



2017 ANNUAL REPORT

Annual Report
+
Sustainability And Environmental
Responsibility Report

2017 Annual Report of PJSC Inter RAO / Report on Sustainable Development and Environmental Responsibility

Chairman of the Management Board

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Chief Accountant

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Contents

1. Strategic Report.....	8
1.1. At a Glance	8
1.2. About the Report	11
Differences from the Development Process of the 2016 Report.....	11
Scope of Information.....	11
Responsibility for the Report Preparation.....	11
Statement on Liability Limitations.....	11
1.3. Address of the Chairman of the Board of Directors of PJSC Inter RAO	12
1.4. Address of the Chairman of the Management Board of PJSC Inter RAO	13
1.5. Brief Information about the Company	15
Company History	15
2017 Key Events.....	18
Key Awards in 2017	19
Company Structure.....	21
Geographical Footprint	24
The Group's Key Indicators for 2015–2017	25
Group Business Model.....	27
Competitive Review	30
Inter RAO Group Investment Attractiveness Factors.....	34
Supply Chain	37
1.6. Market Review, Strategy and KPIs	38
Market Review	38
Development Strategy	47

System of Key Performance Indicators	55
1.7. Risk Management and Internal Control	59
Goals and Objectives of the Enterprise Risk Management Framework and Internal Control Framework	59
Participants of Risk Management and Internal Control Frameworks	60
ERM and IC Efficiency Assessment	63
Main Results of the Performance of Risk Management and Internal Control Frameworks in 2017	64
Priorities in risk management and internal control for 2018	65
Critical Risk Map	66
1.8. Investment Activities	67
The Group's Investment Plans: Key Areas of Capital Investments	69
1.9. Operating Results by Segments	72
Key Business Results of the Group	72
Generation in the Russian Federation	76
Supply in the Russian Federation	93
Trading in the Russian Federation and Europe	106
Engineering in the Russian Federation	113
Foreign Assets	118
1.10. Analysis of Financial Results	133
Revenue	137
Operating Costs	138
EBITDA	140
Cash Flow	141
Total Debt Load	142
Net Profit Distribution and Volume of Net Assets	144
Credit Ratings	144

Formation of the Created Direct Economic Value, Distributed and Undistributed Economic Value.....	145
2. Corporate Governance	145
2.1. Statement of the Chairman of the Board of Directors	145
2.2. General Information about the Company's Corporate Governance	146
High Level of Corporate Governance.....	146
Key Participants of the Corporate Governance Model in PJSC Inter RAO	147
Evaluating the Quality of the Corporate Governance System.....	148
Improving the System of Corporate Governance in 2017.....	149
2.3. General Meeting of Shareholders.....	150
Information on Holding General Meetings of Shareholders in 2017.....	150
2.4. Board of Directors Performance Overview	153
Evaluation of the Board of Directors' Performance.....	154
Report on the Board of Directors' Performance in Priority Areas.....	156
Composition of the Board of Directors	159
Biographies of the Members of the Board of Directors	160
Independent Directors.....	170
Training and Development Program for Members of the Board of Directors	171
Liability Insurance	171
Regulating Conflict of Interest	172
2.5. Committees of the Company's Board of Directors	173
Audit Committee	175
Nominations and Remunerations Committee.....	177
Strategy and Investment Committee	179
2.6. Corporate Secretary	182
2.7. Executive Bodies.....	183

Biographies of the Management Board Members	184
Changes in the Composition of the Management Board in 2017	188
Information on Transactions Carried out in 2017 by the Members of the Management Board with Shares They Own	189
Events After the Reporting Date	189
2.8. Board of Directors and Management Board Remuneration System.....	189
General Information on the Company's Remuneration Policy	189
Report on the Payment of Remuneration in 2017.	193
2.9. Corporate Control.....	194
Revision Commission	194
Internal Audit Unit	195
Internal Control Framework and Enterprise Risk Management Framework.....	198
Information Security.....	198
Compliance, Combating Fraud and Corruption	199
External Auditor	202
2.10. Information for Shareholders and Investors.....	203
Company Share Capital.....	203
Stock Exchange Information on PJSC Inter RAO Shares	206
Dividend Policy (Report on Dividend Payout).....	212
Information Disclosure and Investor and Shareholder Relations	214
3. Report on Sustainable Development.....	222
3.1. Stakeholders	223
Main Communication Channels and Key Subjects for Contact with Stakeholders.....	225
3.2. HR Management and Corporate Culture	230
Corporate Culture and Social Support for the Company's Employees.....	240
3.3. Occupational Safety	242

Reduction of the Injury Rate at Production Facilities	242
Occupational Health and Safety	244
Reduction of Emergency Events	245
Safety Cooperation with the Community	247
3.4. Energy Saving and Energy Efficiency	248
Group's Energy Resources Consumption	250
3.5. Ecology and Environmental Protection	251
Goals and Objectives of the Company's Environmental Policy	251
Environmental Management System	252
Compliance with Legislative Requirements	253
Areas of the Group's Environmental Activities	253
Investments for Environmental Protection	253
Adverse Environmental Impact Fee	254
Protection of the Atmosphere, Emission Control	256
Use of Water Resources	258
Production Waste Management	259
Noise Impact Reduction	260
3.6. Procurement	261
Procurement System Improvement	262
Cooperation with Small and Medium-Sized Business	264
Key Procurement Results for 2017	265
Import Substitution	265
3.7. Social Policy	267
Contribution to the Development of the Regions of the Group's Operations	268
Volunteer Activities	271

Interaction with Authorities and Public Organizations.....	272
4. Contact Details	274
5. Appendixes	277
5.1. Appendix 1. Consolidated Financial Statements of PJSC Inter RAO for 2017 as per IFRS	277
5.2. Appendix 2. Annual Accounting Statements of PJSC Inter RAO for 2017 as per RAS	291
5.3. Appendix 3. Report of the Revision Commission.....	301
5.4. Appendix 4. Report on Compliance with the Principles and Recommendations of the Corporate Governance Code	304
5.5. Appendix 5. GRI Content Index.....	365
5.6. Appendix 6. Group's Significant Risks: Description and Measures for Risk Management.....	379
5.7. Appendix 7. Information on Holding Meetings of the Board of Directors and Committees of the Board of Directors.	392
5.8. Appendix 8. Requirements and Guidelines, According to Which the Report is Prepared.....	394
5.9. Appendix 9. Report on the Transactions Entered into by the Company in the Reporting Year, Which are of Interest	395
5.10. Appendix 10. Information on Fulfillment of the Orders of the President and the Government of the Russian Federation Aimed at Improving the Business Activities of PJSC Inter RAO in 2017	397
5.11. Appendix 11. Internal Regulation Effective in the Company	399
5.12. Appendix 12. Information on the Participation of PJSC Inter RAO in the Activities of Subsidiaries, Affiliates and Other Business Entities in 2017. Information on the Concluded Contracts of Purchase and Sale of Shares, Stock, Units of Economic Partnerships and Companies, Including Information on the Parties, Subject, Price and Other Terms of These Contracts.	406
5.13. Appendix 13. Government Support.....	426
5.14. Appendix 14. Information on Legal Proceedings and Significant Fines.....	428
5.15. Appendix 15. Information on the Sale of Non-Core Assets in 2017	429
5.16. Appendix 16. Associations and Partnerships in Which PJSC Inter RAO Takes Part; Voluntary Initiatives and Public Projects Supported by the Company.....	430

1. Strategic Report

1.1. At a Glance

Mission of Inter RAO Group: to promote sustainable economic development and improvement of quality of life in all regions where the Group operates by ensuring reliable energy supply, meeting the growing demand for electricity and using innovative technologies in the field of energy efficiency and energy saving.

Key Indicators of the Year

1,372.7 MW

New capacity commissioning in the Russian Federation¹



More details on page 26

+ 1.4 billion kWh

Electricity sold by the Supply segment of the Group in the Russian Federation



More details on page 26

+ RUB 48.9 billion

Increase in the Group's revenue



More details on page 140

RUB 95.5 billion

EBITDA



More details on page 137

Key Events of the Year

Commissioning of new power generating units at Verkhnetagilskaya TPP (447 MW) and Permskaya TPP (903 MW)



More details on page 19

Increase of Inter RAO Group's international credit rating (Moody's, Ba1)*

* The increase up to Baa3 on January 29, 2018



More details on page 19

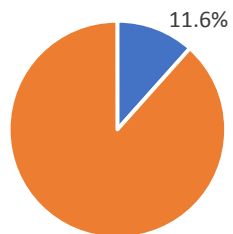
At the Annual General Meeting of Shareholders, it was decided to increase the dividends amount to be distributed



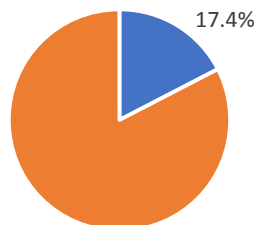
More details on page 19

¹ Includes CDA commissioning and re-marking of CDA and existing operating units. Excluding the commissioning of T-120 turbine generator at Omskaya CHPP-3.

Status in the Industry

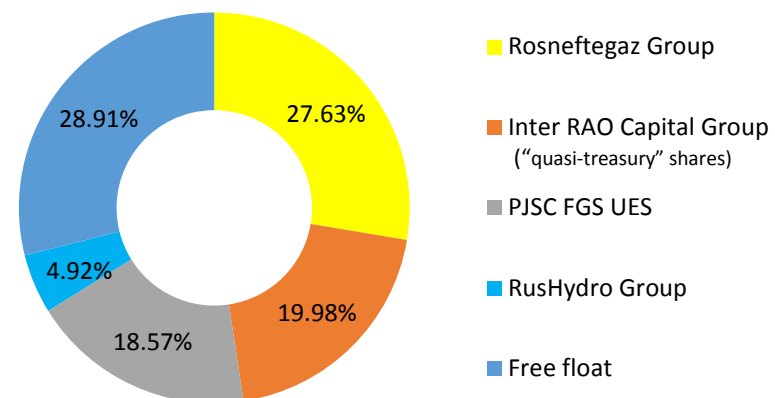


Inter RAO Group's share of electricity generation in Russia in 2017
More details on page 32



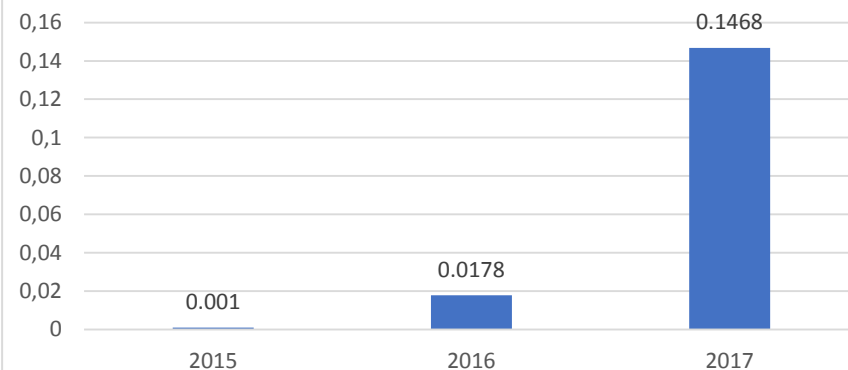
Inter RAO Group's share of the supply segment in the Russian market in 2017
More details on page 32

Share Capital and Dividends

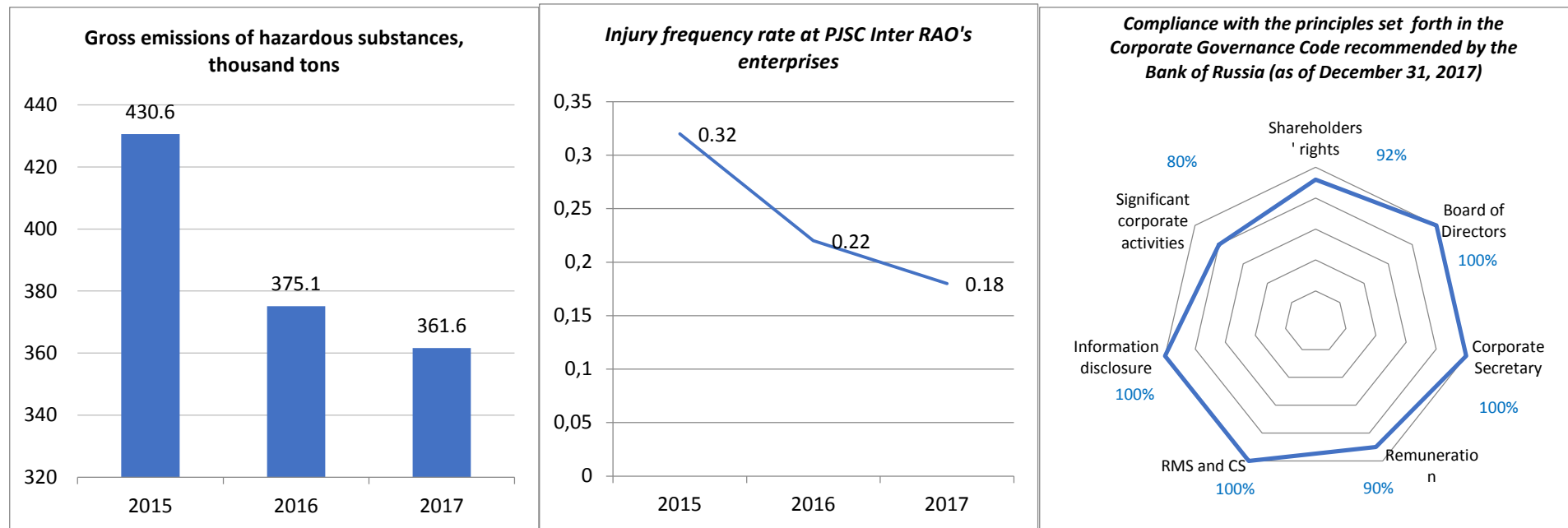


*As of March 19, 2018, the number of free-float shares increased and comprised 30.4% (for more information see the section – Company Share Capital)

Dividends per share, RUB



Sustainable Development and Corporate Governance



More details on pages 150, 246, and 258

1.2. About the Report

In the Annual Report, the terms Inter RAO, Group, Company, Inter RAO Group in different forms refer to PJSC Inter RAO and its subsidiaries. The terms PJSC Inter RAO and the Company refer to PJSC Inter RAO.

The Company publishes its Report annually. The content of this Report comprises the period from January 1, 2017, to December 31, 2017. The previous Report covers the year 2016 and was published in June 2017.

The aim of this Report is to inform stakeholders about different aspects of the Company's business, such as strategy and risks, the business model and competitive environment, operational and financial results, the Company's corporate governance system, social responsibility and environmental protection policies, and interaction with stakeholders.

Differences from the Development Process of the 2016 Report

The key difference is the transition to using new reporting methods – GRI Standards. As in 2016, the Electric Utilities Sector Supplement was used to account for sector-specific issues.

