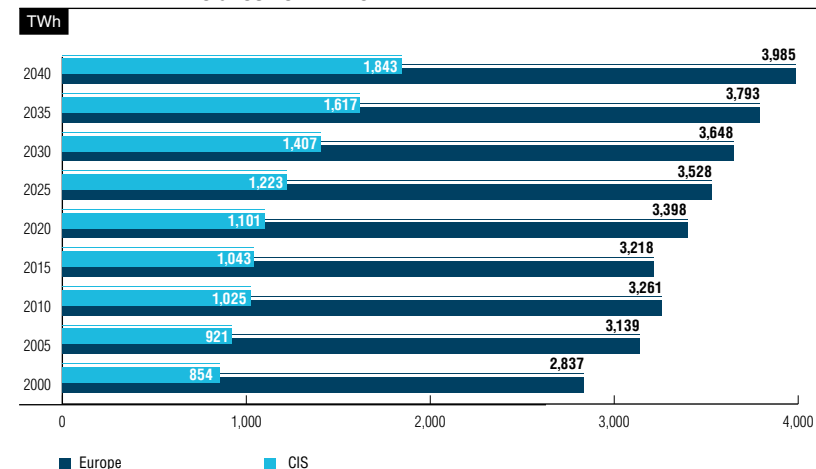
### FORECAST FOR THE DEVELOPMENT OF THE ELECTRIC POWER INDUSTRY ON KEY INTERNATIONAL MARKETS



Source: Enerdata, EnerOutlook 2018, 2018 [Electronic resource] <https://eneroutlook.enerdata.net/> (reference date: March 29, 2019)

**GLOBAL ELECTRICITY CONSUMPTION COULD GROW BY 40-50% BY 2035 COMPARED WITH THE CURRENT INDICATORS.**

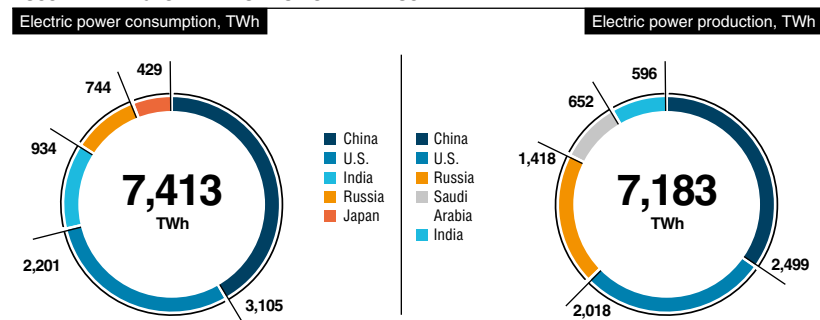
### FORECAST FOR THE DEVELOPMENT OF THE ELECTRIC POWER INDUSTRY ON KEY MARKETS WHERE THE INTER RAO GROUP OPERATES



Source: Source: Enerdata, EnerOutlook 2018, 2018 [Electronic resource] <https://eneroutlook.enerdata.net/> (reference date: March 29, 2019)

**THE BULK OF THE GROWTH WILL BE CONCENTRATED IN ASIAN COUNTRIES, WHILE MODERATE INCREASES OF 15-20% ARE PROJECTED ON THE INTER RAO GROUP'S PRIMARY MARKETS – THE CIS AND EUROPE**

### RUSSIA IN THE GLOBAL ELECTRIC POWER INDUSTRY



Source: Enerdata, The Global Energy Statistical Yearbook, 2018, [Electronic resource] <https://yearbook.enerdata.net/> (reference date: March 29, 2019)



## Changes in the Russian electric power industry

Electricity consumption within the Unified Energy System of Russia amounted to 1.056 trillion kWh in 2018, or 1.5% more than in 2017. Electricity production within the Unified Energy System of Russia came to 1.071 trillion kWh, a 1.6% increase from 2017. The structure of electricity generation has changed significantly in recent years as the share of thermal power plants has declined in the UES of Russia, while electricity production at nuclear power plants has increased. In 2018, nuclear power plants (branches of Rosenergoatom) produced a record amount of electric power – 204.3 billion kWh, or 0.7% more than in 2017. As of the beginning of 2019, the share of nuclear power generation in the overall energy balance amounted to roughly 19% of total electricity generation in the country. A total of 4.5 GW of capacity were put into operation in 2018, with nuclear power plants (NPP) and thermal power plants (TPP) each accounting for 2.2 GW.

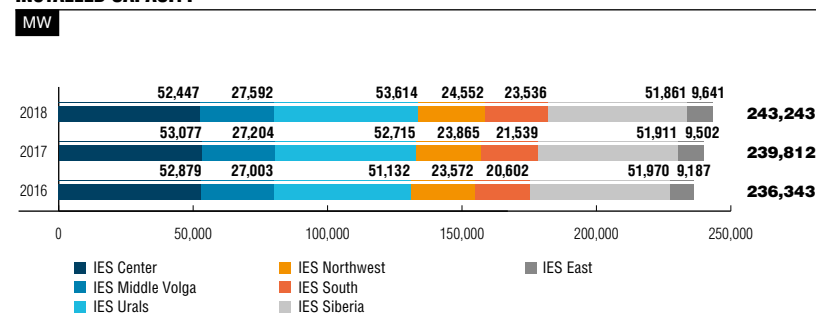
According to the forecast for the baseline development of the Russian economy, industrial production will grow by an average of 3% per year in 2018-2024. No significant changes are expected in the structure of industrial production in the medium term. Operational stability is projected to continue in the fuel and energy sector.

Based on the projected trends for the development of the country's economy, electricity production is expected to amount to 1.129 trillion kWh by 2021. Electricity consumption on the domestic market will increase to 1.118 trillion kWh (an increase of 3.1% versus 2017). By 2024, electricity production is projected to total 1.163 trillion kWh, as electricity consumption on the domestic market will increase to 1.194 trillion kWh (growth of 6.5% compared with 2017). Even though thermal power plants will continue to account for the bulk of electricity production in 2021, their overall share in the structure of electricity production will decrease from 64.4% in 2017 to 63.1% in 2021.<sup>1</sup>

The main systemic problems hindering the development of the electric power industry are the high depreciation of fixed assets, the existence of cross-subsidies between consumer groups, and the lack of a competitive thermal power market.

The installed capacity of UES of Russia power plants increased by 13.6 GW in 2016–2018<sup>2</sup> due to the commissioning of new generating equipment at power plants as well as the modernization of existing equipment. Generating equipment with total capacity of 7.2 GW was decommissioned at UES of Russia power plants over the same period.

### INSTALLED CAPACITY



Source: System Operator of the Unified Energy System [Electronic resource]  
[http://so-ups.ru/fileadmin/files/company/reports/disclosure/2019/ups\\_rep2018.pdf](http://so-ups.ru/fileadmin/files/company/reports/disclosure/2019/ups_rep2018.pdf) (reference date: March 29, 2019)

### CHANGES IN ELECTRIC POWER GENERATION IN THE UES OF RUSSIA

**bln kWh**

Indicator	2016	2017	2018	Change 2017/2018, %
Total electric power generation	1,048.5	1,053.9	1,070.9	1.6
including:				
Thermal power plants	673.7	671.3	681.8	1.6
Hydroelectric power plants	178.3	178.9	183.8	2.7
Nuclear power plants	196.4	202.9	204.4	0.7
Renewable energy sources	0.01	0.1	0.2	66
Power plants of industrial enterprises	0.1	0.6	0.8	33
Electric power consumption	1,026.9	1039.9	1,055.6	1.5

Source: System Operator of the Unified Energy System [Electronic resource]  
[http://so-ups.ru/fileadmin/files/company/reports/disclosure/2019/ups\\_rep2018.pdf](http://so-ups.ru/fileadmin/files/company/reports/disclosure/2019/ups_rep2018.pdf) (reference date: March 29, 2019)

<sup>1</sup> Source – Russian Ministry of Economic Development

<sup>2</sup> Source – JSC SO UES

**243,243.2**  
**MW**

Installed capacity of UES of Russia power plants as of December 31, 2018

**1,950.4**  
**MW**

total power capacity decommissioned

**INCREASE  
IN INSTALLED  
CAPACITY**

**4,792.1**  
**MW**

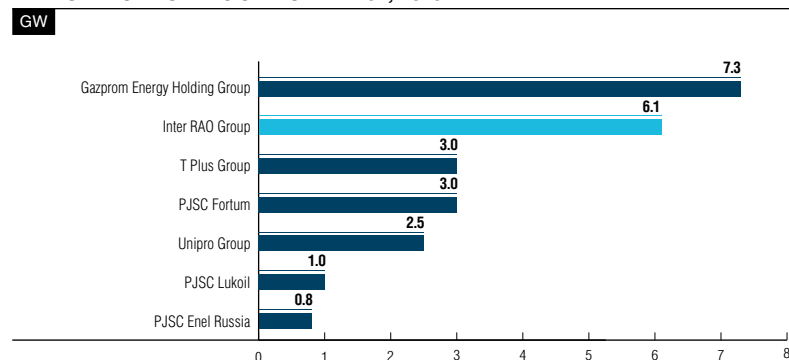
through the commissioning of new generating equipment

**294.8**  
**MW**

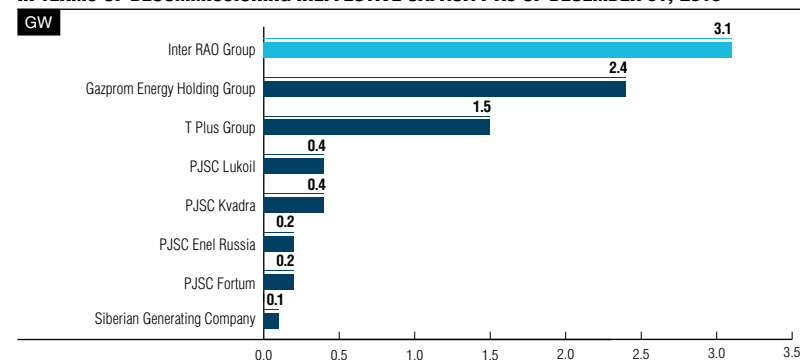
due to relabeling

## Market share of the Inter RAO Group

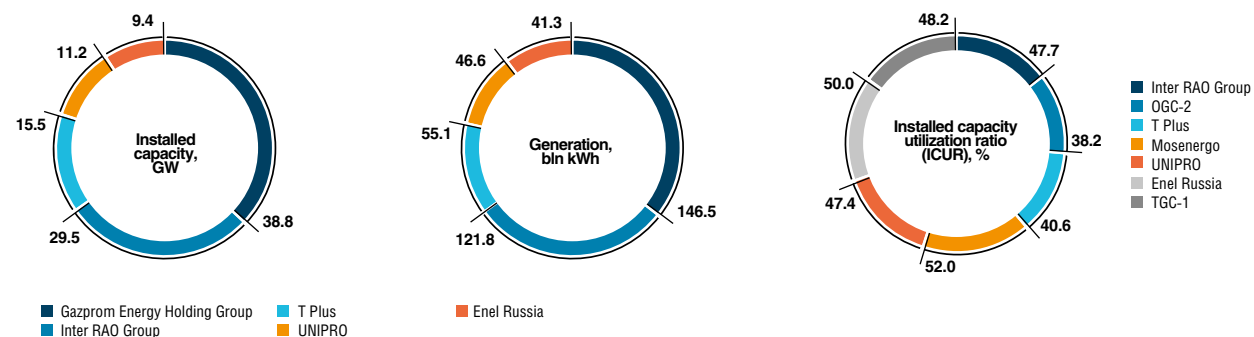
**THE INTER RAO GROUP'S RANKING AMONG GENERATING COMPANIES OF THE RUSSIAN FEDERATION IN TERMS OF COMMISSIONING NEW EFFICIENT CAPACITY AND DECOMMISSIONING INEFFICIENT CAPACITY AS OF DECEMBER 31, 2018**



**THE INTER RAO GROUP'S RANKING AMONG GENERATING COMPANIES OF THE RUSSIAN FEDERATION IN TERMS OF DECOMMISSIONING INEFFICIENT CAPACITY AS OF DECEMBER 31, 2018**



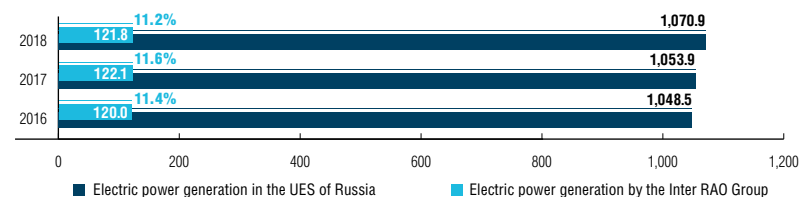
**THE INTER RAO GROUP'S RANKING AMONG GAS AND COAL GENERATION COMPANIES IN THE RUSSIAN FEDERATION AS OF DECEMBER 31, 2018**



Source: company press releases

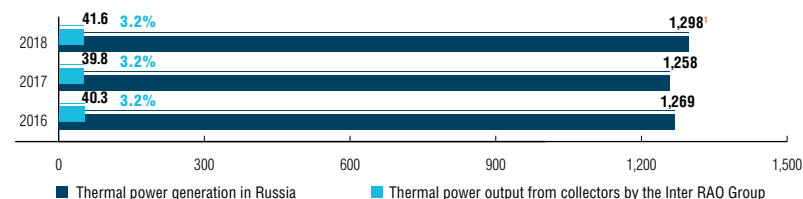
#### SHARE OF THE INTER RAO GROUP IN ELECTRIC POWER GENERATION IN RUSSIA IN 2016–2018

bln kWh



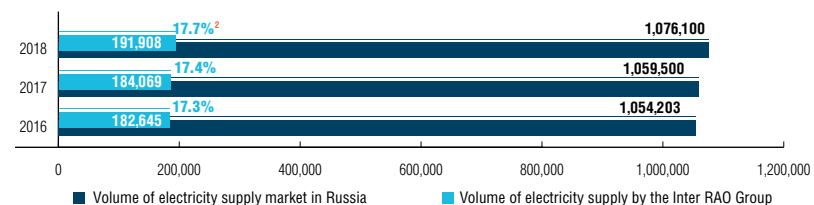
#### SHARE OF THE INTER RAO GROUP IN THERMAL POWER GENERATION IN RUSSIA IN 2016–2018

thousand Gcal



#### SHARE OF THE GROUP'S SUPPLY SEGMENT ON THE RUSSIAN MARKET IN 2016–2018

mln kWh



Key legislative initiatives regulating activities on the market:

- The deadline for the licensing of energy supply activities has been postponed.
- A law has been passed to develop smart metering systems for electric power.
- The Housing Code of the Russian Federation has been amended to establish a transition to direct contracts with resource supply companies.
- The Federal Law "On Advertising" has been amended to restrict advertisements on payment documents for housing and utility services.

<sup>1</sup> The thermal power generation forecast is calculated based on the Company's market share in 2017

<sup>2</sup> Including electricity sales on the wholesale market

# STRATEGY

## Competitive advantages of the Inter RAO Group in key segments



### Generation

- Completion of the investment program cycle in terms of new construction based on CDA: 6.1 GW of new high efficiency capacity has been built (the last 440 MW facility was commissioned at the Zatonskaya CHPP in Ufa).
- Completion of the construction and commissioning of the Mayakovskaya, Pregolskaya, and Talakhovskaya TPPs in the Kaliningrad Region with total capacity of 543 MW.
- Decommissioning of approximately 4.7 GW of old inefficient capacity by 2020.
- Availability of roughly 18% of new high efficiency capacity with a low fuel component.
- Availability of expertise and effective work experience on the electricity and capacity market, including the effective use of existing mechanisms to optimize the load profile of existing generating equipment to maximize profit.
- Effective long-term contract for the purchase of natural gas that provides a discount to the gas price relative to the regulated price approved by the Russian Federal Antimonopoly Service.
- Availability of highly maneuverable equipment in the asset structure.
- Availability of high-demand and competitive generating capacity with a broad geography.
- ISO 14001 certification of most of the Group's enterprises; the Group constantly works to monitor the implementation of target environmental program measures, their deadlines, and the numerical values/indicators of the goals. The program is updated when necessary.



### Supply

- Leading position on the Russian electricity market.
- The company LLC Energosbyt Volga, a member of the Inter RAO Group, secured the status of a Guaranteed Supplier in the Vladimir Region.
- The presence of the Group's companies in the largest regions of the Russian Federation: Moscow, the Moscow Region, St. Petersburg, and the Leningrad Region.
- High market share in the regions where the Supply segment is located.
- Existence of a large customer base.
- A unified management system at power supply companies of the Inter RAO Group (PSCs of the Inter RAO Group).
- Unified billing methodology for the billing of legal entities in the form of a set of business processes that regulate the core activities of PSCs.
- The presence in the Segment of unregulated supply companies that have contracts with major industrial consumers.
- The availability of unique expertise to actively develop additional services that aim to meet customer needs.
- The existence of a synergistic effect for power supply companies in the regions where the Group has generating assets.
- Customer focus – building an effective system to assess satisfaction with the quality of services provided.
- High collection level of payments on the retail market.
- A unified model of a group brand for power supply companies and guaranteed suppliers of the Inter RAO Group.



## Trading

- A leading Russian electricity export-import operator and the only company involved in export-import operations on the Russian wholesale electricity and capacity market (WECM).
- The Group's supply geography covers 14 countries.
- Unique expertise and extensive experience in foreign economic activities.
- A well-established system of interaction with Russian and foreign partners.
- Optimal structuring of proposals for contracts that take into account the demands of customers to the fullest extent.



## Engineering

- An experienced management team with a broad portfolio of completed projects.
- The presence of highly skilled professionals in all required areas in the electric power industry.
- The availability of an in-house design center.
- An in-house offering on the gas turbine market.
- A promising portfolio of ongoing projects and cooperation with major regional energy companies.
- Well-established relations with the authorities of Russia and key partner countries.
- Experience in raising project funding and utilizing state support.
- Use of the world's best management practices consistent with the ISO 9001 quality management standard.
- Import substitution work (involvement in the development and production of Russia's first high-capacity gas turbine GTD-110M and the localization of the production of the gas turbine unit GTU 6FA). An import substitution program for power engineering equipment with respect to gas turbine technologies, which prioritizes building Russian-produced prototypes of advanced gas turbine units and expanding the localization of the production of medium- and high-capacity gas turbine units under licenses from foreign companies.

# Strategic priorities

The Strategy of PJSC Inter RAO for the Period until 2020 was approved by a resolution of the Board of Directors dated March 13, 2014.<sup>1</sup> In December 2014, the Inter RAO Group Strategy for the Period until 2020 was submitted to the Government Commission for the Development of the Electric Power Industry for consideration as a Long-Term Development Program and approved without changes.<sup>2</sup> This decision made it possible to unify the Group's strategic planning procedures. The Strategy/Long-Term Development Program includes a target vision, mission, strategic goals, a list of priority areas for development, and the consolidated indicators of the Inter RAO Group for the period until 2020.

In order to monitor the implementation of the Strategy/Long-Term Development Program, each year the Company prepares Strategic Development Priorities that are approved by the Board of Directors and consist of a set of top-level priorities, including quantitative indicators and policy measures. The Strategic Development Priorities also make it possible to establish a correlation between incentives for the Chairman of the Management Board and members of the Management Board and the strategic management system (in accordance with the Regulation on Financial Incentives for the Chairman of the Management Board and Members of the PJSC Inter RAO Management Board).<sup>3</sup> The Board of Directors assesses the extent to which the Strategy/Long-Term Development Program is implemented for a given reporting period through an audit of the Report on the Implementation of the Company's Strategic Development Priorities.

<sup>1</sup> Minutes No. 110 dated March 17, 2014.

<sup>2</sup> Minutes No. 18 dated December 27, 2014.

<sup>3</sup> Minutes No. 103 dated November 11, 2013 with amendments and additions dated December 9, 2014 (Minutes No. 129 dated December 12, 2014) and December 29, 2016 (Minutes No. 189 dated December 30, 2016).

## Long-term priorities by segment

### Electric Power Generation and Thermal Power Business

- drafting and promoting proposals to develop a model for the functioning of the wholesale electricity and capacity market as well as the thermal power market, which aims to improve the operating efficiency of generating assets
- implementing investment projects for the construction/modernization of thermal power assets
- decommissioning inefficient generating capacity
- implementing integrated programs to improve the operational efficiency of the Inter RAO Group's production assets
- implementing long-term integrated programs for the retooling and reconstruction of the Inter RAO Group's assets

### International Activities

- studying options for the disposal of existing assets on foreign markets should it be determined that retaining them within the Inter RAO Group is not economically viable or in the event of asset swaps
- implementing projects on foreign markets as an EPC (M) contractor

### Retail Business

- promoting proposals for the regulatory framework on the target model of retail markets
- securing the status of a Guaranteed Supplier (GS) in the event of regular/extraordinary tenders and/or the withdrawal of the status of existing GSs
- acquiring economically appealing PSCs (guaranteed suppliers and independent PSCs) that have the greatest synergy with Inter RAO facilities and integrating them into the Group

### Foreign Trade Operations

- promoting proposals for the regulatory framework to optimize the electric power modes of power systems and improve trade regimes
- involvement in creating a regulatory framework within the Common Economic Space (CES), particularly in the creation of a common electricity market for the Eurasian Economic Union

### Modernization, Construction, and R&D

- developing and introducing domestic technologies for the design, construction, and modernization of energy assets
- developing an in-house scientific base of highly skilled professionals for all necessary areas of the electric power industry
- entering the gas turbine market
- participating in the implementation of strategic state projects, including the Kaliningrad Region Electric Power Industry Development Program, in order to ensure the Kaliningrad Region has the ability to function independently

**IN ACCORDANCE WITH THE STRATEGY, PJSC INTER RAO IS THE LEADER IN THE RUSSIAN ENERGY SECTOR AND ENSURES THE MOST EFFICIENT ASSET MANAGEMENT.**

	2016	2017	2018	Goal 2020
EBITDA, RUB bln	96.3	97.6	121.3	>100
EBITDA margin, %	11.1	11.2	12.6	>8.7
Installed electricity capacity, GW	32.4	32.7	33.7	>34.6
Share of the Russian retail market, %	17.3	17.4	17.7	>16.0
Foreign trade operations, bln kWh	20.1	22.9	21.8	>10.7
Efficiency of projects implemented	≥WACC	≥WACC	≥WACC	≥WACC
Dividends	50% of net profit per Russian Accounting Standards (RAS)	25% of net profit per RAS	25% of net profit per IFRS	≥25% of net profit per IFRS

**THE COMPANY AIMS TO CONSTANTLY IMPROVE THE MANAGEMENT SYSTEM OF A DIVERSIFIED PORTFOLIO OF ASSETS WHILE MEETING THE FOLLOWING GOALS OF THE COMPANY'S SHAREHOLDERS AND THE ENERGY POLICY OF RUSSIA**

have a presence in various segments of the value chain in the energy sector – from the design and construction of energy facilities to distribution and supply to end users – while achieving multiplier synergistic effects

form a balanced portfolio of efficient generating assets while taking a responsible position in environmental protection

integrate national energy systems and strengthening ties between energy markets

retain a significant place among the largest global energy traders in terms of the volume of trading operations

make a significant contribution to the modernization of the electric power industry and Russia's innovative development through the implementation of engineering, energy conservation, and energy efficiency projects

**ENSURE STEADY LONG-TERM GROWTH IN SHAREHOLDER VALUE**

## 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 Program<sup>1</sup> 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 2018<sup>2</sup>

- 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 2019<sup>3</sup>

- 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

<sup>1</sup> Minutes No. 126 dated November 24, 2014.

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

<sup>3</sup> 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 TPP<sup>1</sup>).</p>
Innovations	Implementing the Innovative Development and R&D Program	<p>As part of the Innovative Development and R&amp;D Program, the Group carried out measures in the following areas:</p> <ul style="list-style-type: none"> <li>• increase in the energy efficiency and eco-friendliness of production</li> <li>• development of new production technologies</li> <li>• introduction of quality control systems and improvements to the organization of innovative activities</li> <li>• development of interaction with entities in the innovation environment</li> </ul>
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>

<sup>1</sup> Certified in 2018.

# Key performance indicator (KPI) system

## Principles of the KPI system

In order to fulfill a list of instructions issued by Russian President Vladimir Putin,<sup>2</sup> the Russian Ministry of Economic Development has drawn up requirements for the creation of a vertical strategic planning system at joint-stock companies included in lists approved by Directive No. 91-r of the Government of the Russian Federation dated January 23, 2003. This system involves the drafting of a long-term development program and a system of key performance indicators.

In accordance with the Regulation on Financial Incentives for the Executive Bodies of PJSC Inter RAO, one of the financial incentives for the Company's management is an annual bonus for reaching the Key Performance Indicators (KPIs) and Performance Benchmarks (PBs) set by the Company. This aspect of the incentive system aims to ensure that managers have a vested interest in their personal performance and in achieving the objectives set by the Strategy/Long-Term Development Program. The list of the Company's annual KPIs and PBs is approved by the Board of Directors. In particular, the KPIs and PBs for the Chairman and members of the PJSC Inter RAO Management Board for 2018 were set by the PJSC Inter RAO Board of Directors.<sup>3</sup>

The main objectives of the KPI and PB system are to assess the achievement of the Company's strategic goals, monitor and control the implementation of the Strategy, and create the proper motivation for the Company's management taking into account the focus on achieving the target strategic indicators.

When the list of KPIs and PBs of PJSC Inter RAO is compiled, both the specific aspects of the Inter RAO Group's operations and the principles of minimum sufficiency are taken into account along with the transparency and measurability of indicators, their consistency, and the focus on increasing the Company's financial and operating results.

## Special aspects of the KPI system in 2018

The list of KPIs and PBs of PJSC Inter RAO for 2018 was compiled taking into account the requirements of the Regulation on Key Performance Indicators of PJSC Inter RAO, which was approved by a resolution of the PJSC Inter RAO Board of Directors dated December 25, 2014.<sup>4</sup> Per the Regulation, the list of KPIs and PBs contains financial, economic, and industry-specific indicators as well as bonus cancellation indicators (PB). The total number of financial and economic indicators is limited to seven, while their total sum should range from 50% to 70% of the total sum of all indicators.

<sup>2</sup> In accordance with clause 34 of List of Instructions No. Pr-3086 of the President of the Russian Federation dated December 27, 2013, the Government of the Russian Federation was put in charge of ensuring that joint-stock companies included in the lists approved by Directive No. 91-r of the Government of the Russian Federation dated January 23, 2003 adopt long-term programs for their development and also ensuring that audits of such programs are conducted.

<sup>3</sup> Minutes No. 214 dated December 21, 2017.

<sup>4</sup> Minutes No. 131 dated December 29, 2014.

**FINANCIAL AND ECONOMIC INDICATORS OF THE KPI AND PB SYSTEM OF PJSC INTER RAO IN 2018**

The total weight of the financial and economic indicators

**60%**

Return on equity (ROE) KPI The indicator determines the efficiency of equity usage, i.e. the Company's income per ruble of its own funds. It indicates the efficiency of the use of the portion of equity that belongs to shareholders, rather than all equity (or assets).			Weight: 20%
Lower level 95% (11.7)	Target level 100% (12.4)	Upper level 110% (13.6)	Mandatory indicator
Total shareholder return (TSR) KPI The indicator determines the market return for the Company and represents the shareholders' rate of return as a result of changes in stock exchange quotations and the distribution of dividends.			Weight: 10%
Lower level N/A	Target level ≥ Average	Upper level ≥ Average (+)	Mandatory indicator
Operating cash flow KPI The indicator describes the ability to maintain a certain level of solvency and ensure coverage of existing debt obligations with the required liquidity. This indicator is not part of the list of mandatory financial and economic indicators and, per the Regulation, falls within the category of an Indicator at the Discretion of the Board of Directors.			Weight: 15%
Lower level 95% (76,265,393)	Target level 100% (80,279,361)	Upper level 110% (88,307,297)	Optional indicator
EBITDA/person KPI This indicator determines the labor productivity of Company employees and describes the efficiency of manpower utilization. Positive trends in this indicator are achieved through implementing measures that aim to improve the attributes of personnel and the organizational structure of the Group's companies. Per the Regulation, this indicator falls within the category of an Indicator at the Discretion of the Board of Directors.			Weight: 15%
Lower level 95% (2.0)	Target level 100% (2.1)	Upper level 110% (2.3)	Optional indicator

The total weight of the financial and economic indicators is 60% of the sum of the weight of all the indicators of PJSC Inter RAO, which is consistent with the requirements of the Regulation.

Per the Regulation, the total number of industry-specific indicators should be no more than four, and the total weight of these indicators should range from 30% to 50% of the sum of the weight of all the Company's indicators. The list of industry-specific indicators is open.

For 2018, the aforementioned resolution of the Board of Directors set the following indicators for PJSC Inter RAO:

## INDUSTRY-SPECIFIC INDICATORS OF THE KPI AND PB SYSTEM OF PJSC INTER RAO IN 2018

### Investment program fulfillment KPI

This indicator is set to achieve the following strategic objectives:

- improving the operating efficiency of generating assets
- ensuring modernization and technological development
- increasing installed capacity through the implementation of investment projects within the set time limits and the approved estimated cost

Weight:  
20%

This KPI is used to assess the fulfillment of the investment program in terms of the funding and spending of capital investments and the commissioning of generating capacity.

Lower level  
80%

Target level  
100%

Upper level  
100%  
(+savings)

Mandatory indicator

### Integrated innovation index fulfillment KPI

An integrated innovation index is established to assess innovative activities and, among other things, envisages a combination of four indicators: the number of the Inter RAO Group's intellectual property items for the reporting year; the percentage of R&D expenditures in the Inter RAO Group's revenue; the percentage of new advanced technologies in the total capacity of the Group's TPPs; the quality of the drafting (updating) of the innovative development program/ implementation of the innovative development program.

Weight:  
20%

Lower level  
90%

Target level  
100%

Upper level  
110%

Mandatory indicator

The total weight of the industry-specific indicators is 40% of the sum of the weight of all indicators of PJSC Inter RAO, which is consistent with the requirements of the Regulation.

The total weight of all key performance indicators of PJSC Inter RAO established for 2018 is 100%.

To enhance the efficiency of the Company's business management, bonus cancelation indicators (PB) are used per the Regulation. For 2018, the Company's Board of Directors established the following bonus cancelation indicators:

#### **BONUS CANCELATION INDICATORS (PB) OF PJSC INTER RAO IN 2018<sup>1</sup>**

PB for the implementation of the instructions of the PJSC Inter RAO Board of Directors This indicator describes the accuracy and timeliness with which the Company's management fulfills the instructions of the Board of Directors.	
Weight for the purpose of financial incentives for the Chairman of the Management Board	Up to 25%
PB for the implementation of the (routine and priority) instructions of the Chairman of the PJSC Inter RAO Management Board This indicator describes the accuracy and timeliness with which members of the Management Board fulfill the instructions of the Chairman of the Management Board.	
Weight for the purpose of financial incentives for members of the Management Board	Up to 100%
Debt/EBITDA PB This indicator is a generally recognized global indicator that describes the Company's level of debt burden and its ability to pay off existing liabilities.	
Weight for the purpose of financial incentives for the Chairman and members of the Management Board	25%
PB for reducing operating expenses by 2-3% annually This indicator aims to improve the Company's operating efficiency through the implementation of targeted cost optimization parameters based on the corresponding cost items.	
Weight for the purpose of financial incentives for the Chairman and members of the Management Board	20%
PB for the absence of fatal accidents or group accidents involving employees of the Inter RAO Group This indicator describes the Group management's performance with regard to ensuring occupational health and safety.	
Weight for the purpose of financial incentives for the Chairman and members of the Management Board	Up to 15%

The list of KPIs and PBs of PJSC Inter RAO for 2018 was applied in 2017 and was compiled based on the Group's strategic development priorities approved by the Inter RAO Board of Directors. There were no changes in the KPIs and BPs in 2018 compared with 2017.

According to the Regulation on Financial Incentives for the Chairman and Members of the PJSC Inter RAO Management Board approved by the Company's Board of Directors on November 1, 2013 (with amendments and additions), the size of the annual bonus is calculated based on the standard payroll, the planned amount of the annual bonus, and the actual KPI values. The Board of Directors approves the list of annual KPIs and BPs as well as their target values for the Chairman and members of the Company's Management Board as determined on the basis of the approved strategic development priorities and the business plan. At the end of the year, the Company's Board of Directors considers the fulfillment

of the KPIs and BPs for the relevant period based on the recommendations of the Nomination and Remuneration Committee. If the Company fulfills all the BPs and achieves the target 'Lower Level' value for the relevant KPIs, a decision is made on the appropriate remuneration for managers based on the Company's performance results.

### **Results of the fulfillment of the KPIs and BPs for 2018**

The KPIs were achieved based on the results of 2018. The actual values of the KPIs were approved by a resolution of the Company's Board of Directors on April 18, 2019<sup>2</sup> based on the Company's annual accounting (financial) statements for the 12 months of 2018 and the Company's consolidated financial statements for the 12 months of 2018 in accordance with the methods for calculating and evaluating the achievement of annual KPIs and PBs for 2018, which were approved by resolutions of the PJSC Inter RAO Board of Directors on December 21, 2017,<sup>3</sup> and also based on the report on the implementation of the Inter RAO Group's business plan approved by a resolution of the PJSC Inter RAO Board of Directors on March 15, 2019.<sup>4</sup>

<sup>1</sup> No changes were made to the bonus cancelation indicators in 2016-2018.

<sup>2</sup> Minutes No. 245 dated April 22, 2019.

<sup>3</sup> Minutes No. 214 dated December 21, 2017.

<sup>4</sup> Minutes No. 242 dated March 18, 2019.

## COMPARISON OF KPI ACHIEVEMENT LEVEL

Name of annual KPI	Ratio of indicator/target achievement for 2016	Ratio of indicator/target achievement for 2017	Ratio of indicator/target achievement for 2018	Change vs. 2017, %
Return on equity (ROE)	1.2	1.2	1.2	0
EBITDA/person	1.2	1.1	1.2	9
Operating cash flow	1.2	1.09	1.2	10
Investment program implementation	0.95	1.2	1.2	0
Integrated innovation index implementation	1.12	1.19	1.14	-4
Total shareholder return (TSR)	-	1.0	1.2	20

# Principles for responsible business

## Development of energy assets

The Inter RAO Group's Strategy/Long-Term Development Program involves the systematic development of energy assets. In January 2019, the Government of the Russian Federation approved a program for the modernization of thermal power plants drafted by the Russian Ministry of Energy. This project will make it possible to upgrade up to 41 GW (including the Far East and non-price zones) of the installed capacity of TPPs. The modernization program will not only update the outdated capacities of TPPs, but will also provide orders for domestic manufacturers of power equipment and localize the use of foreign technologies and equipment in Russia.

## Innovative Development Program

Mechanisms for meeting innovative development objectives set by the Inter RAO Group's Strategy are spelled out in the Innovative Development Program of PJSC Inter RAO for the period until 2020 and beyond to 2025, were approved by the PJSC Inter RAO Board of Directors on October 28, 2016,<sup>5</sup> and include:

- enhancing energy efficiency
- developing new production technologies
- developing a quality control system
- cooperation with universities and research organizations
- modernizing existing facilities
- introducing R&D results

The Innovative Development Program is being implemented in three basic areas:

- the development of new technologies – technological innovations
- the development, release, and introduction to the market of new products and services – product (including service) and marketing innovations
- the selection and testing of new approaches in management – management innovations

<sup>5</sup> Minutes No. 183 dated October 31, 2016

**EVALUATION OF THE ACHIEVEMENT OF THE PLANNED KPI VALUES OF THE INNOVATIVE DEVELOPMENT PROGRAM IN 2018**

No.	KPI name, measurement unit	Actual for 2018
KPI of IDP		
1	CO <sub>2</sub> emissions per unit of electricity generated, grams of CO <sub>2</sub> /kWh	575.17
2	Specific consumption of fuel equivalent for the supply of electric power, g/kWh	302.0
3	Specific consumption of fuel equivalent for the supply of thermal power, kg/Gcal	144.36
4	Percentage of completed R&D projects recommended for introduction at the Group's facilities, %, no less than	100
5	Share of innovative solutions introduced by the Group's companies of the total number of innovative solutions recommended for introduction, %, no less than <sup>1</sup>	11.0
6	Number of intellectual property items, no less than	30
7	Number of applications proposed in the R&D Program	246
8	Number of staff per 1 MW of installed capacity, people/MW	0.6
9	Profit from the sale of additional paid services on the retail market, RUB thousand/year	1,091,675.0 <sup>2</sup>
10	Share of R&D expenses with respect to the Group's revenue, %	0.0498
11	Group's income per employee, RUB thousand/year	26,957
12	Average operational efficiency, %	40.66
13	Share of new advanced technology capacity in the total capacity of the Group's TPPs, %	19.5
Integrated KPI for innovative activities		
1	Number of intellectual property items, no less than	30
2	Share of R&D expenses with respect to the revenue of the Group's generating assets, %	0.14
3	Share of new advanced technology capacity in the total capacity of the Group's TPPs, %	19.5
4	Quality of the drafting (updating) of the Innovative Development Program/fulfillment of the Innovative Development Program, %	88.36 <sup>3</sup>

<sup>1</sup> Indicative figure.

<sup>2</sup> Excluding LLC Energy Retail Company of Bashkortostan, LLC Petroelektrosbyt, and LLC Energobyt Volga. These companies are not included within the approved Innovative Development Program.

<sup>3</sup> In accordance with Minutes No. 7-D01 of the Interdepartmental Commission on Technological Development under the Government Commission on Economic Modernization and Innovative Development of Russia dated February 13, 2019.



## Sustainable development priorities

- enhancing economic efficiency in the interests of shareholders
- responsibility for the quality, reliability, and safety of operations
- taking into account the public's needs when compiling the business development strategy
- promoting the sustainable functioning of the economy and social sector in the regions where the Company operates
- promoting the development and dissemination of efficient, eco-friendly, and resource-saving technologies
- preserving the life, health, labor activities, and professional longevity of employees
- respect for human rights and non-discrimination in all its manifestations
- development of the institution of social partnership
- anti-corruption
- disseminating sustainable development principles in the business community
- interaction with internal and external stakeholders for the purpose of maintaining a balance of interests and mutually beneficial cooperation

## Priorities in ecology and industrial safety

- strengthening control over companies' activities in matters concerning occupational, industrial, fire, and environmental safety. Management of occupational, industrial, fire, and environmental safety
- mitigating the negative impact of industrial subsidiaries on the environment, including decreasing pollutant emissions into the atmosphere and water bodies, the sustainable use of water resources by thermal power plants, and a reduction in the generation of industrial waste, among other things

## Priorities in HR development

- improving the efficiency of organizational structures and developing approaches to organizational design
- conducting an annual assessment of staff and ensuring continuous staff development

## Priorities in corporate governance

PJSC Inter RAO is working to improve and harmonize its corporate governance system with international best practices. The Company realizes that an effective and transparent system of relations between its governing bodies, investors, shareholders, and stakeholders is a competitive advantage in business and, in particular, helps to enhance the investment appeal of its shares, reduce the cost of lending and, consequently, increase its market capitalization.

PJSC Inter RAO is guided in its activities by the requirements of the law, the Listing Rules of PJSC Moscow Exchange (hereinafter the Listing Rules), and the recommendations of the Corporate Governance Code<sup>4</sup> as a document that defines corporate governance standards.<sup>5</sup>

Corporate governance is carried out in accordance with the Corporate Governance Code and is based on the following principles.

- **Accountability.** The Code requires the Company's Board of Directors to be accountable to all shareholders in accordance with existing law and serves as a guide for the Board of Directors when making decisions and monitoring the activities of the Company's executive bodies.
- **Fairness.** The Company is committed to observing the rights of shareholders and ensuring equal treatment of all shareholders. The Board of Directors provides all shareholders with the opportunity to receive effective protection in the event their rights are violated.
- **Transparency.** The Company ensures the timely disclosure of accurate information about all material facts concerning its activities, including its financial position, social and environmental indicators, performance results, ownership structure, and management of the Company, as well as free access to such information for all interested parties.
- **Responsibility.** The Company recognizes the rights of all interested parties envisaged by existing law and seeks to cooperate with such entities for the purposes of its own development and financial sustainability.

<sup>4</sup> Recommended for use by Letter No. 06-52/2463 of the Bank of Russia dated April 10, 2014 "On the Corporate Governance Code."

<sup>5</sup> Minutes No. 128 of the meeting of the Board of Directors dated November 26, 2014.

## Risk management and internal control

The Group has introduced and employs the Risk Management and Internal Control Framework (RMICF), which encompasses key assets, business processes, lines of business, and all levels of the Group's management.

### Purpose and objectives of the Risk Management and Internal Control Framework

The use of the Risk Management and Internal Control Framework ensures:

- an objective, fair, and clear view of the Group's current state and prospects
- reasonable confidence in achieving the goals set for the Group
- a high level of trust among shareholders and investors in the Company's management bodies
- the protection of investments and assets and the containment of risks within acceptable limits



For more, please visit the website:  
[http://www.interrao.ru/investors/corporate-governance/corporate-docs/index.php?sphrase\\_id=296235](http://www.interrao.ru/investors/corporate-governance/corporate-docs/index.php?sphrase_id=296235)



### Participants in the Risk Management and Internal Control Framework

The Group's management ensures the RMICF is integrated into key business processes and the Group's activities, above all in the planning and monitoring of business activities, including business planning and project management in the Generation, Supply, Trading, and Engineering segments.

With the support of the Internal Control and Risk Management Department (ICRMD), senior management is responsible for coordinating and drafting a unified methodology and ensuring the stages of the RMICF cycle are properly implemented and produce the key results. The head of the ICRMD reports directly to the Chairman of the Management Board, which ensures the independent identification and assessment of risks as well as the development and monitoring of risk management measures, including control procedures.

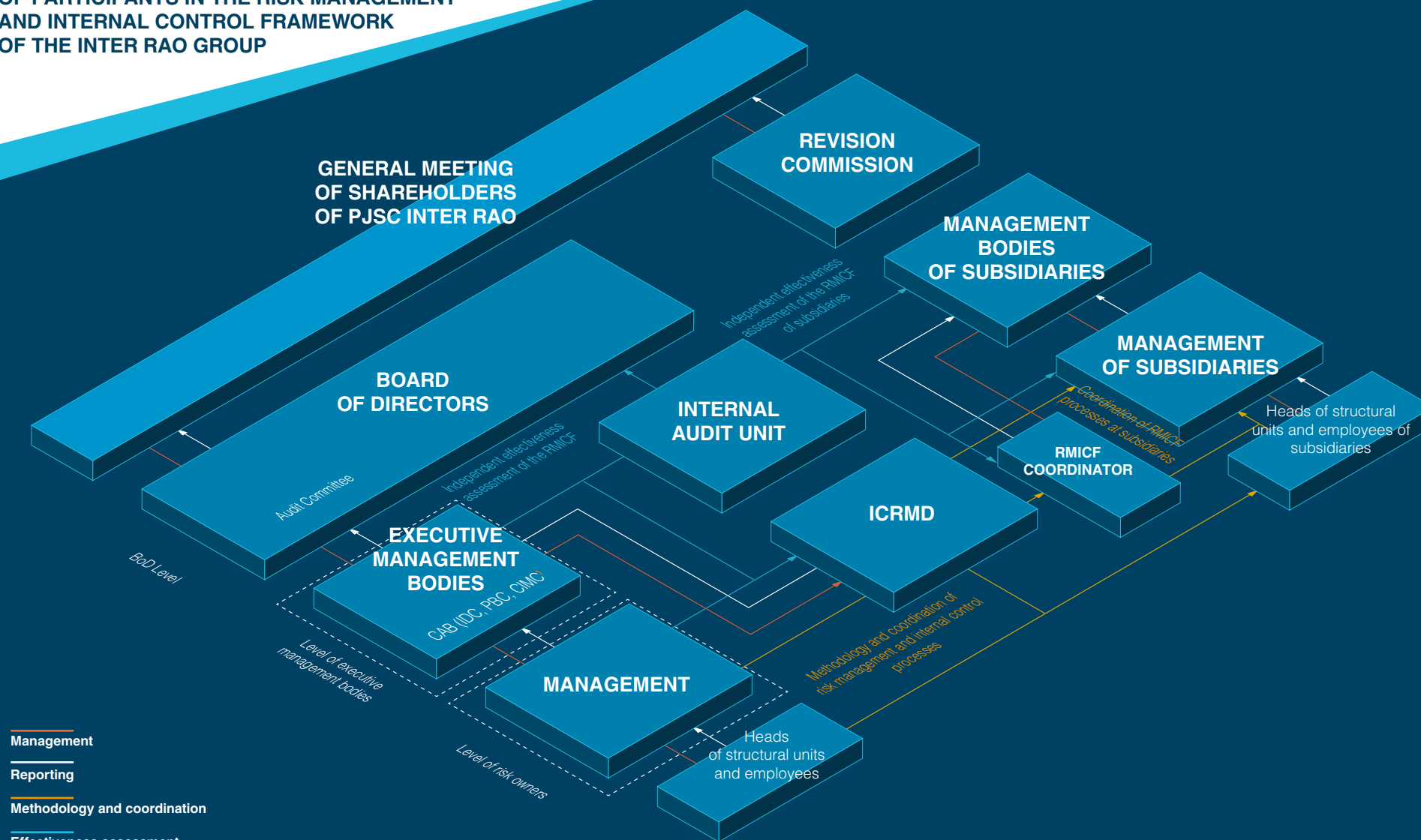
The objectives, core principles, approaches, and parties involved in risk management and internal control processes at PJSC Inter RAO are enshrined in the Risk Management and Internal Control Policy of PJSC Inter RAO,<sup>1</sup> which is reviewed and approved by the Company's Board of Directors.

The Risk Management and Internal Control Policy was approved as a corporate standard for the companies of the Inter RAO Group by an order<sup>2</sup> of the Chairman of the Management Board.

<sup>1</sup> The Risk Management and Internal Control Policy (Minutes No. 234 of the Company's Board of Directors dated November 19, 2018) is a top-level document drafted based on the Charter of PJSC Inter RAO that takes into account the recommendations of Russian and international risk management standards, the Corporate Governance Code, the guidelines of the Federal Agency for State Property Management, risk management and corporate governance best practices, and the listing rules of Russian and international stock exchanges.

<sup>2</sup> Order No. IRAO/652 dated December 17, 2018 "On the Risk Management and Internal Control Policy of PJSC Inter RAO approved by the Board of Directors."

## FLOW CHART OF RESPONSIBILITY OF PARTICIPANTS IN THE RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK OF THE INTER RAO GROUP



<sup>1</sup> Collective advisory bodies (Investment Development Committee, Planning and Budget Committee, and the Conflict of Interest Management Commission)

## Functions and objectives of participants in the Risk Management and Internal Control Framework

Participants	Key functions and objectives
Board of Directors	<p>Determination of the principles and approaches to the organization of the RMICF and approval of the Risk Management and Internal Control Policy.</p> <p>Approval of risk appetite for the planned period, critical risk maps, and a critical risk management action plan.</p> <p>Annual review of a report on the operation of the RMICF and an assessment report on the effectiveness of the RMICF.</p>
Executive management bodies Chairman of the Management Board, Management Board, Collective advisory bodies	<p>Ensuring the RMICF functions effectively at the Company.</p> <p>Distribution of powers, duties, and responsibilities for specific risk management and internal control procedures.</p> <p>Approval of requirements for the structure, content, and formats of reporting processes and risk management and internal control procedures.</p> <p>Approval of benchmarks for the RMICF, including:</p> <ul style="list-style-type: none"> <li>• a list of the Group's companies that fall within the perimeter of the RMICF</li> <li>• a list of the Group's standard risks with the distribution of management's areas of responsibility for the risks</li> <li>• acceptable risk levels</li> <li>• target indicators for assessing the impact of risks</li> <li>• the review and adoption of decisions on risk management and internal control issues</li> <li>• dissemination of knowledge and skills in risk management and internal control and the development of a risk management culture</li> </ul>
Risk Owners Managers who directly report to the Chairman of the Management Board, Managers of structural units of the Group's companies	<p>Establishing the RMICF within the functional areas they manage, ensuring it functions effectively, and introducing, implementing, and improving internal control and risk management procedures.</p> <p>Introducing a risk-based approach to operational practices and disseminating the standards and values of a risk management culture among employees.</p> <p>Drafting internal regulatory documents on risk management and internal control for functional areas.</p> <p>Ensuring the stages of the RMICF cycle are properly implemented and produce the key results.</p> <p>Implementing functional risk management measures, including control procedures, and ensuring their monitoring.</p> <p>Coordinating employees' actions, information flows, and resources in order to manage the risks of their functional areas.</p>

Participants	Key functions and objectives
Internal Control and Risk Management Department	<p>Overall coordination of risk management and internal control processes.</p> <p>Creation of a unified methodology for the RMICF and monitoring its compliance.</p> <p>Implementing and improving RMICF processes and ensuring the stages of the RMICF cycle are properly implemented and produce the key results.</p> <p>Informing the Company's Board of Directors and executive bodies about the operational results of the RMICF.</p> <p>Disclosing information on risk management and internal control issues to internal and external stakeholders.</p> <p>Organizing training for the Company's employees and controlling entities on matters concerning risk management and internal control and ensuring the dissemination of knowledge and skills in risk management and internal control at the Group's companies.</p>
Internal Audit	<p>Assessing the effectiveness of the RMICF.</p> <p>Monitoring measures that aim to improve the effectiveness of the RMICF.</p> <p>Consulting the Company's executive bodies on matters concerning risk management and internal control.</p>
Employees	<p>Taking a risk-oriented approach to activities, including the adoption of risk-oriented decisions and following compliance principles in the areas of functional responsibility stipulated by official duties.</p> <p>Documenting and monitoring risks in day-to-day operating activities as part of the performance of official duties, carrying out risk management measures and control procedures, and/or ensuring their monitoring.</p> <p>Informing immediate superiors in a timely manner about changes to the internal and external conditions of the Company's activities that could lead to changes in the degree of risk or the emergence of new risks as well as cases where risk management measures cannot be implemented or need to be adjusted.</p>

## Development of the Risk Management and Internal Control Framework

The PJSC Inter RAO Board of Directors decided to merge the Enterprise Risk Management Framework and the Internal Control Framework into the unified RMICF.<sup>1</sup> The merger and mutual integration of the systems has made it possible to achieve the following results:

- the perimeter for inclusion in the Risk Management and Internal Control Framework was expanded from 15 to 26 of the Group's subsidiaries. This has resulted in the cumulative revenue of companies within the perimeter of the RMICF accounting for 96% of the Group's revenue per IFRS
- an assessment was conducted of the impact risks have on the Group's performance targets in the context of its strategic development priorities

- the list of the Group's standard risks was updated and the number of standard risks faced by the Group's companies that are assessed and managed within the RMICF was increased from 30 to 57
- an approach was approved for assessing process level risks, developing control procedures, and building risk-oriented internal control

Based on the results of the annual efficiency assessment of the Enterprise Risk Management Framework (ERM) and the Internal Control Framework (IC) conducted by the internal audit division in the first quarter of 2018, the Board of Directors approved recommendations to improve the efficiency of the ERM and IC taking into account the priorities for risk management and internal controls for 2018.<sup>2</sup>

<sup>1</sup> Minutes No. 234 dated November 19, 2018.

<sup>2</sup> Minutes No. 221 dated April 2, 2018.

## Efficiency assessment of the Risk Management and Internal Control Framework

- Management informs the Board of Directors each year about the results achieved in matters concerning risk management and internal control over the reporting period as part of an annual report on the operation of the RMICF.
- The internal audit division conducts audits and an annual efficiency assessment of the RMICF and provides the Board of Directors with reporting on the results of the assessment.
- The Company's Board of Directors reviews matters concerning the organization, functioning, and effectiveness of the RMICF at least once a year and makes recommendations for its improvement, and also has the power to initiate an external assessment of the RMICF with the hiring of an independent organization.
- The efficiency assessment of the RMICF for 2018 was presented by the Internal Audit Unit to the Company's Board of Directors for review and approved on March 29, 2019.<sup>1</sup>

Priorities for 2018	Results achieved
Strengthening the integration of the ERM and IC	The Enterprise Risk Management Framework and Internal Control Framework were integrated into the unified Risk Management and Internal Control Framework. <sup>2</sup> The number of internal regulatory documents (IRD) in the 'Risk Management' and 'Internal Control' functional areas was updated and optimized. The conceptual framework in risk management and internal control was improved and unified.
Updating approaches to determining acceptable risk levels, including risk appetite	The Group approved the concept of acceptable risk levels (risk appetite, risk capacity, risk tolerance, and risk limit), which upon being introduced in 2019 will make it possible to: <ul style="list-style-type: none"> <li>• provide confidence in the achievement of the Group's strategic goals</li> <li>• determine the acceptable level of controlled risk factors and link the influence of uncontrolled risk factors to the achievement of the target indicators of the Group's companies</li> </ul>
Strengthening the integration of risk management with business planning processes	The RMICF was integrated into business planning processes and reporting on the execution of the business plans of the Group's companies. Approaches were formalized for conducting an integrated risk-oriented factor analysis of deviations in the business plans of the Group's companies.
Strengthening the integration of risk management with project management	Project risk assessment was integrated into project management processes. The approaches that have been developed for project risk management have been tested during various types of projects. A project risk management methodology has been developed and recommendations have been made on updating the IRD in project management.
Assistance in the development of compliance methodology	Antimonopoly Compliance (AMC): The Board of Directors has approved an Antimonopoly Compliance Policy. <sup>3</sup> An order of the Chairman of the PJSC Inter RAO Management Board <sup>4</sup> approved the Antimonopoly Risk Map together with the Antimonopoly Risk Management Action Plan. An Antimonopoly Compliance Commission has been established and functions at the Company. In December 2018, organizations controlled by the Company appointed persons responsible for AMC in coordination with the Antimonopoly Compliance Commission.  Tax compliance: Since 2018, PJSC Inter RAO has been submitting quarterly reporting forms on internal control to the tax authorities in accordance with the requirements of the Federal Tax Service of Russia (FTS of Russia). Regulatory documents have been drafted to ensure the effective functioning of the internal tax control system at PJSC Inter RAO.

<sup>1</sup> Minutes No. 243 dated April 1, 2019.

<sup>2</sup> Minutes No. 234 dated November 19, 2018.

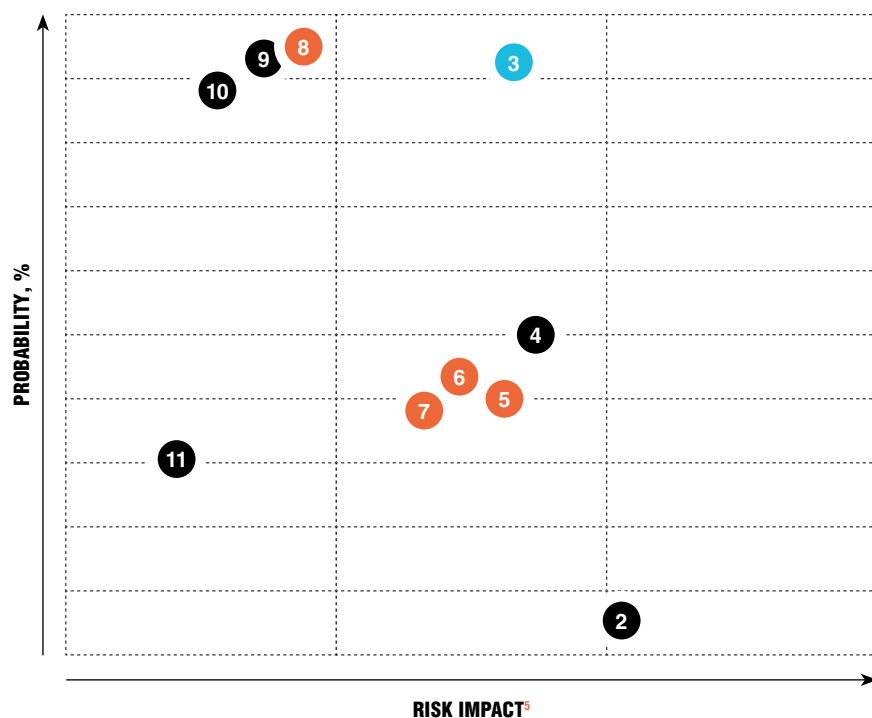
<sup>3</sup> Minutes No. 235 dated December 3, 2019.

<sup>4</sup> Order No. IRAO/703 dated December 27, 2018.

## Critical risk analysis

The critical risk map of the Inter RAO Group is compiled annually and reflects the results of the critical risk assessment, including a graphic display, a list of critical

risks, and the disclosure of information about them. Critical risks refer to risks that pose a threat of deviation from the Group's goals and require priority management and monitoring in order to comply with an acceptable level of risk.



1. Credit risk of counterparty banks<sup>4</sup>
2. Risk of a decrease in the day-ahead market price as a result of changes related to the procedure used to convert price bids for the planning of production volumes
3. Risk of the regulator adopting unfavorable tariff and balance decisions and a shortfall in the actual approved required gross proceeds
4. Currency risk
5. Price risk in the day-ahead market (risk associated with adverse price changes in the day-ahead market)
6. Credit risk of the receivables of electricity customers/organizations
7. Credit risk of the receivables of customers on the wholesale electric power and capacity market
8. Risk of the failure to meet commissioning deadlines (failure to meet the capacity supply schedules under capacity delivery agreements (CDA))
9. Price risk (foreign economic activities)
10. Risk of a reduction in the volume of electricity supplies (FEA)
11. Risk of a lower guaranteed rate of return on CDA investments and the share of a CDA facility's expenses compensated by payment for capacity
12. Corruption risks<sup>4</sup>



Risks that failed to materialize in 2018 or risks that did not have a significant effect on the deviation of EBITDA or cash flow from operations versus the targets of 2018



Risks that materialized in 2018 and had a significant effect on the deviation of EBITDA or cash flow from operations versus the targets of 2018



Risks excluded from the list of critical risks in 2018



A detailed description of the Group's risks and risk management measures is provided in Appendix 6 "Key Risks of the Company: Description and Management Measures"

<sup>1</sup> Per a resolution of the Board of Directors, such risks are listed among critical risks, but are not graphically displayed on the risk map since they are categorized as risks whose impact on EBITDA and cash flow from operations are not assessed. Information on corruption risks is disclosed in the 'Anti-Fraud and Corruption' section.

<sup>2</sup> For the purposes of public disclosure, the values of the risk magnitude and probability are not indicated. The Critical Risk Map illustration reflects the comparative position of risks that are relative to one another.

## Risks that materialized in 2018

Risk name	Comments
Price risk in the day-ahead market (risk associated with adverse price changes in the day-ahead market)	<p>The main factors that had an effect on the decrease in day-ahead market prices relative to the targets were:</p> <ul style="list-style-type: none"> <li>• an increase in hydroelectric power generation</li> <li>• 3.4% indexation of wholesale gas prices starting from August 21, 2018 and not from July 1, 2018, as had been originally planned</li> </ul> <p>The risk of adverse changes in day-ahead market prices in 2018 was offset by:</p> <ul style="list-style-type: none"> <li>• optimization of the selecting composition of included generating equipment (SCIGE) in actual market conditions</li> <li>• optimization of strategies for filing price bids on the day-ahead market depending on market conditions</li> </ul>
Credit risk of the receivables of electricity customers/grid organizations	<p>Main factors of risk materialization in 2018:</p> <ul style="list-style-type: none"> <li>• an increase in receivables for enterprises of the Ministry of Defense of the Russian Federation</li> <li>• an increase in receivables for housing and utility service enterprises</li> <li>• an increase in receivables for industrial enterprises</li> </ul> <p>The growth in receivables on the retail electricity market was offset by:</p> <ul style="list-style-type: none"> <li>• a decrease in the level of overdue receivables at the end of 2018</li> </ul> <p>As part of receivables management measures in 2018, the following measures were taken to offset risk:</p> <ul style="list-style-type: none"> <li>• changes were made to the staffing table of supply companies to ensure work with receivables using various recovery methods (including judicial work and live canvas calling)</li> <li>• the start of the 'Smart Receivables' project in the main power transmission lines (optimized collection of receivables based on machine processing of big data about consumers – so-called 'big data' technologies) and software improvements that aim to provide analytical work and the segmentation of consumers into categories</li> <li>• a comprehensive indicator for assessing the effectiveness of work with receivables is included in the KPIs of the Group's senior management and subsidiaries for 2019</li> <li>• in 2018, the companies of the Inter RAO Group continued to employ a system for the annual compilation of an Action Plan to reduce receivables as a special corporate governance tool</li> </ul>
Credit risk of the receivables of customers on the wholesale electric power and capacity market	<p>Main factors of risk materialization in 2018:</p> <ul style="list-style-type: none"> <li>• growth in the receivables of guaranteed electricity suppliers in the North Caucasus Federal District</li> <li>• the bankruptcy of the Mezhhregionsoyuzenergo Group</li> </ul> <p>As part of receivables management measures in 2018, the following measures were taken to offset risk:</p> <ul style="list-style-type: none"> <li>• claim-related actions</li> <li>• measures to collect debt as part of enforcement proceedings</li> <li>• the assignment of the rights of claims to debt and direct settlements with payment using the promissory notes of supporting banks</li> </ul>
Risk of the failure to meet commissioning deadlines (failure to meet the capacity supply schedules under capacity delivery agreements)	<p>Main factors of risk materialization in 2018:</p> <ul style="list-style-type: none"> <li>• delays in the commissioning of power units at Zatonskaya CHPP.</li> </ul> <p>The risk of the failure to commission Zatonskaya CHPP in 2018 was offset by:</p> <ul style="list-style-type: none"> <li>• work with the Contractor to update the construction schedule and strengthen control over its execution in order to complete construction, installation, and commissioning work;</li> <li>• claim-related work with the Contractor.</li> </ul>



Risk name	Comments
Corruption risks	<p>According to the approaches used at the Group, fraud is considered a corruption risk, and the risk is deemed to have materialized when a conviction is handed down in court in cases that were not initiated as a result of the Group's companies reaching out to law enforcement agencies. A case involving the risk of fraud was uncovered in the Group's supply business: an employee of a company of the Group was found guilty under a conviction that was handed down in 2018.</p> <p>It should also be noted in terms of criminal cases initiated by a company of the Group (does not affect risk materialization), one conviction was handed down against employees of the supply business in 2018 and another two convictions were handed down in 2019.</p> <p>The Group has organized work to counter and prevent fraud and corruption.</p> <p>For more on the management of corruption risks, please see the section 'Anti-Fraud and Corruption' on page 176.</p>

#### RISKS NOT INCLUDED IN THE LIST OF CRITICAL RISKS FOR 2018 WHOSE MATERIALIZATION LED TO A DEVIATION IN EBITDA OR CASH FLOW FROM OPERATIONS IN 2018

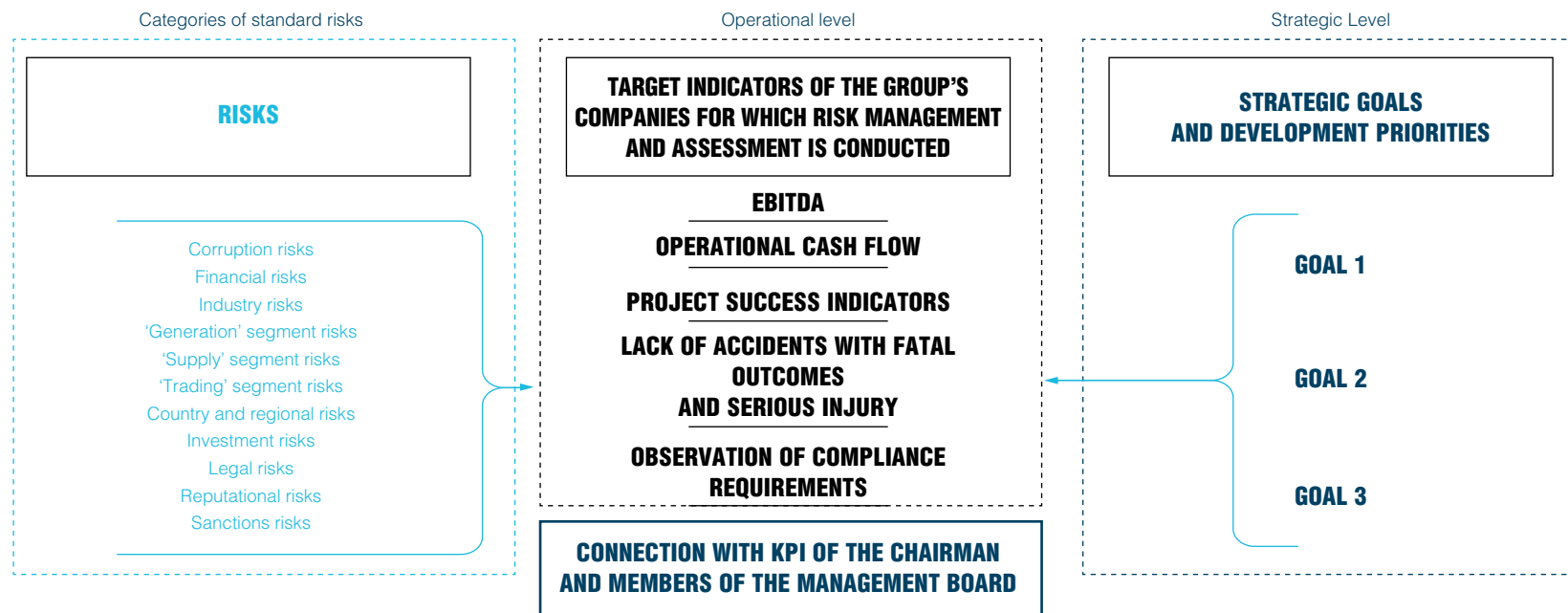
Risk name	Comments
Changes in electricity sales on the day-ahead market (competitiveness of branches)	<p>The main factors that had an effect on the decrease in electricity sales on the day-ahead market relative to the targets were:</p> <ul style="list-style-type: none"> <li>• an increase in hydroelectric power generation</li> <li>• an increase in flows from PZ1 (the first price zone) to PZ2</li> </ul> <p>The risk was offset by the optimization of the selecting composition of included generating equipment (SCIGE) in actual market conditions.</p>
Credit risk of the receivables of thermal power customers	<p>The main reason for the growth in receivables: revenue growth due to the climatic factor (a colder heating period compared with the temperatures projected in the Business Plan).</p> <p>The growth in receivables among thermal energy customer in 2018 was offset by increased claim-related work and intensified interaction with the bailiffs service, collection agencies, and law enforcement agencies.</p>

### Correlation of risk management and internal control with the Group's Development Strategy

The PJSC Inter RAO Board of Directors has approved strategic goals and development priorities (see the 'Strategic Priorities' section). Operational-level goals are set to assess the achievement of strategic priorities and their fulfillment is included in the KPIs and PBs of the Chairman and members of the Company's Management Board (see the 'Key Performance Indicators System' section).

A list of standard risks inherent in the Group's activities was determined as part of the target benchmarks of the Risk Management and Internal Control Framework, and target indicators were enshrined based on which the impact of the risks was assessed.

The breakdown of the Group's strategic priorities into operational indicators and the assessment of the impact of risks on these indicators ensure the integration of the RMICF with the management incentive system and make it possible to effectively manage the Group's companies taking into account their inherent risks.



# INVESTMENT PROGRAM

## STRUCTURE OF THE INVESTMENT PROGRAM BY KEY BUSINESSES,

RUB mln (including VAT)

Business			Actual	Plan
	2016	2017	2018	2019
Generation in Russia	34,643	29,079	17,298	18,743
Supply assets in Russia	1,292	1,213	1,523	2,219
Other Russian assets	555	2,357	8,218	723
Foreign assets	3,454	1,531	1,974	2,704
<b>Total for the Group's companies</b>	<b>39,944</b>	<b>34,180</b>	<b>29,013</b>	<b>24,389</b>

The investment program of the Inter RAO Group aims to ensure the reliability and operational capabilities of existing equipment, enhance the competitiveness of the Group's companies on the electric and thermal power market, boost efficiency, and mitigate the negative environmental impact of production activities with the ultimate goal of maintaining the Company's leading position among energy companies in terms of the effective management of energy assets.

The investment program of the Inter RAO Group in 2018 aimed to:

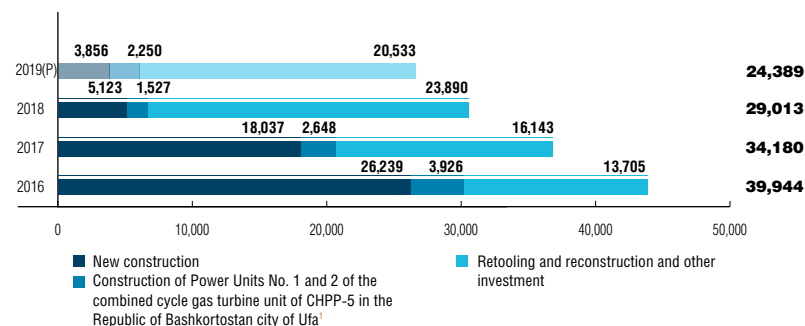
- ensure the implementation of the Capacity Delivery Agreements (CDA) program as part of the fulfillment of obligations to commission generating capacity for the Zatonskaya CHPP construction project (LLC Bashkir Generation Company)

- implement measures to improve the reliability and safety of production facilities through equipment modernization
- enhance the efficient monitoring and diagnostics of equipment conditions as well as minimize specific fuel consumption for the production of electric and thermal power through the introduction of modern, highly efficient equipment
- boost the level of production automation
- introduce the unified billing of legal entities for supply companies of the Inter RAO Group
- implement environmental measures that aim to reduce the man-made impact of generating equipment on the environment

Most of the CDA program was completed in 2018. Consequently, the focus of investments in the form of capital expenditures in 2019 has shifted to the program for the retooling and reconstruction of existing equipment.

#### INVESTMENT STRUCTURE OF THE INTER RAO GROUP BY PROJECT,

RUB mln (including VAT)



## COST MANAGEMENT PROGRAM

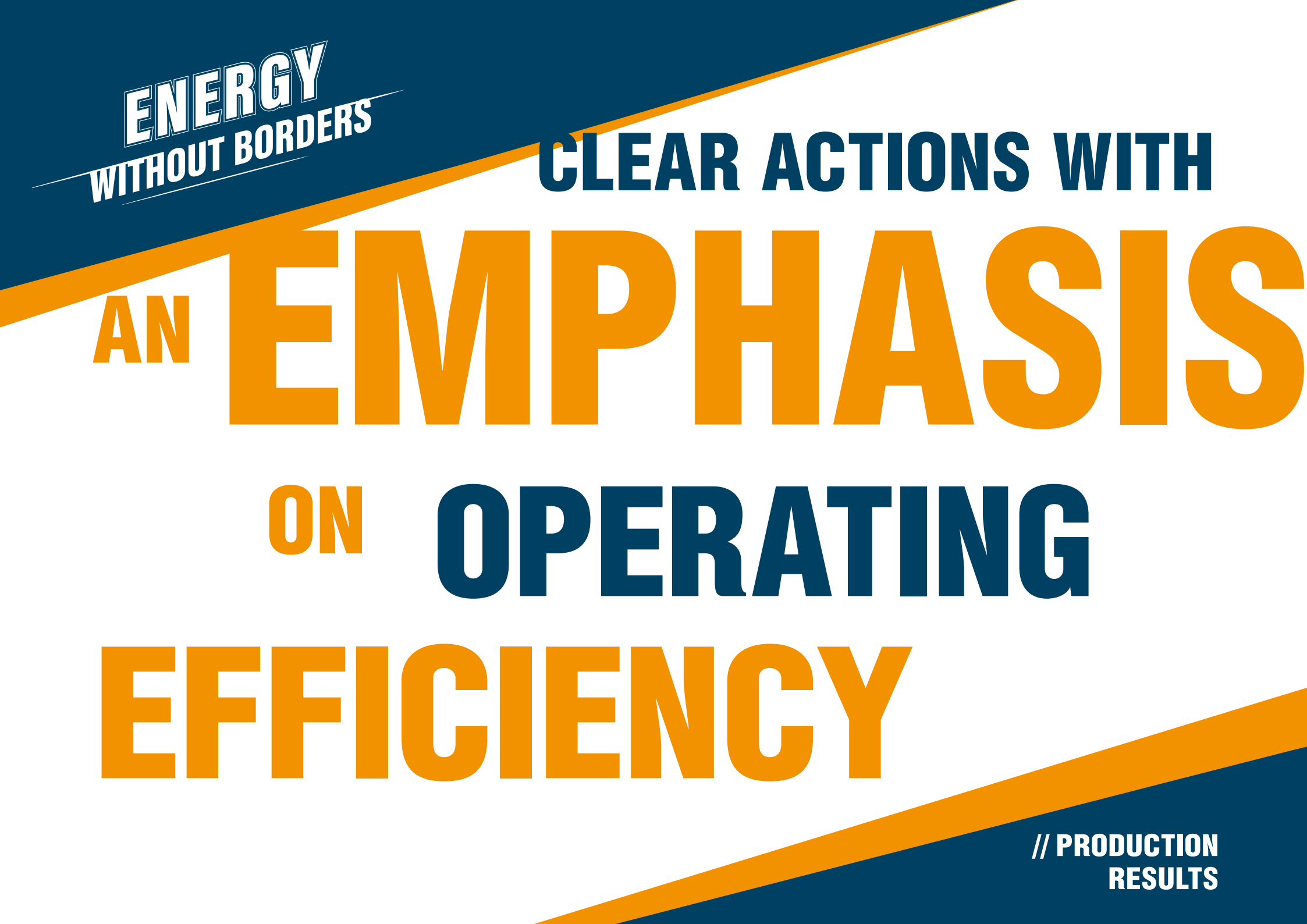
The Cost Management Program contains a breakdown of the measures of the Strategy/Long-Term Development Program for reducing operating costs in the medium/short term. The Board of Directors approved the Cost Management Program for 2018-2022.

The Program includes a set of production and economic measures that aim to optimize/reduce costs spent on raw materials and other materials, repair and operating services, payroll, administrative, management, and general business costs (lease, consulting, and information services, IT and communication, utilities, buildings and premises maintenance costs, etc.) as well as fuel costs and the internal needs of power plants. Particular attention was also paid to maintaining a high level of reliability and the fail-safe operation of assets.

Based on the performance results of the Inter RAO Group's companies for 2018, the economic effect from implementing the Program's activities amounted to RUB 3.1 billion, and the target benchmarks established for 2018 were reached.

The list of measures to be implemented in the Program's focus areas is updated on an annual basis. The Board of Directors has now approved the Cost Management Program for 2019-2023. The economic effect from implementing the operating cost optimization measures meets the requirements of Directives No. 2303p-P13 of the Russian Government dated April 16, 2015 and No. OD-11/16866 of the Federal Agency for State Property Management dated April 28, 2015 (reducing costs by at least 2-3 p.p. each year) and is projected to reach RUB 15.6 billion by 2023.

<sup>1</sup> Zatonskaya CHPP, which was built as part of the CDA program, will reduce the electricity shortage in the Ufa generation system and increase the reliability of power supply to consumers. In accordance with the Ufa heat supply system approved by an order of the Russian Ministry of Energy, Zatonskaya CHPP is recognized as the primary source of thermal power for the future development area in Ufa. The power units consist of gas turbines with total capacity of 440 MW.



**ENERGY**  
**WITHOUT BORDERS**

**CLEAR ACTIONS WITH**

**AN EMPHASIS**

**ON OPERATING**

**EFFICIENCY**

**// PRODUCTION  
RESULTS**

# GENERATION

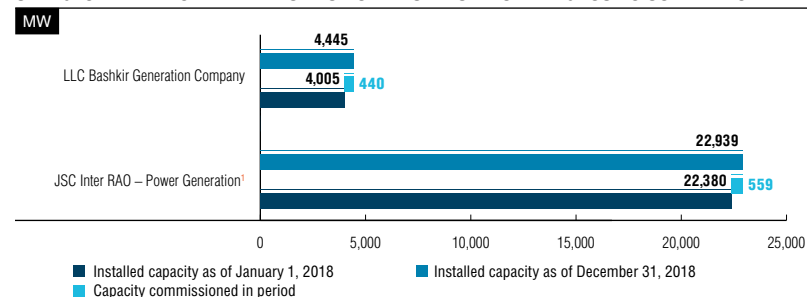
Main objectives for the development of the Generation segment within the context of strategic priorities:

- ensuring the reliability, safety, and technological development of existing production assets
- enhancing the operating, energy, and environmental efficiency of generating assets and maintaining leading positions in the Russian electric power industry
- further growth in the thermal power generation segment
- drafting and promoting proposals for the development of the regulatory framework in the industry

## INSTALLED CAPACITY AT THE GROUP AS OF DECEMBER 31, 2018, MW

Primary energy sources	Capacity regulation mechanisms				
	CDA	CCA	Forced mode	Other	Total
Total for the Group					33,714
Gas generation	4,787	5,432	271	17,833	28,323
Russian Federation	4,787	5,432	271	14,835	25,325
Foreign assets	0	0	0	2,998	2,998
Coal generation	895	2,022	0	1,123	4,040
Russian Federation	895	2,022	0	123	3,040
Foreign assets	0	0	0	1,000	1,000
Mixed generation (power plants which used both gas and coal in the reporting period)	50	508	164	158	880
Russian Federation	50	508	164	158	880
Foreign assets	0	0	0	0	0
Other capacity (renewable energy sources)	0	211	0	260	471
Russian Federation	0	211	0	2	214
Foreign assets	0	0	0	257	257

## CHANGES IN THE INSTALLED ELECTRIC POWER CAPACITY OF THE GROUP'S COMPANIES



<sup>1</sup> Including JSC Nizhnevartovskaya TPP

**ELECTRIC AND THERMAL POWER GENERATION BY THE GROUP**

Primary energy sources	Electric power generation, thousand MWh			Thermal power output from collectors, thousand Gcal		
	2016	2017	2018	2016	2017	2018
Gas generation	100,713	102,475	107,184	30,861	30,532	31,999
Russian Federation	92,775	95,815	102,434	30,722	30,400	31,890
Foreign assets	7,938	6,660	4,751	139	131	109
Coal generation	19,915	20,190	19,276	4,180	3,956	4,164
Russian Federation	14,939	14,695	13,839	4,109	3,890	4,085
Foreign assets <sup>1</sup>	4,976	5,495	5,437	71	67	79
Mixed generation (power plants which used both gas and coal in the reporting period)	11,422	10,638	4,725	5,491	5,508	5,576
Russian Federation	11,422	10,638	4,725	5,491	5,508	5,576
Foreign assets	0	0	0	0	0	0
Other capacity (renewable energy sources)	1,807	1,497	1,324	0	0	0
Russian Federation	870	940	768	0	0	0
Foreign assets	937	558	556	0	0	0

**Integrated management systems****LLC Inter RAO - Engineering – ISO 9001:2015, ISO 14001:2015, and OHSAS 18001:2007**

In 2018, LLC Inter RAO – Engineering confirmed the validity of three management system certificates for compliance with the international standards ISO 9001:2015, ISO 14001:2015, and OHSAS 18001:2007 (certificates of conformity were issued until 2021).

**JSC TGC-11 and JSC Omsk RTS – ISO 9001, ISO 14001, and ISO 50001**

JSC TGC-11 and JSC Omsk RTS have introduced an integrated management system that includes a quality management system, an environmental management

system, and an energy management system. This not only makes it possible to manage the production process itself, but to also reduce environmental pollution, enhance energy efficiency, cut costs, and constantly improve the quality of thermal and electric power (products).

The compliance of the integrated management system with the international standards ISO 9001, ISO 14001, and ISO 50001 is regularly confirmed through annual external audits conducted by international management system certification bodies as part of inspection control as well as internal audits that enable management to monitor the situation at the Company, manage it, and make informed decisions.

