

Compliance

The goals, objectives, principles, and main processes of compliance are defined in the Group's Compliance Policy:¹

- 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,² 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.

¹ Approved by a resolution of the PJSC Inter RAO Board of Directors dated December 20, 2018 (Minutes No. 236 dated December 24, 2017).

² 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 RAO³
- 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 corruption⁴
- 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)⁵
- the approval of a new version of the Code of Corporate Ethics of PJSC Inter RAO⁶
- 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 RAO⁷
- the approval of amendments to the Anti-Fraud and Corruption Policy of PJSC Inter RAO⁸

³ Considered at a meeting of the Board of Directors on January 31, 2018.

⁴ Considered at a meeting of the Board of Directors on March 30, 2018.

⁵ 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.

⁶ Considered at a meeting of the Board of Directors on November 30, 2018.

⁷ Considered at a meeting of the Board of Directors on December 20, 2018.

⁸ 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.¹ 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.

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).

¹ 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.

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