

# 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%