<sup>1</sup> Including the indicators of JSC Ekibastuzskaya TPP-2

## COMMISSIONING OF NEW AND MODERNIZATION OF EXISTING CAPACITY IN 2018

### ZATONSKAYA CHP

**440**  
MW

Certified power

**48.3%**  
EFFICIENCY

- Two power units of combined-cycle gas turbine units PGU 220 (T) comprised of: a gas turbine unit
- GTU-160 SGT5-2000E Siemens + steam turbine T-60/73 of JSC Power Machines

### MAYAKOVSKAYA TPP

**157**  
MW

Certified power

**35.5%**  
EFFICIENCY

- GTU-2: 6FA Russian Gas Turbines

### TALAKHOVSKAYA TPP

**159**  
MW

Certified power

**35.5%**  
EFFICIENCY

- GTU-2: 6FA Russian Gas Turbines

### PREGOLSKAYA TPP

**227**  
MW

Certified power

**51.9 %**  
EFFICIENCY

- Two power units PGU-110 comprised of:
- GTU 6FA Russian Gas Turbines + steam turbine K-38-8.0 of JSC Power Machines

### IRIKLINSKAYA TPP

**16**  
MW

Certified power

- K-300-240 LMZ turbine unit was modernized with the replacement of the maintenance components with new ones and relabeled as K-330-240-6MR
- Boiler unit PK-41-1, Plant No. 2 was modernized with the replacement of heating surfaces
- TVV-320-2 turbine generation was modernized with an increase in total power up to 350 MVA

## Generation in the Russian Federation

Generation in the Russian Federation includes two segments: ‘Electric Power Generation in the Russian Federation’ and ‘Thermal Power Generation in the Russian Federation’.

### ‘Electric Power Generation in the Russian Federation’ segment

The segment is managed by JSC Inter RAO – Electric Power Plants, which runs 21 major power plants in Russia with total installed capacity of 22.9 GW. The power plants use different types of fuel (gas, coal, and fuel oil), which makes it possible to optimally utilize the advantages of each type depending on the geographical location and the economic situation in the region. Fuel diversification also reduces the risk of a decline in power generation in the event of disruptions to fuel supplies.

Generating assets are distributed throughout the Russian Federation and, consequently, have a lower degree of sensitivity to macroeconomic changes in the regions where they operate. The synergistic effects generated from the use of different types of fuel and the optimal geographical distribution of assets lends additional stability to the Company's business model.

The CDA program has made it possible to renovate outdated facilities, remove inefficient equipment, and introduce modern equipment with a low fuel component. At present, the average specific fuel consumption for electricity supply<sup>1</sup> does not exceed 300 grams of fuel equivalent per kWh.

The Mayakovskaya and Talakhovskaya TPPs with total capacity of 316 MW as well as two units of the Pregolskaya TPP with capacity of 227 MW were commissioned in the Kaliningrad Region in 2018.

### LAUNCH OF THE MAYAKOVSKAYA AND TALAKHOVSKAYA TPPS

**IN 2018, THE MAYAKOVSKAYA AND TALAKHOVSKAYA TPPs WERE COMMISSIONED WITH TOTAL CAPACITY OF 316 MW. THE POWER PLANTS WERE BUILT AS PART OF A PROJECT TO ENSURE THE ENERGY SECURITY OF THE KALININGRAD REGION, WHICH IS BEING IMPLEMENTED BASED ON INSTRUCTIONS FROM RUSSIAN PRESIDENT VLADIMIR PUTIN AND IN ACCORDANCE WITH A DIRECTIVE OF THE RUSSIAN GOVERNMENT. UNDER THE PROJECT, FOUR POWER PLANTS WITH TOTAL INSTALLED CAPACITY OF 1 GW WILL BE BUILT IN THE REGION BY 2021. THE MAIN EQUIPMENT OF THE PLANTS IS 100% RUSSIAN-MADE. THE MAYAKOVSKAYA AND TALAKHOVSKAYA TPPs ARE DESIGNED TO HANDLE PEAK LOADS IN THE ENERGY SYSTEM OF THE KALININGRAD REGION.**

### LLC Kaliningrad Generation

A subsidiary of JSC ROSNEFTEGAZ with a minority stake held by PJSC Inter RAO, whose assets are leased from a subsidiary of PJSC Inter RAO, was established for the construction of power plants in the Kaliningrad Region. The company's assets include the Mayakovskaya TPP (Gusev), Talakhovskaya TPP (Sovetsk), Pregolskaya TPP (Kaliningrad), and Primorskaya TPP (Svetlovsk urban district).

#### LIST OF KEY ASSETS<sup>2</sup>

- |                            |                           |
|----------------------------|---------------------------|
| 1. Verkhnetagilskaya TPP   | 8. Kashirskaya TPP        |
| 2. Gusinoozyorskaya TPP    | 9. Kostromskaya TPP       |
| 3. Dzhubginskaya TPP       | 10. Permskaya TPP         |
| 4. Ivanovskiye CCGT        | 11. Pechorskaya TPP       |
| 5. Irikliinskaya TPP       | 12. Northwest CHPP        |
| 6. Kaliningradskaya CHPP-2 | 13. Sochinskaya TPP       |
| 7. Kaliningrad Generation  | 14. Urengoyanskaya TPP    |
| • Pregolskaya TPP          | 15. Kharanorskaya TPP     |
| • Mayakovskaya TPP         | 16. Cherepetskaya TPP     |
| • Talakhovskaya TPP        | 17. Yuzhnouralskaya TPP   |
|                            | 18. Yuzhnouralskaya TPP-2 |
|                            | 19. Nizhnevartovskaya TPP |

<sup>1</sup> Specific fuel consumption for busbar output.

<sup>2</sup> Detailed descriptions of the assets are available on the website: <http://irao-generation.ru/>



The Pregolskaya TPP is being built on a territory adjacent to the Kaliningradskaya CHPP-2. The design includes four combined-cycle plants with unit capacity of 114 MW for each power unit. The new sources of capacity consisting of four combined-cycle power units with total capacity of 456 MW will ensure the energy security of the Kaliningrad Region and make its energy system more maneuverable. All the core equipment of the plant was produced by Russian enterprises: 6F.03 gas turbines were delivered by Russian Gas Turbines (Rybinsk, Yaroslavl Region), the generators for them were supplied by the Novosibirsk Scientific and Production Association ELSIB, the steam turbines came from the Power Machines plant in Kaluga, and Podolsk Engineering Plant manufactured the waste heat boilers.

### ‘Thermal Power Generation in the Russian Federation’ segment

The segment is comprised of three major heat generating companies with total installed electric power capacity of 6.52 GW and installed thermal power capacity of 19,437 Gcal/h. The segment also includes three heating networks with total length of 2,449 km.

#### LIST OF KEY ASSETS

- |                |                         |                       |
|----------------|-------------------------|-----------------------|
| 1. JSC TGC-11  | 2. JSC Tomsk Generation | 3. Bashkir Generation |
| > JSC Omsk RTS | > JSC Tomsk RTS         | Company Group         |
|                |                         | > LLC BashRTS         |

#### JSC TGC-11

JSC TGC-11 is one of the largest heat generating companies in Siberia. The company's power facilities have installed electric power capacity of 1,565.2 MW, which accounts for more than 97% of the total installed capacity in the operating area of the Omsk Regional Dispatch Office of JSC System Operator of the Unified Energy System (1,601.2 MW as of January 1, 2019).<sup>3</sup> Electricity generation by JSC TGC-11 plants in 2018 amounted to more than 96% of the total output in the operating area of the Omsk Regional Dispatch Office (6.424 bln kWh of 6.626 bln kWh). The power facilities of JSC TGC-11 have installed thermal capacity of 3,669.24 Gcal/h. JSC TGC-11 manages: CHPP-3, CHPP-4, CHPP-5, JSC Omsk RTS (subsidiary), EC-2, Kirovsky District Boiler House, Heat Networks, Thermal Inspectorate and Energy Audit, and Teploenergosbyt.

The company uses various types of fuel (gas, coal, and fuel oil), which ensures the reliable operation of generating equipment and minimizes logistical risks.

As part of the CDA program at Omskskaya CHPP-3, the boiler equipment was modernized and a new PGU-90 and a new gas turbine with capacity of 120 MW were commissioned. The Omskskaya CHPP-5 wrapped up modernization work on its turbine units. The large-scale CDA program enabled JSC TGC-11 to join the list of ‘100 Best Organizations of Russia’ in the category of ‘Ecology and Environmental Management’ in 2018.

#### JSC Omsk RTS

JSC Omsk Heat Distribution Networks (Omsk RTS) unites the heating grid and heat supply business as well as heat generation from boiler sources in Omsk. The company includes the joint venture Heat Networks (Heat Networks JV), Teploenergosbyt JV, Heat Inspectorate and Energy Audit JV, CHPP-2 JV, and Kirov Regional Boiler House JV.

JSC Omsk RTS exclusively serves the main district heating network. The length of its heating networks is 267 km.

#### JSC Tomsk Generation

JSC Tomsk Generation produces electric and thermal power. The company unites the generating capacity of the city of Tomsk. Using its own sources (TPP-2, CHPP-3, and CHPP-1), the company provides Tomsk with 96% of its thermal power and handles 23% of the electric power needs of the Tomsk Region. The company's plants have installed electric power capacity of 485.7 MW and installed thermal power capacity of 2,390.5 Gcal/h.

#### JSC Tomsk RTS

JSC Tomsk RTS is a subsidiary of JSC Tomsk Generation. JSC Tomsk RTS includes: the Heat Networks JV, Teploenergosbyt JV, and Thermal Inspectorate and Energy Audit JV.

The Thermal Networks joint venture transmits thermal power from thermal power plants and state district power plants and is responsible for the operation of main and intra-district thermal power networks.

To provide Tomsk subscribers with hot water, JSC Tomsk RTS signed an agreement with LLC Tomskvodokanal to provide cold water for the city's hot water supply needs via a closed system. Cold water is supplied to central heating points and local sources, where it is heated by boilers. JSC Tomsk RTS purchases about 2.8 million cubic meters of cold water per year for these purposes.

JSC Tomsk RTS purchases thermal power as hot water and coolant from JSC Tomsk Generation – the sources of heat supply are the Tomsk TPP and CHPP. JSC Tomsk Generation treats the water to be fed to hot water supply networks. The total length of its heating networks is 638 km.

<sup>3</sup> Source – [http://so-ups.ru/index.php?id=rd\\_u\\_omsk](http://so-ups.ru/index.php?id=rd_u_omsk)

### LLC Bashkir Generation Company

LLC Bashkir Generation Company (BGC) manages generating assets in the Republic of Bashkortostan and coordinates the work of LLC Bash RTS. The company unites 19 large and small power plants that are located throughout Bashkortostan and provide energy to residents of the republic and neighboring regions. The company's generating assets include one thermal power plant, ten combined heat and power plants, seven hydroelectric power plants (including five small micro-hydroelectric power plants), and one wind power plants.

The installed thermal power capacity of LLC BGC and LLC Bash RTS accounted for more than 95%<sup>1</sup> of the total capacity of heat supply sources in the Republic of Bashkortostan (12,245.0 Gcal/h of 12,570.9 Gcal/h) as of the end of 2018.

LLC BGC devotes considerable attention to environmental issues: it has implemented a number of projects to reduce the volume of wastewater generation,

water consumption, and pollutant emissions to the atmosphere. Sludge dewatering equipment installed by the company with mechanical purification of natural waters helps to minimize the negative environmental impact since sludge water disposal facilities have been eliminated. The dehydrated sludge is used when leveling the urban landscape. Automated emission control has been installed at a number of plants.

According to SO UES,<sup>2</sup> power plants in the operating area of the Bashkir Regional Dispatch Office generated 24.45 billion kWh of electricity in 2018, of which 18.86 billion kWh (more than 77%) was generated at the generating facilities of LLC BGC. The operating area of the Bashkir Regional Dispatch Office has generating facilities with installed electrical capacity of 5,581 MW, of which 4,445 MW (approximately 80%) belong to the power plants of LLC BGC.

### SMALL GENERATING FACILITIES MANAGED BY LLC BGC

CHPP	Facility	Turbines	Installed electric power capacity, MW	Installed thermal power capacity, Gcal/h
Tyupkilda Wind Power Plant		3 ET-550	0.55	
		Total	1.65	
Ufimskaya CHPP-1	Mechetlinskaya Small Hydroelectric Power Plant	2 PR20/1-G-100	0.2	
		1 PR20/1-G-5	0.045	
		Total	0.445	
Sterlitamakskaya CHPP	Slakskaya Small Hydroelectric Power Plant	2 PR20/1-G-35	0.045	
		1 PR20/1-G-25	0.022	
		Total	0.1	
Novo-Sterlitamakskaya CHPP	Avzyanskaya Small Hydroelectric Power Plant	PR20-G-60	0.09	
Zauralskaya CHPP	Uzyanskaya Small Hydroelectric Power Plant	PR-50	0.055	
Zauralskaya CHPP	Kaga Small Hydroelectric Power Plant	PR20-G-60	0.09	
Zauralskaya CHPP	Turbine set	7 JMS 620	2.49	2.2
		Total	17.43	15.4

<sup>1</sup> Source – [http://bashstat.gks.ru/wps/wcm/connect/rosstat\\_ts/bashstat/ru/statistics/](http://bashstat.gks.ru/wps/wcm/connect/rosstat_ts/bashstat/ru/statistics/)

<sup>2</sup> Source – [http://so-ups.ru/index.php?id=rdu\\_bashkiria](http://so-ups.ru/index.php?id=rdu_bashkiria)

## LLC BashRTS

LLC BashRTS is a subsidiary of LLC Bash RTS and provides heat to eight cities of Bashkortostan: Ufa, Blagoveshchensk, Sterlitamak, Salavat, Ishimbay, Sibay, Neftekamsk, and Agidel, and is the main guaranteed supplier of thermal power in the republic with some 1.7 million consumers. In order to support the administrative management of the heating network areas and boiler shops scattered throughout the republic, LLC BashRTS has established Ufa Production Office and two branches: BashRTS-Sterlitamak and BashRTS-Neftekamsk.

LLC BashRTS serves 26 boiler houses, 305 central heating points, and 21 pumping stations. The total length of heating networks is 1,544 km. LLC BashRTS has total installed electric and thermal power capacity of 24 MW and 3,587 Gcal/h, respectively.

### SMALL GENERATING FACILITIES MANAGED BY LLC BashRTS

CHPP	Facility	Turbines	Installed electric power capacity, MW	Installed thermal power capacity, Gcal/h
Shaksha CCGT	GTU	GTE-10/95 BM	8.0	6.88
Ishimbay CCGT	GTU	GTE-10/95	8.0	6.88
Agidel CCGT	GTU	1 URAL-4000	4.0	3.44
		2 URAL-400	4.0	3.44

### Use of co-generation technology

Co-generation is the joint generation of electrical and thermal power in a single device. Co-generation facilities include CHP plants with heat and power turbines, TPP/CHP plants with combined-cycle gas turbines as well as gas turbines operating in a closed cycle. Co-generation technology allows for releasing both electrical and thermal power to the consumer. An increase in the supply of thermal power from the unit increases its efficiency factor and reduces fuel consumption for energy generation and, consequently, emissions of harmful substances into the atmosphere. The effect from the use of co-generation primarily depends on whether consumers have thermal power, so energy facilities with co-generation energy production are located in large cities.

Energy facilities<sup>3</sup> operating with a co-generation cycle are located in almost all the regions of the Inter RAO Group. In 2018, these plants generated 14.166 billion kWh of electric power and 32,220,000 Gcal of thermal power in co-generation mode.

<sup>3</sup> Power facilities with co-generation include facilities with 100% extraction turbines, CCGT, and GTU operating in a closed cycle that supply thermal power to consumers.

The largest CHPP (and, consequently, the facility at which co-generation technology is used) within the Inter RAO Group is Omskaya CHPP-5 of TGC-11. The main consumers of this power facility are people living in the central part of Omsk. As of the end of 2018, this power facility had installed electric power capacity of 735 MW and thermal power capacity of 1,763 Gcal/h. Heat and power generation turbines are used to generate heat and electricity, including one of the most powerful ones used in the country – the T-185/220-130. In 2018, this energy facility provided consumers with 3,584,560 Gcal of thermal power. Almost 1.948 billion kWh of electric power were generated in co-generation mode and accounted for 61% of the electric power generated by the power plant.

## LAUNCH OF THE ZATONSKAYA CHPP

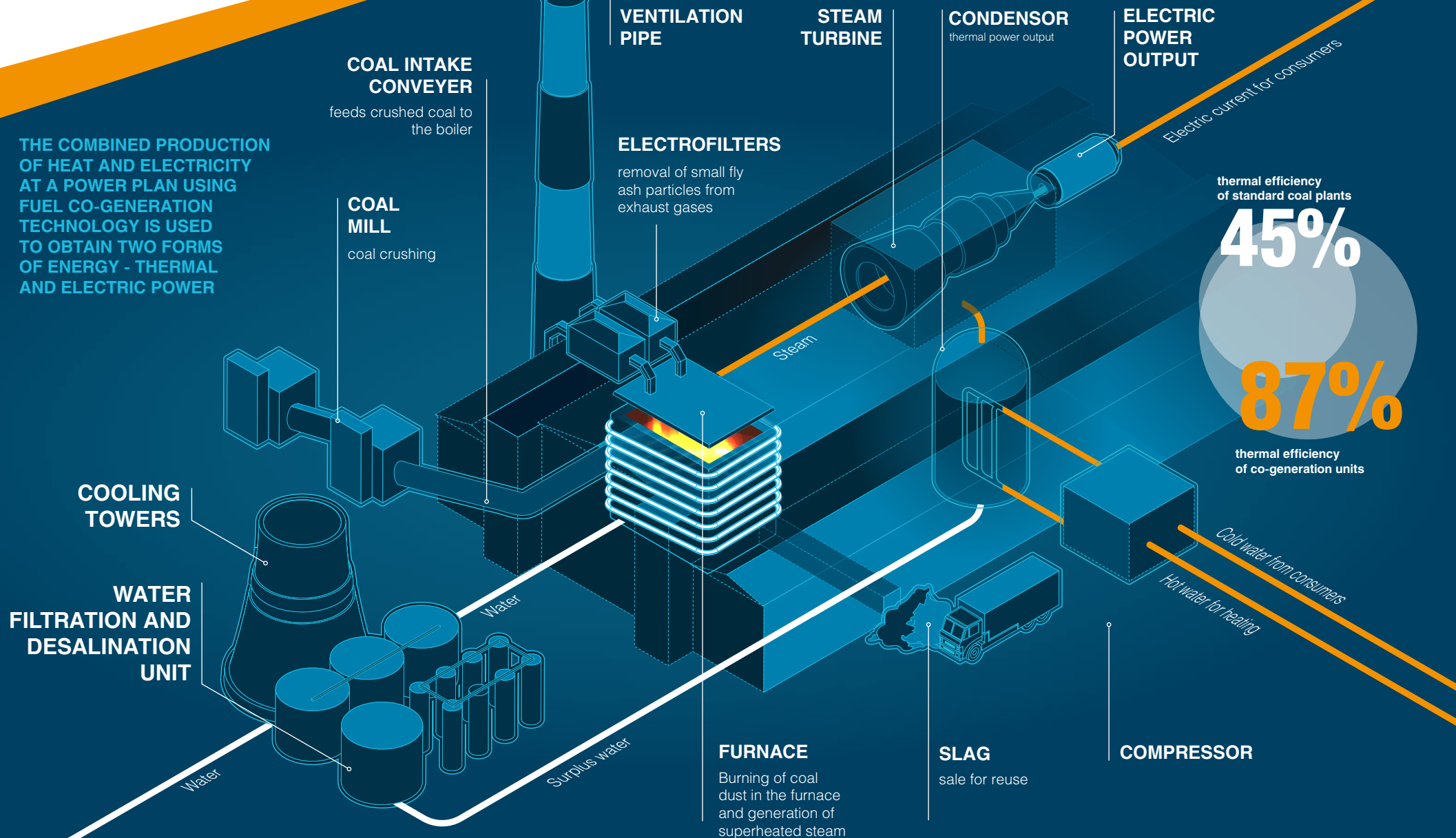
**IN 2018, A LARGE-SCALE PROJECT FOR THE CONSTRUCTION OF THE NEW HIGH-EFFICIENCY ZATONSKAYA CHP PLANT WAS COMPLETED AS PART OF THE CDA PROGRAM. THE PLANT IS DESIGNED TO PROVIDE THERMAL POWER TO A NEWLY BUILT MICRO-DISTRICT IN UFA. TWO NEW UNITS WITH GTE-160 AND T-60/73-7.8/0.04 GAS AND STEAM TURBINES ARE ABLE TO PROVIDE CONSUMERS WITH HEAT IN THE AMOUNT OF 300 GCAL/H. THE SPECIFIC CONSUMPTION OF EQUIVALENT FUEL FOR THE ELECTRICITY SUPPLIED AMOUNTED TO 256.5 G/KWH. THE COMMISSIONING OF THIS PLANT MARKS THE CONTINUATION OF THE INTER RAO GROUP'S PLANNED WORK TO IMPROVE THE EFFICIENCY OF GENERATING FACILITIES.**

# CO-GENERATION

## TOMSK TPP-2

(operated since 1945)

THE COMBINED PRODUCTION OF HEAT AND ELECTRICITY AT A POWER PLANT USING FUEL CO-GENERATION TECHNOLOGY IS USED TO OBTAIN TWO FORMS OF ENERGY - THERMAL AND ELECTRIC POWER



## Repair activities

The repair programs for the production assets of the Inter RAO Group for 2018 were compiled based on the technical repair needs of fixed production assets and took into account:

- the technical condition of equipment, buildings, and structures
- the need to ensure the reliable and safe operation of power facilities
- the existence of cost-effective repair effects

In 2018, actual repair costs at Russian generating and heating grid subsidiaries amounted to RUB 14.468 billion – 99.7% of the planned targets (RUB 14.513 billion). A total of 17 major and mid-level repairs of power units were carried out on the main equipment of the Russian generating subsidiaries of the Inter RAO Group in addition to repairs on 22 turbine generators and 22 energy boilers. All the assets of the Inter RAO Group successfully completed the repair campaign in 2018.

## Generating capacity modernization program

The CDA-1 program, which made it possible to commission roughly 30 GW of new capacity at thermal power plants (including 6.1 GW at new units of the Inter RAO Group's plants), was basically completed in 2019 and resulted in the upgrading of roughly 15% of the total installed power generation capacity in Russia. Funding for the CDA-1 program is estimated at RUB 1.3 trillion. Nevertheless, despite the significant amount of capital investments, the commissioning of CDA units helped to halt the aging of TPP facilities in the industry as a whole, but did not drastically upgrade the production capacity in the sector. According to various estimates, more than 50 GW of TPPs need to be upgraded or decommissioned by 2035 (about 30% of the total installed capacity of TPPs). Moreover, in the absence of modernization measures, a number of energy systems of the UES of the Russian Federation may experience a shortage of electricity in 2022-2024.

Based on forecasts, the Russian Ministry of Energy proposed a mechanism for selecting projects to modernize the generating facilities of thermal power plants (the CDA-2 or CDA-Modernization Program) with the commissioning of 41 GW (39 GW excluding the Far East) by 2031 and with capital investments capped

at RUB 1.45 trillion (in 2021 prices). If a project is selected under this program, the generating company receives a guaranteed return on investment within 16 years taking into account the base rate of return of 14%.

The modernization projects will be selected based on competitions that should be held annually. The first selection of modernization projects is scheduled in March-April 2019 for three years all at once: 2022, 2023, and 2024. The main generating equipment allowed for selection includes turbines, boilers, and generators if their service life has expired, but had a high load in the previous two years. Following modernization, the thermal power plant will have to work on the market for at least 15 years.

The CDA-2 program is essentially launching a new investment cycle in the generating sector of the electric power industry with a volume of utilized capacity and investment that is comparable with that of the CDA-1 program. Moreover, taking into account the requirements for the high degree of localization of the equipment that may be involved in the CDA-2 program, the Russian power engineering industry will be given a significant impetus to develop the production of modern equipment, including high-power gas turbines.

The Inter RAO Group intends to be involved in selections for the modernization of thermal power plants with the highest possible positive economic effect from the implementation of modernization measures. Participation in the CDA-2 program will substantially upgrade the existing equipment of thermal power plants and enhance its efficiency. The total volume of the Inter RAO Group's participation in modernization may amount to about a quarter of the total installed capacity in the Russian Federation.

## Foreign assets

Country	Assets	Specialization	Installed electric power capacity, MW	Installed thermal power capacity, Gcal/h	Electricity generation in 2018, mln MW/h	Heat generation in 2018 "Thermal power output from collectors"	Sale of thermal power to end consumer	Share of generation in country of presence, %	Length of networks
Georgia	JSC Khrami HPP-I	Hydroelectric Power Plant	113	–	194	–	–	1.6	–
	JSC Khrami HPP-II	Hydroelectric Power Plant	114	–	311	–	–	2.6	–
	JSC Telasi	Grid company	–	–	–	–	–	0.0	5,627
Pridnestrovian Moldavian Republic	CJSC Moldova TPP	Thermal power plant	2,520	166	3,930	109	82	88.7	–
Kazakhstan	JSC Ekibastuzskaya TPP-2 <sup>1</sup>	Thermal power plant	1,000	514	5,437	79	46	5.1	–
Turkish Republic	Trakya Elektrik Uretim Ve Ticaret A.S	Thermal power plant	478	–	821	–	–	0.3	–
Lithuania	Vydmantai Wind Park UAB <sup>2</sup>	Wind park	30	–	50	–	–	1.6	–

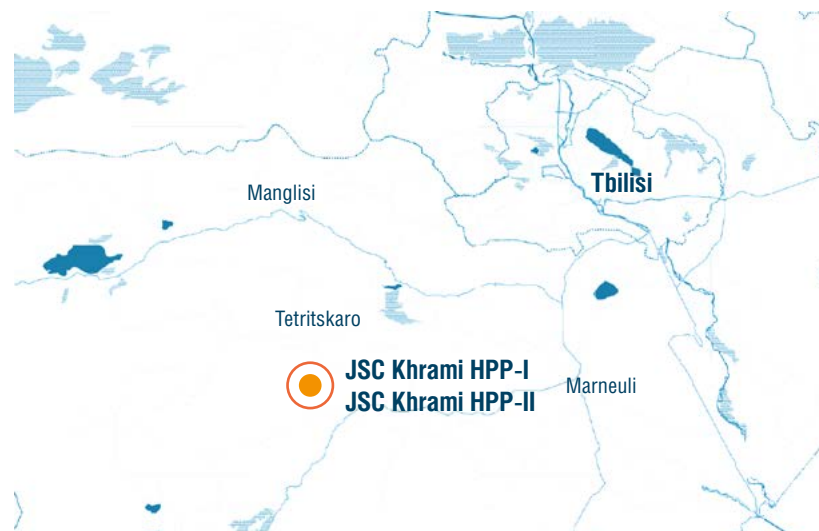
<sup>1</sup> The performance results of JSC Ekibastuzskaya TPP-2 are not included in the Group's financial results due to the reclassification of a 50% stake in the joint venture JSC Ekibastuzskaya TPP-2 as assets classified as held-for-sale in December 2016. The operational results of JSC Ekibastuzskaya TPP-2 were fully included in the Group's operational results;

<sup>2</sup> Subsidiary of AB INTER RAO Lietuva and part of the 'Trading in the Russian Federation and Europe' segment.



## Overview of assets

### Georgia



### JSC Khrami HPP-I and JSC Khrami HPP-II

JSC Khrami HPP-I and JSC Khrami HPP-II form a cascade of hydroelectric power plants on the Khrami River. Annually they produce more than 5% of all electricity produced in Georgia. The total installed capacity of the two hydroelectric power plants is 227.2 MW. Both hydroelectric power plants operate throughout the calendar year. The electricity is sold under contracts concluded with JSC Telasi.

JSC Khrami HPP-I is a high-altitude power station located at an altitude of 1 km in the Tsalka District in southwestern Georgia at a distance of 120 km from the capital of Tbilisi. It was commissioned in 1947. The hydroelectric power plant consists of three hydraulic units, each of which has installed capacity of 37.6 MW.

JSC Khrami HPP-II is located in southwestern Georgia on the 115th km of the Khrami River. It is positioned at a depth of 165 meters. Water is fed to the turbines through an underground tunnel that is 12 km long and 4 meters in diameter. JSC Khrami HPP-II operates on a daily basis. The hydroelectric power plant was commissioned in 1963. JSC Khrami HPP-II mainly uses water produced by JSC Khrami HPP-I, and in the event JSC Khrami HPP-I shuts down, JSC Khrami HPP-II runs on water from the Dashbash,

Chochani, and Karabulahi Rivers. JSC Khrami HPP-II is virtually supplied with water throughout the whole year.

### JSC Telasi

JSC Telasi is the largest power grid and retail company in Georgia and employs 2,066 people. Its main activities include the purchase and sale of electricity, maintenance and operation of power networks, electricity transit services, maintenance services for subscribers, and the administration of a unified integrated and coordinated system for the supply of electricity and water and water treatment in Tbilisi. JSC Telasi purchases electricity (capacity) on the wholesale power (capacity) market and also under direct contracts with electricity producers in order to serve consumers in Tbilisi and nearby villages. The company supplied 2.97 billion kWh of electricity in 2018. JSC Telasi has power transmission lines that span 5,626.6 km. The company serves more than 632,400 subscribers. It offers consumer services and operates electric power networks in nine business centers, two service centers as well as in ten operational districts and two operational sites located in all administrative districts of the city.

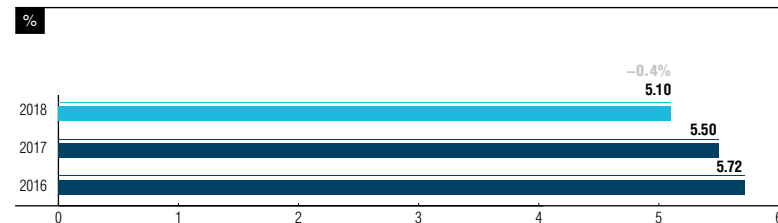
In order to ensure that consumers are being provided with the most reliable power supplies, measures are being taken to ensure the uninterrupted and safe supply of electricity.

## LAUNCH OF THE CHUGURETI SUBSTATION

**IN MAY 2018, JSC TELASI COMMISSIONED THE NEW CHUGURETI SUBSTATION. THE 35/6-KV TWO-TRANSFORMER CHUGURETI SUBSTATION WILL REPLACE THE OBSOLETE CHP SUBSTATION, WHICH HAD OPERATED FOR ALMOST 70 YEARS. THE COMMISSIONING OF THE NEW POWER FACILITY WILL SIGNIFICANTLY IMPROVE THE QUALITY AND RELIABILITY OF ELECTRICITY SUPPLIES TO ROUGHLY 25,000 SUBSCRIBERS IN TWO CENTRAL DISTRICTS OF TBILISI – CHUGURETI AND MTATSMINDA. THE PROJECT INVOLVED THE CONSTRUCTION OF A NEW SUBSTATION AND THE INSTALLATION OF MODERN ELECTRICAL EQUIPMENT. INVESTMENT IN THE CONSTRUCTION OF THE SUBSTATION AND THE ROUTING OF A 35-KV BACKUP CABLE POWER LINE AMOUNTED TO APPROXIMATELY GEL 14 MILLION.**

## Sustainable improvements to reliability indicators of JSC Telasi in 2016-2018

### ACTUAL LOSSES FROM ENERGY OUTPUT



A reduction in losses from electricity output to consumers was achieved thanks to the smooth operation of the business cycle and the streamlining of the electricity transmission distribution network.

Indicator	2016	2017	2018	Change vs. 2017, %
System Average Interruption Frequency Index (SAIFI), incidents per consumer	11.167	8.804	5.655	-35.8
System Average Interruption Duration Index (SAIDI), minutes per consumer	1036.24	542.69	387.33	-28.6

Starting from January 1, 2017, the Georgian National Energy and Water Supply Regulatory Commission (GNERC) introduced electronic logs<sup>1</sup> to provide maximum transparency in all aspects of interaction between companies providing network services and selling electricity to consumers. The electronic logs reflect information about the connection of subscribers who were previously disconnected due to their failure to pay for electricity consumed, records requests for new connections, contains reports on the fulfillment of applications, emergency outages and their duration, and responses to subscribers' complaints, among other things.

GNERC strictly controls compliance with the rules and procedures for maintaining electronic logs, which makes it possible to monitor the timeframe for compliance with all the measures specified therein. Based on the results of two years of working within these logs, accounting and strict control have been established at all network facilities of JSC Telasi, which has boosted customer satisfaction.

Long-term development plans of JSC Telasi:

- retooling of the network in accordance with the requirements of the company's technical policy
- construction of new power transmission lines for network protection
- replacement of outdated power lines
- introduction of an automated network management system
- expansion of the network in accordance with municipal development plans

### Interaction with the authorities

The Georgian government is reforming the country's electricity sector as part of its of European integration, which calls for adopting a new energy law based on EU directives. New legislative initiatives entail breaking up JSC Telasi, which is to be divided into grid and supply companies. JSC Telasi and PJSC Inter RAO are holding consultations with the Georgian government and the regulatory authorities in connection with the upcoming changes in legislation.

<sup>1</sup> GNERC Resolution No. 13 dated July 25, 2016.



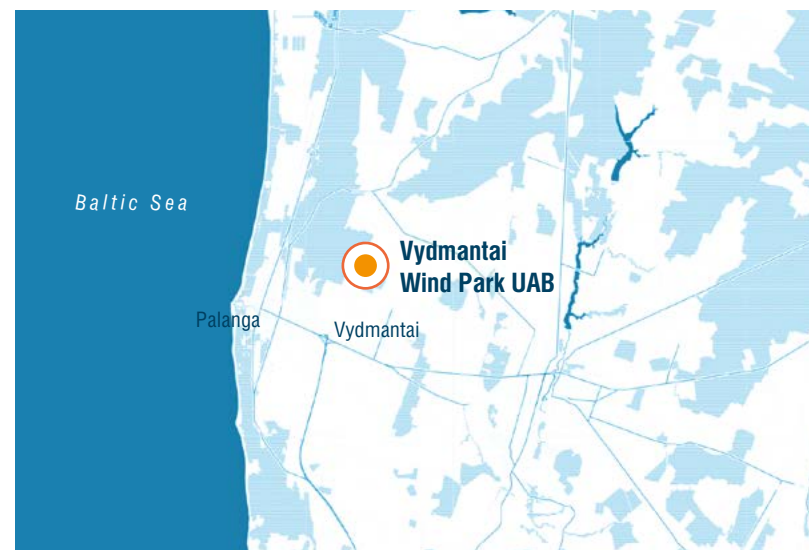
## Pridnestrovian Moldavian Republic



### CJSC Moldova TPP

CJSC Moldova TPP is one of the largest thermal power plants of this type on the European continent and provides electricity to Transnistria and Moldova. The company produced 4.468 billion kWh of electricity in 2016, 3.557 billion kWh in 2017, and 3.93 billion kWh in 2018. As a generating unit, the Moldova TPP is an integral part of the unified energy system of Moldova and Ukraine. Its open switchgears (110, 330, and 400 kV) play a crucial role in the transmission of electricity for Moldovan consumers and potential transmission to EU countries.

## Lithuania



### Vydmantai Wind Park UAB

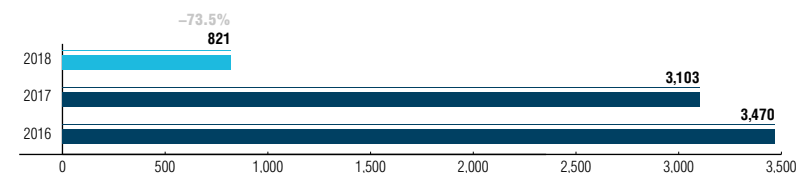
The 30-MW wind farm is one of the largest in the Baltic states. Wind power plants were built in the Kretinga district villages of Kveciai and Rudaiciai in western Lithuania, not far from the settlements of Vydmantai and Kyauleikyay. Fifteen E-70 model wind power plants produced by the German company Enercon GmbH with installed capacity of 2 MW each produce electric power in the wind farm. In 2018, the wind park produced 50 GWh of electricity. In 2017, production amounted to 64 GWh. The park was included in the segment of transmission networks of Lithuania's Palanga-Sventoji energy system with capacity of 110 kW.

## Turkey



The Inter RAO Group operates the Trakya Elektrik thermal power plant with installed capacity of 478 MW. Its equipment includes two Siemens SGT5-2000E V 94.2 gas turbines (154 MW each) and a Siemens HPIP-K30-25 LP-N30-2 × 10 steam turbine (170 MW). The plant runs on natural gas and can also operate on backup diesel fuel.

## GENERATION, MLN KWH



## Interaction with the authorities

The power plant is managed in the BOT project financing format ("Build – Operate – Transfer"). The agreement provides for the construction of the plant, its subsequent operation, and transfer of the property to the government. The concession agreement is valid until June 5, 2019. Top level negotiations are underway between the Russian Federation and Turkey on the conditions for extending the concession agreement.

In order to stabilize its position abroad, the Inter RAO Group is searching for promising investment projects, consulting with governments, and initiating discussions on business projects in foreign countries at the level of an Intergovernmental Commission.

## REPAIR ACTIVITIES IN 2018

Asset	Currency	2016	2017	2018	Change vs. 2017, %
Trakya Elektrik Uretim ve Ticaret A.S.	USD	1,923,000	4,549,000	1,234,000	-72.9
JSC Telasi	GEL	2,770,000	3,173,000	2,841,000	-91.0
JSC Khrami HPP-I	GEL	501,300	457,110	484,000	5.9
JSC Khrami HPP-II	GEL	418,010	492,070	455,000	-7.5
JSC Ekibastuzskaya TPP-2	KZT	1,542,251	1,452,463	1,393,410	-4.1
CJSC Moldova TPP	Transnistrian ruble	213,221,000	164,769,000	219,840,000	33.4

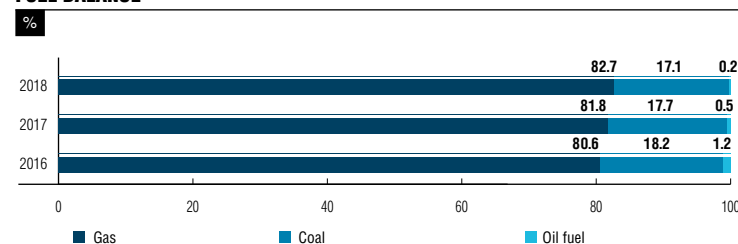
## Supply of fuel to Russian generating assets

The fuel supply program for the Group's Russian generating assets made it possible to fully implement the production program in 2018. There are no substantial differences versus previous periods. The structure of the fuel balance is stable.

### FUEL SUPPLIES IN 2016–2018

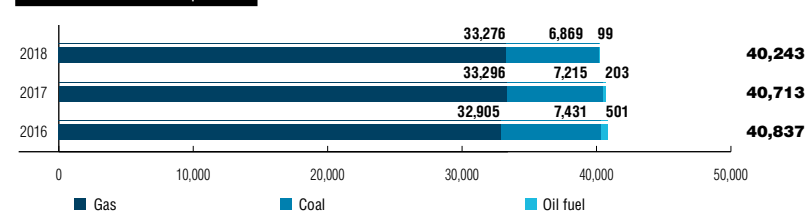
Fuel type	2016	2017	2018	Change vs. 2017, %
Gas, bln cub. m.	28.1	28.5	28.5	0
Coal, mln tons	12.2	12.5	12.2	–2.4
Oil fuel (fuel oil and diesel fuel), mln tons	0.4	0.1	0.1	0

### FUEL BALANCE

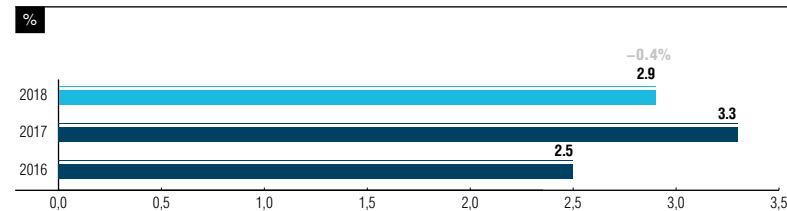


### STRUCTURE OF FUEL CONSUMPTION,

thousand tons of fuel equivalent



### SHARE OF USED FUEL FROM INTERNAL SOURCES



The Group's generating companies mainly buy fuel from major independent suppliers. Its gas portfolio is formed on the basis of a long-term contract. An internal fuel source is LLC Ugolny Razrez, which supplies coal from the Okino-Klyuchevskaya open pit to the Gusinoozyorskaya TPP.

## Program to enhance the energy efficiency of the Russian generating assets of the Inter RAO Group

Specific consumption of equivalent fuel for electricity output amounted to 296.99 g/kWh in 2018 (as compared with the target of 299.26 g/kWh, the actual level of 303.14 g/kWh in 2017, and the standard level of 298.72 g/kWh). The indicator was met as positive trends were seen in relation to the previous year.

The Inter RAO Group's Energy Conservation and Efficiency Improvement Program for the next five-year period from 2019 to 2023 was approved on January 11, 2019 at a meeting of the PJSC Inter RAO Management Board (Minutes No. 792 dated January 11, 2019).

The planning and implementation of the Energy Conservation and Efficiency Improvement Program is regarded as an integral part of the systematic approach to managing energy conservation and efficiency. This approach covers all stages of activities – from an energy analysis that determines the potential for energy conservation and a set of priority energy efficiency measures that aim to achieve the target indicators to organizing their funding as part of investment and production programs, implementing the planned measures, and taking into account the economic effect (energy conservation) in practical activities.

The Energy Conservation and Efficiency Improvement Program is prepared based on a comprehensive analysis and assessment of devices, equipment, systems, processes, and personnel that significantly affect the nature of the use and the amount of the energy resources consumed within a single system based on:

- the Company's Development Strategies
- the Group's Innovative Development Programs
- the Group's Technical Policy
- R&D programs

The Energy Conservation and Efficiency Improvement Program is compiled for two types of activities: electric and thermal power generation as well as heat supply (heat networks).

The key indicators of the Energy Conservation and Efficiency Improvement Program are:

- for electric and thermal power generation activities – the fuel heat utilization factor (KIT) and thermal efficiency reserves
- for heat supplying activities – total relative losses of thermal power and relative costs of electricity for the transmission of thermal power through heating networks

Taken together, these indicators make it possible to identify the potential for improving energy efficiency and developing measures to improve fuel efficiency.

The target indicators as well as the technical and economic indicators of the program reflect the operational indicators at which key performance indicators are achieved.

Indicator	2016	2017	2018	Change vs. 2017, %
Fuel equivalent consumption for electricity output, kg of fuel equivalent/MW	307.45	303.14	296.99	–2.0
Fuel equivalent consumption for thermal power output, kg of fuel equivalent/Gcal	145.04	143.90	144.36	0.3

The main factors that had a positive effect on reducing the specific consumption of fuel equivalent for electricity at the Inter RAO Group in 2018 are:

- an increase in the utilization ratio of more efficient equipment
- an increase in the share of co-generation electricity output
- the implementation of the planned Energy Conservation and Efficiency Improvement Program and additional measures that aim to improve energy efficiency

# SUPPLY

The 'Supply in the Russian Federation' segment unites companies of the Inter RAO Group whose main business involves the supply (sale) of electric power. In 2018, the Group's power supply companies had a 17.7% share of the retail electric power market, while the customer base expanded to 15.3 million customers. A higher level of market penetration, expansion in specialized services, and the enlargement of the product portfolio all combined to have a positive impact on the profit margins of this segment. Inter RAO sees great potential for business diversification in the segment through the development of additional customer services.

The segment is comprised of:

- 9 power supply companies (PSCs) that are guaranteed suppliers (GS) operating within 13 regions of the Russian Federation
- 3 Unified Information and Payment Centers (UICPs) that provide face-to-face customer service for individuals
- 3 independent (unregulated) power supply companies (IPSCs) that supply electric power to major industrial consumers in 62 regions of the Russian Federation

The quality management systems of the companies working in the segment are certified according to ISO 9001:2008.

Management faces the following key challenges in terms of developing the 'Supply in the Russian Federation' segment within the context of the Group's strategic priorities:

- Improving the operating efficiency of power supply companies and maintaining leading positions in the Group's market share of the Russian electric power industry
- Involvement in establishing and improving the long-term rules of the retail market
- Diversifying business through the development of additional paid services
- Maintaining the customer base and improving the quality of customer service

## KEY INDICATORS IN THE SUPPLY SEGMENT

Indicator	2016	2017	2018	Change vs. 2017
Net electricity output in Russia <sup>1</sup> , mln kWh	1,054.4	1,059.5	1,076.1	1.6%
Net electricity output by segment, mln kWh	182,645	184,069	191,908	4.3%
Share of segment's electricity output in Russia	17.3%	17.4%	17.7% <sup>2</sup>	0.3,p.p.
Number of power supply company customers at year-end (guaranteed suppliers) <sup>3</sup> , including:	14,215,035	14,630,743	15,510,748	6.0%
individuals	13,884,696	14,291,962	15,185,412	6.3%
legal entities	330,025	338,491	325,030	-4.0%
grid organizations	314	290	306	5.5%
Number of power supply company customers (independent suppliers), including:	4,016	6,097	8,047	32.0%
individuals	201	162	193	19.1%
legal entities	3,802	5,923	7,844	32.4%
grid organizations	13	12	11	-8.3%

<sup>1</sup> Consumption in the Russian Federation – 1.076 trn kWh, according to SO UES data as of January 11, 2019 [http://so-ups.ru/index.php?id=press\\_release\\_view&tx\\_ttnews\[tt\\_news\]=13767&cHash=459c686e7a](http://so-ups.ru/index.php?id=press_release_view&tx_ttnews[tt_news]=13767&cHash=459c686e7a). This indicator is not planned. Data provided based on SO UES reports.

<sup>2</sup> Excluding electricity sales on the wholesale market.

<sup>3</sup> Data provided based on information from ESCs as of December 31 of the corresponding year. Data cannot be verified with the ACPS due to differences in methods for calculating the number of consumers.

## Changes to pricing principles on the retail market

In 2018, the basic principles of a new tariff regulation methodology for guaranteed suppliers using the comparative method<sup>1</sup> took effect along with guidelines which specify the main rules for calculating the supply margin of guaranteed suppliers and which are intended for use by the executive authorities of the Russian Federation in charge of state tariff regulation<sup>2</sup>.

Under the new methodology, calculations are made based on the best practices for the operation of guaranteed suppliers on the territory of the Russian Federation, cost standards, and their differentiation depending on the region of the Russian

Federation and the company's scale, and are further applied by regional regulatory bodies when establishing the supply margins of guaranteed suppliers for 2018 and beyond. Given that the guaranteed suppliers of the Inter RAO Group regularly take measures to improve business processes and optimize costs, the new methodology has had a positive impact on the bottom line of the Inter RAO Group's guaranteed suppliers for 2018.

### ASSETS INCLUDED IN THE SEGMENT

#### ST. PETERSBURG, LENINGRAD REGION

- JSC St. Petersburg Power Supply Company
- JSC UISC LR

#### VLADIMIR REGION

- LLC Energobyt Volga

#### MOSCOW, MOSCOW REGION

- JSC Mosenergosbyt
- LLC Moscow Region UISC

#### ORYOL REGION

- LLC Oryol Power Supply Company

#### TAMBOV REGION

- PJSC Tambov Power Supply Company

#### SARATOV REGION

- PJSC Saratovenergo

#### REPUBLIC OF BASHKORTOSTAN

- LLC Energy Retail Company of Bashkortostan
- LLC Inter RAO - UISC

#### ALTAI TERRITORY, ALTAI REPUBLIC

- JSC Altayenergosbyt

#### OMSK REGION

- JSC St. Petersburg Power Supply Company

#### TOMSK REGION

- PJSC Tomskenergosbyt

- Guaranteed Supplier
- Unified Information and Settlement Center

<sup>1</sup> Resolution No. 863 of the Government of the Russian Federation dated July 21, 2017

<sup>2</sup> Order No. 1554/17 of the Russian Federal Antimonopoly Service dated November 21, 2017

## INDEPENDENT POWER SUPPLY COMPANY

Company name	Territory where present
JSC Mosenergosbyt	Altai Territory, Astrakhan Region, Belgorod Region, Bryansk Region, Vladimir Region, Volgograd Region, Vologda Region, Voronezh Region, Ivanovo Region, Irkutsk Region, Kaliningrad Region, Kaluga Region, Kemerovo Region, Kirov Region, Kostroma Region, Krasnodar Territory, Krasnoyarsk Territory, Kurgan Region, Kursk Region, Leningrad Region, Lipetsk Region, Nizhny Novgorod Region, Novgorod Region, Novosibirsk Region, Omsk Region, Orenburg Region, Oryol Region, Perm Region, Republic of Adygea, Republic of Bashkortostan, Republic of Tatarstan, Rostov Region, Ryazan Region, Samara Region, St. Petersburg, Saratov Region, Sverdlovsk Region, Smolensk Region, Stavropol Territory, Tver Region, Tomsk Region, Tula Region, Tyumen Region, Udmurt Republic, Ulyanovsk Region, Chelyabinsk Region, Chuvash Republic, and Yaroslavl Region.
LLC RN-Energo	Altai Territory, Astrakhan Region, Belgorod Region, Bryansk Region, Vladimir Region, Volgograd Region, Vologda Region, Voronezh Region, Ivanovo Region, Irkutsk Region, Kaluga Region, Kemerovo Region, Kirov Region, Kostroma Region, Krasnodar Territory, Krasnoyarsk Territory, Kursk Region, Leningrad Region, Lipetsk Region, Moscow, Moscow Region, Nizhny Novgorod Region, Omsk Region, Orenburg Region, Oryol Region, Penza Region, Primorsky Territory, Pskov Region, Republic of Altai, Republic of Bashkortostan, Republic of Mari El, Republic of Mordovia, Republic of Tatarstan, Republic of Khakassia, Rostov Region, Ryazan Region, Samara Region, St. Petersburg, Saratov Region, Sverdlovsk Region, Smolensk Region, Stavropol Territory, Tambov Region, Tver Region, Tomsk Region, Tula Region, Tyumen Region, Udmurt Republic, Ulyanovsk Region, Khabarovsk Territory, Khanty-Mansi Autonomous District-Yugra, Chelyabinsk Region, Chuvash Republic, Yamalo-Nenets Autonomous District, and Yaroslavl Region.
LLC RT-ET	Bryansk Region, Leningrad Region, Moscow Region, Nizhny Novgorod Region, Novosibirsk Region, Samara Region, Saratov Region, Sverdlovsk Region, Republic of Bashkortostan, Republic of Mordovia, Republic of Tatarstan, Udmurt Republic, Ulyanovsk Region, and Chita Region.

## Improving operational efficiency

In an effort to improve the quality of services and slash operating costs, the Inter RAO Group has developed a framework program for the digital transformation of supply companies in 2019-2021. The program also aims to develop the following segments:

- remote data collection
- electronic document workflow
- receivables management
- customer service
- digital integration with external systems
- enhancing the effectiveness of the contact center

### Billing

Two projects were implemented in the Billing segment in 2018.

#### A project to standardize settlements with individual consumers for power supply companies of the Inter RAO Group

In 2018, the following work was completed:

- transition to the Unified Methodology for Working with Individual Consumers
- standardization of settlements with individuals at LLC Energy Retail Company of Bashkortostan
- standardization of settlements with individuals at LLC Energosbyt Volga

Revenue in 2018:

**3.558**  
 billion RUB

EBITDA in 2018:

**277**  
 million RUB
EBITDA growth  
compared with  
2017:
**82%**  
 or  
**125**  
 million RUB

### A project for the unified billing of legal entities for supply companies of the Inter RAO Group

A unified methodology for settlements with legal entity consumers was developed during previous stages.

In 2018, the following work was completed:

- replication of the solution at LLC Energy Retail Company of Bashkortostan
- replication of the solution at PJSC Tambov Power Supply Company
- replication of the solution at PJSC Saratovenergo
- replication of the solution at LLC Energosbyt Volga

### Unified Information and Settlement Centers

As of the end of 2018, the number of personal accounts serviced at UISCs stood at 2,890,000 versus the target of 3,002,000 accounts. The number of personal accounts serviced increased by 39% (or by 816,000 personal accounts) compared with 2017.

Increase in revenue versus the previous accounting period: 34%, or RUB 891 million.

Goals for developing the Unified Information and Settlement Centers until 2020:

- implementation of projects to incorporate the municipal solid waste treatment services of regional operators into the Unified Payment Document (hereinafter UPD)
- creation of centralized IT solutions for business processes to generate charges for housing and utility services
- entering the housing insurance market
- piloting advanced IT solutions for customer relations
- optimizing and standardizing business processes using the approaches of the Lean 6 Sigma concept
- an increase in the average UPD check
- an increase in the number of personal accounts serviced
- launching UISCs in new regions where the Group's guaranteed suppliers operate

### Reliability and security of electric power supplies

A number of power grid facilities that were previously owned by local governments were transferred to the balance sheets of grid companies, which had a positive effect on the security of power grid operations and enhanced the reliability of power supplies to consumers. Starting from 2018, the PJSC Inter RAO Office for Work with Grid Organizations has been reviewing inquiries from consumers regarding the quality of electrical power delivered to guaranteed suppliers, which has helped improve the efficiency of work to eliminate bottlenecks.

In an effort to simplify the utility connection procedure and shorten the connection time itself, the Inter RAO Group's supply companies and grid companies are implementing the joint One-Stop Shop project, which allows for simultaneously concluding two contracts – for utility connections and power supply. The power supply contract takes effect immediately upon completion of the utility connection, which eliminates the need for consumers to contact the guaranteed supplier again after the registration of the utility connection. The Company is successfully developing and improving this project.

The companies of the Group have contact centers that provide access to information regarding the reliability of electricity quality and are also able to quickly respond to customer inquiries.

In order to improve information security mechanisms, projects are being implemented to update the personal data protection system. The Company has designated individuals responsible for ensuring the protection of confidential information. The staff of companies in this Segment consist of employees who have a basic higher education in information security or have completed advanced training courses. Commissions have been created to determine the level of protection of personal data when it is processed in the information system used to manage power supplies to residential consumers.

The Company monitors the updating of documents that regulate information security issues. At least once a year, the following provisions are updated:

- Information Security Policy
- Policy for the Technical Protection of Information
- Regulation on Work to Ensure the Protection of Information Constituting a Commercial Secret
- List of personal data information systems to be protected

Companies in the Supply segment use a multi-level software and hardware system to protect information:

- firewalls (Cisco ASA, Palo Alto) and certified intrusion detection tools (APKS Continent. Attack Detector)
- certified cryptographic information security tools for data transmission channels outside a controlled area (APKS Continent)
- anti-virus protection for information, including email and virtual environments (Kaspersky Endpoint Security for Standard Business, Kaspersky Security for Microsoft Exchange, and Kaspersky for Virtual Environments)
- Certified protection tools against unauthorized access to AWS users (Secret Net Studio)



In addition to technical measures, the Company's employees regularly monitor vulnerabilities in security systems:

- scanning for IT infrastructure vulnerabilities using the specialized XSpider tool with the preparation of quarterly reports
- monitoring of the records of information resource users with the preparation of quarterly reports
- analysis of the protection of web resources

In 2018, the following key measures were carried out:

- drafting and updating of internal regulatory documents concerning information security
- verifying and preparing quarterly reports on the monitoring of records
- scanning for vulnerabilities in the network of the central office, OSE, and server segment
- measures to improve the information security of public resources

## Improving customer service quality

A customer-oriented approach is one of the key focuses for the development of supply companies. In an effort to boost customer loyalty, new information systems for customer relations management (SUVK 2.0.) and remote service systems (LCC, CC) are being actively introduced into organizational charts. In order to introduce modern customer service quality standards, service companies have launched a project called Supply Academy, which entails creating a center of excellence to train the Group's staff on the basis of a professional development system. One of the key focuses is the development of additional paid services – the supply of goods and the provision of services related to the supply of electricity to consumers. Due to the new law 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, all power supply companies have conducted a revaluation of the indicators set forth in roadmaps to replace metering devices in the time between verifications. In addition, power supply companies have drafted and approved roadmaps to enter the market of electrical installation work for businesses and individuals.

The Inter RAO Group's power supply companies are actively working to improve the quality of customer service and introducing modern communication technologies with customers (contact centers, CRM systems, and Internet reception centers, among other things). The Company is paying significant attention to the introduction of new technologies in the traditional operational business processes of companies.

In 2018, the retail business devoted special attention to the development of the range and capacity of interactive customer services, such as IVR (interactive voice response), video consultants, and chat bots, and improving the quality of their work. Effective solutions have also been included in replication projects for all companies in the retail business.

The customer-oriented approach means faster processing of incoming calls and more detailed explanations for customers. All companies have significantly expanded the capacity and features of the One-Stop Shop service when providing face-to-face services to individuals, individual entrepreneurs, and major customers. Centralized projects have been completed to model and build software to update and improve the quality of customer information, which optimizes personalized interaction between companies and customers on a wide range of issues related to both contractual relations when providing power supplies (clarification of contractual terms and real estate parameters, notifications about debt and charges, and claim-related work, among other things) as well as the sale of additional paid services.

The increased capacity of contact centers and the introduction of automated load distribution in such cities as Oryol and Tomsk has not only made it possible to connect most retail assets to remote services, but has also significantly expanded the range of operations available to customers.

The features of retail asset mobile applications for individual and business customers have also been expanded. In addition, retail assets have successfully launched projects to introduce legally significant electronic document workflow with consumers and grid organizations via secure electronic communication channels, which has enabled customers to instantly receive electronic documents, submit documents electronically to the oversight authorities, perform any online operations with documents around the clock, work with electronic documents directly from the accounting system, minimize the cost of resources for processing accounting documents in hard copy form, significantly reduce the time for the provision of accounting documents, and eliminate interest charges (penalties) for missing payment deadlines.

All power supply companies (guaranteed electricity suppliers) of the Inter RAO Group have uniform standards for the quality of customer service. The main principles for interaction between companies and customers are reliable and uninterrupted power supply and the availability of services.

In an effort to inform consumers about the services offered by the Inter RAO Group's companies, customer waiting areas at the central office show informational videos about remote means of communication and online services. The websites of service companies can not only be used as a source of information, but also as an online office. The following services are available to customers:

- my account
- online consultation
- transfer of meter readings
- printing of receipts for cash payments
- face-to-face consultation

The companies of the Group are constantly working to develop customer services to allow consumers to save time and utilize services remotely online. In 2018, a wide-ranging survey of customer satisfaction with the quality of commercial services was conducted using unified methodology and revealed a fairly high level of satisfaction at 33%. Customers can also learn about service standards and leave comments and suggestions on the websites of companies.

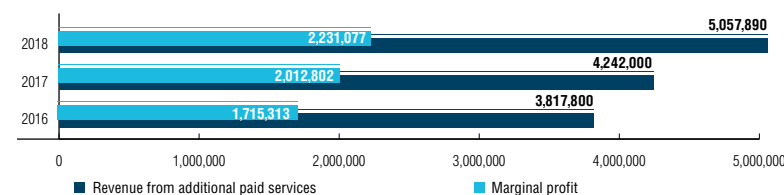
## Business diversification

The energy service contracts market for the Supply segment was further developed in 2018 due to the expansion of additional paid services for the modernization of street lighting, where profits increased by 42% compared to last year.

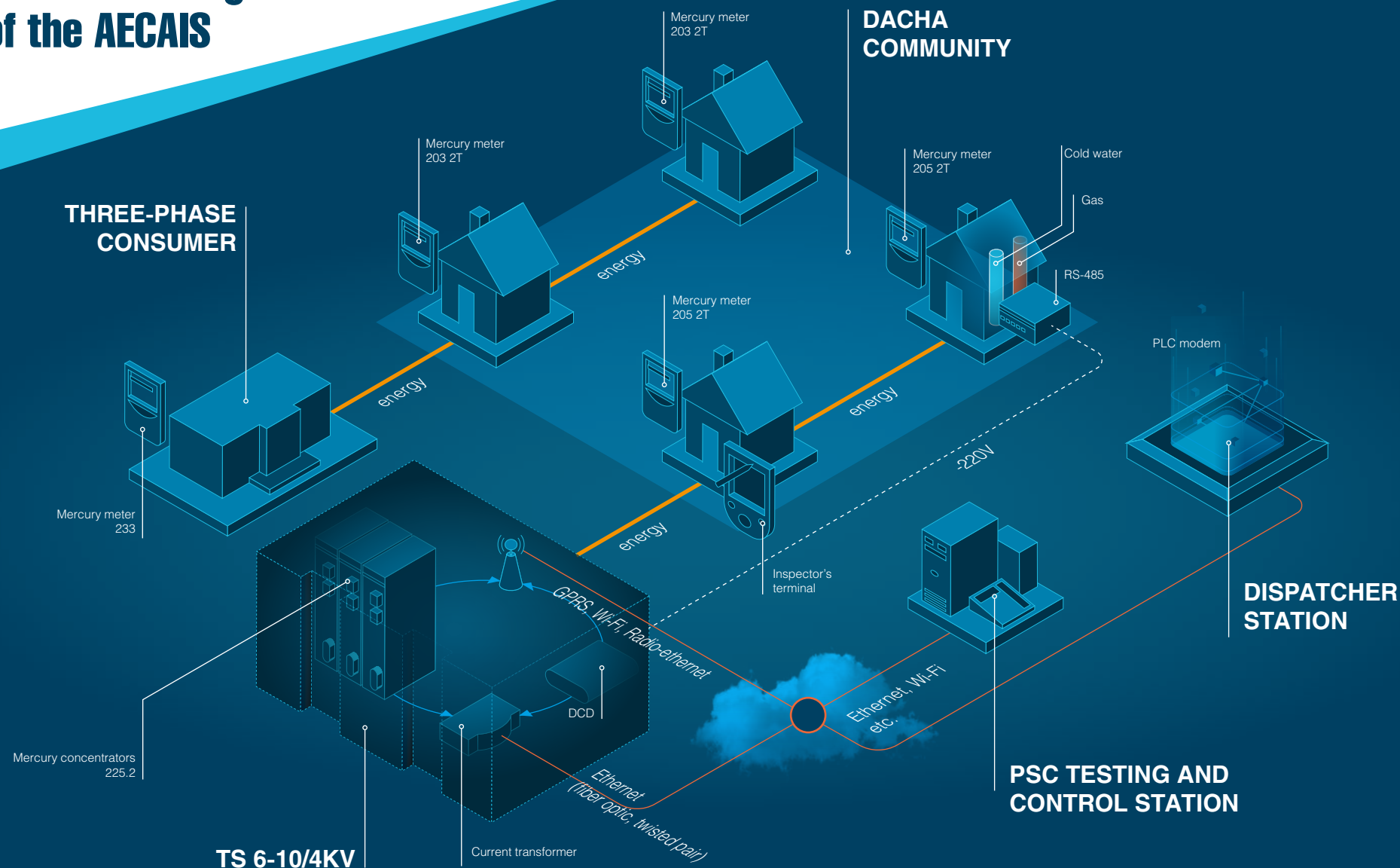
In 2018, the Inter RAO Group's supply companies concluded 35 energy service contracts for a total of RUB 837 million, with investments amounting to RUB 440 million. The key focus areas of the contracts were the modernization of systems and lighting as well as the introduction of an automated electricity commercial accounting information system (AECAIS) on the retail electricity market.

### OVERALL ECONOMIC INDICATORS FOR ADDITIONAL PAID SERVICES IN 2018

RUB thousand (excluding VAT)



## Schematic diagram of the AECAIS



## Interaction with the authorities

The Group's companies regularly interact with the authorities on matters concerning the settlement of overdue receivables among public sector institutions and utility companies.

The directors of the Group's supply companies are members of:

- the power supply security headquarters
- the commission on organizational support for settlements with resource-supplying organizations of the housing and utilities sector and management organizations that collect payments for utility services and contracts for the supply of electric power, heat, water, hot water, drainage, and gas
- the interdepartmental commission for the preparation of the housing and utility sector and power facilities for work in winter conditions and the heating period of 2018/2019

In 2018, as part of a pilot project in the Moscow Region, JSC Mosenergosbyt printed out and delivered unified payment documents containing a total of 261,200 bills for electric power consumed and for the collection, transportation, and recycling of solid household waste and bulky waste. The Ministry of Housing and Utility Services of the Moscow Region deemed the initiative a success. The decision was made to scale the project for all individual housing construction in the Moscow Region (1.2 million personal accounts).

In 2018, the Government of the Leningrad Region and the United Information and Settlement Center of the Leningrad Region (JSC UISC LR) continued cooperation in issuing Unified Payment Documents (UPD) for the population, which makes it possible to:

- receive bills for all utility services within the UPD, including electricity bills from JSC St. Petersburg Power Supply Company (JSC PPSC)
- make separate payments for services from the UPD
- send payments to service providers without accumulating funds on the account of JSC UISC LR

The number of subscribers of JSC St. Petersburg Power Supply Company who receive bills for electricity within the UPD increased by 53% in 2018 – from 141,000 to 216,000 subscribers. This encompassed 94% of the apartment buildings in the Leningrad Region serviced by JSC PPSC. The company collaborates on issues concerning the increased availability of energy infrastructure and improving the business climate of St. Petersburg with the Public Council for the Development of Small Business under the Governor of St. Petersburg, the St. Petersburg Union of Entrepreneurs, the Energy Commission of the St. Petersburg branch of OPORA RUSSIA, and the Working Group of the Power Engineering and Engineering Support Committee of St. Petersburg.

Since 2015, LLC Inter RAO – Oryol Power Supply has been issuing the UPD in the Oryol Region. At present, the UPD includes charges for electric power, gas supply for domestic needs, major repairs, heating services, water heating, hot water supply, cold water supply, and drainage and also for the services of one of the management companies. More than 400,000 UPDs are printed per month.

In November 2018, the governor of the Tomsk Region and PJSC Inter RAO signed a roadmap to expand the use of products and technologies at Tomsk Region organizations, including those used for import substitution, for the Inter RAO Group in 2018-2022. The document envisages fundamental improvements to the citizens service system and the establishment of modern clearing centers in the Tomsk Region based on the technologies used by PJSC Tomskenergosbyt.

PJSC Tomskenergosbyt is also taking part in the 'Safe Childhood in a Safe City' municipal program in which street lighting around pre-school institutions is being upgraded. The public sector is receiving new lights under an energy service contract. The project is being carried out under the patronage of the Department of Education of the Tomsk Administration.

In 2018, the company once again supported the BrighterTogether national energy conservation festival and offered the public a new way to participate in the Energy Conservation Movement project. Residents of the region's capital were given the opportunity to exchange old incandescent lamps for new energy efficient LED lamps.

# TRADING

The 'Trading in the Russian Federation and Europe' segment includes seven companies that carry out trading operations for the export and import of electricity as well as the sale and purchase of electricity (capacity) in the countries where they operate. Electricity is supplied both under commercial contracts and as part of parallel work with foreign energy systems and emergency mutual assistance.

PJSC Inter RAO is the leading Russian electricity export and import operator and the sole participant in export and import operations on the Russian Wholesale Electricity and Capacity Market (WECM). The segment provides foreign electricity supplies from the subsidiary JSC Eastern Energy Company and a third-party company as an agent. The Group's trading companies in the countries of Northern Europe and the Baltic States carry out trading operations for the purchase and sale

of electricity on the unified exchange platform Nord Pool and Nasdaq OMX Commodities and on the national exchange PolPx in Poland.

In 2018, the segment conducted trade operations in the following countries: Finland, Belarus, Lithuania, Norway, Ukraine, Latvia, Estonia, Poland, Georgia, Azerbaijan, Kazakhstan, South Ossetia, Mongolia, and China.

The Group's  
geography  
encompasses

**14** countries

Company	Description	Country
PJSC Inter RAO	In this segment, PJSC Inter RAO acts as an export and import operator of electricity within the Russian Federation <sup>1</sup> . In 2018, electricity was supplied both under commercial contracts and as part of parallel work with foreign energy systems and emergency mutual assistance as is customary.	Russia
RAO Nordic Oy	The company is registered in Finland and is a subsidiary of the Group, as PJSC Inter RAO owns 100% of the company's charter capital. It purchases electricity from PJSC Inter RAO for its subsequent sale to Nordic countries. There are plans to maximize the volume of electricity supplies from Russia to Finland taking into account the economic viability.	Finland
AB INTER RAO Lietuva	One of the largest independent electricity suppliers in Lithuania and a leading player on the electricity market in the Baltic states.	Lithuania
SIA INTER RAO Latvia	One of the independent electricity suppliers on the Latvian energy market. In 2019, the company does not expect significant changes compared with 2018. In the future, it plans to develop activities on the retail market in the country.	Latvia
INTER RAO Eesti OU	Sells electricity on the highly competitive Estonian energy market. In 2019, the company does not expect significant changes compared with 2018. In the future, it plans to develop activities on the retail market in the country.	Estonia
IRL Polska Sp. z o.o.	Engages in electricity trading activities in Poland on the day-ahead market and intraday market (RDNiB) as well as the derivatives market (RTT).	Poland
JSC Eastern Energy Company	Supplies electricity to China and Mongolia and is involved in joint Russian-Chinese investment projects that aim to develop the export of Russian electricity to China as well as cooperation in the energy sector with other countries in Asia and the Asia-Pacific region. Development plans call for a phased increase in the export of electricity from Russia to China with the construction of a 1,000-MW thermal power plant in the Far Eastern Federal District using coal from the Yerkovetsky coal deposit as well as increasing electricity exports to Mongolia using the capacity of existing interstate power transmission lines.	Russia

<sup>1</sup> Directive No. 1715-r of the Government of the Russian Federation dated November 13, 2009.

**STRUCTURE OF ELECTRICITY EXPORTED BY THE GROUP ACROSS THE BORDER OF THE RUSSIAN FEDERATION EXCLUDING AGENCY CONTRACTS, MLN KWH**

Country	2016	2017	2018	Change vs. 2017, %	Comments
Export volume, including by direction	17,002	16,699	16,712	0.1	
China	3,320	3,319	3,109	-6.3	The slight decline in supplies compared with the 2016–2017 level is due to a decrease in the counterparty's demand for electricity in 2018.
Finland	5,282	5,040	6,903	37.0	Favorable prices on the NordPool market in this energy zone were the main factor that influenced the increase in supply.
Lithuania	3,019	3,131	4,415	41.0	
Belarus	3,181	2,733	49	-98.2	In 2018, supplies were only made as part of the parallel operation of energy systems. This is due to the existing balance in the integrated power system of Belarus (IES of Belarus) and the lack of an agreement with the counterparty regarding commercial electricity supplies from the UES of Russia.
Kazakhstan	1,164	1,294	1,347	4.1	Deviations in this segment are mainly related to the flow volume as part of the parallel operation of the energy systems of Russia and Kazakhstan.
Other countries	1,037	1,182	889	-24.8	The deviation relative to 2017 is mainly due to a projected decline in exports to Georgia in 2018 and is related to the balance of the foreign energy system.

**STRUCTURE OF ELECTRICITY IMPORTED BY PJSC INTER RAO ACROSS THE BORDER OF THE RUSSIAN FEDERATION EXCLUDING AGENCY CONTRACTS, MLN KWH**

Country	2016	2017	2018	Change vs. 2017, %	Comments
Import volume, including by direction	3,143	6,230	5,122	-17.8	
Kazakhstan	2,726	5,736	4,825	-15.9	The reduction in electricity imports from Kazakhstan is due to a decrease in commercial electricity supplies under a contract with LLP Ekibastuzskaya TPP-1 as a result of their termination starting from August 2018.
Georgia	148	262	97	-63.0	
Other countries	270	232	200	-13.8	

The main strategic objective traditionally faced by companies in the segment is to conduct foreign trade operations with electricity generated in Russia and foreign countries as efficiently as possible as well as enhance the efficiency of foreign trade activities. To meet these objectives, key KPIs have been established for the management and employees of PJSC Inter RAO as well as for the senior executives of key subsidiaries on reaching the electricity sales volumes and marginal profits approved in the companies' business plans.

Main objectives faced by management for the development of the Trading segment within the context of strategic priorities:

- to maintain and consolidate existing positions as an export-import operator taking into account integration processes on Russian and foreign energy markets within the Eurasian Economic Union
- to conduct foreign trade operations with electricity generated in Russia and foreign countries as efficiently as possible

In 2018, all the objectives set for the 'Trading in the Russian Federation and Europe' segment were achieved.

No significant changes in the activities of the companies in the segment are projected in the short term. In 2019, cumulative sales volumes are expected to remain at the 2018 level, although weather and man-made factors in the countries where the companies operate as well as exchange rates could significantly affect the segment's activities. If these factors have a positive influence, the companies in the segment traditionally set the goal of maximizing supply volumes and profits.

## Changes to the regulatory framework

In 2018, amendments were made to the Eurasian Economic Union (EEU) Treaty in connection with the accession of the Kyrgyz Republic and the Republic of Armenia to the EEU<sup>2</sup>. Based on this decision, changes were made to the Methodology for the Interstate Transmission of Electric Power (Capacity) between Member States.

Resolution No. 1496 of the Government of the Russian Federation dated December 8, 2018 was published on issues concerning the accession of the western and central districts of the electric power system of the Republic of Sakha (Yakutia) to the Unified Energy System of Russia as well as amendments and the repeal of certain acts of the Government of the Russian Federation.

## Measures to reduce country and regulatory risks

Current risks for the European region include strengthening ties between power systems within the EU (ENTSO-E) and a desire for energy independence from third countries. In particular, the commissioning of new interstate power transmission lines will have a significant impact on the volume of electricity supplies from Russia.

Key measures to reduce risks in trading activities include:

- diversification of the portfolio of trade contracts with different price levels
- flexible changes in the electricity supply schedule under contracts depending on the current price situation
- conclusion of foreign economic contracts at a fixed price or with established restrictions on price parameters
- management of supply volumes in the trade portfolio on the domestic and foreign energy markets, including the planning of export-import electricity supplies, taking into account repairs to the electrical equipment of the UES

### ELECTRICITY SALES, MLN KWH

Country	2016	2017	2018	Change vs. 2017, %	Comments
Sold, including:	22,134	25,108	24,194	−3.6	
Russia	3,143	6,230	5,122	−17.8	This decline is mainly attributable to a reduction in electricity imports from Kazakhstan due to a decrease in commercial electricity supplies under a contract with LLP Ekibastuzskaya TPP-1 as a result of their termination starting from August 2018.
Finland	5,701	5,578	7,476	34.0	PJSC Inter RAO was able to significantly increase exports compared with the actual volumes supplied in previous periods.
Lithuania	3,452	3,698	5,315	43.7	Favorable prices on the NordPool market in these energy zones were the main factor that influenced the increase in supply.
Belarus	3,181	2,733	49	−98.2	In 2018, supplies were only made as part of the parallel operation of energy systems. This is due to the existing balance in the integrated energy system of Belarus (IES of Belarus) and the lack of an agreement with the counterparty regarding commercial electricity supplies from the UES of Russia. Flows that are comparable with 2018 are expected in 2019 and beyond.
China	3,320	3,319	3,109	−6.3	The slight decline in supplies compared with the 2016–2017 level is due to a decrease in the counterparty's demand for electricity. It should be noted that exports exceeded the plan for 2018 thanks to the agreements reached with the counterparty.
Other countries	3,337	3,550	3,123	−12.0	The deviation relative to 2017 is mainly due to a projected decline in exports to Georgia in 2018 and is related to the balance of the foreign energy system.

<sup>2</sup> Resolution No. 494 of the Government of the Russian Federation dated April 21, 2018.

# ENGINEERING

Main objectives for the development of the 'Engineering in the Russian Federation' segment within the context of the Inter RAO Group's strategic priorities:

- establish a full-cycle engineering complex that is capable of providing services from the design to the commissioning of various types of power facilities
- ensure the implementation of new construction projects and the reconstruction and modernization of generating facilities within the prescribed periods without exceeding the design and estimated cost in accordance with quality requirements
- develop the production of turbine equipment with features corresponding to the best world analogues

Priority areas for the development of engineering companies include:

- developing expertise in:
  - > general contracting
  - > project activities
  - > commissioning
- turnkey delivery of equipment
- establishing consortiums with international engineering companies
- organizing the production of modern energy equipment in the Russian Federation

## Key assets

LLC Inter RAO – Engineering is an engineering company that specializes in the management of energy construction projects in Russia and abroad. The company provides a wide range of services for the implementation of energy construction projects, including project management on EPC/EPCM terms, the design of power facilities, and the supply of main and auxiliary equipment.

At present, LLC Inter RAO – Engineering has references from implementing construction projects and modernizing power facilities with total capacity of 7.5 GW. The company has successfully implemented 22 projects. Its current order book consists of three projects with total capacity of approximately 860 MW.

LLC Inter RAO – Engineering manages the core assets of the Inter RAO Group and participates in a joint venture with General Electric (GE) and the Rostec State Corporation while facilitating the introduction of the most modern and efficient technological solutions for the development of energy infrastructure.

LLC Russian Gas Turbines represents the interests of the Inter RAO Group in a joint venture with General Electric (GE) and JSC United Engine Corporation (UEC) for the production and maintenance of 6F.03 gas turbine units in Russia.

## International certification

In late 2018, a surveillance audit was conducted at LLC Inter RAO – Engineering for compliance with the requirements of international standards ISO 9001:2015, ISO 14001:2015, and OHSAS 18001:2007 by the certification body TÜV NORD GmbH (Germany), with which the company has cooperated since 2013. During the audit,

TÜV NORD GmbH verified all the mandatory requirements of the standards, drawing on the example of the implementation of a project at the Primorskaya TPP in the executive office and the Svetlovsk branch as well as design at the company's Ivanovo branch. No discrepancies were found, and recommendations were made for improvements to the integrated management system of LLC Inter RAO – Engineering. Based on the results of the four-day surveillance audit, TÜV NORD GmbH confirmed the successful completion of the audit and recommended continuing the registration of the management systems for the next three years.

## Trends

The government of the Russian Federation has approved a program to upgrade the generating capacities of thermal power plants in Russia to 41 GW from 2022 to 2031 on a competitive basis. The modernization program guarantees generating companies an up to 14% return on investment per year in rubles. In connection with the legislative enshrinement of mechanisms for the return on investment in upgrading generating capacity, generating companies are planning new investment programs, which could expand the market for engineering and design services, increase the volume of construction and installation work in the electric power segment in the Russian Federation, and result in new orders. Promising areas in the electric power industry of the Russian Federation include renewable energy projects, the design and construction of thermal waste incineration plants, and the development of distributed generation, which means industrial companies will be interested in building their own power plants.



At present, LLC Inter RAO – Engineering is one of the leading companies on the engineering services market in the electric power industry of Russia and is on par with such players as JSC ASE United Engineering Company and JSC TEK Mosenergo. Substantial investments in the construction of power plants and networks to meet the growing demand for energy consumption in the developing nations of Asia, Africa, and Latin America by 2035 will create a potential opportunity to increase the presence of the Group's engineering companies on foreign markets.

## Construction

LLC Inter RAO – Engineering manages energy construction projects in Russia and abroad. In March 2018, the company managed the commissioning of two power plants in the Kaliningrad Region: the Mayakovskaya TPP in Gusev and the Talakhovskaya TPP in Sovetsk with capacity of 156 MW each, which were built in record time at just over a year and a half. The plants were built based on the same design and are projected to cover peak loads in the network. The main plant equipment is 100% Russian-made. Both TPPs include two gas turbine units with capacity of 78 MW each. LLC Russian Gas Turbines (Rybinsk, Yaroslavl Region) manufactured the units. The generators were manufactured at the Elsib Research and Production Association (Novosibirsk). The new energy capacities have strengthened the energy security of the Kaliningrad Region and also significantly increased the maneuverability and controllability of the energy system in the westernmost region of the country.

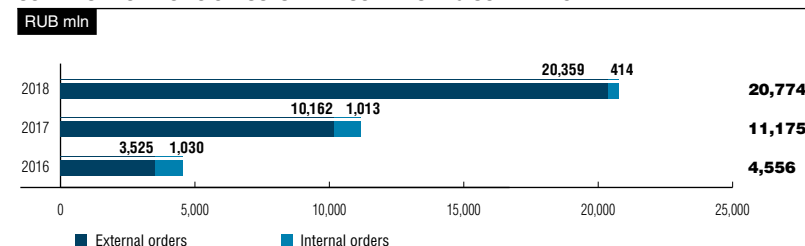
As part of this project to ensure the energy security of the Kaliningrad Region, which is being implemented based on instructions from Russian President Vladimir Putin and in accordance with a directive of the Russian government, construction is continuing on two more power plants: the Pregolskaya TPP in Kaliningrad with capacity of 455 MW and the Primorskaya TPP in the Svetlovsk urban district village of Vzmorye with capacity of 195 MW. In late 2018, the Agency for Architecture, Town Planning, and Long-Term Development of the Government of the Kaliningrad Region granted permission for the commissioning of three of the four power units at the Pregolskaya TPP.