Scope of Information

The scope of information disclosed in the Annual Report is in line with the scope of IFRS consolidated reporting.

There were no significant changes regarding the Group's size, structure, or ownership in 2017.

Responsibility for the Report Preparation

The Report is preliminarily approved by the Board of Directors as of April 19, 2018².

Statement on Liability Limitations

The Report contains forecasts regarding operational, financial, economic and social indicators for the Company's future development. Implementing plans and achieving aims is directly linked to the political, economic, social and legal situation both in Russia and at global level. In this regard, the actual results of the Company's business in the future may differ from the anticipated results.

² Minutes No. 222 of April 19, 2018

1.3. Address of the Chairman of the Board of Directors of PJSC Inter RAO

Dear shareholders,

Inter RAO Group is pleased to present the 2017 Annual Report on performance results. In the reporting period, in accordance with the priority areas of activity and the decisions adopted by the Board of Directors, the Company continued to implement its Long-Term Development Strategy until 2020. This enabled the Company to maintain and improve its leading position in the Russian electricity sector and remain a leader in the industry.

Last year, Inter RAO Group completed a large-scale construction program of modern power generating units in accordance with the Capacity Delivery Agreement (CDA). Units with 1,470 MW capacity were commissioned at Omskaya CHPP-3, Verkhnetagilskaya TPP, and Permskaya TPP. At the beginning of 2018, Mayakovskaya and Talakhovskaya TPPs were commissioned, with a total capacity of 312 MW. They were constructed as a part of project ensuring energy security in a strategic region. For this reason, the President of Russia also took part in the commissioning process.

In Bashkortostan, the construction of Zatonskaya CHPP was completed in March 2018, with installed capacity of 440 MW. It will provide a new large district of Ufa with heat and reduce the electricity shortage in the regional power system during peak usage periods.

In 2017, Inter RAO Group continued its work on generating electricity using only highly efficient equipment, and decommissioned 1,271 MW of old unprofitable capacities. As a result, the capacity load factor increased from 46.8% to 48.2%. Apart from financial gain for generating companies, this step significantly increased the operational reliability of power systems in Russia.

The successful steps taken by Inter RAO not only ensure that power plants and energy supply are reliable and stable for consumers, but also achieve positive financial results. EBIDTA, the main indicator, remains at a high level of RUB 95.5 billion in 2017, which means an increase of 2.1% accounting for adjustments made for the effect of the Armenian and Georgian assets that left the Group.

The past year is characterized by fundamental governmental decisions that determined the immediate future of the electric power industry. First, this relates to the introduction of a benchmark supply model and "alternative heat boiler" model, as well as presidential approval of a mechanism to modernize thermal power. Inter RAO experts actively participated in this process and abovementioned models would not have been taken without their involvement. The objective for the coming years is to implement tariff-setting reforms for the energy supply and heat sector as efficiently as possible. Participation in modernization program of existing power-generating units is a serious challenge faced by the industry, and this will be a top priority for Inter RAO Group activity in the medium-term.

Chairman of the Board of Directors of PJSC Inter RAO

Igor Sechin

1.4. Address of the Chairman of the Management Board of PJSC Inter RAO

Dear shareholders,

We hereby present the Report for 2017. Without a doubt, Inter RAO Group's top priority over the last year was the implementation of its investment program and the construction of new capacities. In terms of the 10-year modernization program on Capacity Delivery Agreement (CDA), the Company performed its obligations and fulfilled its responsibilities to the full extent. In 2017, more than 1,470 MW were commissioned at Omskaya CHPP-3, Permskaya TPP, and Verkhnetagilskaya TPP. In addition, Zatonskaya CHPP, with capacity of 440 MW, was constructed and put into operation in Ufa in Q1 2018.

One of our most significant achievements is the implementation of strategic governmental projects to construct four power plants in the Kaliningrad Region in conjunction with Rosneftegaz, our main shareholder and partner. This project is continuously monitored by the Government of the Russian Federation and the Russian Ministry of Energy. The goal set by the President to provide energy security to the Kaliningrad Region is being fulfilled successfully in the shortest time possible: Mayakovskaya and Talakhovskaya TPPs have already been commissioned with an overall capacity of 312 MW, and commissioning works on other facilities are being implemented in accordance with the schedule.

All these achievements not only ensure that power plants and energy supply are reliable and stable for consumers, but also maintain a high level of operational and financial results. In particular, despite the overall capacity of 1,271 MW of inefficient equipment that was decommissioned since January 1, 2017, the generating companies of Inter RAO Group increased electricity output by 1 billion kWh (by 1%). Revenue increased by RUB 49 billion (5.6%) in 2017. With the efforts of the Group's management, the average price of a ton of coal was reduced by 2.7%, and the fuel consumption rate for electricity generation was reduced by 1.8% on average for the Group.

The Management of the Company aims to preserve the gained momentum and prevent the decrease of operational and financial indicators in the next year. The Company's main priority for the immediate future is to improve its efficiency and investment attractiveness of the Company.

A serious challenge for us will be participating in the second phase of the large-scale modernization of the Russian electric power industry, which will make it possible to significantly increase technological advancement and productivity of the main assets. In the supply segment, we need to continue developing commercial services and implementing innovative marketing and digital technologies, as well as occupying positions in new niche markets. We must effectively cooperate with tariff bodies to ensure that fair decisions are made regarding energy and heat supply activities. Of course, we need to continue to reduce semi-fixed costs by implementing innovative governance and management methods.

There is important work ahead for Inter RAO Group in the sphere of increasing operational and management efficiency, implementing the most advanced technologies aimed at increasing the Company's capitalization for the benefit of all shareholders, as well as ensuring reliable and secure energy supply in the regions where the Group operates.

Chairman of the Management Board of PJSC Inter RAO

Boris Kovalchuk

1.5. Brief Information about the Company

Inter RAO Group is a diversified energy holding company that manages assets in Russia, Europe, and the CIS.

The Group operates in the following sectors:

1. Electricity and heat generation.
2. Electricity and heat supply.
3. International energy trading.
4. Engineering, export of power equipment.
5. Management of electricity distribution grids outside Russia.

Since 2010, PJSC Inter RAO has been included in the List of Strategic Enterprises and Strategic Joint-Stock Companies of the Russian Federation³.

Inter RAO Group is the operational leader in electricity export and import in Russia. The Group's supply territory covers Finland, Belarus, Lithuania, Latvia, Estonia, Poland, Norway, Ukraine, Georgia, Azerbaijan, South Ossetia, Kazakhstan, China, Mongolia, and others.

PJSC Inter RAO effectively manages power supply companies/guaranteed suppliers in 12 regions of Russia. The Company owns independent suppliers of electricity to large industrial consumers.

Generating assets

41 thermal power plants

10 hydropower plants (including 5 low capacity HPPs)

2 wind farms

Supply activities

in 62 regions of Russia

Electricity export

16.7 TWh in 2017

Electricity import

6.2 TWh in 2017

Company History

International electricity trade	Energy generation development	Rapid growth	Consolidation of assets	Increasing efficiency and commissioning of new generating capacity
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³ According to Decree of the President of the Russian Federation No. 1190 of September 30, 2010, PJSC Inter RAO was included in the List of Strategic Enterprises and Strategic Joint-Stock Companies (Section 2 of the List of Open Joint-Stock Companies with assets held in federal ownership managed by the Russian Federation in order to ensure strategic interests, protection and security of the state, protection of morals, health-care, rights, and legitimate interests of the citizens of the Russian Federation).

International electricity trade	Energy generation development	Rapid growth	Consolidation of assets	Increasing efficiency and commissioning of new generating capacity
1997–2002	2003–2006	2007–2011	2012–2014	2015–2017
<ul style="list-style-type: none"> – Projects launched to trade electricity produced outside Russia in foreign markets. – First subsidiaries established to ensure operations in foreign power markets. – Independent electricity export from Russia is started. 	<ul style="list-style-type: none"> – Electricity production begins using a leased power generating unit at Irklinskaya TPP. – Power assets actively purchased in Russia and abroad. – Russian and foreign assets purchased, including JSC Ekibastuz TPP-2 (Kazakhstan), CJSC Moldavia TPP (Moldavia), Severo-Zapadnaya CHPP (Russia), and TGR Enerji (Turkey). 	<ul style="list-style-type: none"> – Group's generating assets merged: Severo-Zapadnaya CHPP, Ivanovskiye CCGT, Kaliningradsкая CHPP-2, and Sochinskaya TPP. – Status acquired as controlling shareholder of JSC OGK-1, JSC OGK-3, JSC TGC-11, as well as five power supply companies, including JSC Mosenergosbyt (Moscow Power Supply Company), JSC St. Petersburg Power Supply Company, JSC Altai Energosbyt, etc. – Public trading in shares on the MICEX and RTS stock exchanges. 	<ul style="list-style-type: none"> – Reorganization process completed, with 100% control of Russian generating assets, JSC OGK-1 and JSC OGK-3 transferred to Inter RAO – Electricity Generation Group. – A range of promising assets acquired, including assets of Bashkirenergo Group, Trakya Elektrik A.S. in Turkey, and JSC Tomskenergosbyt. – Two power-generating units of Yuzhnouralskaya TPP-2 commissioned, with installed capacity of 417.4 MW and 420 MW respectively. – Company development strategy until 2020 updated and approved by Inter RAO's Board of Directors. – Plant opened (joint venture between Inter RAO Group, GE, and JSC United Engine Corporation) for the production and maintenance of 6FA (6F.03) gas turbines with a capacity of 77 MW in Rybinsk in the Yaroslavl Region. 	<ul style="list-style-type: none"> – Consolidation of Inter RAO Group's shares completed, and PJSC Inter RAO's shares with a new par value admitting for trading on the Moscow Exchange. – Construction of two new coal power-generating units completed, with installed capacity of 225 MW each at Cherepetskaya TPP in the Tula Region. – Programs approved to decommission inefficient generating equipment. – Investment project implemented to complete construction of a branch of BGC LLC with an installed capacity of 440 MW at Zatonskaya CHPP in Ufa. – Agreement signed for purchase of power assets (CJSC Power Grids of Armenia and JSC Hrazdan Energy Company) with Tashir Group in the Republic of Armenia. – T-120 turbine generator unit and new gas turbine with capacity of 120 MW commissioned at Omskaya CHPP-3, upgraded turbine with capacity of 100 MW commissioned at Omskaya CHPP-5. – New gas power generating

International electricity trade	Energy generation development	Rapid growth	Consolidation of assets	Increasing efficiency and commissioning of new generating capacity
				<p>unit No. 12 with installed capacity of 447 MW commissioned at Verkhnetagilskaya TPP.</p> <p>– New gas power generating unit No. 4 with installed capacity of 903 MW commissioned at Permskaya TPP.</p>

2017 Key Events

Month	Event	Areas of activity
January	<p>Moody's Investors Service international agency increased Inter RAO Group's international credit rating.</p> <p>The Inter RAO Group's credit rating was increased to Ba1 on the global scale.</p>	FINANCE, CORPORATE GOVERNANCE
February	<p>Inter RAO and Federal Environmental, Industrial and Nuclear Supervision Service (Rostekhnadzor) signed a Cooperation Agreement.</p> <p>The Agreement sets out the main principles of cooperation between Inter RAO and Rostekhnadzor related to compliance with labor and industrial safety requirements during construction and upgrade of Inter RAO Group's power facilities, as well as the provision of energy security in the Kaliningrad Region.</p>	ELECTRICITY AND HEAT GENERATION
June	<p>PJSC Inter RAO held the Annual General Meeting of Shareholders.</p> <p>The Annual Report and annual accounting statements for the results of 2016 were approved. The decision was adopted to pay dividends in the amount of 25% of Inter RAO Group's net profit under IFRS. Members of the Board of Directors and the Revision Commission were elected. Amendments were made to the Company's main internal documents, as well as to the Articles of Association mainly due to of legislative changes.</p>	CORPORATE GOVERNANCE, FINANCE
June	<p>Inter RAO Group commissioned a new gas power-generating unit with an installed capacity of 447 MW at Verkhnetagilskaya TPP in the Sverdlovsk Region.</p> <p>The power-generating unit will replace the worn-out coal equipment of the plant's I-IV stages that was decommissioned in 2016 and at the start of 2017.</p>	ELECTRICITY AND HEAT GENERATION
August	<p>Inter RAO Group put into operation a new gas power-generating unit with an installed capacity of 903 MW at Permskaya TPP.</p> <p>As a result of commissioning the power generating unit, the installed capacity of Permskaya TPP increased by a third to 3,363 MW as of the end of the year. The plant is now one of the top five biggest heat power plants in Russia.</p>	ELECTRICITY AND HEAT GENERATION
December	<p>Inter RAO Group consolidated its shares in PJSC Mosenergosbyt on its balance sheet following the completion of share buyback from minority shareholders.</p> <p>The consolidation of PJSC Mosenergosbyt complies with Inter RAO Group's strategy in terms of providing an optimal asset ownership structure.</p>	ASSET STRUCTURE OPTIMIZATION

Events after the reporting date

January

Inter RAO Group's credit rating, assigned by Moody's, increased to Baa3 on a global scale as of January 29, 2018, with a stable outlook.

March

In the framework of the options program implementation, the Company sold 1.19 billion ordinary shares to institutional investors at a price of RUB 3.48 per ordinary share to a total amount of around RUB 4.15 billion. As of March 19, 2018, the number of free-float shares increased to 30.4%.

Inter RAO Group commissioned Zatonkaya CHPP (the BGC LLC branch). The new plant consists of two power-generating units with total capacity of 440 MW and heat capacity of 290 Gcal/h. The Russian-manufactured modern combined-cycle equipment with high efficiency was installed at CHPP, and natural gas will be used as the main fuel.

Energosbyt Volga, a member of Inter RAO Group, was awarded the status of Guarantee Electricity Supplier to consumers in the Vladimir Region. The corresponding order was published by the Ministry of Energy of the Russian Federation of March 20, 2018.

Key Awards in 2017



According to the results of 2017, PJSC Inter RAO was a leader once again in terms of the RUIE (Russian Union of Industrialists and Entrepreneurs) indexes in the sphere of sustainable development: Responsibility and Transparency, and Vector of Sustainable Development included in the international database for ratings and indexes in the sphere of sustainable development in 2017.



The Federal Antimonopoly Service of the Russian Federation (FAS Russia) awarded PJSC Inter RAO with a Certificate of Appreciation for contribution to maintaining a competitive environment, and for significant contribution to development of antimonopoly legislation and tariff regulation laws within the electric power industry.



Eight employees of PJSC Inter RAO became prizewinners of the prestigious annual rating Top 1,000 Russian Managers, awarded by the Association of Managers and Kommersant publishing house.

The managers in the leading positions in the ratings became nominees for the final award of the Association of Managers, which is given to the most outstanding representatives with a great professional reputation in the Russian business community.



Winner of the XX Annual Report Competition, one of the most notable events of the Russian investment community held by the Moscow Exchange and the RCB magazine, in two nominations: Best Annual Report in the Electric Power Sector of the Economy, and Best Disclosure on the Corporate Website.

