

## 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			

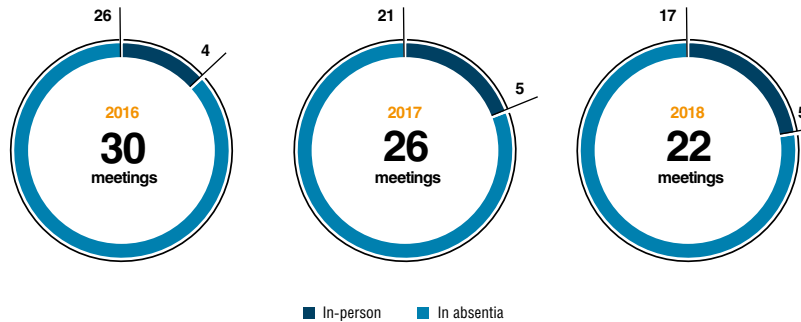
<sup>7</sup> Minutes No. 108 dated February 24, 2018.

<sup>8</sup> Minutes No. 243 dated April 1, 2018.

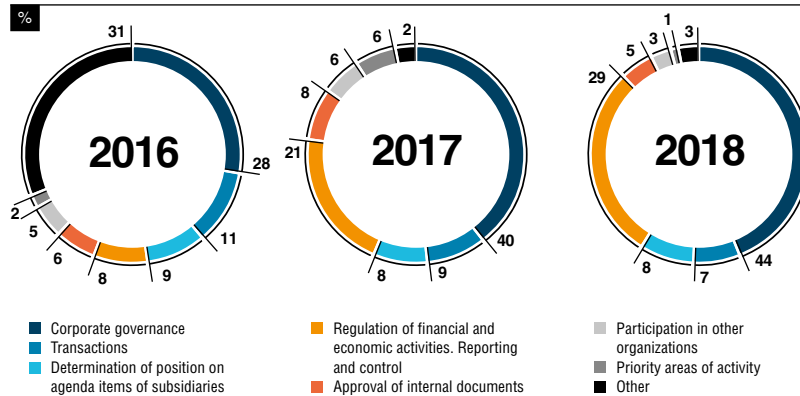
<sup>9</sup> Information on the attendance of meetings by members of the Board of Directors is given in XY format, where X is the number of meetings which a member of the Board of Directors attended, and Y is the number of meetings which a member of the Board of Directors could have attended.

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.

**NUMBER OF MEETINGS OF THE BOARD OF DIRECTORS**



**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<sup>4</sup> Unit for 2017.<sup>5</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.