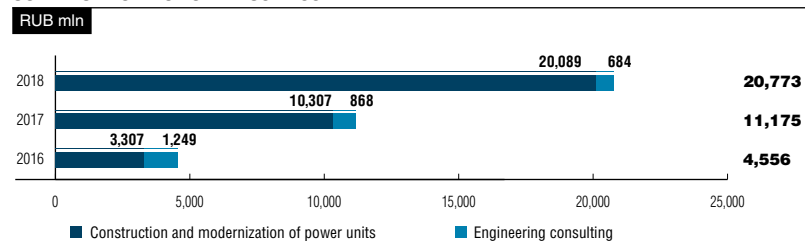
In addition, the Zatonetskaya CHPP was commissioned in Ufa in March 2018. The new power plant consists of two power units with total electric power capacity of 440 MW and thermal power capacity of 290 Gcal/h. Modern Russian-made high-efficiency steam and gas equipment has been installed at the CHPP. The new combined heat and power plant will reduce the shortage of electric power in the Ufa power generation system, create additional opportunities for connecting new energy-intensive consumers, and enhance the reliability of energy supply to consumers.

## Development of the equipment market

In 2018, LLC Russian Gas Turbines installed and carried out adjustment supervision of eight 6F.03 gas turbine units manufactured by LLC Russian Gas Turbines at its plant in the Yaroslavl Region city of Rybinsk under a contract for projects in the Kaliningrad Region. The Company continues to work on further developing and increasing the degree of localization and production of gas turbine equipment with features that correspond to the best world analogues.

### CONTRACT PORTFOLIO STRUCTURE BY CONTRACTING COMPANIES



**CONTRACT PORTFOLIO BY BUSINESS****Foreign projects**

LLC Inter RAO – Export implements engineering projects abroad. The company's strategic goal is to expand its presence on target foreign markets as well as promote Russian practices and energy solutions on foreign markets.

Countries of Latin America, Southeast Asia, and Africa are the key markets where the company is implementing and developing its projects. LLC Inter RAO – Export promotes the main and auxiliary equipment for power generation facilities on foreign markets.

**Promising areas for development**

Strategic areas for the development of LLC Inter RAO – Engineering and other engineering companies of the Group include:

- improving the quality of services taking into account best international practices in quality management, environmental safety, and occupational safety
- increasing the supply of products (equipment, work, and services) for the construction of energy facilities, including innovative/energy efficient products made by the Group's enterprises

The main objective of LLC Inter RAO – Engineering in 2019–2020 is to ensure the implementation of all the Group's new construction and modernization projects as well as projects being implemented with the Group's involvement (the construction of generating facilities in the Kaliningrad Region). The company has the potential opportunity to enhance the competitiveness of the engineering business and expand its presence on the Russian and foreign markets in the medium term due to several key EPC players leaving the Russian market, the availability of sustainable financial resources, the prospects of the generating capacity modernization program

**GEOGRAPHY OF CONTRACT PORTFOLIO, RUB MLN**

Region	2016	2017	2018	Change vs. 2017, %
Siberian Federal District	2.7	20.6	7	–66.0
Volga Federal District	765.1	158.3	171	8.0
Urals Federal District	176.0	747.1	48	–93.6
Central Federal District	465.8	289.98	157	–45.9
North Caucasus Federal District	790.0	8,848.1	0	
Southern Federal District	3.2	0	0	
Northwestern Federal District	0	0	20,014	
Other	2,352.6	1,110.9	376	–66.2
Total	4,555.5	11,174.9	20,774	85.9

in Russia, its own offerings on the gas turbine market, and its extensive experience in the design and construction of turnkey power facilities.

LLC Russian Gas Turbines aims to further develop and increase the degree of localization of the manufacturing of gas turbine equipment with features that correspond to the best world analogues.

The strategic goal of LLC Inter RAO – Export is to expand its presence on target foreign markets as well as promote Russian energy practices and solutions on foreign markets. Countries of Latin America, Southeast Asia, and Africa are the key markets where the company is implementing and developing its projects.

The primary strategic goal of LLC Quartz Group for the period until 2020 is to increase the company's share in the energy and general industrial segments of the market while sustaining profit margins by increasing the commercial appeal and competitiveness of the services it provides.

# R&D

Considering the systemic role that the Inter RAO Group plays in the energy industry, projects involving scientific research and innovations are of the highest priority. The measures of the Innovative Development Program allow for strengthening the Group's position as one of the key players in the process of global technological development. As part of this strategic focus, the Group's companies are actively expanding the infrastructure of their innovative activities, which is consistent with current global trends in science and technology. Innovative projects help to develop and strengthen the Group's inter-sectoral and international scientific and technical relations.

The goals of the R&D Program are to provide the Inter RAO Group with competitive advantages and achieve scientific and technological leadership in the industry through the development and introduction of advanced technologies and innovative solutions that are consistent with the global level and the state policy of the Russian Federation in the energy sector.

The following tasks had to be solved to achieve the goals of the R&D Program in 2018:

- enhancing the technical level, reliability, safety, and efficient operation of generating assets to the level of the best world analogues
- improving the environmental safety of electric power production as well as the production and transmission of thermal power
- cutting production costs
- energy savings
- improving the quality of goods and services for end users of energy resources
- developing and promoting proposals for the development of the industry's regulatory framework

The effectiveness of the implementation of the R&D Program measures in 2018 is assessed based on the following key indicators:

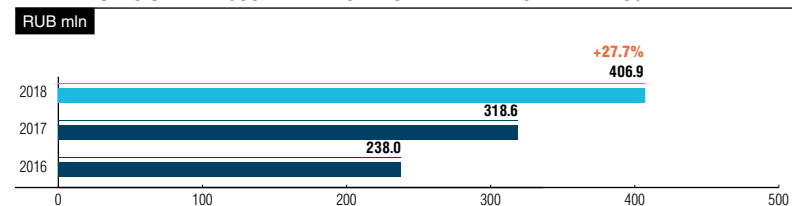
- the proportion of R&D costs versus the revenue of generating assets
- the number of intellectual property items

Over the course of the reporting year, the companies of the Group and the Energy Without Borders Foundation prepared R&D projects, supported the process of their inclusion in the R&D Program, and subsequently implemented and introduced the results that were obtained.

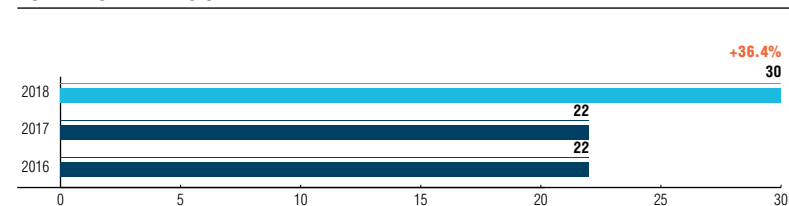
Main objectives for the development of R&D in the context of strategic priorities

- Inter RAO attaining the position of a technological and innovative leader in the industry
- promoting the innovative development of the energy industry in the Russian Federation
- developing and introducing breakthrough technologies and innovative projects with industry-wide importance
- creating a scientific, engineering, and production framework for the innovative development of Inter RAO and the Russian electric power industry

## EXPENDITURES ON THE PJSC INTER RAO INNOVATIVE DEVELOPMENT PROGRAM



## NUMBER OF PATENTS OBTAINED



## Innovative activity management system

The Innovation, Investment, and Cost Management Unit handles the centralized management of the Group's innovative activities. The unit monitors the achievement of goals based on targets developed on the basis of the Group's strategic benchmarks and the results of a comparative analysis with leading foreign and Russian energy companies.

### Energy Without Borders Foundation

In an effort to improve the management of R&D projects, the Inter RAO Group in 2011 created the Energy Without Borders Foundation to provide corporate support for research, scientific, technical, and innovative activities. The Foundation collects funds for major projects, creates an independent center of excellence to implement the R&D policy, performs the functions of a center for interaction with external partners and the government, and also helps to replicate and commercialize R&D results.

The Energy Without Borders Foundation provides an example of a systematic approach to organizing all innovative processes at a large corporation. The Foundation operates on the One-Stop Shop principle: it is the entry point for innovations at the Inter RAO Group and simultaneously the intersection point of expertise and demand. Its main objective is to form counter-flows of inquiries from the corporation and proposals from developers and organize the innovation

process without interruption. To this end, the foundation has developed a clear and consistent methodology that is embedded in the existing system of the corporation's internal policies and procedures. The Foundation accepts applications for work within the R&D program and proposals on the introduction of innovative solutions. Proposals and applications are accepted on the website <http://energy-fund.ru/> both from representatives of the Inter RAO Group as well as from any third-party individual or legal entity.

### Strategic partners

The Group has expanded the range of its search for new technologies and innovative solutions by maintaining and building working relationships with independent experts, leading Russian and foreign organizations, and their associations. The Group's strategic partners include:

- the Skolkovo Foundation
- the International Energy Agency
- the Institute of Innovation Management at the National Research University Higher School of Economics
- the RUSNANO Fund for Infrastructure and Educational Programs
- the Urals Branch of the Russian Academy of Sciences
- JSC All-Russian Thermal Engineering Institute

## Projects implemented in 2018

### In electric and thermal power generation:

#### Steam and gas equipment

Commissioning of progressive equipment based on modern combined-cycle technologies (Zatonskaya CHPP-2, the PGU-220 unit with capacity of 440 MW);

#### Data management system

Development of a system for the collection, transfer, and calculation of technological information of the executive office of JSC Inter RAO – Electric Power Plants and its branches.

#### Reagent VTIAMIN KR-33

Development of the VTIAMIN KR-33 new generation amine-containing reagent (right holders: Energy Without Borders Foundation and JSC All-Russian Thermal Engineering Institute), which is the domestic equivalent of foreign reagents (Helamin, Cetamine, and PuroTech). The reagent is used to support the amine water chemistry conditions at power facilities. The introduction of the Russian-made reagent reduces the cost of reagents by up to 40% per year.

The reagent is currently used at the following facilities of the Inter RAO Group and beyond:

- Ufimskaya CHPP-2 (LLC BGC)
- Zatonkaya CHPP (LLC BGC)
- Adlerskaya TPP (OJSC OGC-2)
- LLC Agrosnabsakhar (a sugar factory in the Lipetsk Region city of Yelets)

Work is underway to expand the supply market and the items introduced for the production of a new reagent.

### Simulators for TPPs

New generation simulators are being developed to train the operating personnel of power plants based on innovative Russian-made information technologies. The use of simulators enhances the reliability and safety of equipment operation at thermal power plants by providing staff with the skills to make and implement decisions involving equipment management in real-time. Work is being carried out as part of projects to create mathematical models that simulate the operation of TPP equipment, and software products have been developed to implement these mathematical models. Each project aims to create intellectual property – computer programs – that can be protected legally.

### Power equipment test site

A project is being developed to build a test site for power equipment with a test bench, including laboratory facilities as well as hardware and software systems with licensed software that meets modern IT solutions. The test site solves thermal power engineering challenges in the following areas: Fuel, Ecology, Water Treatment, Improving Reliability, and Maneuverability.

### Gas turbine engine for power plants

A project for the creation of GTD-110M and GTE-110M production technologies was launched on December 25, 2013. It is being implemented by a consortium of PJSC Inter RAO, the RUSNANO Fund for Infrastructure and Educational Programs, PJSC Saturn NPA, and the Innovative Energy Technologies Center nonprofit partnership at the facilities LLC Gas Turbine Technologies Engineering Center.

The entire range of R&D has been completed for the fine-tuning and modernization of the GTD-110M in accordance with the project schedule. The restoration and modernization of the GTD-110M pilot engine has been completed. The GTD-110M pilot turbine underwent three test stages on a test bench. Measures were developed and tested at the batch-produced compartment of the Ivanovskiye CCGT to reduce the noise level, vibration, and heat emitted by the GTE-110M unit to standardized values. A set of 20 parts and components of a low-emission combustion chamber (MEKS) was manufactured for installation and testing within the GTD-110M engine. All the parts and components of GTD-110M No. 6 have been manufactured, and the general assembly of the engine is underway.

The plan is to complete the assembly of the engine and deliver GTD-110M No. 6 to the Ivanovskiye CCGT test bench in March 2019. The engine is to be tested for a total duration of 700 hours in April 2019. Following the completion of the prolonged testing, the engine GTD-110M No. 6 will be under controlled pilot operation at the Ivanovskiye CCGT. The Company has registered three patents and eight production secrets (know-how) based on the research and development activities carried out as part of the project.

## Power supply activities:

### Unified billing

Launch of a unified billing system for legal entities at supply companies of the Inter RAO Group.

### FORSAZH settlement system

FORSAZH standardization of settlements with individual consumers of the Inter RAO Group's power supply companies.

### BYT automated power supply control system

Development of new generation IT products for settlements with individual subscribers on the basis of the BYT automated power supply control system.

# SUPPLY CHAIN

The Group has a Specialized Procurement Organization (SPO) that is authorized to conduct procurements and/or organize the supply of goods, the performance of works, or the provision of services. The SPO ensures uniform demand for the same type of products and creates a unified information space of the supply system that handles: planning, accounting as well as carrying out and monitoring procurements. Modern information and telecommunication technologies, e-commerce tools, and electronic document workflow in conjunction with other information systems are used to organize procurements.

The Inter RAO Group uses electronic trading platforms that ensure compliance with the requirements of the laws and other regulatory acts of the Russian Federation, the Procurement Regulation, corporate standards concerning supply as well as the laws of countries where foreign subsidiaries operate.

Sustainable and reasonable measures are taken to support subsidiaries that are created specifically to perform service, repair, innovation, and engineering jobs as well as tasks related to ensuring energy efficiency, among others. Preferences are given to suppliers and contractors taking into account the requirements of the legislation of the Russian Federation and the laws of the countries where foreign subsidiaries operate.

**IN 2018, PJSC INTER RAO CONFIRMED ITS STATUS AS ONE OF THE LEADERS OF THE NATIONAL PROCUREMENT TRANSPARENCY RATING PROJECT BY RECEIVING THE GRADE OF 'HIGH TRANSPARENCY'.**

Since 2015, the Group has had an advisory body that ensures the efficiency of procurements for companies of the Inter RAO Group, which includes representatives of the regional authorities, public organizations, and other participants. The advisory body drafts proposals that aim to improve the efficiency of procurement activities, including expanded access for small and medium-sized enterprises to the procurements conducted by the companies of the Inter RAO Group.

**IN 2018, THE INTER RAO GROUP WON THE MAIN PROFESSIONAL COMPETITION FOR RUSSIAN BUSINESS CUSTOMERS IN THE CATEGORY 'BEST SUPPORT FOR SMALL AND MEDIUM-SIZED ENTERPRISES.' A TOTAL OF 188 COMPANIES FROM ALL OVER THE COUNTRY AND FROM ALL SECTORS OF THE ECONOMY TOOK PART IN THE COMPETITION.**

## Requirements for certified management systems:

As part of their proposal, procurement participants must submit valid certificates confirming that their enterprises:

- have a procurement participant and/or manufacturer of the products being procured
- have an organized quality control system
- comply with technological processes (input control, production process control system, output control, an ISO 9001 certified quality management system, an ISO 14001 certified environmental management system, an OHSAS 18001 certified occupational safety system, and an ISO 50001/GOST R ISO 50001 certified energy management system)

## Procurement of Russian-made goods

Companies of the Group that fall within the scope of Federal Law No. 223-FZ must prioritize goods of Russian origin as well as work and services performed and provided by Russian entities when purchasing goods, work, and services at a tender, auction, or through another procurement method, except for procurements from a sole provider (contractor), over goods originating from a foreign state or work or services performed or provided by foreign entities.

## Assessment of the procurement system

In order to fulfill Directive No. DP-11/17668 of the Federal Agency for State Property Management dated May 5, 2016, an Action Plan was approved by a resolution of the PJSC Inter RAO Board of Directors<sup>1</sup> on June 29, 2016 to standardize the procurement of goods, work, and services to meet the needs of PJSC Inter RAO (hereinafter the Plan).

In accordance with item 4 of the Plan, starting in 2017 the Company annually has monitored the results of its procurement activities (including as regards compliance with the approved annual integrated procurement program (AIPP) and regulatory costs for certain types of goods, work, and services for the needs of PJSC Inter RAO) and subsequently included information about the monitoring results in the Company's annual report.

In the 2018 reporting year, the Company carried out procurements in accordance with the approved standards and established limits. Based on procurement activities in 2018 and in accordance with the Methodology for the Standardization of Procurements for Certain Types of Goods and Services<sup>2</sup>, adjustments (updates)<sup>3</sup> were made to the List of Certain Types of Goods and Services with Established Standards and Expenditure Limits for certain types of goods and services that are intended for in-house needs and are not subject to commercial resale.

### RESULTS OF PROCUREMENT ACTIVITIES IN 2018, RUB THOUSAND

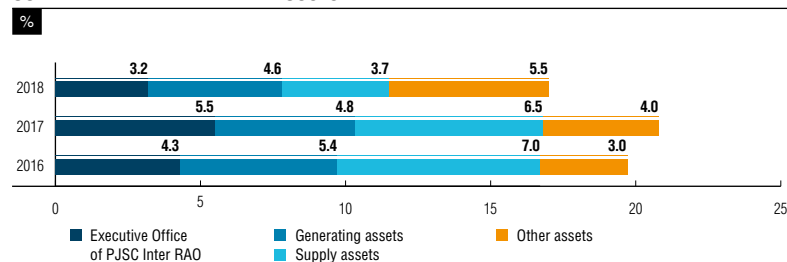
Indicator	Total	Open tenders	Open auctions in electronic form	Procurements from a sole supplier (contractor)	Other procurement methods	
					closed	open in electronic form
Tenders, other procurement methods (lots), and procurements from a sole supplier (contractor)	151,313,098	5,627,100	50,448	33,681,025	1,040,219	110,914,306
Tenders and other procurement methods (lots) that were declared invalid	18,342,237	2,950,274	45,374	738.93	68,370	15,277,481
Tenders and other procurement methods (lots) that were declared invalid or did not result in the signing of contracts	3,139,697	437,147			58,613	2,643,936
Contracts signed	132,968,243	2,676,826	5,074	33,677,668	971,850	95,636,825

<sup>1</sup> Minutes No. 173 dated July 4, 2016.

<sup>2</sup> Order No. IRAO/425 of PJSC Inter RAO dated September 30, 2016.

<sup>3</sup> Directive No. IRAO/1r of PJSC Inter RAO dated January 29, 2019.

### REDUCTION IN THE COST OF THE ANNUAL INTEGRATED PROCUREMENT PROGRAM (AIPP) COMPARED WITH THE PLANNED COSTS



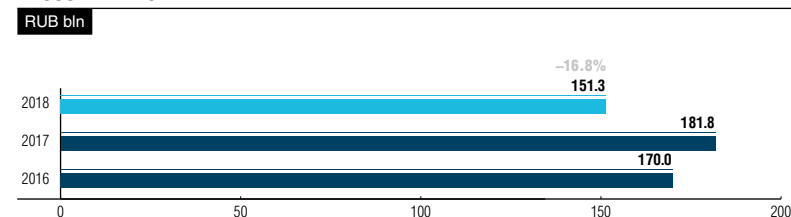
### Import substitution

According to the draft 2035 Energy Strategy of Russia, one of the strategic objectives in the development of the country's power sector is to ensure the technological independence of the power sector. The second strategic objective is to ensure adequate expertise in all activities that are crucial for the sustainable development of the power sector, while enhancing and expanding the global technological competitiveness of the Russian fuel and energy industry. In accordance with the Strategy of PJSC Inter RAO, import substitution is one of the mechanisms for the implementation of the Energy Strategy of Russia. The key strategic objectives have been determined as follows:

- increase the proportion of Russian-manufactured products to satisfy the Company's needs as part of its operational and investment activities
- develop production of turbine equipment with features that comply with the best world analogues

In order to implement Directive No. 830p-P13 of the Government of the Russian Federation dated February 6, 2017, the PJSC Inter RAO Board of Directors approved the Corporate Import Substitution Plan of the Inter RAO Group (CISP)<sup>1</sup>. The CISP was drafted to detail the objectives and activities of the Company's Strategy, which aim to reduce the Company's dependence on foreign-made products, in the short-term period until 2020.

### COST OF PROCUREMENTS EXCLUDING AGENT COMMISSIONS AND INTRA-GROUP PROCUREMENTS



The CISP is an integral part of the Strategy and is carried out in compliance with the following principles:

- eliminating the risks of diminished product safety and safety at permanent facilities (if the supplier chain changes during the implementation of investment projects)
- preserving the main parameters of investment projects being implemented at the proper level
- preventing a cost increase due to changes in the supply chain of certain goods that are required for the implementation of the investment project
- utilizing a risk-oriented approach during project selection concerning the assessment of risk arising from technical solutions in projects which require domestic or foreign solutions

In accordance with the CISP approved by the PJSC Inter RAO Board of Directors, the implementation of the measures of the CISP has been evaluated since 2017 based on an integral indicator<sup>2</sup> that describes the proportion of foreign products in procurements.

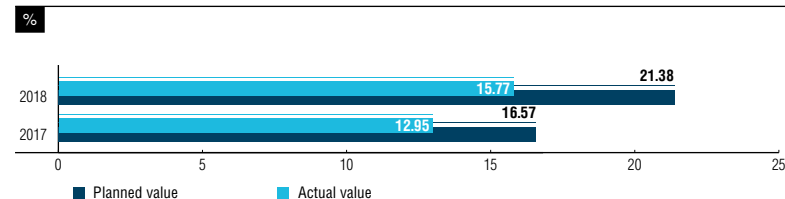
Based on the results of the procurements made in 2018, the actual value of the integral indicator did not exceed the planned value, which indicates the Group's dependence on foreign-made products has decreased.

<sup>1</sup> Minutes No. 208 dated September 18, 2017 of the meeting of the PJSC Inter RAO Board of Directors on September 15, 2017.

<sup>2</sup> The integral indicator is calculated in accordance with the Methodological Recommendations for the Preparation of the Corporate Import Substitution Plan approved by Order No. 219R-AU of the Russian Ministry of Economic Development dated August 11, 2016 (Directive No. 830p-P13 of the Government of the Russian Federation dated February 6, 2017).



#### INTEGRAL INDICATOR DESCRIBING THE PROPORTION OF FOREIGN PRODUCTS IN PROCUREMENTS



PJSC Inter RAO signed agreements with the governments of the Yaroslavl and Sverdlovsk Regions in 2018 in an effort to develop cooperation in industry and science on issues concerning the import substitution of equipment and technologies in the energy sector of the Russian Federation.

As part of the agreement with the government of the Yaroslavl Region, a roadmap was approved on October 2, 2018 to expand the use of import-substituting products and technologies at enterprises of the Yaroslavl Region for the needs of the companies of the Inter RAO Group.

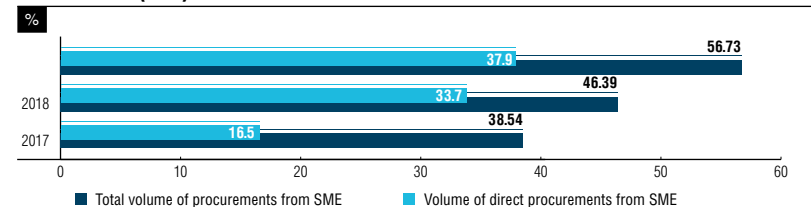
A new roadmap to expand the use of products and technologies, including import-substituting ones, at organizations of the Tomsk Region for the Inter RAO Group over the period of 2018-2022 was approved on November 14, 2018 in order to continue cooperation with the administration of the Tomsk Region.

On December 13, 2018, companies of the Inter RAO Group celebrated Supplier Day, which aimed to inform the heads of technical services at the Group's companies about opportunities for using products with higher quality features as well as high-tech and innovative products in production and technological processes as well as the opportunity to reduce dependence on foreign-made products through the use of export-oriented and import-substituting products.

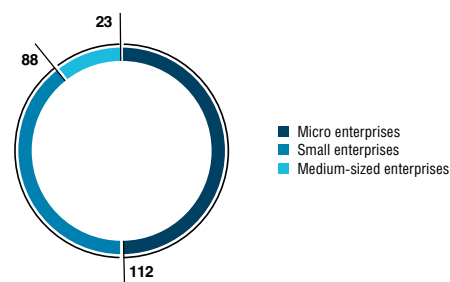
### Cooperation with small and medium-sized enterprises

In 2018, LLC Inter RAO – Procurement Management Center worked to achieve the target indicators for the implementation of the Strategy for the Development of Small and Medium-Sized Enterprises in the Russian Federation until 2030, which was approved by Directive No. 1083-r of the Government of the Russian Federation dated June 2, 2016.

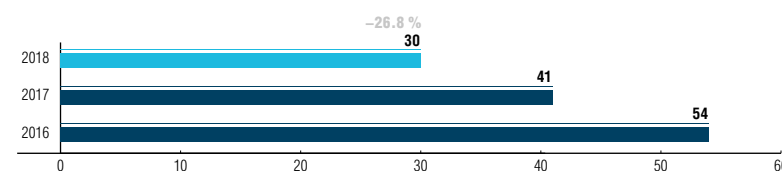
#### VOLUME OF PROCUREMENTS FROM SMALL AND MEDIUM-SIZED ENTERPRISES (SME)



#### NUMBER OF PARTICIPANTS IN THE PARTNERSHIP PROGRAM BY CATEGORY AS OF THE END OF 2018, COMPANIES



#### NUMBER OF PARTICIPANTS IN THE PARTNERSHIP PROGRAM BY PERIOD, SMALL AND MEDIUM-SIZED ENTERPRISES



# INDUSTRIAL AND OCCUPATIONAL SAFETY

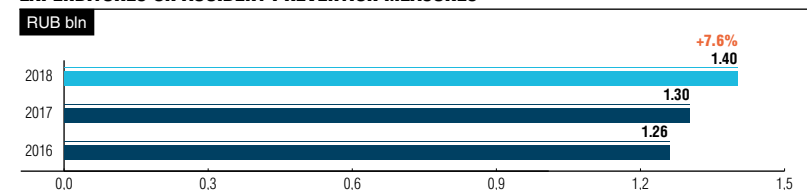
Main challenges faced by management in developing industrial and occupational safety within the context of strategic priorities

- Strengthening control over the activities of enterprises in matters concerning occupational, industrial, fire, and environmental safety. Management of occupational, industrial, fire, and environmental safety.
- Improving the management system for occupational, industrial, fire, and environmental safety.

Reporting indicator name	2016	2017	2018	Change vs. 2017, %
Number of Occupational Safety Committees	32	37	40	8,1
Number of employees (their representatives) participating in the work of the Occupational Safety Committee	432	531	623	17,3

The Inter RAO Group's long-term goals in occupational and industrial safety until 2020 include reducing the target injury frequency rate as well as having zero accidents at hazardous production facilities.

## EXPENDITURES ON ACCIDENT PREVENTION MEASURES



In an effort to maintain a high level of safety in occupational and production activities, the Group continuously increases the amount of investment in enhancing occupational and industrial safety. In 2018, investments in these areas increased by 8% compared with 2017 and amounted to RUB 28,920 per employee. For 2019, the Company plans to increase the amount of occupational safety funding by 6% to RUB 1.48 billion.

## Reducing injuries and emergency situations

The Group has Occupational Safety Committees whose job is to improve safe work methods and verify workplace conditions. The Committees include 623 employees of the Group.

The companies of the Group implemented the following digitalization projects in industrial safety in 2018.

### ‘Video Recording’ project

The goal is to install stationary and mobile video cameras when initial clearance is given to perform high-risk work and during switching operations at electrical plants.

The project envisages the mandatory video recording of the work task set by the shift supervisor (both high-risk work and during switching operations at electrical plants). The whole process is recorded from the time the task is assigned until it is executed, which ensures that the responsible parties can monitor safe clearance for work based on job orders and during switching operations at electrical plants and helps to prevent workplace injuries.

## ‘Briefings Automation’ project

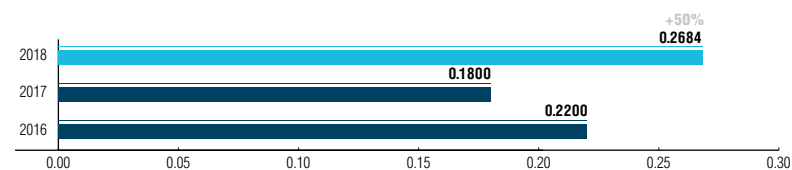
In order to systematize fragmented data, briefings were organized for specially designed programs with mandatory video recording of the employee being briefed, which is recorded in the final report. Each session ends with a survey that shows the degree of assimilation of the material.

In order to minimize injuries:

- targeted, comprehensive, scheduled, and unscheduled inspections of safety techniques in production activities are conducted
- the effectiveness of measures taken to prevent accidents, occupational disease, and emergencies is evaluated
- corrective and preventive measures are taken, including those that aim to enhance the level of safety and reliability

Thanks to the measures taken in the reporting year, the total injury rate among the Group’s employees did not exceed the target value ( $\leq 0.3560$ )<sup>1</sup> and amounted to 0.2684.

### INJURY FREQUENCY RATE<sup>2</sup>



Indicator	2016	2017	2018	Change vs. 2017, %	Comments
Number of people injured in accidents	11	9	14	55.6	The total number of people injured in accidents in 2018 compared with 2017 increased from 9 to 14, while the severity of accidents declined.
Number of fatalities	3	1	0	–100.0	A positive trend can be seen in the decrease in the number of fatal accidents from three in 2016 to one in 2017 and to zero fatal accidents in 2018.

Accidents involving injury are registered in accordance with the requirements of the Labor Code of the Russian Federation and Resolution No. 73 of the Ministry of Labor and Social Development of the Russian Federation dated October 24, 2002 “On Approval of the Forms of Documents Required to Investigate and Record Workplace Accidents, and Regulations on Special Aspects of Investigations into Workplace Accidents at Individual Industries and Organizations.”

To reduce injuries, a risk-based approach is taken when planning and conducting extraordinary technical inspections. Mandatory monitoring of occupational, fire, industrial, and environmental safety management systems is conducted. Based on an assessment of the causes of accidents, adjustments are made to the video recording systems used for primary clearance of high-risk work and during switching operations at electrical plants, and training programs are also adjusted for staff who undergo on-the-job training, briefings, and tests of their knowledge.

An internal analysis of the causes of accidents is submitted to the heads of the relevant segments of the Inter RAO Group. After the accidents are investigated, measures are developed to prevent similar incidents in the future.

Special comprehensive programs are developed at each subsidiary company and their branches to improve working conditions and prevent injuries based on the working conditions applicable to each facility.

<sup>1</sup> The Injury Frequency Rate target value was established by the Business Strategy for Electricity Production and Reliability and Safety Management (approved by the JSC Inter RAO Management Board, Minutes No. 421 dated January 25, 2013) and since 2013 it has decreased from 0.39 to 0.37 in 2015 and is projected to decline to 0.35 in 2020. The target value of the rate for 2019 is 0.3530, as established by the Methodological Guidelines for Assessing the Degree of Fulfillment of the Plan for Implementing the Strategy of the Inter RAO Group (approved by Order No. IRAO/689 of PJSC Inter RAO dated December 27, 2018).

<sup>2</sup> Injury Frequency Rate =  $N \cdot 1000/A$  (N is the number of workplace accidents in the reporting period with disability for one or more days and A is the average number of employees)

## Emergency shutdowns

Indicator	2016	2017	2018	Change vs. 2017, %
Number of emergency shutdowns at generating facilities with a breakdown by main causes	473	422	361	–14.5
Boiler equipment	104	76	74	–2.6
Turbine equipment	62	82	62	–24.4
Auxiliary thermal and mechanical equipment	116	48	44	–8.3
Electrical equipment	174	204	171	–16.2
Other	17	12	10	–16.7

### Accident reduction programs at production facilities

Measures to reduce accidents and emergency and fire training conducted in 2018:

The accidents that occurred at the Group's power facilities in 2018 were investigated. Investigation reports were prepared and subsequently recorded in the Accident Database in the Electric Power Industry automated information system of the System Operator. Corrective and preventive measures were issued for each case involving emergency shutdowns in accordance with established and approved deadlines.

Accident reduction measures:

- the timely and proper implementation of plans and programs for repairs, reconstruction, and modernization of equipment and technical devices
- enhancing the quality control of work performed by repair organizations during major and routine repairs
- preventing violations of the rules for organizing the repair and maintenance of equipment and the acceptance of equipment for operation
- conducting a technical inspection and expert examination of the industrial safety of technical devices, buildings, and structures at hazardous production facilities in accordance with federal standards and rules concerning industrial safety as well as regulatory and technical documentation
- increasing the level of automation of technological processes in the main and auxiliary equipment of power plants
- improving the quality of personnel training and conducting emergency response training taking into account the circumstances of accidents that have occurred
- carrying out simulator training and professional skills competitions among operating personnel
- improving the quality of accident investigation and fulfilling the measures prescribed as a result of accident investigations
- utilizing the analysis results of the causes of accidents when compiling production programs

- including managers and specialists from the services and units of the executive office of companies of the Group and PJSC Inter RAO in commissions to investigate accidents that occurred due to the erroneous actions of staff
- using administrative corrective measures and conducting mandatory unscheduled testing of the knowledge of rules and regulations among staff whose erroneous actions led to process disruptions (including appearing in front of commissions of higher organizations)

In 2018, staff underwent emergency response and fire prevention training in accordance with the established schedules and programs. Changes and additions were made to the training programs to take into account the results of investigations into accidents at power facilities. Fire training was conducted using the manpower and resources of fire departments that handle the fire protection of power facilities. The results of emergency and fire training were analyzed and evaluated by the technical managers of power facilities at meetings with staff who participated in the training.

In 2018, an advanced simulator complex for training personnel in emergency situations was put into commercial operation at the Sochinskaya TPP of JSC Inter RAO – Electric Power Plants. A software and hardware platform fully reproduces the algorithms of the entire production process. In the new simulation class, employees of the Sochinskaya TPP receive advanced training and hone their emergency response skills. They use computer monitors to simulate any abnormal situation, whether it be a shutdown of a pump, electric motor, or turbine. Special training sessions for the staff of electrical, thermal engineering, and chemical workshops are held regularly. The complex will help to prevent emergency situations resulting from the fault of operational staff.

The simulators for training the operational staff at power plants are equipped based on innovative Russian-made information technologies as part of the R&D program (for more, see the 'R&D projects' section).

# Occupational safety

## Reducing occupational disease

A special assessment of working conditions is conducted to identify the actual levels of harmful production factors. In the reporting year, PJSC Inter RAO and its subsidiaries conducted a special assessment of working conditions (SAWC,

workplace assessment) at 6,942 work stations versus the plan of 6,645 work stations. Based on the assessment results within the Group, most of the work stations are classified as class 2 (permissible) and class 3.1 and 3.2 (harmful). In 2019, SAWCs will be conducted at 10,054 work stations in order to improve working conditions in the workplace.

### OCCUPATIONAL DISEASES AND INJURIES

Indicator	2016	2017	2018	Change vs. 2017, %
Total number of working hours missed in the reporting period, including due to:				
occupational diseases, hours	2,714,480.45	2,297,900.34	2,097,125.59	-8.7
occupational injuries, hours	667	368	298	-19.0
	8,900.45	13,361.29	8,558.14	-35.9

The Group's employees are provided with personal protective equipment (PPE) in accordance with the established requirements of the regulatory legal acts of the Russian Federation. A clear list of PPE items has been established for each profession and position. PPE is provided in accordance with the established Methodology for the Provision of Personal Protective Equipment of the Inter RAO Group. Additional requirements are imposed on PPE suppliers and manufacturers for continuous improvements to the quality of the products they supply and the use of the latest technologies.

In order to prevent and timely identify occupational diseases, preliminary and periodic medical checkups as well as pre-shift and post-shift examinations are carried out, and the staff at the Group's companies are provided with washing agents and decontaminant in accordance with current regulations. Workers are provided with medical care and a private health insurance program. In 2018, 27,325 employees at the Group underwent a medical checkup.

## Occupational safety and health training program

In 2018, 14,957 employees at the Group underwent occupational health and safety training. Standard types of mandatory training at the Group include emergency response and fire prevention training of operational staff, which are conducted in accordance with the established schedules and programs. The training programs are updated annually and take into account the results of investigations into accidents at power facilities. Fire training is conducted with the involvement of fire departments that handle fire protection at power facilities.

# STAFF MANAGEMENT AND CORPORATE CULTURE

The Inter RAO Group has a balanced staff in terms of structure, experience, and professional skills, which makes it possible to effectively resolve operational and strategic tasks. The Group develops its staff policy based on a unified management system in which corporate values comprise the core. The Inter RAO Group is guided in its activities by the international conventions of the International Labour Organization (ILO) that have been ratified by the Russian Federation.

## Staff development goals taking into account strategic priorities

The modernization of the technological and organizational environment dictates new requirements for the professional skills of employees. In particular, the implementation of the CDA-2 program – the largest modernization in recent decades with roughly 40 GW of thermal power plants – over the next 10 years will require the advanced training of personnel in the 'Generation' and 'Engineering and Services' segments as well as the hiring of staff that are capable of building and maintaining plants with modern, more high-tech, and innovative equipment.

In the 'Supply' segment, the introduction of intelligent metering systems, the development of additional paid services as well as the development of functions at unified settlement centers on the basis of guaranteed suppliers will determine the main areas of work with staff by 2019, including training and development in matters concerning regulatory support and customer service standards.

In connection with the launch of the Group's General Service Center (GSC) in Ivanovo in 2019, there will be changes in the expertise in the financial, economic, and HR functions in the near future. Preparations for the project began in 2018.

The project is designed to be implemented in the medium term.

## Goals and objectives of the HR policy

The main goals in human capital management during the reporting year involved increasing work productivity, creating conditions to attract highly trained specialists, changing the approach to developing training programs, improving the professional level of the Group's employees, developing a corporate culture and internal corporate communications, and changing work methods concerning staff's job satisfaction. The most important objectives of the HR services were to train staff for facilities that have been commissioned within the structure of the Group in the Generation segment and rapidly integrate the standards of the new asset in the Supply segment into the corporate culture.

## PRIORITIES IN THE DEVELOPMENT OF HR MANAGEMENT

### 2018

- boosting labor productivity
- enhancing the efficiency of organizational structures
- improving the HR evaluation system
- a new method of measuring staff satisfaction
- work with professional standards
- implementing the HR-evolution internal training project for HR services

### 2019

- developing social programs
- shifting some HR functions to the General Service Center
- conducting a HR audit
- automating HR processes
- implementing end-to-end corporate competencies
- fundamentally changing the approach to the succession pipeline
- updating competency profiles of key business positions
- implementing an effective youth policy
- developing a corporate volunteering system

## Results of 2018

- staff turnover decreased from 14.3% to 12.5% (new calculation method is applied)
- professional standards were developed and introduced at the Group's subsidiaries
- work was carried out to simplify internal reporting, which will reduce the reporting of subsidiaries to the Corporate Center by 10% in 2019
- the Employee Satisfaction Index (ESI), a summary index for measuring the level of employees' satisfaction with their jobs, was developed and introduced
- the Corporate Center improved its business process for staff recruitment
- new approaches started being developed for the succession pipeline: the selection procedure for the talent pool was improved and additional evaluation stages of selection were introduced to improve the quality and mobility of the Group's talent pool
- the decision was made to revise the corporate competence model
- the Group's operating companies switched to the unified HR recordkeeping platform "1C: Salary and HR management"
- in the 'Generation' and 'Engineering and Services' segments, integrated personnel training and development projects were implemented – the 'Chief Engineer School' at JSC Inter RAO – Electric Power Plants and the 'Technical Manager School' at the QUARTZ Group
- the business process of creating and maintaining up-to-date staff protection cards was improved and potential staff trajectories were designed for all senior positions
- staff training and the introduction of lean production principles and methods into work processes was continued in the supply and service segments

## Infrastructure projects that affected staff structure

In 2018, the key events of the year for the Group were the launch of three new plants in several regions of the Russian Federation – the Mayakovskaya TPP and Talakhovskaya TPP in the Kaliningrad Region and the Zatonskaya TPP in the Republic of Bashkortostan. Implementing these crucial and complex technological projects ahead of schedule required the mobilization and proper rotation of staff in the 'Generation' and 'Engineering and Services' segments. About 800 jobs were created, the requisite staff training was conducted, all the new plants

were fully staffed with highly trained specialists, including through internal transfers, and the employees are successfully performing their assigned tasks.

A new power supply company – LLC Energobyt Volga – was integrated into the Inter RAO Group during the reporting period. All the Group's HR policies and corporate standards were successfully introduced over four months.

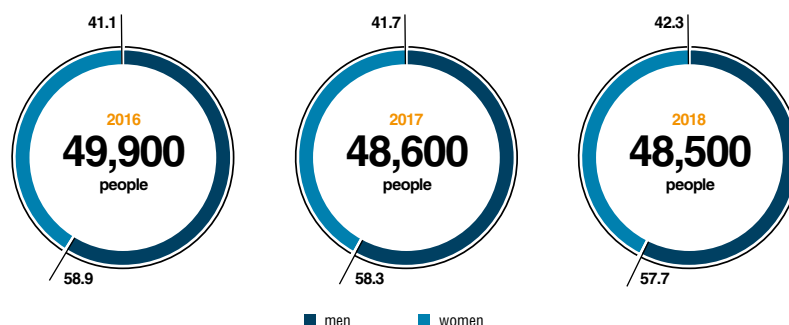
## Overall staff structure

The Group had 48,450 employees as of the end of the reporting period. The average age of the Group's employees is 42.7 years. More than 73% of the Group's staff are under the age of 50. Even though the gender breakdown in the power industry traditionally favors male employees, the proportion of women in the Company's staff structure is relatively high at 42%. Indefinite employment contracts have been

concluded with 95% of all workers, and 98% of employees work full-time. Both indicators have continued to see positive trends in recent years.

**GENDER BREAKDOWN OF STAFF**

thousand people

**GENDER BREAKDOWN OF SENIOR MANAGEMENT AT PJSC INTER RAO, %**

Indicator	2016	2017	2018	Change vs. 2017, %
Managers overall	8.4	8.2	8.8	7.4
men	71.6	69.7	69.7	0.0
women	28.4	30.3	30.3	-0.1
Senior executives (based on the CEO category and categories classified as administrative)	1.1	1.2	1.1	-4.8
men	72.4	73.3	72.2	-1.5
women	27.6	26.7	27.8	4.1
Managers of functional units (not included in the previous category)	7.3	7.0	7.6	9.4
men	71.5	69.1	69.4	0.4
women	28.5	30.9	30.6	-0.9
Senior executives of PJSC Inter RAO (based on the CEO category and categories classified as administrative)				
Total	97.0	96.0	187.0	94.8
Managers overall (% of total number):	18.7	17.8	33.5	88.2
men	69.1	66.7	63.1	-5.3
women	30.9	33.3	36.9	10.7

**Improving the efficiency of organizational structures**

The main goal of this work in 2018 was to boost labor productivity, with an emphasis on the redistribution of personnel and the outsourcing of service functions.

Standard financial and non-financial incentive terms were kept in place for transferable workers. Different employment conditions were also formulated for downsized staff: jobs were offered at other companies of the Group and negotiations were held with energy industry companies outside the Group about further work opportunities for downsized staff.

A project was implemented in the 'Engineering and Services' segment in 2018 to consolidate branches in order to optimize organizational structures and administrative and management staff numbers on account of managerial positions and the employees of support and service units. As part of the outsourcing of repair staff, algorithms were determined in advance for the business processes being transferred, and their labor intensity was reduced, which made it possible to increase labor productivity in the segment as a whole.

LLC Quartz Group took on about 430 people as a result of the transfer of repair staff from the branches of JSC Inter RAO – Electric Power Plants, as opposed to the plan of 656 people. The transferred staff members are expected to carry out 100% of the work in 2019 due to higher labor productivity.

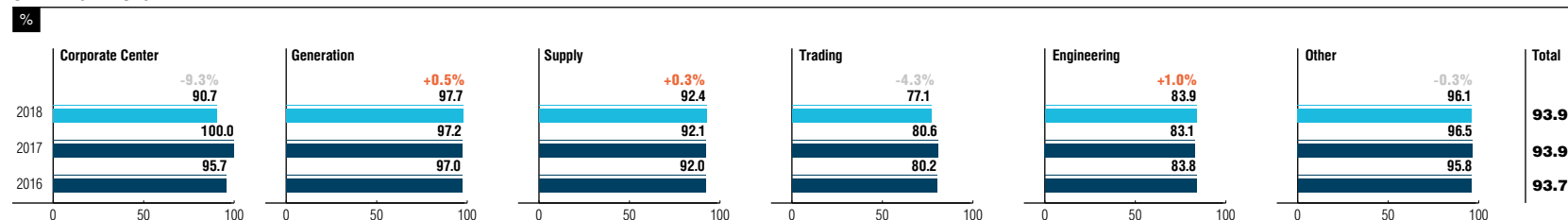
## Recruitment

An effective HR policy and the wide range of recruitment methods traditionally used at the Inter RAO Group make it possible to keep the staffing level at a high level of 94.1%.

In the reporting period, as part of the implementation of the objectives assigned to the Group, internal hiring and appointments from the talent pool as part of a horizontal-oriented career path proved to be an effective technology for recruitment and filling vacancies, which is due to the specifics of the industry: permanent external hiring is only possible for low-level positions given the work conditions with complex equipment and the fact that most of the workers have unique knowledge. In 2019, the use of technology involving internal hiring and work with the talent pool will continue.



## STAFFING BY SEGMENT



## COMPLIANCE WITH GENDER POLICIES

WHEN HIRING STAFF, THE GROUP FULLY ADHERES TO APPROACHES THAT PRECLUDE ANY KIND OF DISCRIMINATION IN ACCORDANCE WITH THE LAW. THE GROUP'S INTERNAL REGULATORY DOCUMENTS REFLECT THE PROVISIONS ON NOT PERMITTING ANY FORMS OF DISCRIMINATION OR HARASSMENT AT THE GROUP'S COMPANIES FOR ANY REASON, INCLUDING BASED ON NATIONALITY, GENDER, OR AGE. SPECIAL GENDER TARGETING POLICIES WERE NOT USED IN THE REPORTING YEAR.

## Adaptation and mentoring

The management of the Inter RAO Group is interested in recruiting both highly skilled personnel and young professionals. The Company devotes considerable attention to the advanced training and professional growth of young professionals and the development of production-based initiatives. The Group's enterprises have a mentoring system and special adaptation programs in place. The Mentorship Regulation governs the mentoring procedure for university graduates as well as young professionals with basic and secondary vocational education who are hired by the companies of the Group. Mentoring reduces the job adaptation period and helps employees assimilate and adopt the existing standards and rules at the Group. This all combines to create an atmosphere of trust in the workforce. In the reporting year, the programs that were developed for staff adaptation after the induction period began to work more efficiently, which reduced turnover among young professionals.

## Staff assessment and development

The Group has a staff assessment system based on a combination of key performance indicators (KPIs) and skills, which is a good motivational factor for employees since it allows them to not only focus on improving their work efficiency, but also on developing key professional skills that help to achieve the required results.

Key goals of the assessment:

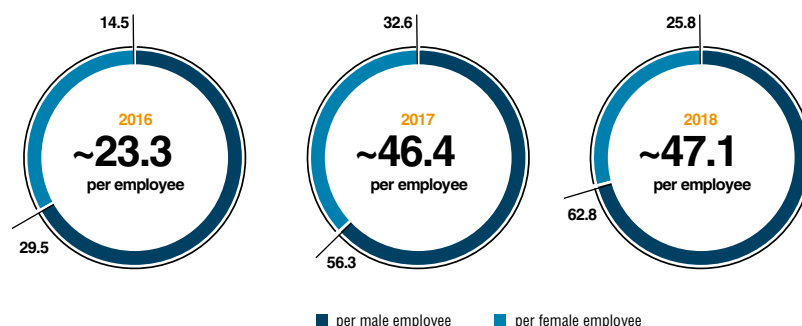
- identification of the needs for the professional training and personal development of employees
- identification of efficient and highly efficient employees
- the revision of worker salaries within the approved budget
- overall monitoring of the efficiency of staff performance

In order to assess the effectiveness of management teams, the Company introduced the AZIMUT 2.0 Business Sociometry innovative personnel assessment system, which evaluates the quality of interaction within company departments and calculates indices concerning impact, corporate integration, demand, overall efficiency, and the availability of employees. Information is collected based on the responses of employees and managers about day-to-day interaction with each other and its intensity, the effectiveness and availability of colleagues, and their mutual relevance. Based on the assessment results, a list of recommendations is created to strengthen team members.

## Training

In 2018, the share of employees who underwent mandatory training was 68% on average for the Group, an increase of 5.4 p.p. versus the 2017 level.

### AVERAGE NUMBER OF TRAINING HOURS PER EMPLOYEE PER YEAR



In 2018, the Group provided staff training and development (in addition to the mandatory programs) in the following areas:

- additional vocational training (improving and maintaining the professional expertise of employees)
- simulator training for operational staff
- training under talent pool training programs (developing the management skills of talent pool members)
- adaptation courses and training for new employees
- training for the development of soft-skills (project management, planning, time management, situational leadership)

Staff training is conducted in various forms, including full-time training, on-the-job training, and internships. Remote formats such as webinars, online courses, and microteaching are also actively used. Internal training is gaining popularity.

In 2018, the Group's HR specialists launched and implemented the HR Evolution internal educational project. Over the course of the year, teams of HR specialists worked on various professional issues while teaching and learning from each other.

As part of the 'Chief Engineer School' project, six training program modules were introduced for talent pool members at JSC Inter RAO – Electric Power Plants, and seven appointments were made for targeted positions.

During the implementation of the 'Technical Leadership School' project at LLC QUARTZ Group, ten employees were transferred to new positions based on training results, and 17 managers were replaced as part of practical position training.

## Working with talent

The Group is paying increasing attention to the creation of a talent pool. Vacant positions are primarily filled with candidates from the Group's pool as well as subsidiaries. The system of organizational and training measures helps to identify the most promising candidates from among employees. Over the course of 2018, employees from the Group's talent pool filled 156 managerial vacancies.

Individual development plans (IDP) for employees and career maps are compiled as part of work with talent and the creation of a talent pool at the Group and its subsidiaries. Based on the IDP, employees receive continuing education and training to develop additional skills. Once a year, employees are evaluated and their career development is reviewed. The assessment encompasses more than 75% of the Group's employees.

LLC Energy Retail Company of Bashkortostan implemented one of the projects related to work with the talent pool in 2018. The 'I Want to Join the Talent Pool' initiative aims to create a talent pool for line and middle management positions and allows employees to make a name for themselves, fill vacancies in a timely manner, and prepare the basis for talent management work. Two appointments have already been made to senior positions.

## Corporate culture and social support

The corporate culture at the Inter RAO Group is based on the principles of prioritizing the overall result, mutual assistance, and mutual respect for employees regardless of position, gender, or any other attributes.

The Company is committed to forming a common space of values among its employees and creating an atmosphere of honesty and openness as well as a pleasant psychological climate, which helps the Group achieve its strategic goals and enhances the efficiency of its operations.

### CORE VALUES OF THE INTER RAO GROUP:

**SAFETY    OPENNESS    RESPONSIBILITY**

### Social programs

Social benefits and guarantees are an important tool in the Inter RAO Group's HR policy.

The corporate standards of the Inter RAO Group require that items on the creation of a social package for employees be included in the Regulation on Remuneration at all subsidiaries of the Group. In 2018, the Group's expenses on social packages for employees amounted to RUB 12.5 billion compared with RUB 10.87 billion a year earlier.

#### Key aspects of the social programs:

- work safety of employees
- health and activeness of employees
- support for young professionals
- career development
- support for the best employees and work with the talent pool
- assistance to young families
- improving the welfare of workers
- support for retirees
- maintaining a high level of production culture

The Group's companies provide comprehensive support to employees in different life situations and pay serious attention to the treatment and wellness of staff and the provision of high-quality medical care and health resort treatment for employees. The Company takes care of its employees' children by providing material assistance to large and single-parent families, orphans, and children with disabilities. In addition, each year children vacation at children's health centers, participate in corporate festive and sporting events, and take tours of the Group's facilities.

In the 'Generation' and 'Engineering and Services' segments, the Group's enterprises build partnerships with employees under the terms and conditions of collective bargaining agreements that are based on a unified approach and a specific procedure for providing benefits, guarantees, and compensation. These agreements are valid through the medium term. All the obligations assumed by the employer and enshrined in the collective bargaining agreements of the Inter RAO Group were fully implemented in 2018.

### 'Benefits Cafeteria'

In 2018, the 'Benefits Cafeteria' was launched at the power supply companies LLC Energy Retail Company of Bashkortostan and OJSC Tomskenergosbyt. The 'Benefits Cafeteria' includes voluntary health insurance, the payment of trip vouchers, health resort treatment, the training of staff and education of children, and reimbursement for gym fees, among other things. The benefit system is tied to the Company's existing payroll system. This makes it possible to select benefits online from a suggested list on corporate Internet portals based on limits that are determined by points in accordance with an employee's grade.

## Incentive programs

### Financial incentive

In 2018, the 'Supply' segment continued measures to improve the financial incentive system for staff: remuneration for employees of PJSC Mosenergosbyt and JSC St. Petersburg Power Supply Company (approximately 5,500 people) were increased to the 75th percentile of the corresponding labor market, which means there should be a higher level of staff satisfaction with the wage system and a decrease in the staff turnover that is traditionally higher in this segment.

In the remaining segments, remuneration is higher than the median of the market in all categories, which makes the Group a competitive employer in most of the regions where it operates.

The main priority of HR in terms of remuneration for the next reporting period is to develop social programs for non-financial incentive.

### Professional contests and competitions

Employees of the Group's companies annually take part in internal professional skill contests. In 2018, the following competitions were held:

- open competitions among operational inter-disciplinary teams from plants with combined steam-gas and steam-power units
- corporate competitions among the operational staff of thermal power plants
- corporate competitions for the staff of heat grid companies

## Volunteer programs

During the reporting year, the companies of the Group organized several high-priority charitable social events to raise funds for people in need, including employees experiencing hardships. Total donations amounted to RUB 8.46 million (versus roughly RUB 2 million in 2017).

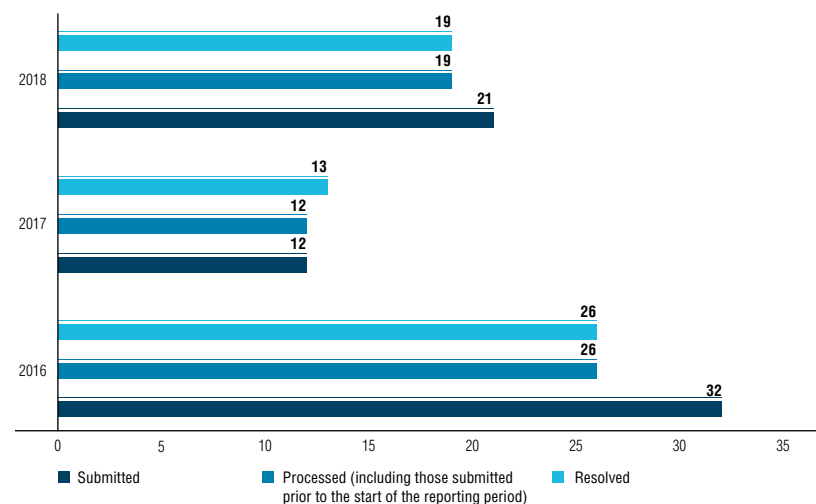
Employees from the Group's companies serve as volunteers at various social organizations and charitable foundations, participate in volunteer events, and organize special environmental days and trips to orphanages and nursing

homes. In particular, a volunteer campaign was organized for the first time at the Corporate Center in the run-up to the New Year's holidays to raise funds for gifts and other necessities for elderly people at nursing homes in the Yaroslavl Region. More than RUB 300,000 were raised as part of this campaign. In 2019, such events are planned on an ongoing basis as part of the activities of the Young Active Members of the Group.

## Monitoring the observance of human rights

The Group successfully employs a system to collect information about human rights violations – the Unified Hot Line of PJSC Inter RAO. The Internal Audit Unit handles the monitoring and processing of information received using the information resource. The information received is verified and, if necessary, an internal investigation is conducted by the Economic and In-House Security Unit, other units of PJSC Inter RAO, or the security services and other units of subsidiaries.

#### NUMBER OF COMPLAINTS ABOUT VIOLATIONS OF THE LABOR CODE OF THE RUSSIAN FEDERATION AND THE CORPORATE ETHICS CODE OF PJSC INTER RAO



The Hot Line of PJSC Inter RAO received 211 reports from citizens and organizations in 2018, including:

- 34 reports contained requests for advice or clarification regarding services provided by the Group's companies (billing, debt settlement, schedule for shutting off hot water, etc.) based on which the applicant was informed about the need to directly contact a subsidiary;

- 56 reports were received from organizations that received proposals from PJSC Inter RAO to participate in a procurement tender (all the appeals were submitted to the Economic and In-House Security Unit, which established that conmen were acting in the Company's name to sell certificates that were supposedly required to participate in the Group's procurements)
- 17 reports related to possible fraud and corruption on the part of employees of subsidiaries. An examination did not reveal any instances of fraud or corruption

Employees of PJSC Inter RAO did not report any possible instances of corruption or violations of the Labor Code of the Russian Federation on the Hot Line in 2018.

#### Activities of trade union organizations

Primary trade union organizations predominantly represent the interests of employees in the 'Generation' segment. Over the course of the year, trade unions, along with the leaders of branches as part of standing committees and branch committees, took part in discussions of issues that are of particular concern to workers, such as payment for work on weekends and overtime, and also in meetings of the HR Committee and considered candidates for the provision of health resort treatment paid for by voluntary health insurance.

Young specialists are trained on various professional topics at regional trade unions, and young employees are actively involved in socially important events at the Group.

## Charitable activities

### Concept of charitable activities

The key focuses of the Group's charitable activities in 2018 were to enhance the efficiency of the projects being implemented and continue replicating best practices at the Group's companies in order to solve social problems in specific regions.

When determining social policy priorities, two key aspects are taken into account: the relevance of the issues for a local community and the themes specified

in the decrees of the President of the Russian Federation, the instructions of the Government of the Russian Federation, and other state programs. This ensures social investments are as targeted and effective as possible. The charitable focuses are correlated with the Group's strategic priorities in order to achieve a synergistic effect at the concept development stage.

**VOLUME OF SOCIALLY-ORIENTED INVESTMENTS**

Indicators	2016	2017	2018	Change vs. 2017, %
Budget of charity programs, RUB bln	0.6	1.1	0.8	-27.3
Number of charity projects implemented	376	400	305	-23.8
Number of beneficiaries	996,095	1,169,317	1,149,134	-1.7

The annual volume of charitable projects may vary depending on the number and relevance of applications. PJSC Inter RAO traditionally spends funds on projects in seven areas:

- support for industry veterans, war veterans, and disabled veterans
- support for vulnerable social groups
- support for educational institutions, health facilities as well as grassroots and youth sports
- support for environmental organizations and nature reserves
- assistance to cultural figures
- support for cultural events
- funding for sites with historical and cultural value

During the reporting year, the largest number of requests were to support cultural events, educational institutions, healthcare facilities as well as grassroots and youth sports.

Improving the mechanisms used to monitor the implementation of charitable projects has enhanced the effectiveness of charitable activities and sponsorship as well as the transparency of expenses. In addition to working with legal and accounting reporting documents as well as video and photographic materials, representatives of the Group's companies also personally monitor project implementation, travel to event venues, interact with beneficiaries, collect information from third parties, verify beneficiaries with internal security staff, and monitor the information field and the media. The PJSC Inter RAO Board of Directors considers the use of charitable funds by the Company as well as its subsidiaries and affiliates when reviewing reports on the implementation of the business plan.

**Long-term socially-oriented projects**

In 2018, the Inter RAO Group continued working closely with the authorities and public organizations in the regions where its subsidiaries operate based

on the principles of openness, dialogue, and partnership. This collaboration is based on cooperation agreements that establish the general framework and principles for joint activities. The specific steps and forms of the Group's participation in the socioeconomic development of regions are recorded in roadmaps.

Areas of cooperation:

- the progressive socioeconomic development of the regions, enhancing their investment appeal, developing and utilizing their industrial potential as well as creating new jobs and conditions for the receipt of additional taxes to regional budgets
- supporting and implementing measures to improve the reliability of electric and thermal power supplies to consumers and prevent further shortages of heat and electricity
- implementing comprehensive energy conservation and energy efficiency measures at enterprises, budgetary institutions, and housing and utility facilities, including by participating in the working groups of the regional authorities on energy and engineering as well as increasing the availability of regional energy infrastructure by organizing and conducting practical exercises on the fundamentals of energy conservation for students at schools and universities and company employees
- setting tariffs and reducing receivables
- training at regional universities, including continuing education for employees, and cooperation with the scientific and technical community of the regions
- interacting with the regional authorities and local governments on ways to solve environmental problems and create conditions for improving the quality of life of the population, including participating in the work of regional coordination councils on environmental protection and the sustainable use of natural resources, among other things

In 2018, PJSC Inter RAO concluded cooperation agreements with the governments of the Ivanovo, Yaroslavl, and Tomsk Regions. In particular, the agreement with the administration of the Ivanovo Region calls for joint work to launch a new project to centralize a number of service functions in Ivanovo for the Inter RAO Group's enterprises in the format of a General Service Center. This center would combine three major segments of the Group's companies in one place: accounting, tax accounting, and reporting functions, the treasury-based execution of payment transactions, and HR management. The General Service Center is expected to open in the summer of 2019. As Governor of the Ivanovo Region Stanislav Voskresensky noted, the transfer by a major energy holding of some of its units to Ivanovo will help diversify the regional economy as well as establish and develop the service economy. In addition to infrastructure projects, the Company plans to develop scientific and technical cooperation jointly with universities in Ivanovo.

The cooperation agreements with the Tomsk and Yaroslavl Regions entail the use of the region's products and technologies for the needs of the Inter RAO Group. This will stimulate the development of local industries and contribute to the socioeconomic growth of the regions.

Dealing with receivables is an essential and integral part of work to stabilize payment discipline and is impossible without effective interaction with the regional authorities and the territorial representative offices of the federal executive authorities (the Federal Bailiffs Service). Such work helps to maintain the level of tax revenue to regional budgets. Each of the Group's supply companies has a Receivables Management Committee, and the relevant regulatory documents have been adopted.

The Company also collaborates with the business community using the platforms of state and public organizations and institutions that have been established to protect the rights of entrepreneurs (the regional ombudsmen for the protection of the rights of entrepreneurs, chambers of commerce, and branches of OPORA RUSSIA, among others).

## Support for the initiatives of regional non-profit organizations

Companies that are part of the Inter RAO Group support the socially-oriented initiatives of public organizations based on the Regulation on Charity and Sponsorship approved by Resolution No. 160 of the Board of Directors dated January 29, 2016. The budgets of specific projects are endorsed within the approved regional limits with management companies and the Information Policy Unit of PJSC Inter RAO. Any public organization working with priority target groups for the Group in the region where a subsidiary operates may apply for support. For communication with applicants, the Company uses a hotline or press secretaries who collect all the necessary documents and submit an application for an expert evaluation. Based on the evaluation of the relevance of the project, a decision is made and sent to the applicant.

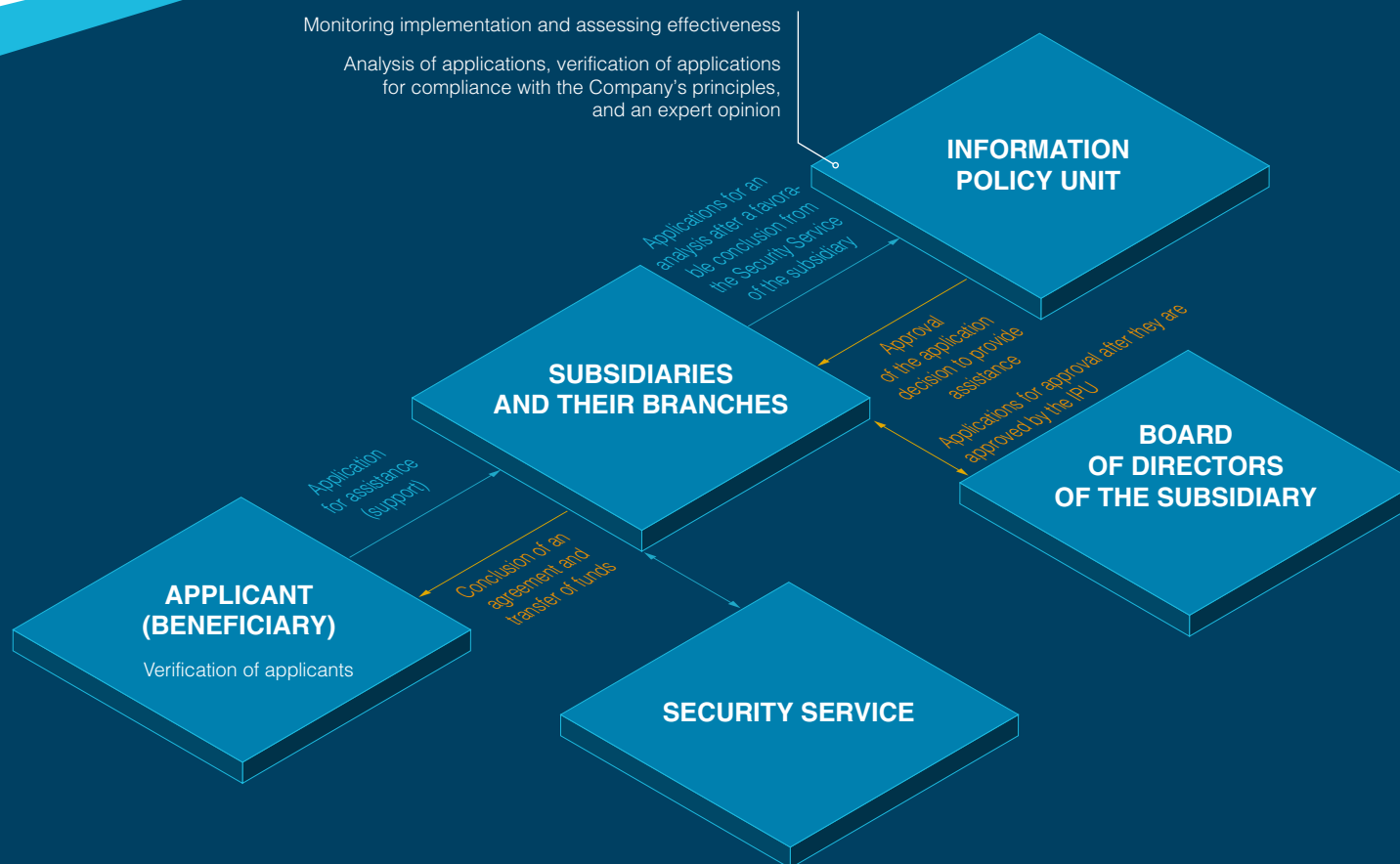
Given the specific nature of the activities, the Group has identified four main target audiences:

- vulnerable social groups in the areas where the Company operates in Russia and around the world
- nature conservation and environmental organizations
- public and non-profit organizations and communities, including at the international level
- industry veterans, war veterans, and disabled veterans

The main principles used to select local projects for the charitable activities of the Inter RAO Group are:

- **targeted nature** – the allocation of monetary and other funds to an individual or legal entity for specific purposes with the subsequent monitoring of their targeted spending
- **effectiveness** – the achievement of a specific result, including the impact on the core business (supporting corporate values, promoting the implementation of a strategy, etc.)
- **objectivity** – the evaluation of programs and projects in terms of their social efficiency and compliance with the goals, priorities, and principles of charitable and sponsorship activities
- **efficiency** – the achievement of the desired results using the least amount of funds
- **territoriality** – the implementation of charitable and sponsorship projects in the territories where the Company has production, commercial, or other interests related to business development
- **viability** – investments in the future of regions that the Company views as promising in terms of business development
- **accessibility and transparency** – ensuring a transparent and effective system for monitoring the targeted spending of funds

## Flowchart for interaction with the applicant





## Major regional initiatives of 2018

### Focus – support for industry veterans, war veterans, and disabled war veterans

#### ‘Energy of Remembrance and Kindness’ project

This project aims to support veterans of World War II, the survivors of the Leningrad siege, workers on labor fronts, and prisoners of concentration camps. In 2018, the project was widely used and implemented by 18 of the Group's companies. More than 5,000 employees of the Group took part in municipal and regional events and celebrations dedicated to Victory Day and the International Day for Older Persons. Projects were implemented to restore and improve memorials and monuments to soldiers of World War II. Veterans in the regions where the Group operates were provided with targeted financial assistance, household appliances, foods, and basic necessities such as canes, bedding, electric kettles and thermo pots, medicines, and vitamins.

### Focus – support for vulnerable social groups

#### ‘The Brightest Christmas Tree’ project

This charitable event for orphans and children experiencing hardship has become a heart-warming tradition for the Group's employees. On New Year's Eve, employees from the Group's companies organized and held festive events with an entertainment program (a performance by Santa Claus and Snow Maiden, contests, and a master class on how to make New Year's cards) at 28 orphanages, boarding schools, and specialized medical institutions. Clothes, stationery, and sweets were purchased and given to the children.

### Focus – support for educational institutions, health facilities, and grassroots and youth sports

#### ‘The Energy of Sport’ project

The project aims to promote a healthy lifestyle in the regions where the Group's companies operate. As part of the project, companies purchase sports gear and equipment for youth sports schools, provide facilities for sports, and organize sports tournaments involving local residents. The company does not just create conditions for children's sports in provincial towns and remote areas; it also spends funds on organizing training processes and participation in international tournaments. In particular, support from LLC Federation of Russian Tennis enabled young athletes to perform at an international wheelchair tennis tournament – the BNP Paribas World Team Cup junior team world championship. The Russian athletes won the championship for the second time in the country's history. The project also provided the opportunity for children to participate in the World Championships in the Netherlands and in two major competitions: the ITF in the Czech Republic and the ITF in France.

### Focus – support for cultural events

#### ‘Heart to Heart’ project

The project provides assistance in organizing and holding the festival 'St. Petersburg Seasons in Ufa' and 'Heart to Heart' concerts of young performers. Both projects were implemented through the Spivakov International Charitable Foundation in the Republic of Bashkortostan. The 'Seasons' festival was held in Ufa with the Company's support for the second year in a row. 'Heart to Heart' is a traditional project in which talented young people from the republic perform for health workers, in particular at hospitals in Ufa and Sterlitamak.

# ENVIRONMENTAL SAFETY

Management's priority objectives within the Inter RAO Group's Environmental Policy are: mitigating the negative environmental impact of industrial enterprises, including decreasing emissions of pollutants into the atmosphere and water bodies, the sustainable use of water resources by thermal power plants, and reducing the production of industrial waste.

The Company's commitment to sustainable development and the integration of the electricity markets of Russia, the CIS countries, and the European Union heighten the importance of the environmental aspects of the Company's activities in order to achieve its strategic goals. The degree to which production activities affect the environment and the risks associated with environmental aspects have an increasing impact on the level of market capitalization and the availability and cost of credit

resources, constitute an important feature of sustainable development and the extent of business's social responsibility to society, and have become a real factor in the Company's development.

The strategic goals of PJSC Inter RAO as regards environmental protection and the sustainable use of natural resources are detailed in the Company's Declaration on Environmental Responsibility<sup>1</sup>.

## INTERNATIONAL CERTIFICATION OF THE ENVIRONMENTAL MANAGEMENT SYSTEM

PJSC Inter RAO	Recertification, certificate of DQS GmbH, validity 08/24/2017-08/23/2020
JSC Inter RAO – Electric Power Plants	All facilities certified, except for Nizhnevartovskaya TPP (for more, see the 'Generation-International Certification' section) Recertification of the EMS IA and 16 branches of JSC Inter RAO – Electric Power Plants, certificates of Russian Register, certificate validity 09/13/2018-12/15/2021
JSC Nizhnevartovsk TPP	Planned certification date – 2019
LLC Bashkir Generation Company	Recertification, certificate of Russian Register, validity 09/12/2018-12/14/2021 (Ufimsкая CHPP-2, CHPP-3, and CHPP-4, Sterlitamak CHPP from the site of Novo-Sterlitamakskaya CHPP, and Zatonская CHPP)
JSC TGC-11	Recertification, certificate of AFNOR Certification, validity 03/29/2018–03/28/2021
JSC TG	Recertification for transition to ISO14001:2015, certificate of Afnor Certification, validity 03/25/2018–09/14/2019
JSC Omsk RTS	Recertification, certificate of Afnor Certification, validity 03/26/2018–03/21/2019
JSC Tomsk RTS	Recertification, certificate of Afnor Certification, validity 04/09/2018–03/29/2019
LLC BashRTS	Recertification, certificate of Russian Register, validity 08/31/2017–08/31/2020
LLC Ugolny Razrez	Recertification by the State Center for Testing, Standardization, and Certification for compliance with GOST R ISO 14001-2007 (ISO 14001:2004), validity 12/08/2017–12/07/2020
JSC Telasi	Certificate of Intertek, validity 05/28/2018–06/07/2021
JSC Khrami HPP-1 <sup>2</sup>	Recertification by TÜV SÜD Management Service GmbH, validity 07/06/2018–09/28/2021
JSC Khrami HPP-2	Recertification by TÜV SÜD Management Service GmbH, validity 07/17/2018-09/28/2021
JSC Telasi	Recertification, certificate of Intertek, validity 05/28/2018–06/07/2021
CJSC Moldova TPP <sup>3</sup>	Recertification, certificate of AFNOR CERTIFICATION, validity 10/20/2017–10/19/2020
JSC Ekibastuzskaya TPP-2	Recertification, certificate of TÜV NORD CERT, validity 11/09/2018–02/07/2021

<sup>1</sup> Declaration on Environmental Responsibility: [http://www.interrao.ru/upload/docs/Declaration\\_on\\_environmental\\_responsibility.pdf](http://www.interrao.ru/upload/docs/Declaration_on_environmental_responsibility.pdf)

<sup>2</sup> JSC Khrami HPP II and JSC Khrami HPP I are the first energy organizations to receive ISO 14001:2004 certification in Georgia. Compliance of the environmental management system with the international standard ISO 14001:2015 has been confirmed for 2018.

<sup>3</sup> CJSC Moldova TPP is the first enterprise in Transnistria to successfully introduce a new environmental management system and obtain a certificate of compliance with the international standard ISO 14001:2004. In 2018, a supervisory (inspection) audit was carried out at Moldova TPP with regard to its environmental management system and confirmed compliance with the requirements of the international standard ISO 14001:2015.

# Energy conservation and efficiency

## PURCHASE OF ELECTRIC AND THERMAL POWER

Type of energy	2016	2017	2018	Change vs. 2017, %
Electric power, thousand kWh	11,860	15,987	12,115	–24.2
Thermal power (for production and business needs and to compensate for losses), thousand Gcal	3,517	3,462	4,011	15.9

## Energy Conservation and Efficiency Improvement Programs

The Inter RAO Group consistently continues to work on optimizing business processes to manage energy conservation and improve energy efficiency at all its major Russian and foreign generating assets. Projects to improve energy efficiency are highly innovative and based on the best world practices. The Company carries out its own research and development and also collaborates with Russian and foreign industry leaders.

The Energy Conservation and Energy Efficiency Improvement Program (ECEIP), a targeted program that was established at the Group's production assets and consolidated for the Company as a whole, is the main practical tool used to achieve energy conservation and energy efficiency improvement targets within the Energy Management System. The Commission on Energy Conservation and Energy Efficiency Improvement of the Company and its subsidiaries is involved in the process of establishing the program and reporting on its implementation. The ECEIP is a medium-term program and has a five-year planning period based on the rolling planning principles. All ECEIP indicators are compiled with a breakdown by production unit, power plant, and companies of the Group. The ECEIP for 2018–2022 was approved at a meeting of the PJSC Inter RAO Management Board.<sup>4</sup>

The ECEIP measures are divided into two sections: measures with a "direct" energy effect and measures with an "accompanying" energy effect. The measures with a "direct" energy effect include those developed specifically to generate an energy effect; its share in the total economic effect of such measures exceeds 80%. These measures should be commercially justified with a mandatory calculation of cost efficiency in accordance with the Methodology for Assessing the Cost Efficiency of Investment Projects with Capital Investments.

Strategic objectives to improve the efficiency of generating capacity:

- implement the main provisions of the energy strategy of the Russian Federation and the Energy Efficiency and Energy Development state program of the Russian Federation
- achieve the goals set forth in the Strategy of PJSC Inter RAO
- achieve the target indicators for energy conservation and improving energy efficiency envisaged by the Inter RAO Group's Innovative Development Program
- ensure the sustainable use of energy resources through the implementation of energy conservation and energy efficiency improvement measures
- improve the energy efficiency indicators of energy-intensive production assets both individually and for the Group as a whole while minimizing operating and development costs
- establish and improve an integral and efficient system for managing energy conservation and improving energy efficiency (development of an energy management system)
- mitigate the negative environmental impact

## Results of the fulfillment of the Inter RAO Group's Energy Conservation and Efficiency Improvement Programs for 2018

1. The following key energy efficiency performance indicators (KEEPI) were achieved.
  - for heat and electricity generation activities (thermal power plants and boiler houses, excluding generation at hydroelectric power plants and wind farms):
    - > fuel heat utilization factor (FHUF) – 49.49% (target – 48.48%, 2017 – 48.35%, standard – 49.22%). The indicator was met with a positive trend in relation to the previous year;
    - > specific overconsumption of fuel equivalent – 1.935 g/kWh (target – 1.432 g/kWh, 2017 – 1.750 g/kWh). The indicator was not met;

<sup>4</sup> Minutes No. 739 dated March 1, 2017

- for heat supply activities (heat networks):
  - > total relative heat losses when transmitted through heat networks – 18.61% (target – 16.64%, 2017 – 17.05%). The indicator was not met;
  - > specific electricity costs when transmitting thermal power through heat networks – 6.11 kWh/Gcal (target – 7.07 kWh/Gcal, 2017 – 6.51 kWh/Gcal, standard – 6.36 kWh/Gcal). The indicator was met with a positive trend in relation to the previous year.
- 2. The following target production indicators (TPI) were achieved.
- for heat and electricity generation activities (thermal power plants and boiler houses):
  - > specific consumption of fuel equivalent for electricity supply – 296.99 g/kWh (target – 299.26 g/kWh, 2017 – 303.14 g/kWh, standard – 298.72 g/kWh). The indicator was met with a positive trend in relation to the previous year;
  - > specific consumption of fuel equivalent for heat supply – 144.36 kg/Gcal (target – 145.39 kg/Gcal, 2017 – 143.90 kg/Gcal, standard – 145.09 kg/Gcal). The indicator was met;
  - > specific consumption of electricity for internal needs for electricity generation – 3.76% (target – 3.92%, 2017 – 3.86%, standard – 3.93%). The indicator was met with a positive trend in relation to the previous year;
  - > specific consumption of electricity for internal heat production needs – 32.69 kWh/Gcal (target – 34.12 kWh/Gcal, 2017 – 33.12 kWh/Gcal, standard – 33.89 kWh/Gcal). The indicator was met with a positive trend in relation to the previous year;
- for heat supply activities (heat networks):
  - > relative process (standard) losses of thermal power during the transmission of thermal power through heat networks – 14.29% (target – 13.67%, 2017 – 13.65%). The indicator was not met;
  - > relative excess losses of thermal power during the transmission of thermal power through heat networks – 4.32% (target – 2.96%, 2017 – 3.40%). The indicator was not met;
  - > relative losses of coolant during the transmission of thermal power through heat networks – 2.37% (target – 2.41%, 2017 – 2.45%). The indicator was met with a positive trend in relation to the previous year;
  - > share of heat supplied to consumers calculated using metering devices – 64.98% (target – 63.80%, 2017 – 63.86%). The indicator was met with a positive trend in relation to the previous year.
- 3. Energy resources saved from the commissioning of new capacity:
  - fuel equivalent – 1.164 billion tons of fuel equivalent
  - thermal power – 116,676 Gcal
  - electric power – 15.055 bln kWh
  - water – 4.742 bln cub. m
- 4. Taking into account the commissioning of new capacities, the implementation of the Program's measures resulted in:
  - FHUF increasing by 1.40% abs.
  - specific fuel overburning decreasing by 0.33 g/kWh
  - specific fuel equivalent consumption for electric power decreasing by 9.99 g/kWh
  - specific fuel equivalent consumption for thermal power decreasing by 0.18 kg/Gcal
  - heat energy losses decreasing by 0.38% abs.
  - electricity costs when transmitting thermal power through heat networks decreasing by 0.01 kWh/Gcal
- 5. The economic effect from the implementation of the Program's measures amounted to almost RUB 3.807 billion taking into account the commissioning of new capacities.
- 6. The costs of implementing the Program's measures amounted to RUB 5.773 billion taking into account the commissioning of new capacities.

