

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 The modernization program will not only update the outdated capacities of TPPs, but will also provide orders for domestic manufacturers of power equipment and localize the use of foreign technologies and equipment in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, 2016,⁵ 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

⁵ 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 ₂ emissions per unit of electricity generated, grams of CO ₂ /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 ¹	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 ²
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 ³

¹ Indicative figure.

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

³ 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 Code⁴ as a document that defines corporate governance standards.⁵

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.

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

⁵ Minutes No. 128 of the meeting of the Board of Directors dated November 26, 2014.