Moreover, PJSC Inter RAO's Annual Report won in the Best Annual Report Disclosure on Corporate Governance category and was included in the shortlist of the category for Best Annual Report of a Company with Capitalization of more than RUB 200 billion.



PJSC Inter RAO became the winner in the corporate and industrial media contest KonTEKst-2017 in the nominations The Best Media Communication System and Company's Brand Assessment. The system of brand's assessment was also awarded Marketing Experts Gild Certificate.



IR magazine Russia & CIS Awards 2017: For the third year in a row, the IR Team of PJSC Inter RAO holds the leading position in two categories: Corporates Best for Investor Relations – Russian Federation – Utilities and Best IR Professional.



Anton Nazarov, Director of Public Relations, Head of the Information Policy Division at Inter RAO, was awarded 1st place in the rating of Directors of Corporate Communication TOP-COMM in the Electrical Power sector, 2nd place in the TOP-100 rating of Directors of Corporate Communication and Corporate Relations in Russia, 3rd place in the rating The Most Effective Company's Cooperation with State Authorities in Russia. TOP-COMM 2018, the rating-assessment of the corporate relations on the Russian market, was organized by the Russian Association of Communication Directors and Corporate Publishing (AKMP), acting as non-profit organization since 2004.

Company Structure

The Group is controlled by the parent company PJSC Inter RAO. The major companies of Inter RAO Group as of the end of 2017 categorized by type of activities are:

Generation (see more on page 79)

The Electric Power Generation in the Russian Federation segment

Inter RAO – Electricity Generation Group:

1) JSC Inter RAO – Electricity Generation:

- Verkhnetagilskaya TPP
- Gusinoozyorskaya TPP
- Dzhubginskaya TPP
- Ivanovskiye CCGT
- Iriklianskaya TPP
- Kaliningradskaya CHPP-2
- Kashirskaya TPP
- Kostromskaya TPP
- Permskaya TPP
- Pechorskaya TPP
- Severo-Zapadnaya CHPP
- Sochinskaya TPP
- Urengoyskaya TPP
- Kharanorskaya TPP
- Cherepetskaya TPP
- Yuzhnouralskaya TPP
- Yuzhnouralskaya TPP-2

- 2) • JSC Nizhnevartovskaya TPP
(equity accounted investee)
- NVGRES Holding Limited
(equity accounted investee until March 31, 2017)
-

The Thermal Power Generation in the Russian Federation segment, including heating systems

JSC TGC-11
JSC Tomsk Generation
JSC Tomsk RTS
JSC Omsk RTS
Bashkir Generation Company Group

The Supply in the Russian Federation segment (see more on page 96)

Guaranteed suppliers	Non-regulated power supply companies	Information and computing centers
PJSC Mosenergosbyt (group of companies) JSC Altai Energosbyt JSC St. Petersburg Power Supply Company (including LLC OPSC) PJSC Saratovenergo PJSC Tambov Power Supply Company PJSC Tomskenergosbyt LLC Oryol Power Supply Company LLC Energy Supply Company of Bashkortostan (LLC PSCB)	LLC RN – Energo PJSC Promishlennaya Energetika LLC RT-ET (equity accounted investee)	JSC UIBC LR LLC Moscow region UIBC

The Trading in the Russian Federation segment (see more on page 110)

PJSC Inter RAO (trading operations)
RAO Nordic Oy
AB INTER RAO Lietuva
SIA INTER RAO Latvia
INTER RAO Eesti OU
IRL POLSKA S. z o. o.
Vydmantai Wind Park UAB
JSC EEC

The Foreign Assets segment (see more on page 123)

Georgia	Moldavia	Turkey
JSC Telasi JSC Khrami HPP-I JSC Khrami HPP-II	CJSC Moldavia TPP	Trakya Elektrik Uterim Ve Ticaret A.S.

The Engineering in the Russian Federation segment (see more on page 118)

LLC Inter RAO – Engineering

LLC Quartz Group

LLC INTER RAO – Export

**Innovations
(see more on page 55)**

Energy Without Borders Foundation

LLC Energy Without Borders Technology

Commercialization Center⁴

**Energy Efficiency
(see more on page 265)**

LLC INTER RAO UES Energy Efficiency Center

(equity accounted investee)

Corporate Center (key companies)

PJSC Inter RAO (except for trading operations)

JSC Inter RAO Capital

LLC INTER RAO SERVICE

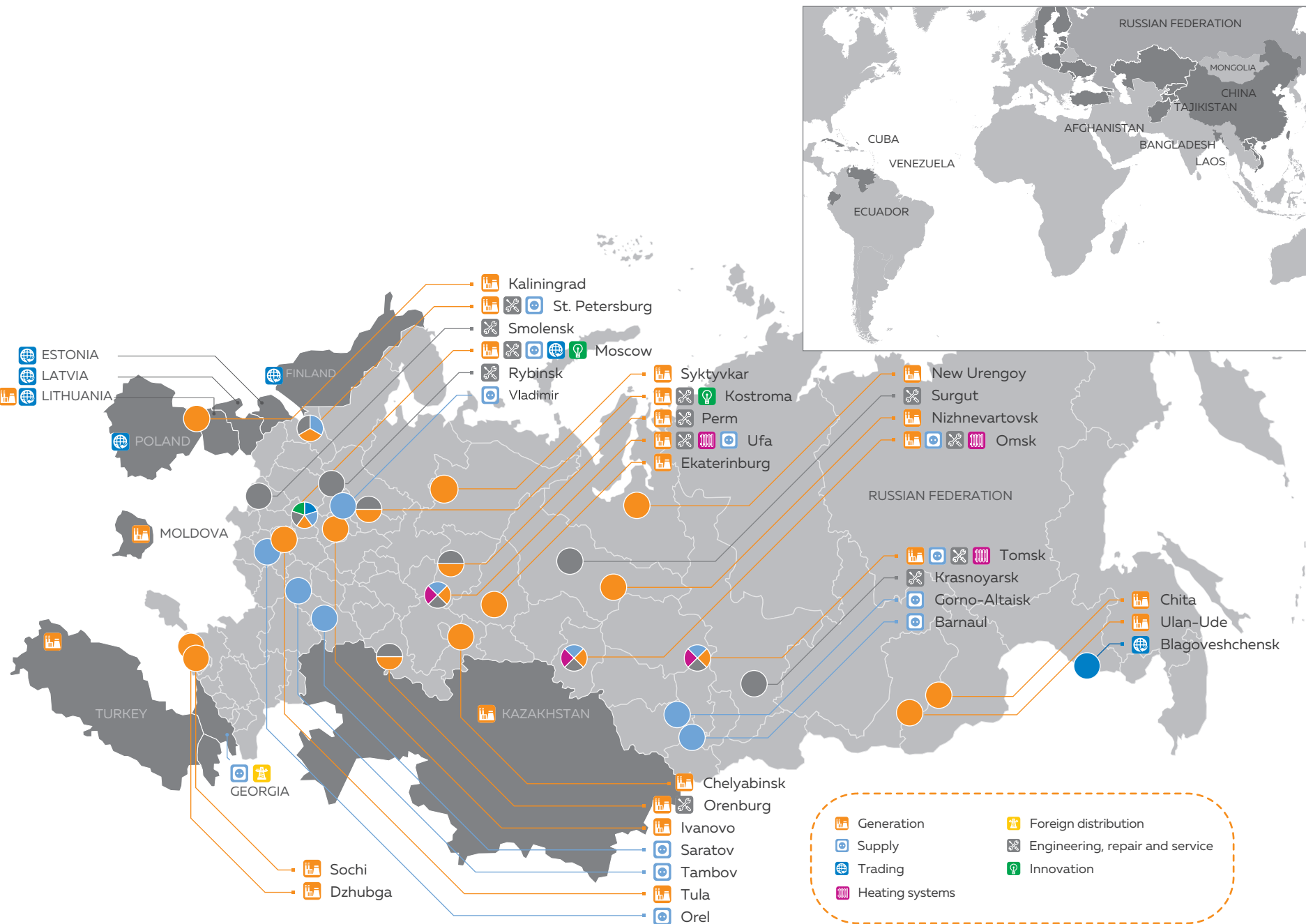
JSC Elektroluch

LLC Inter RAO Invest

LLC Inter RAO–IT

LLC Inter RAO–Finance

⁴ Energy Without Borders foundation and LLC Energy Without Borders Technology Commercialization Center are not members of Inter RAO Group in purpose for the Federal LAW No. 135-FZ of July 27, 2006 On Protection of Competition but are included in the consolidation for IFRS purposes.



The Group's Key Indicators for 2015–2017

Key indicators	Units of measurement	2015	2016	2017	2017/2016 +/-, %
Revenue	RUB bln	832.0	868.2	917.0	+5.6%
Net profit	RUB bln	23.8	61.3	54.4	-11.2%
Net assets	RUB bln	366.2	419.2	459.4	+9.6%
Intangible assets	RUB bln	13.7	9.9	13.2	+33.1%
EBITDA	RUB bln	72.4	96.3	95.5	-0.8%
EBITDA per kWh	RUB/kWh	0.35	0.56	0.56	-0.4%
Installed capacity, total	MW	34,968	32,524	32,715	+0.6%
Including: installed capacity, Russia	MW	29,003	28,269	28,460	+0.7%
New capacity commissioning in Russia (CDA) ⁵	MW	269.5	166.4	1,372.7	>8 times
Decommissioning of inefficient capacity in Russia	MW	368.0	958	1,272	+32.8%
Electric power generation	bln kWh	141	134	135	+0.7%

⁵ Including remarking of CDA units. Excluding the commissioning of T-120 turbine at Omskaya CHPP-3.

Key indicators	Units of measurement	2015	2016	2017	2017/2016 +/-, %
Electricity sales in Russia	bln kWh	168 ⁶	183	184	+0.8%
Average electricity selling price in Russia	RUB/kWh	1.67	1.79	1.83	+2.3%
Year-end number of employees	people	50,797	48,945	47,750	-2.44%
Average number of employees per MW of installed capacity (the Generation in the Russian Federation segment)	people	0.88	0.85	0.79	-7.2%
Wages, benefits, and payroll taxes	RUB bln	48.0	49.9	49.5	-0.8%
Average age of employees	years	42	41	41	-
Investment in personnel training	RUB bln	0.19	0.19	0.32	68.4%
Injury frequency rate (LTIFR)	-	0.32	0.22	0.18	-18.2%
Investment in environmental protection	RUB bln	1,898	1,037	1,091	+5%
Procurement costs excluding agency fees and internal group procurements	RUB bln	161.3	170.0	181.8	+6.9%
Share of imported products in the total procurement volume	%	10.3	5.7	4.2	-1.5 p.p.
Charity	RUB bln	0.48	0.6	1.1	+75.9%
Consumers	units	12,558,372	14,219,051	14,636,840	+2.9%
Length of overhead and underground power transmission grids (Georgia)	km	4,826	5,082	5,338	+5%

Installed capacity in terms of primary sources of power and regulation modes

Primary power sources	Capacity regulation mechanisms				
	CDA	CPT	Forced mode	Other	Total
Gas generation	4,077	14,774	287	5,024	24,162
Russian Federation	4,077	14,774	287	2,026	21,164
Foreign assets	-	-	-	2,998	2,998
Coal generation	1,095	735	1,210	1,000	4,040
Russian Federation	1,095	735	1,210	0	3,040
Foreign assets	-	-	-	1,000	1,000
Mixed generation (power plants which used both gas and coal in the	380	3,298	247	63	3,988

⁶ Excluding LLC PSCB's indicators (the asset part of the Group in 2016).

reporting period)					
Russian Federation	380	3,298	247	63	3,988
Foreign assets	-	-	-	0	0
Other capacities (did not pass CPT, did not apply for CPT, decommissioned, hydro generation, wind power generation, etc.)	0	241	0	284	525
Russian Federation	0	241	0	26	268
Foreign assets	-	-	-	257	257

Electric power generation and heat output by primary sources of power

	Electric power generation, thousand MWh			Heat output from collectors, thousand Gcal		
	2015	2016	2017	2015	2016	2017
Gas generation	101,888	97,243	99,372	28,947	29,667	29,328
Russian Federation	97,278	92,775	95,815	28,805	29,528	29,196
Foreign assets	4,610	4,468	3,557	142	139	131
Coal generation	18,114	19,915	20,190	3,975	4,180	3,956
Russian Federation	14,904	14,939	14,695	3,893	4,109	3,890
Foreign assets	3,211	4,976	5,495	81	71	67
Mixed generation (power plants which used both gas and coal in the reporting period)	13,932	11,422	10,638	5,876	5,894	5,921
Russian Federation	13,932	11,422	10,638	5,876	5,894	5,921
Foreign assets	0	0	0	0	0	0
Other capacities (did not pass CPT, did not apply for CPT, decommissioned, hydro generation, wind power generation, etc.)	2,904	1,807	1,498	787	791	788
Russian Federation	1,049	870	940	787	791	788
Foreign assets	1,855	937	558	0	0	0

Group Business Model

Inter RAO Group performs its activities in a competitive environment in the framework of the Russian energy system, specifically concerning electric power generation and sales, working with technology and commercial infrastructure companies that are state controlled. Electricity produced by generating companies is sold in the wholesale or retail markets to supply companies or large end consumers. Thereafter, the supply companies resell

the purchased electricity to end consumers. The role of the support/service activities directly related to the operation of generating companies – engineering, maintenance/repair, fuel supply and other – should also be noted.

Inter RAO Group is a diversified energy holding operating in various segments of the electricity industry both in Russia and abroad. The Company's business model involves the Group's continuous presence in all links of the value chain – from design and construction of power facilities to supply of electricity and heat to end consumers.

The synergy effects arising between different links of the value chain make the Group business model more stable, in particular:

- presence in the Engineering segment provides greater control over the CDA projects in the electric power and thermal power generation segments, helping to reduce the risks of failing to comply with the CDA terms and conditions. As a result of presence in this segment, it becomes possible to use the engineering experience gained in the course of implementing the Group's internal projects for capitalization on the external market;
- company's manufacture of modern equipment and the development of this area can serve as a tool for import substitution, if the Group implements projects involving construction/modernization of generating assets, which is especially relevant in the current political context and adds a competitive advantage to the engineering complex of Inter RAO Group on the external market;
- availability of fuel assets within the Group enables the continuous supply of fuel and ensures reliable operation of generating equipment and mitigation of logistics and price risks and serves as a tool to influence third-party fuel suppliers during negotiations.

Inter RAO Group business model. In conditions of uncertainty in the long-term development of the regulatory framework in the industry (including the Wholesale Electricity and Capacity Market and Retail Electricity Market rules), the adopted Business Diversification Strategy is the Group's key factor for risk hedging in the energy industry.