## Use of energy conservation technologies

The Inter RAO Group includes power facilities that operate in a co-generation cycle. These power facilities<sup>1</sup> have total installed electric power capacity of 6.9 GW, which makes up 24% of the total installed capacity of the Group's Russian assets, and total installed thermal power capacity of 14,979 Gcal/h. The assets that are equipped with heat turbines (combined-cycle gas turbine units and gas turbine units) are located in the cities of Ufa, Tomsk, Omsk, Kaliningrad, St. Petersburg, and Sochi, among others. To enhance the efficiency and reliability of the equipment and reduce the environmental impact of production, the Company plans to continue work to modernize core equipment, service water supply systems, gas cleaning units, and electrical equipment in the future.

<sup>1</sup> Power facilities with co-generation include facilities with 100% heat-generating turbines, combined-cycle gas turbine units, and gas turbine units operating in a closed cycle that supply heat to consumers.

## Use of renewable and secondary energy sources in Russia

LLC Bashkir Generation Company supports the use of alternative energy sources in economically and technically justified situations, in particular in remote or technologically isolated areas. This is consistent with the provisions of Federal Law of the Russian Federation No. 261-FZ dated November 23, 2009 "On Energy Conservation and Energy Efficiency Improvement and Amendments to Certain Legislative Acts of the Russian Federation."

LLC Bashkir Generation Company uses renewable energy sources (RES) and secondary energy sources (SES) to produce energy for its own needs and for sale to the following outside consumers:

- hydroelectric power plants (the Pavlovskaya and Yumaguzinskaya HPPs)
- small and micro hydroelectric power plants (the Mechetlinskaya, Slakkaya, Avzyanskaya, Uzyanskaya, and Kaginskaya MHPPs)
- the wind power plant of the Tyupkilda wind farm

According to expert estimates, the use of renewable energy sources at LLC Bashkir Generation Company in 2018 prevented the emission of 837 tons of pollutants into the atmosphere and 362,200 tons of greenhouse gases (CO<sub>2</sub> equivalent).

## Fuel consumption

### RUSSIAN GENERATING ASSETS OF THE GROUP

Fuel types	Total fuel consumption				Energy usage, GJ			
	2016	2017	2018	Change vs. 2017, %	2016	2017	2018	Change vs. 2017, %
total renewable <sup>1</sup>					1,196,527,997	1,192,904,861	1,179,131,756	-1.2
Oil fuel, tons	378	149	74	-50.3	14,668,639	5,944,112	2,899,090	-51.2
heating oil	378	147	73	-50.3	14,660,234	5,867,290	2,869,304	-51.1
diesel fuel	0	2	1	-50.0	8,405	76,822	29,786	-61.2
Gas, thousand m <sup>3</sup>	28,052	28,448	28,481	0.1	964,125,985	975,565,393	974,982,820	-0.1
natural	24,350	24,812	24,767	-0.2	834,564,063	847,831,633	845,277,703	-0.3
associated	3,684	3,620	3,664	1.2	128,990,161	127,225,933	128,166,457	0.7
industrial enterprises	18	17	51	200.0	571,760	507,828	1,538,660	203.0
Coal, tons	12,481	12,354	11,831	-4.2	217,733,373	211,395,356	201,249,846	-4.8
bituminous	6,198	5,621	5,491	-2.3	115,674,295	101,847,834	98,694,757	-3.1
brown	6,283	6,733	6,340	-5.8	102,059,078	109,547,522	102,555,089	-6.4

<sup>1</sup> The Group's Russian generating assets do not have any renewable energy sources that use biofuels.

**TOTAL ENERGY CONSUMPTION**

Indicator	Total energy consumption in 2018		Total decrease in energy consumption, TJ			
	physical indicator	TJ	2016	2017	2018	Change vs. 2017, %
Fuel, thousand tons of fuel equivalent	40,243.42	1,179,454.15	3,451.96	3,951.06	3,097.95	-21.6
Electricity, mln kWh <sup>1</sup>	6,224.05	22,406.59	80.78	50.95	54.20	6.4
Heat, Gcal <sup>2</sup>	432,987.26	1,812.92	0.05	0.09	0.03	-66.7

**RESULTS OF THE FULFILLMENT OF THE INDICATORS OF THE ENERGY CONSERVATION AND EFFICIENCY IMPROVEMENT PROGRAM**

Indicator	Measurement unit	2016	2017	2018	Change vs. 2017, %	Comments
Generation	mln kWh	118,131.89	122,087.33	121,765.18	-0.3	Including electricity generation at HPPs and wind farms
Electric power output from busbars	mln kWh	112,373.66	116,336.20	116,118.85	-0.2	Including electricity generation from busbars at HPPs and wind farms
Thermal power output from collectors	thousand Gcal	39,959.52	39,798.51	41,551.26	4.4	
<b>ENERGY INTENSITY</b>						
Specific fuel consumption for electric power output	g/kWh	307.45	303.14	296.99	-2.0	
Specific fuel consumption for thermal power output	kg/Gcal	145.04	143.90	144.36	0.3	
FHUF	%	48.00	48.35	49.49	2.4	Excluding electricity generation from busbars at HPPs and wind farms
Specific overconsumption (overburning) of fuel equivalent	g/kWh	1.78	1.75	1.93	10.3	Excluding electricity generation from busbars at HPPs and wind farms
Total relative heat losses during transmission via heat networks	%	17.66	17.05	18.61	9.1	
Relative electricity costs for the transmission of heat via heat networks	kWh/Gcal	6.55	6.51	6.11	-6.1	

<sup>1</sup> Total electric power consumption includes: internal needs, business needs, and production needs (in-house production and purchased), and electricity consumption for the transmission of thermal power via heat networks.

<sup>2</sup> Total thermal power consumption includes: production and business needs for generation and production and the business needs and internal needs of heat networks.

Indicator	Measurement unit	2016	2017	2018	Change vs. 2017, %	Comments
<b>DECREASE IN ENERGY CONSUMPTION</b>						
	thousand tons of fuel equivalent	117.78	134.81	105.703	-21.6	
Total decrease in fuel and energy consumption as a direct result of energy conservation and energy efficiency improvement initiatives	mln kWh	22.44	14.15	15.055	6.4	
	thousand Gcal	12.52	22.45	7.463	-66.8	Excluding reductions in heat losses in heat networks
	mln cub. m.	0.95	0.0005	4.726	945,100.0	Excluding coolant losses in heat networks
<b>DECREASE IN ENERGY DEMAND FOR THE PRODUCTION OF GOODS OR SERVICES</b>						
Decrease in fuel consumption for the production of thermal and electric power resulting from measures to reduce energy consumption	g/kWh	1.03	1.14	0.89	-21.9	
	kg/Gcal	0.12	0.28	0.18	-35.7	
Decrease in heat losses during transmission via heat networks	%	0.44	0.46	0.38	-17.4	
Decrease in electricity costs for the transmission of heat via networks	kW/Gcal	0.01	0.00	0.01	100	
Decrease in electricity consumption for internal needs resulting from measures to reduce energy consumption <sup>3</sup>	%	0.02	0.01	0.01	0.0	
Decrease in heat consumption for internal needs resulting from measures to reduce energy consumption	Gcal	12,520.34	22,445.72	7,462.87	-66.8	
Decrease in electricity consumption for internal needs resulting from measures to reduce energy consumption	kWh	22,438,902.42	14,153,651.74	15,054,991.28	6.4	

<sup>3</sup> Determined as the ratio of the absolute value of the decrease in electricity consumption for internal needs (kWh) versus electric power generation (kWh).

**ENERGY CONSERVATION AND EFFICIENCY IMPROVEMENT INITIATIVES (2018 PROJECTS)**

Energy company	Energy conservation measures	Savings achieved				Expenditures, RUB mln
		thousand tons of fuel equivalent	mln kWh	thousand Gcal	RUB mln	
UEG	Verkhnetagilskaya TPP: modernization of the steam boiler at Station No. 16 with the replacement of the cubes of the bottom deck air heater and the replacement of the lens compensators with gland-type joints	1.20	0.00	0.00	3.925	6.649
	Verkhnetagilskaya TPP: retooling of Turbine Unit No. 9 with the replacement of the end seals of the low-pressure cylinder with removable ones	0.83	0.00	0.00	2.702	2.445
	Irkutskaya TPP: retrofitting of the turbine vacuum system of Unit 1 (Inventory No. IRI1400149) with a ball cleaning system	1.46	0.00	0.00	5.249	2.295
	Irkutskaya TPP: modernization of steam boiler PK-41 of the power unit of Station No. 1 with the replacement of the gasket RVP-A, B, C, D with more effective gaskets	2.04	0.00	0.00	7.318	35.300
	Kaliningradskaya TPP-2: reconstruction of the contours of gas condensate heaters (GPH) of waste-heat boilers (WHB) of Stations No. 21 and 22	0.42	0.00	0.00	1.658	10.996
	Permskaya TPP: reconstruction of the exhaust fans of the gas and air duct of the 800-MW power unit of Station No. 2	0.24	0.00	0.00	0.645	20.624
	Permskaya TPP: examination of the refurbishing of the seals of the medium-pressure cylinder of the heat accumulator of the 800-MW power unit of Station No. 3 during the overhaul period	0.65	0.00	0.00	1.774	2.366
	Pechorskaya TPP: overhaul of the gas duct of Power Unit No. 1	0.25	0.00	0.00	0.777	1.290
	Urengoysskaya TPP: overhaul of the K-160-7.5 turbine unit of the casting and mechanical plant, repair of a capacitor with the elimination of defects in the piping system as part of the turbine overhaul	1.18	0.00	0.00	2.426	15.095
	Ufimskaya CHPP-2: installation of a variable-frequency drive on booster pump PPN-2A	0.00	0.06	0.00	0.025	0.956
BGC	Sterlitamakskaya CHPP: modernization of the regenerative air heater PK-1 with 100% replacement of the gasket with a modernized one	0.27	0.00	0.00	1.038	10.647
TGC-11	Orenburgskaya CHPP-5: modernization of Evaporator Unit No. 2 to reduce plant losses of steam and condensate	0.00	0.00	2.36	1.610	60.368
	Orenburgskaya CHPP-5: modernization of Evaporator Unit No. 4 to reduce plant losses of steam and condensate	0.00	0.00	3.89	2.765	17.455
	Orenburgskaya CHPP-3: cleaning of turbine condensers PT-60-90/13, Station No. 9	0.75	0.00	0.00	2.686	0.344
	Orenburgskaya CHPP-4: replacement of first-stage forging cubes of the compressor unit of Station 9	0.50	0.00	0.00	1.027	9.698
Omsk RTS	Restoration of the thermal insulation structure on the above-ground pipelines (heat network sections planned for 2018)	0.00	0.00	2.87	2.792	29.677
	Overhaul of pipelines of underground heat networks (heat network sections planned for 2018)	0.00	0.00	5.41	5.256	192.519
TomskRTS	Restoration of the thermal insulation of the centralized heat supply system networks of Tomsk (2017-2018)	0.00	0.00	12.32	5.814	23.313



# Environmental activities

## Environmental protection expenditures

Environmental protection expenditures are periodic. Gas cleaning equipment and treatment facilities are repaired and modernized depending on the state of the equipment. Additionally, this work includes measures for the development of regulatory and licensing documentation, which depends on the legally approved validity of the documentation (five years in most cases).

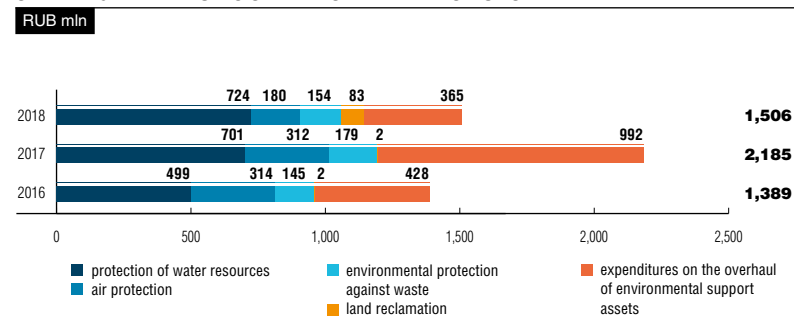
### Protection of water resources

The Group's power plants annually take measures to increase the reuse of industrial water and reduce the volume of wastewater. For example, in order to reduce a power plant's need for fresh water, the cooling tower at Omskskaya CHPP-5 (Cooling Tower No. 4) was rebuilt and upgraded. A clean surface transfer pump was installed at Omskskaya CHPP-3, which also made it possible to reduce the volume of water withdrawn. In an effort to minimize the negative impact of wastewater from the Omskskaya CHPP-3 to surface water bodies, a chamber was built to redirect wastewater from CHPP-3 to the collector of OJSC OmskVodokanal.

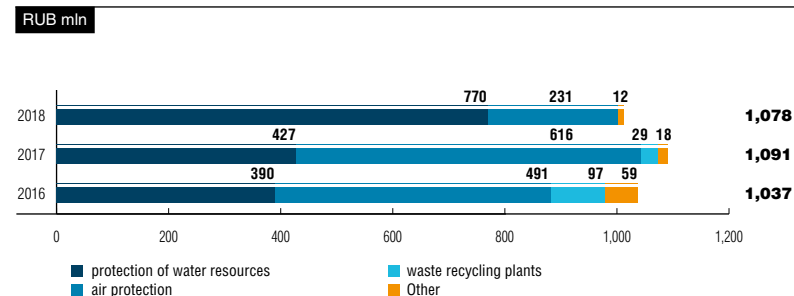
JSC Inter RAO – Electric Power Plants is decontaminating industrial drains at the wastewater discharge point into Lake Gusinoe (Gusinoozyorskaya TPP). A project is being continued (and will be completed in 2019) for the reconstruction of the process water supply, discharge, and outlet channels at the Kostromskaya TPP. Work continues on the construction of a wastewater treatment plant at the Cherepetskaya TPP and the design of the wastewater treatment unit at Outlet No. 3 of the Kostromskaya TPP. The Kaliningradskaya CHPP-2 has developed a correctional cooling tower using salt inhibitors taking into account the rejection of the use of low-efficiency reagents under the current conditions.

The Group's heat network assets have managed to cut water consumption by reducing the feed to the heat network while decreasing heat network losses. In particular, LLC BashRTS-Sterlitamak reduced the heat network supply by 38,450 tons compared with 2017.

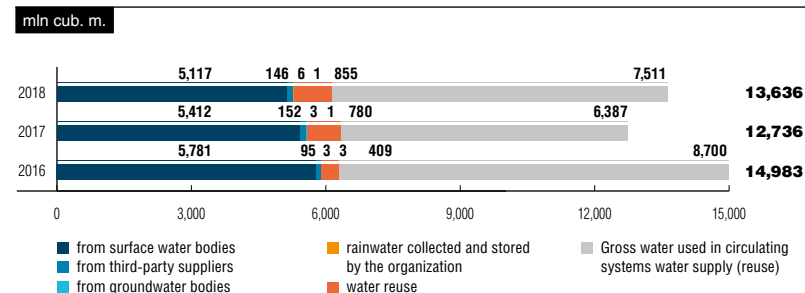
## OPERATING EXPENDITURES ON ENVIRONMENTAL PROTECTION



## INVESTMENT EXPENDITURES ON ENVIRONMENTAL PROTECTION



## WATER USAGE



**WATER DISPOSAL, MLN CUB. M.**

Indicator	2016	2017	2018	Change vs. 2017, %
Wastewater disposal, including:	5,741.8	5,962.0	5,716.9	-4.1
Disposed to third-party companies	5.7	5.3	5.1	-3.8
Disposed to surface water bodies, including:	5,736.2	5,956.7	5,711.8	-4.1
standard-compliant clean	5,718.1	5,940.6	5,672.0	-4.5
treated to standard quality	2.7	3.0	4.0	33.3
insufficiently treated	6.8	3.7	3.1	-16.2
polluted untreated	8.6	9.4	32.7	247.9
Share of standard-compliant clean water in total water disposal, %	99.70	99.72	99.21	-0.5 p.p.

**Solid waste**

Due to the specifics of production, ash and slag waste makes up the bulk of the waste generated at the Group's facilities. Given the lack of a developed permanent market for the use of ash and slag waste in Russia at this time, it is impossible to project how ash and slag waste (ASW) and other types of waste

will be used. However, work is constantly underway to find a market for the sale of industrial waste.

**TOTAL MASS OF WASTE BY TYPE AND TREATMENT METHODS, TONS**

Indicator	2016	2017	2018	Change vs. 2017, %
<b>WASTE GENERATION</b>				
class 1	16	14	19	35.7
class 2	12	12	20	66.7
class 3	1,469	1,760	1,518	-13.8
class 4	18,696	19,665	16,601	-15.6
class 5	4,223,615	4,220,977	3,980,553	-5.7
<b>total</b>	<b>4,243,809</b>	<b>4,242,428</b>	<b>3,998,710</b>	<b>-5.7</b>
including ash and slag	4,201,335	4,190,600	3,403,554	-18.8
<b>WASTE RECYCLING</b>				
Placed at in-house storage facilities	4,090,097	4,089,622	3,856,798	-5.7
Ash and slag waste placed at in-house facilities	4,054,501	4,085,371	3,852,489	-5.7
Used	385,078	12,193	3,669	-69.9
Decontaminated	111	68	23	-66.2
Transferred to third parties	214,365	193,483	166,588	-13.9
including transferred ash and slag waste	177,559	152,293	132,950	-12.7

In accordance with legislative requirements, the Inter RAO Group develops draft standards for waste generation and disposal limits. Based on the degree of their environmental impact, ash and slag waste are classified as hazard class 5, which means they have a minimal impact on the environment.

The Kashirskaya TPP and Cherepetskaya TPP at JSC Inter RAO – Electric Power Plants contributed the most to the use of ASW in 2018 with 32,700 tons and 41,400 tons, respectively. ASW was transferred to third parties for use in the construction industry. In 2018, CHPP-4 (JSC TGC-11) organized the transfer of 24,900 tons of ash and slag for use.

Part of the waste is reused at the facilities of PJSC Inter RAO.

The Gusinoozyorskaya and Kharanorskaya TPPs have established workshops to process scrap and waste containing unpolluted ferrous metals. In addition, soil obtained during dredging work on canals is reused. Before being used, the soil is stored in piles to dehydrate. The piles are then leveled and undergo artificial grassing. Mineral oil waste and cleaning rags are also recycled. Oil-contaminated sands are neutralized (burned) in boiler furnaces. At the Kharanorskaya TPP, supernatant petroleum products and sludge are used as fuel additives during the firing of frozen mud with fuel oil (technical specifications have been developed for use).

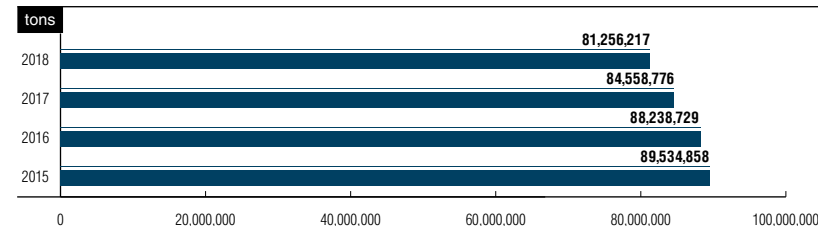
Silt from silt detention ponds at sewage treatment plants is used at the Kostromskaya TPP: the sediment is kept in ponds for two or three years and, in accordance with Sanitary Rules and Regulation 2.1.7.573-96, is removed for use as dried sludge fertilizer (compost) for subsoil placement.

The Moldova TPP also actively recycles waste in its production cycle. Oily waste (sludge from mineral oil facilities, used motor oil, compressor oil, and industrial oil) are used as fuel (burned in boilers by mixing with fuel oil). Turbine oil is partially recycled into the cycle after treatment. Babbitt waste is melted down for the production of bearings. Used work clothes are used as rags. In 2018, more than 2,800 tons of construction waste were used for the recultivation of an inactive pit located near the enterprise.

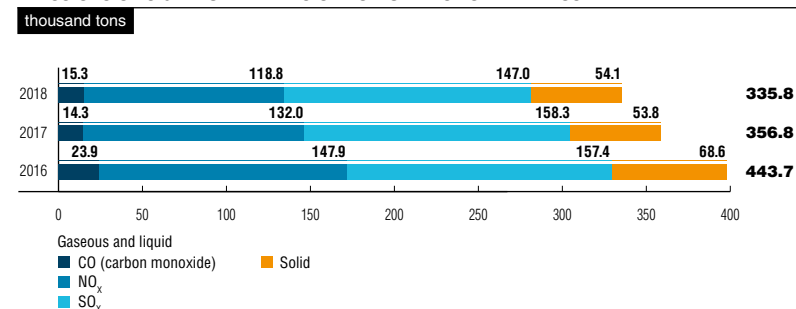
At the Group's power plants, certain types of waste are selectively collected and transferred for subsequent disposal.

## Air protection

### GROSS GREENHOUSE GAS EMISSIONS



### EMISSIONS OF SIGNIFICANT TYPES OF POLLUTANTS TO THE ATMOSPHERE



Overall, pollutant emissions decreased by 5.9% compared with 2017. Solid matter emissions increased by 0.6% in 2018. This situation mainly resulted from an increase in solid matter emissions at Kharanorskaya TPP due to the growing share of coal in the fuel balance and the transition to another type of coal compared with 2017. Despite the isolated cases, there has been a trend toward improved efficiency with fuel usage. In particular, the commissioning of the Zatonskaya CHPP helped to reduce specific fuel consumption for electricity supply at LLC Bashkir Generation Company by 5.5 g/kWh compared with last year.

It should also be noted that the Group's companies are actively implementing projects to reduce pollutant emissions to the atmosphere. Specifically, projects to introduce low-toxic burners were completed on the ninth and tenth boilers at Ufimskaya CHPP-2 of LLC Bashkir Generation Company, which will reduce emissions of nitrogen oxides.

## Projects to introduce new technologies

TGC-11 invested more than RUB 715 million in environmental protection in its region in 2018. The company retrooled two electrostatic precipitators at CHPP-4 and CHPP-5 whose mechanical component uses a modernized system to shake out precipitation and corona elements and a more advanced gas distribution system that ensures the high efficiency of the gas cleaning process. Over the past five years, TGC-11 has upgraded nine electrostatic precipitators.

**IN 2018, TGC-11 WAS INCLUDED IN THE LIST OF '100 BEST ORGANIZATIONS IN RUSSIA. ECOLOGY AND ENVIRONMENTAL MANAGEMENT.'**

A project to build wastewater treatment plants at the CHPP-5 joint venture won the category 'For Achievements in the Protection of Surface and Groundwater.' The new process cleaning circuit of the industrial wastewater treatment plants provides the ability to reuse treated water in the plant's process water supply system. This should have a positive effect on protecting the open water bodies of the Omsk Region, including the Irtysh River. Modern, highly efficient equipment will ensure the reliability of mechanical, physical, and chemical treatment and the decontamination of treated wastewater during all stages of wastewater treatment.

At the Omskskaya CHPP-5 (JSC TGC-11), the electrostatic precipitator of Boiler Unit No. 1 was retrooled, while the electrostatic precipitator of Boiler Unit No. 9 was replaced at the Omskskaya CHPP-4, which reduced the amount of particulate matter emissions. In addition, pollutant emissions to the atmosphere at JSC TGC-11 declined due to the cleaning of the condenser of the engine emission level and a reduction in suction devices on the CHPP-3 boiler units.

As part of the government's Ecology National Project, an action plan was approved to reduce pollutant emissions through improvements to gas cleaning equipment by replacing electrostatic precipitators with innovative hybrid filters. The issue of reducing pollutant emissions to the atmosphere was addressed in order to comply with Presidential Decree No. 204 dated May 7, 2018 (clause 7). The Ecology National Project was developed pursuant to the Decree (the project identification summary was approved by Minutes No. 16 dated December 24, 2018 of the Presidium of the Presidential Council for Strategic Development and National Projects under the President of the Russian Federation). The Ecology National Project includes the Clean Air federal project under which comprehensive action

plans were drafted and approved to reduce pollutant emissions to the atmosphere in large industrial centers, including Omsk. A comprehensive action plan to improve the environmental situation and reduce pollutant emissions to the atmosphere in Omsk was approved by the Deputy Prime Minister of the Russian Federation (No. 11013p-P6 dated December 28, 2018).

## Biodiversity

In 2018, work was carried out to assess the effectiveness of fish protection systems at the Permskaya and Irikinskaya TPPs, and new fish protection nets were installed at LLC BashRTS-Sterlitamak. From 2019, fry will be released based on the updated calculations.

### Permskaya TPP

The Permskaya TPP has been raising sterlet at its own fish reproduction workshop since 2003. Since this time, power industry workers have released more than 5 million fry into the rivers of the Kama region. Artificial reproduction is compensating and maintaining the balance of the natural population of this valuable sturgeon species, which is included in the Red Book of the Perm Territory. Experts from the Perm Department of the State Research Institute of Lake and River Fisheries as well as supervisory agencies have noted an increase in the population of the Kama sterlet in the places where they have been released.

In 2018, employees from the Permskaya TPP released 400,000 young sterlet into the rivers of the Kama region. The fish stocking took place in the Dobriansky, Usolsky, and Permsky Districts.

### Irikinskaya TPP

A total of 12,000 carp fry were released into the Irikinskoe Reservoir.

### Gusinoozyorskaya TPP

Fry are released annually in August in accordance with the plant's agreement with the Gusinoozyorskoye fish farm (Baikal branch of the Main Fisheries Agency) on the artificial reproduction of aquatic biological resources.

About 60,000 carp fry were released through the discharge channel of the Gusinoozyorskaya TPP into Lake Gusinoye.

### Kaliningrad Generation

The Primorskaya TPP is being built on the shore of the Kaliningrad Sea Canal, and fish stocking is designed to compensate for the potential negative impact on the aquatic environment.

In 2018, Kaliningrad Generation released 31,000 whitefish fry into the Curonian Lagoon.

## Moldova TPP

Each year, the Moldova TPP funds monitoring of the ecological state of a local reservoir by research organization representatives. They collect and calculate the qualitative and quantitative features of larvae entering the plant's water intakes and then give the appropriate recommendations. Based on these recommendations, the Cuciurgan Reservoir is stocked with the volume required to reduce the impact level and compensate for damage from the production activities of Moldova TPP. In spring 2018, 4,180,000 non-migratory fry were obtained at a hatchery at the plant. Of these, 3,680,000 were released into the reservoir as compensatory stocking. For experimental purposes, 500,000 fry were released into an enlarged wintering pond for rearing adult specimen and to determine their survival rate with the joint rearing of predatory and non-predatory fish species. In the fall, the fish were released into the reservoir in the presence of representatives of the Ministry of Agriculture and Natural Resources of the Pridnestrovian Moldavian Republic and the State Service for Ecological Control and Environmental Protection of the Pridnestrovian Moldavian Republic. The species consisted of pike perch, ram, bream, and carp. Thus, the fry released into the Kuchurgan Reservoir in 2018 will significantly replenish the small population of aquatic and plant-eating fish species, which will have a positive effect on the ecological situation in the reservoir.

## Advanced training in nature conservation

In 2018, 18 specialists from JSC Inter RAO – Electric Power Generation took part in the 18th International Legal Seminar of Environmental Specialists, while one individual underwent a refresher course under the Environmental Management System Internal Auditor program.

Specialists from JSC TGC-11 underwent advanced training as part of the program 'Ensuring Environmental Safety by Managers and Specialists of Environmental Services and Environmental Control Systems' and took part in conferences and environmental forums in 2018.

At LLC BashRTS, eleven employees underwent environmental management training, with six of them trained in the course 'Ensuring Environmental Safety during Hazardous Waste Management' and three taking the 'Ensuring Environmental Safety by Managers and Specialists of General Economic Control Systems' course.

At JSC Omsk RTS, two specialists were trained in the courses 'Ensuring Environmental Safety during Hazardous Waste Management' and 'Quality Control Issues of Various Types of Waters.'

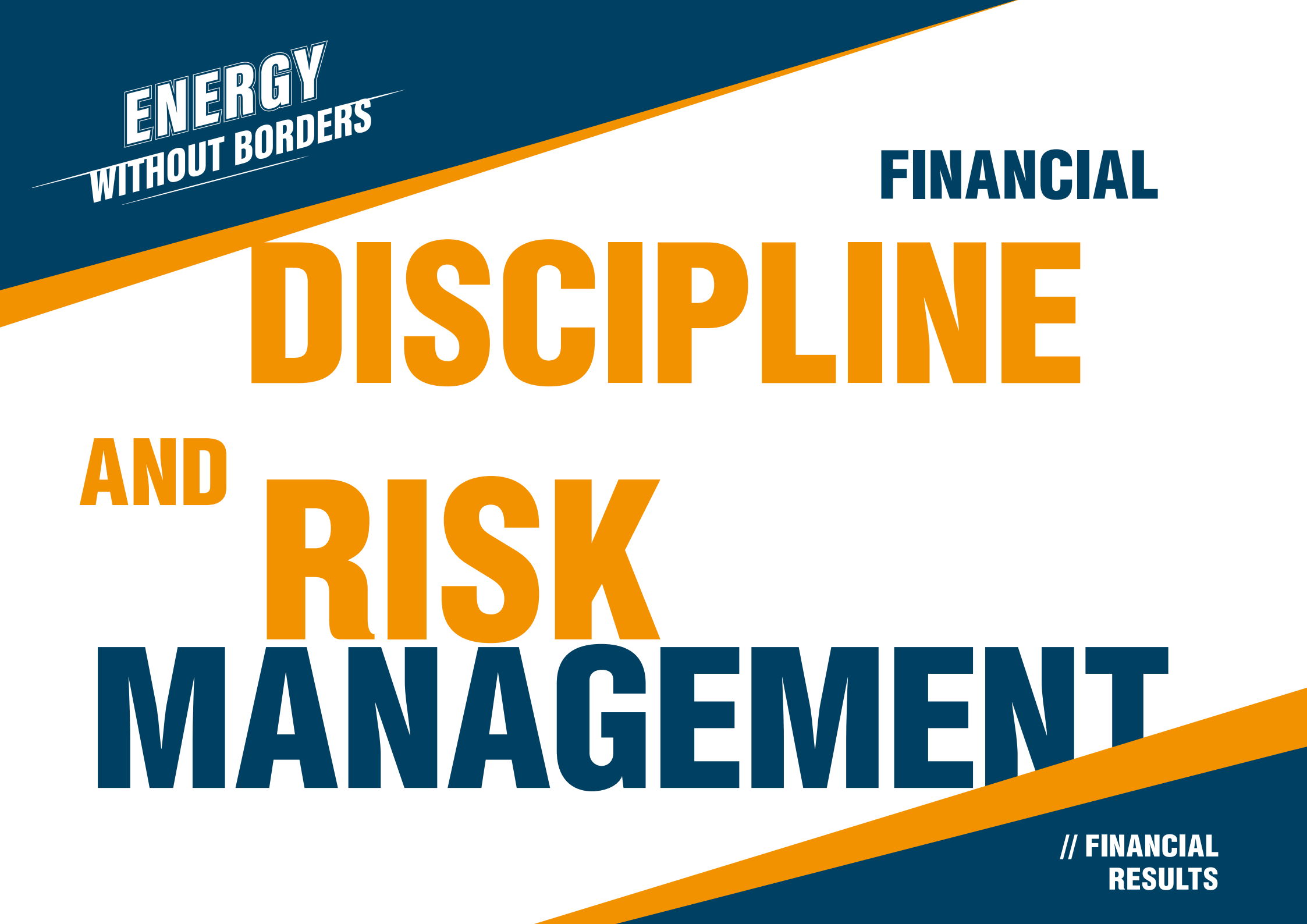
At JSC Ekibastuzskaya TPP-2, one specialist took part in the 4th CARBON – KZ – 2018 International Forum: 'System for Trading Greenhouse Gas Emissions in the Context of the International Low Carbon Development Initiative.'

## Public awareness

The Group's subsidiaries pay considerable attention to providing public awareness and interacting with the authorities on matters concerning environmental education and training.

At JSC Inter RAO – Electric Power Plants, in an effort to inform the public and public organizations about environmental issues, a number of branches organized the following measures in 2018:

- disclosure of the results of environmental activities in 2017 at a press conference given by branch directors
- disclosure of the results of environmental activities in quarterly press releases on the production activities of branches
- tours of the enterprise for students at educational institutions and members of public organizations in the town of Dobryanka (February, May, September, and November)
- coverage of the release of sterlet fry in the local print media (May)
- an environmental campaign to collect used batteries among children at daycare centers in the Dobriansky District (January-April)
- an environmental campaign to plant birch saplings at daycare centers in the Dobriansky District (May-June)
- coverage of the environmental measures carried out by branches on corporate social media pages (throughout the year)



**ENERGY**  
**WITHOUT BORDERS**

**FINANCIAL**

**DISCIPLINE**

**AND**

**RISK**

**MANAGEMENT**

**// FINANCIAL  
RESULTS**

## Key indicators

Indicator	2016	2017 <sup>1</sup>	2018	Change vs. 2017, %
Revenue, RUB mln	868,182	869,204	962,582	10.7
Other operating income, RUB mln	39,120	8,817	10,492	19.0
Operating expenses, RUB mln	–830,042	–821,779	–885,785	7.8
Net profit, RUB mln	61,312	54,662	71,675	31.1
Net assets, RUB mln	421,106 <sup>1</sup>	461,503	485,478 <sup>2</sup>	5.2
Intangible assets, RUB mln	9,908	13,183	13,849	5.1
EBITDA, RUB mln	96,259	97,645	121,300	24.2
EBITDA margin, %	11	11	13	2 p.p.
Salary, employee benefits, and payroll taxes, RUB mln	49,892	49,468	51,935	5.0

### RATIOS AND OTHER INDICATORS<sup>4</sup>

Indicator	2016	2017	2018	Change vs. 2017, %
Return on assets, %	10.75	8.93	10.48	17.3
Return on invested capital, %	13.75	11.02	13.02	18.2
Return on equity, %	14.63	11.84	14.76	24.6
Return on EBITDA, %	11.09	11.23	12.60	12.2
Current liquidity ratio	1.77	2.07	2.02	–2.5
Equity concentration ratio	0.73	0.72	0.67	–7.7
Equity-to-loans ratio	2.75	2.60	2.00	–23.2
Net cash flow from operating activities	81,361	88,759	94,456	6.4
Loans and borrowings, RUB mln	17,624	16,154	9,738	–39.7
Short-term, RUB mln	8,738	11,479	8,353	–27.2
Long-term, RUB mln	8,886	4,675	1,385	–70.4
Lease obligations, RUB mln	–	12,698	50,093	3.9x
Debt <sup>3</sup> /EBITDA	0.2	0.3	0.5	66.9
Net debt <sup>3</sup> , RUB mln	–78,232	–135,495	–166,706	–
Net debt <sup>3</sup> / EBITDA	–0.8	–1.4	–1.4	–

<sup>1</sup> Information was retrospectively restated due to the introduction of IFRS 15 “Revenue from Contracts with Customers” and IFRS 16 “Leases.” The consolidated statement of financial position as of December 31, 2016 was retrospectively restated. The consolidated statement of comprehensive income for the year ended December 31, 2016 was not subject to retrospective restatement.

<sup>2</sup> The value of net assets (RUB 485.478 billion) exceeds the value of the share capital of PJSC Inter RAO (RUB 293.340 billion) by RUB 192.138 billion.

<sup>3</sup> Including the share of lease obligations in joint ventures.

<sup>4</sup> 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.

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 Zatonkaya 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 Zatonkaya 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

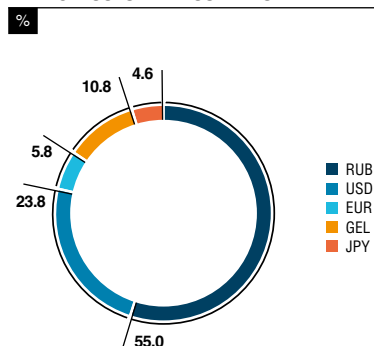
The Group's debt load (excluding liabilities recognized under IFRS 16 "Leases") decreased by RUB 6.4 billion (39.7%) to RUB 9.7 billion as of December 31, 2018, primarily as a result of the planned and early repayment of debt by the Group's companies as well as a lesser need for debt financing among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

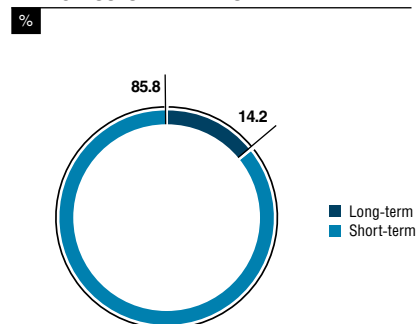
Debt obligations in Russian rubles make up 55.0% of the loan portfolio, U.S. dollars – 23.8%, Georgian lari – 10.8%, euros – 5.8%, and Japanese yens – 4.6%. The ratio of long-term and short-term loans and borrowings was 14.2% versus 85.8% as of December 31, 2018 (28.9% versus 71.1% as of December 31,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

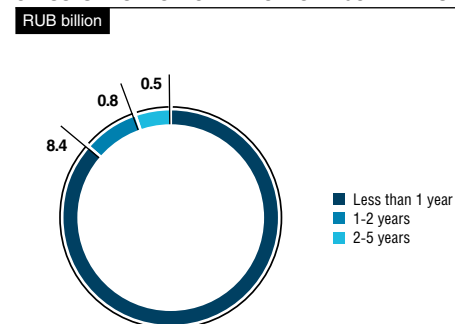
#### DEBT STRUCTURE BY CURRENCY



#### DEBT STRUCTURE BY MATURITY



#### STRUCTURE OF LOANS AND BORROWINGS BY MATURITY



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

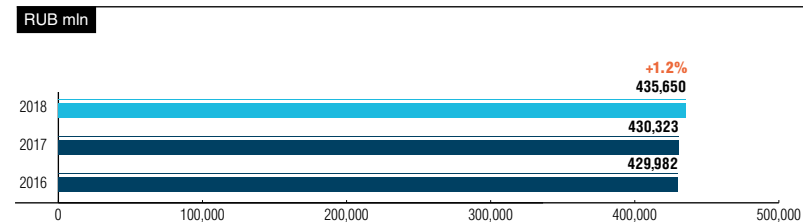
In accordance with the decision of the Annual General Meeting of Shareholders of PJSC Inter RAO<sup>1</sup>:

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.

<sup>1</sup> Minutes No. 18 dated May 21, 2018

**NET ASSETS OF THE COMPANY**

**FORMATION OF DIRECT ECONOMIC VALUE GENERATED, DISTRIBUTED, AND RETAINED**

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

# SEGMENT REPORTING

## KEY FINANCIAL AND ECONOMIC RESULTS OF THE GROUP IN 2018 BY SEGMENT

Indicator	Supply	Electric Power Generation in the Russian Federation	Thermal Power Generation in the Russian Federation		Trading	Foreign Assets			Engineering	Corporate centre	TOTAL
	Russian Federation	Inter RAO – Electricity Generation Group <sup>1</sup>	TGC-11 <sup>2</sup>	Bashkir Generation <sup>3</sup>	Russian Federation and Europe	Georgia	Moldova	Turkey	Russian Federation		
Revenue, RUB mln	632,368	177,358	33,036	57,217	73,495	12,587	8,490	5,740	30,674	(68,383)	962,582
Share of Segment's revenue in total, %	66	18	3	6	8	1	1	1	3	–7	100
Operating expenses, including											
Purchased electricity and capacity, RUB mln	(368,026)	(6,999)	(2,664)	(3,942)	(48,496)	(6,607)	–	–	–	64,938	(371,796)
Transmission fees, RUB mln	(218,047)	–	–	(5)	(7,402)	(1,715)	(64)	–	–	(1)	(227,234)
Fuel expenses, RUB mln	–	(76,490)	(13,191)	(28,777)	–	–	(4,283)	(2,173)	–	2,923	(121,991)
Share in loss of joint ventures, RUB mln	(89)	(3,057)	–	–	–	–	–	–	(55)	–	(3,201)
EBITDA, RUB mln	24,960	59,998	6,469	11,201	16,309	2,221	2,804	2,466	263	(5,391)	121,300
Depreciation and amortization, RUB mln	(2,721)	(14,106)	(1,660)	(4,160)	(177)	(595)	(284)	(1,683)	(161)	(1,054)	(26,601)
Interest income, RUB mln	1,607	3,374	65	225	22	59	–	30	311	4,574	10,267
Interest expenses, RUB mln	(540)	(155)	(160)	(6)	(22)	(239)	(34)	(192)	(96)	254	(1,190)
Interest expenses on lease liabilities, RUB mln	(372)	(2,792)	(73)	(505)	(5)	(7)	–	–	(8)	(39)	(3,801)
EBITDA margin, <sup>4</sup> %	4	46	22	24	23	18	33	43	1	–	13
Share of Segment's EBITDA in total, %	21	50	5	9	13	2	2	2	0	–4	100

<sup>1</sup> Represented by Group Inter RAO – Electric Power Plants, including JSC Nizhnevartovskaya TPP (accounted for under the equity method) (hereinafter in the Report).

<sup>2</sup> Represented by JSC Tomsk Generation, JSC TGC-11, JSC Omsk RTS, and JSC Tomsk RTS (hereinafter in the Report).

<sup>3</sup> Represented by Group Bashkir Generation Company, including LLC BashRTS (hereinafter in the Report).

<sup>4</sup> EBITDA margin was calculated excluding intersegment revenue of the 'Supply in the Russian Federation' segment in the amount of RUB 1.674 billion, the 'Electric Power Generation in the Russian Federation' segment in the amount of RUB 46.037 billion, the 'Thermal Power Generation in the Russian Federation' segment in the amount of RUB 15.388 billion (including TGC-11 in the amount of RUB 3.9 billion and Bashkir Generation in the amount of RUB 11.488 billion), the 'Trading in the Russian Federation and Europe' segment in the amount of RUB 2.053 billion, and the 'Engineering in the Russian Federation' segment in the amount of RUB 3.793 billion.

**KEY FINANCIAL AND ECONOMIC RESULTS OF THE GROUP IN 2017 BY SEGMENT<sup>1</sup>**

Indicator	Supply	Electric Power Generation in the Russian Federation	Thermal Power Generation in the Russian Federation		Trading	Foreign Assets			Engineering	Corporate centre	TOTAL
	Russian Federation	Inter RAO – Electricity Generation Group	TGC-11	Bashkir Generation	Russian Federation and Europe	Georgia	Moldova	Turkey	Russian Federation		
Revenue, RUB mln	580,846	165,690	31,525	53,322	58,618	10,092	6,129	10,541	15,100	(62,659)	869,204
Share of Segment's revenue in total, %	67	19	3	6	7	1	1	1	2	–7	100
Operating expenses, including											
Purchased electricity and capacity, RUB mln	(340,249)	(7,006)	(2,603)	(4,040)	(44,890)	(5,448)	–	–	–	59,218	(345,018)
Transmission fees, RUB mln	(201,689)	–	–	(5)	(5,537)	(1,022)	(38)	–	–	–	(208,291)
Fuel expenses, RUB mln	–	(76,559)	(12,604)	(28,064)	–	–	(1,942)	(7,987)	–	2,596	(124,560)
Share in (loss)/profit of joint ventures, RUB mln	(42)	2,704	–	–	–	–	–	–	(28)	74	2,708
EBITDA, RUB mln	19,086	57,058	5,489	8,400	7,445	1,813	2,711	1,558	(143)	(5,772)	97,645
Depreciation and amortization, RUB mln	(2,557)	(11,011)	(1,922)	(3,272)	(184)	(530)	(307)	(1,217)	(233)	(899)	(22,132)
Interest income, RUB mln	3,509	1,924	7	254	65	23	–	32	344	2,619	8,777
Interest expenses, RUB mln	(1,377)	(145)	(414)	(7)	(56)	(190)	(104)	(292)	(129)	218	(2,496)
Interest expenses on lease liabilities, RUB mln	(413)	(122)	(75)	(547)	(5)	(7)	–	–	(10)	(67)	(1,246)
EBITDA margin, <sup>2</sup> %	3	46	20	19	13	18	44	15	–1	–	11
Share of Segment's EBITDA in total, %	19	58	6	9	8	2	3	1	0	–6	100

<sup>1</sup> Information was retrospectively restated due to implementation of IFRS 15 "Revenue from Contracts with Customers" and IFRS 16 "Leases"

<sup>2</sup> EBITDA margin was calculated excluding intersegment revenue of the 'Supply in the Russian Federation' segment in the amount of RUB 1.533 billion, the 'Electric Power Generation in the Russian Federation' segment in the amount of RUB 41.911 billion, the 'Thermal Power Generation in the Russian Federation' segment in the amount of RUB 13.693 billion (including TGC-11 in the amount of RUB 3.636 billion and Bashkir Generation in the amount of RUB 10.057 billion), the 'Trading in the Russian Federation and Europe' segment in the amount of RUB 2.268 billion, and the 'Engineering in the Russian Federation' segment in the amount of RUB 3.356 billion.

**KEY FINANCIAL AND ECONOMIC RESULTS OF THE GROUP IN 2016 BY SEGMENT<sup>3</sup>**

Indicator	Supply	Electric Power Generation in the Russian Federation	Thermal Power Generation in the Russian Federation	Trading		Supply					Engineering	Corporate centre	TOTAL
	Russian Federation	Inter RAO – Electricity Generation Group	TGC-11	Bashkir Generation	Russian Federation	Armenia	Georgia	Moldova	Kazakhstan	Turkey	Russian Federation		
Revenue, RUB mln	564,238	156,576	30,131	53,476	81,025	–	11,879	4,850	–	15,356	8,926	(58,275)	868,182
Share of Segment's revenue in total, %	65	18	3	6	9	–	1	1	–	2	1	–6	100
Operating expenses, including													
Purchased electricity and capacity, RUB mln	(300,114)	(7,511)	(2,522)	(3,783)	(63,928)	–	(4,849)	–	–	–	–	54,967	(327,740)
Transmission fees, RUB mln	(227,751)	–	–	(8)	(6,006)	–	(1,138)	(15)	–	–	–	–	(234,918)
Fuel expenses, RUB mln	–	(73,318)	(12,606)	(28,281)	–	–	(954)	(132)	–	(11,545)	–	2,433	(124,403)
Share in (loss)/profit of joint ventures, RUB mln	(13)	3,075	–	–	–	1,838	–	–	774	–	(59)	57	5,672
EBITDA, RUB mln	15,131	53,649	4,914	8,740	10,193	1,838	2,604	2,655	776	2,915	(257)	(6,899)	96,259
Depreciation and amortization, RUB mln	(2,175)	(11,710)	(1,740)	(3,370)	(193)	–	(594)	(350)	(2)	(1,638)	(207)	(925)	(22,904)
Interest income, RUB mln	3,756	895	–	382	281	–	62	–	1	50	252	3,816	9,495
Interest expenses, RUB mln	(1,708)	(3,969)	(779)	(114)	(210)	–	(146)	(221)	–	(456)	(101)	475	(7,229)
EBITDA margin, <sup>4</sup> %	3	46	18	20	13	–	22	55	–	19	–5	–	11
Share of Segment's EBITDA in total, %	16	56	5	9	10	2	3	3	1	3	0	–8	100

<sup>3</sup> Information was not subject to retrospective restatement due to implementation of IFRS 15 "Revenue from Contracts with Customers" and IFRS 16 "Leases".

<sup>4</sup> EBITDA margin was calculated excluding intersegment revenue of the 'Supply in the Russian Federation' segment in the amount of RUB 1.37 billion, the 'Electric Power Generation in the Russian Federation' segment in the amount of RUB 38.826 billion, the 'Thermal Power Generation in the Russian Federation' segment in the amount of RUB 13.346 billion (including TGC-11 in the amount of RUB 3.365 billion and Bashkir Generation in the amount of RUB 9.981 billion), the 'Trading in the Russian Federation and Europe' segment in the amount of RUB 1.631 billion, and the 'Engineering in the Russian Federation' segment in the amount of RUB 3.239 billion.

## Generation in the Russian Federation

EBITDA grew  
by (9%).

**6.721**  
RUB billion

Generation in the Russian Federation includes two segments: 'Electric Power Generation in the Russian Federation' and 'Thermal Power Generation in the Russian Federation.' Revenue in the 'Electric Power Generation in the Russian Federation' segment increased by RUB 11.668 billion (7%) in 2018 primarily due to increased revenue from capacity sales as a result of the commissioning of new and modernized generating capacity as part of CDA, the commissioning of the leased facilities of LLC Kaliningrad Generation, and growth in capacity selling prices.

EBITDA grew by RUB 2.94 billion (5%) due to the increased efficiency of Inter RAO Group – Electric Power Plants as a result of the commissioning of new and modernized generating capacity as part of CDA, growth in the estimated capacity selling price in this sector, and the optimization of unprofitable and low-margin equipment during periods of low prices in the day-ahead market.

Revenue in the 'Thermal Power Generation in the Russian Federation' segment increased by RUB 5.406 billion (6.4%) in 2018 primarily due to the commissioning of the Zatonskaya CHPP, growth in the average selling prices for thermal power in 2017 and 2018 in Bashkortostan and the Omsk and Tomsk Regions, increased heat supply, and also as a result of growth in supply volume and prices in the competitive capacity auction (CCA) and capacity delivery agreement (CDA) segments for JSC TGC-11 JSC. EBITDA grew by RUB 3.781 billion (27%).



Indicator	2016	2017 <sup>1</sup>	2018	Change vs. 2017, %
<b>'Electric Power Generation in the Russian Federation' segment</b>				
Inter RAO - Electricity Generation Group				
Revenue, RUB mln	156,576	165,690	177,358	7
Share in revenue of the Inter RAO Group, %	18	19	18	-1 p.p.
Operating expenses, including				
Purchased electricity and capacity, RUB mln	(7,511)	(7,006)	(6,999)	0
Fuel expenses, RUB mln	(73,318)	(76,559)	(76,490)	0
Share in profit/(loss) of joint ventures, RUB mln	3,075	2,704	(3,057)	-213
EBITDA, RUB mln	53,649	57,058	59,998	5
EBITDA margin, <sup>2</sup> %	46	46	46	0 p.p.
Share in EBITDA of the Inter RAO Group, %	56	58	50	-8 p.p.
<b>'Thermal Power Generation in the Russian Federation' segment</b>				
<b>TGC-11</b>				
Revenue, RUB mln	30,131	31,525	33,036	5
Share in revenue of the Inter RAO Group, %	3	3	3	0 p.p.
Operating expenses, including				
Purchased electricity and capacity, RUB mln	(2,522)	(2,603)	(2,664)	2
Fuel expenses, RUB mln	(12,606)	(12,604)	(13,191)	5
EBITDA, RUB mln	4,914	5,489	6,469	18
EBITDA margin, <sup>3</sup> %	18	20	22	2 p.p.
Share in EBITDA of the Inter RAO Group, %	5	6	5	-1 p.p.
<b>Bashkir Generation</b>				
Revenue, RUB mln	53,476	53,322	57,217	7
Share in revenue of the Inter RAO Group, %	6	6	6	0 p.p.
Operating expenses, including				
Purchased electricity and capacity, RUB mln	(3,783)	(4,040)	(3,942)	-2
Fuel expenses, RUB mln	(28,281)	(28,064)	(28,777)	3
EBITDA, RUB mln	8,740	8,400	11,201	33
EBITDA margin, <sup>4</sup> %	20	19	24	5 p.p.
Share in EBITDA of the Inter RAO Group, %	9	9	9	0 p.p.

<sup>1</sup> Information was retrospectively restated due to implementation of IFRS 15 "Revenue from Contracts with Customers" and IFRS 16 "Leases". Information for 2016 was not subject to retrospective restatement.

<sup>2</sup> EBITDA margin was calculated excluding intersegment revenue of the 'Electric Power Generation in the Russian Federation' segment in the amount of RUB 46.037 billion for 2018, RUB 41.911 billion for 2017, and RUB 38.826 billion for 2016.

<sup>3</sup> EBITDA margin was calculated excluding intersegment revenue of the 'Thermal Power Generation in the Russian Federation' segment as regards the indicators of TGC-11 in the amount of RUB 3.9 billion for 2018, RUB 3.636 billion for 2017, and RUB 3.365 billion for 2016.

<sup>4</sup> EBITDA margin was calculated excluding intersegment revenue of the 'Thermal Power Generation in the Russian Federation' segment as regards the indicators of Bashkir Generation in the amount of RUB 11.488 billion for 2018, RUB 10.057 billion for 2017, and 9.981 billion for 2016.

## Supply in the Russian Federation

Revenue in the segment expanded by 9% (RUB 51.522 billion) primarily due to growth in the average selling prices of guaranteed suppliers and independent power supply companies for end users as well as an increase in the volume of electricity sold, including in connection with the servicing of new consumers and the launch of the new guaranteed supplier in the Vladimir Region.

### 'SUPPLY IN THE RUSSIAN FEDERATION' SEGMENT

Indicator	2016	2017 <sup>1</sup>	2018	Change vs. 2017, %
Revenue, RUB mln	564,238	580,846	632,368	9
Share in revenue of the Inter RAO Group, %	65	67	66	–1 p.p.
Operating expenses, including				
Purchased electricity and capacity, RUB mln	(300,114)	(340,249)	(368,026)	8
Transmission fees, RUB mln	(227,751)	(201,689)	(218,047)	8
EBITDA, RUB mln	15,131	19,086	24,960	31
EBITDA margin, <sup>2</sup> %	3	3	4	1 p.p.
Share in EBITDA of the Inter RAO Group, %	16	19	21	2 p.p.

EBITDA in the segment grew by 31%

**5.874**  
RUB billion

Expenses on the purchase of electricity and capacity grew by 8% (RUB 27.777 billion) due to an increase in sales volumes and market prices for purchased electricity and capacity.

The 8% (RUB 16.358 billion) increase in the cost of electricity transmission services is due to growth in electricity consumption and tariffs for its transmission.

These positive dynamics are due to both the growth in the volume of electricity sold and the positive effect of improvements to the balance for the receipt/payment of fines, penalties, forfeitures, and interest for using borrowed funds, which in turn were achieved due to an increase in fines for the late fulfillment of power supply obligations as well as penalties and fines under power supply contracts for late payment by consumers for electricity they received.

<sup>1</sup> Information was retrospectively restated due to implementation of IFRS 15 "Revenue from Contracts with Customers" and IFRS 16 "Leases". Information for 2016 was not subject to retrospective restatement.

<sup>2</sup> EBITDA margin was calculated excluding intersegment revenue of the 'Supply in the Russian Federation' segment in the amount of RUB 1.647 billion for 2018, RUB 1.533 billion for 2017, and RUB 1.37 billion for 2016.

## Trading in the Russian Federation and Europe

Revenue in the segment grew by 25% in 2018 primarily on account of the dynamics at companies in the segment. In particular, PJSC Inter RAO, RAO Nordic Oy, and AB INTER RAO Lietuva boosted revenue due to favorable market prices on the Nord Pool electricity exchange in the Lithuania and Finland zones, higher sales in these countries, and an increase in the ruble equivalent of selling prices due to growth

in the euro in 2018 compared with 2017, while JSC Eastern Energy Company accomplished this as a result of growth in the ruble equivalent of export prices to China and Mongolia combined with a decrease in the volume of deliveries in 2018 versus 2017. As a result of these factors, in terms of the country breakdown, revenue simultaneously decreased to a greater extent in the Russian Federation and Belarus.

### 'TRADING IN THE RUSSIAN FEDERATION AND EUROPE' SEGMENT

Indicator	2016	2017 <sup>3</sup>	2018	Change vs. 2017, %
Revenue, including, RUB mln	81,025	58,618	73,495	25
Finland	12,574	11,134	24,824	123
Lithuania	9,570	8,818	18,163	106
Russian Federation	30,039	13,956	12,749	-9
China	10,170	8,315	8,755	5
Latvia	743	861	795	-8
Belarus	8,795	7,557	137	-98
other	9,134	7,977	8,072	1
Share in revenue of the Inter RAO Group, %	9	7	8	1 p.p.
Purchased electricity and capacity, RUB mln	(63,928)	(44,890)	(48,496)	8
Transmission fees, RUB mln	(6,006)	(5,537)	(7,402)	34
EBITDA, RUB mln	10,193	7,445	16,309	119
EBITDA margin, <sup>4</sup> %	13	13	23	10 p.p.
Share in EBITDA of the Inter RAO Group, %	10	8	13	5 p.p.

The 8% growth in electricity purchase expenses in the segment was mainly due to an increase in the volume of electricity exports to Finland and Lithuania, which was partially offset by a decrease in import procurements by PJSC Inter RAO from Kazakhstan.

The 34% increase in electricity transmission expenses in the segment was primarily due to higher expenses as expressed in rubles by RAO Nordic Oy and AB INTER RAO Lietuva as a result of increased electricity imports from the Russian Federation.

The 119% growth in EBITDA in the segment was the result of higher marginal profits, particularly in Finland and Lithuania on account of an increase in electricity sales volumes and the ruble equivalent of the selling price of exported electricity in connection with growth in the price of exports in the contract currency and the euro's appreciation versus the Russian ruble in 2018 compared with 2017.

<sup>3</sup> Information was retrospectively restated due to implementation of IFRS 15 "Revenue from Contracts with Customers" and IFRS 16 "Leases". Information for 2016 was not subject to retrospective restatement.

<sup>4</sup> EBITDA margin was calculated excluding intersegment revenue of the 'Trading in the Russian Federation' segment in the amount of RUB 2.053 billion for 2018, RUB 2.268 billion for 2017, and RUB 1.631 billion for 2016.

## Engineering in the Russian Federation

Revenue in the segment skyrocketed by 103% to RUB 30.674 billion in 2018. This improvement from 2017 resulted in LLC Inter RAO – Engineering boosting revenue by RUB 10.222 billion as a result of various effects such as increased revenue from the Pregolskaya and Primorskaya TPP construction projects, a decrease in revenue from equipment sales following the performance of obligations under the Gorazal TPP project in the Republic of Bangladesh and the Naglu HPP

project in the Republic of Afghanistan, a RUB 3.144 billion increase in revenue by PJSC Inter RAO due to the sale of equipment for export as well as revenue growth of RUB 1.932 billion for LLC Inter RAO – Export resulting from the sale of equipment as part of the Termogas-Machala TPP in the Republic of Ecuador and work to build power units in the Republic of Cuba.

### ‘ENGINEERING IN THE RUSSIAN FEDERATION’ SEGMENT

Indicator	2016	2017 <sup>1</sup>	2018	Change vs. 2017, %
Revenue, RUB mln	8,926	15,100	30,674	103
Share in revenue of the Inter RAO Group, %	1	2	3	1 p.p.
EBITDA, RUB mln	(257)	(143)	263	284
EBITDA margin, <sup>2</sup> %	–5	–1	1	2 p.p.
Share in EBITDA of the Inter RAO Group, %	0	0	0	0 p.p.
Share in loss of joint ventures, RUB mln	(59)	(28)	(55)	–96

EBITDA in the segment grew by RUB 406 million and finished the year in the black at RUB 263 million. This is primarily attributable to positive trends in the marginal profit of LLC Inter RAO – Export as a result of ongoing construction work on power

units in the Republic of Cuba as well as work performed by LLC QUARTZ Group at the facilities of JSC TGC-11, branches of JSC Inter RAO – Electric Power Plants, and at the Pregolskaya and Primorskaya TPPs of LLC Kaliningrad Generation.

<sup>1</sup> Information was retrospectively restated due to implementation of IFRS 15 “Revenue from Contracts with Customers” and IFRS 16 “Leases”. Information for 2016 was not subject to retrospective restatement.

<sup>2</sup> EBITDA margin was calculated excluding intersegment revenue of the ‘Engineering in the Russian Federation’ segment in the amount of RUB 3.793 billion for 2018, RUB 3.356 billion for 2017, and RUB 3.239 billion for 2016.

# Foreign Assets

## Georgia

The sub-segment increased revenue by RUB 2.495 billion during the reporting period due to growth in the number of consumers served, an increase in selling tariffs, and positive electricity consumption trends in Georgia.

### 'FOREIGN ASSETS' SEGMENT, GEORGIA SUB-SEGMENT

Indicator	Generation				Grids			Change vs. 2017, %
	2016	2017 <sup>1</sup>	2018	2018/2017%	2016	2017**	2018	
Revenue*, RUB mln	2,662	1,057	1,197	13	11,549	10,063	11,754	17
Share in revenue of the Inter RAO Group, %	0	0	0	0 .p.p.	1	1	1	0 .p.p.
Operating expenses, including								
Purchased electricity and capacity*, RUB mln	(4)	–	–	–	(7,177)	(6,476)	(6,971)	8
Transmission fees, RUB mln	(1)	–	–	–	(1,137)	(1,022)	(1,715)	68
Fuel expenses, RUB mln	(954)	–	–	–	–	–	–	
EBITDA, RUB mln	1,339	865	992	15	1,265	948	1,229	30
Share in EBITDA of the Inter RAO Group, %	1	1	1	0 .p.p.	1	1	1	0 .p.p.
* Including intersegment operations:								
Revenue, RUB mln	2,332	1,028	364					
Purchased electricity and capacity, RUB mln					(2,332)	(1,028)	(364)	

Revenue from the sale of electricity at the generating assets increased by 13% due to growth in the electricity sale tariff and the volume of sales due to a higher water balance in the tributaries of the three rivers.

The grid company JSC Telasi boosted revenue by RUB 1.691 billion (17%) in 2018 due to the appreciation of the average lari exchange rate versus the ruble compared with the average exchange rate for the previous period, while electricity sales increased as a result of higher consumption and sales tariffs starting from January 1, 2018. Growth in expenses by JSC Telasi on the purchase and transmission of electricity is attributable to higher transmission tariffs and consumption volume.

EBITDA in the Georgia sub-segment increased by RUB 408 million: JSC Telasi boosted EBITDA by RUB 281 million due to an increase in marginal profit as a result of electricity sales tariff indexation and growth in electricity sales volumes exceeding growth in the weighted average tariff of purchased electricity. As for the generating assets, the RUB 127 million increase is attributable to growth in marginal profit due to a higher sales tariff and the higher water balance in 2018 compared with 2017.

<sup>1</sup> Information was retrospectively restated due to implementation of IFRS 15 "Revenue from Contracts with Customers" and IFRS 16 "Leases". Information for 2016 was not subject to retrospective restatement.

## Moldova

Revenue growth of RUB 2.361 billion (39%) is attributable to the transition from the give-and-take mode to direct electricity exports to Moldova starting from June 7, 2017 and the devaluation of the Transnistrian ruble versus the U.S. dollar along with an increase in total electricity output. The 68.4% increase in electricity transmission expenses is mainly attributable to the export of electricity to Moldova. Fuel expenses increased by 120.5% due to the growth of the fuel component for gas in connection with exports to Moldova starting from June 7, 2017. In 2018, fuel oil was used as a backup fuel during repairs on gas distribution substations and the launch of new units.

### 'FOREIGN ASSETS' SEGMENT, MOLDOVA SUB-SEGMENT

Indicator	2016	2017 <sup>1</sup>	2018	Change vs. 2017, %
Revenue, RUB mln	4,850	6,129	8,490	39
Share in revenue of the Inter RAO Group, %	1	1	1	0 p.p.
Operating expenses, including				
Transmission fees, RUB mln	(15)	(38)	(64)	68
Fuel expenses, RUB mln	(132)	(1,942)	(4,283)	121
EBITDA, RUB mln	2,655	2,711	2,804	3
EBITDA margin, %	55	44	33	-11 p.p.
Share in EBITDA of the Inter RAO Group, %	3	3	2	-1 p.p.

In 2018, repairs were carried at eight power units, including routine repairs at seven of them (units 4, 5, 7, 8, 9, 10, and 11) and major repairs at one (unit 9). The repair costs in 2018 were impacted by the technical condition of the equipment, the large volume of metal control due to the depletion of this resource, the extension in the service life of the power units, and greater-than-normal work to replace the lining and thermal insulation of power equipment and heat networks.

The RUB 93 million (3%) increase in EBITDA in the sub-segment is attributable to the devaluation of the Transnistrian ruble versus the U.S. dollar and an increase in the average USD exchange rate versus the ruble compared with the average rate for the comparable period combined with a reduction in electricity generation.

<sup>1</sup> Information was retrospectively restated due to implementation of IFRS 15 "Revenue from Contracts with Customers" and IFRS 16 "Leases". Information for 2016 was not subject to retrospective restatement.

## Turkey

In 2018, revenue from the sale of electricity (capacity) decreased by RUB 4.801 billion (–46%) due to a reduction in the plant's utilization rate in accordance with the operations schedule for the electrical load given by the system operator. A decrease in process fuel (gas) expenses due to decreased power generation had a positive effect on the reduction in variable costs, which was partially offset by growth in the average USD exchange rate in 2018 compared with 2017.

### 'FOREIGN ASSETS' SEGMENT, TURKEY SUB-SEGMENT

Indicator	2016	2017 <sup>1</sup>	2018	Change vs. 2017, %
Revenue, RUB mln	15,356	10,541	5,740	–46
Share in revenue of the Inter RAO Group, %	2	1	1	0 p.p.
Operating expenses, including				
Fuel expenses, RUB mln	(11,545)	(7,987)	(2,173)	–73
EBITDA, RUB mln	2,915	1,558	2,466	58
EBITDA margin, %	19	15	43	28 p.p.
Share in EBITDA of the Inter RAO Group, %	3	1	2	1 p.p.

The RUB 908 million (+58%) increase in EBITDA can be attributed to the aforementioned factors as well as an increase in the average USD exchange rate versus the ruble compared with the previous period.

<sup>1</sup> Information was retrospectively restated due to implementation of IFRS 15 "Revenue from Contracts with Customers" and IFRS 16 "Leases". Information for 2016 was not subject to retrospective restatement.



**ENERGY**  
**WITHOUT BORDERS**

**MANAGEMENT**

**MOTIVATED  
TO BOOST  
SHAREHOLDER  
VALUE**

**// CORPORATE  
GOVERNANCE**



# STATEMENT BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

“

Boosting capitalization and enhancing the transparency of our operations is the main objective of PJSC Inter RAO when working with shareholders and the investment community. As a result, the Company has been clearly pursuing a dividend policy for more than five years: per this policy, payments to shareholders have been increased to 25% of IFRS net profit. Thus, the PJSC Inter RAO Board of Directors recommended that the General Meeting of Shareholder adopt the decision to pay dividends of RUB 17.919 billion based on the results of 2018. Inter RAO is also working to increase the liquidity of the Company's shares. Last year, we wrapped up transactions that made it possible to increase the volume of shares in free-float.

Electronic services have been introduced as part of the Company's direct management to enable each shareholder to not only participate remotely in voting, but to also monitor the process of dividend payments and their receipt. This has resulted in an increase in the number of shareholders who use the electronic voting system at the General Meeting of Shareholders from year to year, which helps the Company slightly reduce costs while also improving the quality of engagement with securities holders.

**Igor Sechin**

*Chairman of the Board of Directors*

## Corporate governance awards

1. Winner of the 21st Annual Competition of Annual Reports organized by PJSC Moscow Exchange and the RCB Media Group in the nomination 'Best Information Disclosure on Corporate Governance in an Annual Report.'

In addition, the Annual Report of PJSC Inter RAO was on the short-list in the category 'Best Annual Report of a Company with Capitalization of More Than RUB 200 Billion' and 'Best Presentation of a Company's Strategy and Investment Appeal in an Annual Report.'

2. Winner of the 2018 'Most Transparent Company on the Russian Stock Market' award presented by the Interfax and AK&M information agencies accredited by the Bank of Russia to disclose corporate information.
3. Highest level of corporate governance quality according to ISS Corporate Solutions – 1.



# CORPORATE GOVERNANCE SYSTEM

As part of its efforts to enhance the transparency of its activities, PJSC Inter RAO continues to work with ISS Corporate Solutions, an independent company that analyzes materials and prepares voting recommendations for foreign shareholders at the General Shareholders Meeting.

According to monitoring carried out by ISS, PJSC Inter RAO maintained the highest corporate governance rating of 1.

In matters concerning corporate governance, PJSC Inter RAO is guided by the requirements of legislation, the Listing Rules of Moscow Exchange, the recommendations of the Corporate Governance Code as well as the best international and Russian corporate governance and information disclosure practices. In recent years, the Company's corporate governance system has progressively developed and been brought into compliance with the principles and recommendations of the Code.

The corporate governance system of PJSC Inter RAO fully complies with the requirements of legislation and the Listing Rules. The Company fully ensures that shareholders and investors have the proper level of confidence in the consistency of its strategy and decisions.

## Assessment of the quality of the corporate governance system

The Company makes efforts to enhance the level of corporate governance by progressively improving the quality and soundness of management practices each year. Based on a resolution adopted by the Board of Directors in 2014, the Company is guided in its activities by the recommendations of the Corporate Governance Code as the document that defines corporate governance standards.

Based on the results of 2018, the Company observed 77 of the 79 (97.5%) corporate governance principles of the Code to varying degrees. It fully observed 74 principles (93.7%), partially observed three principles, and only failed to observe two principles.

1. The Company does not engage in any actions that result or may result in an artificial redistribution of corporate control.
- The recommendation regarding the absence of treasury shares and their lack of participation in voting during the reporting period was not observed. A significant number (18.98%) of quasi-treasury shares appeared on the balance sheet of JSC Inter RAO Capital (a subsidiary of PJSC Inter RAO) as a result of the consolidation of electricity assets at the Company in accordance with Decree No. 1190 of the President of the Russian Federation dated September 30, 2010 for further asset restructuring (reorganization). In 2018, the number of quasi-treasury shares increased to 29.39% due to the acquisition of said shares from PJSC FGC UES and PJSC RusHydro. Based on the Company's Strategy, up to 25% of its charter capital can be used to be sold to a major strategic investor or a group of financial investors with a potential increase in the number of shares in free-float. The timeframe for selling shares has not yet been determined. The quasi-treasury shares have been used since 2018 to nominate independent candidates to the Company's Board of Directors

and vote for them as well as to vote on other items on the meeting's agenda provided there is no conflict of interest. Starting from 2017, as an alternative mechanism for limiting management using quasi-treasury votes, the Board of Directors, when preparing for the Annual General Meeting of Shareholders, considers the issue of voting recommendations using quasi-treasury shares simultaneously with recommendations to all the Company's shareholders on voting on each agenda item when they are raised at the General Meeting of Shareholders. Consequently, when voting in accordance with these recommendations, a subordinate entity will act according to the decisions of the Board of Directors and not the decisions of Company management, which eliminates a conflict of interest and related risks. Federal Law No. 209-FZ dated July 19, 2018 amended the Federal Law "On Joint-Stock Companies" to grant the Board of Directors the right to include candidates in the list of candidates for election to management bodies at its discretion. Consequently, in 2019 the Company does not plan to use quasi-treasury shares for nominations to management bodies or vote with them to make decisions on meeting agenda items in accordance with a resolution of the Company's Board of Directors.

2. The Company introduced the Long-Term Incentive Program for members of the Company's executive bodies and other key executives using the Company's shares (options or other derivative financial instruments for which the Company's shares are the underlying asset).
- The Long-Term Incentive Program for members of the Company's executive bodies and other key executives was approved by the Board of Directors on January 29, 2016 and did not envisage any restrictions in accordance with clause 2 of the recommendations of the Code. The option program was

calculated for four years, while the right to sell shares as part of the Program took effect two years after the start of its implementation and remained in effect for two consecutive years, taking into account the benchmarks for growth in the Company's capitalization defined by the Company's Strategy. Participants' right to sell shares was not tied to achieving Company's performance indicators so as not to replicate other incentive tools used by management, specifically the variable part of management's annual remuneration, which is directly dependent on the fulfillment of key performance indicators approved by the Board of Directors and the achievement of the goals and objectives of the Company's

Long-Term Development Program. This discrepancy is limited in time by the duration of the Option Program, i.e. until 2018. At the time of the approval of this Report, the Option Program has been completed. The introduction of a Long-Term Incentive Program for the next time horizon should be considered after the Company's Strategy/Long-Term Development Program is updated, which is scheduled for 2019. When developing a new Long-Term Incentive Program, the Company will consider the recommendations of the Corporate Governance Code.



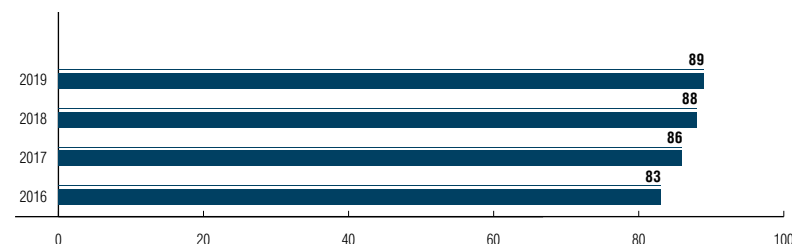
A detailed Report on Compliance with the Principles and Recommendations of the Corporate Governance Code is provided in the Appendix to this Report.

#### COMPLIANCE WITH THE PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

Principles of corporate governance	Number of principles recommended by the Code	2016			2017			2018		
		Observed	Partially observed	Not observed	Observed	Partially observed	Not observed	Observed	Partially observed	Not observed
Shareholder rights and equal conditions for shareholders when exercising their rights	13	12	–	1	12	–	1	12	–	1
Board of Directors	36	33	3	–	33	3	–	34	2	–
Corporate Secretary of the Company	2	–	2	–	2	–	–	2	–	–
Remuneration system for members of the Company's Board of Directors and senior executives	10	9	1	–	9	1	–	9	–	1
Risk Management and Internal Control Framework	6	6	–	–	6	–	–	6	–	–
Disclosure of information about the Company	7	7	–	–	7	–	–	7	–	–
Significant corporate actions	5	2	1	2	4	–	1	4	1	–
Overall grade	79	69	7	3	73	4	2	74	3	2
	100%	87%	9%	4%	92%	6%	2%	94%	4%	2%

## Self-assessment of the level of corporate governance using the methodology of the Federal Agency for State Property Management

Since 2016, the Company has been conducting a self-assessment of the level of corporate governance using the methodology of the Federal Agency for State Property Management.<sup>1</sup> The results of this self-assessment show a steady increase in the level of compliance.



### Improving the Company's corporate governance system and practice

Below are the main measures taken in 2018 to further improve the level of corporate governance.

1. The Company maintained the practice of providing shareholders with the ability to vote electronically (remotely) at the Company's Annual General Meeting of Shareholders.
2. The Board of Directors determined its position on voting with quasi-treasury shares in order to eliminate any possible conflict of interest.<sup>2</sup>

3. As part of the implementation of the recommendations of the Internal Audit Unit and the Revision Commission, the Board of Directors approved the main approaches used to hire an independent appraiser when PJSC Inter RAO conducts major transactions and related-party transactions.<sup>3</sup>
4. In accordance with a request from investors, a Senior Independent Director was elected for the first time in the corporate practice of Inter RAO.<sup>4</sup>
5. In connection with the start of the introduction of anti-monopoly compliance at the Company, the Board of Directors approved a new version of a number of internal documents of PJSC Inter RAO: the Compliance Policy,<sup>5</sup> the Antimonopoly Compliance Policy,<sup>6</sup> the Regulation on the Unit Performing the Functions of the Corporate Secretary, and the Code of Corporate Ethics.<sup>7</sup>
6. The Board of Directors updated and approved the Succession Plan for Members of the Board of Directors and Members of the Management Board for 2018–2019 inclusive.<sup>8</sup>
7. The Board of Directors updated and approved the Regulation on the Internal Audit Unit of PJSC Inter RAO.<sup>9</sup>
8. The Board of Directors reviewed the reports of the Internal Audit Unit on an assessment of the effectiveness of the internal control system, risk management system, corporate governance, and the process of risk management and internal control in countering and preventing corruption in 2017.<sup>10</sup> All recommendations issued by the Internal Audit Unit were reviewed by the Board of Directors and executed by the Company's management.

<sup>1</sup> Approved by Order No. 306 of the Federal Agency for State Property Management dated August 22, 2014.

<sup>2</sup> Minutes No. 219 dated March 15, 2018.

<sup>3</sup> Minutes No. 230 dated August 29, 2018.

<sup>4</sup> Minutes No. 225 dated May 21, 2018.

<sup>5</sup> Minutes No. 236 dated December 24, 2018.

<sup>6</sup> Minutes No. 235 dated December 3, 2018.

<sup>7</sup> Minutes No. 235 dated December 3, 2018.

<sup>8</sup> Minutes No. 231 dated September 24, 2018.

<sup>9</sup> Minutes No. 216 dated February 2, 2018.

<sup>10</sup> Minutes No. 221 dated April 2, 2018. Reports of the Internal Audit Unit on an assessment of the effectiveness of the risk management and internal control system of PJSC Inter RAO for 2018 (including the results of an assessment of the effectiveness of the risk management and internal control process in preventing and combating corruption, an assessment of the effectiveness of the antimonopoly compliance system, and an assessment of the process of identifying and selling non-core assets), and also on an assessment of the effectiveness of corporate governance of PJSC Inter RAO for 2018 were reviewed on March 29, 2019 by the Board of Directors (Minutes No. 243 dated April 4, 2019).

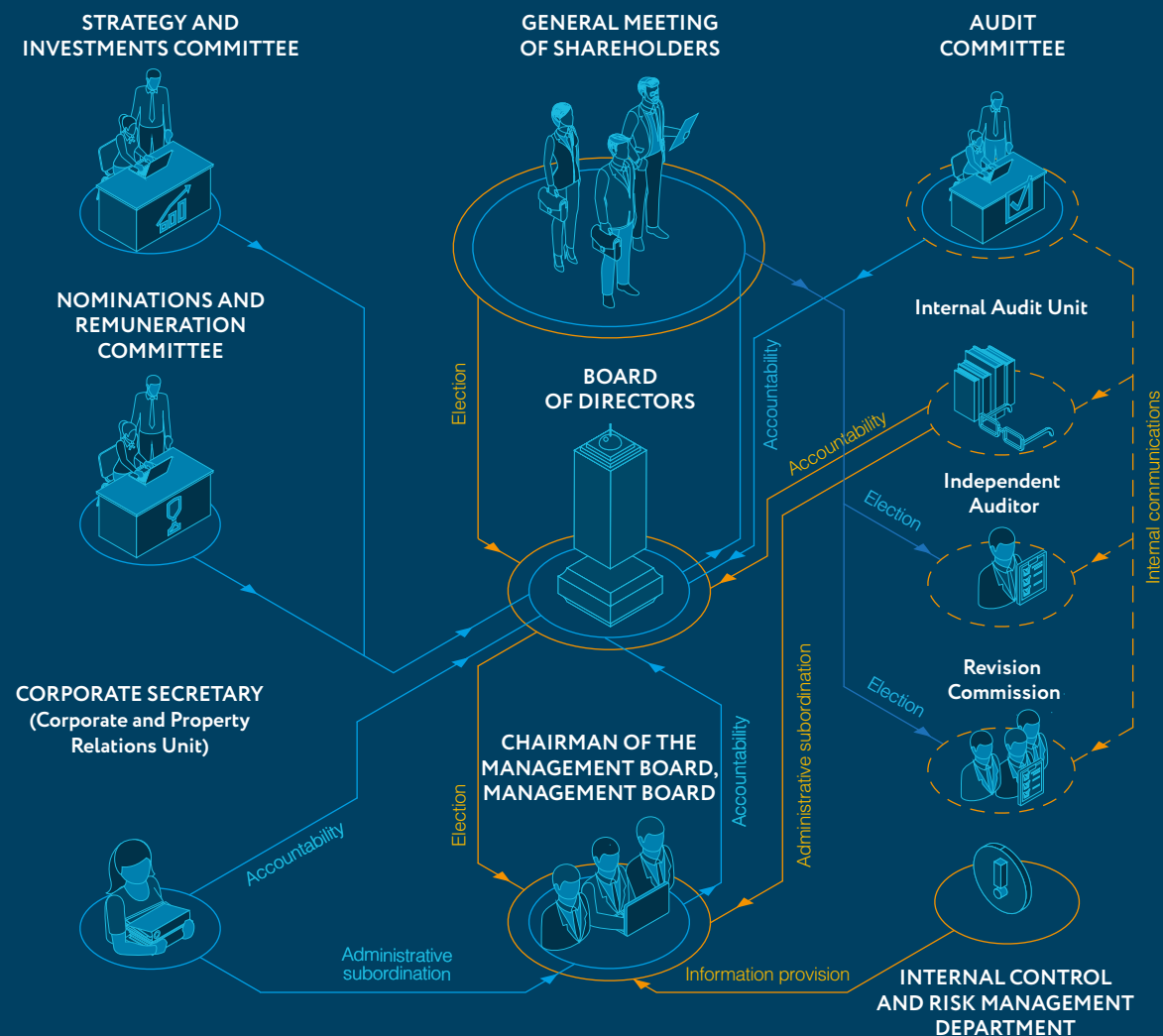
## Plans for developing corporate governance in 2019

In 2019, the Company will continue to work on improving corporate governance based on the continuous interaction of all participants in the corporate relations system – shareholders and members of the Board of Directors, committees, and management – in order to achieve the Company's strategic goals and development priorities, respect the interests of shareholders, and maximize their profits in the short, medium, and long term.



Additional information on the development plans of corporate governance practices is provided in the Appendix 'Report on Compliance with the Corporate Governance Code.'

## Key participants in the corporate governance of PJSC Inter RAO



# GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is the supreme governing body of PJSC Inter RAO in accordance with the Company's Charter and the Federal Law "On Joint-Stock Companies" and ensures shareholders exercise their rights to manage the Company. The purview, timeframe, and procedure for preparing for and holding the General Shareholders Meeting are defined in the Company's Charter and the Regulation on the General Meeting of Shareholders of PJSC Inter RAO.

The Annual General Meeting of Shareholders of PJSC Inter RAO was held in the form of a meeting (joint attendance) on May 21, 2018.<sup>1</sup>

Total number of individuals included in the last list of individuals who were entitled to participate in the issuer's General Meeting of Shareholders (as of April 27, 2018): 398,026, including 2,199 legal entities and 395,827 individuals and joint accounts.

The Company held its General Meeting of Shareholders using e-voting technology. This opportunity was available to shareholders from the time they were sent a message about the General Meeting of Shareholders until the discussion of the agenda items was completed at the Meeting itself. In 2018, 324 shareholders took advantage of this opportunity compared with 20 shareholders a year prior.

Statistics show that the number of shareholders participating in voting has decreased by 9 p.p. over the past five years. The Company primarily attributes this to a significant increase in free-float, the participation of foreign investors, and legislative amendments that took effect during the same period to introduce a cascade voting system into Russian practice. This decrease occurred despite measures taken by the Company to notify shareholders about the Annual General Meeting of Shareholders and to introduce the recommendations of the Code on the opening of a forum to discuss agenda items, a hotline on issues concerning the meeting of shareholders, interaction with agencies that provide recommendations on voting at the meeting, and the preparation of information materials.

Having identified this problem, the Company is analyzing new opportunities for engagement with shareholders in order to increase their involvement in the Company's activities within the framework of their rights. Inter RAO believes that the further introduction of remote technologies and improvements to the financial and computer literacy of citizens will help to increase the number of people participating in the meeting.

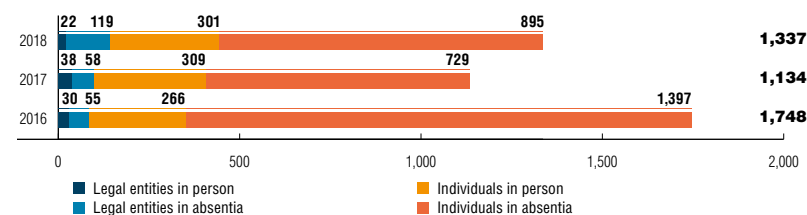
The following items were considered at the annual General Meeting of Shareholders in 2018:<sup>2</sup>

1. Approval of the Company's Annual Report.
2. Approval of the Company's annual accounting (financial) statements.
3. Distribution of the Company's profits and losses.
4. Payment (declaration) of dividends for 2017.
5. Payment of remuneration to members of the Company's Board of Directors.
6. Payment of remuneration to members of the Company's Audit Commission.
7. Election of members to the Company's Board of Directors.
8. Election of members to the Company's Revision Commission.
9. Approval of the Company's auditor.

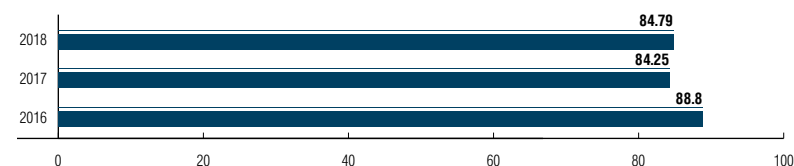
The Company did not hold any Extraordinary General Meetings of Shareholders in 2018.

Starting from April 2, 2018, the register of PJSC Inter RAO securities owners is maintained by JSC VTB Registrar. Information about this company is provided in the 'Appendix. Contacts.'

## PARTICIPATION IN THE ANNUAL GENERAL MEETINGS OF SHAREHOLDERS



## QUORUM AT THE ANNUAL GENERAL MEETINGS OF SHAREHOLDERS



<sup>1</sup> Minutes No. 18 dated May 21, 2018.

<sup>2</sup> All the materials of the General Meetings of Shareholders, including resolutions, minutes, and reports on voting, are available on the Company's website in the "Annual Meetings of Shareholders" section: <http://www.interrao.ru/investors/meetings/2018/AGSM2018/>

# BOARD OF DIRECTORS

## Role of the Board of Directors

The PJSC Inter RAO Board of Directors handles the strategic management of the Company, determines the basic principles and approaches for organizing the risk management and internal control framework at the Company, monitors the activities of the Company's executive bodies, monitors the execution of the resolutions adopted at the General Meeting of Shareholders, ensures the protection and exercising of shareholders' rights, determines the main parameters of the business plan and monitors its implementation, determines the management system for controlled companies, and adopts decisions on key projects and major transactions.

The Board of Directors regularly conducts an analysis of the compliance of the Company's corporate governance system and corporate values with its goals and objectives as well as the scale of its activities and the risks that are assumed. The Board of Directors evaluates the activities of the Company's executive bodies and the work of management.

In its activities, the Board of Directors is guided by the Federal Law "On Joint-Stock Companies," other regulatory legal acts of the Russian Federation, the Company's Charter, and the Regulation on the PJSC Inter RAO Board of Directors.<sup>3</sup>

## Independent directors and their role

The participation of independent directors on the Board of Directors provides an independent and balanced perception based on their knowledge, experience, and qualifications. The objectivity of independent directors and their constructive criticism are of great value for the Board of Directors and the Company as a whole. The contribution made by independent directors facilitates the adoption of decisions that take into account the interests of various groups of stakeholders and improves the quality of management decisions. The experience of working with independent directors confirms that these individuals demonstrate a level of high professionalism, independent judgment, and independent voting on all agenda items.

PJSC Inter RAO supports the practice that was introduced in 2017 of independent directors preliminarily considering significant corporate actions.

The Company engages in the practice of holding business meetings with independent directors for a preliminary discussion of key issues that are submitted to the Board of Directors for consideration.

The Nomination and Remuneration Committee of the PJSC Inter RAO Board of Directors continues the regular practice of the quarterly monitoring of directors' compliance with the independence criteria established by the Code and the Listing Rules of PJSC Moscow Exchange. In the event the Committee identifies any change in the status of members of the Board of Directors, the issue of analyzing the compliance of independent members of the Board of Directors with the criteria for independence is submitted to the Board of Directors for consideration.

As of the end of the reporting year, the Company's Board of Directors had three independent members who fully comply with the recommendations of the Corporate Governance Code (Andrey Bugrov, Ronald Pollett, and Yelena Sapozhnikova), and one independent director who is recognized as such by a resolution of the Company's Board of Directors (Alexander Lokshin).<sup>4</sup>

<sup>3</sup> Approved by the Annual General Meeting of Shareholders of PJSC Inter RAO dated June 9, 2017 (Minutes No. 17 dated July 09, 2017).

<sup>4</sup> Minutes No. 225 dated May 21, 2018 and No. 243 dated April 1, 2019.



## Self-assessment of the activities of the Board of Directors

In accordance with the Corporate Governance Code, the Board of Directors must ensure that the quality of the work by the Board of Directors, its committees, and members of the Board of Directors is assessed in terms of a balance of professional experience, expertise, and independence. An assessment of the Board of Directors provides the Company with a number of competitive advantages such as enhancing its investment appeal and the trust of shareholders due to the greater transparency of the Board of Directors as a key management body. In addition, the assessment is important for the timely adjustment of work plans as well as the working conditions of the Board of Directors in order to maximize its performance, create an effective system of training for members of the Board of Directors, and to take into account results when re-electing the members of the Board of Directors.

The procedure for the self-assessment of the activities of the Board of Directors and its committees is governed by the Regulation on the Assessment of the Activities of the Board of Directors.<sup>1</sup> The self-assessment has been held annually since 2014 by providing members of the Board of Directors with questionnaires and the information is processed in a generalized and anonymized form.

In 2018, the self-assessment procedure was conducted with the hiring of the Association of Independent Corporate Directors non-profit partnership for the promotion of professional activities.<sup>2</sup>

The average score did not change significantly in 2018 compared with 2017 and amounted to 4.75 points (out of 5 possible).

The results of the self-assessment conducted during the reporting year were reviewed during an in-person meeting of the PJSC Inter RAO Board of Directors on June 27, 2018<sup>3</sup> along with the preliminary consideration of the issue by the Nomination and Remuneration Committee during an in-person meeting.<sup>4</sup>

Key conclusions of the self-assessment of the work of the Board of Directors:

1. The activities of the Board of Directors and its committees, the Chairman of the Board of Directors, and the Corporate Secretary are highly efficient as a whole.
2. The Chairman of the Board of Directors ensures the effectiveness of the Board of Directors in all aspects.

3. The quality and size of the Board of Directors and its committees is optimal and consistent with the Company's current objectives.
4. The membership of the Board of Directors is balanced in terms of essential skills and professional experience and uses a streamlined system to identify and assess key risks at all levels of the Company.
5. Members of the Board of Directors devote a sufficient amount of time to performing their duties on the Board of Directors and are always properly prepared for meetings.
6. The chairmen of the committees of the Board of Directors ensure the effectiveness of the committees they head in all aspects and the effective interaction of the committees with the Board of Directors and management.
7. The corporate secretary coordinates the operational exchange of information between shareholders, the Board of Directors, the Chairman of the Management Board, the Management Board, and department heads as well as effective communication within the Board of Directors and its committees.
8. Independent directors monitor the Company's financial reports, analyze financial results and the fulfillment of goals, play an active role in forming proposals on strategy, and also contribute to the development of the Company's succession system.

Based on the results of the self-assessment of the Board of Directors in 2018, the Nomination and Remuneration Committee drafted recommendations for improving the activities of the Board of Directors, which were approved as instructions of the Board of Directors and taken into account when developing the Work Plan for the Nomination and Remuneration Committee and the Board of Directors for the 2018/2019 corporate year.

Following the execution of the instructions, the Nomination and Remuneration Committee held in-person meetings to consider the benchmarking of remuneration systems for members of the Board of Directors and management<sup>5</sup> and the Training and Development Program for members of the Board of Directors within the Succession Plan for members of the Board of Directors and the Management Board for the period from 2018 to 2019 inclusive.<sup>6</sup>

<sup>1</sup> Minutes No. 108 dated February 24, 2014.

<sup>2</sup> The independent consultant's candidacy was approved by a resolution of the Board of Directors dated March 16, 2018 (Minutes No. 220 dated March 19, 2018).

<sup>3</sup> Minutes No. 227 dated June 27, 2018.

<sup>4</sup> Minutes No. 84 dated June 21, 2018.

<sup>5</sup> Minutes No. 92 dated December 13, 2018.

<sup>6</sup> Minutes No. 89 dated September 5, 2018.



## External assessment

Since 2016, the Company has engaged in the practice of conducting an independent (external) assessment of the activities of the Board of Directors once every three years in accordance with the recommendations of the Code and the requirements of the Regulation on the Assessment of the Board of Directors.<sup>7</sup>

The next independent assessment procedure will be conducted in 2019 simultaneously with the self-assessment of the activities of the Board of Directors and its committees in accordance with a resolution of the Board of Directors dated March 29, 2019.<sup>8</sup>

## Report on the work of the Board of Directors

During the meetings, the Board of Directors considered 113 issues, including five policy issues.

During its meetings in the reporting year, the Board of Directors primarily focused on issues concerning corporate governance, the regulation of the financial and economic activities of PJSC Inter RAO, the activities of controlled organizations, the approval of transactions as well as aspects of the Company's activities in priority areas.

**IN 2018, THE BOARD OF DIRECTORS HELD 22 MEETINGS, INCLUDING FIVE IN PERSON AND 17 IN ABSENTIA.**

### MEETING ATTENDANCE BY MEMBERS OF THE BOARD OF DIRECTORS IN 2018<sup>9</sup>

Board member	Director's status	Board of Directors			Audit Committee 20 meetings	Nomination and Remuneration Committee 16 meetings	Strategy and Investment Committee 15 meetings
		22 meetings total	5 in-person meetings	17 meetings in absentia			
Boris Ayuyev	Non-executive	22/22	5/5	17/17			
Andrey Bugrov	Independent	21/22	4/5	17/17	20/20	16/16	
Anatoly Gavrilenko	Non-executive	21/22	4/5	17/17			
Boris Kovalchuk	Executive	22/22	5/5	17/17			
Alexander Lokshin	Independent	20/22	3/5	17/17	20/20		
Andrey Murov	Non-executive	21/22	4/5	17/17			
Ronald (Ron) J. Pollett	Senior independent	22/22	5/5	17/17	20/20	16/16	15/15
Yelena Sapozhnikova	Independent	20/22	3/5	17/17	20/20	16/16	15/15
Igor Sechin	Non-executive	17/22	0/5	17/17			
Denis Fedorov	Non-executive	17/22	0/5	17/17			
Dmitry Shugayev	Non-executive	19/22	2/5	17/17			

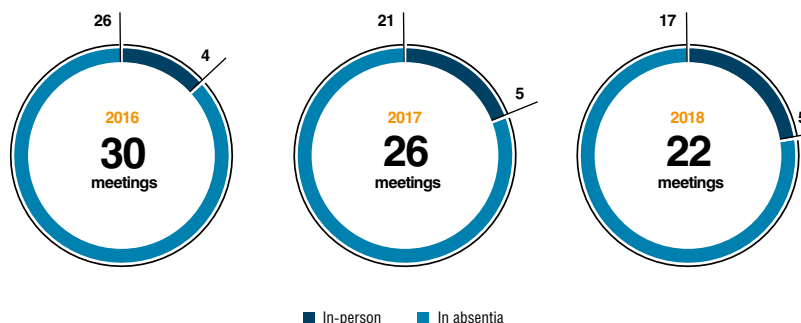
<sup>7</sup> Minutes No. 108 dated February 24, 2018.

<sup>8</sup> Minutes No. 243 dated April 1, 2018.

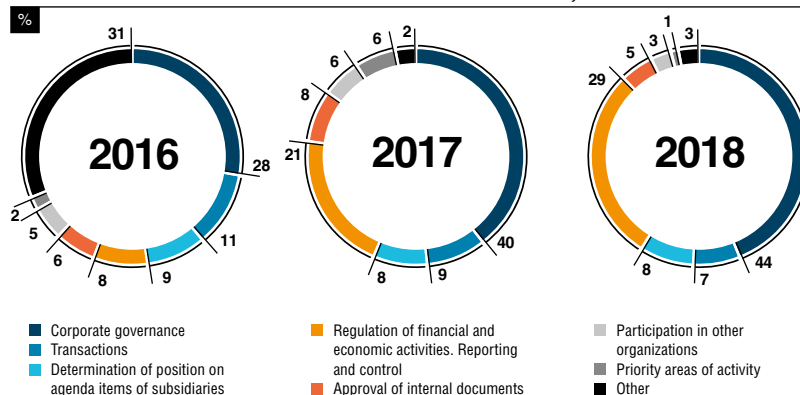
<sup>9</sup> Information on the attendance of meetings by members of the Board of Directors is given in X/Y format, where X is the number of meetings which a member of the Board of Directors attended, and Y is the number of meetings which a member of the Board of Directors could have attended.

### NUMBER OF MEETINGS OF THE BOARD OF DIRECTORS

The total number of meetings decreased due to a change in the legislation of the Russian Federation regarding the regulation of major transactions and related-party transactions.



### STRUCTURE OF ITEMS CONSIDERED BY THE BOARD OF DIRECTORS, %



The increase in the number of items related to reporting is attributable to the introduction of the Russian Corporate Governance Code. In particular, the Board of Directors annually reviews reports of the internal control and risk management unit, anti-corruption unit, corporate governance unit, and internal audit unit.

Number of items considered	2016	2017	2018
Total	127	151	113
Policy	7	18	5

When planning its work and in its activities, the Board of Directors focuses on priority issues that are most important for the successful current and future development of PJSC Inter RAO.

## Improving corporate governance

The PJSC Inter RAO Board of Directors plays a key role in the process of continuous improvements to the corporate governance system. Timely updates to the Company's corporate practices and the introduction of corporate governance innovations that are recognized around the world and in Russia enable the Company to maintain a high level of corporate governance. Thanks to the work carried out in 2018, the level of full or partial compliance with the principles and recommendations of the Corporate Governance Code, as reflected in the Report approved by the Company's Board of Directors, has increased and is nearly 100%. Detailed information is available in the 'Corporate Governance – Assessment of the Quality of the Corporate Governance System' and 'Corporate Governance – Improvement of the Corporate Governance System' sections.

## Strategy and development in priority areas of activities

As part of the implementation of the PJSC Inter RAO Strategy for the period until 2020, the Board of Directors monitored the results of activities in priority areas over the course of the year. In the reporting year, the Board of Directors reviewed the implementation of the Strategy for 2018 and approved the strategic priorities of the Inter RAO Group for 2019.<sup>1</sup> In April 2018, the Board of Directors approved the Report on the Implementation of Strategic Development Priorities for 2017.<sup>2</sup>

## Performance assessment and monitoring the execution of plans and budgets

In 2018, the Board of Directors approved reports on the execution of the business plan of PJSC Inter RAO and the Inter RAO Group for 2017, interaction with investors,<sup>3</sup> the fulfillment of annual key performance indicators (KPIs) and performance benchmarks (PBs) of members of the PJSC Inter RAO Management Board and the Chairman of the Management Board as well as a Report on the Fulfillment of the Annual KPIs and PBs of the Director of the Corporate and Property Relations Unit for 2017.<sup>4</sup> All of these issues were considered with a preliminary discussion at in-person meetings of the relevant committees of the Board of Directors.

<sup>1</sup> Minutes No. 237 dated December 21, 2018.

<sup>2</sup> Minutes No. 222 dated April 19, 2018. The Board of Directors reviewed the report on the execution of the business plan of PJSC Inter RAO and the Inter RAO Group as well as on cooperation with investors for 2018 on March 15, 2019 (Minutes No. 242 dated March 18, 2019).

<sup>3</sup> Minutes No. 219 dated March 15, 2018.

<sup>4</sup> The unit that performs the functions of the Corporate Secretary.

<sup>5</sup> Minutes No. 222 dated April 19, 2018. The report on the fulfillment of the annual KPIs and PBs of the Director of the Corporate and Property Relations Unit based on the results of 2018 was reviewed on April 23, 2019 (Minutes No. 246 dated April 25, 2019).



The minutes of the meetings of the Board of Directors are available on the website:

<http://www.interrao.ru/investors/corporate-governance/management/minutes/2018.php>

## Remuneration and incentives for the Board of Directors and management

In 2018, at its annual December in-person meeting devoted to the consideration of the Report on the Practical Implementation of the Principles of the Remuneration Policy and the Practice for Its Introduction, including the use of an effective ratio of fixed and variable parts of remuneration, the Nomination and Remuneration Committee of the Board of Directors considered, among other things, an analysis of the incentive system for members of the Board of Directors of major Russian issuers<sup>6</sup> and recommended that a meeting of the Board of Directors consider the issue of modifying the Regulation on the Payment of Remuneration and Compensation to Members of the Board of Directors as regards increasing the base portion of their remuneration. The Board of Directors considered this issue on March 15, 2019 as part of recommendations to the Annual General Meeting of Shareholders on the approval of the new version of the Regulation.<sup>7</sup>

Issues concerning incentives for management were also considered, including the implementation of a long-term incentive program and the need for its development in conjunction with the Company's updated Strategy for the new planning period.

For more on remuneration for members of the Board of Directors and management, see the 'Remuneration System for Members of the Board of Directors and Management Board' section.

## Succession planning on the Board of Directors

In accordance with the recommendations of the Nomination and Remuneration Committee and in an effort to maintain a balance of qualifications and experience among directors and consistently update the members of the Board of Directors taking into account its need for independent directors, the Board of Directors updates the Succession Plan of the Board of Directors and the Management Board, which was first approved by the Board of Directors in 2014. Over the course of 2018, the Succession Plan for the Members of the Board of Directors and the Management Board was updated for the period from 2018 to 2019 inclusive along with the Training and Development Program.

## Introductory induction program for newly elected members of the Board of Directors

Newly elected members of the PJSC Inter RAO Board of Directors must undergo an introductory induction program, which envisages a meeting(s) with the Company's executive management and key employees during which reports of the management of PJSC Inter RAO and other necessary materials are presented to members of the Board of Directors on key issues of the Company's activities.

In 2018, this program was not conducted due to the absence of changes in the members of the Company's Board of Directors.

## Sustainability management

The Board of Directors considered issues concerning its sustainable development activities as an integral part of the regular meeting agenda. The results of such activities are presented in the relevant sections of this report.

## Monitoring the execution of the instructions of the Board of Directors

Orders of the Chairman of the Management Board prepared by the Director of the Corporate and Property Relations Unit<sup>8</sup> are used to monitor the execution of the instructions of the Board of Directors at the Company. Failure to comply with the instructions of the Board of Directors is one of the indicators for the cancellation of the bonus of the Chairman of the Company's Management Board. Failure to comply with the orders of the Chairman of the Management Board on the fulfillment of the decisions and instructions of the Board of Directors is one of the indicators for the cancellation of the bonuses of members of the Management Board and other direct subordinate managers.

A total of 42 instructions of the Board of Directors were executed over the course of 2018. The report for 2018 was considered at a meeting of the Board of Directors held in absentia.<sup>9</sup> There were no violations of the deadlines for the execution of the decisions of the Board of Directors.

<sup>6</sup> Minutes No. 92 dated December 13, 2018.

<sup>7</sup> Minutes No. 242 dated March 18, 2018.

<sup>8</sup> Unit performing the functions of the Corporate Secretary.

<sup>9</sup> Minutes No. 242 dated March 18, 2019.

## Training and development of members of the Board of Directors

The Company organizes training for members of the Board of Directors each year in an effort to develop and strengthen individual skills and expand knowledge in selected areas.

Taking into account the professionalism, recognized business reputation, and tremendous experience of the members of the Board of Directors as well as their heavy work load, the focus areas of the program are preliminarily discussed at in-person meetings attended by independent directors. Inter RAO organizes training events for these individuals in the form of workshops and personal training sessions and also provides members of the Board of Directors with regular informational mailings.

## Current Board of Directors

The Company's Charter stipulates that the PJSC Inter RAO Board of Directors must have 11 members. Members of the Company's Board of Directors are elected annually by the General Meeting of Shareholders through cumulative voting.

The size of the Board of Directors best suits the Company's current goals and objectives as well as industry practices and ensures the requisite balance of expertise among the members of the Board of Directors. In addition, the Board of Directors is well balanced in terms of its independence, which provides an effective system of checks and balances in the corporate governance model of PJSC Inter RAO. The current Board of Directors consists of four independent directors, which exceeds both the target number<sup>1</sup> and the proportion established by the Listing Rules and the Corporate Governance Code recommended for use by the Central Bank of the Russian Federation (Bank of Russia).

In order to achieve a balance of interests, the Board of Directors may include members who are recognized as:

1. executive directors;
2. non-executive directors;
3. independent directors.

These activities involve immersion in a particular area of the Company's activities with the involvement of well-known market specialists and key managers who are employees of the Group. Such a format facilitates the deeper involvement of members of the Board of Directors in the Group's business and enhances the efficiency of the work of the Board of Directors as a whole.

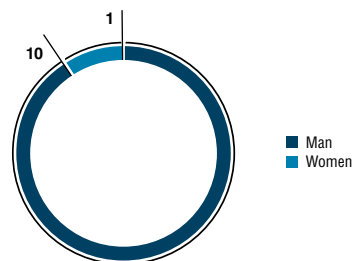
In September 2018, a workshop was held for members of the Board of Directors on the development of additional paid services from power supply companies of the Inter RAO Group. The Retail Business Unit presented concepts of the new focus areas for the development of retail, which generated lively interest and discussion among the members of the Board of Directors and the Strategy and Investment Committee who attended the discussion.

The definition of an executive and non-executive director as well as the criteria for the independence of members of the Board of Directors are specified in the Corporate Governance Code and in the Listing Rules of PJSC Moscow Exchange. In order to monitor the compliance of members of the Board of Directors with the criteria for independence, the Nomination and Remuneration Committee of the Board of Directors analyzes this compliance on a quarterly basis. In the event of a change in the status of the independence of the members of the Board of Directors, the issue is submitted for consideration by the Board of Directors.

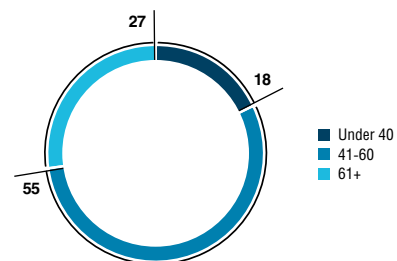
Members of the Board of Directors	2016	2017	2018	Fulfillment of the target
Executive directors	1	1	1	Target: no more than 25%. Fulfilled: yes, 1 of 11
Non-executive directors	4	6	6	–
Independent directors	4	4	4	Target: 3 of 11 Fulfilled, yes, 4 of 11

<sup>1</sup> Listing Rules of PJSC Moscow Exchange registered with the Bank of Russia on October 2, 2018.

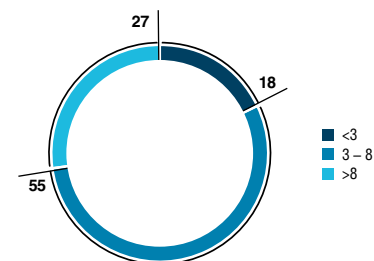
## GENDER MAKEUP OF THE BOARD OF DIRECTORS



## AGE OF MEMBERS OF THE BOARD OF DIRECTORS



## TENURE ON THE BOARD OF DIRECTORS



The Board of Directors should be formed<sup>2</sup> in such a way so as to ensure a balance of professionalism, knowledge, and experience in order to properly fulfill the duties of the members of the Board of Directors in the Company's interests taking into account the Company's development strategy. Members of the Company's Board of Directors should have a renowned high reputation, including among investors, and should not have a conflict of interest with the Company.

Candidates for the Board of Directors must meet at least one of the following criteria:

1. Be recognized as experts in such fields as the power industry, finance, law, strategic management, audit, risk management, HR management, corporate governance, production modernization, innovation, or investment;
2. Have experience working on boards of directors or in senior positions at other joint-stock companies whose shares are traded on organized trading floors (stock exchanges), including at international companies.

The Nomination and Remuneration Committee conducts an assessment of all candidates nominated to the Board of Directors in terms of their compliance with the established criteria.

The results of the self-assessment show that the quality and size of the Board of Directors and the committees are optimal and correspond to the Company's current objectives.

The Board of Directors is balanced with the necessary expertise and professional experience. Members of the Board of Directors devote sufficient time to fulfilling their tasks on the Board of Directors.

<sup>2</sup> Clause 2.1 of the Regulation on the PJSC Inter RAO Board of Directors approved by the Annual General Meeting of Shareholders of PJSC Inter RAO dated June 9, 2017 (Minutes No. 17 dated June 9, 2017).

## Biographies of members of the Board of Directors<sup>1</sup>

**THERE WERE NO CHANGES TO THE MEMBERS OF THE BOARD OF DIRECTORS IN 2018.**

**THE COMPANY AND ITS CONTROLLED ORGANIZATIONS DID NOT ISSUE LOANS (CREDITS) TO MEMBERS OF THE BOARD OF DIRECTORS IN 2018.**



**Boris Ayuyev**

Status	Non-executive director
First elected to the Board of Directors	June 10, 2016
Year of birth	1957
Nationality	Russian Federation
Education	1979: He graduated from Ural Polytechnic Institute with a degree in electric power plants. Doctor of Technical Sciences.
Positions held over the last five years	<b>2015 until present:</b> Member of the Executive Committee of the Russian National Committee of the International Council on Large Electric Systems Non-Profit Partnership (Chairman from 2009 to 2015). <b>2004 until present:</b> Chairman of the Management Board of JSC SO UES.
Membership on the boards of directors (supervisory boards) of other organizations	Member of the Board of Directors of JSC SO UES and PJSC Rosseti.

### Awards

2017: He was awarded the title 'Honored Worker of the Fuel and Energy Sector' under Order No. 21p of the Ministry of Energy of the Russian Federation dated March 10, 2017 for his invaluable personal contribution to the development of the fuel and energy sector and his many years of diligent work.

2017: He was awarded the medal 'For Merit in the Development of the Fuel and Energy Sector', 1st degree, under Order No. 39p of the Minister of Energy of the Russian Federation dated April 6, 2017 for his invaluable personal contribution to the development of the fuel and energy sector and many years of diligent work.

2014: He was awarded the Order of Friendship under Decree No. 593 of the President of the Russian Federation dated September 1, 2014 for his invaluable contribution to preparing for and holding the 2014 Winter Olympics and Winter Paralympics in Sochi.

2013: He received commendation from the President of the Russian Federation under Decree No. 484-rp of the President of the Russian Federation dated December 25, 2013 for his invaluable contribution to clean-up operations following an accident at the Sayano-Shushenskaya HPP.

2012: He was awarded the Order of Honor under Decree No. 746 of the President of the Russian Federation dated May 30, 2012 for labor success and many years of diligent work.

2008: He was awarded the Medal of the Order 'For Merit to the Fatherland,' 2nd degree under Decree No. 329 of the President of the Russian Federation dated March 8, 2008 for his invaluable contribution to the development of the fuel and energy sector and many years of diligent work.

Share ownership and transactions	He owns 7,306,329.79 shares in PJSC Inter RAO (0.0069984% of the Company's charter capital), but did not conduct any share transactions.
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<sup>1</sup> Members of the Board of Directors as of December 31, 2018. At the Annual General Meeting of Shareholders on May 21, 2018, the members of the Board of Directors were all re-elected (Minutes No. 18 dated May 21, 2017).



## Andrey Bugrov

Status	Independent director
First elected to the Board of Directors	May 25, 2014
Year of birth	1952
Nationality	Russian Federation

### Education

1974: He graduated from the Moscow State Institute of International Relations (University) of the Ministry of Foreign Affairs of the Russian Federation with a degree in international economic relations.  
Candidate of Economic Sciences.

### Positions held over the last five years

**2018 until present:** Chairman of the Non-Financial Reporting Council of the Russian Union of Industrialists and Entrepreneurs.  
**2018 until present:** Member of the Expert Council on Corporate Governance at the Ministry of Economic Development of the Russian Federation.  
**2016 until present:** Senior Vice President at PJSC MMC Norilsk Nickel.  
**2016 until present:** Chairman of the Committee of Share Issuers of PJSC Moscow Exchange.  
**2016 until present:** Member of the Expert Council on Corporate Governance at the Bank of Russia.  
**2015-2016:** Member of the Investment Committee of PJSC RusHydro.  
**2015-2016:** Vice President of PJSC MMC Norilsk Nickel.  
**2014 until present:** Member of the Expert Council under the Office of the President of the Russian Federation on Anti-Corruption Affairs.  
**2013 until present:** Member of the Management Board of PJSC MMC Norilsk Nickel.  
**2013 until present:** Vice President of CJSC INTERROS Holding Company.  
**2013 until present:** Vice President of the Russian Union of Industrialists and Entrepreneurs.  
**2013-2015:** Deputy CEO of PJSC MMC Norilsk Nickel.  
**2006 until present:** Member of the Management Board of the Russian Union of Industrialists and Entrepreneurs All-Russian Association of Employers and the Russian Union of Industrialists and Entrepreneurs All-Russian Public Organization.  
**2002 until present:** Member of the Foreign and Defense Policy Council non-governmental public association.

**Membership on the boards of directors (supervisory boards) of other organizations**  
Deputy Chairman of the Board of Directors of PJSC MMC Norilsk Nickel.

### Awards

2017: Winner of the XII National Award 'Director of the Year' in the category 'For Contribution to the Development of the Institute of Independent Directors.'  
2015: He was awarded the Certificate of Honor of President of the Russian Federation Vladimir Putin on May 25, 2015 for his contribution to the socioeconomic development of Russia, labor successes, active public activities, and many years of diligent work.  
2013: Winner of the VIII National Award 'Director of the Year' in the category 'Independent Director.'  
2012: He was awarded the Order of Honor for labor successes and many years of diligent work under Decree No. 857 of the President of the Russian Federation dated June 14, 2012.

### Share ownership and transactions

Does not own shares in PJSC Inter RAO and did not conduct any transactions with shares in the reporting year.





### Anatoly Gavrilenko

Status	Non-executive director
First elected to the Board of Directors	May 29, 2015
Year of birth	1972
Nationality	Russian Federation
Education	1995: He graduated from Lomonosov Moscow State University with a degree in economic cybernetics and a qualification as a mathematical economist. 2001: He graduated from Lomonosov Moscow State University with a degree in law and a qualification as a lawyer.

### Positions held over the last five years

**2004 until present:** CEO of CJSC Leader (a pension fund asset management company).

### Membership on the boards of directors (supervisory boards) of other organizations

Member of the Board of Directors of CJSC Leader, JSC Gazprombank, PJSC GAZKON, PJSC GAZ-Service, PJSC Moscow United Electric Grid Company, PJSC GAZ-Tek, PJSC Mosenergo, JSC NPF GAZFOND Pension Savings, JSC Gazprombank-Fund Private Pension Fund, and JSC GAZFOND Private Pension Fund.

Share ownership and transactions	Does not own shares in PJSC Inter RAO and did not conduct any transactions with shares in the reporting year.
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### Boris Kovalchuk

Status	Executive director
First elected to the Board of Directors	June 25, 2009
Year of birth	1977
Nationality	Russian Federation
Education	1999: He graduated from St. Petersburg State University with a degree in law and a qualification as a lawyer.

### Positions held over the last five years

**2010 until present:** Chairman of the PJSC Inter RAO Management Board (he took office on June 26, 2015 and per his employment contract his term in office runs until June 25, 2020).

**2010 until present:** Member of the Management Board of the Russian Union of Industrialists and Entrepreneurs All-Russian Association of Employers and the Russian Union of Industrialists and Entrepreneurs All-Russian Public Organization.

**2018 until present:** CEO of JSC Inter RAO Capital.

### Membership on the boards of directors (supervisory boards) of other organizations

Member of the Boards of Directors (Supervisory Boards) of RIG RESEARCH PTE. LTD, JSC Inter RAO Capital, LLC Professional Hockey Club CSKA, and JSC All-Russian Regional Development Bank.

### Awards

2017: He was awarded the Certificate of Honor of JSC SO UES.

2017: He was awarded the Medal of the Ministry of Energy of the Russian Federation 'For Merit in the Development of the Fuel and Energy Sector,' 1st degree.

2015: He was awarded the Silver Medal 'For Collaboration' (by the Ministry of Justice of the Russian Federation).

2014: He was awarded the merit badge '10 years of the Federal Tariff Service.'

2014: He was awarded a commemorative medal and the State Award 'Order of Friendship' for his invaluable contribution to preparing for and holding the 2014 Winter Olympics and Winter Paralympics in Sochi.

2012: He was awarded the State Award 'Order of Honor.'

2011: He was awarded the title 'Honorary Power Engineer.'

Share ownership and transactions	He owns 159,029,000 shares in PJSC Inter RAO (0.1523% of the Company's charter capital). Information about transactions with the Company's shares in the reporting year is given in the 'Share ownership by members of management bodies' section.
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### Alexander Lokshin

Status	Independent director
First elected to the Board of Directors	He was first elected to the Board of Directors on October 23, 2008 and served as a member of the Board of Directors until June 25, 2009. He was re-elected to the Board of Directors on June 25, 2010.
Year of birth	1957
Nationality	Russian Federation
Education	1980: He graduated from Kalinin Leningrad Polytechnic Institute (currently St. Petersburg State Polytechnic University) with a degree in thermal physics. 2001: He studied in the President program at the Academy of National Economy under the Government of the Russian Federation.

### Positions held over the last five years

**2018 until present:** President of JSC ASE Engineering Company.

**2012 until present:** First Deputy CEO for Operations Management at ROSATOM State Atomic Energy Corporation.

**2008 until present:** Member of the Management Board of ROSATOM State Atomic Energy Corporation.

### Membership on the boards of directors (supervisory boards) of other organizations

Chairman of the Boards of Directors of JSC Atomredmetzoloto and JSC Rosenergoatom Concern.

### Awards

2018: He was awarded the Order 'For Merit to the Fatherland,' 4th degree.

2012: He was awarded the Order of Honor.

2000: He was awarded the title 'Honored Power Engineer of the Russian Federation.'

Share ownership and transactions	He does not own shares in PJSC Inter RAO and did not conduct any transactions with shares in the reporting year.
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### Andrey Murov

Status	Non-executive director
First elected to the Board of Directors	May 25, 2014
Year of birth	1970
Nationality	Russian Federation
<b>Education</b>	
1993: He graduated from St. Petersburg State University with a degree in law.	
1998: He underwent professional retraining under the financial management program at the Interdisciplinary Institute for Advanced Studies and Retraining of Managers.	
2009: He graduated from Saint Petersburg State University of Civil Aviation with a degree in transportation organization and management (air transport). Doctor of Economic Sciences.	
<b>Positions held over the last five years</b>	
2015: Chairman of the Russian National Committee of the International Council on Large Electric Systems Non-Profit Partnership.	
2013 until present: Chairman of the Management Board of PJSC FGC UES.	
2012 until present: Member of the Management Board of PJSC FGC UES.	
2012-2013: First Deputy Chairman of the Management Board and Acting Chairman of the Management Board of PJSC FGC UES	

### Membership on the boards of directors (supervisory boards) of other organizations

Member of the Boards of Directors (Supervisory Boards) of PJSC Rosseti, PJSC Federal Grid Company of the Unified Energy System (PJSC FGC UES), JSC System Operator of the Unified Energy System (JSC SO UES), the Global Energy Association for the Development of International Research and Projects in Energy, and the Scientific and Technical Council of the Unified Energy System non-commercial partnership.

Member of the Supreme Council of the Rugby Sports Federation (Union) of Russia All-Russian Public Organization.

### Awards

He was awarded the Medal of Order 'For Merit to the Fatherland,' 2nd degree, the Order of Honor, the Order of Friendship, and the Order of Alexander Nevsky, and he has certificates and letters of gratitude from the Governor and Administration of St. Petersburg as well as the lapel pin 'Honorary Transport Worker of Russia.'

Awarded the title 'Honorary Power Engineer.'

<b>Share ownership and transactions</b>	He does not own shares in PJSC Inter RAO and did not conduct any transactions with shares in the reporting year.
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### Ronald James Pollett

Status	Senior independent director
First elected to the Board of Directors	June 25, 2013
Year of birth	1969
Nationality	United States

#### Education

1991: He graduated from Colgate University (New York) with a degree in Soviet Studies.

#### Positions held over the last five years

**2015 until present:** Vice President of General Electric (GE), President and CEO of GE in Russia and the CIS.

**2009-2015:** CEO of LLC GE Rus Infra.

**2008-present:** Director of the branch office of General Electric International Corporation, Inc. (USA) in Moscow.

**2008-2015:** President and CEO of GE in Russia and the CIS.

**2003 until present:** CEO of LLC GE Rus.

**Membership on the boards of directors (supervisory boards) of other organizations**  
Member of the Board of Directors of RIG RESEARCH PTE.LTD.

#### Share ownership and transactions

He does not own shares in PJSC Inter RAO and did not conduct any transactions with shares in the reporting year.



### Yelena Sapozhnikova

Status	Independent director
First elected to the Board of Directors	June 10, 2016
Year of birth	1978
Nationality	Russian Federation

#### Education

2000: She graduated from Lomonosov Moscow State University with a degree in law.

#### Positions held over the last five years

**2017 until present:** Partner at LLC United Capital Partners Advisory Group (UCP).

**2013- 2017:** Executive Director of the UCP Group.

**Membership on the boards of directors (supervisory boards) of other organizations**  
Member of the Boards of Directors of TENDRIL VENTURES PTE. LTD., TENDRIL VENTURES 2 PTE. LTD., and Tendril Ventures 3 B.V.

#### Share ownership and transactions

She does not own shares in PJSC Inter RAO and did not conduct any transactions with shares in the reporting year.

**Igor Sechin****Chairman of the PJSC Inter RAO Board of Directors**

Status	Non-executive director
First elected to the Board of Directors	He was first elected to the Board of Directors on October 23, 2008 and served as a member of the Board of Directors until June 24, 2011. He was re-elected to the Board of Directors on June 25, 2013.
Year of birth	1960
Nationality	Russian Federation
Education	1984: He graduated from Leningrad State University. Candidate of Economic Sciences.

**Positions held over the last five years**

**2012 until present:** CEO and Chairman of the Management Board of PJSC Rosneft Oil Company.

**Membership on the boards of directors (supervisory boards) of other organizations**

Chairman of the Board of Directors of JSC ROSNEFTEGAZ.  
 Deputy Chairman of the Board of Directors of PJSC Rosneft Oil Company.  
 Chairman of the Supervisory Board of LLC Professional Hockey Club CSKA.  
 Chairman of the Board of Directors of LLC National Oil Consortium.

<b>Share ownership and transactions</b>	He does not own shares in PJSC Inter RAO and did not conduct any transactions with shares in the reporting year.
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**Denis Fedorov**

Status	Non-executive director
First elected to the Board of Directors	June 24, 2011
Year of birth	1978
Nationality	Russian Federation
Education	2001: He graduated from Bauman Moscow State Technical University with a degree as a manager economist. 2003: He completed graduate school at the Moscow Energy Institute (Technical University) with a degree in economics and industrial heat and power. Candidate of Economic Sciences.

**Positions held over the last five years**

**2017:** CEO of LLC Adlerskaya TPP.

**2013 until present:** Head of the Administration of PJSC Gazprom.

**2013 until present:** CEO of LLC Gazprom Energoholding.

**2013 until present:** CEO of PJSC Centrenergoholding.

**Membership on the boards of directors (supervisory boards) of other organizations**

Chairman of the Boards of Directors of PJSC Moscow United Energy Company (PJSC MOEK), LLC GEH Engineering, JSC Gazprom Energobyty Tyumen (JSC Tyumen Power Supply Company until 2018), and PJSC OGC-2;  
 Member of the Board of Directors of LLC Amurskaya TPP, PJSC Mosenergo, PJSC Centrenergoholding, and PJSC TGC-1.

<b>Share ownership and transactions</b>	He does not own shares in PJSC Inter RAO and did not conduct any transactions with shares in the reporting year.
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**Dmitry Shugayev**  
**Deputy Chairman of the PJSC Inter RAO Board of Directors**

Status	Non-executive director
First elected to the Board of Directors	May 25, 2014
Year of birth	1965
Nationality	Russian Federation

**Education**

1987: He graduated from Moscow State Institute of International Relations of the USSR Ministry of Foreign Affairs with a degree in international journalism. Candidate of Economic Sciences.

**Positions held over the last five years**

**2017 until present:** Director of the Federal Service for Military-Technical Cooperation.

**2008-2017:** Deputy General Director of Rostec State Corporation.

**Membership on the boards of directors (supervisory boards) of other organizations**

Member of the Board of Directors of JSC Rosoboronexport.

**Awards**

2018: He was awarded a lapel pin of the Ministry of Foreign Affairs of the Russian Federation 'For Contributing to International Cooperation.'

2018: He was awarded the Medal of the Federal Service for Technology and Export Control of Russia 'For Strengthening the State Information Protection System,' 1st degree.

2017: He was awarded the Medal of Honor by the General Director of Rostec State Corporation 'For Merit.'

2012: He was awarded the Order of Honor under Decree No. 1407 of the President of the Russian Federation dated October 16, 2012.

2005: He was awarded the Medal of Order 'For Merit to the Fatherland,' 2nd degree under Decree No. 1248 of the President of the Russian Federation dated November 2, 2005.

**Share ownership and transactions**

He does not own shares in PJSC Inter RAO and did not conduct any transactions with shares in the reporting year.



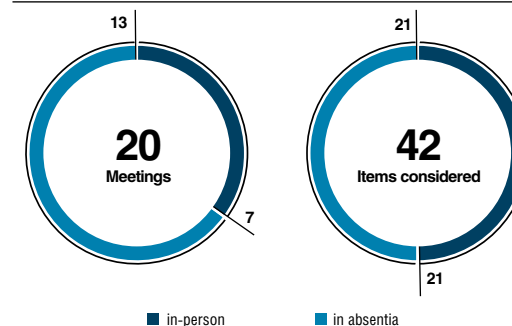
Information on the ownership of the Company's shares by members of the Board of Directors is given in the 'Share ownership by members of management bodies' section.

# COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has established the Audit Committee, Nomination and Remuneration Committee, and the Strategy and Investment Committee in order to tentatively consider key issues concerning the activities of PJSC Inter RAO.<sup>1</sup> The activities of the committees are governed by the relevant regulations of the Board of Directors.

Committee	Key functions	Committee members and attendance of meetings
Audit Committee	<ul style="list-style-type: none"> <li>Assessment of the Company's auditor candidates;</li> <li>Assessment of the auditor's opinion;</li> <li>Assessment of the effectiveness of internal control, risk management, and corporate governance procedures and the drafting of recommendations for the Board of Directors to improve these procedures;</li> <li>Ensuring the independence and objectivity of the external and internal audit functions;</li> <li>Monitoring the completeness, accuracy, and reliability of financial statements and also drafting recommendations for the Board of Directors regarding the Company's audit and reporting.</li> </ul>	Andrey Bugrov (chairman) (20/20) Alexander Lokshin (20/20) Ronald James Pollett (20/20) Yelena Sapozhnikova (20/20)

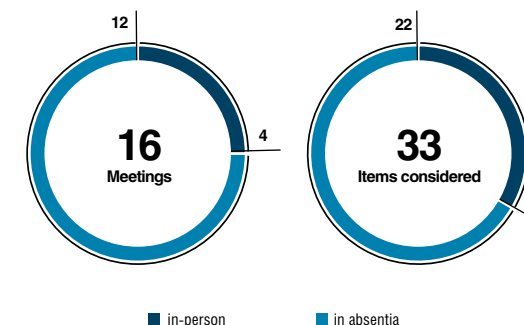
## WORK STATISTICS OF AUDIT COMMITTEE



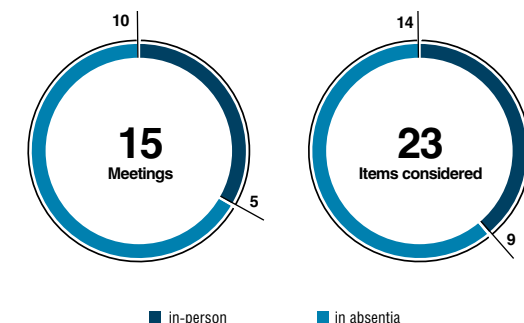
<sup>1</sup> Minutes No. 225 dated May 21, 2018.

Committee	Key functions	Committee members and attendance of meetings
Nomination and Remuneration Committee	<ul style="list-style-type: none"> <li>Drafting of recommendations for the Board of Directors to determine the amount of remuneration and compensation paid to the Chairman and members of the Company's Management Board</li> <li>Drafting of essential contract terms with members of the Management Board and the Chairman of the Company's Management Board as well as conditions for the early termination of employment contracts with them</li> <li>Drafting of recommendations for the Company's Board of Directors to determine the amount of remuneration and principles for bonus payments to the Corporate Secretary and proposals on bonuses for the Corporate Secretary</li> <li>Analysis of the professional qualifications and independence of all candidates nominated to the Company's Board of Directors and the preparation of recommendations for the Company's shareholders regarding voting on the election of candidates to the Company's Board of Directors</li> <li>Drafting of recommendations for the Board of Directors on the approval of the target values of KPIs and BPs for the Chairman and members of the Company's Management Board, reports on their implementation, and the methods used to calculate and evaluate their implementation</li> </ul>	Ronald James Pollett (chairman) (16/16) Andrey Bugrov (16/16) Yelena Sapozhnikova (16/16)
Strategy and Investment Committee	Drafting of recommendations for the Board of Directors <ul style="list-style-type: none"> <li>concerning the Company's priority activities and strategic goals</li> <li>concerning the adoption of investment decisions</li> </ul>	Viktor Khmarin <sup>2</sup> (Chairman from 08/29/2019) (5/5) Andrey Marchenko (15/15) Yevgeny Miroshnichenko <sup>3</sup> (5/5) Alexey Moslky (15/15) Sergey Nikitin (13/15) Vasily Nikonov (13/15) Fedor Opadchiy (15/15) Ron Pollett (15/15) Yelena Sapozhnikova (15/15) Pavel Snikkars (14/15) Charlotte Philipps (15/15) Yelena Bezdenezhnykh <sup>4</sup> (Chairman until 08/29/2018) (10/10) Ilmar Mirsiyapov <sup>5</sup> (9/10)

#### WORK STATISTICS OF THE NOMINATION AND REMUNERATION COMMITTEE



#### WORK STATISTICS OF THE STRATEGY AND INVESTMENT COMMITTEE



<sup>2</sup> Membership on the Committee – from August 29, 2018 (Minutes No. 230 of the meeting of the Board of Directors dated August 31, 2018)

<sup>3</sup> Membership on the Committee – from August 29, 2018 (Minutes No. 230 of the meeting of the Board of Directors dated August 31, 2018).

<sup>4</sup> Membership on the Committee – until August 29, 2018 (Minutes No. 230 of the meeting of the Board of Directors dated August 31, 2018).

<sup>5</sup> Membership on the Committee – until July 17, 2018 (Minutes No. 229 of the meeting of the Board of Directors dated July 19, 2018).

## Audit Committee

### Message from the Chairman of the Audit Committee



In 2018, monitoring the reliability and effectiveness of the corporate governance, risk management, and internal control systems remained a priority in the Audit Committee's activities.

A new version of the Regulation on the Internal Audit Unit, Compliance Policy, and the Anti-Fraud and Corruption Policy were tentatively reviewed and recommended for approval during the reporting year.

In addition, the Committee discussed the Risk Management and Internal Control Policy of PJSC Inter RAO at an in-person meeting and recommended the Board of Directors approve it. Under the policy, the internal control and corporate risk management systems employed by the Company were merged in order to enhance the efficiency of internal control and risk management and to fulfill the recommendations of the Corporate Governance Code.

The Antimonopoly Compliance Policy was tentatively reviewed and recommended for approval by the Board of Directors in November 2018. PJSC Inter RAO is among the first electric power companies to introduce an antimonopoly compliance system in order to prevent and minimize antimonopoly risks.

**Andrey Bugrov,**

*Chairman of the Committee*

The size of the Committee is determined by a resolution of the Board of Directors and may range from three to seven people. According to the Regulation on the Audit Committee, this Committee should be solely comprised of independent directors. If this is impossible for objective reasons, the majority of the Committee members should be comprised of independent directors, while the rest of the committee members may be members of the Board of Directors who are not the Chairman or members of the Company's Management Board. The Committee may only be chaired by an independent director.

In accordance with the Regulation on the Committee, it is comprised solely of independent directors.

#### Most important items considered by the Committee

In 2018, the Committee tentatively considered the approval of the following internal regulatory documents:

1. a new version of the Regulation on the Internal Audit Unit of PJSC Inter RAO;
2. the Risk Management and Internal Control Policy of PJSC Inter RAO;
3. a new version of the Compliance Policy of PJSC Inter RAO;
4. the Antimonopoly Compliance Policy of PJSC Inter RAO;
5. a new version of the Anti-Fraud and Corruption Policy of PJSC Inter RAO UES.

The Committee issued recommendations on the approval of the auditor candidate and the cost of its services and also considered a report on the independence, objectivity, and lack of a conflict of interests among the Company's external auditors.

The following issues were considered as part of the monitoring of the implementation of the Policy on Interaction with the External Auditor:

- the submission of recommendations to the Company on the selection of candidates for the Company's external auditor
- the conclusion of a contract with the auditor of the Long-Term Development Program and the approval of the cost of its services

The results of the overview of consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as well as reports on the Company meeting the requirements of Russian legislation concerning insider information and market manipulation were reviewed on a quarterly basis.



# Nomination and Remuneration Committee

## Message from the Chairman of the Nomination and Remuneration Committee

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In 2018, the Nomination and Remuneration Committee fully met its objectives and made recommendations to the Board of Directors on issues concerning nominations and remuneration.

In particular, the Committee conducted an analysis of the professional qualifications and independence of candidates nominated to the Company's Board of Directors and prepared recommendations for the Company's shareholders. As part of an annual self-assessment of the activities of the Board of Directors and its committees, we drafted recommendations for improving the activities of these bodies.

We also considered HR issues concerning the election of members of the Company's Management Board and bonuses for the Corporate Secretary. As is customary, during an in-person meeting at the end of 2018, we considered

issues related to the compliance of the management remuneration system with the principles of the Corporate Governance Code.

The Committee continued to focus on the Training and Development Program for members of the Board of Directors, for which members of the Nomination and Remuneration Committee suggested approaches for its drafting. Selected training seminar (workshop) topics are devoted to the development of additional paid services for power supply companies of the Inter RAO Group and work with big data.

**Ron Pollett,**

*Chairman of the Committee*

The size of the Committee is determined by a resolution of the Company's Board of Directors in a range of three to seven people. According to the Regulation on the Nomination and Remuneration Committee, this Committee should be solely comprised of independent directors.

### Most important items considered by the Committee

1. Preliminary consideration of issues concerning the self-assessment of the activities of PJSC Inter RAO Board of Directors and review of the self-assessment results.
2. Preliminary consideration of issues falling within the purview of the General Meeting of Shareholders: the payment of remuneration to members of the Company's Board of Directors and Revision Commission as well as an analysis of the professional qualifications and independence of candidates nominated to the Company's Board of Directors and the preparation of recommendations for the Company's shareholders regarding voting on the election of candidates to the Board of Directors.

3. Preliminary consideration of issues concerning financial incentives for the Chairman and members of the Company's Management Board and the head of the unit that performs the functions of the Company's Corporate Secretary as well as the annual monitoring of the compliance of the remuneration system with the recommendations of the Corporate Governance Code.
4. Recommendations for the Board of Directors on the election of members of the Management Board and the early termination of their powers.

## Strategy and Investment Committee

### Message from the Chairman of the Strategy and Investment Committee



The Strategy and Investment Committee aims to consider key issues concerning the operational activities of PJSC Inter RAO and handles the review of the most important strategic objectives.

During the reporting year, the Committee continued the practice of in-person meetings to consider the most significant issues involved with strategic, financial, and investment planning as well as issues concerning the Company's innovative activities.

As part of its activities, the Committee drafted and issued recommendations for the Board of Directors that were comprehensively studied taking into account

the various expert opinions of the Committee members representing various energy sectors.

We should also mention the effective work of the Company's management and its focus on properly achieving the performance benchmarks.

**Viktor Khmarin,**

*Chairman of the Committee*

The size of the Committee is determined by a resolution of the PJSC Inter RAO Board of Directors and ranges from three to eleven people. The Committee is comprised of independent and non-executive members of the Board of Directors (or one representative from each) as well as an executive director or member of the Company's Management Board.

#### Most important items considered by the Committee

1. Consideration of reports on the implementation of the business plan of PJSC Inter RAO and the Group for the corresponding period of 2018 and consideration of the business plan of PJSC Inter RAO and the Group for 2019. Consideration of the implementation of the Long-Term Development Program, including the Report on the Implementation of Strategic Development Priorities for 2017 and the Strategic Priorities of the Inter RAO Group for 2019.
2. The proposal for the annual General Shareholders Meeting of PJSC Inter RAO concerning the distribution of profit (including the payment (declaration) of dividends) and losses of PJSC Inter RAO.
3. Consideration of the investor relations report.
4. Approval of the report on the implementation of the Innovative Development Program of PJSC Inter RAO for 2018.
5. Consideration of the Report on the Comparison of the Level of Technological Development and the Key Performance Indicators of the Inter RAO Group with the Level of Development and Indicators of Leading Analogue Companies and proposals on the advisability of updating the Innovative Development Program of PJSC Inter RAO based on the results of benchmarking and a process audit.
6. Consideration of the PJSC Inter RAO Intellectual Property Rights Management Program, which was drafted in accordance with the Recommendations on the Management of Intellectual Property Rights at Organizations.

## Corporate secretary

The Corporate and Property Relations Unit (CPRU) is the structural unit of PJSC Inter RAO that performs the functions of the Company's Corporate Secretary. The Company's Board of Directors adopts the resolution on the appointment of the head of the CPRU. In its activities, the head of the CPRU is functionally accountable to the Board of Directors and administratively accountable to the Chairman of the Management Board, which ensures the necessary degree of independence.

The independence of the Corporate Secretary is also ensured by the incentive system for the Corporate Secretary established by the Company's Board of Directors, including KPIs and PBs that are approved each year. Upon fulfilling the KPIs and PBs, the head of the CPRU annually submits the appropriate report to the Board of Directors based on which the Company's Board of Directors adopts decisions concerning bonuses.

### Functions of the Corporate Secretary:

1. Organize preparations and ensure the holding of the General Meeting of Shareholders.
2. Support the work of the Board of Directors and its committees.
3. Arrange meetings of the Board of Directors and monitor the implementation of its work plan and any instructions that are issued.
4. Support the Company's interaction with its shareholders and participate in preventing corporate conflicts.
5. Participate in the implementation of the Company's disclosure policy and also ensure the storage of the Company's corporate documents.
6. Support the Company's interaction with regulatory bodies, trade organizers, registrars, and other professional securities market participants.
7. Participate in the improvement of the Company's corporate governance system and practices.
8. Ensure compliance with securities laws.



### Tamara Merebashvili

Position	Head of the Corporate and Property Relations Unit <sup>1</sup>
Year of birth	1977
Nationality	Russian Federation

#### Education

1999: She graduated from St. Petersburg State University with a degree in law. Candidate of Legal Sciences.

#### Positions held over the last five years

**2016 until present:** Head of the Corporate and Property Relations Unit of PJSC Inter RAO UES; CEO of LLC Inter RAO-IT.

**2015-2016:** Deputy Head of the Central Asia and Caucasus Asset Management Unit at PJSC Inter RAO UES.

**2011-2015:** Deputy CEO for Long-Term Development, Deputy CEO for Commercial Affairs, and Deputy CEO and Commercial Director of LLC Inter RAO UES Energy Efficiency Center.

Share ownership and transactions	<p>March 14, 2018: She purchased 31,320,000 shares in PJSC Inter RAO (0.03% of the Company's charter capital).</p> <p>March 14, 2018: She sold 31,320,000 shares in PJSC Inter RAO (0.03% of the Company's charter capital).</p>
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#### Additional information

She is actively involved in policy-making concerning corporate law, the securities market, the circulation of insider information, and market manipulation, including the drafting of proposals on legislative amendments, and she is also a member of the following expert advisory commissions of the federal executive authorities and the securities market regulator and trade organizer:

- member of the National Association of Corporate Secretaries;
- member of the Expert Council on Corporate Governance under the Ministry of Economic Development of the Russian Federation;
- member of the Corporate Governance Working Group at the Federal Agency for State Property Management;
- member of the Issuers Committee of the Moscow Exchange;
- member of the Council for the Improvement of Legislation on Arbitration Courts under the Ministry of Justice of the Russian Federation.

She is engaged in information and educational work and participates in various Russian and international professional community forums. In particular, in 2018 she was actively involved in the 8th St. Petersburg International Legal Forum as an organizational sponsor and participant in the corporate governance section. She is a member of the Expert Council of the Russian Federal Antimonopoly Service on the Development of Competition in Information Technologies. Tamara Merebashvili was awarded first place among corporate governance directors in the fuel and energy sector in the annual 'Top 1,000 Russian managers' ranking issued by the Association of Managers and Kommersant publishing house. She has no affiliation with the controlling entity or executive management. She is the CEO of an entity controlled by the Company, LLC Inter RAO – Information Technologies, and the Company's Board of Directors and Nomination and Remuneration Committee are aware of this. She interacts with the Company's affiliates and major business partners as part of her official duties.



Information on the Division is presented on the website [http://www.interrao.ru/en/upload/docs/Prilozhenie\\_3\\_Polozhenie.pdf](http://www.interrao.ru/en/upload/docs/Prilozhenie_3_Polozhenie.pdf).



<sup>1</sup> Unit that performs the functions of the corporate secretary.

# EXECUTIVE BODIES

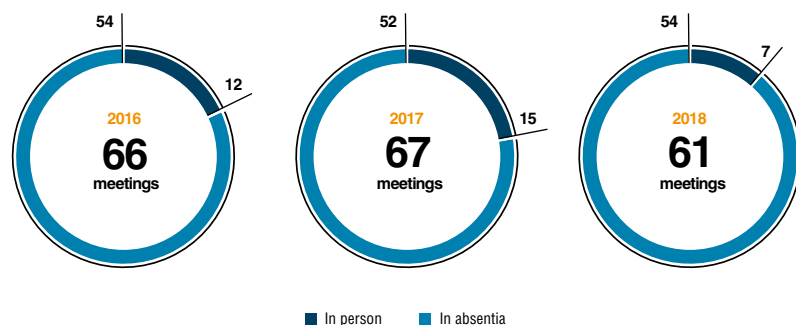
As a collective executive body of PJSC Inter RAO, the Management Board manages the Company's day-to-day activities and is responsible for implementing the Group's goals, strategies, and policies. The Management Board's activities are governed by the Charter and the Regulation on the Management Board.<sup>2</sup>

The Chairman of the Management Board manages the Company's day-to-day activities in accordance with the Charter and the resolutions of the General Meeting of Shareholders, the Board of Directors, and the Management Board.

The Chairman of the Management Board ensures the Group achieves its goals by coordinating the work of members of the Management Board and the heads of directly subordinate units. The Chairman of the Management Board is elected by a resolution of the General Meeting of Shareholders based on a recommendation from the Board of Directors. Members of the Management Board are elected by a resolution of the Board of Directors based on a proposal from the Chairman of the Management Board. The Management Board and the Chairman of the Management Board are accountable in their activities to the Company's General Meeting of Shareholders and the Board of Directors.

## Report on the work of the Management Board

### STATISTICS ON THE WORK OF THE MANAGEMENT BOARD AND NUMBER OF MEETINGS



<sup>2</sup> Approved by the Company's Annual General Meeting of Shareholders on June 9, 2017 (Minutes No. 17 dated June 9, 2017).

## Size of the Management Board

The size of the Management Board is determined by the Board of Directors in accordance with the Company's Charter. As of December 31, 2018, the Board had nine members.

### MEMBERS OF THE MANAGEMENT BOARD AND THEIR ATTENDANCE OF MEETINGS

Member of the Management Board	Position	Meetings attended (61 in total)	Meetings attended in person (7 in total)	Meetings attended in absentia (54 in total)
Boris Kovalchuk	Chairman of the PJSC Inter RAO Management Board	60/61	7/7	53/54
Mikhail Konstantinov	Member of the Management Board and Head of the Legal Affairs Unit of PJSC Inter RAO	58/61	7/7	51/54
Alexey Maslov	Member of the Management Board and Head of the Strategy and Investment Unit of PJSC Inter RAO	2/61	0/7	2/54
Yevgeny Miroshnichenko	Member of the Management Board and Head of the Financial and Economic Center of PJSC Inter RAO	58/61	6/7	52/54
Valery Murgulets	Member of the Management Board and Head of the Innovations, Investment, and Cost Management Unit of PJSC Inter RAO	50/61	4/7	46/54
Pavel Okley	Member of the Management Board and Head of the Production Unit of PJSC Inter RAO	57/61	7/7	50/54
Alexandra Panina	Member of the Management Board	28/61	3/7	25/54
Dmitry Filatov	Member of the Management Board and Head of the Supply Division of PJSC Inter RAO	58/61	6/7	52/54
Yury Sharov	Member of the Management Board and Head of the Engineering Unit of PJSC Inter RAO	56/61	6/7	50/54

### CHANGES TO MEMBERS OF THE MANAGEMENT BOARD

Elected	Departed
Yury Sharov Due to the expiration of his term as a member of the Management Board, he was elected for a term of five years starting from May 24, 2018 (powers extended)	Karina Tsurkan Powers as a member of the Management Board prematurely terminated on June 28, 2018
Alexandra Panina Elected a member of the Management Board for a term of five years starting from July 17, 2018	Ilmar Mirsiyapov Powers as a member of the Management Board prematurely terminated on July 17, 2018
Alexey Maslov Elected a member of the Management Board for a term of five years starting from December 20, 2018	Alexander Boris Regarded as having departed the Management Board due to his sudden death on November 7, 2018

## Biographies of members of the Management Board<sup>1</sup>



### Boris Kovalchuk

Chairman of the PJSC Inter RAO Management Board  
More details are available in the 'Biographies of Members of the Board of Directors' section.



### Mikhail Konstantinov

Position	Member of the Management Board and Head of the Legal Affairs Unit of PJSC Inter RAO
Year of birth	1968
Nationality	Russian Federation
Education	2003: He graduated from Tver Institute of Ecology and Law with a degree in law. Candidate of Legal Sciences.

#### Positions held over the last five years

**2016 until present:** Member of the Management Board and Head of the Legal Affairs Unit of PJSC Inter RAO (he took office on November 4, 2016 and per his employment contract his term in office runs until November 4, 2021).  
**2012-2016:** Head of the Corporate and Property Relations Unit of PJSC Inter RAO and Corporate Governance Director of the Corporate and Property Relations Unit

#### Awards

Letter of Gratitude from the Ministry of Energy of the Russian Federation.  
Medal 'For Merit' (Federal Bailiffs Service).  
Letter of Gratitude from the Governor of the Tver Region.  
Certificate of Honor from the Ministry of Justice of the Russian Federation.  
Lapel pin of the Governor of the Tver Region 'For Merit in the Development of the Tver Region.'

<sup>1</sup> The Company discloses complete biographical information in its quarterly reports.



### Alexey Maslov

Position	Member of the Management Board and Head of the Strategy and Investment Unit of PJSC Inter RAO
Year of birth	1981
Nationality	Russian Federation

#### Education

2003: He graduated from the State University of Management (Moscow) with a degree in management.

#### Positions held over the last five years

**2018 until present:** Member of the Management Board and Head of the Strategy and Investment Unit of PJSC Inter RAO (he took office on December 20, 2018 and per his employment contract his term in office runs until December 20, 2023).  
**2011-2018:** Head of the Strategy and Investment Unit, Strategic Development Director, and Head of the Strategy and Strategic Projects Department of the Strategy and Investment Unit of PJSC Inter RAO.

#### Awards

Certificate of Honor from RAO UES of Russia.  
 Letter of Gratitude from OJSC Volzhsky Hydropower Cascade Management Company.



### Yevgeny Miroshnichenko

Position	Member of the Management Board and Head of the Financial and Economic Center of PJSC Inter RAO
Year of birth	1980
Nationality	Russian Federation

#### Education

2003: He graduated from the State University of Management with a degree in management.

2017: He completed the Executive MBA program at the Kellogg-Hong Kong University of Science and Technology (HKUST) (Hong Kong, China).

#### Positions held over the last five years

**2016 until present:** Member of the Management Board and Head of the Financial and Economic Center of PJSC Inter RAO (he took office on October 29, 2016 and per his employment contract his term in office runs until October 29, 2021).  
**2010-2016:** Strategic Development Director, Deputy Head of the Unit and Head of the Strategy Department of the Strategy and Investment Unit of PJSC Inter RAO.

#### Awards

Certificate of Honor from the Ministry of Energy of the Russian Federation.  
 Letter of Gratitude from the Ministry of Energy of the Russian Federation.  
 Certificate of Honor from employers of the electric power industry of the All-Russian Industrial Association of Employers in the Electric Power Industry.





### Valery Murgulets

Position	Member of the Management Board and Head of the Innovations, Investment, and Cost Management Unit of PJSC Inter RAO
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Year of birth	1977
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Nationality	Russian Federation
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#### Education

1999: He graduated from St. Petersburg State University with a degree in law.  
2006: He graduated from the Stockholm School of Economics.  
2015: He graduated from the Moscow Power Engineering Institute National Research University with a degree in thermal engineering and the thermal power industry.

#### Positions held over the last five years

**2012 until present:** Member of the Management Board and Head of the Innovations, Investment, and Cost Management Unit of PJSC Inter RAO (he took office on September 26, 2017 and per his employment contract his term in office runs until September 26, 2022).

#### Awards

Commemorative medal of the 2014 Winter Olympics and Winter Paralympics in Sochi (Ministry of Energy of the Russian Federation).



### Pavel Okley

Position	Member of the Management Board and Head of the Production Unit of PJSC Inter RAO
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Year of birth	1970
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Nationality	Russian Federation
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#### Education

1992: He graduated from the Omsk Institute of Railway Transport Engineers with a degree in automation, telemechanics, and communications in railway transport and a qualification as a railway electrical engineer.  
Candidate of Economic Sciences.

#### Positions held over the last five years

**2010 until present:** Member of the Management Board and Head of the Production Unit of PJSC Inter RAO (he took office on October 30, 2015 and per his employment contract his term in office runs until October 30, 2020).

#### Awards

Letter of Gratitude from the President of the Russian Federation.  
Title of 'Honorary Power Engineer.'  
Commemorative medal of the 2014 Winter Olympics and Winter Paralympics in Sochi.  
Lapel pin 'For Impeccable Work in the Distribution Network Sector.'  
Certificate of Honor from the Ministry of Energy of the Russian Federation.  
Honorary title 'Honored Worker of the Unified Energy System of Russia.'  
Title of 'Winner of the OJSC Omskenergo Prize.'



### Alexandra Panina

Position	Member of the Management Board and Acting Head of the Trading Unit of PJSC Inter RAO
Year of birth	1977
Nationality	Russian Federation
Education	1999: She graduated from Volgograd State University with a degree in law. 2010: She graduated from the State Academy of Innovations with a degree in finance and credit.

### Positions held over the last five years

**2018 until present:** Member of the Management Board and Acting Head of the Trading Unit of PJSC Inter RAO (she took office on July 17, 2018 and per her employment contract her term in office runs until July 17, 2023).

**2011-2018:** Deputy CEO for Marketing and Sales of LLC INTER RAO – Power Generation Management.

**2011 until present:** Chairwoman of the Supervisory Board of the Council of Electric Power Producers and Strategic Investors in the Electric Power Industry Association.

**2012 until present:** Member of the Supervisory Board of the Non-Profit Partnership Market Council on the Organization of an Effective Electric Power and Capacity Wholesale and Retail System Association.

**2013 until present:** Chairwoman of the Board of Directors of JSC Administrator of the Wholesale Electric Power Market Trading System.

### Awards

Honorary title 'Honorary Power Engineer.'

Honorary title 'Honored Power Engineer of the CIS.'

Commemorative lapel pin '95th Anniversary of Operational Dispatch Management.'

Certificate of Honor from the Ministry of Energy of the Russian Federation.

Anniversary pin '90th anniversary of the Russian State Electrification Commission.'

Letter of Gratitude from the Ministry of Industry and Energy of the Russian Federation.



### Dmitry Filatov

Position	Member of the Management Board and Head of the Supply Division of PJSC Inter RAO
Year of birth	1968
Nationality	Russian Federation
Education	1991: He graduated from the Leningrad Order of Lenin and the Order of the Red Banner of Labor Mechanical Institute named after Marshal of the Soviet Union D.F. Ustinov with a degree in pulse heat engines.

### Positions held over the last five years

**2016 until present:** Member of the Management Board and Head of the Supply Division of PJSC Inter RAO (he took office on November 4, 2016 and per his employment contract his term in office runs until November 4, 2021).

**2014 until present:** Member of the Audit Committee of LLC Inter RAO – Power Generation Management and Head of the Supply Division of PJSC Inter RAO UES.

**2012 until present:** CEO of LLC Inter RAO – Procurement Management Center (concurrently).



## Yury Sharov

Position	Member of the Management Board and Head of the Engineering Unit of PJSC Inter RAO
Year of birth	1959
Nationality	Russian Federation

### Education

1998: He graduated from the Moscow International Higher Business School MIRBIS (MBA).  
 1998: He graduated from Plekhanov Russian University of Economics with a degree in finance and credit.  
 1986: He graduated from the Moscow Energy Institute (Technical University) with a degree in electric system cybernetics and a qualification as an electrical engineer.  
 Candidate of Technical Sciences and Professor.

### Positions held over the last five years

**2008 until present:** Member of the Management Board and Head of the Engineering Unit of PJSC Inter RAO (he took office on May 24, 2018 and per his employment contract his term in office runs until May 24, 2023), Head of the Major Construction and Engineering Unit, and Head of the Central Asia – Far East Division;

**2016 until present:** Chairman of the Technical Committee of the Association of the Russian National Committee of the International Council on Large Electric Systems.

**2014 until present:** Member of the Board of Trustees at Moscow Power Engineering Institute National Research University, Member of the Board of Directors at the Self-Regulatory Organization – Interregional Industrial Association of Employers Association of Organizations Performing the Construction, Reconstruction, and Major Repairs of Energy Facilities, Networks, and Substations Union, and Member of the Board of Directors of ENERGOSTROY.

**2012 until present:** CEO of LLC Inter RAO – Engineering.

### Awards

Commemorative medal of the 2014 Winter Olympics and Winter Paralympics in Sochi (Ministry of Energy of the Russian Federation).  
 Medal of the Order 'For Merit to the Fatherland,' 2nd degree.  
 Order of Honor.  
 Letter of Gratitude of the President of the Russian Federation.  
 Certificate of Honor of the Government of the Russian Federation.  
 Honorary title 'Honored Power Engineer of the Russian Federation.'  
 Honorary title 'Honored Worker of the Unified Energy System of Russia.'  
 Anniversary badge "85th Anniversary of the Russian State Electrification Commission Plan."  
 Lapel pin '80th Anniversary of the Russian State Electrification Commission Plan.'

The Company did not issue any loans (credits) to the Chairman or members of the Management Board during the reporting year.



Information on the ownership of the Company's shares by members of the Management Board and transactions with shares is given in the 'Share ownership by members of management bodies' section.

# REMUNERATION FOR MEMBERS OF MANAGEMENT BODIES

Taking into account the structure of the Company's management bodies and the subordination of their members, the Company has two documents governing the payment of remuneration: for members of the Board of Directors who are accountable to the General Meeting of Shareholders and people elected by them, and for members of the Management Board who are appointed and accountable to the Board of Directors.

Remuneration is paid to members of the Board of Directors and members of committees of the Board of Directors in accordance with the Regulation on the Payment of Remuneration and Compensation to Members of the PJSC Inter RAO Board of Directors and complies with the recommendations of the Corporate Governance Code.

The procedure used to determine the amount and procedure for paying remuneration to the Chairman and members of the Management Board is specified in the Regulation on Financial Incentive for the Chairman and Members of the PJSC Inter RAO Management Board.

These documents are tentatively reviewed by the Nomination and Remuneration Committee of the Board of Directors. Their use is limited solely to members of the PJSC Inter RAO Board of Directors and members of the PJSC Inter RAO Management Board. Remuneration for members of the Strategy and Investment Committee who are not members of the Board of Directors is specified by the Regulation on this Committee.

No changes were made to the remuneration policy for members of the Board of Directors and members of the Management Board during the reporting year.

The Nomination and Remuneration Committee conducts a review of the remuneration system on an annual basis. In the event of changes to the internal or external environment, the Committee shall submit the appropriate recommendations.

At its annual in-person meeting on December 13, 2018, the Nomination and Remuneration Committee considered the Report on the Practical Implementation of the Principles of the Remuneration Policy and the Practice for Its Introduction, including the use of an effective ratio of fixed and variable parts of remuneration. Based on the results of the review, it was determined that the Company as a whole complies with the recommendations of the Corporate Governance Code concerning remuneration for management and the Board of Directors, in particular:

- the remuneration policy contains transparent mechanisms for determining the amount of remuneration for members of the Board of Directors and also regulates all types of payments, benefits, and privileges granted to these persons.
- fixed annual remuneration is the only form of monetary remuneration for members of the Board of Directors. No forms of short-term incentive or additional financial incentives are used for members of the Board of Directors.
- an analysis showed that the level of incentives for members of the Company's Board of Directors could be increased compared with major Russian issuers.

Based on an analysis of the incentive system for members of the Board of Directors at major Russian issuers with comparable market capitalization, the Committee recommended at an in-person meeting that the Annual General Meeting of Shareholders of PJSC Inter RAO consider the issue of increasing the base portion of remuneration for members of the Board of Directors as part of the Regulation on the Payment of Remuneration and Compensation to Members of the Board of Directors.<sup>1</sup>



The Regulation on the Payment of Remuneration and Compensation to Members of the PJSC Inter RAO Board of Directors is available on the website: [http://www.interrao.ru/upload/doc/Polozhenie\\_o\\_KSI\\_01102018.pdf](http://www.interrao.ru/upload/doc/Polozhenie_o_KSI_01102018.pdf)



<sup>1</sup> Minutes No. 92 dated December 13, 2018.

## Remuneration for members of the Board of Directors

The Regulation specifies the base annual amount of remuneration as well as the formula for calculating the amount of actual payments, which decrease when members of the Board of Directors miss meetings (both in-person and in absentia) and increases when they serve concurrently on committees of the Board of Directors. The amount of fixed base remuneration for a member of the Board of Directors is RUB 3 million per corporate year.

Remuneration increases by 30% for the Chairman of the Board of Directors, by 15% for the chairmen of committees of the Board of Directors, and by 10% for members of the committees. These bonuses are cumulative. Remuneration is not paid if a member of the Board of Directors participates in less than 50% (from the time of election until the termination of powers) of the meetings held (both in-person and in absentia).

The Regulation also envisages reimbursement for members of the PJSC Inter RAO Board of Directors based on actual expenses, such as expenses for traveling

to and from the meeting place of the Board of Directors and its committees as well as accommodation expenses, and also regulates the ownership of Company shares by members of the Board of Directors.

The Company does not employ other forms of remuneration, including short-term and long-term forms of incentive that depend on financial results or share-based forms of incentive (stock options). In the event of the early termination of the powers of a member of the Board of Directors, no other payments are made apart from those envisaged by the Regulation on the Payment of Remuneration and Compensation to Members of the PJSC Inter RAO Board of Directors.

The Regulation on the Payment of Remuneration and Compensation to Members of the PJSC Inter RAO Board of Directors does not apply to members of the Company's Board of Directors who are members of the Company's collective executive body.

## Remuneration for members of the Management Board

The remuneration system for members of the PJSC Inter RAO Management Board aims to ensure their financial interest in achieving strategic goals and improving the economic efficiency of management as well as a fair and competitive level of remuneration. In order to enhance information transparency, the Nomination and Remuneration Committee decided to publish information about the amount of remuneration paid to the individual serving as Chairman of the Management Board and members of the Management Board on the Company's official website.

The financial interest of members of the Management Board in achieving the Company's strategic goals is achieved through short-term and long-term incentive systems.

The Company employs a procedure that ensures the return to the Company of bonuses that were wrongly received by members of the executive bodies and other key managers of the Company.<sup>3</sup> There have been no such cases in the practice of PJSC Inter RAO.

<sup>3</sup> Amendments to the Regulation on Financial Incentive for the Chairman and Members of the Management Board (approved by a resolution of the Company's Board of Directors dated December 29, 2016 (Minutes No. 189 dated December 30, 2016)).