Suppliers of capital

Inter RAO Group

Generated value

Shareholders and investors (financial capital)

Equity: RUB 459.4 billion

Borrowed capital: RUB 165.6 billion

Owned assets and suppliers (productive capital)

Electricity and heat generation

- 41 TPPs
- 10 HPPs
- 2 wind farms

32.7 GW – installed electric capacity of the Group's plants

25.6 thousand Gcal/h – installed heat capacity of the Group's plants

RUB 34.2 billion – capital expenses

RUB 585.6 billion – volume procurement procedures

Intellectual capital and control system

Corporate governance system

Risk management and internal control system

Personnel (human capital)

48.6 thousands workers, 54% of them have higher education
10% – turnover of labour

Company (social capital)

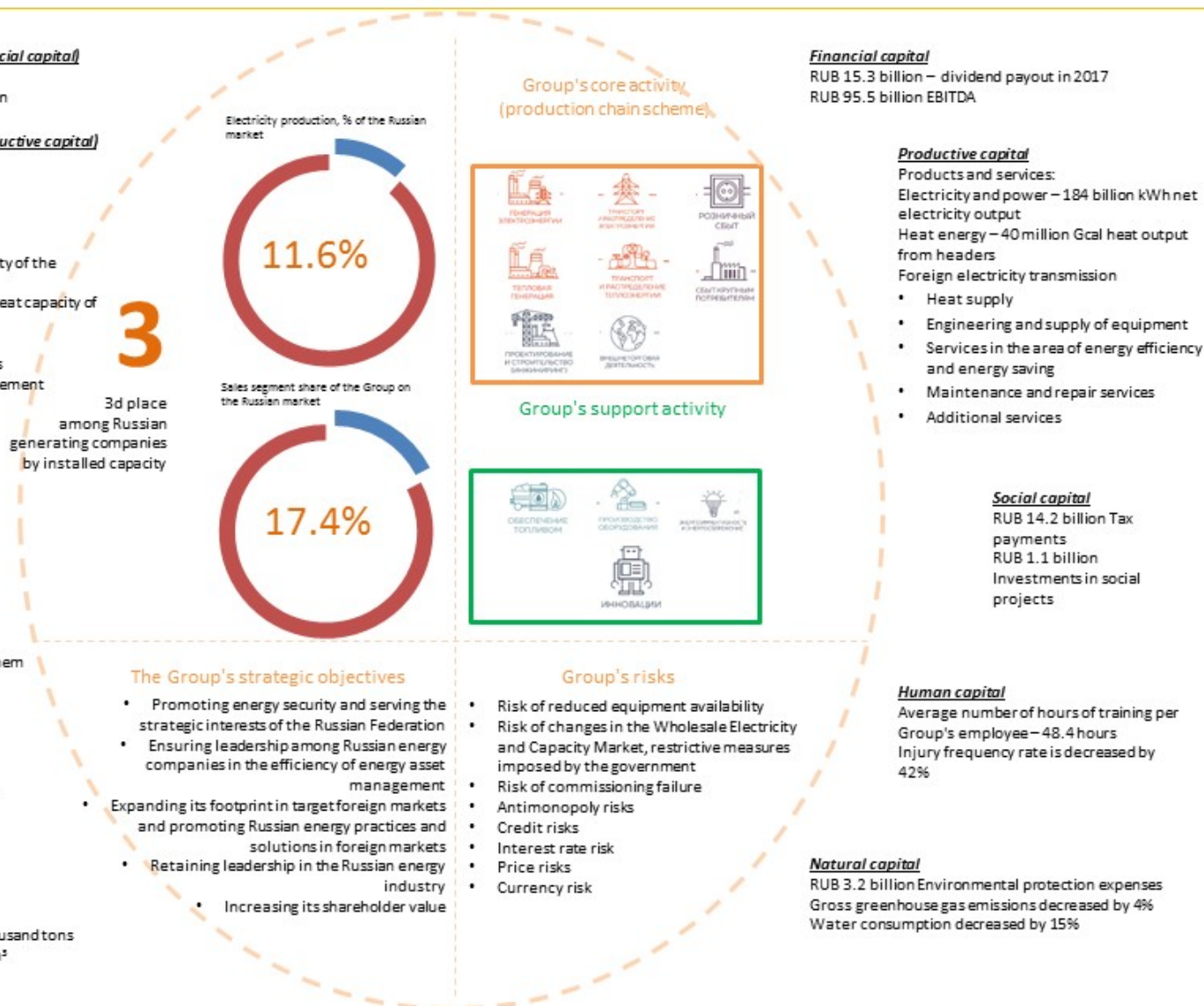
Reputation of Inter RAO Group
Interaction with the stakeholders

Natural capital

Fossil fuel consumption

- Gas: 30 billion m³
- Coal: 15.9 million tons
- Liquid hydrocarbons: 198 thousand tons

Water consumption 12.7 billion m³



Маленькие картинки из таблицы

(Первый столбец сверху вниз) Electric power generation; Thermal power generation; Design and construction (engineering);

(второй столбец сверху вниз) Transportation and electricity distribution; Transportation and electricity distribution; Foreign trade operations;

(третий столбец) Retail supply; Supply to large consumers

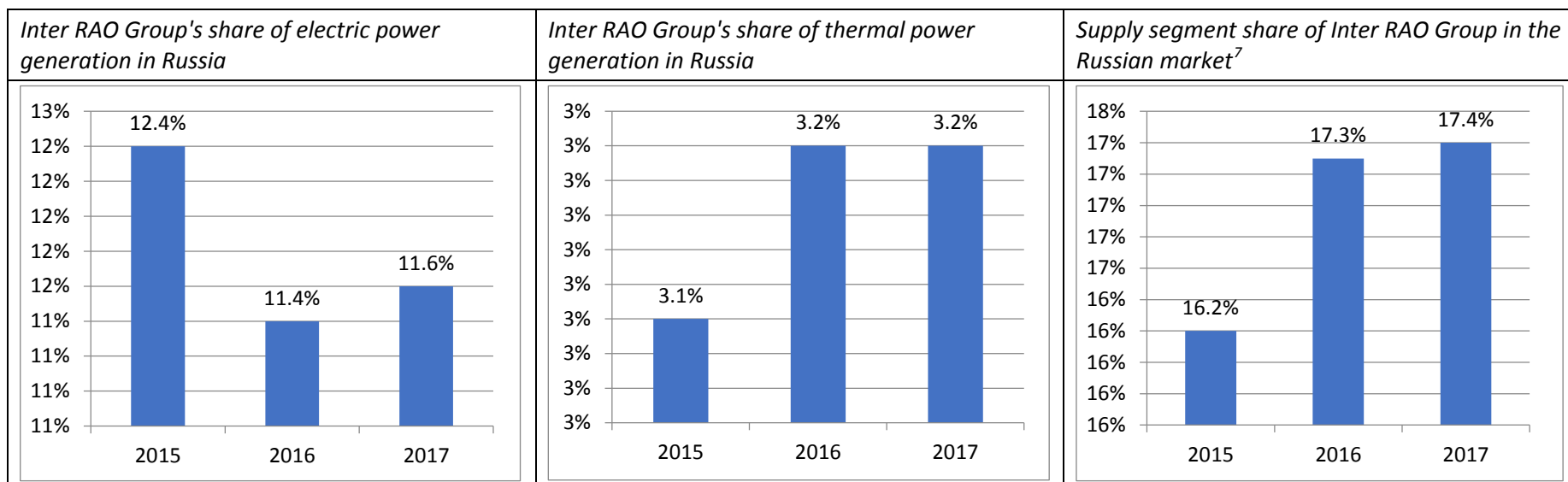
Картинка 2 Fuel supply; Production of equipment; Energy saving and energy efficiency; Innovations

Competitive Review

Competitive Environment

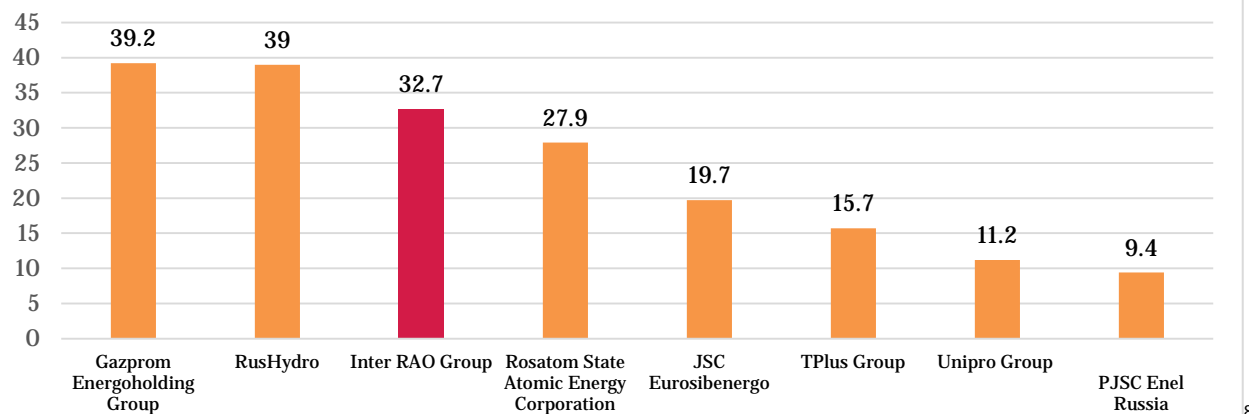
Inter RAO Group occupies a stable position in the markets in which it operates. The strategy of Inter RAO Group is aimed at reaching a leadership position in the Russian market to ensure the most efficient asset management.

The Company occupies third place in the Russian industry in terms of installed capacity, providing generation of more than 11% of electricity in the UES of Russia. The Group's sales activities account for more than 17% of retail electricity supplies on the Russian market. Inter RAO Group is the only participant of export and import operations in the internal Russian Wholesale Electricity and Capacity Market (WECM).



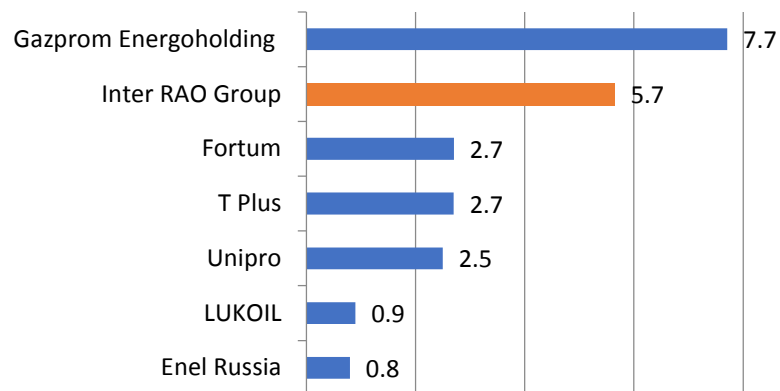
⁷ For 2015 - except for LLC PSCB's indicators (the asset became part of the Group in 2016). Includes operations in the wholesale electricity market.

3d place among Russian generating companies by installed capacity as of December 31 2017, GW



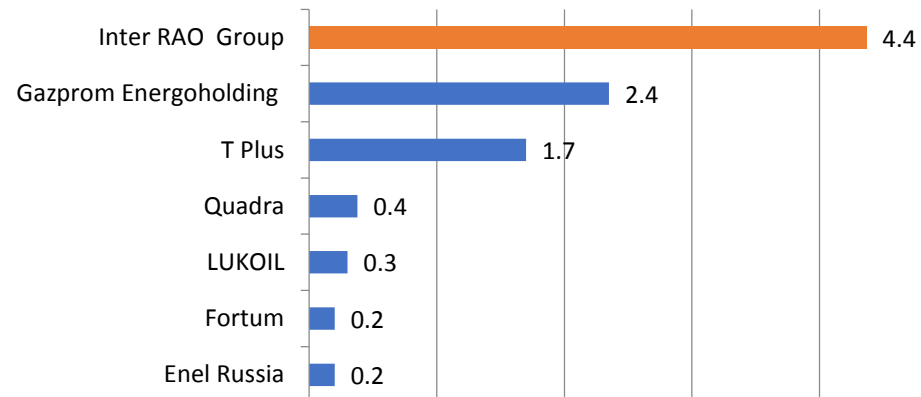
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Commissioning of new efficient capacities in 2009-2017, GW



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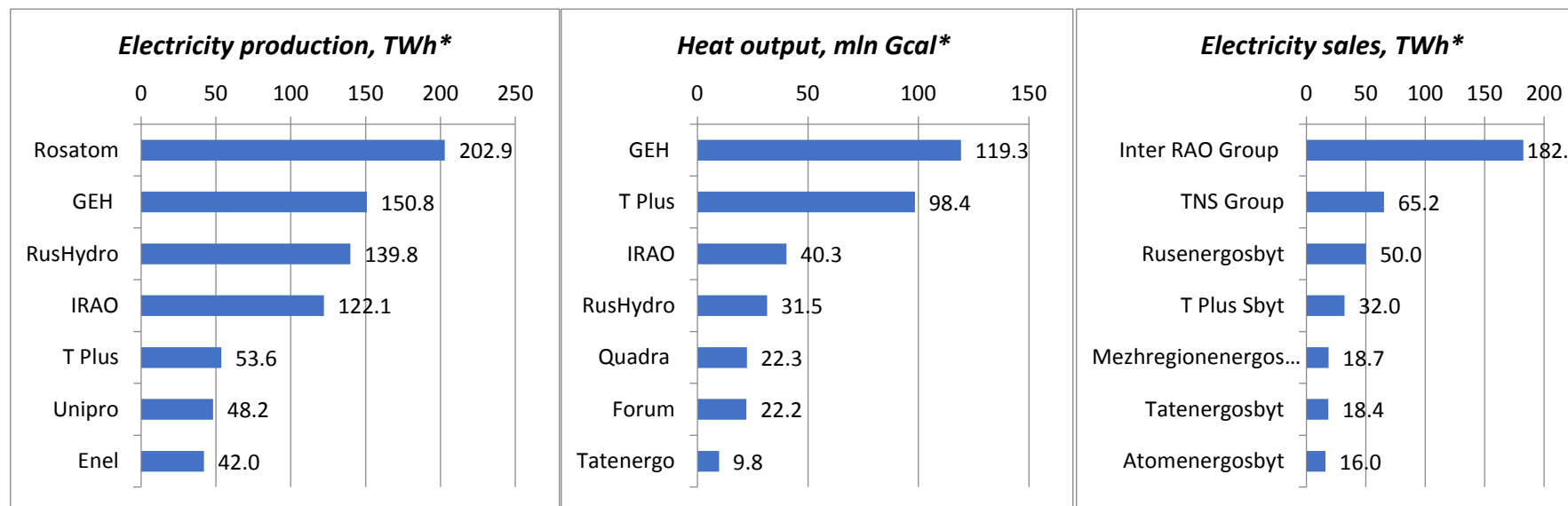
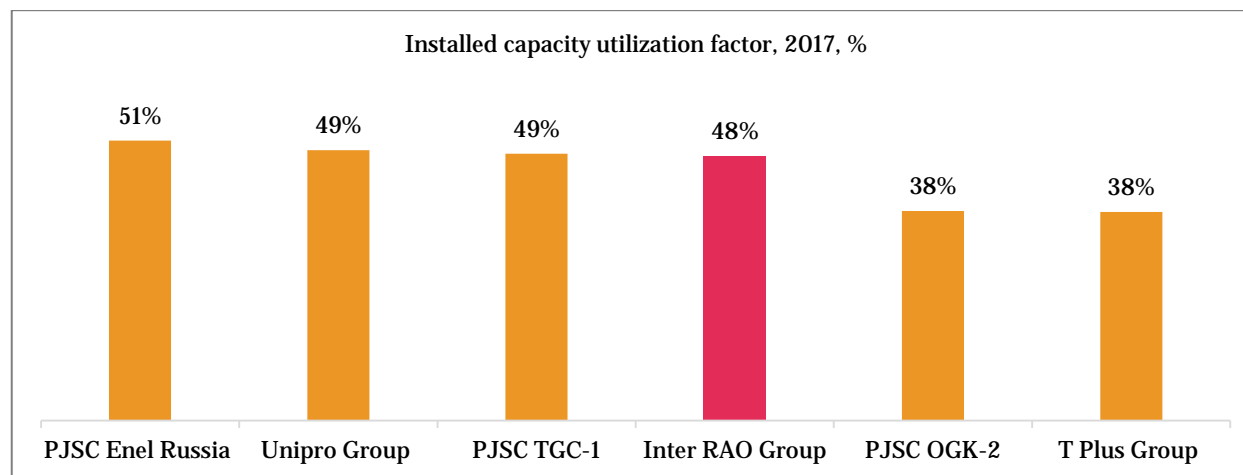
Decommissioning of inefficient capacity in 2011-2017, GW



10

⁸ Based on company data and reports of SO UES

⁹ Based on SO UES data



*Information provided: on electric power generation in 2017, on heat output and electricity sales for 2016.