**MAIN COMPONENTS OF THE INCENTIVE SYSTEM FOR THE COMPANY'S EXECUTIVE BODIES**

Indicator	Salary	Short-term incentives for management	Long-term incentives for management	Benefits and other types of remuneration
Form of implementation	Official salary	Annual bonus based on achieving KPIs; special bonus for achieving EBITDA	Option program (executed in 2018)	Various forms of non-financial incentives
Goal	Recruiting and retaining highly professional managers using a fair and competitive level of remuneration.	Incentive to achieve annual targets in accordance with the Group's Strategy and business plan.	Incentive for long-term growth in key indicators – TSR, ROE, and EBITDA.	Recruiting and retaining highly professional managers using additional competitive advantages in the form of benefits and compensation.
Key parameters	The salary level is consistent with market conditions, which ensures the stability of the Company's management. The official salaries of managers in 2018 were indexed in accordance with the Regulation on Financial Incentives based on a resolution of the Company's Board of Directors (Minutes No. 228 dated July 3, 2017)	A manager's annual bonus is calculated based on the actual KPI values achieved per the Company's performance results. The Company's KPI system is interconnected with its business plan, including the Company's investment program, the Company's strategy, and executive discipline. Additionally, based on the results of the fulfillment of annual net profit indicators, the Company's directors are paid a special annual bonus that is calculated based on the Company's consolidated financial statements prepared in accordance with IFRS. A condition for the payment of the bonus is the achievement of the indicator 'Implementation of the Company's strategic priorities.' The special bonus for the Chairman of the Management Board is 0.1% of EBITDA, while for other managers it is calculated using a special formula depending on the bonus amount for the Chairman of the Management Board.	Key managers who contribute to the implementation of the Group's strategy and the long-term growth of the company's value have the right to buy shares at market price. The option program amounts to 2% of the Company's charter capital. The program is valid from February 2016 to February 2018.	Insurance coverage: <ul style="list-style-type: none"> <li>• voluntary health insurance programs</li> <li>• professional liability insurance (D&amp;O)</li> <li>• accident insurance</li> <li>• use of corporate mobile communications</li> <li>• motor transport service</li> <li>• other types of compensation and remuneration in accordance with the employment contract, whose terms are determined by the Company's Board of Directors</li> </ul>
Target ratio of components in the annual remuneration structure	50%	50% <sup>1</sup>	The program is calculated for several years and does not envisage the annual payment of remuneration	<1%

<sup>1</sup> Excluding special bonus.

The amount of one-time compensation paid to an employee in the event of the termination (early termination) of an employment contract at the employer's initiative is recorded in employment contracts with members of the Management Board and the Chairman of the Management Board in the amount of three average monthly salaries.

The terms of employment contracts with members of the Management Board and the Chairman of the Management Board are approved by the Board of Directors in accordance with the Company's Charter.

In accordance with Appendix No. 1 to the Regulation on Financial Incentive for the Chairman and Members of the Company's Management Board, the scheduled bonus to the Chairman of the Management Board for fulfilling annual key performance indicators corresponds to 150% of the Chairman's annual earnings, and the amount of bonuses to members of the Management Board for fulfilling annual key performance indicators amounts to 100% of their annual earnings.

Based on a resolution of the Board of Directors, members of the Management Board may be paid (one-time bonuses) for performing particularly important tasks.

## Remuneration for senior officials at controlled companies

In 2018, the Group decided to cancel remuneration payments to members of the Boards of Directors of controlled entities.

Remuneration and financial incentives for the sole executive bodies of the Group's companies are set on the basis of an employment contract as well as the regulations on financial incentives for the CEO approved by the Board of Directors of the respective controlled entity, which establish the following components of the system:

- official salary

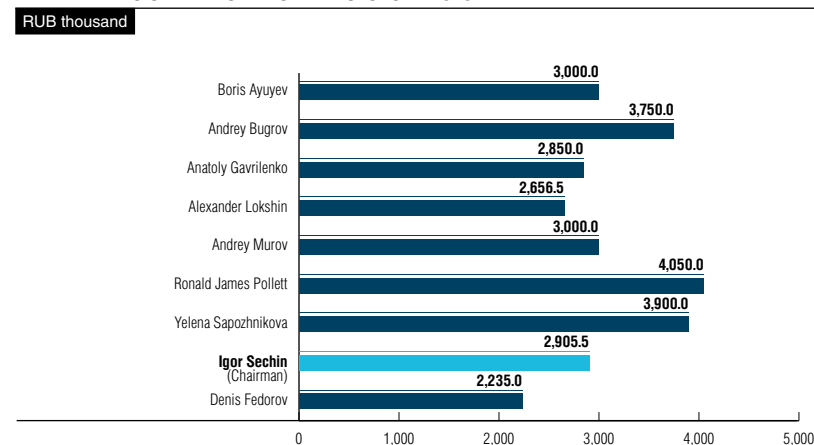
- additional incentives and compensation payments to directors
- a bonus to directors upon the Company's fulfillment of annual KPIs
- a one-time bonus payment to directors for their contribution to the Company's development or in connection with awards for directors
- financial incentives for directors in accordance with an additional resolution of the Board of Directors concerning incentives for the director of the Company

The amount of the official salary as well as bonuses for the director of a controlled entity are determined by a resolution of the Board of Directors in accordance with the regulation.

## Report on the payment of remuneration in 2018

### Remuneration for the Chairman and members of the Board of Directors

#### PERSONAL REMUNERATION FOR THE CHAIRMAN AND MEMBERS OF THE BOARD OF DIRECTORS IN 2018

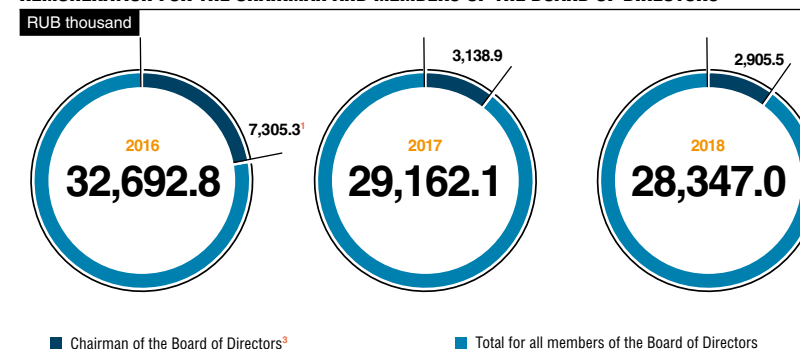


### Remuneration for the Chairman and members of the Management Board

The bonus portion of remuneration for 2018 was determined by the Company's Board of Directors based on the achievement of target KPI values and Strategic Development Priorities. In 2017, the Chairman and certain members of the Board voluntarily declined a special bonus, which resulted in remuneration for the period amounting to less than it did for 2016 and 2018. For more on the extent to which KPIs were achieved, see the 'Key Performance Indicators System' section.

In 2018, members of the Company's Management Board received RUB 6,841,777.31 for participating in the management bodies of the Group's companies.<sup>2</sup>

#### REMUNERATION FOR THE CHAIRMAN AND MEMBERS OF THE BOARD OF DIRECTORS



<sup>1</sup> Remuneration due to Chairman of the Board of Directors Igor Sechin in the amount of RUB 7,305,278 includes

- RUB 3,405,278 accrued for 2015 (this information was provided in the Annual Report of PJSC Inter RAO for 2015 in the 'Remuneration for the Board of Directors' section of the 'Corporate Governance' chapter),
- remuneration spent by the Company on charitable purposes in 2016 as well as remuneration of RUB 3,900,000 accrued for 2016.

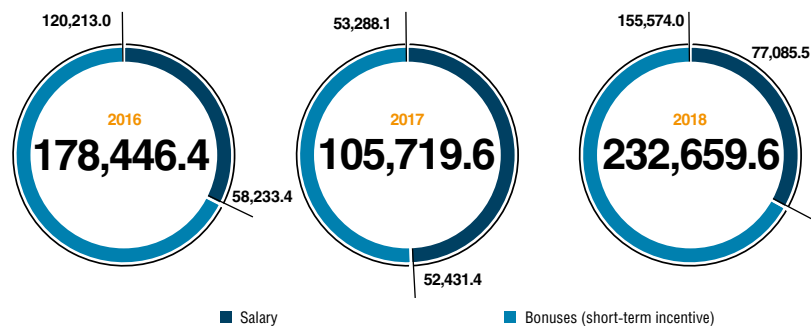
<sup>2</sup> The amounts are given after tax. When converting foreign currency into rubles, the exchange rate as of December 30, 2018 was used. These funds comprise the amount of remuneration for performing the functions of the sole executive bodies paid in accordance with the law. Members of the Management Board and other employees of the Company do not receive remuneration for participating in the work of the boards of directors (supervisory boards) of controlled entities.

<sup>3</sup> Remuneration is spent on charity.



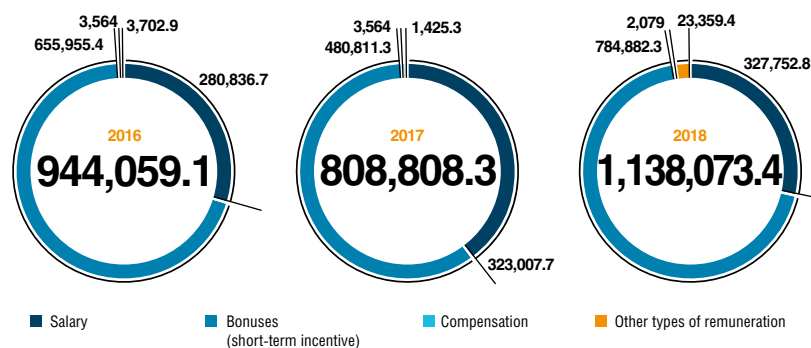
## REMUNERATION FOR THE CHAIRMAN OF THE MANAGEMENT BOARD

RUB thousand



## REMUNERATION FOR THE CHAIRMAN AND MEMBERS OF THE MANAGEMENT BOARD

RUB thousand



## Option program

The option program was approved by the PJSC Inter RAO Board of Directors in February 2016.<sup>3</sup> As a result of the program, some members of PJSC Inter RAO management obtained the right to acquire a specific number of shares of an existing issue from a block controlled by Inter RAO Group at a fixed price for a total of 2% of charter capital. The date for exercising the option program was in early 2018, and the participants who exercised the option bought back the shares and expressed their intention to sell a part of the shares, which prompted the decision to ensure an organized sale process. As a result of the transaction, 1.19 billion ordinary shares were sold at a price of RUB 3.48 per ordinary share for a total of approximately RUB 4.15 billion. As part of the management option program in March 2018, a transaction was concluded to sell 1.14% of the shares through an accelerated bookbuild (ABB).

Chairman of the PJSC Inter RAO Management Board Boris Kovalchuk did not participate in the sale of shares.

The aforementioned option program proved to be an effective mechanism for motivating management. In the medium term, management believes it would be advisable to introduce a more complex, comprehensive long-term incentive program that aims to ensure the achievement of a number of key performance indicators in the Company's operations. At the same time, we do not rule out the use of components of the option program as this program develops.

<sup>3</sup> Minutes No. 161 dated February 18, 2016.

# SHARE OWNERSHIP BY MEMBERS OF MANAGEMENT BODIES

## OWNERSHIP OF THE COMPANY'S SHARES BY MEMBERS OF THE BOARD OF DIRECTORS

Name of Board of Directors member	Information about ownership of the Company's shares as of January 1, 2018	Information about ownership of the Company's shares as of December 31, 2018	Information about transactions with shares concluded in 2018
Boris Ayuyev	7,306,329.79 shares in PJSC Inter RAO (0.0069984% of the Company's charter capital)	7,306,329.79 shares in PJSC Inter RAO (0.0069984% of the Company's charter capital)	No transactions concluded
Boris Kovalchuk	2,429,000 shares in PJSC Inter RAO (0.0023% of the Company's charter capital)	159,029,000.00 shares in PJSC Inter RAO (0.1523% of the Company's charter capital)	05/30/2018: purchase of 156,600,000 shares in PJSC Inter RAO (0.1500% of the Company's charter capital)

## OWNERSHIP OF THE COMPANY'S SHARES BY MEMBERS OF THE MANAGEMENT BOARD

Name of Management Board member	Information about ownership of the Company's shares as of January 1, 2018	Information about ownership of the Company's shares as of December 31, 2018	Information about transactions with shares concluded in 2018
Boris Kovalchuk	2,429,000 shares in PJSC Inter RAO (0.0023% of the Company's charter capital)	159,029,000.00 shares in PJSC Inter RAO (0.1523% of the Company's charter capital)	05/30/2018: purchase of 156,600,000 shares in PJSC Inter RAO (0.1500% of the Company's charter capital)
Mikhail Konstantinov	0 shares in PJSC Inter RAO (0% of the Company's charter capital)	34,452,000.00 shares in PJSC Inter RAO (0.0330% of the Company's charter capital)	03/14/2018: purchase of 62,640,000 shares in PJSC Inter RAO (0.06% of the Company's charter capital). 03/14/2018: sale of 28,188,000 shares in PJSC Inter RAO (0.027% of the Company's charter capital)
Yevgeny Miroshnichenko	36,435 shares in PJSC Inter RAO (0.00003% of the Company's charter capital)	34,488,435.00 shares in PJSC Inter RAO (0.0330% of the Company's charter capital)	03/14/2018: purchase of 62,640,000 shares in PJSC Inter RAO (0.06% of the Company's charter capital). 03/14/2018: sale of 28,188,000 shares in PJSC Inter RAO (0.027% of the Company's charter capital)
Valery Murgulets	36,435 shares in PJSC Inter RAO (0.00003% of the Company's charter capital)	34,488,435.00 shares in PJSC Inter RAO (0.0330% of the Company's charter capital)	03/14/2018: purchase of 62,640,000 shares in PJSC Inter RAO (0.06% of the Company's charter capital). 03/14/2018: sale of 28,188,000 shares in PJSC Inter RAO (0.027% of the Company's charter capital)

Name of Management Board member	Information about ownership of the Company's shares as of January 1, 2018	Information about ownership of the Company's shares as of December 31, 2018	Information about transactions with shares concluded in 2018
Pavel Okley	0 shares in PJSC Inter RAO (0% of the Company's charter capital)	34,452,000.00 shares in PJSC Inter RAO (0.0330% of the Company's charter capital)	03/14/2018: purchase of 62,640,000 shares in PJSC Inter RAO (0.06% of the Company's charter capital). 03/14/2018: sale of 28,188,000 shares in PJSC Inter RAO (0.027% of the Company's charter capital)
Dmitry Filatov	0 shares in PJSC Inter RAO (0% of the Company's charter capital)	40,640,000.00 shares in PJSC Inter RAO (0.0389% of the Company's charter capital)	04/26/2018: purchase of 62,640,000 shares in PJSC Inter RAO (0.06% of the Company's charter capital) 12/24/2018: sale of 15,000,000 shares in PJSC Inter RAO (0.0144% of the Company's charter capital) 12/25/2018: sale of 7,000,000 shares in PJSC Inter RAO (0.0067% of the Company's charter capital)
Yury Sharov	0 shares in PJSC Inter RAO (0% of the Company's charter capital)	34,452,000.00 shares in PJSC Inter RAO (0.0330% of the Company's charter capital)	03/14/2018: purchase of 62,640,000 shares in PJSC Inter RAO (0.06% of the Company's charter capital). 03/14/2018: sale of 28,188,000 shares in PJSC Inter RAO (0.027% of the Company's charter capital)
Alexandra Panina	0.05 shares in PJSC Inter RAO (0.0000000005% of the Company's charter capital)	0.05 shares in PJSC Inter RAO (0.0000000005% of the Company's charter capital)	03/14/2018: purchase of 31,320,000 shares in PJSC Inter RAO (0.03% of the Company's charter capital). 03/15/2018: sale of 31,320,000 shares in PJSC Inter RAO (0.03% of the Company's charter capital)
Alexey Maslov	20,494.00 shares in PJSC Inter RAO (0.00002% of the Company's charter capital)	20,494.00 shares in PJSC Inter RAO (0.00002% of the Company's charter capital)	03/14/2018: purchase of 31,320,000 shares in PJSC Inter RAO (0.03% of the Company's charter capital). 03/14/2018: sale of 31,320,000 shares in PJSC Inter RAO (0.03% of the Company's charter capital)

## Liability insurance

Based on best practices and recommendations of the Code, PJSC Inter RAO has provided liability insurance at its own expense for members of the Board of Directors, members of the Management Board, officials and companies, and officials and companies of the Inter RAO Group since 2011. Insurance aims to compensate potential losses resulting from damages to the Company or third parties by the actions of the insured persons when they carry out their management activities.

The insurer's liability limit (insured amount) under the existing liability insurance policy of directors, officers, and companies is USD 250 million. The contract is valid from July 15, 2018 until July 14, 2019. The insurance premium for the year is USD 249,000.

# CORPORATE CONTROL

## Risk Management and Internal Control Framework

The Group has introduced and employs a Risk Management and Internal Control Framework that encompasses key assets, business processes, lines of business, and all levels of the Group's management.

Detailed information about the operation of the RMICF is available in the Strategic Report in the 'Risk management and internal control' section.

## Internal audit functions

The internal audit division of the Inter RAO Group includes the Internal Audit Unit of PJSC Inter RAO (IAU) and the internal audit units of the Company's controlled entities. The IAU is functionally subordinate to the PJSC Inter RAO Board of Directors and administratively subordinate to the Chairman of the PJSC Inter RAO Management Board. The head of the IAU functionally coordinates the activities of the internal audit units of the controlled entities: LLC Inter RAO – Power Generation Management and JSC Mosenergosbyt.

### STRUCTURE OF THE INTERNAL AUDIT DIVISION OF THE INTER RAO GROUP

Legal entity	Structural unit
PJSC Inter RAO	Audit Department for Supply Assets and Trading of the Internal Audit Unit
PJSC Inter RAO	Engineering Audit Department of the Internal Audit Unit
LLC Inter RAO – Power Generation Management LLC	Technical Activities Audit Office
LLC Inter RAO – Power Generation Management LLC	Financial Audit Division
LLC Inter RAO – Power Generation Management LLC	Procurement Activities Audit Division
JSC Mosenergosbyt	Internal Audit Office

Main functions of the IAU:

- conducting audits of PJSC Inter RAO and its controlled entities
- assessing the effectiveness of the Risk Management and Internal Control Framework, including as regards countering and preventing corruption and assessing corporate governance

- consulting the Company's executive bodies on issues concerning risk management, internal control, and corporate governance
- organizing and engaging in interaction with the Company's external auditor as part of the exchange of information on the results of work and the discussions of activity plans
- researching and monitoring information about the subjects of audits in order to analyze the results of the fulfillment of the IAU's recommendations

## Self-assessment results

The internal audit division conducts a self-assessment each year when a report is prepared on the activities of the IAU. The results of the self-assessment conducted based on the 2018 results confirm that internal audit activities are generally consistent with the International Professional Practices Framework adopted by the Institute of Internal Auditors, including the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of the Institute of Internal Auditors. No circumstances have been identified that could have an impact on the scope and content of internal audits or prevent internal auditors from carrying out their duties.

## Results of work in 2018

The IAU carries out its activities in accordance with the work plan approved by the PJSC Inter RAO Board of Directors. The work plan for 2018 was fully implemented within the allotted time.

The priority areas of the IAU's activities are determined in accordance with the Company's objectives taking into account the results of a risk assessment. The audit plan encompasses all major segments of the Group's activities – supply, generation, trading, and engineering as well as the risks inherent therein. Based on the audit results, recommendations were made to eliminate the violations and shortcomings that were identified and corrective action plans were developed and approved by orders on the basis of these recommendations.

As part of its day-to-day monitoring activities, the internal audit division monitors the implementation of the corrective measures. The IAU works with inquiries received via a special information resource – the PJSC Inter RAO hotline.

The head of the IAU liaisons between the internal audit division and the Company's external auditor. IAU auditors and the Company's external auditors meet on a quarterly basis.

The IAU and the external auditor interact to:

- exchange information on the results of an effectiveness assessment of the Company's internal control system, including when preparing accounting (financial) statements
- hold discussions of external and internal audit plans

In 2018, the Audit Committee of the PJSC Inter RAO Board of Directors held three in-person meetings with the simultaneous participation of external auditors, internal auditors, and members of Company management concerning the review of the consolidated financial statements of PJSC Inter RAO, the results of the external audit of statements, an assessment of the independence, objectivity, and the lack of conflicts of interests among the external auditors, the identification of the Auditor's candidacy and the amount of payment for its services, the scope of Risk Appetite, the Critical Risk Map, and the Critical Risk Management Action Plan of the Inter RAO Group.

#### NUMBER AND FOCUSES OF AUDITS IN 2018

Type of measures	Number
Audits of PJSC Inter RAO and its subsidiaries	103
Effectiveness assessments:	5
<ul style="list-style-type: none"> <li>• the internal control system of the Inter RAO Group</li> <li>• the corporate risk management system of the Inter RAO Group</li> <li>• the risk management and internal control process in preventing and combating corruption at PJSC Inter RAO</li> <li>• corporate governance practices of PJSC Inter RAO</li> <li>• the internal control system of PJSC Inter RAO in accordance with the requirements of the Russian Federal Tax Service for those involved in tax monitoring</li> </ul>	
Monitoring the implementation of corrective measures based on the audit results	25
Consultations for management	15

#### Implementation of development programs for internal audit functions

As part of the implementation of the Program for Ensuring and Improving the Quality of Internal Audit, internal assessments resulted in the drafting and implementation of measures to improve the activities of the internal audit division and bring it into line with the requirements of the International Professional Standards and the Code of Ethics of the Institute of Internal Auditors. A plan is drafted each year to develop the internal audit function and is approved by the PJSC Inter RAO Board of Directors. The development plan for internal audit functions for 2018<sup>1</sup> has been fully implemented, including measures to develop the regulatory and methodological framework, automate internal audit activities as well as train and improve the professional skills of auditors.

<sup>1</sup> Minutes No. 212 dated November 1, 2017.

## Revision Commission

The Revision Commission is a permanent internal control body of the Company that regularly monitors the financial and economic activities of the Company, its separate units, the Company's management bodies, and the structural units of the Company's executive office for compliance with the legislation of the Russian Federation as well as the Company's Charter and internal documents.

The Revision Commission acts in the interests of the Company's shareholders and is accountable in its activities to the Company's General Meeting of Shareholders. When performing its activities, the Revision Commission is not dependent on the Company's management bodies or the heads of the structural divisions of the Company's executive office. The Company's Revision Commission is an elected body whose members are elected each year at the Company's Annual General Meeting of Shareholders.

The Revision Commission is guided in its activities by the laws of the Russian Federation, the Company's Charter, this Regulation, and other internal documents of the Company that are approved by the Company's General Meeting of Shareholders.

### MEMBERS OF THE REVISION COMMISSION

Name	Position held as of December 31, 2018
Gennady Bukayev	PJSC Rosneft Oil Company, Vice President and Head of the Internal Audit Service, Chairman of the Revision Commission
Tatyana Fisenko	Ministry of Energy of the Russian Federation, Director of the Budget Planning and Accounting Department
Svetlana Kovaleva	PJSC Federal Grid Company of the Unified Energy System, Internal Audit Director and Head of the Internal Audit Department
Igor Feoktistov	PJSC Federal Grid Company of the Unified Energy System, Internal Control Director
Tatyana Zaltsman	PJSC Inter RAO UES, Head of the Economic Planning Department

## Results of activities

The Revision Commission of PJSC Inter RAO is a permanently elected body that monitors the Company's financial and economic activities in accordance with the Charter and the Regulation on the Revision Commission. The members of the Revision Commission are elected annually at the Annual General Meeting of Shareholders for a term that runs until the next Annual General Meeting of Shareholders.

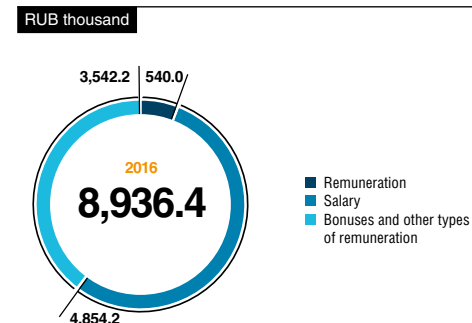
In 2018, the Audit Commission conducted an audit of PJSC Inter RAO for 2017. Based on this audit, an audit report and an opinion were submitted to shareholders as part of materials for the Annual General Meeting of Shareholders. In addition, two meetings were held in 2018 at which the following was determined: the program and timeframe of the audit of the financial and economic activities of PJSC Inter RAO for 2018; deadlines for submitting materials for verification as well as organizational issues concerning the commission's activities.

## Mechanisms to improve work

At present, the procedure used to form the Revision Commission is consistent with best practices in this field, is transparent, and is under the control of shareholders. Members of the Revision Commission are elected through direct voting at the Annual General Meetings of Shareholders taking into account the qualifications, work experience, and other data presented in the applications of candidates. Considering that the heads of the internal audit services of leading industry companies and heads of financial and economic departments of PJSC Inter RAO are invited to work on the Revision Commission of PJSC Inter RAO, there are no plans to create additional mechanisms to improve the work of the Revision Commission.

## Remuneration for members of the Revision Commission

### REMUNERATION PAID TO MEMBERS OF THE REVISION COMMISSION FOR 2018



## Settling conflicts of interest

The Company devotes special attention to preventing potential or actual conflicts of interest among individuals who are members of management and control bodies as well as the Company's employees with the interests of the Inter RAO Group.

In accordance with Article 82 of the Federal Law "On Joint Stock Companies," members of the Board of Directors and the Management Board regularly notify the Company about any signs of possible interest in transactions concluded by the Company. The Company communicates this information to the Board of Directors and the Revision Commission and it is taken into account when planning transactions.

According to clause 6 of Article 85 of the Federal Law "On Joint-Stock Companies," the Company's shares that belong to members of the Board of Directors and the Management Board are not involved in voting when electing members of the Company's Revision Commission.

The Board of Directors has approved the Regulation on the Procedure for Employees to Notify the Employer of a Conflict of Interest or the Possibility of Such a Conflict, which establishes:<sup>1</sup>

- the procedure whereby an employee notifies the employer (PJSC Inter RAO) about being contacted by any individuals for the purpose of being persuaded to commit corruption offenses or about a conflict of interest/the possibility of a conflict of interests and measures to prevent or resolve the conflict of interest that the employee and the employer must take
- the procedure whereby the Board of Directors accepts and considers notifications from the Chairman of the Management Board about any persons who have contacted him for the purpose of being persuaded to commit corruption offenses or about the occurrence of a conflict of interest or the possibility of its occurrence
- the procedure whereby the Chairman of the Board considers notifications about a member of the Management Board, head of directly subordinate structural units, or the chief accountant being contacted by any persons for the purpose of being persuaded to commit corruption offenses or about the occurrence of a conflict of interest or the possibility of its occurrence

The Code of Corporate Ethics of PJSC Inter RAO establishes the main duties of persons who are members of the Company's management bodies to prevent conflicts of interest:

- members of the Management Board must obtain prior written consent from the Chairman of the Management Board to conclude a transaction with the Company's securities prior to any transaction involving the Company's securities. The Chairman of the Management Board and members of the Company's Board of Directors must obtain prior written consent from the Chairman of the Board of Directors. The Chairman of the Board of Directors must obtain prior written consent from the Chairman of the Company's Management Board
- if circumstances occur whereby these persons may be recognized as interested in the Company concluding transactions, they are required to inform the Company about this in the manner prescribed by the legislation of the Russian Federation and the Company's internal documents<sup>2</sup>
- these individuals must refrain from having employment or civil law relations with a competitor, participating in a competing organization in order to prevent financial or other connections or dependencies that could potentially give rise to a conflict of interest, or receiving gifts, services, or other benefits of both a financial and non-financial nature, not have contact with persons or organizations who have business relations with the Company or seek to have such relations, and ensure the repayment to the Company of bonus payments that are wrongly received, among other obligations

<sup>1</sup> Minutes No. 167 dated May 4, 2016 (with amendments dated December 20, 2018 (Minutes No. 236 dated December 24, 2018)).

<sup>2</sup> The form for providing notification about signs of a company's possible interest in a transaction is described in the Regulation on the PJSC Inter RAO Board of Directors.

## Compliance

The goals, objectives, principles, and main processes of compliance are defined in the Group's Compliance Policy:<sup>1</sup>

- minimizing the risks of negative consequences associated with the imposition of corrective actions on companies of the Inter RAO Group for the failure to comply with legal requirements, regulatory requirements, and the principles of ethical business conduct in the markets where the companies operate as well as generally accepted standards of business ethics
- doing business in compliance with the standards of the Group's business ethics and values
- creating and introducing a culture of compliance at the Group's companies
- analyzing and preventing situations in which the failure to comply with legal requirements, regulatory requirements, and principles of ethical business conduct is possible

The key focus of the compliance system is countering fraud and corruption as well as antimonopoly compliance.

### Anti-fraud and corruption

The Company employs an Anti-Fraud and Corruption Policy,<sup>2</sup> which is the underlying document used to coordinate the activities among the employees of the Group's structural units and companies in an effort to prevent, detect, and suppress illegal fraud and corruption at the Group and ensure the security of its business processes.

Activities to combat fraud and corruption are systematic for the Group and are integrated into strategic and operational management at all levels. The Policy encompasses all companies within the Group, units, and employees of companies within the Group as they perform their functions within any business process.

#### Goals of the Policy:

- to provide members of the Board of Directors, Chairman of the Management Board, members of the Management Board, heads of structural units, employees of the Company, members of management bodies, and employees of the Group's companies with a uniform understanding of the zero tolerance policy for fraud and corruption in any form or manifestation and to form an anti-corruption mindset that refuses to tolerate corruption among the workforce

- to eliminate fraud and corruption in the Group's activities, develop and implement diverse and consistent measures to prevent and combat fraud, prevent and eliminate (minimize) the causes of and conditions that lead to corruption as well as detect and disclose corruption offenses and fraud

#### Main goals of implementing the Policy:

- to inform employees of the Group's companies about the requirements of anti-corruption legislation, measures taken at the Group to combat fraud and corruption, and training on the procedure and rules for their use in their daily activities
- to require employees to know and comply with the principles and requirements of the Policy and the key rules of legal and anti-corruption legislation
- to create a system of internal regulatory documents, measures, and mechanisms to counter any forms and manifestations of fraud and corruption and also ensure the optimal performance of this system
- to minimize the risk of members of the management bodies and employees of the Group becoming involved in fraudulent or corrupt activities regardless of their position, work experience, status, or other relations with the Group
- to identify, suppress, disclose, and investigate corruption offenses and fraud, minimize or eliminate their consequences, and take measures to prevent them in the future

#### Implementation of the Anti-Corruption Practices Management Program

When hiring new employees, the HR Management and Organizational Development Unit provides them with a fundamental awareness of the main provisions of the Anti-Fraud and Corruption Policy.

The Economic and In-House Security Unit conducts briefings to train all newly hired employees about the practical implementation of the requirements of the Anti-Fraud and Corruption Policy.

Heads of the Company's structural units periodically inform their employees about the requirements of anti-corruption legislation and the measures taken by the Company to combat corruption. In addition, when employees engage in functions that are fraught with corruption risks, they are given an additional explanation of the legislative requirements of the Russian Federation and internal policies with respect to the specific situation at hand.

<sup>1</sup> Approved by a resolution of the PJSC Inter RAO Board of Directors dated December 20, 2018 (Minutes No. 236 dated December 24, 2017).

<sup>2</sup> Minutes No. 180 of a meeting of the Board of Directors dated October 3, 2016 (with amendments dated December 20, 2018 (Minutes No. 236 dated December 24, 2017)).



The Company's employees are trained at specialized training centers with the involvement of external consultants in order to maintain and enhance their knowledge and skills in countering corruption.

### Feedback system – a hotline for employees and an incident response system

The Company has a hotline to combat corruption that is designed to obtain information about potential or past instances of corruption, fraud, embezzlement, violations during procurement procedures, abuses of official position, misuse of power by officials, or other actions that cause or may cause material damage or harm to the Company's business reputation. This information resource may be used both by employees of the Inter RAO Group's companies and any other complainant.

The hotline procedure involves independent verification of the claims made in the complaints (including anonymous complaints), the preparation of a report, and its provision to the concerned parties.

### Results

Over the course of 2018, meetings of the Board of Directors, committees, and the Management Board considered seven issues with respect to combating corruption and fraud:

- the approval of a new version of the Compliance Policy of PJSC Inter RAO<sup>3</sup>
- the approval of the Internal Audit Unit's reports on the effectiveness assessment of internal control systems, risk management, corporate governance, and the risk management and internal control process in terms of preventing and combating corruption<sup>4</sup>
- the consideration of the PJSC Inter RAO Report on the Introduction, Discipline of Executing, and the Operational Effectiveness of Procedures for the Organization of the Risk Management and Internal Control Framework for Countering and Preventing Corruption in 2017 (Report on the Operation of the Fraud and Corruption Prevention System)<sup>5</sup>
- the approval of a new version of the Code of Corporate Ethics of PJSC Inter RAO<sup>6</sup>
- the approval of amendments to the Regulation on the Procedure for Employees to Notify the Employer of a Conflict of Interest or the Possibility of Such a Conflict at PJSC Inter RAO<sup>7</sup>
- the approval of amendments to the Anti-Fraud and Corruption Policy of PJSC Inter RAO<sup>8</sup>

<sup>3</sup> Considered at a meeting of the Board of Directors on January 31, 2018.

<sup>4</sup> Considered at a meeting of the Board of Directors on March 30, 2018.

<sup>5</sup> Considered at a meeting of the Board of Directors on March 30, 2018.

### STATISTICS ON HOTLINE CALLS

Indicator	2016	2017	2018
Total number of hotline calls	241	163	248
Share of calls related to corruption and fraud in the total volume of calls received by the Group's hotline	7.50% (18 calls of which 0 were substantiated)	11% (18 calls of which 1 was substantiated)	6.90% (17 calls of which 0 were substantiated)

### Current corruption risks identified in the risk assessment process and mechanisms to manage them

Corruption risk implies the risk of possible losses due to manifestations of corruption in the Company's activities caused by the components of an offense, the imposition of penalties and sanctions against the Company and the officials involved as well as diminished trust in the Group's business reputation and the discrediting of its brand in the public space.

The priority in the activities of the Company and its controlled entities is to preclude any possibility of precedents involving signs of corruption offenses and to maintain a sense of commitment to the highest ethical values among the Group's employees.

In an effort to prevent manifestations of corruption in the Group's activities, PJSC Inter RAO and its subsidiaries work on identifying and assessing corruption risks at the operational level on an annual basis in accordance with the Methodology for the Identification and Evaluation (Analysis) of Corruption Risks.

The Company has adopted the indicator 'Absence of Precedents (Confirmed Facts) of Manifestations of Corruption in the Reporting Period (Year)' as an attribute characteristic of risk appetite in terms of corruption risk. The target value of the indicator is: 'Number of Precedents (Confirmed Facts) of Manifestations of Corruption in the Reporting Period (Year) Equal to Zero.'

PJSC Inter RAO and its subsidiaries have approved a list of functions that are fraught with the risk of corruption (fields/activities subject to corruption risks) and a list of positions that pose a corruption risk. In accordance with the Anti-Fraud and Corruption Policy, PJSC Inter RAO annually approves a plan for the drafting, implementation, and enforcement of measures that aim to prevent and combat corruption. All measures envisaged by the plan for 2018 have been implemented.

<sup>6</sup> Considered at a meeting of the Board of Directors on November 30, 2018.

<sup>7</sup> Considered at a meeting of the Board of Directors on December 20, 2018.

<sup>8</sup> Considered at a meeting of the Board of Directors on December 20, 2018.

**PERCENTAGE OF UNITS AT WHICH CORRUPTION-RELATED RISKS WERE ASSESSED**

2016	2017	2018
-	100	100

The Inter RAO Group employs the methodology 'Identification and Assessment (Analysis) of Corruption Risks,' which was approved by Order No. IRAO/618 dated December 29, 2016. Corruption risk assessments have been carried out at all (100%) of the Group's divisions starting from 2017. From 2016 to 2018, there were no confirmed cases within the companies of the Group of contracts with business partners not being renewed or terminated due to corruption-related violations.

In order to develop an anti-fraud and corruption system, the Economic and In-House Security Unit developed a new method in 2018 to monitor the implementation of the Anti-Fraud and Corruption Policy.<sup>1</sup> The new approach revealed 699 cases with potential signs of the risk of corruption or fraud. There were 234 cases where employees were subject to disciplinary action due to the violation of the requirements of internal regulatory documents, including those related to signs of corruption or fraud.

In 2018, the Company's employees were trained in anti-corruption legislation and the measures and requirements adopted by the Company to prevent and combat corruption. An outside lecturer was brought in to conduct a lesson to train the Company's employees on how to combat corruption in order to maintain their knowledge and skills. Twenty of the Company's employees underwent training, including employees who hold positions that are fraught with corruption risk.

The heads of all the Company's divisions have made arrangements for the periodic briefing of employees about measures and requirements taken by the Company to prevent and combat corruption and the obligations of employees to meet these requirements. In 2018, two to four briefings were held (depending on the division).

The duty of an employee of the Group to immediately inform the head of the HR Management and Organizational Development Unit and/or the head of the Security Unit about any violations of laws and internal regulatory documents concerning anti-corruption of which the employee has become aware or which are being prepared is set forth in the Code of Ethics of PJSC Inter RAO: [https://www.interrao.ru/upload/doc/Kodeks\\_korp\\_etiki.pdf](https://www.interrao.ru/upload/doc/Kodeks_korp_etiki.pdf).

During the reporting period, three criminal cases associated with corruption or fraud were initiated against employees of the Group's companies. Two convictions were handed down against employees of the Group's companies in criminal cases initiated in 2018 during the reporting period. In 2019, two convictions were handed down against employees of the Group's companies (the criminal cases had been initiated in 2017 and 2018).

## Antimonopoly compliance

The main goal of antimonopoly compliance (AMC) is to minimize antimonopoly risks, which are critical for Inter RAO given the holding's activities, reduce the negative economic and reputational effect of their materialization, and take timely response measures.

The antimonopoly compliance system is designed to create conditions at Inter RAO that motivate each of its employees to engage in self-control and self-discipline, thereby making any antimonopoly violations virtually impossible.

**Management tools:**

approval of antimonopoly risk maps and action plans for their management;  
identification of violations of antimonopoly laws and response;  
conducting scheduled and unscheduled inspections;  
conducting training;  
approval of reports on the functioning of the AMC system.

**Anticipated result:**

introducing uniform mechanisms for the functioning of the system throughout the Group;  
instilling an antimonopoly compliance culture at the Group;  
minimizing the risks of violation of antimonopoly laws.

As part of the introduction of antimonopoly compliance, Inter RAO has drafted and approved:

- A new version of the Compliance Policy
- The Antimonopoly Compliance Policy
- The Regulation on the Antimonopoly Compliance Commission
- The Antimonopoly Risk Map
- A work plan for the antimonopoly compliance unit

<sup>1</sup> Given the fact that an additional list of criteria was used for the analysis of annual indicators in 2018, similar information for 2016–2017 was not calculated. In order to comply with the principle of comparable data, the Company intends to use the updated approach to collect and process data in the next reporting period.

## External audit

In accordance with the legislative requirements of the Russian Federation, the Company's auditor conducts an audit of the Company's financial and economic activities based on an agreement with the auditor. The Company's auditor is approved by the General Meeting of Shareholders. The criteria and procedure for selecting an auditor as well as the rules for the rotation of the leaders of the audit are governed by the Policy for Interaction with the External Auditor of PJSC Inter RAO.

In August 2015, closed competitive negotiations were held to select a single auditor candidate for 2016, 2017, and 2018. LLC Ernst & Young was selected as the winner during the closed competitive negotiations.

At the Annual General Meeting of Shareholders of PJSC Inter RAO held on May 21, 2018, a resolution was adopted to approve the candidate proposed by the Board of Directors as the auditor for 2018.

At the Annual General Meeting of Shareholders of PJSC Inter RAO on March 15, 2018, the Board of Directors proposed approving LLC Ernst & Young as the Company's auditor based on the following terms:

- the cost of the audit services for the consolidated financial statements of PJSC Inter RAO and its subsidiaries for 2018 in accordance with International Financial Reporting Standards (IFRS) will amount to RUB 20,400,000 (twenty million four hundred thousand rubles) excluding VAT
- the cost of services for conducting a review of the interim financial information of PJSC Inter RAO and its subsidiaries prepared in accordance with IFRS for the three months ending March 31, 2018 will amount to RUB 4,700,000 (four million seven hundred thousand rubles) excluding VAT
- the cost of services for the review of the interim financial information of PJSC Inter RAO and its subsidiaries prepared in accordance with IFRS for three and six months ending June 30, 2018 will be RUB 4,400,000 (four million four hundred thousand rubles) excluding VAT

- the cost of services for the review audit of the interim financial information of PJSC Inter RAO and its subsidiaries prepared in accordance with IFRS for three and nine months ending September 30, 2018 will amount to RUB 4,400,000 (four million four hundred thousand rubles) excluding VAT
- the cost of services for the audit of the annual accounting statements of PJSC Inter RAO for 2018 prepared in accordance with Russian Accounting Standards (RAS) will amount to RUB 900,000 (nine hundred thousand rubles) excluding VAT

On February 28, 2019, the Audit Committee reviewed a report containing a description of audit and other services provided to all companies that are part of the group of entities of PJSC Inter RAO and companies that are part of a single network of audit organizations along with the Company's Auditor for 2018. According to the report, the cost of non-audit services provided by the auditor and its affiliates make up 18.75% of the total cost of the auditor's services.

In order to enhance the efficiency of both external and internal audit activities, external auditors actively interact with the Internal Audit Unit (IAU).

On February 27 and 28, 2019, the Audit Committee considered an assessment of the auditor's opinions and the quality of the audit, and the external audit process was deemed to be effective.



**ENERGY**  
**WITHOUT BORDERS**

**HIGH**

**BUSINESS**

**ETHICS**

**STANDARDS**

// **SHAREHOLDER  
AND INVESTOR  
ENGAGEMENT**

# SHARE CAPITAL

PJSC Inter RAO has charter capital of RUB 293,339,674,800, which is split into 104.44 billion ordinary shares with par value of RUB 2.809767 each. The shares are included in the First Tier of the List of Securities that are permitted to trade on PJSC Moscow Exchange, the exchange's highest tier. As of December 31, 2018, PJSC Inter RAO had no preferred shares.

The Russian Federation, as represented by the Federal Agency for State Property Management, owns 493.69 ordinary shares (0.0000005% of charter capital). The Russian Federation has no special right to manage the Company ("golden share").

PJSC Inter RAO had a total of 354,745 shareholders as of December 31, 2018, including 351,968 individuals.

The proportion of quasi-treasury shares<sup>1</sup> owned by JSC Inter RAO Capital is 29.39%.

The changes in the share ownership proportion of PJSC FGC UES from 18.57% to 9.24% and the RusHydro Group from 4.92% to 0% resulted from transactions involving the purchase and sale of PJSC Inter RAO shares.

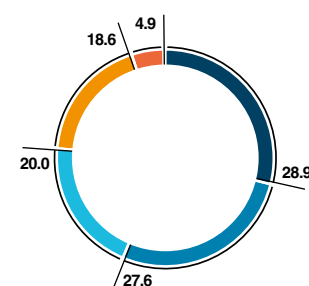
The change in the proportion of share ownership of JSC Inter RAO – Capital from 19.98% to 29.39% resulted from transactions involving the purchase and sale of PJSC Inter RAO shares and the implementation of a long-term incentive program for the management of the Inter RAO Group.

The increase in the proportion of free-float from 28.91% to 33.74% resulted from the sale of shares in PJSC Inter RAO by the Company's management as part of an organized transaction (ABB) to a wide range of investors and the sale of shares in PJSC Inter RAO by PJSC FGC UES to independent financial investors.

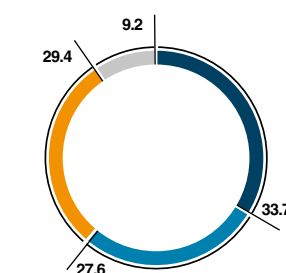
## STRUCTURE OF SHARE CAPITAL

%

AS OF DECEMBER 31, 2017



AS OF DECEMBER 31, 2018



## INFORMATION ABOUT END BENEFICIARIES AS OF DECEMBER 31, 2018

Individual or company name	End beneficiary	Number of shares	
		Total	% of charter capital
Russian Federation as represented by the Federal Agency for State Property Management	Russian Federation	493.69	0.0000005
Rosneftegaz Group		28,844,020,032.02	27.63
PJSC FGC UES		9,645,411,162.04	9.24
Company shareholders that are part of the Inter RAO Group		30,682,012,746.24	29.39
Other shareholders (shares in free-float)		35,228,555,566.01	33.74
<b>TOTAL</b>		<b>104,400,000,000</b>	<b>100.00</b>



More details are available on the Group's website in the 'Press Center' section. <https://www.interrao.ru/press-center/>

<sup>1</sup> In accordance with the Group's Development Strategy until 2020, PJSC Inter RAO shares that are owned by JSC Inter RAO Capital may be used for sale to a major international strategic investor or group of financial investors with a potential increase in free-float and other transactions that aim to enhance the Group's investment appeal.

### Option program

A transaction was concluded to sell 1.14% of the Company's shares in March 2018 through an accelerated bookbuild (ABB) as part of the implementation of a management option program.

The transaction resulted in the sale of 1.19 billion ordinary shares at a price of RUB 3.48 per ordinary share for a total of approximately RUB 4.15 billion.

Additional information on the option program is available in the 'Option Program' section.

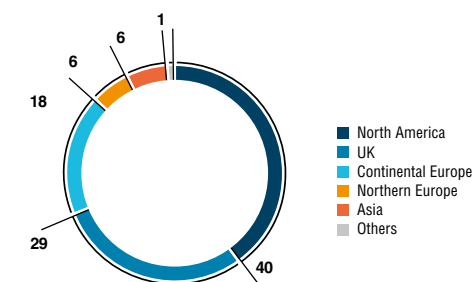
### Buyback of treasury shares from the RusHydro Group and the FGC UES Group

The Company concluded transactions to acquire RUB 41.7 billion worth of treasury shares from RusHydro and FGC UES. Consolidating the block of treasury shares enabled the Company to optimize its share capital structure and increase the weight of anchor strategic shareholders with a clear vision for the Group's development path, which has historically provided support to the Inter RAO Group's business and allowed for achieving synergy in most of its businesses.

The investment community considers these transactions to buy back treasury shares as "the best investment opportunity in the Russian Federation" and noted that "management has made significant progress towards utilizing idle cash with a clearer policy of capital management, which has made it possible to partially unlock the value of cash held on the balance sheet."

### Shares in free-float

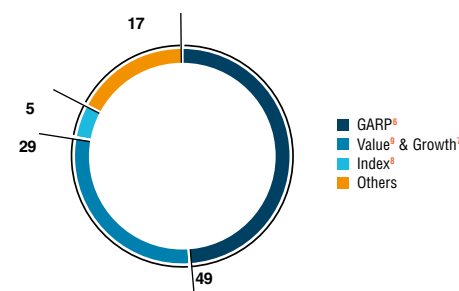
#### GEOGRAPHIC BREAKDOWN OF SHARES IN FREE FLOAT AMONG FOREIGN INVESTORS<sup>2</sup> AS OF 12/31/2018<sup>3</sup>



# 33.74%

shares in PJSC Inter RAO are in free-float.<sup>1</sup>

#### BREAKDOWN OF SHARES IN FREE-FLOAT BY INVESTOR AS OF 12/31/2018<sup>4,5</sup>



<sup>1</sup> The number of shares in free-float is determined based on an analysis of the share capital ownership structure by subtracting the number of shares not in free-float from the total number of the Issuer's shares. The calculation is made in accordance with the Listing Rules of PJSC Moscow Exchange and the approved Methodologies for calculating the free-float ratio.

<sup>2</sup> Including the Middle East, Pacific region, and Central America

<sup>3</sup> Based on data disclosed in an independent study of the shareholder base for foreign investors on February 7, 2019.

<sup>4</sup> Other types of investors.

<sup>5</sup> Based on data disclosed in an independent study of the shareholder base on February 7, 2019.

<sup>6</sup> GARP (Growth at Reasonable Price). An investment strategy that consists of a combination of investment in value and growth.

Fund managers using this approach are looking for companies that are undervalued and have solid growth potential.

<sup>7</sup> Growth. An investment approach that aims to achieve capital gains by investing in stock growth. Fund managers using this method focus on companies that are experiencing a significant increase in revenue or profits and not on companies that pay dividends.

<sup>8</sup> Index Fund. A passively managed mutual fund that attempts to reflect the effectiveness of a particular index by keeping all the securities in that index in the same proportion.

<sup>9</sup> Value. The value of the Fund investing in companies that, in its opinion, are undervalued on the market.

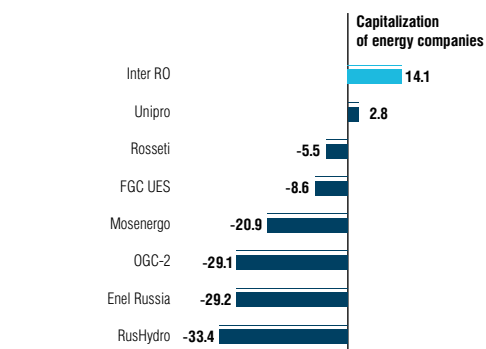
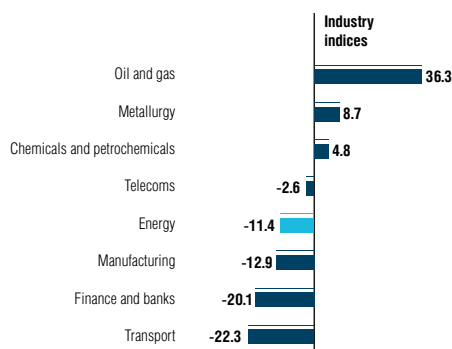
## Shares and listing

### MOSCOW EXCHANGE

Number of ordinary shares	104,400,000,000
Nominal value of share, rubles	2.809767
Total nominal value of the issue, rubles	293,339,674,800
ISIN	RU000A0JPNM1
State registration number	1-04-33498-E
Trading platform	MOEX
Trading start date	12/01/2009
Quotation list	First tier
Exchange code (MOEX)	IRAO
Bloomberg ticker	IRAO RX
Thomson Reuters Eikon ticker	IRAO MM

### INCLUSION OF INTER RAO SHARES IN INDICES

Index name	Ticker	Weight of Inter RAO securities in index, %	
		12/31/2017	12/31/2018
MOEX Index (composite index)	MICEXINDEXCF	1.11	1.36
Moscow Exchange Electric Power Industry Index	MICEXPWR	14.25	14.60
Broad Market Index	MICEXBMI	1.05	1.16
RTS Index	RTSI	1.21	1.42
FTSE Emerging	AWALLE	0.004	0.05
FTSE Russia	WIRUS	0.87	1.19
FTSE All-World	AWORLD5	0.039	0.01
FTSE4Good Emerging	F4GEM	0.068	0.09
MSCI Russia	MXRU	1.02	0.9
MSCI Emerging Markets	MXEM	0.034	0.04
MSCI ACWI Index	ACWI	0.004	0.004
RUSSIA ESG LEADERS	-	3.94	3.25
S&P Russia BMI	SRUU	0.90	0.91
Dow Jones Russia	DJRUSGD	0.89	0.88
Nasdaq Russia	NQRU	1.60	1.40
Nasdaq AlphaDEX Emerging Markets	NQDXEM	0.99	1.09
Market Vectors Russia Index (Van Eck)	MVRSX	1.88	2.38
STOXX Russia Total Market	TCRUP	1.15	0.79
STOXX Optimised Russia	EEORGT	1.90	1.38

**OVERVIEW OF STOCK INDICES AND CHANGES IN CAPITALIZATION OF ENERGY COMPANIES**


In 2018, there were a number of negative events on global stock exchanges that contributed to a decline in the majority of world stock indices.

Trade tensions between the world's largest economies, heightened risks, and volatility on financial markets gave rise to capital outflow in emerging markets.

Nevertheless, Russian GDP increased from 1.6% to 2.3% in 2018, while industrial production growth accelerated from 2.1% to 2.9%. All major industries demonstrated positive dynamics.

Growth continued in the mining and processing industries, and the electric power and water supply industries resumed growth after a slump in 2017.

As a result, the yield of the Moscow Exchange index grew by 12.3%.

In terms of different sectors, oil and gas companies showed the best dynamics due to higher oil prices and anticipated growth in dividend payments.

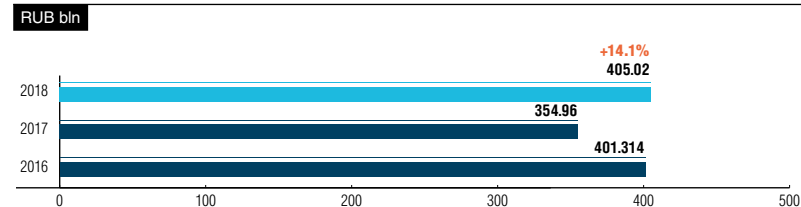
Energy ranked fifth among the sectoral indices.

The economy of specific issuers as well as important corporate news had the biggest effect on the index dynamics of energy companies.



## Capitalization

### CAPITALIZATION OF PJSC INTER RAO



## Depository receipts

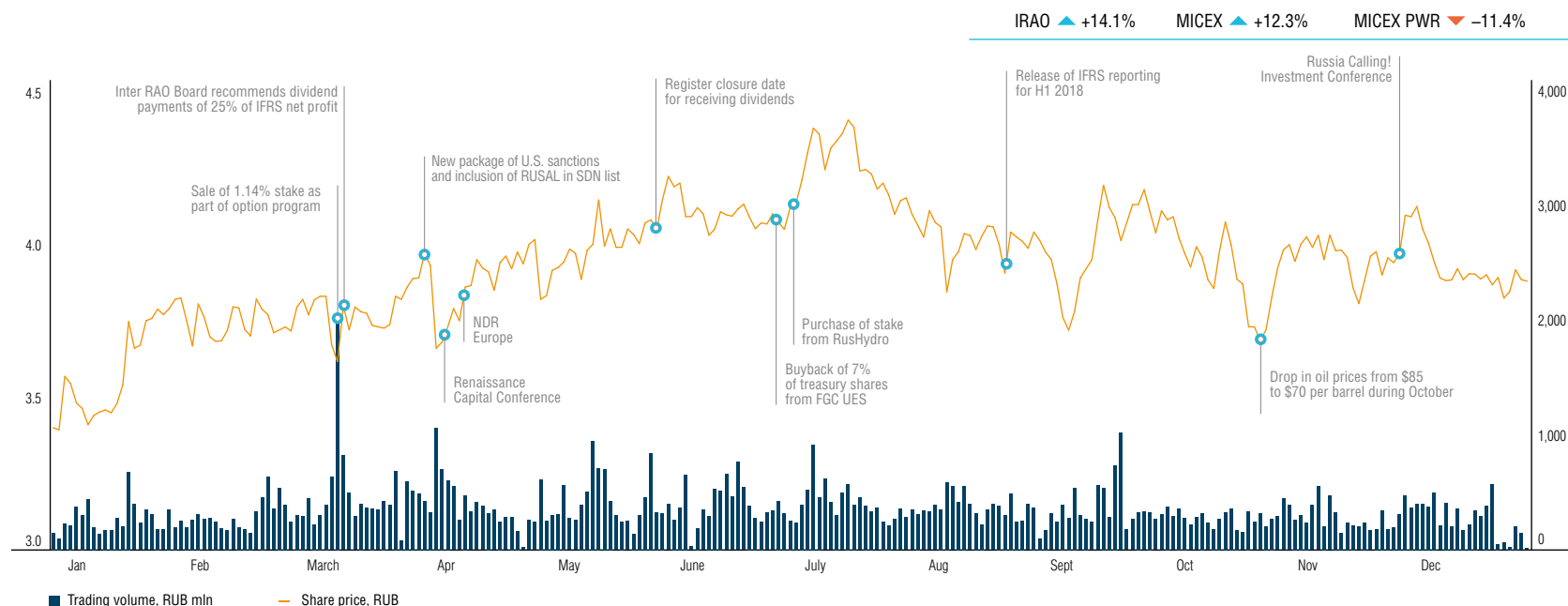
In 2008, PJSC Inter RAO, together with the Bank of New York Mellon, acting as a depository bank, opened a program for global depository receipts issued for the Company's shares according to Regulation S and Rule 144A (1 GDR = 100 ordinary shares). Considering the substantial share of foreign investors in PJSC Inter RAO, the Company provides simultaneous disclosure in English through the information disclosure service authorized by the UK regulator.



More detailed information is available on the website:  
<https://www.londonstockexchange.com/exchange/searchengine/news/search.html?q=IRAO>



### CHANGES IN PJSC INTER RAO SHARE QUOTATIONS ON PJSC MOSCOW EXCHANGE IN 2018



## Interaction with the investment community

### Interaction with investors

Inter RAO uses a wide range of channels to interact with shareholders and investors. The Group's management is committed to improving the quality of voluntary disclosure.

In an effort to improve information transparency as part of webcasts, representatives of the Group's management not only disclose financial statements, but also financial forecasts and plans, present a quarterly report on measures that have been taken to improve operating efficiency in key segments, highlight key and relevant market trends, and answer questions from investors and analysts. The Company's Investor Relations Service is in constant contact with investors and analysts via telephone, email as well as alternative platforms for interacting with the investment community. Representatives of the Company were awarded the following awards based on the results of independent voting: Best Investor Relations in the Russian Utilities Sector (2015, 2016, and 2017) and the Emerging EMEA Utilities Sector (2018).

Inter RAO is the most transparent and open company in the sector, a fact that is highly appreciated by representatives of the investment community.

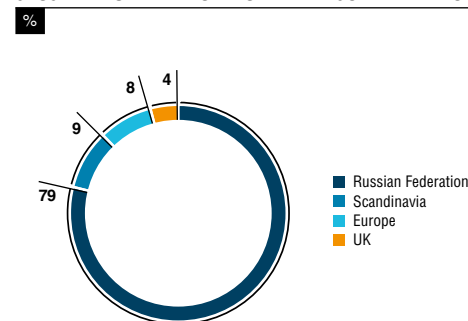
In 2018, management continued to enhance the appeal of investing in Inter RAO shares. The actions taken by management are regularly communicated to the investment community as part ongoing IR activities.

In 2018, 139 meetings were held with Russian and foreign investors. The format of the meetings included Investor Day, site visits, non-deal road-shows, webcasts, and conference calls. Meetings were held with representatives of major global European and Russian investment funds, including:

- Blackrock (USD >4.3 trillion)
- Amundi Asset Management (USD >900 billion)
- Abu Dhabi Investment Authority (USD >770 billion)
- T Rowe Price (USD >765 billion)
- Morgan Stanley Investment Management (USD >471 billion)
- Schroders (USD >462 billion)
- Pictet & CIE (USD >437 billion)
- Aberdeen (USD >395 billion)
- Fiera Capital (USD >143 billion)

Most of the meetings with investors were held at conferences in the Russian Federation, primarily in Moscow.

### GEOGRAPHIC BREAKDOWN OF MEETINGS WITH INVESTORS



### Interaction with analysts

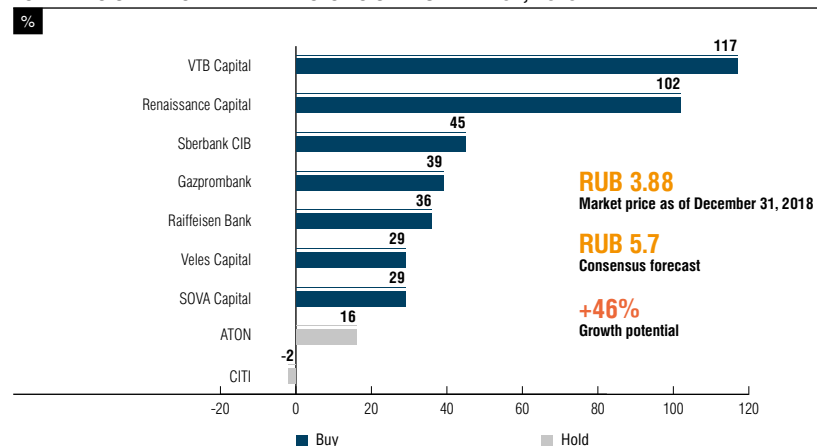
Analytical coverage of PJSC Inter RAO in 2018 was provided by nine experts from leading Russian and international banks who worked on updating financial models, and most of them raised their target prices and recommendations for PJSC Inter RAO shares. In 2018, major international and local banks such as VTB Capital, Sova Capital, and Gazprombank initiated and resumed their coverage of Inter RAO.

**THE CURRENT ESTIMATES OF INVESTMENT ANALYSTS ARE AVAILABLE ON THE WEBSITE**

as of December 31, 2017					as of December 31, 2018				
Company	Analyst	Recommendation	Target price	Date	Analyst	Recommendation	Target price	Date	
Gazprombank	Matvey Tayts	Buy	3.7	12/26/2017	Igor Goncharov	Buy	5.4	12/25/2018	
Aton	Alexander Kornilov	Hold	4.5	12/13/2017	Alexander Kornilov	Hold	4.5	12/13/2018	
VTB Capital	Vladimir Sklyar	Revise	-	12/18/2017	Vladimir Sklyar	Buy	8.4	12/10/2018	
Raiffeisen	Fedor Kornachev	Hold	4.6	06/14/2017	Sergey Garamita	Buy	5.3	12/07/2018	
Veles Capital	Alexey Adonin	Buy	4.6	09/27/2017	Alexey Adonin	Buy	5	11/15/2018	
Sberbank CIB	Igor Vasilyev	Buy	4.4	10/24/2016	Fedor Kornachev	Buy	5.6	06/13/2018	
CITI	Agarval Nitesh	Hold	3.7	11/21/2017	Agarval Nitesh	Hold	3.8	-03/29/2018	
BCS	Igor Goncharov	Buy	4.6	12/22/2017	-	-	-	-	
Renaissance Capital	-	-	-	-	Sergey Beyden	Buy	7.9	12/07/2018	
Sova Capital	-	-	-	-	Matvey Tayts	Buy	5	08/17/2018	
Consensus forecast			4.7				5.7		

Source: Bloomberg

**ESTIMATES OF INVESTMENT ANALYSTS AS OF DECEMBER 31, 2018**



Investment bank analysts have high praise for the development potential of the Inter RAO Group and believe it is undervalued and has the greatest potential compared with other companies in the energy industry.

**Renaissance Capital**

In the medium term, the Company has fairly high potential for growth in retail and trading, but the generating business will remain the main source of revenue. We see fundamentally strong prospects in its shares and believe that the market undervalues the Company due to its net cash position.

**Raiffeisen**

At present, the Company's shares are the most undervalued in the sector (the projected EV/EBITDA multiplier in 2019 is 1.3x; for comparison, Enel Russia's is 3.5x and RusHydro's is 2.7x)

**Gazprombank**

We believe accumulating financial resources is a reasonable approach in the current conditions, especially considering the high-yield investment opportunities under the auspices of the modernization program. We maintain a positive outlook for the shares due to good balance sheet indicators and the high yield of free cash flow (> 20%).

### VTB Capital

The Company's current strategy is calculated until 2020, and all the key objectives in it have been fulfilled. We maintain our target price for Inter RAO shares for the next 12 months at the level of RUB 8.4 rubles, which corresponds to growth potential of 117%.

### Events for investors and analysts in 2018

#### Q1

- Webcast/conference call for investors and analysts on the Group's operational and financial performance for 2017 (Moscow)

#### Q2

- Participation in the Exchange Forum and meetings with investors at the annual Renaissance Capital Conference (Moscow)
- Road shows (London, Stockholm, Frankfurt, and Vienna)
- Webcast/conference call for investors and analysts on the Group's operational and financial performance for Q1 2018 (Moscow)
- Site visit to a supply asset on the theme 'Innovative development of the supply business using the example of the Inter RAO Group's supply assets' (Moscow)

#### Q3

- Webcast/conference call for investors and analysts on the Group's operational and financial performance for H1 2018 (Moscow)
- Participation in the annual Prosperity Conference (Moscow)
- Road shows (Tallinn, Helsinki, Frankfurt, and Stockholm)
- Meetings with investors at the ATON Energy Day annual conference (Moscow)

#### Q4

- Participation in the Russia Calling! VTB Capital annual investment conference (Moscow)
- Webcast/conference call for investors and analysts on the Group's operational and financial performance for 9M 2018 (Moscow)
- Investor Day, site visit to the Sochinskaya TPP

The most large-scale group meetings were held at conferences organized in Moscow by such investment houses as Renaissance Capital, VTB Capital, and ATON. A significant number of investment community representatives attended Investor Day and the site visit that was held by the Inter RAO Group in Sochi in December 2018.

During the reporting year, the key themes for interaction with the investment community at events included:

- the results of operational and financial activities and measures to improve operational efficiency
- the dividend policy and dividend payments
- the strategic priorities and long-term development forecast of the Inter RAO Group
- targets for the use of idle cash
- M&A activities of the Group
- the launch of a new long-term management incentive program
- the buyback of treasury shares and the use of the treasury block
- the modernization of generating equipment and the long-term competitive capacity auction (CCA)
- export potential in the Russian power industry
- the development of the wholesale capacity market
- the completion of the CDA program and construction of facilities in the Kaliningrad Region
- the development of a standard supply model
- the sustainable development of the Inter RAO Group and others



FAQ by investors and analysts are available at <https://www.interrao.ru/investors/>



## EVENT CALENDAR FOR INVESTORS AND ANALYSTS IN 2019

Date	Event
February 11	Publication of RAS financial results for 2018
February 11	Publication of the production results of the Inter RAO Group for 2018
March 4	Investor Day in London attended by an independent member of the Board of Directors Webcast/conference call for investors and analysts on the Group's operational and financial performance for 2018 (Moscow)
March 5–7	Road show (Europe)
April	Publication of RAS financial results of Inter RAO and its subsidiaries for Q1 2019
April	Publication of the production results of the Inter RAO Group for Q1 2019
May 16	Webcast/conference call for investors and analysts on the Group's operational and financial performance for Q1 2019
June 24–26	Renaissance Capital Conference (Moscow)
July	Publication of RAS financial results of Inter RAO and its subsidiaries for H1 2019
July	Publication of the production results of the Inter RAO Group for H1 2019
August 14	Webcast/conference call for investors and analysts on the Group's operational and financial performance for H1 2019
August–September	Investor/Analyst Day (Moscow)
September	Road show (Europe)
October	Publication of RAS financial results for 9M 2019
October	Publication of the production results of the Inter RAO Group for 9M 2019
October–November	Russia Calling! VTB Capital Conference (Moscow)
November 14	Webcast/conference call for investors and analysts on the Group's operational and financial performance for 9M 2019
November–December	Capital Markets Day and a site visit for investment analysts (Russia/Europe)

## Interaction with minority shareholders

As of December 31, 2018, there were 351,968 individuals registered in the share register of Inter RAO, which equals 99.22% of the total number of shareholders.

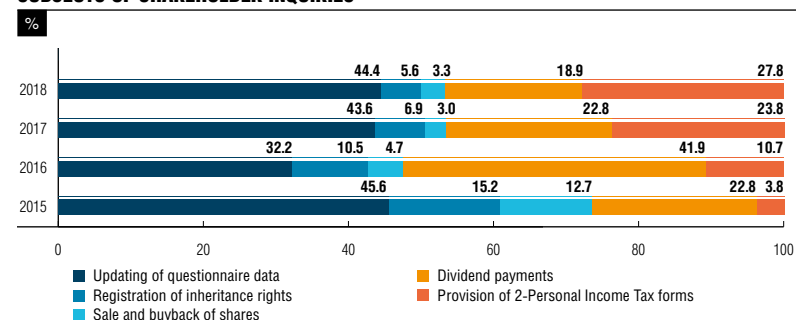
The Company interacts with individual shareholders in accordance with the Program for Interaction with Minority Shareholders of PJSC Inter RAO for 2018-2020. In 2018, as part of the program:

- informational brochure stands were updated at the locations of the Group's companies
- an animated product was created for shareholders to reduce the flow of inquiries from shareholders taking into account the rights to their shares in depositories
- the shareholder memo for the Annual General Shareholders Meeting was updated
- work was continued with LLC Inter RAO Invest to provide services to shareholders in transactions involving the Company's shares
- e-voting was provided at the General Meeting of Shareholders with the relevant explanations on the procedure for such voting in the Energy Without Borders newspaper
- other measures of the Program were completed

The Company responded to a total of 107 written inquiries from shareholders received by mail and 61 electronic inquiries in 2018. An analysis of the changes in the subjects of the inquiries from the Company's shareholders to PJSC Inter RAO shows percentage-based growth in inquiries related to such themes as the receipt of dividends, including updating questionnaires, ways of calculating them, and transferring dividends to a shareholder's bank account.

The inquiry statistics show a decrease in inquiries for clarification on the sale

## SUBJECTS OF SHAREHOLDER INQUIRIES



of shares and the registration of inheritance rights and an increase in inquiries for the updating of personal data. The Company attributes these results to work that was continued in 2018 as part of the Program for Work with Minority Shareholders.

It should be noted that there was a significant increase in the number of inquiries to provide shareholders with a 2-Personal Income Tax certificate to confirm income they received in the form of dividends paid.

Inter RAO employees answered 219 calls and 61 electronic inquiries from shareholders, prepared 25 2-Personal Income Tax certificates based on shareholders' requests, and held four personal meetings with the Company's shareholders. In addition, the call center of the Company's Registrar responded to 5,779 calls from shareholders and 159 electronic inquiries.

## Credit ratings

In 2018, international rating agencies revised the credit rating of the Inter RAO Group.

## Fitch Ratings

Fitch Ratings affirmed the Inter RAO Group's global credit rating at BBB– and revised the outlook from Stable to Positive. Thus, the Inter RAO Group's rating corresponds to the sovereign credit rating of the Russian Federation (BBB– with a Positive outlook).

At the same time, Fitch revised the Inter RAO Group's independent credit rating from BB+ to BBB–, which, according to a press release from Fitch Ratings, "reflects the Group's strong position on the energy market and is a result of its top financial performance among electric power companies rated by the agency in Russia and the CIS."

## Moody's Investors Service

As part of an extraordinary revision, the global credit rating of the Inter RAO Group was raised from Ba1 (Stable outlook) to Baa3 (Stable outlook). Thus, the Inter RAO Group's credit rating was assigned to the investment category.

The agency's press release says that the credit rating reflects the high level of solvency of the Inter RAO Group due to the Group's flexible business model, diversified business profile, and high asset efficiency. The agency also noted the Group's low level of debt and strong position in terms of current liquidity.

# Dividends

The Regulation on the Dividend Policy of PJSC Inter RAO is used to determine the amount of dividends and the procedure for their payment. The Dividend Policy of PJSC Inter RAO<sup>1</sup> implies a balanced approach to the distribution of profits taking into account the interests of the Company's long-term development and an increase in return and value for shareholders.

The Dividend Policy aims to meet the following objectives:

- enhancing investment appeal
- optimizing the distribution of net income
- respect for the rights and legitimate interests of shareholders

The Regulation on the Dividend Policy sets a dividend payment target level that is equal to 25% of the Company's consolidated profit as determined based

on the results of the reporting year using IFRS consolidated financial statements. When determining the amount of net profit allocated for the payment of dividends, the following factors are taken into account:

- the need to create funds
- projected net profit for the next fiscal year
- the need to fund the investment activities of PJSC Inter RAO
- the availability and optimality of sources to fund the investment activities of PJSC Inter RAO

When determining the amount of net profit allocated for dividend payments, no adjustments were made to this indicator in 2018.

<sup>1</sup> Approved by a resolution of the Board of Directors dated June 30, 2014 (Minutes No. 118 dated July 03, 2014). The changes made to the Regulation on the Dividend Policy were approved by the Board of Directors on April 12, 2016 (Minutes No. 166 dated April 14, 2016).

## Report on the payment of declared (accrued) dividends

In 2018, the Company worked to pay shareholders dividends in accordance with a resolution of the Annual General Meeting of Shareholders adopted on May 21, 2018<sup>1</sup>. In total, as of the end date for dividend payments (July 9, 2018), dividends had been transferred to 352,041 of the 356,481 legal entities and individuals, of which 5,560 entities did not receive dividends as they were returned to the Company for various reasons beyond the control of PJSC Inter RAO.

Based on the performance results in 2018, the PJSC Inter RAO Board of Directors in March 2019 recommended that the General Meeting of Shareholders vote to pay dividends in the amount of RUB 17.919 billion, or RUB 0.171635536398468 per share, which amounts to 25% of the IFRS net profit of PJSC Inter RAO.

### DIVIDEND PAYMENT PERIOD

Indicator	2014	2015	2016	2017
Date of recommendation from the Board of Directors on the amount of dividends	04/07/2015	04/07/2016	04/07/2017	03/15/2018
Record date of list of persons entitled to receive dividends	06/09/2015	06/21/2016	06/20/2017	06/01/2018
Date of the resolution of the Annual General Meeting of Shareholders on dividend payments	05/29/2015	06/10/2016	06/09/2017	05/21/2018
Dividend per share, RUB	0.001039679119	0.0178230516552	0.146819923371648	0.130383141762452
Total dividends announced, RUB thousand	108,542.5	1,860,727	15,328,000	13,612,000
Total dividends paid, RUB thousand	107,719	1,860,156	15,323,778.511	13,607,859.626
Amount of dividends/RAS net profit, %	25	50	15.7	86.87
Amount of dividends/IFRS net profit, % (according to the Dividend Policy)	1.5	7.73	25	25

<sup>1</sup> Minutes No. 18 dated May 21, 2018



**ENERGY**  
**WITHOUT BORDERS**

**RELIABLE**

**RESOURCE**  
**FOR THE COUNTRY'S**  
**DEVELOPMENT**

**// APPENDIX**



# 1. CONSOLIDATED IFRS FINANCIAL STATEMENTS OF PJSC INTER RAO FOR 2018

## Report of the independent auditor on the summary consolidated financial statements Translation of the original Russian version

To the shareholders and the Board of Directors of PJSC Inter RAO

### Opinion

The accompanying summary consolidated financial statements of PJSC Inter RAO and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for 2018 and the related Appendix, are derived from the audited consolidated financial statements of the Group for 2018.

In our opinion, the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements, on the basis described in Appendix 1.

### Summary consolidated financial statements

The summary consolidated financial statements do not contain all the disclosures required by the regulations of the International Financial Reporting Standards insofar as they relate to the preparation of financial statements. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements of the Group and the auditor's report thereon.

### Audited consolidated financial statements and our opinion

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 1 March 2019. That report also includes information on key audit matters.

### Management's responsibility for the summary consolidated financial statements

Management of the Group is responsible for the preparation of the summary consolidated financial statements in accordance with criteria described in Appendix 1.

### Auditor's responsibility

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised) *Engagements to Report on Summary Financial Statements*.



**I.A. BUYAN**

*Partner Ernst & Young LLC*

*1 March 2019*

### Details of the audited entity

Name: PJSC Inter RAO

Record made in the State Register of Legal Entities on 1 November 2002, State Registration Number 1022302933630.

Address: Russia 195435, Moscow, Bolshaya Pirogovskaya street, 27, building 2.

### Details of the auditor

Name: Ernst & Young LLC

Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.

Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.

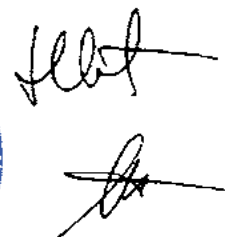
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

## Consolidated statement of financial position (in millions of RUR)

	31 December 2018	1 January 2018 (restated)	1 January 2017 (restated)
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	322,976	286,714	291,854
Intangible assets	13,849	13,183	9,908
Investments in associates and joint ventures	15,451	22,770	28,886
Deferred tax assets	5,753	7,174	6,057
Securities	7,992	10,324	7,810
<b>Other non-current assets</b>	<b>2,621</b>	<b>2,986</b>	<b>15,430</b>
Total non-current assets	368,642	343,151	359,945
Current assets			
Inventories	20,267	16,927	14,104
Accounts receivable and prepayments	107,806	108,936	106,421
Income tax prepaid	1,070	873	625
Cash and cash equivalents	153,747	142,062	95,988
Other current assets	75,318	24,127	4,712
	<b>358,208</b>	<b>292,925</b>	<b>221,850</b>
Assets classified as held-for-sale	1,737	3,000	3,000
<b>Total current assets</b>	<b>359,945</b>	<b>295,925</b>	<b>224,850</b>
<b>Total assets</b>	<b>728,587</b>	<b>639,076</b>	<b>584,795</b>
<b>EQUITY AND LIABILITIES</b>			
Equity			
Share capital	293,340	293,340	293,340
Treasury shares	(86,210)	(58,787)	(58,787)
Share premium	69,312	69,312	69,312
Hedge reserve	(367)	2	16
Actuarial reserve	274	7	(182)
Fair value reserve	(5,745)	(3,650)	2,485
Foreign currency translation reserve	4,887	2,152	2,972
Retained earnings	207,778	157,540	109,872
<b>Total equity attributable to shareholders of the Company</b>	<b>483,269</b>	<b>459,916</b>	<b>419,028</b>
Non-controlling interest	2,209	1,587	2,078
<b>Total equity</b>	<b>485,478</b>	<b>461,503</b>	<b>421,106</b>

	31 December 2018	1 January 2018 (restated)	1 January 2017 (restated)
Non-current liabilities			
Loans and borrowings	1,385	4,675	8,604
Long-term lease liabilities	42,991	10,888	10,499
Deferred tax liabilities	11,890	10,957	10,678
Other non-current liabilities	8,588	8,152	7,260
<b>Total non-current liabilities</b>	<b>64,854</b>	<b>34,672</b>	<b>37,041</b>
Current liabilities			
Loans and borrowings	8,353	11,479	8,108
Short-term portion of long-term lease liabilities	6,712	1,435	1,726
Accounts payable and accrued liabilities	149,886	118,314	105,476
Amounts payable to non-controlling shareholders for shares of subsidiary	373		
Other taxes payable	10,644	9,117	9,005
Income tax payable	2,287	2,556	2,333
<b>Total current liabilities</b>	<b>178,255</b>	<b>142,901</b>	<b>126,648</b>
<b>Total liabilities</b>	<b>243,109</b>	<b>177,573</b>	<b>163,689</b>
<b>Total equity and liabilities</b>	<b>728,587</b>	<b>639,076</b>	<b>584,795</b>

1 March 2019

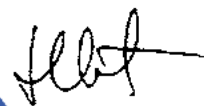
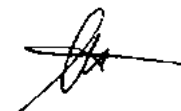


**Kovalchuk B.***Chairman of the Management Board***Miroshnichenko E.***Member of the Management Board, Chief Financial Officer*

## Consolidated statement of comprehensive income (in millions of RUR)

	For the year	
	2018	2018 (restated)
Revenue	962,582	869,204
Other operating income	10,492	8,817
Operating expenses	(885,785)	(821,779)
Operating income	87,289	56,242
Finance income	15,257	11,671
Finance expenses	(6,789)	(5,258)
Share of (loss)/profit of associates and joint ventures, net	(3,579)	2,600
Income before income tax	92,178	65,255
Income tax expense	(20,503)	(10,593)
<b>INCOME FOR THE PERIOD</b>	<b>71,675</b>	<b>54,662</b>
Other comprehensive income/(loss)		
<i>Other comprehensive income/(loss) that will be reclassified subsequently to profit or loss when specific conditions are met</i>		
Loss on securities, net of tax	(981)	(660)
Net loss on hedge instruments, net of tax	(535)	(27)
Exchange gain/(loss) on translation to presentation currency	2,997	(784)
<i>Other comprehensive income/(loss) not to be reclassified subsequently to profit or loss</i>		
Loss on securities, net of tax	(1,114)	
Actuarial gain, net of tax	267	189
<b>OTHER COMPREHENSIVE GAIN/(LOSS), NET OF TAX</b>	<b>634</b>	<b>(1,282)</b>
<b>Total comprehensive income for the period</b>	<b>72,309</b>	<b>53,380</b>
Income attributable to:		
Shareholders of the Company	70,776	53,974
Non-controlling interest	899	688

	For the year	
	2018	2018 (restated)
	<b>71,675</b>	<b>54,662</b>
<b>Total comprehensive income attributable to:</b>		
Shareholders of the Company	71,314	52,669
Non-controlling interest	995	711
	<b>72,309</b>	<b>53,380</b>
<b>Basic income per ordinary share for income attributable to the shareholders of the Company</b>	<b>0.894</b>	<b>0.647</b>
<b>Diluted income per ordinary share for income attributable to the shareholders of the Company</b>	<b>0.891</b>	<b>0.636</b>

1 March 2019



**Kovalchuk B.Yu.***Chairman of the Management Board*

**Miroshnichenko E.N.***Member of the Management Board, Chief Financial Officer*

## Consolidated statement of cash flows (in millions of RUR)

	For the year	
	2018	2017 (restated)
<b>OPERATING ACTIVITIES</b>		
Income before income tax	92,178	65,255
<i>Adjustments to reconcile income before tax to net cash flows from operating activities</i>		
Depreciation and amortisation	26,601	22,132
Provision for impairment of accounts receivable, net	8,358	5,206
Discounting of accounts receivable	(225)	(1,604)
Discounting of accounts payable	936	284
Release of other provisions	(1,008)	(1,667)
Impairment of securities and assets classified as held-for-sale	1,263	225
Impairment of property, plant and equipment and intangible assets	1,146	11,780
Share of loss/(profit) of associates and joint ventures, net	3,579	(2,600)
Loss/(income) from electricity derivatives, net	49	(134)
Foreign exchange (gain)/loss, net	(3,649)	1,001
Interest income	(10,267)	(8,777)
Other finance income	(328)	(692)
Interest expense	4,991	3,742
Other finance expenses	449	90
Dividend income	(375)	(457)
Income from sale of securities	(47)	–
Shares option plan, (gain)/loss	(168)	919
Gain from disposal of Group entities, net	(187)	(10)
Other non-cash operations/items	(81)	(108)
Operating cash flows before working capital adjustments and income tax paid	123,215	94,585
Increase in inventories	(3,081)	(2,960)
Increase in accounts receivable and prepayments	(5,635)	(12,993)
Decrease in value added tax recoverable	1,273	5,188
(Increase)/decrease in other current assets	(793)	3,043
(Decrease)/increase in accounts payable and accrued liabilities	(1,649)	12,065
(Decrease)/increase in taxes other than income tax prepaid/payable, net	(361)	1,108
Other working capital adjustments	(492)	53
	<b>112,477</b>	<b>100,089</b>
Income tax paid	(18,021)	(11,330)
<b>Net cash flows from operating activities</b>	<b>94,456</b>	<b>88,759</b>

	For the year	
	2018	2017 (restated)
<b>INVESTING ACTIVITIES</b>		
Proceeds from disposal of property, plant and equipment	151	151
Purchase of property, plant and equipment and intangible assets	(25,770)	(31,508)
Purchase of controlling interest, net of cash acquired	724	(500)
Outflow from disposal of controlling interest, net of cash disposed	–	(10)
Purchase of securities	(39)	–
Proceeds from disposal of joint venture	–	54
Proceeds from disposal of securities and assets classified as held-for-sale	6,305	12,500
Proceeds from repayment of loans issued	115	12,639
Loans issued	(360)	(216)
Bank deposits placed	(121,169)	(45,747)
Bank deposits returned and proceeds from promissory notes repayment	70,660	23,455
Interest proceeds for bank deposits placed	7,704	4,358
Purchase of other non-current assets	(115)	(285)
Dividends received	3,601	467
Cash flows from / (used for) other investing activities	129	(156)
<b>Net cash flows used for investing activities</b>	<b>(58,064)</b>	<b>(24,798)</b>
<b>Financing activities</b>		
Proceeds from loans and borrowings	20,626	45,354
Repayment of loans and borrowings	(28,084)	(45,851)
Repayment of leases	(4,583)	(2,062)
Interest paid	(907)	(2,255)
Dividends paid	(11,101)	(12,185)
Purchase of non-controlling interest in subsidiary	–	(787)
Proceeds from disposal of non-controlling interest	244	–
Acquisition of treasury shares	(4,117)	–

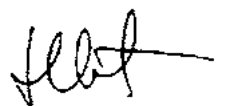
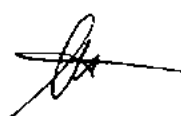
The consolidated statement of cash flows is to be read in conjunction with Appendix 1 to, and forming part of, the summary consolidated financial statements.