Competitive advantages of the Group's segments

Electric power generation	Supply
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¹⁰ Based on SO UES data

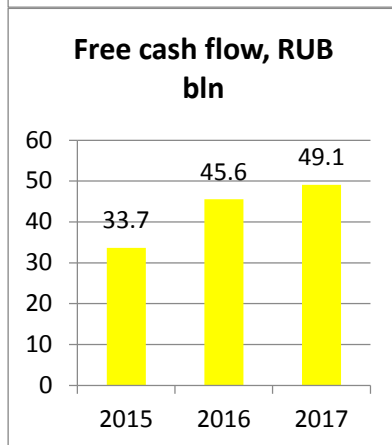
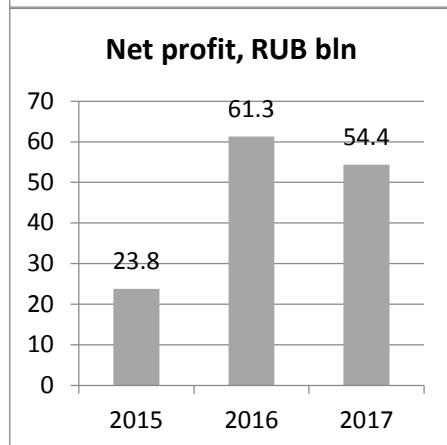
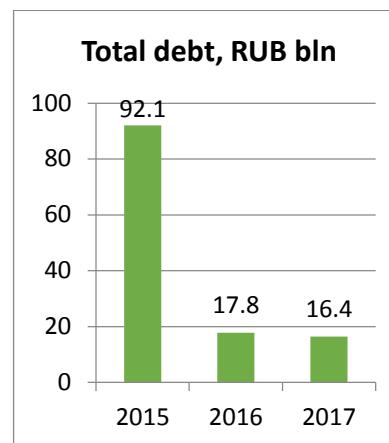
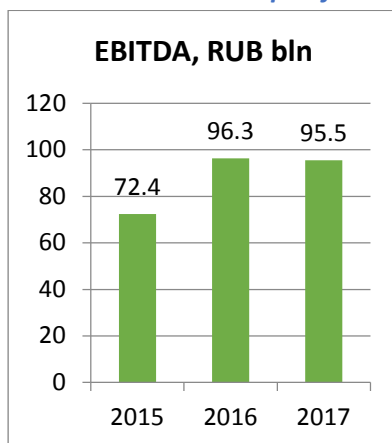
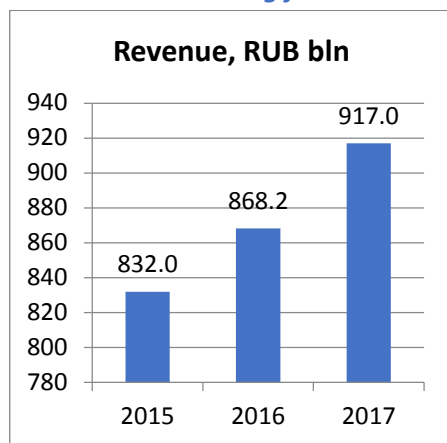
<ul style="list-style-type: none"> • Closing cycle of the investment program implemented in terms of new construction (5.7 GW built under the CDA accounting for more than 90% of all obligations). • Approximately 20% of new high-performance capacities with low fuel cost component. • Approved long-term programs for decommissioning inefficient generating equipment. Total capacity to be decommissioned by 2020 will be around 4 GW. • Available competencies and experience in effective operation in the electricity and capacity market, including the effective use of existing mechanisms to optimize the existing generating equipment loading profile in order to achieve maximum marginal profit. • Efficient long-term contract for natural gas purchases, which stipulates a discount on the price of gas as compared to the regulated price approved by the FAS of Russia. • High-mobility equipment available in the assets structure. • Available in-demand and competitive generating capacities with an extensive geographical reach. • Most enterprises within the Group are certified according to the ISO 14001 international standard. The Group consistently monitors the implementation of measures under the target ecological program, time periods and deadlines for their implementation, and numerical values/indicators that demonstrate fulfillment of objectives. The program is updated as necessary. Certification of the environmental management systems in accordance with the new version of the standard ISO 14001:2015 began in 2017 • Import substitution activities (participation in development and production of the first gas turbine in Russia with higher capacity GTD-110M and GTU 6FA production localization). Import substitution program for equipment of the power engineering industry in the sphere of gas turbine technologies, with a priority being the establishment of a Russian production facility for prospective GTU prototypes and the increase of production localization of GTU with medium and high capacities licensed by foreign companies. 	<ul style="list-style-type: none"> • Leading positions in the Russian electricity market. The share of the Group's power supply companies in the electricity market increased by 0.1%, to 17.4%. • Presence of the Group's companies in the major constituent entities of the Russian Federation: Moscow City and Region, St. Petersburg and Leningrad Region. • High market share in regions of presence in the Supply segment. • Large customer base. • Unified management system of power supply companies of Inter RAO Group. • Unified Billing – a unified billing method for legal entities in the form of a set of business processes that regulate the core operations of power supply companies. • Unregulated sales companies present in the segment, which have contracts with key industrial consumers. • Unique competences that provide for active development of additional services aimed at satisfying customer needs. • Synergistic effect for power supply companies in the regions where the Group's generating assets operate. • Customer-oriented approach – building an effective system to assess customer satisfaction with the quality of services provided. • High level of payment collection on the retail market. • A unified model of the group brand of power supply companies/guarantee suppliers of Inter RAO Group.
<p>Trading</p> <ul style="list-style-type: none"> • The leading Russian electricity export and import operator, the sole participant of export and import operations in the internal Russian Wholesale Electricity and Capacity Market (WECM). • The Group's supply geography covers 14 countries. • Unique competency and accumulated experience in foreign economic activities. • Well-organized system of interaction with Russian and foreign partners. • Optimal structuring of contract proposals, considering customer needs as much as possible. 	<p>Engineering</p> <ul style="list-style-type: none"> • Experienced management team with a large portfolio of completed projects. • Qualified experts among the personnel in all required areas of the electricity industry. • Own design center. • Own supply on the gas turbine market. • Prospective portfolio of projects being implemented or completed and cooperation with key regional energy companies. • Established relations with the authorities in Russia and key partner countries. • Experience in attracting project financing and using state support. • Using the world's best management practices consistent with the ISO 9001 quality management standard.

Inter RAO Group Investment Attractiveness Factors

Leading positions in one of the largest energy markets in the world

- Russia is one of the top-5 countries in the world in terms of electricity consumption and production volume (more details on page 41)
- 3rd place in terms of installed electric power generation capacity in the Russian Federation (more details on page 31)
- 4th place in terms of electricity production in the Russian Federation (more details on page 33)
- 3rd place in terms of heat generation capacity in the Russian Federation (more details on page 33)
- 1st place in terms of electricity supply in the Russian Federation (more details on page 33)

Strong financial indicators and balanced loan portfolio



(More details on page 135)

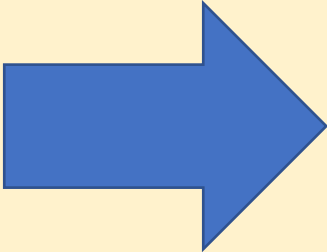
Clear development strategy focused on improving operational efficiency and reducing costs

- Commissioning of new effective capacities amounted to 1.4 GW in 2017 (more details on page 84)
- Decommissioning of outdated low-performing generating facilities in 2017 amounted to 1.3 GW (more details on page 82)

High level of corporate governance

- Transparent dividend policy (more details on page 214)
- Regular information disclosure on financial and business activities (more details on page 216)
- In conducting its activities, the Company is governed by the Corporate Governance Code of the Bank of Russia as a document that determines corporate governance standards (more details in Appendix 4. Report on Compliance with the Principles and Recommendations of the Corporate Governance Code for 2017 on page 306)
- Independent directors account for more than 1/3 of the Company's Board of Directors (more details on page 161)
- The Nomination and Remuneration Committee and the Audit Committee comprised of independent directors were established under the Board of Directors (more details on page 175)

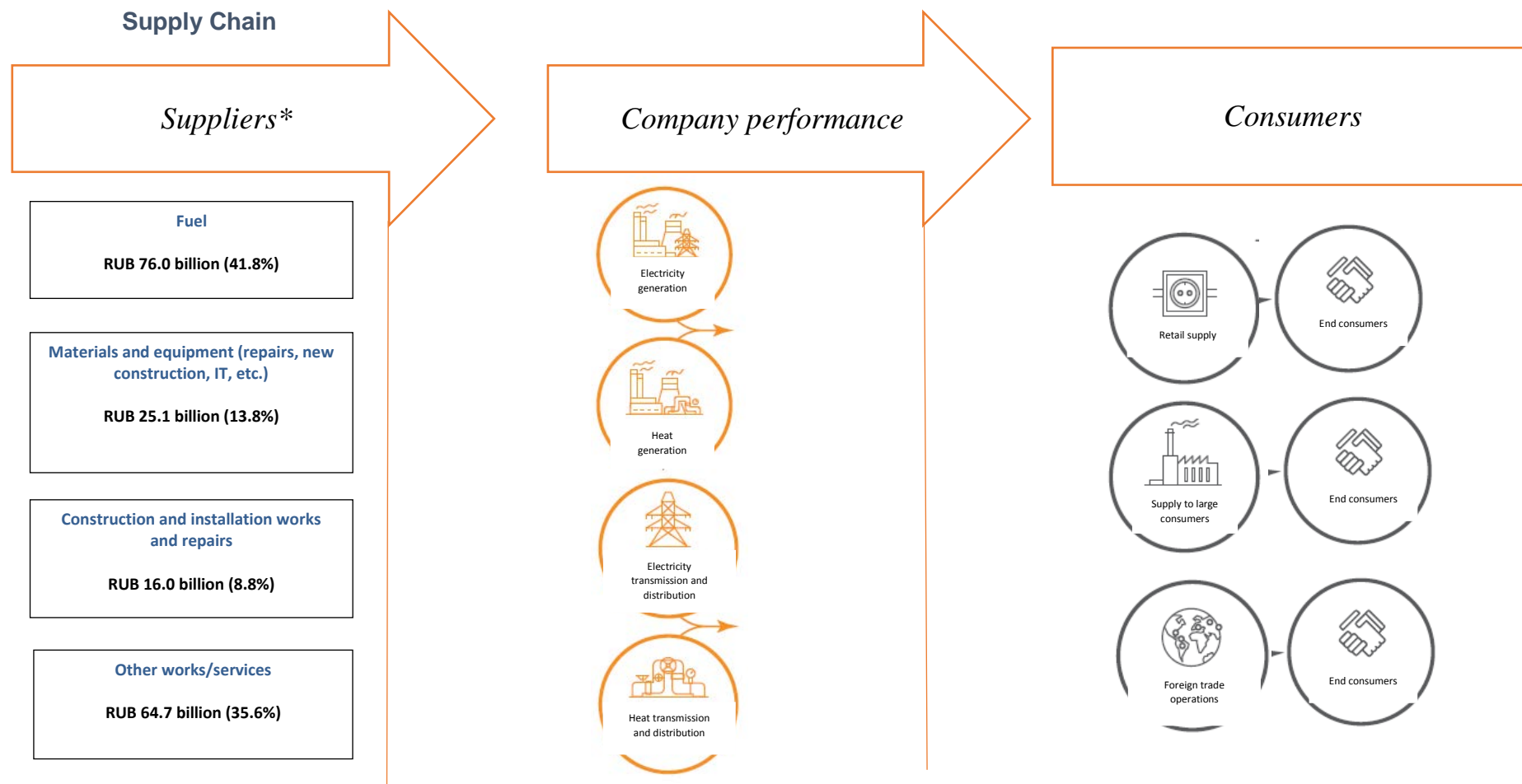
Professional management aimed at creating value for shareholders

Achievements	Motivation
Establishment of a large diversified holding in the Russian electricity industry through acquisition of separate businesses and their further integration into Inter RAO Group (more details on pages 17, 52)	 Balance of interests between the company management and shareholders is maintained by means of an options program (more details on page 194) Management remuneration is clearly tied to performance of KPIs oriented at achievement of strategic objectives (more details on page 194)
Successful implementation of the investment program and commissioning of new generating capacities in the framework of the CDA (more details on page 69)	
Improvement of the operating efficiency in all core business segments (more details on page 74)	
Achieving stable growth of key financial indicators (more details on page 135)	

Efficient risk management and internal control

The efficiently operating Enterprise Risk Management Framework and Internal Control Framework provide additional assurance of the Group's sustainability and reliability, which helps to reduce potential investment risks and ensure the expected return of investments. This factor is taken into account by the investment community, both by portfolio investors considering acquisition of the Company's securities and leading rating agencies in

the course of rating assignment and review (more details about risk management and internal control are presented in the section Risk Management and Internal Control on page 60).



*- Procurement of the most significant types (groups) of goods/raw materials/works/services, RUB billion (% of the Group's total procurement costs)

Total number of contracts signed by the Group in 2017	193
Procurement from small and medium-sized business in 2017	55.9%
Procurement costs excluding agency fees and internal group procurements	RUB 181.8 billion

More details on the Group's procurement activities are provided in the Procurement section

1.6. Market Review, Strategy and KPIs

Market Review

Macroeconomic Review

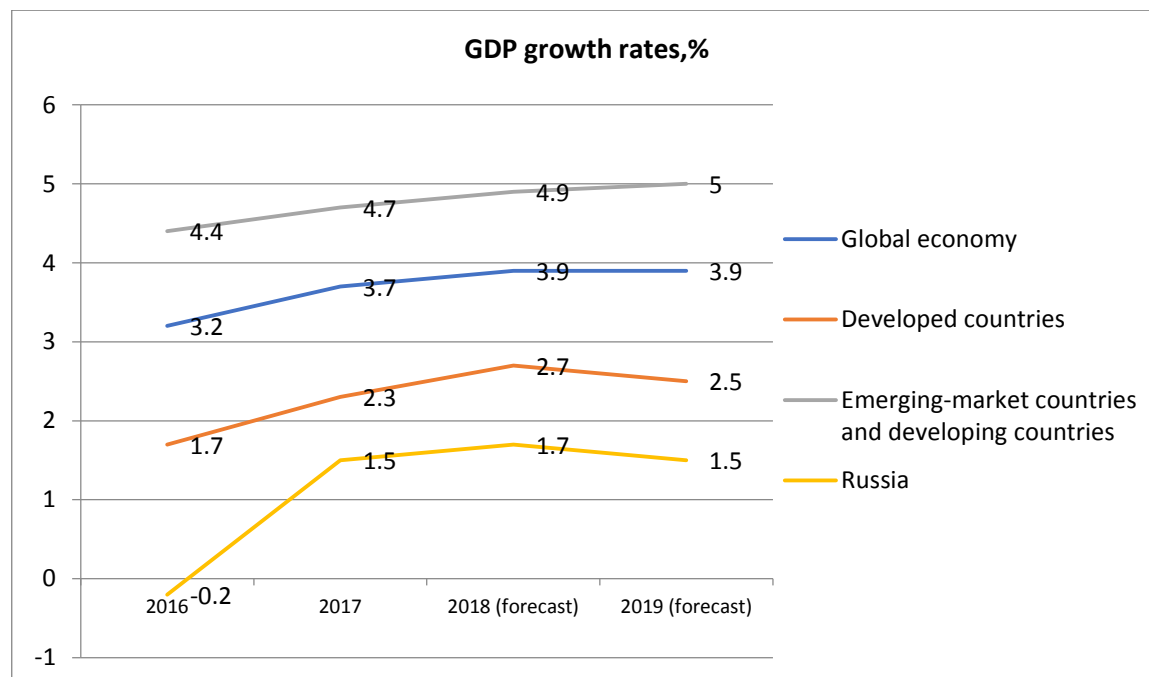
The growth rates of the global and Russian economy significantly influence the Company's performance.

Economic activity increased around the world in 2017. According to estimates by the International Monetary Fund (IMF)¹¹, the growth rate of the global economy increased to 3.7% in 2017 (against 3.1% in 2016) due to sudden acceleration of European and Asian economies: increased growth rates on the previous year were observed in approximately 120 countries, accounting for three quarters of the global GDP. Moreover, IMF forecasts¹ further growth acceleration of the global GDP in the near future: 3.8% in 2018 and 3.9% in 2019 due to increased growth dynamics of the world economy and the expected effect of recently approved changes in US tax policy.

According to the Russian Federal State Statistics Service, positive GDP growth rates were seen in 2017 of 1.5% (against a decrease of 0.2% in 2016), despite the extension of economic sanctions by Western countries, a complicated geopolitical situation, and reduced growth rate of industrial production in Russia (growth of 1% in 2017 against 1.3% in 2016). Growth of Russia's GDP was facilitated by increased global prices of fuel and energy goods, and accelerated growth rates of the global economy and trade.

According to IMF forecasts, growth rates of the Russian economy will amount to 1.7% in 2018 and 1.5% in 2019.

¹¹ Bulletin – World Economy Development Prospects, January 2018



Sources: Russian Federal State Statistics Service, IMF

The key rate of the Central Bank of the Russian Federation was reduced to 7.75% in 2017, resulting in positive changes of fixed capital investment dynamics (+4.2% against 2016)¹². Inflation continued to decrease: the consumer price index reduced to 2.5% in the reporting year against 5.4% in the previous year.

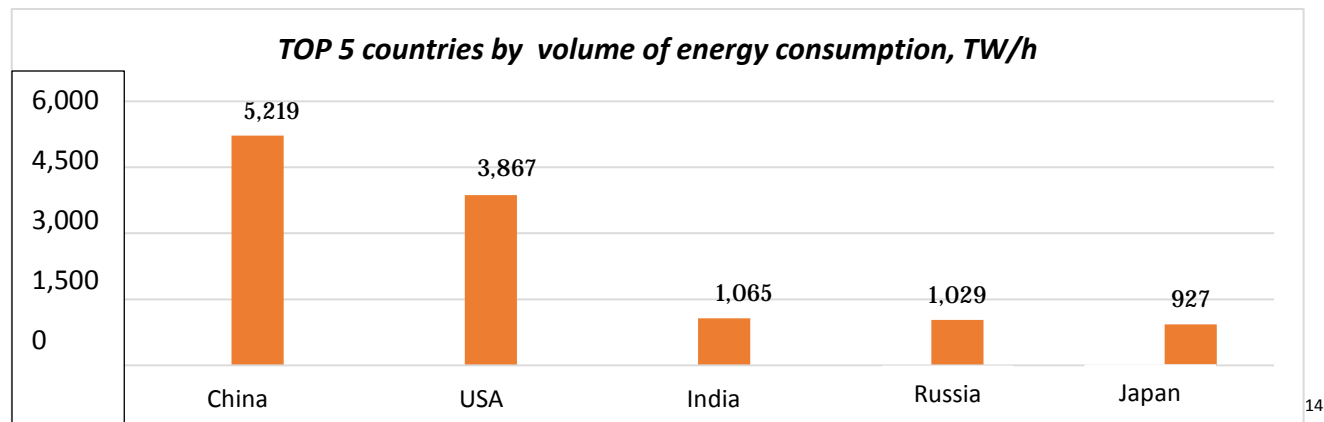
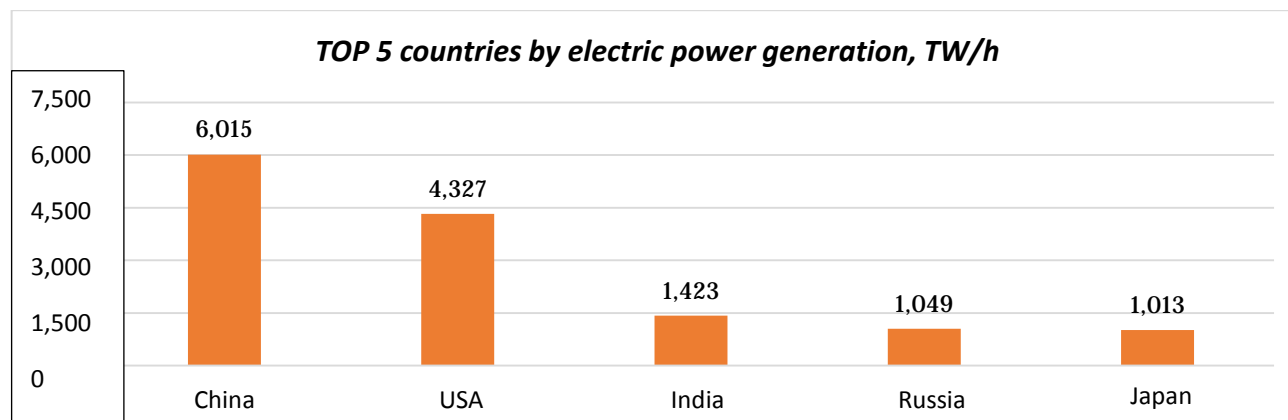
All these factors collectively resulted in very high indicators of economic activity – the highest in the last 10 years.¹³ The PMI composite index in the processing industry and in the service sector amounted to 55.3 on average for 2017, the highest value since 2008. The business confidence index calculated by the Russian Federal State Statistics Service demonstrated similar dynamics in general: the index entered the zone of reliable positive values in Q4 for the first time since the second half of 2012.

Electricity consumption and generation

Russia is one of the top-5 countries in the world in terms of installed capacity and electricity consumption.

¹² Russian Federal State Statistics Service. Information on the social and economic situation in Russia. 2017.

¹³ Ministry of Economic Development of the Russian Federation. Economic Outlook. January 2018.



In 2017, electricity generation by UES power plants in the Russian Federation increased by 0.5% on the previous year and reached 1,053.9 billion kWh, while the industrial production index increased by 1.0% according to the Russian Federal State Statistics Service. Electricity consumption for the same period amounted to 1,039.9 billion kWh, which was 1.3% higher than in the previous year.

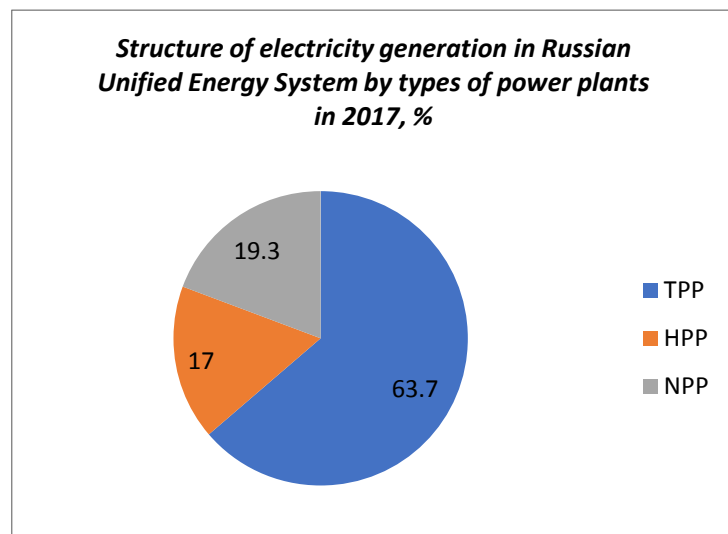
Electric power generation by UES power plants in the Russian Federation in 2016-2017, billion kWh

Type of Power Plant	2016	2017	Change 2017/2016, %
TPP	673.7	671.3	0.3%
HPP	178.3	178.9	0.3%

¹⁴ For 2016, based on Enerdata and SO UES data

NPP	196.4	202.9	3.3%
Total	1,048.5	1,053.9	0.5%

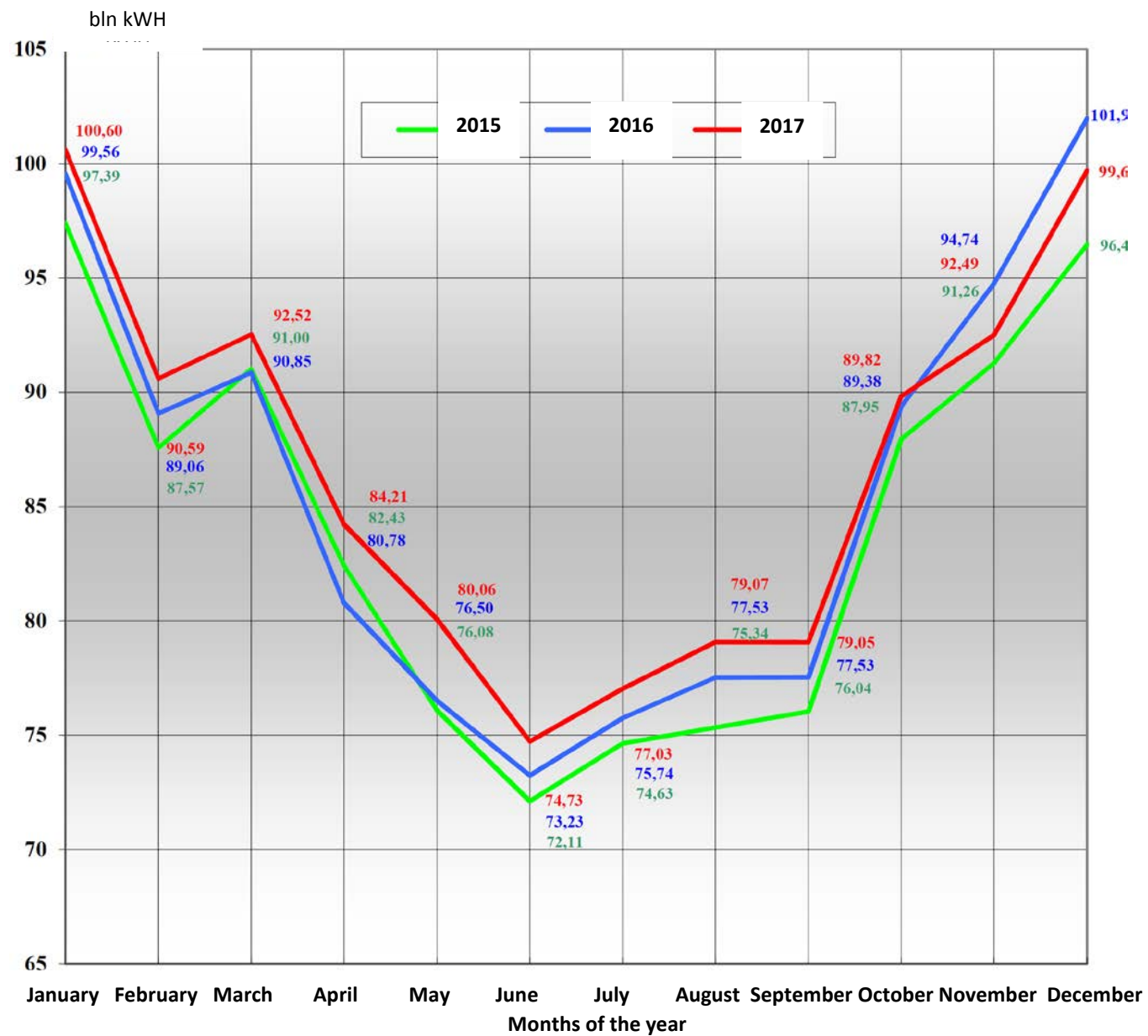
Source: System Operator of Unified Energy System



Source: System Operator of Unified Energy System

In general, the biggest production growth was recorded in the Southern part of Russia in 2017 (by 3.9%). Increase in electricity generation in this region of Russia was linked to a significant growth in electricity consumption. Electricity generation reduced by 2% in Siberia's integrated energy systems.

Electricity consumption dynamics in UES of the Russian Federation in 2015-2017.



Source: System Operator of Unified Energy System

In 2017, maximum capacity consumption in UES of Russia was recorded in January and amounted to 151,170 MW, which was almost the same as the maximum value for December 2016.