Proceeds from treasury shares sale	2,350	–1
<b>Net cash flows used for financing activities</b>	<b>(25,572)</b>	<b>(17,786)</b>
Effect of exchange rate fluctuations on cash and cash equivalents	865	(101)
<b>Net increase in cash and cash equivalents</b>	<b>11,685</b>	<b>46,074</b>
Cash and cash equivalents at the beginning of the period	142,062	95,988
<b>Cash and cash equivalents at the end of the period</b>	<b>153,747</b>	<b>142,062</b>

1 March 2019



**Kovalchuk B.Yu.**

*Chairman of the Management Board*

**Miroshnichenko E.N.**

*Member of the Management Board, Chief Financial Officer*

## Consolidated statement of changes in equity (in millions of RUR)

	Attributable to shareholders of the Company										
	Share capital	Treasury shares	Share premium	Foreign currency translation reserve	Fair value reserve	Hedge reserve	Actuarial reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2017	293,340	(58,787)	69,312	2,972	2,485	16	(182)	107,879	417,035	2,191	419,226
Effect of adoption of new standards	–	–	–	–	–	–	–	1,993	1,993	(113)	1,880
Balance at 1 January 2017 (restated)	293,340	(58,787)	69,312	2,972	2,485	16	(182)	109,872	419,028	2,078	421,106
Total comprehensive (loss)/income for the year ended 31 December 2017	–	–	–	(820)	(660)	(14)	189	53,974	52,669	711	53,380
Dividends to shareholders	–	–	–	–	–	–	–	(12,656)	(12,656)	(461)	(13,117)
Undrawn dividends returned	–	–	–	–	–	–	–	2	2	–	2
Acquisition of non-controlling interest in subsidiary	–	–	–	–	–	–	–	(46)	(46)	(741)	(787)
Share option plan	–	–	–	–	–	–	–	919	919	–	919
Balance at 31 December 2017 (restated)	293,340	(58,787)	69,312	2,152	1,825	2	7	152,065	459,916	1,587	461,503
Balance at 1 January 2018	293,340	(58,787)	69,312	2,152	1,825	2	7	149,968	457,819	1,590	459,409
Effect of adoption of new standards	–	–	–	–	(5,475)	–	–	7,572	2,097	(3)	2,094
<b>Balance at 1 January 2018 (restated)</b>	<b>293,340</b>	<b>(58,787)</b>	<b>69,312</b>	<b>2,152</b>	<b>(3,650)</b>	<b>2</b>	<b>7</b>	<b>157,540</b>	<b>459,916</b>	<b>1,587</b>	<b>461,503</b>
Total comprehensive income/(loss) for the year ended 31 December 2018	–	–	–	2,735	(2,095)	(369)	267	70,776	71,314	995	72,309
Dividends to shareholders	–	–	–	–	–	–	–	(11,458)	(11,458)	(280)	(11,738)
Undrawn dividends returned	–	–	–	–	–	–	–	1	1	–	1
Acquisition of non-controlling interest in subsidiary	–	–	–	–	–	–	–	(87)	(87)	(286)	(373)
Disposal of non-controlling interest in subsidiary	–	–	–	–	–	–	–	51	51	193	244
Sale of treasury shares	–	5,565	–	–	–	–	–	(3,215)	2,350	–	2,350
Acquisition of treasury shares	–	(32,988)	–	–	–	–	–	(5,662)	(38,650)	–	(38,650)
Share option plan	–	–	–	–	–	–	–	(168)	(168)	–	(168)
<b>Balance at 31 December 2018</b>	<b>293,340</b>	<b>(86,210)</b>	<b>69,312</b>	<b>4,887</b>	<b>(5,745)</b>	<b>(367)</b>	<b>274</b>	<b>207,778</b>	<b>483,269</b>	<b>2,209</b>	<b>485,478</b>



**Kovalchuk B.Yu.**
*Chairman of the Management Board*
**Miroshnichenko E.N.**
*Member of the Management Board, Chief Financial Officer*

1 March 2019

The consolidated statement of changes in equity is to be read in conjunction with Appendix 1 to, and forming part of, the summary consolidated financial statements.

## Appendix 1

These summary consolidated financial statements of PJSC Inter RAO and its subsidiaries include the consolidated statement of financial position as of 31 December 2018, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for 2018. These summary consolidated financial statements derived from the audited consolidated financial statements for 2018 was signed by the management of PJSC Inter RAO on 1 March 2019. The audited consolidated

financial statements were presented in millions of Russian rubles and were prepared in accordance with International Financial Reporting Standards. All amounts in these summary consolidated financial statements are presented in millions of Russian rubles (except for income (loss) per ordinary share). These summary consolidated financial statements do not include all the disclosures required by International Financial Reporting Standards.



Audited consolidated  
financial statements for  
2018 can be found at  
<http://www.interrao.ru>.



## 2. RAS ANNUAL ACCOUNTING STATEMENTS OF PJSC INTER RAO FOR 2018

### Report of the independent auditor on the summary financial statements Translation of the original Russian version

To the shareholders and the Board of Directors of Public Joint Stock Company «Inter RAO UES»

#### Opinion

The accompanying summary financial statements, which comprise the balance sheet as at 31 December 2018, statement of income for the period from 1 January through 31 December 2018 and related appendix, are derived from the audited financial statements of Public Joint Stock Company «Inter RAO UES» (the Company) for 2018 year.

In our opinion, the summary financial statements are consistent, in all material respects, with the audited financial statements, on the basis described in Appendix 1.

#### Summary financial statements

The summary financial statements do not contain all the disclosures required by the regulations of the Russian Federation insofar as they relate to the preparation of financial statements. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements of the Company and the auditor's report thereon.

#### Audited financial statements and our opinion

We expressed an unmodified audit opinion on the audited financial statements in our report dated 8 February 2019. That report also includes information on key audit matter.

#### Management's responsibility for the summary financial statements

Management is responsible for the preparation of a summary of the audited financial statements in accordance with criteria described in Appendix 1.

#### Auditor's responsibility

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

**I.A. BUYAN**

Partner Ernst & Young LLC

8 February 2019



#### Details of the audited entity

**Name:** Public Joint Stock Company «Inter RAO»

Record made in the State Register of Legal Entities on 1 November 2002, State Registration Number 1022302933630.

Address: Russia 195435, Moscow, Bolshaya Pirogovskaya street, 27, building 2.

#### Details of the auditor

**Name:** Ernst & Young LLC

Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.

Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.

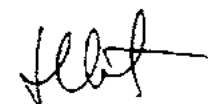
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

## Balance sheet as of 31 December 2018

Entity	Public Joint Stock Company «Inter RAO UES»	OKUD Form	0710001	Attachment No. 1 to Order
Taxpayer's identification number		Date (DDMMYY)	31.12.2018	No.66n of the RF Ministry
Type of activity	sales of electricity	OKPO code	33741102	of Finance dated July 2, 2010
Legal/ownership form		TIN	2320109650	
Public Joint Stock Company/Other mixed Russian ownership		OKVED code	35.14	
Measurement unit: RUB mln			12247 49	
Location (address)		OKOPF/OKFS code		
		OKEI code	385	
		119435, Moscow, ul. Bolshaya Pirogovskaya, 27, bld. 2		

Description	Code	At 31 December 2018	At 31 December 2017	At 31 December 2016
<b>ASSETS</b>				
<b>I. NON-CURRENT ASSETS</b>				
Intangible assets	1110	123	69	14
Research and development results	1120	-	-	-
Property, plant and equipment	1150	1,319	1,186	911
including construction in progress	1155	1,289	1,150	871
Income-bearing investments in tangible assets	1160	-	-	3
Financial investments	1170	347,538	347,899	346,279
Deferred tax assets	1180	2,327	3,821	1,585
Other non-current assets	1190	4,049	4,016	12,872
<b>TOTAL for Section I</b>	<b>1100</b>	<b>355,356</b>	<b>356,991</b>	<b>361,664</b>
<b>II. CURRENT ASSETS</b>				
Inventory	1210	44	7	6
VAT on purchased assets	1220	567	371	410
Accounts receivable, payments on which are expected within 12 months after the reporting date	1230	11,432	30,956	24,911
Including trade accounts receivable	1231	3,152	2,137	3,868
Financial investments (other than cash equivalents)	1240	37,057	10,838	8,441
Cash and cash equivalents	1250	101,936	68,914	41,656
Other current assets	1260	4	9	835
<b>TOTAL for Section II</b>	<b>1200</b>	<b>151,040</b>	<b>111,095</b>	<b>76,259</b>
<b>BALANCE SHEET</b>	<b>1600</b>	<b>506,396</b>	<b>468,086</b>	<b>437,923</b>

Description	Code	At 31 December 2018	At 31 December 2017	At 31 December 2016
Form 0710001 p. 2				
<b>CAPITAL AND LIABILITIES</b>				
<b>III. CAPITAL AND RESERVES</b>				
Charter capital	1310	293,340	293,340	293,340
Treasury shares	1320	-	-	-
Revaluation of non-current assets	1340	-	-	-
Additional capital (without revaluation)	1350	195,416	195,416	195,416
Reserve capital	1360	6,161	5,378	504
Retained earnings (loss)	1370	(59,267)	(63,811)	(59,278)
<b>TOTAL for Section III</b>	<b>1300</b>	<b>435,650</b>	<b>430,323</b>	<b>429,982</b>
<b>IV. LONG-TERM LIABILITIES</b>				
Loans and borrowings	1410	-	-	-
Deferred tax liabilities	1420	35	34	411
Provisions	1430	-	-	-
Other liabilities	1450	-	-	-
<b>TOTAL for Section IV</b>	<b>1400</b>	<b>35</b>	<b>34</b>	<b>411</b>
<b>V. SHORT-TERM LIABILITIES</b>				
Loans and borrowings	1510	63,651	28,853	-
Accounts payable, payments on which are expected within 12 months after the reporting date:	1520	4,497	6,492	5,454
including: trade accounts payable	1521	3,239	3,243	2,625
accrued payroll	1522	77	66	69
social insurance and social security payable	1523	38	36	30
taxes and levies payable	1524	36	15	15
advances received	1525	97	2,151	2,295
other accounts payable	1527	1,010	981	420
Provisions	1540	2,563	2,384	2,076
Other liabilities	1550	-	-	-
<b>TOTAL for Section V</b>	<b>1500</b>	<b>70,711</b>	<b>37,729</b>	<b>7,530</b>
<b>BALANCE SHEET</b>	<b>1700</b>	<b>506,396</b>	<b>468,086</b>	<b>437,923</b>

**B. Kovalchuk**  
Chief Executive Officer

8 February 2019

# Statement of income for the period from January 01 through December 31, 2018

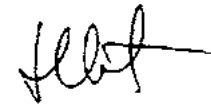
Attachment No.1 to Order  
No.66n of the RF Ministry  
of Finance dated July 2,  
2010

Entity	Public Joint Stock Company «Inter RAO UES»	OKUD Form	Codes
Taxpayer's identification number		Date (DDMMYY)	0710001
Type of activity	sales of electricity	OKPO code	31.12.2018
Legal/ownership form		TIN	33741102
Public Joint Stock Company/Other mixed Russian ownership		OKVED code	2320109650
Measurement unit: RUB mln		OKOPF/OKFS code	35.14
		OKEI code	12247 49
			385

Description	Code	At 31 December 2018	At 31 December 2017
Revenue from the sale of goods, products, works and services, net (less VAT, excise duties and similar obligatory payments), including:	2110	53,901	40,975
export of energy	2111	38,462	27,323
domestic sales of energy (capacity)	2112	12,066	13,227
sales of power generation equipment	2113	3,144	223
other	2114	229	202
Cost of sales of goods, products, works and services	2120	(36,084)	(32,884)
purchase of energy (power) from domestic market	2121	(28,155)	(26,571)
import of energy	2123	(4,913)	(6,043)
sales of power generation equipment	2124	(3,011)	(269)
other	2125	(5)	(1)
Gross profit	2100	17,817	8,091
Selling expenses	2210	(2,977)	(2,991)
Administrative expenses	2220	(6,548)	(5,783)
<b>Profit (loss) from operations</b>	<b>2200</b>	<b>8,292</b>	<b>(683)</b>
Income from equity participation	2310	7,295	13,795
Interest receivable	2320	6,431	3,529
Interest payable	2330	(2,671)	(414)

Other income	2340	3,548	2,387
Other expenses	2350	(861)	(5,242)
<b>Profit (loss) before tax</b>	<b>2300</b>	<b>22,034</b>	<b>13,372</b>
Current profit tax	2410	(1,566)	(596)
including permanent tax liabilities (assets)	2421	119	222
Deferred tax liabilities change	2430	-	376
Deferred tax assets change	2450	(1,494)	83
Other	2460	(35)	2,434
<b>Profit (loss) after tax</b>	<b>2400</b>	<b>18,939</b>	<b>15,669</b>
FOR REFERENCE			
Cumulative financial result for the period	2500	18,939	15,669
Basic earnings (loss) per share (rub.)	2900	0.1814	0.1501
Diluted earnings (loss) per share (rub.)	2910	0.1814	0.1501

8 February 2019

**B. Kovalchuk**  
Chief Executive Officer



## Appendix 1

These summary financial statements of Public Joint Stock Company «Inter RAO UES» include the balance sheet as of 31 December 2018 and the statement of income for the period from 1 January through 31 December 2018. These summary financial statements derived from the audited financial statements for 2018 that was signed by the management of Public Joint Stock Company «Inter RAO UES» on 8 February 2019. The audited financial statements were presented in thousands

of Russian rubles and were prepared in accordance with accounting principles and practices generally accepted in the Russian Federation. All amounts in these summary financial statements are presented in millions of Russian rubles (except for earnings (loss) per share). These summary financial statements do not include all the disclosures required by accounting principles and practices generally accepted in the Russian Federation.



Audited financial statements for 2018 can be found at  
<http://www.interrao.ru>



# 3. REPORT OF THE REVISION COMMISSION

## To the meeting of shareholders of PJSC INTER RAO

March 13, 2019

Moscow

In accordance with the Articles of Association of PJSC Inter RAO (hereinafter referred to as the Company), the Federal Law of the Russian Federation On Joint-Stock Companies No. 208-FZ as of December 26, 1995, pursuant to the Regulations on the Revision Commission of JSC Inter RAO as adopted by the annual General Meeting of Shareholders of Inter RAO on May 29, 2015 (Minutes No. 15 of June 25, 2015) and pursuant to the Resolution of the Revision Commission of PJSC Inter RAO of July 05, 2018 (Minutes No. 2 of July 05, 2018), the Revision Commission of the Company in the period from February 19, 2019 to March 12, 2019 consisting of:

1. Chairman of the Revision Commission – Gennady Bukaev, General Director of JSC ROSNEFTEGAZ, Vice President – Chairman of the PJSC Rosneft Oil Company Internal Audit Service;

Members of the Commission:

1. Tatyana Zaltsman – Manager of Department of Economic Planning of PJSC Inter RAO Financial and Economic Center;
2. Svetlana Kovaleva – Internal Audit Director, Head of the PJSC FGC UES Internal Audit Department;
3. Igor Feoktistov – Director for Internal Control of PJSC FGC UES;
4. Tatyana Fisenko, Director of the Budget Planning and Accounts Department of the Ministry of Energy of the Russian Federation;

An audit of the financial and economic activity of PJSC Inter RAO was carried out for 2018.

During the audit of financial and economic activities of PJSC Inter RAO, the Revision Commission carried out the following tasks: \_ monitoring of financial and economic activities of the Company; \_ compliance of financial and economic activities of the Company with Russian legislation and Articles of Association of the Company; \_ independent assessment of data on the financial state of the Company.

The Report of the Revision Commission is prepared after a check of the following materials:

1. Accounting (Financial) statements of PJSC Inter RAO for 2018 with all appendixes and an explanatory;
2. PJSC Inter RAO Annual Report for 2018;

3. Audit conclusion of an independent auditor (Ernst & Young LLC) towards accounting statements of PJSC Inter RAO for 2018;
4. Report on the implementation of the PJSC Inter RAO Business Plan for 2017 and 2018;
5. Report on the Annual Comprehensive Procurement Program for 2018;
6. The Minutes of meetings of the Board of Directors, materials of the Management Board;
7. Auditor's report on the assessment of the Risk Management and Internal Control Framework of PJSC Inter RAO for 2018.
8. Report on the implementation of the PJSC Inter RAO Investment Program for 2018;
9. Auditor report on the assessment of corporate governance system of PJSC Inter RAO for 2018;
10. Report on the concluded transactions where there is a related party in their conclusion;
- 11.11. Selectively – contracts and source documents, other documents.

Upon examination of the materials submitted, the Revision Commission notes the following:

1. The Company's Annual Report for 2018 includes not only the data for PJSC Inter RAO as a legal entity, but also for legal entities in Inter RAO Group.
2. The Company's Annual Report for 2018 was made using data from IFRS consolidated financial statements of Inter RAO Group.

Responsibility for the preparation of reliable accounting statements of the Company and compliance with the accounting procedures and other requirements of legal acts of the Russian Federation is the responsibility of PJSC Inter RAO in accordance with the legislation of the Russian Federation.

According to the Revision Commission, the materials submitted and considered during examination sufficiently allow to draw valid conclusions and summaries

General results of the audit and recommendations to the Company's management are set out in the inspection report.

Based on the audit results, the Revision Commission reports that:

1. The Revision Commission did not observe any cases of noncompliance with the essential requirements of the legislation of the Russian Federation or internal regulations;
2. We did not observe any significant failings in the reflection of the financial performance of the Company that could lead to a material distortion of the value of assets and liabilities as of December 31, 2018 and the financial results of the Company's operations for 2018.
3. The internal control and audit system, Enterprise Risk Management Framework and also the corporate governance system of PJSC Inter RAO provide effective control over the main business processes of the Company

Based on our audit verification, taking into account the opinion of the external auditor of the Company, the Revision Commission has good causes for reliability confirmation of all essential aspects of annual accounting (financial) statements of the Company for 2018, as well as for reliability confirmation of the data contained in the annual report of PJSC Inter RAO for 2018 and in the report on related party transactions concluded by PJSC Inter RAO in 2018.

#### MEMBERS OF THE REVISION COMMISSION OF PJSC INTER RAO:

Revision Commission Chairman General Director of JSC ROSNEFTEGAZ, Vice President, Chairman of PJSC Rosneft Oil Company Internal Audit Service	Gennady Bukaev
Manager of Department of Economic Planning of PJSC Inter RAO Financial and Economic Center	Tatyana Zaltsman
Internal Audit Director – Head of PJSC FGC UES Internal Audit Department	Svetlana Kovaleva
Director for Internal Control of PJSC FGC UES	Igor Feoktistov
Director of Budget Planning and Accounts Department of Ministry of Energy of Russian Federation	Tatyana Fisenko

*We are familiar with the following report:*



*Chairman of the Management Board PJSC Inter RAO*

**Boris Kovalchuk**



*Chief Accountant PJSC Inter RAO*

**Alla Vainilavichute**

# 4. REPORT ON COMPLIANCE WITH THE PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE<sup>1</sup>

Statement of the Company Board of Directors on compliance with the corporate governance principles as stipulated in the Corporate Governance Code, and if such principles are not complied with by the company to any extent, a description of such principles and brief explanations of why they are not complied with.

The Board of Directors confirms that the information in this Report is complete and true.

The Company fully observes 74 principles (93,7%), partially observes 3 principles and does not observe only 2 principles, out of total 79 principles stipulated below<sup>2</sup>.

Therefore, it can be said that the Company complies with more than 77% or 97,4% corporate governance principles to a certain extent, and as compared to 2017, has improved the indicator of complete compliance with the recommendations of the Corporate Governance Code by 0,4% (from 97% to 97,4%).

## Level 2 principles that are not complied with

1.3.2. The Company takes no action that will or may lead to an artificial redistribution of corporate control as concerns the recommendation on the absence of quasi-treasury shares or their nonparticipation in voting.

4.3.2. The Company has implemented a key long-term incentive plan for the members of executive bodies and other key management personnel with Company shares (options or other derivative financial instruments with Company shares as a basic asset)

## Level 2 principles that are complied with in part

2.1.1. The Board of Directors is responsible for decisions related to the appointment and dismissal of executive bodies, in particular, for the reason of improper fulfillment of their duties. The Board of Directors also controls that the executive bodies of the Company act in accordance with the adopted development strategy and main directions of the operations of the Company as concerns the power of the Board of Directors to appoint and dismiss the single member executive body.

2.8.5. The composition of the Committees has been determined so that it enables comprehensive discussion of matters that are reviewed preliminarily with respect to different opinions as concerns independent Directors heading the committees (namely, the Strategy and Investment Committee).

7.2.2. The rules and procedures associated with the performance of major corporate actions by the Company are enshrined in the Company's internal documents regarding recommendations on the hiring of an appraiser when approving related-party transactions and transaction to acquire and buy back shares as well as on the existence of an expanded list of grounds based on which members of the Company's Board of Directors and other entities envisaged by law are deemed to have an interest in the Company's transactions.

## Summary of the most significant aspects of the model and practice of corporate governance at the joint-stock company

PJSC Inter RAO uses a governance model (hereinafter referred to as the Model) that meets the requirements of Russian law and regulations for issuers of securities whose shares are included in the Level One section of the list of securities allowed for trading at the MICEX Stock Exchange. The Company's governance model ensures the efficiency of the corporate governance system (in respect of the best interests of the shareholders) and high disclosure standards. The Model also includes development and maintenance of an effective risk management and Internal Control Framework, clear distinction between the authorities and responsibilities of each management body of the Company, and a system for evaluation of their functions and duties.

<sup>1</sup> Using the form recommended by the Bank of Russia in Letter No. IN-06-52/8 dated February 17, 2016.

<sup>2</sup> Hereinafter, the "principles" mean the level 2 principles of corporate governance set forth in the Corporate Governance Code with numbers having three digits, like 1.1.1 or 1.2.3, etc.

Pursuant to the Articles of Association of PJSC Inter RAO, the Company's management bodies are as follows:

- General Meeting of Shareholders;
- Board of Directors;
- Management Board;
- Chairman of the Management Board.

Committees of the Board of Directors that are established by resolution of the Board of Directors develop recommendations on the most important competencies of the Board of Directors, evaluate the efficiency of corporate governance procedures and perform other functions for maintaining the high standards of the work of the Board of Directors. All the Committees are subordinate to the Company Board of Directors. Management of everyday Company business is performed by a single-member executive body, namely, the chairman of the management board, and the collegial executive body, namely, the Management Board of the Company. The chairman of the management board and the Management Board are subordinate to the General Meeting of Shareholders and the Company Board of Directors. The Revision Commission is elected by the General Meeting of Shareholders and controls financial and business operations of the Company. If serious violations are discovered, the Revision Commission is entitled to demand an extraordinary General Meeting of Shareholders to be convened. Read more about Company corporate governance in section "Corporate governance" in the PJSC Inter RAO Annual Report.

**Description of the methodology, according to which the joint-stock company conducted an assessment of compliance with the principles of corporate governance, stipulated by the Corporate Governance Code:**

Evaluation of compliance with the corporate governance principles as stipulated in the Corporate Governance Code was performed in accordance with the Recommendations on Reporting on Compliance with the Principles and Recommendations of the Corporate Governance Code (letter of the Central Bank of Russia of February 17, 2016 No. IN-06-52/8).

**Explanation of the key reasons, factors or/and circumstances due to which the joint-stock company does not fully comply with the corporate governance principles as stipulated in the Corporate Governance Code, and description of the algorithms and tools of corporate governance that the joint-stock company uses instead of the ones that are recommended by the Corporate Governance Code, and activities and events planned (expected) by the joint-stock company to improve the model and practice of corporate governance with statement of the timing of such activities and events:**

See the attached table.

#	#	Principles of Corporate Governance	Criteria for evaluation of compliance with corporate governance principles	Status of compliance with the corporate governance principle in 2018	Explanation of the deviation from Criteria for evaluation of compliance with the corporate governance principle	Change in compliance with the principle as compared to 2017
	1.1	<b>The Company shall provide an equal and fair attitude to all shareholders to exercise their right to participate in the management of the Company</b>				
1.	1.1.1	The Company provides the best possible conditions for shareholders to participate in the General Meeting, conditions for the development of a justifiable attitude towards the agenda items at the General Meeting, coordination of their acts, and ability to express their opinions on the items discussed.	1. An internal Company document adopted by the General Meeting of Shareholders and governing the procedures of the General Meeting is publicly available. 2. The Company provides available means of communication, such as a hotline, email or Internet forum enabling shareholders to express their opinion and send questions about the agenda in the course of preparation for the General Meeting. That was done by the Company prior to each General Meeting in the reported period.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
2.	1.1.2	The notification procedure of the General Meeting and delivery of materials for it enables the shareholders to properly prepare for participation in the General Meeting.	1. Notice of the General Meeting of Shareholders is published on the Internet at least 30 days before the General Meeting date. 2. The meeting notification states its place and the required identification for entrance to the room. 3. The shareholders were provided access to information on who proposed the agenda items and who nominated candidates for the Board of Directors and the Revision Commission of the Company.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed

#	#	Principles of Corporate Governance	Criteria for evaluation of compliance with corporate governance principles	Status of compliance with the corporate governance principle in 2018	Explanation of the deviation from Criteria for evaluation of compliance with the corporate governance principle	Change in compliance with the principle as compared to 2017
3.	1.1.3	In the course of preparation and holding of the General Meeting of Shareholders, the shareholders were able to obtain information about and materials for the meeting, to ask executive bodies and members of the Board of Directors their questions, and to communicate with each other, all freely and in due time.	1. In the reported period, the shareholders were able to ask members of executive bodies and members of the Board of Directors their questions on the eve and at the time of the Annual General Meeting. 2. The attitude of the Board of Directors (including special opinions included in the minutes) on each agenda item of the General Meetings in the reported period was included in the materials for the General Meeting of Shareholders. 3. The Company provided the shareholders entitled thereto with access to the list of persons authorized to participate in the General Meeting starting from the date of its receipt by the Company, in all cases when General Meetings were held in the reported period.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
4.	1.1.4	An exercise of the shareholder's right to demand that a General Meeting is convened, to nominate candidates to management bodies, and to make proposals for inclusion on the General Meeting agenda was not related to unjustified difficulties.	1. In the reported period, the shareholders were able to make proposals for inclusion on the agenda of the Annual General Meeting for at least 60 days after the end of the relevant calendar year. 2. In the reported period, the Company did not refuse to accept proposals for the agenda or candidates to the bodies of the Company for the reason of misprints or other immaterial flaws in the shareholder's proposal.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
5.	1.1.5	Every shareholder was able to exercise their voting right using the easiest and most convenient method.	The Company internal document (internal policy) contains regulations according to which, every participant of the General Meeting may demand a copy of their completed ballot certified by the counting commission before the end of the Meeting	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed

#	#	Principles of Corporate Governance	Criteria for evaluation of compliance with corporate governance principles	Status of compliance with the corporate governance principle in 2018	Explanation of the deviation from Criteria for evaluation of compliance with the corporate governance principle	Change in compliance with the principle as compared to 2017
6.	1.1.6	The Company General Meeting procedure enables all persons who are present at the meeting to express equally their opinions and to ask questions.	1. At in presentio General Meetings of Shareholders within the reported period, there was time for reports and discussion on the agenda items. 2. Candidates to Company management and control bodies were available to answer shareholders' questions at the meeting where their nominations were put to a vote. 3. When making decisions related to preparation and holding of the General Meeting of Shareholders in the reported period, the Board of Directors considered the issue of using telecommunications to enable shareholder remote access for participation in the General Meeting.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
	1.2	The shareholders have an equal and fair opportunity to participate in the profits of the Company by receiving dividends.				
7.	1.2.1	The Company has designed and implemented a transparent and clear mechanism for determination of the amount and payment procedure of the dividends.	1. The Company has a dividend policy that has been developed, approved and disclosed by the Board of Directors. 2. If the dividend policy uses numbers from the Company's statements to determine the dividend amount, then the relevant regulations of the dividend policy are based on the consolidated numbers of the financial statements.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
8.	1.2.2	The Company shall make no decision on dividend payment if such a decision is economically unreasonable and may lead to false assumptions about the business of the Company even though it does not formally violate the legal restrictions	The Company's dividend policy contains clear indications on the financial/business circumstances, in the case of which the Company should pay no dividends.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
9.	1.2.3	The Company allows no impairment of dividend rights of existing shareholders.	1. In the reported period, the Company did not do anything leading to impairment of dividend rights of existing shareholders	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed



#	#	Principles of Corporate Governance	Criteria for evaluation of compliance with corporate governance principles	Status of compliance with the corporate governance principle in 2018	Explanation of the deviation from Criteria for evaluation of compliance with the corporate governance principle	Change in compliance with the principle as compared to 2017
10.	1.2.4	The Company aims to exclude any other methods for the shareholders to receive income (profit) from the Company's account except dividends and liquidation value	1. In order to exclude any other methods for the shareholders to receive income (profit) from the Company's account except for dividends and liquidation value, the Company internal documents stipulate control algorithms, which provide for timely identification and approval of deals of affiliates with material shareholders (persons authorized to dispose of votes vested in voting shares) in cases when the law does not formally regard such deals as interested party deals.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
	1.3	The system and practice of corporate governance provide equal conditions for all shareholders who hold shares of the same category (type) including minor shareholders and foreign shareholders and equal attitude to them from the side of the Company.				
11.	1.3.1	The Company has developed conditions for a fair attitude to each shareholder from the side of Company management bodies and controlling entities, including conditions disabling any abuse of major shareholders in relation to minor shareholders.	In the reported period, the procedures of handling potential conflicts of interest of existing shareholders are effective, and the Board of Directors has paid due attention to conflicts between shareholders (if any).	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed

#	#	Principles of Corporate Governance	Criteria for evaluation of compliance with corporate governance principles	Status of compliance with the corporate governance principle in 2018	Explanation of the deviation from Criteria for evaluation of compliance with the corporate governance principle	Change in compliance with the principle as compared to 2017
12.	1.3.2	The Company takes no action that will or may lead to an artificial redistribution of corporate control.	1. Quasi-treasury shares do not exist or did not participate in a voting in the reported period.	<input type="checkbox"/> observed <input type="checkbox"/> observed partially <input checked="" type="checkbox"/> not observed	<p>The recommendation regarding absence and non-participation in voting of treasury shares during the reporting period is not observed.</p> <p>On the balance sheet of the subsidiary JSC Inter RAO Capital, there was a significant number (18.98%) of quasi-treasury shares as a result of the consolidation of the electricity assets in the Company according to the Decree of the President of Russia No. 1190 of September 30, 2010 for the further asset restructuring (reorganization).</p> <p>In 2018, the number of quasi-treasury shares increased to 29.39% due to the acquisition of said shares from PJSC FGC UES and PJSC RusHydro.</p> <p>Based on the Company's Strategy, up to 25% of its charter capital can be used to be sold to a major strategic investor or a group of financial investors with a potential increase in the number of shares in free-float. The timeframe for selling shares has not yet been determined.</p> <p>The quasi-treasury shares have been used since 2018 to nominate independent candidates to the Company's Board of Directors and vote for them as well as to vote on other items on the meeting's agenda provided there is no conflict of interest.</p> <p>Starting from 2017, as an alternative mechanism for limiting management using quasi-treasury votes, the Board of Directors, when preparing for the Annual General Meeting of Shareholders, considers the issue of voting recommendations using quasi-treasury shares simultaneously with recommendations to all the Company's shareholders on voting on each agenda item when they are raised at the General Meeting of Shareholders. Consequently, when voting in accordance with these recommendations, a subordinate entity will act according to the decisions of the Board of Directors and not the decisions of Company management, which eliminates a conflict of interest and related risks.</p> <p>Federal Law No. 209-FZ dated July 19, 2018 amended the Federal Law "On Joint-Stock Companies" to grant the Board of Directors the right to include candidates in the list of candidates for election to management bodies at its discretion. Consequently, in 2019 the Company does not plan to use quasi-treasury shares for nominations to management bodies or vote with them to make decisions on meeting agenda items in accordance with a resolution of the Company's Board of Directors.</p>	No change

#	#	Principles of Corporate Governance	Criteria for evaluation of compliance with corporate governance principles	Status of compliance with the corporate governance principle in 2018	Explanation of the deviation from Criteria for evaluation of compliance with the corporate governance principle	Change in compliance with the principle as compared to 2017
	1.4	The shareholders have reliable and efficient methods for the accounting of their share rights and are able to dispose of their shares freely and easily.				
13.	1.4	The shareholders have reliable and efficient methods for accounting of their share rights and are able to dispose freely and easily of their shares.	1. The quality and reliability of maintenance of the security holder by the Company registrar match the needs of the Company and its shareholders.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
	2.1	1 The Board of Directors performs the strategic management of the Company, determines the basic principles of and approaches to the organization of risk management and the Internal Control Framework at the Company, controls the operation of the executive bodies of the Company, and performs other key functions.				
14.	2.1.1	The Board of Directors is responsible for decisions related to the appointment and dismissal of executive bodies, in particular, for the reason of improper fulfillment of their duties. The Board of Directors also controls the actions of Company executive bodies in accordance with the adopted development strategy and main directions of Company operations.	1. Pursuant to the Articles of Association, the Board of Directors has the power to appoint and dismiss members of executive bodies and to determine the terms and conditions of their contracts. 2. The Board of Directors has reviewed the report(s) of the single-member executive body and members of the collegial executive body on the fulfillment of the Company strategy	<input type="checkbox"/> observed <input checked="" type="checkbox"/> observed partially <input type="checkbox"/> not observed	<p>The recommendation of clause 1 is not observed insofar as the Board of Directors is authorized to appoint and dismiss the Chairman of the Management Board.</p> <p>Pursuant to the Articles of Association of the Company, the matter of election and early dismissal of the Chairman of the Management Board is a competency of the General Meeting of Shareholders.</p> <p>Article 13.1.18 of the Company's Charter envisages the right of the Board of Directors to suspend the powers of the Chairman of the Management Board and appoint a temporary acting Chairman of the Management Board.</p> <p>In addition, in practice, the Board of Directors makes recommendations to the General Meeting of Shareholders on each agenda item while expressing its opinion on a resolution.</p> <p>Prior to July 19, 2018, amendments to the Charter to limit the purview of the General Meeting of Shareholders in this regard could have entailed the right of shareholders to demand that shares be bought back from them in accordance with Article 75 of the Federal Law "On Joint-Stock Companies" (this approach was supported by judicial practice), which resulted in additional expenses for the Company.</p> <p>On July 19, 2018, Federal Law No. 209-FZ dated July 19, 2018 took effect and stipulates that when issues that fall within the purview of the General Meeting of Shareholders are referred to the purview of the Board of Directors, the shareholders do not have the right to demand the buyback of shares as envisaged by Article 75 of the Federal Law "On Joint-Stock Companies."</p> <p>Amendments to the Charter that envisage the powers of the Board of Directors to appoint a sole executive body will be submitted to the General Meeting of Shareholders for a decision in 2019.</p>	It is observed at the same level

#	#	Principles of Corporate Governance	Criteria for evaluation of compliance with corporate governance principles	Status of compliance with the corporate governance principle in 2018	Explanation of the deviation from Criteria for evaluation of compliance with the corporate governance principle	Change in compliance with the principle as compared to 2017
15.	2.1.2	The Board of Directors sets the main guidelines for the Company's business in the long term, evaluates and approves the key parameters of the operation and main business goals of the Company, evaluates and approves the strategy and business plans on the main types of Company business.	1. During the reported period, issues related to the progress of implementation and updating of the strategy, approval of the Company financial and business plan (budget), and review of criteria and parameters (including intermediate ones) of the fulfillment of Company strategy and business plans were reviewed by the Board of Directors meetings.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
16.	2.1.3	The Board of Directors determines the principles of and approaches to the organization of the risk management and Internal Control Framework in the Company.	1. The Board of Directors has determined the principles of and approaches to the organization of the risk management and Internal Control Frameworks in the Company. 2. In the reported period, the Board of Directors has evaluated the risk management and Internal Control Framework in the Company.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
17.	2.1.4	The Board of Directors determines the Company's policy on remuneration or/and compensation of costs for members of the Board of Directors, executive bodies and other Company key officials.	1. A policy (policies) for remuneration and compensation of costs for members of the Board of Directors, executive bodies and other key Company officials has been developed, implemented and approved by the Company Board of Directors. 2. During the reported period, matters related to such policy (policies) were reviewed by the Board of Directors meetings	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
18.	2.1.5	The Board of Directors plays a key role in prevention, identification and settlement of internal conflicts between bodies of the Company, shareholders of the Company and employees of the Company.	1. The Board of Directors plays a key role in prevention, identification and settlement of internal conflicts. 2. The Company has implemented a system for identification of transactions that involve a conflict of interest and a system of measures for resolving such conflicts.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed

#	#	Principles of Corporate Governance	Criteria for evaluation of compliance with corporate governance principles	Status of compliance with the corporate governance principle in 2018	Explanation of the deviation from Criteria for evaluation of compliance with the corporate governance principle	Change in compliance with the principle as compared to 2017
19.	2.1.6	The Board of Directors plays a key role in enforcing transparency of the Company, timely and full disclosure by the Company and easy access for shareholders to the Company documents	1. The Board of Directors has adopted Regulations on the information policy. 2. The company has determined persons who are responsible for the implementation of the information policy	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
20.	2.1.7	The Board of Directors controls the corporate governance practice of the Company and plays a key role in significant corporate events of the Company	1. In the reported period, the Board of Directors reviewed the matter of the Company corporate governance practice	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
<b>2.2 The Board of Directors is reporting to the shareholders of the Company</b>						
21.	2.2.1	Information on the operation of the Board of Directors is disclosed and provided to the shareholders	1. The Company Annual Report for the reported period contains information on the attendance of meetings by the Board of Directors and Committees, by individual Directors. 2. The Annual Report contains information on the main results of evaluation of the work of the Board of Directors that was performed during the reported period	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
22.	2.2.2	The Chairman of the Board of Directors is available for communications with the shareholders of the Company	1. The Company has a transparent procedure enabling shareholders to send their questions and state attitude to the Chairman of the Board of Directors	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
<b>2.3 The Board of Directors is an efficient and professional management body of the Company that is able to make objective and independent judgments and make resolutions in the best interest of the Company and its shareholders</b>						
23.	2.3.1	Only persons with an impeccable business and personal reputation and with the knowledge, skills, and experience that are necessary for making resolutions in the competency of the Board of Directors and for efficient implementation of its functions are elected members of the Board of Directors	1. The Company's procedure of evaluation of the efficiency of the Board of Directors includes the evaluation of professional qualifications of the members of the Board of Directors. 2. During the reported period, the Board of Directors (or its Nomination Committee) evaluated the candidates for the Board of Directors from the viewpoint of the necessary experience, knowledge, business reputation, absence of conflict of interest, etc.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed

#	#	Principles of Corporate Governance	Criteria for evaluation of compliance with corporate governance principles	Status of compliance with the corporate governance principle in 2018	Explanation of the deviation from Criteria for evaluation of compliance with the corporate governance principle	Change in compliance with the principle as compared to 2017
24.	2.3.2	Members of the Board of Directors are elected using a transparent procedure enabling the shareholders to be informed about the candidates in a sufficient scope to establish an idea of their personal and professional qualities.	1. In all cases of General Meetings of Shareholders in the reported period, the agenda of which includes matters of election of the Board of Directors, the Company provided biographical data of all the candidates to the shareholders, results of evaluation of such candidates by the Board of Directors (or its Nomination Committee) and information on the candidate's compliance with the independence criteria as per recommendations 102–107 of the Code, as well as the candidates' written consent for election to the Board of Directors.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
25.	2.3.3	The composition of the Board of Directors is balanced in terms of the qualifications, experience, knowledge and business qualities of its members, and is trusted by the shareholders	1. Within the framework of the Board of Directors evaluation procedure in the reported period, the Board of Directors analyzed its own needs as regards professional qualifications, experience and business skills.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
26.	2.3.4	The number of members of the Board of Directors enables the most efficient organization of its work, including the establishment of Committees of the Board of Directors and enables material minor shareholders to elect a candidate to the Board of Directors for whom they vote.	1. Within the framework of the Board of Directors evaluation procedure in the reported period, the Board of Directors analyzed its own needs as regards professional qualifications, experience and business skills.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed

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	2.4	<b>The Board of Directors includes a sufficient number of independent Directors</b>				
27.	2.4.1	An independent Director is a person with sufficient professionalism, experience, and independence to establish an independent attitude, and who is able to make objective and fair judgments independent from the influence of executive bodies of the Company, individual shareholder groups or other stakeholders. It must be taken into account that a candidate (an elected member of the Board of Directors) who is affiliated with the Company, its significant shareholder, significant counterparty or competitor of the Company or is affiliated with the state may not be regarded as independent under ordinary conditions.	1. In the reported period, all the independent members of the Board of Directors met all the criteria of independence as per the recommendations 102-107 of the Code or were declared independent by resolution of the Board of Directors.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
28.	2.4.2	An evaluation of compliance of candidates for members of the Board of Directors with the independence criteria is performed as well as a regular analysis of compliance of independent members of the Board of Directors with the independence criteria. In such evaluation, the content shall take priority over the form	1. During the reported period, the Board of Directors (or its Nomination Committee) made an evaluation of the independence of each candidate to the Board of Directors and presented the relevant opinion to the shareholders. 2. During the reported period, the Board of Directors (or its Nomination Committee) reviewed the independence of existing members of the Board of Directors, which the Company states in the Annual Report as independent Directors, at least once. 3. The Company has procedures determining the necessary acts of a member of the Board of Directors if he/ she is no longer independent including the duty to inform the Board of Directors of such fact in due time	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed

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29.	2.4.3	Independent Directors account for less than one third of the elected members of the Board of Directors	1. Independent Directors account for at least one third of the elected members of the Board of Directors.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
30.	2.4.4	Independent Directors play a key role in the prevention of internal conflicts in the Company and performance of significant corporate actions by the Company	Independent Directors (having no conflict of interest) make a preliminary evaluation of significant corporate actions that may involve a conflict of interest, and the results of such evaluation are delivered to the Board of Directors.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
	2.5	The Chairman of the Board of Directors promotes the most effective implementation of the functions assigned to the Board of Directors				
31.	2.5.1	An independent Director has been elected the Chairman of the Board of Directors or a senior independent Director has been appointed from the elected independent Directors and he/she coordinates the work of the independent Directors and cooperates with the Chairman of the Board of Directors.	1. The Chairman of the Board of Directors is an Independent Director or a Senior Independent Director has been appointed from among the Independent Directors. 2. The role, rights and liabilities of the Chairman of the Board of Directors (and, if applicable, the senior independent Director) are duly defined in the internal Company documents.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Improvement. The senior independent director was elected by a resolution of the Company's Board of Directors adopted at an in-person meeting on May 21, 2017 (Minutes No. 225 dated May 21, 2018)
32.	2.5.2	The Chairman of the Board of Directors provides a constructive atmosphere for the meetings, free discussion of the agenda items, and control over fulfillment of the resolutions of the Board of Directors.	1. The efficiency of the work of the Chairman of the Board of Directors was evaluated in the framework of the Board of Directors' efficiency evaluation during the reported period.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
33.	2.5.3	The Chairman of the Board of Directors takes the necessary action for timely delivery of all the information that is necessary for resolving on the agenda items to the members of the Board of Directors.	1. The duty of the Chairman of the Board of Directors to take the necessary action for timely delivery of all the information on the agenda items is stipulated by the internal Company documents.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed



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	2.6	<b>Members of the Board of Directors act fairly and reasonably in the best interest of the Company and its shareholders based on sufficient awareness and with due care and prudence.</b>				
34.	2.6.1	Members of the Board of Directors make resolutions in consideration of all the available information, in the absence of a conflict of interest, with equal attitude to the shareholders of the Company, in the framework of ordinary entrepreneurial risk.	1. It is stipulated by internal Company documents that a member of the Board of Directors must notify the Board of Directors if he/she has a conflict of interest in relation to any agenda item for the meeting of the Board of Directors or its Committee before the beginning of the discussion of the relevant agenda item. 2. It is stipulated by internal Company documents that a member of the Board of Directors must refrain from voting on any matter where he/she has a conflict of interest. 3. There is a Company procedure, which enables the Board of Directors to obtain professional advice on matters within its competency at the Company's expense	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
35.	2.6.2	The rights and duties of the Board of Directors members are clearly worded and stated in internal Company documents	The internal Company document clearly stating the rights and duties of the Board of Directors members is adopted and published.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
36.	2.6.3	Members of the Board of Directors have enough time to fulfill their duties.	1. Individual attendance of the Board of Directors and Committee meetings and the time spent on preparation for the meetings were accounted for in the framework of the Board of Directors evaluation procedure in the reported period. 2. Pursuant to the internal documents, members of the Board of Directors must notify the Board of Directors of their intention to become members of the management bodies of other organizations (save for the ones controlled or affiliated with the Company) and of the fact of such appointment.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partiall <input type="checkbox"/> not observed		Continues to be observed

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37.	2.6.4	All the members of the Board of Directors are equally able to access Company documents and data. Newly elected members of the Board of Directors are provided sufficient information about the Company and the operation of the Board of Directors as soon as possible.	1. Pursuant to internal Company documents, members of the Board of Directors are entitled to access documents and make inquiries concerning the Company and the organizations that it controls, and the executive bodies of the Company must deliver such data and documents. 2. The Company has a formal program of introductory events for newly elected members of the Board of Directors.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
	2.7	<b>Meetings of the Board of Directors, preparation for them and participation of members of the Board of Directors provide for efficient operation of the Board of Directors.</b>				
38.	2.7.1	Meetings of the Board of Directors are held as necessary subject to the scale of business and objectives of the Company at a given period of time.	1. In the reporting year, the Board of Directors held at least six meetings..	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
39.	2.7.2	The internal Company documents stipulate a procedure for preparation and holding of meetings of the Board of Directors, which enables the members of the Board of Directors to prepare for them properly.	1. The Company has adopted an internal document stipulating the procedure of preparation for and holding of meetings of the Board of Directors, which stipulates, in particular, that notification of the meeting shall be made at least five days before the meeting.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
40.	2.7.3	The form of a meeting of the Board of Directors is determined in view of the importance of the agenda items. The most important business is done at meetings in presentio.	1. It is stipulated by the Articles of Association or an internal document of the Company that the most important business (as per the list in recommendation 168 of the Code) shall be done at meetings in presentio	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed

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41.	2.7.4	Resolutions on the most important issues of the Company's business shall be made at the meeting of the Board of Directors by a qualified majority or a majority of votes of all the elected members of the Board of Directors	1. 1. It is stipulated by the Articles of Association that the resolutions on the most important issues (as stated in recommendation 170 of the Code) shall be made at the Board of Directors meeting by a qualified majority of at least three quarters or a majority of votes of all the elected members of the Board of Directors.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
	2.8	<b>The Board of Directors establishes Committees for preliminary review of the most important matters of the Company's business.</b>				
42.	2.8.1	For a preliminary review of matters related to control over the financial and business operations of the Company, there is an Audit Committee consisting of independent Directors.	1. The Board of Directors has established an Audit Committee consisting solely of independent Directors. 2. Internal Company documents define the objectives of the Audit Committee, including objectives as per the recommendation 172 of the Code. 3. At least one member of the Audit Committee, who is an independent Director, has experience and knowledge in preparation, analysis, evaluation and audit of financial (accounting) statements. 4. In the reported period, meetings of the Audit Committee were held at least once a quarter			Continues to be observed
43.	2.8.2	For a preliminary review of matters related to the establishment of an efficient and transparent remuneration policy, there is a Remuneration Committee consisting of independent Directors and headed by an independent Director who is not the Chairman of the Board of Directors.	1. The Board of Directors has established a Remuneration Committee consisting solely of independent Directors. 2. The Chairman of the Remuneration Committee is an independent Director who is not the Chairman of the Board of Directors. 3. Internal Company documents define the objectives of the Remuneration Committee including objectives as per the recommendation 180 of the Code			Continues to be observed
44.	2.8.3	For a preliminary review of matters related to human resource planning (succession planning), professionalism and efficiency of the Board of Directors, there is a Nominations Committee (Appointment Committee, Human Resource Committee), most members of which are Independent Directors	1. The Board of Directors has established a Nominations Committee (or its objectives as per the recommendation 186 of the Code are resolved in the framework of another Committee), most members of which are Independent Directors. 2. Internal documents of the Company determine the objectives of the Nominations Committee (or a different Committee with combined functionality) including objectives as per the recommendation 186 of the Code.		The objectives of the Nominations Committee are resolved in the framework of the Nominations and Remuneration Committee.	Continues to be observed

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45.	2.8.4	In view of the scale of business and risk, the Company Board of Directors assured that the composition of its Committees fully matches the goals of the Company's operation. Additional Committees were either established or recognized unnecessary (Strategy Committee, Corporate Governance Committee, Ethics Committee, Risk Management Committee, Budget Committee, Health, Safety and Environment Committee, etc.).	1. In the reported period, the Board of Directors addressed the issue of whether the composition of its Committees matches the objectives of the Board of Directors and the goals of the Company's operation. Additional Committees were either established or recognized as unnecessary.			Continues to be observed
46.	2.8.5	The composition of the Committees has been determined so that it enables comprehensive discussion of matters that are reviewed preliminarily with respect to different opinions.	1. Committees of the Board of Directors are headed by independent directors. 2. Internal documents (policies) of the Company provide for regulations under which persons not included in the audit committee, the nomination committee, and remuneration committee may attend committee meetings only by invitation of the Chairman of the respective committee.		There is partial compliance with the recommendation of clause 1 in the section on the guidelines of the Strategy of the Committee of the Board of Directors with an independent director. Initially, the formation of such committee was not mandatory, and the requirements for its composition were and are absent in legislation The Strategy and Investment Committee has historically been elected not only from among members of the Board of Directors, including the Chairman of the Committee. However, as an alternative mechanism, the Regulation on the Strategy and Investment Committee establishes the procedure for forming the Committee based on which members of the Board of Directors and representatives of independent directors take priority in elections. Based on the results of the assessment and self-assessment of the Board of Directors and its committees, the Company considers this practice to be feasible and effective. The issue of the Chairman of the Strategy and Investment Committee was considered during a self-assessment of the activities of the Board of Directors in 2018. The issue of the Chairman of the Committee will once again be considered by the new Board of Directors after the AGMS, which will be held in 2019.	No change

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47.	2.8.6	The chairpersons of the committees regularly inform the Board of Directors and its Chairman of the work of their committees.	During the reporting period, the chairpersons of the committees regularly reported on the work of the committees to the Board of Directors.			Continues to be observed
	2.9	<b>The Board of Directors ensures the assessment of the performance of the Board of Directors, its committees and members of the Board of Directors.</b>				
48.	2.9.1	Assessment of the performance of the Board of Directors aims at the determination of the efficiency of the Board of Directors, its committees and members of the Board of Directors, compliance of their performance to the development needs of the Company, activation of the performance of the Board of Directors and identification of areas where such performance may be improved.	1. Self-assessment and external assessment of the performance of the Board of Directors carried out during the reporting period included assessment of the performance of committees, individual members of the Board of Directors and the Board of Directors in general. 2. The results of self-assessment or external assessment of the Board of Directors carried out during the reporting period were considered at a physical meeting of the Board of Directors.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
49.	2.9.2	The work of the Board of Directors, committees and members of the Board of Directors is assessed on a regular basis at least once a year. At least once in three years, the Company engages an external entity (advisor) to carry out an independent assessment of the performance of the Board of Directors.	1. At least once during the last three reporting periods, the Company engaged an external entity (advisor) to carry out an independent assessment of the performance of the Board of Directors.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed

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	3.1	<b>The Corporate Secretary of the Company shall efficiently interact with shareholders, coordinate the Company's activities as regards the protection of shareholders' rights and interests, support efficient operation of the Board of Directors</b>				
50.	3.1.1	The Corporate Secretary has the knowledge, experience, and qualifications sufficient for his/her duties, an impeccable reputation and the trust of shareholders.	1. The Company adopted and disclosed an internal document – Regulation on Corporate Secretary. 2. The Company's website in the Internet network contains the biographic information on the Corporate Secretary, as does the annual report, which is as detailed as that on the members of the Board of Directors and the executive management of the Company	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
51.	3.1.2	The Corporate Secretary has enough independence from Company executive bodies and has the necessary power and resources for his/her objectives.	1. The Board of Directors approves the appointment, dismissal, and additional remuneration of the Corporate Secretary	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
	4.1	<b>The remuneration paid by the Company is sufficient to attract, motivate and retain individuals possessing the competence and expertise the Company needs. Payment of remuneration to the members of the Board of Directors, executive bodies and other key management personnel of the Company is performed in accordance with the remuneration policy adopted by the Company.</b>				
52.	4.1.1	The remuneration to the members of the Board of Directors, executive bodies and other key management personnel ensures sufficient motivation for their efficient work making it possible for the Company to engage and retain competent qualified specialists. The Company refrains from granting remuneration above the necessary level and an unjustified large gap between the remuneration levels of the said individuals and the Company's employees.	1. The Company has adopted an internal document(s) – a policy (policies) for remuneration of members of the Board of Directors, executive bodies and other key management personnel which clearly determines the approaches to the remuneration of the aforesaid individuals	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed

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53.	4.1.2	The remuneration policy of the Company has been developed by the Remuneration Committee and approved by the Board of Directors of the Company. The Board of Directors supported by the Remuneration Committee ensures control over implementation of the remuneration policy of the Company and revises and adjusts it, if necessary	1. During the reporting period, the Remuneration Committee considered the remuneration policy (policies) and its (their) implementation practice and, when necessary, provided respective recommendations to the Board of Directors.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
54.	4.1.3	The Company's remuneration policy includes transparent mechanisms for determination of the remuneration of the members of the Board of Directors, executive bodies and other key management personnel and also regulates all kinds of payments, benefits and preferences provided to those individuals	The Company's remuneration policy (policies) includes (include) transparent mechanisms for determination of the remuneration for the members of the Board of Directors, executive bodies and other key management personnel and also regulates (regulate) all kinds of payments, benefits and preferences provided to those individuals.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
55.	4.1.4	The Company determines a policy for compensation of expenses specifying the expenses subject to compensation and the level of service members of the Board of Directors, executive bodies and other key management personnel of the Company may demand. Such policy may be a constituent part of the Company's remuneration policy	1. The remuneration policy (policies) or other internal documents establish rules for compensation of costs for members of the Board of Directors, executive bodies and other key management personnel of the Company.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed

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	4.2	<b>The system of remuneration for the members of the Board of Directors ensures alignment of the financial interests of the directors and those of the shareholders.</b>				
56.	4.2.1	The Company pays fixed annual remuneration to members of the Board of Directors. The Company does not pay remuneration for participation in particular meetings of the Board or of the Committees of the Board of Directors. The Company does not use any short-term incentives or additional financial incentives in relation to members of the Board of Directors	1. Fixed annual remuneration is the only financial remuneration for the members of the Board of Directors for their work during the reporting period.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
57.	4.2.2	Long-term holding of the shares of the Company largely facilitates alignment of the financial interests of the members of the Board of Directors and long-term shareholder interests. The Company does not make the right of share disposition dependent on the achievement of any specific performance indicators and the members of the Board of Directors do not participate in option programs.	1. If the internal document (documents), i.e. the Company's remuneration policy (policies) provides for granting shares of the Company to the members of the Board of Directors, clear rules of holding such shares by the members of the Board of Directors should be provided for and disclosed which would be aimed at stimulation of long-term holding of such shares.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
58.	4.2.3	The Company does not provide for any additional payments or compensations in the event of early termination of office of the members of the Board of Directors due to change of control over the Company or other circumstances.	1. The Company does not provide for any additional payments or compensations in the event of early termination of office of the members of the Board of Directors due to change of control over the Company or other circumstances.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed



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	4.3	The system of remuneration for members of executive bodies and other key management personnel of the Company provides for a dependence of the remuneration on the Company's performance and their personal contribution to it.				
59.	4.3.1	The remuneration of members of executive bodies and other key management personnel of the Company is determined so as to ensure reasonable correlation between the fixed part of the remuneration and the variable part depending on the company's performance and employees' personal contribution to it.	1. During the reporting period, annual performance indicators approved by the Board of Directors were used to determine the amount of the variable part of the remuneration of members of executive bodies and other key management personnel of the Company. 2. During the last assessment of the system of remuneration of members of executive bodies and other key management personnel of the Company, the Board of Directors (the Remuneration Committee) made sure that the Company used an efficient correlation between the fixed part of the remuneration and the variable part. 3. The Company has a procedure ensuring repayment to the Company of premium payments unjustly received by members of executive bodies and other key management personnel of the Company	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed

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60.	4.3.2	The Company has implemented a key long-term incentive plan for the members of executive bodies and other key management personnel with Company shares (options or other derivative financial instruments with Company shares as a basic asset)	<p>1. The Company has implemented a key long-term incentive plan for the members of executive bodies and other key management personnel with Company shares (financial instruments based on Company shares).</p> <p>2. The long-term incentive plan for members of executive bodies and other key management personnel of the Company provides that the right of disposal of shares or other financial instruments shall arise not earlier than three years after they are granted. The right of their disposal is determined by achievement of certain performance indicators of the Company.</p>	<input type="checkbox"/> observed <input type="checkbox"/> observed partially <input checked="" type="checkbox"/> not observed	<p>Clauses 1 and 2 not observed.</p> <p>The Long-Term Incentive Program for members of the Company's executive bodies and other key executives was approved by the Board of Directors on January 29, 2016 and did not envisage any restrictions in accordance with clause 2 of the recommendations of the Code.</p> <p>The option program was calculated for four years, while the right to sell shares as part of the Program took effect two years after the start of its implementation and remained in effect for two consecutive years, taking into account the benchmarks for growth in the Company's capitalization defined by the Company's Strategy.</p> <p>Participants' right to sell shares was not tied to achieving Company's performance indicators so as not to replicate other incentive tools used by management, specifically the variable part of management's annual remuneration, which is directly dependent on the performance of key performance indicators approved by the Board of Directors and the achievement of the goals and objectives of the Company's Long-Term Development Program.</p> <p>This discrepancy is limited in time by the duration of the Option Program, i.e. until 2018. At the time of the approval of this Report, the Option Program has been completed.</p> <p>The introduction of a Long-Term Incentive Program for the next time horizon should be considered after the Company's Strategy/Long-Term Development Program is updated, which is scheduled for 2019. When developing a new Long-Term Incentive Program, the Company will consider the recommendations of the Corporate Governance Code.</p>	Deterioration due to the implementation of the Long-Term Incentive Program and the fact that the new one is in the development stage

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61.	4.3.3	The compensation amount ("golden parachute") paid by the Company in the event of early termination of office of members of executive bodies or key management personnel at the initiative of the Company and in the event of an absence of any unscrupulous practices on their part shall not exceed twofold fixed part of their annual remuneration	1. The compensation amount (golden parachute) paid by the Company in the event of early termination of office of members of executive bodies or key management personnel at the initiative of the Company and in the event of absence of any unscrupulous practices on their part did not exceed twofold fixed part of their annual remuneration during the reporting period.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
	5.1	<b>The Company established an efficient risk management and Internal Control Framework aimed at providing reasonable assurance of achievement of objectives set by the Company.</b>				
62.	5.1.1	The Board of Directors has determined the principles of and approaches to the organization of the risk management and Internal Control Frameworks in the Company	1. The functions of different governing bodies and units of the Company in the risk management and Internal Control Framework are clearly determined in internal documents/a respective policy of the Company approved by the Board of Directors.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
63.	5.1.2	The executive bodies of the Company ensure the creation and sustaining performance of an effective risk management and Internal Control Framework in the company	1. The executive bodies of the Company ensured allocation of functions and powers in respect of risk management and internal control to managers of units and departments subordinate to them.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
64.	5.1.3	The risk management and Internal Control Framework in the Company ensures objective, firm and clear understanding of the current state and prospects of the Company, integrity and transparency of the Company's reporting, reasonableness, and acceptability of risks taken by the Company.	1. The Company approved a policy combating corruption. 2. The Company developed an accessible channel to inform the Board of Directors or the Audit Committee of the Board of Directors on cases of breach of the legislation, internal procedures, and the code of conduct of the Company.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed

#	#	Principles of Corporate Governance	Criteria for evaluation of compliance with corporate governance principles	Status of compliance with the corporate governance principle in 2018	Explanation of the deviation from Criteria for evaluation of compliance with the corporate governance principle	Change in compliance with the principle as compared to 2017
65.	5.1.4	The Board of Directors of the Company takes necessary measures to make sure that the risk management and Internal Control Frameworks in the Company conforms to the principles of and approaches to its organization and is applied effectively	1. In the reporting period, the Board of Directors or the Audit Committee of the Board of Directors evaluated the efficiency of the risk management and Internal Control Framework of the Company. Information on the basic results of such assessment was included in the Company's annual report.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
	5.2	<b>The Company shall arrange for an internal audit for systematic and independent evaluation of reliability and efficiency of the risk management and Internal Control Framework and the practice of corporate management.</b>				
66.	5.2.1	To conduct an internal audit, the Company established a separate unit or engaged an independent external entity. Functional and administrative accountability of the internal audit unit are delimited. The internal audit unit reports functionally to the Board of Directors.	1. To conduct an internal audit, the Company established a separate internal audit unit accountable functionally to the Board of Directors or engaged an independent external entity with similar accountability	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
67.	5.2.2	The internal audit unit assesses the efficiency of the Internal Control Framework, the efficiency of the risk management system and the corporate management system. The Company uses common standards of activity in the field of internal audit	1. During the reporting period, an assessment of the efficiency of the internal control and risk management system was performed as part of an internal audit. 2. The Company uses common approaches to internal control and risk management.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
	6.1	The Company and its operations are transparent to shareholders, investors, and other stakeholders.				
68.	6.1.1	The Company developed and implemented an informational policy ensuring efficient informational interaction of the Company, shareholders, investors and other stakeholders.	1. The Board of Directors of the Company approved the informational policy of the Company developed taking into account recommendations of the Code. 2. The Board of Directors (or one of its Committees) considered the issues regarding compliance of the Company with its informational policy at least once within the reporting period.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed

#	#	Principles of Corporate Governance	Criteria for evaluation of compliance with corporate governance principles	Status of compliance with the corporate governance principle in 2018	Explanation of the deviation from Criteria for evaluation of compliance with the corporate governance principle	Change in compliance with the principle as compared to 2017
69.	6.1.2	The Company discloses information about the system and practices of corporate management, including detailed information on the observance of the principles and recommendations of the Code.	1. The Company discloses information about the system of corporate management in the Company and the general principles of corporate management used in the Company, including on the Company's website in the Internet. 2. The Company discloses information on the composition of executive bodies and the Board of Directors, independence of the members of the Board and their membership in the Committees of the Board of Directors (as defined in the Code). 3. If there is a person controlling the Company, the Company shall publish a memorandum of the controlling person in respect of the intentions of such person regarding corporate governance in the Company	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
	6.2	The Company shall disclose in a timely manner complete, up-to-date and fair information on the Company to enable making a grounded decision by shareholders of the Company and by investors.				
70.	6.2.1	The Company shall disclose information in accordance with the principles of regularity, consistency and promptness as well as accessibility, fairness, completeness, and comparability of disclosed information.	The information policy of the Company determines approaches to and criteria for determination of information which can affect materially the assessment of the Company and the value of its securities as well as procedures ensuring prompt disclosure of such information. If the Company's securities are traded on foreign exchanges, the disclosure of material information in the Russian Federation and in such markets shall be performed synchronously and equally during the reporting year. If foreign shareholders own a significant amount of the Company shares, the disclosure of information during the reporting year was performed both in Russian and in a widespread foreign language	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed

#	#	Principles of Corporate Governance	Criteria for evaluation of compliance with corporate governance principles	Status of compliance with the corporate governance principle in 2018	Explanation of the deviation from Criteria for evaluation of compliance with the corporate governance principle	Change in compliance with the principle as compared to 2017
71.	6.2.2	The Company avoids a formal approach to information disclosure and discloses material information about its activities, even if publication of such information is not required by law	1. During the reporting period, the Company disclosed the annual and semi-annual financial statements prepared in accordance with IFRS. The Annual report of the Company for the reporting period includes annual financial reporting prepared in accordance with IFRS and the auditor's opinion. 2. The Company discloses full information about the capital structure of the Company in accordance with Recommendation 290 of the Code in the Annual report and at the Company's website in the Internet network.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
72.	6.2.3	The annual report which is a most important tool of informational interaction with shareholders and other stakeholders contains information, which makes it possible to assess the Company's performance results during the year.	1. The annual report contains information on the key aspects of the Company's operation and its financial performance. 2. The Company's annual report contains information on the environmental and social aspects of the Company's activities.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
	6.3	<b>The Company provides information and documents upon shareholders' requests in accordance with the principles of equal and unhindered access.</b>				
73.	6.3.1	Provision by the Company of information and documents upon shareholders' requests is performed in accordance with the principles of equal and unhindered access	1. The informational policy of the Company determines the unhindered access by shareholders to information, including information on entities controlled by the Company, upon shareholders' request.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
74.	6.3.2	By provision by the Company of information to shareholders, a reasonable balance is ensured between the interests of particular shareholders and the interests of the Company which is interested in keeping important commercial information which may impact materially its competitiveness confidential.	1. During the reporting period, the Company did not reject any shareholders' requests for information or such requests were reasonable. 2. In cases determined by the informational policy of the Company, shareholders are warned about the confidential nature of information and assume the obligation of keeping it confidential.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed

#	#	Principles of Corporate Governance	Criteria for evaluation of compliance with corporate governance principles	Status of compliance with the corporate governance principle in 2018	Explanation of the deviation from Criteria for evaluation of compliance with the corporate governance principle	Change in compliance with the principle as compared to 2017
	7.1	Actions that significantly affect or may affect the shareholding structure and financial standing of the Company and, subsequently, the interests of its shareholders (material corporate actions) are performed on fair terms ensuring observance of the rights and interests of shareholders and other stakeholders.				
75.	7.1.1	Material corporate actions are reorganization of the Company, the acquisition of 30 or more percent of the Company's voting stock (merger), performance by the Company of material transactions, increase or reduction of the registered capital of the Company, listing and delisting of the Company's shares and other activities that may result in a material change of shareholders' rights or violation of their interests. The Articles of Association of the Company determine the list (criteria) of transactions and other actions which are material corporate actions and such actions are attributed to the competence of the Board of Directors of the Company	1. The Articles of Association of the Company determine the list of transactions and other actions which are material corporate actions and criteria for their determination. Resolutions in regard of material corporate actions are attributed to the competence of the Board of Directors. In cases where a performance of such corporate actions is directly attributed by law to the competence of the General Shareholder Meeting, the Board of Directors provides relevant recommendations to the shareholders. 2. The Article of Association of the Company includes at least the following as material corporate actions: reorganization of the Company, the acquisition of 30 or more percent of the Company's voting stock (merger), a performance by the Company of material transactions, increase or reduction of the authorized capital of the Company, listing, and delisting of the Company's shares..	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
76.	7.1.2	The Board of Directors plays a key role in decisionmaking and development of recommendations regarding material corporate actions; the Board of Directors is guided by the position of independent Directors of the Company	1. The Company has a procedure under which independent directors state their position on material corporate actions before they are approved.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed

#	#	Principles of Corporate Governance	Criteria for evaluation of compliance with corporate governance principles	Status of compliance with the corporate governance principle in 2018	Explanation of the deviation from Criteria for evaluation of compliance with the corporate governance principle	Change in compliance with the principle as compared to 2017
77.	7.1.3	In material corporate actions that affect the rights and legitimate interests of shareholders, there are equal conditions provided to all the shareholders of the Company and, if the legal remedies for the protection of the rights and legitimate interests of shareholders are insufficient, also additional measures protecting the rights and legitimate interests of shareholders of the Company. The Company is guided not only by compliance with formal legal requirements, but also by the corporate governance principles as stated in the Code.	1. The Articles of Association of the Company establish lower minimal criteria of classifying transactions as material corporate actions than those provided by the law, taken into account the specific nature of its operations. 2. During the reporting period, all material corporate actions underwent the approval procedure before their performance.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed
	7.2	The Company provides a procedure for taking any material corporate actions that would enable its shareholders to promptly receive full information about such actions in due time and influence them, and that would also guarantee that the shareholder rights are observed and duly protected in the course of taking such actions				
78.	7.2.1	Information about material corporate actions is disclosed providing explanations concerning the reasons for, conditions, and consequences of such actions.	1. During the reporting period, the Company disclosed in a timely and detailed manner the information on significant corporate actions of the company, including the grounds and timing of such actions.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed



#	#	Principles of Corporate Governance	Criteria for evaluation of compliance with corporate governance principles	Status of compliance with the corporate governance principle in 2018	Explanation of the deviation from Criteria for evaluation of compliance with the corporate governance principle	Change in compliance with the principle as compared to 2017
79.	7.2.2	Rules and procedures in relation to material corporate actions taken by the company are set out in its internal documents.	<p>1. The internal documents of the Company provide for a procedure of engaging an independent appraiser to appraise the value of property disposed of or acquired in a major transaction or a related party transaction.</p> <p>2. The internal documents of the Company provide for a procedure of engaging an independent appraiser to appraise the value of the acquisition and reacquisition of shares of the Company.</p> <p>3. The internal documents of the Company provide for an extended list of the grounds on which members of the Board of Directors of the Company and other eligible persons are recognized to be interested in the Company's transactions.</p>	<input type="checkbox"/> observed <input checked="" type="checkbox"/> observed partially <input type="checkbox"/> not observed		Improvement. The main approaches to hiring an independent appraiser when PJSC Inter RAO concludes major transactions and related-party transactions were approved by a resolution of the Company's Board of Directors on August 29, 2017 (Minutes No. 230 dated August 31, 2018). This document also regulates the hiring of an independent appraiser to value the acquisition and repurchase of shares.



Information about the compliance with the Corporate Governance Code is also disclosed on the website of the Company at [http://www.interrao.ru/investors/disclosure/corporate\\_behavior/](http://www.interrao.ru/investors/disclosure/corporate_behavior/)

## 5. GRI CONTENT INDEX

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GRI SRS		Page/ Comment
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# 6. GROUP'S SIGNIFICANT RISKS: DESCRIPTION AND MEASURES FOR RISK MANAGEMENT

The functioning of Inter RAO Group as a diversified energy holding is fraught with risks, the effective management of which is a fundamental element of the strategy and a constituent part of the Group's successful operation.

Refer to Strategic Report for detailed information about the Company's Enterprise Risk Management Framework.

No	Risk name, description	Risk management measures
1	<b>CORRUPTION RISKS</b> The Group takes all efforts to exclude the probability of corrupt practices that may entail penalties and sanctions for the Group's legal entities and officials or compromise the Group's business reputation and affect the trust of stakeholders. Conducting their labor activity, employees of the Company and the Group companies strictly adhere to the law and the highest ethical standards which implies a rejection of any forms of fraud and corruption.	To prevent the risks of corruption and fraud, the Group takes appropriate measures. The Company and the Group companies have an anti-fraud and corruption system, an approved anti-corruption policy <sup>1</sup> , and authorized commissions and workgroups competent to address the issues pertaining to the counteraction of fraud and corruption and the management of conflicts of interest. Procedures for identifying and assessing corruption risks <sup>2</sup> , followed by the creation and maintenance of a list of corruption-hazardous functions and a list of posts related to corruption risks <sup>3</sup> , are held on a regular basis. The Board of Directors is provided with regular reports on the anti-corruption measures taken and the efficiency of the anti-fraud and corruption system.
2	<b>FINANCIAL RISKS</b> In the reporting period, the Group focused on managing the following financial risks:	
2.1	<b>Currency risk</b> The nature of the Group's activities, including cross-border supplies of electricity, management of foreign assets, implementation of international investment projects, etc., makes the Group exposed to currency risk which may lead to changes in cash flows and revaluation of the Group's assets and liabilities denominated in foreign currencies.	To manage the currency and interest rate risks, the Group: <ul style="list-style-type: none"> <li>assesses the currency and interest rate risks using simulation modeling, scenario modeling, and stress testing;</li> <li>manages the Group's currency position, credit and deposit portfolios in accordance with the approved methodology;</li> <li>makes transactions on the financial derivative market with a view to hedge currency and interest rate risks.</li> </ul>
2.2	<b>Interest rate risk</b> The revision of credit rates for borrowed funds upon their refinancing, the exercise by the banks of their rights to change the interest rate on credits (loans) within a fixed agreement term, and the sensitivity of certain financial liabilities to changes in market interest rates expose the Group to interest rate risk.	

<sup>1</sup> Fraud and Corruption Management Policy of PJSC Inter RAO (Approved by the decision of the Board of Directors of PJSC Inter RAO of September 29, 2016 (Minutes No. 180 of November 3, 2016).

<sup>2</sup> In accordance with the Methodology for identifying and evaluating (analyzing) corruption risks (Order No. IRAO / 618 of December 29, 2016).

<sup>3</sup> The lists based on the results of the evaluation in 2018 were approved by Order No. IRAO / 674 of December 25, 2018

No	Risk name, description	Risk management measures
2.3	<b>Credit risk of counterparty banks</b> A delay or failure by the Group's counterparty banks to fulfill their obligations, including as a result of their banking license revocation, a moratorium imposed on creditor claims, etc., entails the Group's exposure to credit risk that may lead to changes in the amount of reserves and deviation of the Group's net profit from the value set in the business plan.	To manage credit risk, the Group: <ul style="list-style-type: none"> <li>assesses the banks' creditworthiness, following which internal ratings are assigned to the banks, and limits on operations with counterparty banks are set and monitored. Maintains overall group limits on deposit operations with counterparty banks approved by the Company's executive governing body, and monitors the financial status of the counterparty banks on a monthly basis (Russian perimeter). Makes the decision to revise the group limits as may be necessary. Controls compliance with the established group limits on deposit operations with counterparty banks;</li> <li>takes measures to reduce overdue receivables;</li> <li>analyzes the counterparties for their solvency and financial stability and the accounts receivable are monitored on an annual basis;</li> <li>prepares legislative initiatives and works as a member of inter-agency commissions for the settlement of payment arrears for heat and power resources;</li> <li>arranges pretrial and claim-related work with nonpaying counterparties;</li> <li>assesses the solvency and financial stability of the controlled entities based on their Internal Credit Rating, which implies a qualitative and quantitative assessment of their activities;</li> <li>takes measures directed towards maintaining and increasing the Internal credit rating of subsidiaries.</li> </ul>
3.	<b>INDUSTRY RISKS</b> The nature of the activities of Inter RAO Group as a diversified energy holding determines its exposure to the industry risks that are inherent in various segments of the power industry.	
3.1	<b>RISKS OF THE GENERATION SEGMENT</b>	
3.1.1	<b>The risk of changes in the Wholesale Electricity and Capacity Market and/or restrictive measures imposed by the government</b> Making amendments to the existing rules of the wholesale electricity and capacity market may cause the Group's financial performance to deteriorate from the sale of electricity and capacity. Changes in the mechanism for selecting a composition of included generating equipment (SCIGE) may lead to increasing the volume of the price-taking offers on the DAM and creating low DAM prices, which would reduce the marginal profit of the Group.	To manage these risks, the Group: <ul style="list-style-type: none"> <li>takes part in the workgroups of the Ministry of Energy of the Russian Federation and submits proposals regarding generation issues to the Methodological Council of the Federal Antimonopoly Service and the Supervisory Council of the NP Market Council Association; _ forecasts change in the workflows and modes, optimizes the composition of the operating equipment in case of such changes, and interacts with JSC SO UES; _ controls the measures taken within the scope of repair and investment programs, including in terms of schedules, volumes and quality of repair, construction and assembly works;</li> <li>audits technical safety and controls the measures taken based on investigations of process violations;</li> <li>develops plans of organizational and technical measures based on the analysis of the breakdown rate with regard to the indicators and the specifics of each branch and intended to ensure efficient repair and maintenance of the primary and ancillary equipment to reduce the breakdown rate, to increase reliability and efficiency, and to control the fulfillment of measures based on the investigation reports of process violations;</li> </ul>
3.1.2	<b>Day-ahead market (DAM) price risk</b> Changes in the market environment related to increased competition on DAM through changes in the volumes of production by industrial generating assets (NPPs, HPPs, CCGTs introduced under the CDA, and new CCGTs), as well as the dynamics of fuel prices (gas, coal) cause price fluctuation on the energy markets, which leads to deviations from the planned value of the Group's marginal profit.	