In 2017, as in 2016, the energy systems of Belarus, Estonia, Latvia, Lithuania, Georgia, Azerbaijan, Kazakhstan, Ukraine, South Ossetia, Abkhazia and Mongolia, as well as the energy systems of Central Asia: Uzbekistan, Kirghizia (through the energy system of Kazakhstan) and Moldavia (through the energy system of Ukraine) operated in parallel with UES of Russia. Power exchange with the energy systems of Finland and China was performed through direct current links.¹⁵

Installed capacity

As of the end of 2017, the total installed capacity of power plants of UES of Russia amounted to 239,812.2 MW.

In 2017, new capacities commissioned at power plants of UES of Russia together with power plants of industrial enterprises amounted to 3,607.5 MW. Increased installed capacity of the operating generating equipment due to remarking reached 292.1 MW. Generating equipment of power plants of UES of Russia with aggregate capacity of 1,435.4 MW was decommissioned.

Largest commissioned facilities:

- Commissioning of CCGT at Permskaya TPP (Inter RAO Group) with capacity of 903 MW in Ural IES;
- Commissioning of CCGT at Verkhnetagilskaya TPP (Inter RAO Group) with capacity of 447 MW in Ural IES;
- Commissioning of CCGT at Yaroslavskaya TPP (LLC Yaroslavskaya TPP) with capacity of 464 MW in Central IES;
- Commissioning of GTU at Kazanskaya CHPP-3 (TGC-16 OJSC) with capacity of 394 MW in IES of the Middle Volga.

Fuel consumption by power plants

Gas and coal are the main fuel types at the Russian TPP – in the fuel consumption structure at the Russian TPP, they amounted to approximately 73% and 26% respectively (fuel oil ≈1%)¹⁶.

Fuel supplies to the Russian TPP¹⁷

Gas, billion m3	19.4
Coal, million tons	11.0
Fuel oil, thousand tons	139.9

¹⁵ Based on materials from <http://so-ups.ru/>.

¹⁶ As of 2016.

¹⁷ As of 2016.

Weighted average prices of fuel supplies to the Russian TPP¹⁸

Gas, RUB/m3	4,193
Coal, RUB/ton	1,328
Fuel oil RUB/ton	8,614

Prospects for development of the electricity industry and forecast of the industry situation

At the moment, the main documents that form the basis of the industry development forecast are as follows:

- Energy Strategy of Russia until 2035 (hereinafter – Strategy). The document currently has “draft” status; it was repeatedly discussed at various levels, including by the Governmental Commission for Development of the Electricity Industry. It serves as a reference document for all market players as one of the main governmental forecast documents for development of the electricity industry until 2035.
- General Layout of Electricity Facilities until 2035 (hereinafter – General Layout) approved by the Russian Federation Government Order No. 1209-r of June 9, 2017.
- Unified Energy System of Russia Development Scheme and Program for 2017–2023 (DSP) approved by the Order of the Russian Ministry of Energy No. 143 of March 1, 2017.
- Social and Economic Development Forecast of the Russian Federation for 2018 and for the Target Period of 2019 and 2020 (hereinafter – SED Forecast).

Box:

The main systemic issues hindering development of the electricity industry are: non-optimal structure of generating capacities, high rate of fixed assets depreciation, low energy and economic efficiency of the industry, cross-subsidization between consumer groups, as well as the absence of a competitive heat market.

The implementation period for the Russian Energy Strategy until 2035 is divided into two stages: Stage I – approximately until 2020 (with possible extension until 2022) and Stage II – approximately from 2021 to 2035.

Electric power generation and consumption forecast

To evaluate the proposed measures and prospects for the development of the fuel and energy complex (FEC), two forecasting scenarios were elaborated: "conservative" and "optimistic", which determine the lower and the upper limits for possible changes in the fuel and energy balance (FEB) parameters.

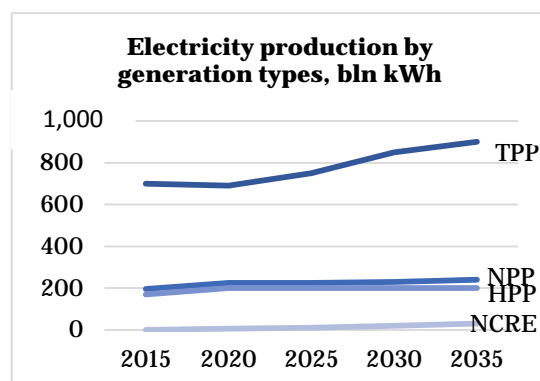
Electric power generation forecast in the Russian Federation

¹⁸ As of 2016

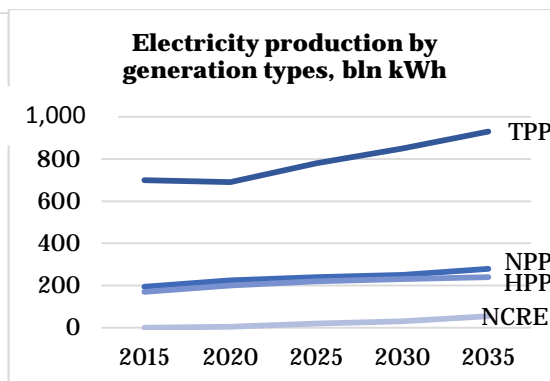
Source	2020	2035
SED forecast (until 2020)	1,126.2 billion kWh	-
Strategy (baseline scenario)	1,125.7 billion kWh	1,352 billion kWh
Strategy (optimistic scenario)		1,514 billion kWh

In terms of electricity and heat supply, the Strategy outlines measures to be implemented in order to foster an increase in electricity production, provided that the installed capacity of power plants rises to 282-312 GW. At the same time, non-thermal power plants will be the priority for development.

Conservative scenario

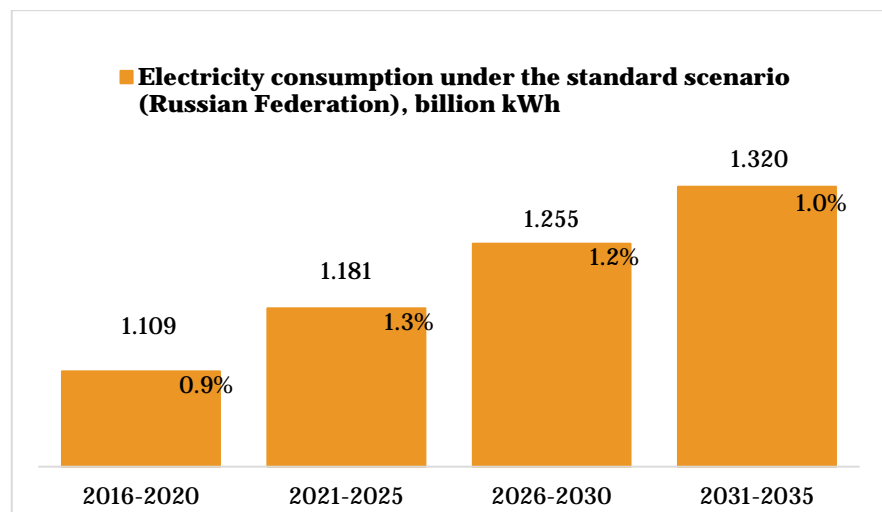


Optimistic scenario



Source: Energy Strategy of Russia until 2035 (draft)

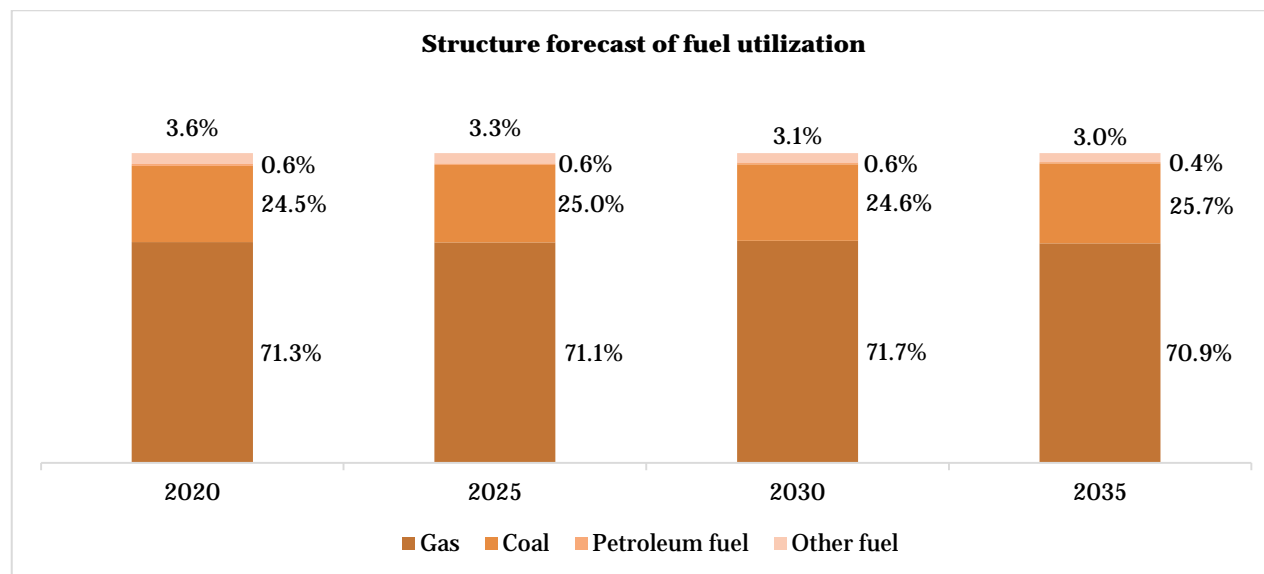
According to forecasts of the Russian Ministry of Energy, electricity consumption will demonstrate a steady growth exceeding 1% per annum, which will result in consumption increase to 1,320 billion kWh by 2035.



Source: Energy Strategy of Russia until 2035 (draft)

Fuel balance

In accordance with the General Scheme for Development of the Electricity Industry until 2035, certain changes in the structure of heat generation are expected in Russia. Until 2030, the structure of heat generation will remain approximately the same, with some increase in the amount of coal generation compared to gas generation to take place by 2035.



Source: General Layout of Electricity Facilities until 2035

Development Strategy

Inter RAO Group Mission and Strategic Objectives

The mission of Inter RAO Group is to promote sustainable economic development and improve the quality of life in all regions where the Company operates by ensuring reliable energy supply, meeting the growing demand for electricity, and using innovative technologies and solutions in the field of energy efficiency and energy saving.

The Group's strategic objectives:

- maintaining the leadership position in the Russian energy industry;
- ensuring leadership among Russian energy companies in terms of efficiency of energy asset management, with emphasis on innovation and enhancement of energy efficiency;
- promoting energy security and serving the strategic interests of the Russian Federation;
- increasing its shareholders' value;
- expanding its presence in the target markets and promoting Russian energy practices and solutions in foreign markets.

Strategy and long-term development program

The Updated Strategy of PJSC Inter RAO for the period until 2020 (Further – the Strategy) was approved by the Board of Directors of PJSC Inter RAO in March 2014.¹⁹

In December 2014, the Inter RAO Group's Strategy until 2020 was considered by the Governmental Commission for Development of the Electricity Industry as a Long-Term Development Program (LDP) and was approved without changes.²⁰

The Strategy/LDP includes a target vision, mission and strategic objectives, and consolidated indicators of Inter RAO Group until 2020. It also includes the list of priority development areas, key activities, target strategic indicators and their values with breakdown according to specified development areas.

Group's key target indicators in real time with forecast for 2020.

Indicator	2015 actual	2016 actual	2017 actual	2020 target
EBITDA, RUB bln	72.4	96.3	95.5	> RUB 100 bln
EBITDA margin, %	8.7	11.1	10.4	> 8.7
Installed electric capacity, GW	35.0	32.5	32.7	> 34.6 GW

¹⁹ Minutes No. 110 of March 17, 2014

²⁰ Minutes No. 18 of December 27, 2014

Russian retail market share, %	16.2 ²¹	17.3	17.4 ²²	> 16
Foreign trading volume, bln kWh	19.0	20.1	22.9	> 10.7

The implementation of the Strategy/LDP is regularly monitored by the annual process of setting the Strategic Development Priorities (SDP), which are a set of strategically important and priority tasks of the highest level, including quantitative indicators and program activities with breakdown by business areas of Inter RAO Group.

The SDP also allow for interrelating the motivation of the Chairman and members of the Management Board and the strategic management system (in accordance with the Regulations on Financial Incentives for the Chairman of the Management Board and members of the Management Board of PJSC Inter RAO).

The implementation degree of the Strategy/LDP for the reporting period is assessed by the Board of Directors through audit of the Report on Implementation of the Company's Strategic Development Priorities.²³

Group development priorities for 2017

The strategic priorities for 2017 were approved by the Board of Directors of PJSC Inter RAO²⁴ and prepared with breakdown by development priorities of the Strategy/LDP, including areas such as:

- Reliable and accident-free operation, improved efficiency of production assets;
- Developing the repair and maintenance service;
- Developing retail business;
- Improving foreign trade efficiency;
- Developing international business;
- Improving engineering business efficiency;
- Developing innovations;
- Improving labor productivity and developing the Group's human resources;
- Improving investment attractiveness and ensuring financial stability;
- Developing procurements and import substitution.

²¹ Except for LLC PSCB's indicators (the asset became part of the Group in 2016).

²² Taking into account operations in the wholesale electricity market.

²³ In accordance with the Standard for Audit of the Strategy/Long-Term Development Program Implementation of PJSC Inter RAO approved by the Board of Directors (Minutes No. 126 of November 24, 2014).

²⁴ Minutes No. 188 of December 23, 2016.

The Auditor reviewed the Report on Implementation of the Inter RAO Group 2017 Strategic Development Priorities, as a result of which Inter RAO Group was provided with a Report on the Audit of the Report on Implementation of the Inter RAO Group 2017 Strategic Development Priorities (issued on April 5, 2018), confirming that, based on the conducted procedures, there was no evidence to suggest that the information in the Report does not reliably reflect all key aspects:

- results of the Group's efforts on implementation of the SDP and achievement of strategic indicators for the year ending 31 December 2017;
- the reasons of non-achievement of the indicators and targets included in the SDP, and deviations of the actual values of the Group's performance indicators from those anticipated for the year ending 31 December 2017.