No	Risk name, description	Risk management measures
3.1.3	<b>The risk of reduced guaranteed return on investments under the capacity delivery contracts (CDA) and the share of costs of a CDA object compensated at the expense of capacity fees</b> The dependence of the guaranteed return on investments under CDA on the average return on long-term government liabilities (LGL) determines a possible deviation from the estimated capacity price under CDAs and the proceeds from a capacity sale under CDAs with respect to the values established in the business plan. The necessity to specify the value of compensable costs reflecting the expected profit from electricity sales as regards the actual value of profits for the period preceding the adjustment leads to the deviation of the proceeds earned by CDA objects as regards the values established in the business plan..	<ul style="list-style-type: none"> <li>plans production repair, reconstruction and re-equipment programs based on the breakdown rate analysis;</li> <li>monitors on an ongoing basis the condition of the equipment and the climate factors, and informs the core units in a timely manner of any significant risks that may affect the condition of the equipment;</li> <li>optimizes fuel balance, uses long-term fuel supply contracts, creates fuel reserves, and monitors the quality of the fuel supplied;</li> <li>promptly provides supporting materials and estimates, taking into account all expected expenses and shortfalls in the income of past periods while handling tariff applications and approving the necessary gross proceeds;</li> <li>disputes any tariff and balance resolutions in compliance with industry laws;</li> <li>optimizes the balance of thermal energy and participates in the actualization of heat supply schemes for municipal entities in the regions where the Group's thermal assets are present, in order to ensure that the heat supply schemes are in accordance with the interests of the Group's thermal controlled entities;</li> <li>mitigates harmful and hazardous production factors, meets the mandatory fire, health, and safety requirements, and observes its local safety regulations;</li> <li>implements measures to optimize the process of revising or establishing standard consumption rates for utility services that exclude insufficient receipt of proceeds in the territories of presence of Inter RAO Group's controlled heat supply and power supply companies;</li> <li>elaborates measures aimed at preventing departure or returning previously departed consumers of thermal energy, expanding existing supply markets for thermal energy while connecting with new consumers and setting unregulated prices for consumers of heat energy released by steam;</li> <li>ensures that the interests of Inter RAO Group are reflected in the regulatory legal acts in the field of heat supply in order to create conditions for improving the efficiency of the heat supply activities of Inter RAO Group's controlled entities;</li> <li>takes part in actualizing heat supply schemes for municipal entities in the regions where thermal assets of Inter RAO Group are present.</li> </ul>
3.1.4	<b>The risk of reduced productive supply of heat energy</b> The decrease in the productive supply of heat power due to seasonal temperature variations, cessation/reduction of consumption by major heat consumers, the establishment of standard consumption rates below actual consumption, and excessive consumption of utility services for communal needs may lead to adverse deviations from the target marginal profits.	
3.1.5	<b>The risk of unfavorable tariff balance resolutions in the field of heat supply made by the regulator</b> Unfavorable tariff balance resolutions may lead to a decrease in the Group's necessary gross proceeds (NGP) received from the sale of heat energy on the retail market down to a level which would not allow it to compensate for the expenses of functioning as a unified heat supply organization.	
3.1.6	<b>The risk of reduced equipment availability</b> Equipment failures at the Group's production units, high rate of fixed asset depreciation, and changes in the work schedules of power generating units enhance the likelihood of emergencies, which reduces equipment availability and may lead to financial losses for the Group (including in the form of unpaid available capacity, losses on the balancing market at own instance, costs for repairs and commissioning or lost profit from underproduction of electricity).	
3.1.7	<b>Fuel supply risks</b> Value appreciation of the fuel component (being the main item in the cost of electricity production) due to increased prices for energy carriers and/or their transportation may lead to a decrease in marginal profits..	
3.1.8	<b>Risks of industrial injury</b> Violations of the occupational safety rules, negligence while on duty, and the effect of harmful production factors may cause accidents/professional disease precedents among personnel.	
3.1.9	<b>Environmental risks</b> Changing the balance of burning carbon fuels towards the solid ones leads to an increase in the impact on the atmosphere through emission of pollutants and greenhouse gases. The use of coals with greater ash content determines the growth of ash and slag wastes and the need to organize additional space for their placement.	



No	Risk name, description	Risk management measures
3.2	<b>Risks of the supply segment</b>	
3.2.1	<b>The risk of unfavorable tariff balance resolutions made by the regulator</b> Unfavorable tariff balance resolutions may lead to a decrease in the Group's necessary gross proceeds (NGP) received from the sale of electricity (capacity) on the retail market down to a level that does not allow it to compensate for the expenses of functioning as a guaranteed supplier.	To manage these risks, the Group: <ul style="list-style-type: none"> <li>• promptly provides supporting materials and estimates, taking into account all expected expenses and shortfalls in the income of past periods while handling tariff applications and approving the necessary gross proceeds;</li> <li>• disputes any tariff and balance resolutions in compliance with industry laws;</li> <li>• constantly monitors the clients from the risk group and forms counter offers from the Group's independent power supply companies if any competitive retailers appear;</li> <li>• increases the quality of customer services and develops distance and interactive communication channels and client services.</li> </ul>
3.2.2	<b>The risk of reduced electricity and capacity sales (productive supply)</b> Seasonal temperature variations, as well as the loss of clients because of their withdrawal in favor of competitive supply companies and WECM entry, may lead to a decrease in electricity and capacity output and failure to earn the expected marginal profit.	
3.3.	<b>Risks of the trading segment</b>	
3.3.1	<b>Foreign trade price risk</b> Adverse price changes, including changes in the prices for electricity and/or capacity in the spot segments of WECM, changes in the prices under foreign economic contracts, and increased cost of services provided by infrastructure organizations may lead to a decline of the Group's marginal profit.	To manage these risks, the Group: <ul style="list-style-type: none"> <li>• manages its trade portfolio on the domestic and foreign markets to ensure return on its trade operations at the target level;</li> <li>• enters into contracts with counterparties for electricity (capacity) purchase/sale at a fixed price;</li> <li>• takes part in inter-agency working groups, such as the Association "NP Market Council," JSC SO UES, the Federal Grid System of Unified Energy System PJSC, and representatives of the market community, and forms joint proposals on making changes to the regulatory framework and models and rules of WECM to take into account the foreign trade specifics;</li> <li>• takes part in international working groups of the Electricity Council of the Commonwealth of Independent States, BRELL, KOTK, EurAsEC, and the Eurasian Economic Commission to reconcile the WECM rules with the rules of foreign power markets and to establish uniform technical standards and rules regulating the parallel IPS/UPS operation</li> </ul>
3.3.2	<b>The risk of changes in foreign trade supply volumes</b> The growing competition on the export/import electricity market, reduced electricity consumption in the neighboring states, system electricity export/ import restrictions by the system operator, changes in the electricity export/ import laws of Russia or neighboring states, or the effect of various forcemajeure circumstances on the volumes of trade transactions cause changes in the supply volumes.	
4.	<b>Country and regional risks</b> Outside the Russian Federation, the Group operates in the Baltics, Scandinavia, Central and Eastern Europe, the Black Sea region, Central Asia and the Far East. In its foreign business operations, the Group factors in the political, macroeconomic and social risks in the countries and regions of its presence, as well as the risks associated with their geographical specifics. At the same time, Inter RAO Group places special emphasis on Russia's dialogue with the West concerning foreign policy prospects.	To manage these risks, the Group: <ul style="list-style-type: none"> <li>• analyzes the markets, including the regulatory legal framework;</li> <li>• takes part in Russia's support programs, the work of intergovernmental commissions and the development of intergovernmental treaties;</li> <li>• organizes the interaction with governmental authorities and major companies in the countries of the Group's presence;</li> <li>• promotes projects for developing intergovernmental relations in prospective areas;</li> <li>• diversifies and makes a regular inventory of the Group's investments and contract portfolios to ensure a balance between its strategic opportunities and obligations;</li> <li>• develops scenarios of future work conditions in strategic areas based on the global forecast of economic, political and technological factors and the dynamics of their changes.</li> </ul>

No	Risk name, description	Risk management measures
5.	<b>Investment risks</b>	
5.1	<b>Risk of failure to meet the commissioning deadlines (failure to meet the capacity supply schedules under capacity supply agreements)</b> As a result of a number of factors mostly related to failure/improper fulfilment of obligations by the counterparties leading to construction and commissioning delays (general contractors' insolvency, incompleteness, defects in the equipment supplied, failure by the manufacturers to meet the delivery deadlines, etc.), as well as organizational factors, there is a probability that the commencement date of capacity supplies under the capacity supply agreements will not be met, which may lead to profit deficiencies from the sale of electricity and capacity on WECM and, in a number of cases, penal sanctions under the capacity supply agreements.	To manage these risks, the Group: <ul style="list-style-type: none"> <li>• uses the competencies of its own engineering company LLC Inter RAO – Engineering when implementing projects;</li> <li>• organizes project management in accordance with the best Russian and international practices;</li> <li>• interacts with its contractors to make a plan of compensatory measures, revises the construction schedule and controls the work schedules;</li> <li>• manages claims and complaints with respect to the contractors that do not meet the construction time schedule or other terms of the agreements.</li> </ul> To manage these risks, the Group: <ul style="list-style-type: none"> <li>• monitors the antimonopoly and tax laws of Russia and engages counselors (under the prescribed procedure) for any disputable interpretations of legal regulations;</li> <li>• protects the Group's interests in administrative proceedings initiated against the Company/Group assets by the officials of FAS, Federal Tax Service of Russia or their regional authorities;</li> <li>• controls the appeals against the decisions of antimonopoly authorities that do not meet the interests of the Group's power supply/heat supply assets and resolutions on bringing to administrative responsibility in courts of appeal, cassation or supervisory instances;</li> <li>• analyzes the Group's corporate standards to identify the algorithms of actions that may be viewed as an abuse of dominance in the relations of the Group's power supply/heat supply assets with the competing power supply/heat supply companies. Updates the Group's corporate standards.</li> <li>• makes a timely expert review of correct costs recognition on corporate and tax accounts and their effect on the formation of accounting statements to prevent distortions in the Company's statements.</li> </ul>
6.	<b>Legal risks</b>	
The Group also identifies and controls the following key risk zones in terms of legal risks that may result in court orders, not in the Group's best interests:		
6.1.	The risk of the antimonopoly regulation activities of the Company/Group assets being discovered to be in violation of Russian law	The Group manages these risks by tracking and responding to legislation changes in a timely manner, as well as through active interaction with legislative and executive authorities and public organizations regarding the interpretation, law enforcement and improvement of law norms and mandatory legal expert review of the key business processes, as well as extensive application of out-of-court settlements with counterparties.
6.2.	The risk of the tax regulation activities of the Company/Group assets being discovered to be in violation of the law	
7.	<b>Reputational risks</b> PJSC Inter RAO takes into account the reputational factor of its activities and takes measures to mitigate the adverse effect of risks on the Group's brand.	The Group is highly focused on the interests of its investors and stakeholders, and to reduce the risks of sully the Group's image, it tries to inform the public about possible business threats with valid, transparent and timely disclosures in open sources. The Group also controls the risks of insider information disclosure to prevent fraud and price manipulation on the securities market, to which end the Regulations on Insider Information have been approved.

### Information about possible circumstances objectively hindering the Company activities (including seismically dangerous territory, seasonal flood zones, terrorist acts and other circumstances).

In the course of its activities, PJSC Inter RAO faces a number of circumstances objectively having the opportunity to interfere with the activities of the Group. As part of the corporate risk management, the Company pays close attention to monitoring the impact of these factors on the results of activities in the Russian Federation and in the regions where the Group's assets are present. The Group's management cannot control most of these factors (including natural disasters, terrorist acts, and other force majeure circumstances) and, in case the probability of these factors increases, it will take all possible measures to limit their negative impact and prevent possible losses.

### Information on investments of the Company, the expected income level of which is more than 10 percent per year

Investment investment with an estimated yield of more than 10% per annum (IRR>10%), which was financed in 2018, and the cost of which is more than 1% of the group's assets under IFRS (7.29 billion rubles.), is a successfully completed project "Construction of CCGT CHPP-5 in Ufa district of the Republic of Bashkortostan". Other projects with IRR>10% have a value of less than 1% of the group's assets under IFRS.

Item No.	Name of investment	Purpose of investing	Investment amount in 2017 <sup>1</sup>	Sources of funding in 2018
1	Construction of CCGT CHPP-5 in Ufa district of the Republic of Bashkortostan	Receiving income by increasing the supply of electricity and power	1,527,216	Own funds

<sup>1</sup> Financing amount, RUB thousand, VAT included

## 7. INFORMATION ON MEETINGS OF THE BOARD OF DIRECTORS AND COMMITTEES OF THE BOARD OF DIRECTORS



Information on the meetings of the Board of Directors, information on decisions taken, numbers and dates of the minutes are available on the Company's official website at <http://interrao.ru/investors/corporate-governance/management/minutes/2018.php>



### Holding meetings of committees of the board of directors

	Audit Committee	Nominations and Remunerations Committee	Strategy and Investment Committee
Number of meetings	20	16	15

## 8. REQUIREMENTS AND GUIDELINES USED TO PREPARE THE REPORT

The Company's annual report is based on the consolidated financial statements of the Group prepared observing IFRS, in accordance with the following regulatory requirements and recommendations in the area of financial markets regulation:

- Federal Law No. 208-FZ of December 26, 1995 On Joint-Stock Companies (as amended on December 31, 2017)
- Regulation on the disclosure of information by issuers of equity securities (approved by the Bank of Russia on December 30, 2014 No. 454-P) (as amended on September 27, 2017)
- Decree of the Government of the Russian Federation No. 1214 of December 31, 2010 On Improving the Management of Joint-Stock Companies with Shares in Federal Ownership, and Federal State Unitary Enterprises (as amended on July 19, 2017) \_ Corporate Governance Code of Bank of Russia
- Directive of the Government of the Russian Federation No. 5024 p-P13 of July 31, 2015
- Directive of the Ministry of Economic Development No. 6362 p-P13 of October 24, 2013
- Directive of the Federal Agency for State Property Management No. DP-11/17668 of May 5, 2016
- Recommendations on the disclosure of information on the remuneration of members of the Board of Directors (supervisory board), members of the executive bodies and other key managers of the PJSC in the annual report of the public joint-stock company (Letter of Bank of Russia No. IN-06-28/57 of December 11, 2017)

Annual report of PJSC Inter RAO was developed in accordance with the Global Reporting Initiative Sustainability Reporting Guidelines and Electric Utilities Sector Supplement. The disclosure is performed at the core level.

Preparation of the Annual Report of Inter RAO is carried out in accordance with the Business Process Regulation for the preparation of the annual report approved by the order of PJSC Inter RAO No. IRAO/4 of January 14, 2016. In addition, all applicable internal policies and procedures of the Company are taken into account (for more details about the Company's local regulatory acts see Appendix 12. Internal Regulation Effective in the Company)

## 9. REPORT ON THE COMPANY'S RELATED PARTY TRANSACTIONS IN THE REPORTING YEAR

Information on major transactions and transactions concluded by PJSC INTER RAO in 2018 that were recognized in accordance with the legislation of the Russian Federation as related-party transactions requiring approval by the Company's authorized management body.

In accordance with the Regulation on Information Disclosure by Security Issuers approved by the Bank of Russia on December 30, 2014 as No. 454-P, the Company discloses information on such transactions in quarterly reports and material facts available on its webpage: [http://www.interrao.ru/investors/disclosure/other-disclosures/major\\_deals/](http://www.interrao.ru/investors/disclosure/other-disclosures/major_deals/).



Material facts available on its webpage: [http://www.interrao.ru/investors/disclosure/otherdisclosures/major\\_deals/](http://www.interrao.ru/investors/disclosure/otherdisclosures/major_deals/)



### INFORMATION ABOUT MAJOR TRANSACTIONS OF PJSC INTER RAO AND ITS CONTROLLED LEGAL ENTITIES IN 2018

A transaction of this kind was concluded by PJSC Inter RAO in 2018

Management body giving approval	Subject of the transaction	Counterparties in the transaction	Transaction amount
PJSC Inter RAO			
Board of Directors (Minutes No. 215 dated December 28, 2017)	Additional Agreement No. 1 dated February 20, 2018 No. 1 to the Agreement on the General Terms and Conditions for Attracting Funds	PJSC Sberbank – Bank, PJSC Inter RAO – Client	The amount of each deposit/ minimum balance must be at least RUB 10,000,000 (ten million), USD 200,000 (two hundred thousand), or EUR 200,000 (two hundred thousand), while the amount of concurrent deposits/minimum balance(s) must not exceed RUB 182,000,000,000 (one hundred eighty two billion) or its equivalent in USD or EUR taking into account interest on all transactions concluded as part of the Agreement.

# 10. INFORMATION ON THE FULFILLMENT OF ORDERS OF THE PRESIDENT AND GOVERNMENT OF THE RUSSIAN FEDERATION TO IMPROVE THE BUSINESS ACTIVITIES OF PJSC INTER RAO IN 2018

In 2018, PJSC Inter RAO and the legal entities under its control did not conclude any major transactions of material importance for PJSC Inter RAO.



Occatecae con conem  
vollacestia nis res volupis  
eatusa et qui culpa



# 11. INFORMATION ON THE FULFILLMENT OF ORDERS OF THE PRESIDENT AND GOVERNMENT OF THE RUSSIAN FEDERATION IN 2018

No.	Type of order	Registration information	Name of order	Implementation status	Details and scope of resolutions
	Instructions of the Russian Government	No. ISh-P8-5594 dated August 25, 2017	On the introduction of recommendations on the management of intellectual property rights.	Implemented	Program on the management of the intellectual property rights of PJSC Inter RAO for 2019-2023 approved at a meeting of the Board of Directors on October 17, 2018 (Minutes No. 233 dated December 19, 2018).
	Instructions of the Russian Government	Minutes No. 9 dated March, 24, 2016	On the introduction of professional standards in the Company's activities (at least once every six months to initiate meetings of the Board of Directors including the inclusion of professional standards on the agenda of meetings of the Board of Directors).	Implemented	Reports reviewed at meetings of the Board of Directors: <ul style="list-style-type: none"> <li>• June 13, 2018 (Minutes No. 226 dated June 15, 2018);</li> <li>• November 30, 2018 (Minutes No. 235 dated December 3, 2018).</li> </ul>
	Directive of the Russian Government	No. 3262p-P13 dated on April 27, 2018	On innovative development (comparison of the level of technological development and the key performance indicators of the Inter RAO Group with the level of development and indicators of leading analog companies).	Implemented	The report on the comparison of the level of technological development and the key performance indicators of the Inter RAO Group with the level of development and indicators of leading peer companies was reviewed at a meeting of the Company's Board of Directors dated October 17, 2018 (Minutes No. 233 dated October 19, 2014).
	Directive of the Russian Government	No. 7050p-P13 dated August 30, 2018	On the inventory of intellectual property rights.	In progress	Deadline – by September 30, 2019.
	Directive of the Russian Government	No. 8860p-P13 dated October 29, 2018	On the execution of Resolution No. 232 of the Government of the Russian Federation dated March 6, 2018 as regards the approval of the procedure for the coordination of planning and program-based target documents with the Ministry for the Development of the Far East.	Implemented	A meeting of the Board of Directors dated December 20, 2018 (Minutes No. 236 dated December 24, 2018) took note of the lack of investment projects implemented by Inter RAO Group in the Far Eastern Federal District and approved the procedure for coordination with the Ministry for the Development of the Far East of the planning and program-based target documents of PJSC Inter RAO.



## 12. CURRENT INTERNAL REGULATION AT THE COMPANY

Item No.	Name of the internal regulation	Basis regulations	Management body that approved the document
1.	Regulation on the procedure for preparing and holding of the General Meeting of Shareholders of PJSC Inter RAO	The Regulation determines the procedure for preparing and holding General Meetings of Shareholders (hereinafter referred to as GMS) of the Company, including regulations on: <ul style="list-style-type: none"> <li>the procedure for convening and preparing for GMS;</li> <li>information support of GMS holding;</li> <li>in presentio form of GMS;</li> <li>in absentia form of GMS;</li> <li>working bodies of the Company's GMS;</li> <li>financial support of the GMS.</li> </ul>	The General Meeting of shareholders (Minutes No. 15 of June 1, 2015)
2.	Regulation on the PJSC Inter RAO Board of Directors (new version)	The Regulation determines the procedure for preparing and holding Meetings of the Board of Directors of the Company including regulations on: <ul style="list-style-type: none"> <li>the procedure for convening and holding meetings of the Board of Directors of the Company;</li> <li>arrangements of work of the Board of Directors;</li> <li>rights, duties, and liability of the members of the Board of Directors;</li> <li>procedure for adoption of resolutions by voting in absentia; — procedure for recording Minutes of the meetings.</li> </ul>	The General Meeting of shareholders (Minutes No. 17 of July 9, 2017)
3.	Regulation on Assessment of Performance of the Board of Directors of PJSC Inter RAO	The Regulation determines objectives, procedure, frequency of performance assessment of the Company's Board of Directors, as well as methods of developing recommendations on further performance development of the Company's Board of Directors.	The Board of Directors (Minutes No. 108 of February 24, 2014)
4.	Regulation on the Audit Committee of the Board of Directors of PJSC Inter RAO (new version)	The Regulations determine the objectives, functions, and competency of the committees, the procedure for the establishment	The Board of Directors (Minutes No. 191 of February 28, 2017)
5.	Regulation on the Strategy and Investment Committee of the Board of Directors of PJSC Inter RAO (new version)	of the committees, the rights and duties of the committee members; control the procedure for convening and holding of committee meetings, as well as handle interagency matters.	The Board of Directors (Minutes No. 230 of 31 August, 2018)
6.	Regulation on the Nominations and Remuneration Committee of the Board of Directors of PJSC Inter RAO (new version)		The Board of Directors (Minutes No. 153 of September 17, 2015)
7.	Regulation on the Management Board of PJSC Inter RAO	The Regulation determines the procedure for the establishment of the Management Board, the rights, duties, and liability of the members of the Management Board; establishes the procedure for convening and holding meetings in presentio of the Management Board, procedure for adopting resolutions by voting in absentia, and also establishes control over the execution of the Board's resolutions.	The General Meeting of shareholders (Minutes No. 17 of June 9, 2017)

Item No.	Name of the internal regulation	Basis regulations	Management body that approved the document
8.	Regulation on the Revision Commission of PJSC Inter RAO	The Regulation determines the objectives of the Revision Commission, the rights and duties, covers the organization of the Revision Commission's operation, establishes audit procedures, and sets requirements for the report (protocol) of the Revision Commission.	The General Meeting of shareholders (Minutes No. 15 of May 29, 2015)
9.	The policy of interaction with an external auditor of PJSC Inter RAO	The Policy controls the selection of procedures and criteria for the Company's auditors based on bidding results, the procedure of auditor approval by the Annual General Meeting of Shareholders, and rotation rules for the heads of the audit.	The Board of Directors (Minutes No. 207 of September 1, 2017)
10.	Regulation on Payment of Remunerations and Compensations to the Members of the Board of Directors of PJSC Inter RAO (new version)	The Regulation establishes the amount and manner of payment of remuneration and compensation to the members of the Company's Board of Directors.	The General Meeting of shareholders (Minutes No. 17 of June 9, 2017)
11.	Corporate Ethics Code of PJSC Inter RAO (new version)	The Code contains the standards of conduct accepted by the Company defining fundamental requirements for ethical corporate conduct.	The Board of Directors (Minutes No. 235 of December 03, 2018 №235)
12.	Regulation on the Informational Policy of PJSC Inter RAO	The Regulation determines the main principles of disclosure of Company activities, the procedure and terms of its disclosure and presentation, as well as a list of information and documents to be disclosed to shareholders, creditors, potential investors, media personnel and public organizations, professional securities market participants, governmental authorities and other stakeholders	The Board of Directors (Minutes No. 189 of December 30, 2016)
13.	Regulation on the Dividend Policy of PJSC Inter RAO (with changes)	The Regulation determines the procedure for determining the dividend amount, the procedure for adopting resolutions on the declaration (payment) of dividends, terms of payment (declaration) of dividends and restrictions to the payment (declaration).	The Board of Directors (Minutes No. 118 of July 3, 2014)
14.	Regulation on the Insider Information Policy of JSC Inter RAO (new version)	The Regulation controls matters concerning the handling and protection of insider information, establishes insider liability and rules of transactions made by insiders with Company financial instruments and also other matters related to the handling and protection of insider information.	The Board of Directors (Minutes No. 104 of December 2, 2013)
15.	Risk Management and Internal Control Policy PJSC "Inter RAO"	This Risk Management and Internal Control Policy of PJSC Inter RAO (the "Policy") has been developed in accordance with the effective laws of the Russian Federation, the recommendations of international risk management and internal control standards, the Articles of Association of PJSC Inter RAO, the Code of Corporate Governance recommended by the Bank of Russia, and the Practical Guidelines of the Federal Agency for State Property Management (Rosimushchestvo) as well as with due regard for the requirements of the listings of Russian and international stock-exchange platforms. This Policy defines the goals, basic principles, joint approaches to organizing the Group's System of Risk Management and Internal Control ("SRMIC"), as well as the liability of the system's participants.	The Board of Directors (Minutes No. 234 of 19 November, 2018)

Item No.	Name of the internal regulation	Basis regulations	Management body that approved the document
16.	Regulations on the Procedure for Consideration of Major Corporate Actions (with changes)	These Regulations are an internal document of PJSC Inter RAO that define the procedure for consideration of major corporate actions by the management bodies of the Company.	The Board of Directors (Minutes No. 207 of September 01, 2017)
17.	Regulation on the Internal Audit Unit of PJSC Inter RAO (with changes and additions)	The Regulation develops the principles of the Internal Audit Policy in regard to the procedure on the implementation of the internal audit function at PJSC Inter RAO, defines the goals, objectives, and functions of the Unit, its subordination, rights, and duties, as well as the liability of the Unit personnel.	The Board of Directors (Minutes No. 216 of February 2, 2018)
18.	Regulation on the disposal of non-core assets of JSC Inter RAO	This Regulation defines the general principles and procedures of the Company for the disposal of the Company's non-core assets, including principles and procedure for organizing the sale of non-core assets, specifics of other operations related to non-core assets.	The Board of Directors (Minutes No 215 of December 28, 2017 № 215)
19.	Regulation on Insurance Protection of PJSC Inter RAO (new version)	The Regulation specifies the Company's requirements for the acquired insurance protection of each type of insurance, the Company's requirements to insurance companies, and provision of the Company's insurance protection by stages	The Board of Directors (Minutes No 224 of May 17, 2018 №224)
20.	Declaration on Environmental Liability of JSC Inter RAO	The Declaration defines the Company's strategic goals in environmental protection and rational nature management, as well as the Company's lines of business for achieving environmental goals.	The Board of Directors (Minutes No. 64 of April 2, 2012)
21.	Declaration of the Maximum Permissible Debt Load Level of PJSC Inter RAO	The Declaration establishes the procedure for determining the limits of the Company's management authority with respect to loan borrowing transactions.	The Board of Directors (Minutes No. 94 of June 24, 2013)
22.	Compliance Policy of PJSC Inter RAO	The Policy defines goals and objectives of the Group in the framework of its implementation, Group compliance principles and key processes, is applicable to all employees of the Group companies and is mandatory.	The Board of Directors (Minutes No. 236 of December 24, 2018)
23.	Regulation on the Procedure of Regulated Procurement of Goods, Works, and Services for the Needs of PJSC Inter RAO (new version)	The Regulation governs procurement relations and determines the content, sequence, and terms of procurement procedures and key functions of procurement participants	The Board of Directors (Minutes No. 239 of February 18, 2019)
24.	Fraud and Corruption Management Policy of PJSC Inter RAO (with changes)	The Policy is a basic document, which defines main goals, objectives, principles, and the Group activities for fraud and corruption management, which is aimed at coordinating operations of employees of business units and Group companies focused on prevention, discovery, and fighting of fraud and corrupt practices within the Group, and ensuring the safety of its business processes.	The Board of Directors (Minutes No. 180 of October 3, 2016)

Item No.	Name of the internal regulation	Basis regulations	Management body that approved the document
25.	Regulation on the Quality Management System of PJSC Inter RAO	The Regulation on the Quality Management System (hereinafter – the Regulation) sets the goals, objectives, and principles of the operation of the quality management system (hereinafter – the System), defines key requirements to the System. This Regulation, together with other internal regulations of the Company as well as other documents provides for the functioning of the System in the Company.	The Board of Directors (Minutes No. 155 of October 28, 2015)
26.	Regulations on Regulation of Information to rescue of PJSC Inter RAO	This Regulation on Regulation of Information to rescue of PJSC Inter RAO was developed to ensure observance of the right of the shareholders of the Company to information in accordance with Arts. 89 and 91 of Federal Law of December 26, 1995 No. 208 FZ On Joint-Stock Companies, the Articles of Association of the Company, the Regulation on Informational Policy of PJSC Inter RAO, taking into account regulations of Federal Law of 27 June 2010 No. 224-FZ on Counteraction Against Illegal Use of Insider Information and Manipulation of Market and on Amending Separate Legislative Acts of the Russian Federation, Regulation on Insider Information of PJSC Inter RAO, taking into account Instructions of the Central Bank of Russia of September 22, 2014 No. 3388-U.	The Board of Directors (Minutes No. 213 of December 1, 2017)
27.	Regulation on the Unit Performing the Functions of a Corporate Secretary of PJSC Inter RAO	The Regulation determines the status, functions, rights, and obligations of the unit performing the functions of a corporate secretary of PJSC Inter RAO, the requirements to the head of the unit, the procedure for appointment and of termination of office of such a head, as well as the terms and procedure of remuneration payment.	The Board of Directors (Minutes No. 235 of December 03, 2018)
28.	Key approaches towards the engagement of an independent appraiser in settlement of major transactions and interested party transactions by PJSC Inter RAO	These Approaches have been developed in accordance with the laws of the Russian Federation and the Articles of Association of PJSC Inter RAO, as well as with due regard to the recommendations of the Code, for the purpose of determining cases when the Company should engage an Independent Appraiser or an Appraisal Company during the performance of major transactions and interested party transactions by the Company	The Board of Directors (Minutes No. 230 of August 31, 2018)
29.	Antimonopoly Compliance Policy of PJSC Inter RAO	The Policy sets out the goals, objectives, and key principles of Inter RAO Group for antimonopoly compliance, describes the Antimonopoly Compliance System structure, and provides for the implementation of measures for the identification, assessment, and prevention of violations of Antitrust Legislation and Procurement Legislation (with respect to antimonopoly requirements).	The Board of Directors (Minutes No. 235 of December 3, 2018)

# 13. INFORMATION ON THE PARTICIPATION OF PJSC INTER RAO IN THE ACTIVITIES OF SUBSIDIARIES, AFFILIATES, AND OTHER BUSINESS ENTITIES IN 2018. INFORMATION ON PURCHASE AND SALE AGREEMENTS FOR SHARES, STOCK, AND EQUITY UNITS IN BUSINESS PARTNERSHIPS AND COMPANIES, INCLUDING INFORMATION ON THE PARTIES, SUBJECT, PRICE, AND OTHER TERMS OF THESE AGREEMENTS

Brand name	Participation share of Inter RAO PJSC in the authorized capital of the company		Balance sheet value of shares, equity interest in the Company		The amount of dividends, thousand rubles (unless specified otherwise)	Financial indicators for 2018		Type of activities under the Articles of Association	Information on changes in participation in the company or on concluded agreements for purchase and sales of shares/ interest
	January 1, 2019	January 1, 2018	January 1, 2019	January 1, 2018		Revenue	Net profit		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
<b>Information on business entities with interest of PJSC Inter RAO in their authorized capital amounting to 2 to 20%</b>									
Open Joint-Stock Company Inter RAO LED-Systems	17.58%	17.58%	-	-	-	no information	no information	Production of semiconductor components, devices, including photosensitive and optoelectronic	No change
Open Joint-Stock Company Sangutdinskaya GES-1	14.87%	14.87%	RUB 161,412,000	RUB 161,412,000	RUB 118,942,000	no information	no information	Generation and delivery (sale) of electricity	No change

Brand name	Participation share of Inter RAO PJSC in the authorized capital of the company		Balance sheet value of shares, equity interest in the Company		The amount of dividends, thousand rubles (unless specified otherwise)	Financial indicators for 2018		Type of activities under the Articles of Association	Information on changes in participation in the company or on concluded agreements for purchase and sales of shares/ interest
	January 1, 2019	January 1, 2018	January 1, 2019	January 1, 2018		Revenue	Net profit		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
<b>Information on business entities with interest of PJSC Inter RAO in their authorized capital amounting to 20 to 50%</b>									
Public Joint-Stock Company Tomsk Energy Retail Company	24.31%	31.27%	RUB 104,960,000	RUB 104,960,000	-	RUB 14,059,057,000	RUB 39,059,000	Electricity purchase and supply	On September 19, 2017, the Bank of Russia adopted a decision on the state registration of a report on the results of an additional issue of ordinary registered uncertified shares of PJSC Tomskenergosbyt
Limited liability company RTEnergotrading	50%	50%	RUB 9,805,000	RUB 9,805,000	-	RUB 2,702,296,000	RUB (50,985,000)	Wholesale trade in electric and heat energy (without their transmission and distribution). Wholesale trade via intermediaries (for a consideration or on a contractual basis). Intermediary activities in wholesale trade in electric and heat energy (without their generation, transmission, and distribution).	No change
Limited liability company INTER RAO UES Energy Efficiency Center	50%	50%	RUB 258,250,000	RUB 258,250,000	-	RUB 563,496,000	RUB (110,552,000)	Works/services in the area of energy efficiency and energy saving	On December 14, 2018, the charter capital of LLC INTER RAO Energy Efficiency Center was reduced

Brand name	Participation share of Inter RAO PJSC in the authorized capital of the company		Balance sheet value of shares, equity interest in the Company		The amount of dividends, thousand rubles (unless specified otherwise)	Financial indicators for 2018		Type of activities under the Articles of Association	Information on changes in participation in the company or on concluded agreements for purchase and sales of shares/ interest
	January 1, 2019	January 1, 2018	January 1, 2019	January 1, 2018		Revenue	Net profit		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Limited liability company INTERENERGOEFFECT	-	50%	-	-	-	no information	no information	Works/services in the area of energy efficiency and energy saving	The company was liquidated on September 10, 2018
Joint-Stock Company Ekibastuz GRES-2 Power Station	50%	50%	RUB 603,311,000	RUB 603,311,000	-	KZT 38,922,163,000	KZT 6,823,441,000	Generation, transmission, and distribution of electric and heat energy	No change
Closed Joint-Stock Company Industrial Energy Company	-	50%	-	-	-	no information	no information	Electricity delivery to enterprises of the military industrial complex of the Russian Federation and to other consumers	The company was liquidated on August 13, 2018
<b>Information on subsidiaries where registered capital the interest of PJSC Inter RAO amounts to 50% + 1 share to 100%</b>									
Limited liability company Engineering Center Gas Turbine Technologies	52.95%	52.95%	RUB 695,086,000	RUB 695,086,000	-	RUB 120,000	RUB (7,009,000)	Production of gas turbines, except for turbojet and turboprop	No change
Open Joint- Stock Company Saratovenergo	56.23%	56.23%	RUB 420,210,000	RUB 418,399,000	-	RUB 23,675,546,000	RUB 7,267,000	Purchase of electricity on the electricity (capacity) wholesale and retail markets; realization (sale) of electricity on the electricity (capacity) wholesale and retail markets to consumers (including individuals), etc	No change
Open Joint-Stock Company Tambov Power Supply Company	59.3845%	59.3845%	RUB 240,267,000	RUB 145,507,000	-	RUB 6,239,547,000	RUB 6,772,000	Electricity distribution	No change

Brand name	Participation share of Inter RAO PJSC in the authorized capital of the company		Balance sheet value of shares, equity interest in the Company		The amount of dividends, thousand rubles (unless specified otherwise)	Financial indicators for 2018		Type of activities under the Articles of Association	Information on changes in participation in the company or on concluded agreements for purchase and sales of shares/ interest
	January 1, 2019	January 1, 2018	January 1, 2019	January 1, 2018		Revenue	Net profit		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Public Joint-Stock Company Mosenergosbyt	37.56%	37.56%	RUB 5,753,700,000	RUB 5,753,700,000	-	RUB 351,008,916,000	RUB 2,306,748,000	Purchase of electricity on the electricity (capacity) wholesale and retail markets; realization (sale) of electricity on the electricity (capacity) wholesale and retail markets to consumers (including individuals), etc.	On May 7, 2018, the corporate name of the Company was changed (previous name – PJSC Mosenergosbyt)
Open Joint-Stock Company Tomsk Energy Supply Company	98.54%	98.54%	RUB 2,929,170,000	RUB 2,929,170,000	-	RUB 7,430,002,000	RUB 402,737,000	Electricity generation by thermal power stations	No change
Open Joint-Stock Company Territorial Generating Company No. 11	98.54%	98.54%	RUB 4,978,689,000	RUB 4,978,689,000	-	RUB 19,515,739,000	RUB 1,725,668,000	Electricity and heat generation	No change
Limited Liability Company Inter RAO – Export	99.99%	99.99%	RUB 299,970,000	RUB 299,970,000	-	RUB 2,221,049,000	RUB 95,208,000	Wholesale trading in machinery and equipment is the principal economic activity	No change
Limited Liability Company Bashkortostan Energy Supply Company	100%	100%	RUB 4,100,000,000	RUB 4,100,000,000	-	RUB 39,278,462,000	RUB 683,717,000	Resort treatment and prophylaxis; medical services; operation of buildings and structures; property management	No change



Brand name	Participation share of Inter RAO PJSC in the authorized capital of the company		Balance sheet value of shares, equity interest in the Company		The amount of dividends, thousand rubles (unless specified otherwise)	Financial indicators for 2018		Type of activities under the Articles of Association	Information on changes in participation in the company or on concluded agreements for purchase and sales of shares/ interest
	January 1, 2019	January 1, 2018	January 1, 2019	January 1, 2018		Revenue	Net profit		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Joint-Stock Company Inter RAO Capital	100%	100%	RUB 93,561,523,000	RUB 93,561,523,000	-	RUB 2,665,193,000	RUB 12,923,700,000	Participation in investment projects aimed at the acquisition of assets abroad and in the territory of Russia, including shares (interests) of foreign and Russian companies in the area of electricity or controlling interests in them, etc.	No change
RAO Nordic Oy	100%	100%	RUB 43,410,000	RUB 43,410,000	RUB 266,828,000	EUR 332,508,000	EUR 6,866,000	Electricity trade	No change
INTER RAO Holding B.V.	100%	100%	RUB 4,413,668,000	RUB 4,413,668,000	RUB 1,668,862,000	-	USD 26,446,000	Managing company	No change
Open Joint-Stock Company Eastern Energy Company	100%	100%	RUB 2,190,290,000	RUB 2,190,290,000	-	RUB 10,613,813,000	RUB 635,586,000	Wholesale power trading	No change
Open Joint-Stock Company Electroluch	100%	100%	RUB 2,065,573,000	RUB 2,065,573,000	-	RUB 873,026,000	RUB 135,485,000	Rental of own nonresidential real property	No change
Closed Joint-Stock Company Moldavia TPP	100%	100%	RUB 645,751,000	RUB 645,751,000	RUB 895,788,000	RUB PMR 2,170,794,000	RUB PMR 201,876,000	Generation and delivery (sale) of electricity	No change
RAO Intertech B.V.	100%	100%	RUB 910,767,000	RUB 908,860,000	-	-	EUR (77,000)	Project activities	No change
Limited Liability Company Inter RAO – Management of Electricity Plants	100%	100%	RUB 500,000	RUB 500,000	RUB 130,950,000	RUB 1,588,247,000	RUB 50,573,000	Management of financial industrial groups and holding companies.	No change
Joint-Stock Company Inter RAO – Electricity Plants	100%	100%	RUB 185,648,281,000	RUB 185,648,281,000	RUB 3,105,477,000	RUB 194,522,031,000	RUB 38,911,647,000	Electricity and heat generation	No change

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	January 1, 2019	January 1, 2018	January 1, 2019	January 1, 2018		Revenue	Net profit		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Inter RAO Finance B.V.	100%	100%	RUB 82,748,000	RUB 82,748,000	-	-	EUR (40,000)	Establishment, participation in one way or another, management, control, use and promotion of enterprises, organizations and companies; financing enterprises and companies; rendering consulting and other services to companies with which the company forms the group, as well as to third parties	No change
Open Joint-Stock Company Altayenergosbyt	100%	100%	RUB 330,000,000	RUB 330,000,000	-	RUB 14,195,295,000	RUB 115,018,000	Purchase of electricity on the electricity (capacity) wholesale and retail markets; realization (sale) of electricity on the electricity (capacity) wholesale and retail markets to consumers (including individuals), etc	No change
Open Joint-Stock Company St. Petersburg Power Supply Company	100%	100%	RUB 3,994,714,000	RUB 3,994,714,000	RUB 1,052,893,000	RUB 136,720,250,000	RUB 1,372,455,000	Purchase of electricity on the electricity (capacity) wholesale and retail markets; realization (sale) of electricity on the electricity (capacity) wholesale and retail markets to consumers (including individuals), etc	No change

Brand name	Participation share of Inter RAO PJSC in the authorized capital of the company		Balance sheet value of shares, equity interest in the Company		The amount of dividends, thousand rubles (unless specified otherwise)	Financial indicators for 2018		Type of activities under the Articles of Association	Information on changes in participation in the company or on concluded agreements for purchase and sales of shares/ interest
	January 1, 2019	January 1, 2018	January 1, 2019	January 1, 2018		Revenue	Net profit		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Limited liability company RNEnergo	100%	100%	RUB 4,995,804,000	RUB 4,995,804,000	-	RUB 90,126,877,000	RUB 4,601,078,000	Оптовая торговля электрической и тепловой энергией (без их передачи и распределения); монтаж инженерного оборудования зданий и сооружений; производство электромонтажных работ	No change
Limited Liability Company Inter RAO – Orlovsky Energosbyt	100%	100%	RUB 60,000,000	RUB 60,000,000	-	RUB 8,683,907,000	RUB 16,795,000	Purchase of electricity on the electricity (capacity) wholesale and retail markets; realization (sale) of electricity on the electricity (capacity) wholesale and retail markets to consumers (including individuals), etc	No change
Limited Liability Company Inter RAO – Engineering	100%	100%	RUB 775,000	RUB 775,000	-	RUB 20,773,651,000	RUB 179,594,000	Structural works in the construction of thermal and other power plants; structural works in the construction of buildings; installation of other engineering equipment.	No change
Limited Liability Company Inter RAO Finance	100%	100%	RUB 8,194,000	RUB 8,194,000	-	-	RUB (3,694,000)	Securities trading and investments; property investments; other financial intermediation; consulting on financial mediation, consulting on commercial activities and management	No change

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	January 1, 2019	January 1, 2018	January 1, 2019	January 1, 2018		Revenue	Net profit		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Limited Liability Company Ugolny Razrez	100%	100%	RUB 243,074,000	RUB 243,074,000	RUB 40,637,000	RUB 2,964,915,000	RUB 36,419,000	Brown coal open cast mining	No change
Limited Liability Company Bashkir Generation Company	100%	100%	RUB 24,038,482,000	RUB 24,038,482,000	-	RUB 46,779,492,000	RUB 5,013,350	Electricity and heat generation	No change
Limited liability company Energokonnekt	100%	100%	RUB 3,115,000	RUB 2,537,000	-	-	BYN (48,000)	Implementation of crossborder projects in designing and installation of direct current links	On April 4, 2018, the charter capital of LLC Energokonnekt was reduced On December 14, 2018, the charter capital of Energokonnekt LLC was increased
Limited Liability Company Inter RAO – Procurement Management Center	100%	100%	RUB 122,038,000	RUB 122,038,000	RUB 14,444,000	RUB 1,090,602,000	RUB 10,619,000	Organization and provision of centralized material support for Group companies	No change
Information on entities in the holding structure									
Open Joint-Stock Company Testing Stand of Ivanovskaya TPP	-	-	-	-	-	-	RUB (10,834,000)	Holding presentation and acceptance testing of serial gas turbine engines GTE110 and their modifications, test operation of the GTE110; production and sale of electric energy (capacity).	No change

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	January 1, 2019	January 1, 2018	January 1, 2019	January 1, 2018		Revenue	Net profit		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Joint-Stock Company Nizhnevartovskaya TPP	-	-	-	-	-	RUB 18,550,186,000	RUB 2,677,429,000	Electricity and heat generation	No change
Joint-Stock Company Lukomoriye Sanatorium- Dispensary	-	-	-	-	-	RUB 86,177,000	RUB 581,000,000	Sanatorium and health resort activities	No change
Joint-Stock Company Technological Transport Management	-	-	-	-	-	RUB 112,810,000	RUB (6,417,000)	Passenger transportation; cargo transportation; organizing special transport and handling equipment; vehicle repair and maintenance services	No change
Limited Liability Company Verkhnetagilskaya Utility Company	-	-	-	-	-	RUB 43,961,000	RUB 941,000	Maintenance and operation services	No change
Joint-Stock Company Repair and Service Company of Thermal and Underground Communication Lines of Kostromskaya TPP	-	-	-	-	-	RUB 285,370,000	RUB (1,414,000)	Operation and repair of heating, water supply, and sewage networks; transportation and sale of thermal energy	No change
Joint-Stock Company Integrated Energy Repairs	-	-	-	-	-	RUB 230,000	RUB 48,000	Repair of boiler inspection facilities; manufacture of nonstandard equipment supervised by Rostekhnadzor; repair and adjustment of lifting facilities	No change

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	January 1, 2019	January 1, 2018	January 1, 2019	January 1, 2018		Revenue	Net profit		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Joint-Stock Company Heat Service Company	-	-	-	-	-	RUB 367,100,000	RUB 746,000	Operation and operability assurance of heat networks; operation, maintenance and repair of hot water supply networks	No change
Joint-Stock Company Kommunalnik	-	-	-	-	-	RUB 100,233,000	RUB (37,951,000)	Operation and ensuring the efficiency of heat networks	No change
Joint-Stock Company Energy-1	-	-	-	-	-	RUB 182,742,000	RUB (9,846,000)	Operation and ensuring the efficiency of heat networks, sales, and distribution of thermal energy	No change
Joint-Stock Company Volgorechensk Hotel	-	-	-	-	-	RUB 15,500,000	RUB 76,000	Hotel services	No change
Joint-Stock Company Yuzhnouralskaya Power Supply Company	-	-	-	-	-	RUB 263,220,000	RUB (21,999,000)	Operation and ensuring the efficiency of thermal networks in the city of Yuzhnouralsk; delivery of thermal energy to consumers	No change
Limited Liability Company Bashenergotrans	-	-	-	-	-	RUB 927,948,000	RUB 41,100,000	Road transportation: passengers, cargo, oversized cargo, hazardous cargo	No change
Limited Liability Company Bashkir Distribution Heat Grids	-	-	-	-	-	RUB 16,254,078,000	RUB 458,849,000	Generation of thermal power and electricity	No change

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	January 1, 2019	January 1, 2018	January 1, 2019	January 1, 2018		Revenue	Net profit		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Limited Liability Company Integrator IT	-	-	-	-	-	RUB 504,310,000	RUB 41,993,000	Creating secure document management and providing services including information encryption, maintenance, and distribution of encoding (cryptographic) facilities	No change
Limited liability company Moscow Regional Single Information Computing Center	-	-	-	-	-	RUB 3,187,792,000	RUB 75,956,000	Providing services connected with the supply of electric energy, including collection of payments for goods sold and services provided, etc.	No change
Limited liability company MESDevelopment	-	-	-	-	-	RUB 124,449,000	RUB 939,689,000	Wholesale trade in electric and heat energy (without their transmission and distribution).	No change
Limited Liability Company Mosenergosbyt - Kolomna	-	-	-	-	-			Providing services connected with the supply of electric energy, including collection of payments for goods sold and services provided, etc.	The company was liquidated on September 20, 2018
Joint-Stock Company Luch sales company	-	-	-	-	-	RUB 386,022,000	RUB 76,420,000	Electricity distribution	On June 15, 2018, the corporate name of the Company was changed (previous name – JSC Korolyovskaya Electric Grid SK)

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	January 1, 2019	January 1, 2018	January 1, 2019	January 1, 2018		Revenue	Net profit		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Joint-Stock Company The power sales company of the Moscow region	-	-	-	-	-	-	RUB (7,237,000)	Purchase of electricity on the electricity (capacity) wholesale and retail markets; realization (sale) of electricity (capacity) on the electricity (capacity) wholesale and retail markets to consumers (including individuals), etc	No change
Joint-Stock Company Petroelectrosbyt	-	-	-	-	-	RUB 6,662,268,000	RUB 193,388,000	Buying and selling of electric and thermal energy; Collecting and accounting of payments as payment of electrical energy and communal services	No change
Limited Liability Company "QUARTZ Group"	-	-	-	-	-	RUB 7,808,209,000	RUB 431,000	Activities to ensure power plant operation	No change
Limited Liability Company Inter RAO - Information Technologies	-	-	-	-	-	RUB 1,609,800,000	RUB 210,910,000	Development and implementation of software and consulting in this area	No change
Limited Liability Company Inter RAO Service	-	-	-	-	-	RUB 29,428,000	RUB 27,428,000	An exercise of customs agent and customs representative functions	No change
Limited Liability Company Interstroj	-	-	-	-	-	No data available	No data available	Construction of power facilities, civil engineering facilities; installation, adjustment and repair of power facilities, electrical equipment.	No change



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	January 1, 2019	January 1, 2018	January 1, 2019	January 1, 2018		Revenue	Net profit		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Limited Liability Company Inter RAO Invest	-	-	-	-	-	RUB 27,235,000	RUB (32,579,000)	Brokerage activities; dealer activity on the securities market; securities management activities; depository activities; investments in securities; other financial intermediation	No change
Limited Liability Company Energetik Health and Leisure Center	-	-	-	-	-	RUB 277,403,000	RUB (7,856,000)	Resort treatment and prophylaxis; medical services; operation of buildings and structures; property management	No change
Limited Liability Company Energospetsservis- obsluzhivaniye	-	-	-	-	-	RUB PMR 15,505,000	RUB PMR 1,061,000	Repairs of energy equipment, operation of housing grids	No change
Joint-Stock Company Tomskenergobalans	-	-	-	-	-	RUB 2,467,000	RUB 478,000	Any business not prohibited by the law	No change
Joint-Stock Company y Industrial Energy	-	-	-	-	-	-	RUB (4,354,000)	Sale of electricity services	No change
Limited Liability Company Omsk Energy Supply Company	-	-	-	-	-	RUB 1,185,615,000	RUB 121,151,000	Sale of electricity services	No change
Joint-Stock Company Omsk Heat Distribution Grids	-	-	-	-	-	RUB 9,018,268,000	RUB 1,287,000	Asset management	No change
Joint-Stock Company TomskRTS	-	-	-	-	-	RUB 7,737,124,000	RUB 20,583,000	Asset management	No change

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	January 1, 2019	January 1, 2018	January 1, 2019	January 1, 2018		Revenue	Net profit		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Joint-Stock Company United Information and Payment Center of the Leningrad Oblas	-	-	-	-	-	RUB 369,937,000	RUB 14,774,000	Development and use of databases and information resources, delivery of united bills for housing services, and technical support of this operation	No change
Limited Liability Company Clearing Center	-	-	-	-	-	-	RUB (3,261,000)	Electricity trade	The company was liquidated on January 29, 2019
Limited Liability Company Inter RAO – Distributed Generation	-	-	-	-	-	-	RUB (223,000)	Electricity generation	No change
Limited Liability Company Inter RAO – SP	-	-	-	-	-	-	RUB (181,000)	Asset management	On July 12, 2018, the charter capital of LLC Inter RAO – SP was increased
Limited Liability Company Inter RAO – Single Information Computing Center	-	-	-	-	-	RUB 331,000	RUB (36,051,000)	Development and use of databases and information resources	On March 13, 2018, the charter capital of LLC Inter RAO – UISC was increased
Limited Liability Company Praktika	-	-	-	-	-	RUB 2,412,249,000	RUB 19,090,000	Investments in securities	No change
Limited Liability Company Inter RAO Platforma	-	-	-	-	-	-	RUB 228,000	The development of computer software	No change

Brand name	Participation share of Inter RAO PJSC in the authorized capital of the company		Balance sheet value of shares, equity interest in the Company		The amount of dividends, thousand rubles (unless specified otherwise)	Financial indicators for 2018		Type of activities under the Articles of Association	Information on changes in participation in the company or on concluded agreements for purchase and sales of shares/ interest
	January 1, 2019	January 1, 2018	January 1, 2019	January 1, 2018		Revenue	Net profit		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Limited Liability Company Energoby Volga	-	-	-	-	-	RUB 9,632,742,000	RUB (26,756,000)	Electricity trade	No change
Limited Liability Company PSCB – Razvitiye	-	-	-	-	-	RUB 131,854,000	RUB 76,528,000	Electricity trade	No change
Limited Liability Company Hestion de Projectos	-	-	-	-	-	-	RUB (1,539,000)	Wholesale of other machinery and equipment	No change
Inter RAO Management B.V.	-	-	-	-	-	USD 119,000	USD 103,000	Management	No change
Gardabani Holdings B.V.	-	-	-	-	-	-	USD (1,739,000)	Holding	No change
Silk Road Holdings B.V.	-	-	-	-	-	-	USD (965,000)	Managing company	No change
Inter Jet B.V.	-	-	-	-	-	USD 1,198,000	USD (37,000)	Lease of property to third parties	No change
Inter RAO Trust B.V.	-	-	-	-	-	-	EUR (60,000)	Holding	No change
Orange Wings Ltd	-	-	-	-	-	-	USD (4,000)	Project activities.	No change

Brand name	Participation share of Inter RAO PJSC in the authorized capital of the company		Balance sheet value of shares, equity interest in the Company		The amount of dividends, thousand rubles (unless specified otherwise)	Financial indicators for 2018		Type of activities under the Articles of Association	Information on changes in participation in the company or on concluded agreements for purchase and sales of shares/ interest
	January 1, 2019	January 1, 2018	January 1, 2019	January 1, 2018		Revenue	Net profit		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Joint-Stock Company Telasi	-	-	-	-	-	GEL 461,969,000	GEL 27,628,000	Generation and delivery (sale) of electric and thermal power	No change
Joint-Stock Company Khramhesi I	-	-	-	-	-	GEL 16,711,000	GEL 8,075,000	Electricity production	No change
Joint-Stock Company Khramhesi II	-	-	-	-	-	GEL 31,701,000	GEL 15,241,000	Electricity production	No change
Inter RAO Credit B.V.	-	-	-	-	-	-	EUR 140,000	Provision of consulting and other services to companies with which the company forms the Group and to third parties; borrowing, lending and seeking funds, including issuance of bonds, simple promissory notes or other securities or debt instruments and concluding agreements in connection with the above mentioned activities; issuing guarantees, binding the company by obligations and pledging its assets to secure the obligations of enterprises and companies with which the company forms the Group and on behalf of third parties.	No change

Brand name	Participation share of Inter RAO PJSC in the authorized capital of the company		Balance sheet value of shares, equity interest in the Company		The amount of dividends, thousand rubles (unless specified otherwise)	Financial indicators for 2018		Type of activities under the Articles of Association	Information on changes in participation in the company or on concluded agreements for purchase and sales of shares/ interest
	January 1, 2019	January 1, 2018	January 1, 2019	January 1, 2018		Revenue	Net profit		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
AB Inter RAO Lietuva	-	-	-	-	-	EUR 240,663,000	EUR 11,609,000	Any lawful economic activity, including, (but not limited to) production, transmission, distribution and sale of electric energy, investing in the energy sector and implementation of other investment projects	No change
SIA «Inter RAO Latvia»	-	-	-	-	-	EUR 10,750,000	EUR (35,000)	Electricity trade	No change
«Inter RAO Eesti» OU	-	-	-	-	-	EUR 8,253,000	EUR (292,000)	Electricity trade	No change
Vydmantai wind park UAB	-	-	-	-	-	EUR 4,356,000	EUR 571,000	Electricity generation and sale	No change
IRL POLSKA spółka z ograniczoną odpowiedzialnością	-	-	-	-	-	PLN 78,129,000	PLN (856,000)	Electricity production, distribution, trade	No change
Trakya Elektrik Uretim ve Ticaret A.S.	-	-	-	-	-	USD 91,540,000	USD 3,727,000	Electricity generation and sale	No change
Limited liability company Sports Support Center	-	-	-	-	-	-	RUB (5,206,000)	Management of operation of non-residential property for a consideration or on a contractual basis	On May 4, 2018, the charter capital of LLC SSC was increased
Limited Liability Company Inter RAO – Service Management	-	-	-	-	-	RUB 480,000	RUB (2,022,000)	Activity on rendering of services in the field of accounting, on carrying out financial audit, on tax consultation	No change

Brand name	Participation share of Inter RAO PJSC in the authorized capital of the company		Balance sheet value of shares, equity interest in the Company		The amount of dividends, thousand rubles (unless specified otherwise)	Financial indicators for 2018		Type of activities under the Articles of Association	Information on changes in participation in the company or on concluded agreements for purchase and sales of shares/ interest
	January 1, 2019	January 1, 2018	January 1, 2019	January 1, 2018		Revenue	Net profit		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Limited Liability Company Uyut	-	-	-	-	-	-	31 591	Lease and management of own or leased non-residential real estate	The company was established on January 16, 2018 through a spin-off
Joint-Stock Company Operator of information system	-	-	-	-	-	-	RUB (63,000)	Activities in the field of communication on the basis of wired technologies	The company was established on May 18, 2018
Joint-Stock Company Sever	-	-	-	-	-	RUB 324,906,000	RUB (57,676,000)	Lease and management of own or leased non-residential real estate	On June 21, 2018, the Group acquired a 100% stake in JSC Sever
Limited Liability Company Northern sales company	-	-	-	-	-	RUB 81,781,000	RUB (3,163,000)	Electricity trade	The company was established on July 20, 2018
Limited Liability Company Vostok	-	-	-	-	-	-	RUB (1,094,000)	Lease and management of own or leased non-residential real estate	The company was established on August 3, 2018
Limited Liability Company Business development	-	-	-	-	-	-	-	Electricity trade	The company was established on January 15, 2019
Joint-Stock Company CASCADE	-	-	-	-	-	RUB 476,912,000	5 088 thousand rubles	Design, production, and supply of electric connectors	The company left the Group on January 10, 2019
Limited liability company INVENT	-	-	-	-	-	RUB 78,864,000	RUB (154,397,000)	Resort treatment and prophylaxis; medical services; operation of buildings and structures; property management	No change
RIG RESEARCH PTE. Ltd	-	-	-	-	-	No data available	No data available	Holding компания	Increase in charter capital on November 30, 2018

# 14. GOVERNMENT SUPPORT

## 1. List of foreign projects implemented by Inter RAO Group that received government support

No.	Project name	Purpose and objectives of investment project	Form of state support	Amount of state support	Events over the reporting period
1.	Construction of four new power units in the Republic of Cuba with combined installed capacity of 200 MW as part of an international contract signed on October 22, 2015 with Energoimport (part of the state-owned electric power company Union Electrica)	In accordance with the contract, LLC INTER RAO - Export, a subsidiary of PJSC Inter RAO, is performing organizational and managerial functions for the project's implementation and providing a range of services for the design, supply, and commissioning of all the main and auxiliary power equipment produced in Russia.	A state export intergovernmental loan provided by the Government of the Russian Federation to the Government of the Republic of Cuba as part of the Agreement signed (in the amount of EUR 1.2 billion)	RUB 670,246,070 (EUR 8,740,800)	Budgetary allocations in the amount of: RUB 670,246,070 (EUR 8,740,800) were transferred to LLC INTER RAO – Export in 2018 for Direct Expenditures and Base Remuneration under the project using the state export loan.
2.	As part of the implementation of Agreement No. 92 dated March 22, 2018 (Supplementary Agreement 1 dated October 19, 2018) Urengoysslaya TPP (on energy supplies)	Supply of electric and thermal power as part of the YNAD state program 'Energy Efficiency and Energy Development, Provision of High-Quality Housing and Utility Services for 2014-2022' (clause 2.3) approved by Resolution No. 1144-P dated December 25, 2013.	Subsidies from the district's budget to compensate lost income	RUB 71,507,100	In accordance with Law No. 85-ZAO of the Yamal-Nenets Autonomous District dated November 16, 2017 "On the District Budget for 2018 and for the Planned Period of 2019 and 2020" (target article 06.2.02.61050, 06.2.02.61060, expense type 811); Resolution No. 1304-P of the Government of the Yamal-Nenets Autonomous District dated December 18, 2017 "On the Allocation of Subsidies from the District Budget to Resource Supply Organizations to Compensate for Lost Income for 2018"

3.	Project – Benefits Center. Calculation of monthly monetary compensation (MMC) as regards expenses on residential premises and utility payments to certain categories of citizens living in the Leningrad Region. JSC UISC LR	Agreement on the Provision of Subsidies No. 72 dated April 7, 2016 with the Committee on the Social Protection of the Population of the Leningrad Region and Unified Payment Center	State subsidy support	RUB 18,827,860	Resolution No. 78 of the Government of the Leningrad Region dated March 13, 2018 "On the approval of the procedures for providing social support measures to certain categories of citizens, the scope of money incomes of the individuals specified in clause 2, Part 1, Article 7.2 and clause 2, Part 1, Article 7.3 of Regional Law No. 72-OZ dated November 17, 2017 "Social Code of the Leningrad Region," which are taken into account when calculating the average per capita monetary income of a family member (average monetary income of a single resident) and the repeal of certain resolutions of the Government of the Leningrad Region"
4.	Project – Benefits Center. Provision of services to inform recipients of social support measures about MMC calculations. JSC UISC LR	Additional Agreement No. 479 dated November 13, 2017 to Subsidy Agreement No. 72 dated April 7, 2016	State subsidy support	RUB 5,779,010	
5.	Provision of social support measures to pay for utility services for certain categories of citizens of Tomsk as part of Contract No. 4D dated January 22, 2017 with the Office of Social Policy of the Tomsk City Administration. (JSC TomskRTS)	Social support to certain categories of citizens	Subsidiary support from the regional budget to compensate for the difference in tariffs of decentralized and centralized sources	RUB 72,073,000	Decision No. 55 of the Duma of the City of Tomsk dated December 21, 2010 Resolution No. 78 of the Administration of the City of Tomsk dated February 2, 2011 Law No. 140-OZ of the Tomsk Region dated December 8, 2017 "On Preferential Tariffs for Thermal Power (Capacity) and/or Hot Water"
6.	Provision of social support measures to pay for utility services for certain categories of citizens of Tomsk as part of a Subsidy Agreement dated June 15, 2018 with the Tariff Regulation Department of the Tomsk Region. (JSC TomskRTS)	Social support to certain categories of citizens	Subsidies from centralized sources	RUB 32,336,000	Decision No. 55 of the Duma of the City of Tomsk dated December 21, 2010 Resolution No. 78 of the Administration of the City of Tomsk dated February 2, 2011 Law No. 140-OZ of the Tomsk Region dated December 8, 2017 "On Preferential Tariffs for Thermal Power (Capacity) and/or Hot Water"
7.	Other			RUB 1,090,000	



## 2. Tax benefits and preferences received by the Group's enterprises in 2018

In total in 2018, the enterprises of the Group received tax preferences in the amount of RUB 4 203 258,4 thousand, including for taxes of RUB:

Property tax benefits	2,159,896.4
Income tax benefits	1,956,881.8
Insurance premiums	86,376.2
Transport tax benefits;	104.0
Total	4,203,258.4

# 15. INFORMATION ON LITIGATION AND SIGNIFICANT FINES

## SIGNIFICANT LEGAL PROCEEDINGS IN WHICH PJSC INTER RAO PARTICIPATED AS A PLAINTIFF OR DEFENDANT IN 2018

Plaintiff	Defendant	Subject of claims	Amount of claim, RUB	Probability of unfavorable outcome	Current situation
PJSC Inter RAO	PJSC Saturn NPA	Recovery of lost profit in the form of a shortfall in profit from the sale of electric power as a result of defects in the equipment supplied	329,005,535	average	The case is pending in the court of first instance. Proceedings suspended for the duration of a repeat legal expert evaluation
PJSC Inter RAO (co-plaintiff)	Government of Georgia	Reimbursement of losses due to the failure to comply with contractual obligations	USD 123 million (tentatively, will be clarified during the proceedings)	low	The case is pending in an arbitration institution (no instances)
PJSC Inter RAO	Ukrinterenergo	Enforcement of the decision of the ICAC at the Chamber of Commerce and Industry of the Russian Federation to recover debt of RUB 330,159,392.77 under a contract, penalties in the amount of RUB 117,373,321.99, and penalties amounting to 0.1% of the principal in the amount of RUB 330,159,392.77 for each day of delay starting from April 8, 2016 until the day the debt is actually paid, plus paid arbitration fees in the amount of RUB 2,415,039.00.	447,532,714.76 (tentatively, will be clarified during the proceedings)	average	On September 13, 2018, the Podolsky District Court of Kyiv issued a ruling refusing to recognize and enforce the decision of the ICAC at the Chamber of Commerce and Industry of the Russian Federation. Another appeal is being prepared.
PJSC Inter RAO	CELEC EP	Reimbursement of damages caused by the breach and termination of the contract	TBD	low	The case is pending in an arbitration institution (no instances)

## 16. INFORMATION ON THE SALE OF NON-CORE ASSETS IN 2018

The current program for the alienation of non-core assets of PJSC Inter RAO (hereinafter referred to as the Program) and the register of non-core assets of PJSC Inter RAO (hereinafter referred to as the Register) was approved by the Board of Directors of PJSC Inter RAO as of December 26, 2017 (Minutes of the Board of Directors Meeting No. 215 of December 28, 2017).

The register of non-core assets of PJSC Inter RAO (hereinafter the Register) was approved by resolutions of the PJSC Inter RAO Board of Directors dated December 26, 2017 and September 20, 2017 (Minutes of Meetings of the Board of Directors No. 215 dated December 28, 2017 and No. 231 dated September 24, 2017, respectively).

The updated register of non-core assets of PJSC Inter RAO (hereinafter the Register) was approved by a resolution of the PJSC Inter RAO Board of Directors dated December 20, 2018 (Minutes No. 236 of the Meeting of the Board of Directors dated December 24, 2018).

The program includes 9 sections:

1. Basic terms and definitions;
2. Goals and objectives for the sale of non-core assets;
3. Principles for the sale of non-core assets;
4. Procedure for identifying non-core assets;
5. Program and register of non-core assets, action plan;
6. Procedure for evaluating non-core assets;
7. Methods and procedure for the sale of non-core assets;
8. Information support for the sale of non-core assets;
9. Reporting on the implementation of the Program.

In addition, the Program contains two annexes, which list criteria for determining the profile of management accounting units and assets included in such units.

Section 7 of the Program provides for the following ways of selling non-core assets: compensated alienation; gratuitous alienation; liquidation (termination of membership in a legal entity)

Positive deviation (the asset is alienated with a profit).

In the fourth quarter of 2018, Inter RAO PJSC sold a non-core asset envisaged for sale in the register of non-core assets – 53,874,210 shares in JSC SIBEKO, which amounts to 0.1613% of the charter capital and has a book value of RUB 18.7 million. As a result of the sale, PJSC Inter RAO received cash in its account in the amount of RUB 55.3 million.

No.	Asset name	Inventory number (if applicable)	Balance sheet line where the asset was recorded as of the reporting date preceding the sale of the asset	Bookkeeping account (including analytics) that reflects income and expenses from the disposal of the asset (91.1xxx / 91.2xxx)	Book value of the asset (RUBthousand)	Actual sale value (RUB thousand)	Deviation in the actual sale cost and the book value of the asset (RUB thousand)	Reason for the deviation in the actual sale cost and the book value of the asset
1	53,874,210 shares in JSC SIBECO (0.1613% of charter capital)	N/A	1170	91.01 "2.5.2.5.1 Income/ expenses from the sale of shares and participatory interests not traded on the formal securities market, 0% rate (Article 284.2 of the RF Tax Code)	18,737.70	55,309.60	36,571.90	asset sold at a profit
<b>Total:</b>					<b>18,737.70</b>	<b>55,309.60</b>	<b>36,571.90</b>	

# 17. ASSOCIATIONS AND PARTNERSHIPS IN WHICH PJSC INTER RAO IS INVOLVED; VOLUNTARY INITIATIVES AND PUBLIC PROJECTS SUPPORTED BY THE COMPANY

Inter RAO Group, as one of the largest public energy companies in Russia, is actively engaged in the operation of manufacturing and business associations and ensures the development of transregional and international cooperation in the field of electricity sector by forming strategic partnerships both in Russia and abroad.

## Participation of inter rao group in non-profit associations and partnerships in 2018

### Organization

Chamber of Commerce and Industry of the Russian Federation and its regional branches	PJSC Inter RAO (Cooperation agreement)
Russian Union of Industrialists and Entrepreneurs (RUIE)	PJSC Inter RAO
Electricity Council of the Commonwealth of Independent States (EC CIS)	PJSC Inter RAO
Non-profit Partnership Centre of Innovative Energy Technologies (NP CIET)	PJSC Inter RAO, JSC EEC, CJSC Moldova TPP, JSC Inter RAO – Electricity Plants
Non-profit Partnership Russian-Chinese business council (RCBC)	PJSC Inter RAO
Non-profit Partnership Russian Risk Management Society	PJSC Inter RAO
Association Non-Profit Partnership Market Council for organising an efficient system of trading at wholesale and retail electricity and capacity market (Association NP Market Council)	PJSC Inter RAO, JSC Altai Energobyt, JSC Inter RAO – Electricity Plants, JSC Mosenergosbyt, LLC “SSK”, JSC Petersburg Power Supply Company, JSC “PES”, JSC TGK-11, JSC Tomsk Generation LLC BGC, LLC Oryol Power Supply Company, LLC RN – Energo, OOO “ESA”, LTD “ESCB-Development”, LLC “ESKB”, PJSC Saratovenergo, PJSC Tambov Power Supply Company, PJSC Tomskenergosbyt
International Union of public associations “international Congress of Industrialists and entrepreneurs” (ICPP)	PJSC Inter RAO
Association “Russian national Committee of the International Council for large electric systems of high voltage” (RNA CIGRE)	PJSC Inter RAO
Association European Federation of Energy Traders	RAO Nordic
Nordic Association of Electricity Traders	RAO Nordic
Association SRO CONSTRUCTORS’ ALLIANCE	LLC RN – Energo, JSC Altai Energobyt
Self-Regulatory Organisation Association Union of Architects and Engineers of West Siberia	JSC Altai Energobyt
NP SRO “Guild of energy auditors”	JSC Altai Energobyt JSC Mosenergosbyt, JSC Petersburg Power Supply Company, LLC Oryol Power Supply Company, LLC INTER RAO UES Energy Efficiency Centre, PJSC Saratovenergo, PJSC Tambov Power Supply Company
Chamber of Commerce and Industry of Altai	JSC Altai Energobyt
SPA ROR	JSC Altai Energobyt
Global Energy Interconnection Development and Cooperation Organization GEIDCO	JSC EEC
Union “Energostroy”	JSC Inter RAO – Electricity Plants Group
SRO “Union of Builders of Verhnyaya Volga”	AO « RSP TPK KGRES
Association “SRO “ICG”	LLC « “VTK”
Union small and medium business Sverdlovsk Oblast	LLC « “VTK”
Union “SLD”	LLC « “VTK”
Energy Without Borders Foundation	JSC Inter RAO Capital
Association of Regional Settlement Centers	LLC Inter RAO - EIRC, JSC UICC LR, LLC MosObiUIAC
Association of GEO	LLC Quartz Group
SRO Association Union of General Contractors in Construction	LLC Quartz Group, LLC Inter RAO – Engineering
Association Association Gradstroiproekt	LLC Quartz Group, LLC Inter RAO – Engineering

## Organization

SRO NP O&C	JSC Mosenergosbyt
Association of GP and ESK	JSC Mosenergosbyt, JSC St. Petersburg Power Supply Company, LLC BREC, PJSC Tambov Power Supply Company
SRO SP", AOA"	JSC Mosenergosbyt, JSC St. Petersburg Power Supply Company
RusSWIFT	LLC Integrator IT
Association SRO BSK	JSC St. Petersburg Power Supply Company
JSC Non-Government Pension Electricity Industry Fund	JSC St. Petersburg Power Supply Company
PO UIE of St. Petersburg	JSC St. Petersburg Power Supply Company
SRO NP "SEA"	LLC "OEK"
The national chamber of entrepreneurs of the Republic of Kazakhstan "Atameken"	AO SEGRES-2
The Establishment Of A Pool Of Reserves Of Electrical Capacity	AO SEGRES-2
The Kazakhstan Electricity Association	AO SEGRES-2
SRO SSAS	JSC Tomsk RTS
Association "Industrial cluster for the use and processing of zshm"	JSC TGK-11
Association ENERGOPROEKT	JSC TGK-11
Chamber of Commerce and Industry of Omsk	JSC TGK-11
All-Russian thermal engineering research Institute	JSC TGK-11
National Association for Energy and Environment	JC Telasi JSC Khrami HPP-1 (Georgia)
The Union of veterans of energy of Georgia	JC Telasi
Association ENERGOPROEKT	JSC Tomsk Generation, JSC Tomsk RTS
SRO "Tomsk builders"	JSC Tomsk RTS, PJSC Tomskenergosbyt
NP "chamber of Commerce and industry PMR"	ZAO Moldavskaya GRES
RO NP "Union of Industrialists, farmers and entrepreneurs of Transnistria"	ZAO Moldavskaya GRES
ASRO BAEC	LLC BashRTS
Chamber of Commerce and Industry of the Republic of Bashkortostan	LLC BGC
Association Hydropower Engineering of Russia	LLC BGC
ANPO RABC	LLC Inter RAO – Engineering
NP "Energostandart"	LLC Inter RAO – Engineering
Non-profit partnership for development of the trading and procurement industry, National Association of Procurement Institutions (NP NAPI)	LLC Inter RAO - the Center of management of purchases
Non-profit Partnership Dynamo Sports Club (Moscow)	LLC "RN-Energo"
RA SRO "Builders of the CCI RB"	LLC "Coal mine"
SRO "Soyuzatomgeo"	LLC "energy efficiency Centre INTER RAO UES"
SRO NP "Soyuzatomproekt"	LLC "energy efficiency Centre INTER RAO UES"
SRO NP "Soyuzatomproekt"	LLC "energy efficiency Centre INTER RAO UES"
ASTRO "RSFSR"	LLC BREC

Organization

EA RAE	LLC BREC
ACPO "OCCO"	PJSC Saratovenergo
Union REA TR AIE	PJSC Tambov Power Supply Company
Non-profit Partnership SIB EE	PJSC Tomskenergosbyt
(SRO) Association Tomsk Design Association	PJSC Tomskenergosbyt
Tomsk Chamber of Commerce and Industry	PJSC Tomskenergosbyt
Union MPO of Tomsk Region Employers	PJSC Tomskenergosbyt



# 18. GLOSSARY

## Abbreviations

AC – Antimonopoly Compliance

ACPP – annual comprehensive procurement program

AFC – anti-fraud and corruption

AIS – automated information system

AR – accounts receivable

AS – additional services

AS – administrative staff

CC – charter capital

CCA – competitive capacity auction

CDA – Capacity delivery agreement

CES – Common Economic Space

CHPP – combined heat and power plant

CI – calibration interval

CIW – construction and installation work

CPRU – Corporate and Property Relations Unit (division performing the function of a corporate secretary)

CRMS – Customer Relations Management Systems

DAM – day ahead market

EEU – Eurasian Economic Union

EPC CIS – Electric Power Council of the Commonwealth of Independent States

ESI – Employee Satisfaction Index

ESV – Energosbyt Volga

FAS of Russia – Federal Antimonopoly Service of Russia

FHUF – fuel heat utilization factor

FTS of Russia – Federal Tax Service of Russia

FGC UES – Federal Grid Company of the Unified Energy System

GE – General Electric

GEIDCO – Global Energy Interconnection Development and Cooperation Organization

GMS – General Meeting of Shareholders

GNERC – Georgian National Energy and Water Supply Regulatory Commission

GS – Guarantee Supplier

GSC – General Service Center

GTU – Gas turbine unit

HDN – heat distribution networks

HKUST – Kellogg-Hong Kong University of Science and Technology

HPP – Hydraulic power plant

HWS – hot water supply

IAU – Internal Audit Unit

ICRMD – Internal Control and Risk Management Department

ICUF – installed capacity utilization factor

IDP – individual development plans

IES – Integrated Energy Systems

IETC – innovative energy technologies center

IFRS – International Financial Reporting Standards

ILO – International Labour Organization	RMICF – risk management and internal control framework
IPI – intellectual property items	RNC ICLES – Russian National Committee of the International Council on Large Electric Systems Non-Profit Partnership
IR – Investor Relations	Rosimushchestvo – Federal Agency for State Property Management
IRD – internal regulatory documents	RSEC – Russian State Electrification Commission
JSC – joint-stock company	RUIE – Russian Union of Industrialists and Entrepreneurs
KPI – key performance indicators	SAIDI – System Average Interruption Duration Index
LECC – low emission combustion chamber	SAIFI – System Average Interruption Frequency Index
LLC – limited liability company	SCIGE – selecting composition of included generating equipment
MIRBIS – Moscow International Higher Business School	SFEC – specific fuel equivalent consumption
MOEK – Moscow United Energy Company	SME – small and medium-sized enterprises
NPP – nuclear power plants	SO UES – System Operator of the Unified Energy System
OIFES – occupational, industrial, fire, and environmental safety	SPA – Scientific Production Association
OSG – open switchgear	SPO – specialized procurement organization
PB – performance benchmarks	STPP – Sochinskaya Thermal Power Plant
PJSC – public joint-stock company	SWCA – special working conditions assessment
POS – production and occupational safety	TEI – technical and economic indicators
PPE – personal protective equipment	TPI – target program indicators
PSC – power supply companies	TPP – thermal power plant
PTL – power transmission line	UCP – United Capital Partners (Юнайтэд Кэпитал Партнерс)
R&D – research and development	UEC – United Engine Company
RAS – Russian Accounting Standards	UISC – Unified Information and Settlement Center
RAU – retrofitting and upgrading	UPD – unified payment document
RCBC NP – Russian-Chinese Business Council non-profit partnership	WECM – wholesale electricity and capacity market
REPM – retail electric power market	WPP – wind power plant
RES – renewable energy sources	

## Measurement units

Gcal – gigacalorie (thermal power measurement unit)

Gcal/h – gigacalorie/hour (thermal power measurement unit)

GW – gigawatt (electric power measurement unit)

Hz – hertz (electric current frequency)

kV – kilovolt (voltage measurement unit)

kVA – kilovolt-ampere (total power measurement unit)

kW – kilowatt (electric power measurement unit)

kWh – kilowatt-hour (generated electric power measurement unit)

MW – megawatt (electric power measurement unit)

tfe – ton of fuel equivalent (measurement unit)

t/h – tons per hour (steam generation measurement unit)

tnf – ton of natural fuel (measurement unit)

# 19. CONTACT DETAILS

**Full company name in English:**

Public Joint-Stock Company Inter RAO UES

**Short company name in English:**

PJSC Inter RAO

**State registration details:**

**Primary State Registration Number (PSRN):** 1022302933630

**State registration issue date:** November 1, 2002

Name of the registration authority as specified in the Certificate of Record in the Unified State Register of Legal Entities: Inspectorate of the Russian Tax Ministry, Sochi, Krasnodar Territory

Series and number of the legal entity's entry in the Unified State Register of Legal Entities: Series 23 No. 002387411

**Location:** Russian Federation, Moscow

**Actual address:** Bld. 2, 27 Bolshaya Pirogovskaya St., Moscow, 119435, Russian Federation

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**Contact details for shareholders**

**Shareholder Hotline:** + 7 (495) 710-89-83

Free hotline JSC VTB Registrar for Shareholders of PJSC Inter RAO for calls from across Russia: + 7 (800) 700-03-70

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**Auditor**

Full company name: Limited Liability Company Ernst & Young

Short company name: Ernst & Young, LLC

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TIN (INN): 7709383532

Primary State Registration Number (PSRN): 1027739707203

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**Depository bank**

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Olena Smirnova, VP

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## Register holder

Full name: Joint-Stock Company VTB Registrar

## Short name: JSC VTB Registrar

License for register maintenance No. 045- 13970-000001 of February 21, 2008, issued by the Central Bank of the Russian Federation.

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