Key achievements of the Group in 2017

Areas of activity	Key strategic initiatives	Main achievements for 2017
ELECTRICITY AND HEAT GENERATION	Ensuring reliability, safety and technological development of the existing production assets	All the necessary measures were implemented for retooling and modernization, and repair and maintenance for 2017 aimed at ensuring reliability and safe operation of the production assets.
	Implementing construction and modernization projects, including those under Capacity Delivery Agreements (CDA)	1,350 MW of new generating capacities commissioned under the CDA: – 903 MW at Permskaya TPP (JSC Inter RAO – Electricity Generation Group); – 447.15 MW at Verkhnetagilskaya TPP (JSC Inter RAO – Electricity Generation Group). Technical works for re-qualification of operating units performed (in the amount of 112.5 MW).
	Increasing the operating efficiency of production assets	Measures were implemented as part of the cost management, energy saving, and energy efficiency programs approved for 2017.
	Decommissioning of low-performing generating capacities	Decommissioning of outdated low-performing generating equipment with installed capacity of 1,272 MW.
	Elaborating and promoting proposals to develop the regulatory framework in the industry	Experts of Inter RAO interacted on a regular basis with federal executive authorities in the sector and with industry experts. Monitoring, analysis and development of proposals carried out in the framework of elaboration of industry regulatory acts, including: <ul style="list-style-type: none"> • Federal Law No. 279-FZ of July 29, 2017 On the New Heat Market Model (pricing by the "alternative" boiler house method); • elaboration of the regulatory framework to provide for implementation of economically efficient modernization mechanisms of Russian thermal power plants; • draft law On the Introduction of Changes to the Russian Water Code,

		specifically concerning the cancellation of the ban on using the best available technology for direct-flow water use systems.
FUEL SUPPLY	Fuel supply to the generating facilities of Inter RAO Group	Sales of in-house-produced coal (LLC Ugolny Razrez) to Inter RAO Group increased to more than 1.9 million tons, with growth rate of approximately 3% on the previous year.
RETAIL BUSINESS IN THE RUSSIAN FEDERATION	Promoting retail market model proposals to the regulatory framework	Inter RAO experts participated actively in the development of the Decree of the Russian Government No. 863 of July 21, 2017 regarding establishing marketing premiums for guarantee suppliers using a comparative method, where the reference proceedings (NGP) are determined on the basis of the reference costs.
	Expanding the list of additional services	Power supply companies of Inter RAO Group implemented measures to develop and promote additional services.
FOREIGN TRADE OPERATIONS	Maintaining and strengthening the existing positions of the leading Russian export/import operator	Total amount of foreign trade operations of PJSC Inter RAO including the agency agreements with JSC EEC (subsidiary of PJSC Inter RAO) constituted around 22.9 billion kWh, which was 13.8% more than in the previous year (foreign trade operations amounted to 20.1 billion kWh in 2016).
INTERNATIONAL OPERATIONS	Expanding presence in the foreign markets	The design agreement was signed, and design works were started in the framework of the contract between LLC INTER RAO – Export (subsidiary of PJSC Inter RAO) and Energoimport for construction of four power generating units with capacity of 200 MW each.
		After completing capital repairs of the power generating unit No. 5 of Gorazal TPP (210 MW) in the People's Republic of Bangladesh (as part of the contract with the Bangladesh Power Development Board) LLC Inter RAO – Engineering (subsidiary of PJSC Inter RAO) ensured its commissioning.
ENGINEERING	Developing competencies in the following areas: general contracting, design, commissioning, etc.	LLC Inter RAO – Engineering acts as agent/general contractor as part of the TPP construction project in the Kaliningrad Region (being implemented by LLC Kaliningrad Generation – JV of JSC ROSNEFTEGAZ and PJSC Inter RAO). Commissioning permits were obtained for the first units of Mayakovskaya TPP and Talakhovskaya TPP at the end of 2017.
	Organizing production of modern energy equipment on the territory of the Russian Federation	In 2017, LLC Russian Gas Turbines (a joint venture between GE, Inter RAO Group and JSC United Engine Corporation (part of Rostech State Corporation) for production and maintenance of modern gas turbines with the capacity of around 80 MW – 6FA (6F.03) licensed by GE) completed supply of the last of 8 turbines for LLC Kaliningrad Generation within the framework of the energy facilities construction program in the Kaliningrad Region. As of 2017, the company produced and supplied a total of ten gas turbine units.

INNOVATIONS	Contribution to the financing and implementation of major industry projects, in particular, as part of partnerships with leading Russian enterprises and R&D centers	PJSC Inter RAO, together with the Fund for Infrastructure and Educational Programs (Rusnano), NP Center of Innovative Energy Technologies and NPO Saturn, ensured implementation of the project for creating production technology for GTD-110M and GTPP-110M. In 2017, testing of the first stage blades was successfully completed.
	Implementing the Innovative Development and R&D Program	As part of the Innovative Development and R&D Program, the Group implemented certain measures in the following areas: enhancement of energy efficiency and environmental compatibility of production, implementation of new technologies at production sites, introduction of quality control systems, innovation management improvement, development of cooperation with innovative environment actors, etc.
ASSET STRUCTURE OPTIMIZATION	Asset structure optimization	Inter RAO Group consolidated 100% of its shares in PJSC Mosenergosbyt.

Group development priorities for 2018

The strategic priorities for 2018 were approved by the Board of Directors of PJSC Inter RAO²⁵ and generally coincide with the structure of the 2017 priorities, with additional focus on development of the Unified Information Settlement Centers:

- Reliable and accident-free operation, improved efficiency of production assets;
- Developing the repair and maintenance service;
- Developing retail business;
- Improving efficiency of foreign trade operations and developing international operations;
- Developing the Unified Information Settlement Centers;
- Improving engineering business efficiency;
- Developing innovations;
- Improving labor productivity and developing the Group's human resources;
- Improving investment attractiveness and ensuring financial stability;
- Improving the management system efficiency, developing procurement activities and import substitution.

Impact of the Group's risks on fulfilling strategic objectives

The reliable operation of the Group's Enterprise Risk Management Framework (ERM) and Internal Control Framework (IC) is an additional guarantee for the Strategy implementation.

²⁵ Minutes No. 214 of December 21, 2017.

The Company monitors susceptibility of the strategic objectives to risks by means of decomposing the strategic objectives into the level of strategic priorities and target strategic indicators, as well as by means of risk identification and assessment, implementation of procedures for internal control and management of risks, which enables the achievement of strategic goals.

Thus, the Strategy is being implemented within the calendar year by reaching the target strategic indicators in the annual planning time-frame, including by means of internal control and management of risks related to strategic indicators.

More information on operation of the ERM & IC is provided in the section on Risk Management and Internal Control on page 62.

Key programs of Inter RAO Group

Pursuant to the management system currently in place at PJSC Inter RAO, the strategic management system is integrated into the business planning, economic activity analysis and control systems; investment forecasting and analysis system; innovation management system, etc., including through detailed elaboration of the Strategy/LDP as part of the respective key programs.

The **Innovative Development Program of PJSC Inter RAO** until 2020 with an outlook until 2025 has been approved by the Board of Directors²⁶ and includes a set of measures to be taken in areas such as:

- enhancing energy efficiency;
- implementing new technologies at production sites;
- quality control system;
- cooperation with universities and research organizations;
- modernization of existing capacities;
- R&D plans, etc.

The Investment Program of Inter RAO Group for 2017 was approved by the Board of Directors as part of Inter RAO Group's business plan.²⁷

More information on the implementation of the investment program is provided in the Investment Activities section.

The Cost Management Program includes decomposing the Strategy/LDP measures related to reducing operating costs in the medium/short term. The Cost Management Program for 2017-2021 was approved by the Board of Directors.²⁸

The Program includes a set of production and economic measures aimed at optimizing/reducing costs spent on raw materials and other materials, repair and operating services, payroll fund, administrative and management/general business costs (lease, consulting and information services, IT and communication, utilities, buildings and premises maintenance costs, etc.), as well as fuel costs and own needs of power plants, for reference. At that, particular attention was paid to maintaining a high reliability and accident-free level of operating assets.

²⁶ Minutes No. 183 of October 28, 2016.

²⁷ Minutes No. 188 of December 23, 2016.

²⁸ Minutes No. 189 of December 30, 2016.

Based on the performance results of Inter RAO Group companies for 2017, the economic effect from implementing the program's activities amounted to RUB 2.7 billion, and the target benchmarks established for 2017 were reached.

The list of measures to be implemented in the program areas is updated on an annual basis. Thus, the Board of Directors approved the Cost Management Program for 2018-2022.²⁹ The economic effect from implementing the operating costs optimization measures complied with the requirements of the Directives of the Russian Government No. 2303p-P13 of April 16, 2015 and the Federal Agency for State Property Management No. OD-11/16866 of April 28, 2015 (reduction of costs by at least 2-3 percentage points every year) and is planned to reach RUB 14.8 billion before 2022.

Innovative development

The innovative development tasks set forth in the Group's Strategy are achieved successfully by means of integrated implementation of the Innovative Development Program of PJSC Inter RAO until 2020 (with an outlook until 2025) approved by the Board of Directors of PJSC Inter RAO.³⁰

Implementing the Innovative Development Program measures contributes to:

- the Group's positioning as one of the key participants in the global technological development process;
- achieving and strengthening of the Group's status as technological and innovative leader;
- qualitative growth of the Group's human capital;
- establishing the infrastructure for innovative activities in compliance with modern global trends in scientific and technological development;
- developing and strengthening inter-sectoral and international scientific and technical connections of the Group.

The Innovative Activities Management System established in the Group represents one of the key tools for implementing the Innovative Development Program. As part of the Group's general assets management system adopted for the implementation of PJSC Inter RAO's Strategy and achievement of its objectives, it includes the functional structure, performance technology and resources.

The Innovative Activities Management System is aimed at enhancing the efficiency of operating activities of the Group's companies by selecting and implementing the best Russian and foreign innovative solutions when commissioning new generating capacities and operating existing ones, and when updating and renovating power companies.

Key innovative projects of the Group for electricity and heat generation in 2017:

- Commissioning of advanced equipment based on modern steam and gas technologies (Permskaya TPP (CCGT-800), Verkhnetagil'skaya TPP (CCGT-420));
- Building CHPPs based on modern steam and gas technologies (Zatonskaya CHPP (CCGT-440));

²⁹ Minutes No. 215 of December 28, 2017.

³⁰ Minutes No. 183 of October 31, 2016.

- Developing the project for the collection, transfer and calculation of technological information system (CTCTIS) of JSC Inter RAO – Electricity Generation executive apparatus and its branches JSC Inter RAO – Electricity Generation;
- Supply (development) and introduction of integrated power generating unit simulators (Verkhnetagilskaya TPP);
- Modernization of the steam boiler for the power generating unit for a wider range of coal combustion (Gusinoozyorskaya TPP);
- Implementation of the full-scale CPCS (Kostromskaya TPP, Ufimskaya CHPP-4);
- Generator retooling with complete replacement of the stator coil and application of modern insulation with enhanced thermal conductivity (Severo-Zapadnaya CHPP);
- Modernization of the piping system of the steam turbine condenser with installation of heat exchange and clean-up enhancement system (Nizhnevartovskaya TPP);
- Modernization of the water treatment plant with introduction of modern reverse osmosis technology (Priufimskaya CHPP).

Innovative measures related to power supply and engineering activities are also included in the Innovative Development Program.

In 2017, implementation of the following projects continued in the power supply sector:

- Unified billing of legal entities for power supply companies of Inter RAO Group;
- Standardization of settlements with retail consumers of FORSAZH Power Supply Company of Inter RAO Group;
- Development of new generation IT products for settlements with individual subscribers (on the basis of the automated power supply control system BYT).

The Innovative Development Program provides for achieving several target indicators. The achievement of objectives set is monitored based on target indicators derived from the Group's strategic benchmarks and results of the comparative analysis of the Group against leading foreign and Russian energy companies.

Indicators that form part of the Key Performance Indicator of PJSC Inter RAO's innovative activities

Item	Indicator Name, measurement unit	2016 actual	2017 actual	2018 target
1	Number of Inter RAO Group intellectual property items (IPI)	22	22	24
2	Percentage of R&D expenditures in the revenue of Inter RAO Group's generating assets, %	0.08	0.11	0.1
3	Percentage of new advanced technologies in the total TPP capacity of the Group, %	14.64	18.76	19.1
4	FEED development (updating) quality/ FEED implementation, %	90.3	81.2	100

The indicators are proof of the high efficiency of the Company's Innovative Activities Management System. Capacity share of the new advanced technologies in the total capacity of the Group's TPPs increased by 4.14% in 2017. This attests to the commissioning of advanced technologies together with decommissioning of low-performing capacities.

In order to improve the quality of intellectual property rights management, a comprehensive methodology was approved at PJSC Inter RAO in 2017, which establishes the uniform rules to be observed by the Company when developing and evaluating proposals related to intellectual property. The Methodology establishes the procedure for real-time accounting of the acquired intellectual property in PJSC Inter RAO and centralized real-time accounting in Inter RAO Group, as well as the main intellectual property commercialization areas.

System of Key Performance Indicators

Principles of the key performance indicator system

In pursuance of the Russian Federation President's³¹ list of instructions, the Ministry of Economic Development of the Russian Federation formulated requirements for formation of a vertical system of strategic planning in the joint-stock companies included in the lists approved by Russian Federation Government Order No. 91-r of January 23, 2003. This system involves the elaboration of a long-term development program and a key performance indicator system.

In accordance with the Regulations on Financial Incentives for 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 Target Indicators (TIs) set by the Company. This aspect of the incentive system is aimed at ensuring the 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 TIs is approved by the Board of Directors. Thus, the Key Performance Indicators and Target Indicators for the Chairman of the Management Board and members of the Management Board of PJSC Inter RAO for 2017 were set by the Board of Directors of PJSC Inter RAO on December 23, 2016.³²

The primary tasks of the KPI and TI system are to assess the achievement of the Company's strategic objectives, to monitor and control the implementation of the Company strategy, and to motivate the Company's management to focus on reaching the strategic targets.

When the list of KPIs and TIs of PJSC Inter RAO is prepared, both the specific aspects of Inter RAO Group operations and the principles of minimum sufficiency are taken into account, as well as the transparency and measurability of indicators, their consistency and focus on the increase in financial and operating results of the Company.

Key Performance Indicators and risk management

As part of the Strategy implementation, the Group determines and manages the risks related to the process of achieving targets. The Group takes into account the correlation of strategic priorities, KPI and TI with risks that can influence the deviation from planned levels and monitors the influence of risks, which makes it possible to prevent and minimize their negative impact and react to the changes of external and internal environmental conditions in a timely manner.

³¹ The list of instructions issued by the President of the Russian Federation No. Pr-3086 of December 27, 2013. In accordance with item 23 of the list of instructions issued by the President of the Russian Federation, the Government of the Russian Federation was instructed to ensure the implementation of long-term development programs by joint-stock companies included in the lists approved by Russian Federation Government Order No. 91-r of January 23, 2003, and also to ensure auditing of these programs.

³² Minutes No. 188 of December 23, 2016.

PJSC Inter RAO takes risks into account within the scope of strategic planning, including when determining the priority development areas and target business model in a long-term period and when setting key issues in a short-term period in order to achieve the adopted strategy.

Specific features of the KPI system in 2017

The list of KPIs and TIs of PJSC Inter RAO for 2017 was prepared considering the requirements of the Regulations on Key Performance Indicators of PJSC Inter RAO approved by the Board of Directors of PJSC Inter RAO on December 25, 2014.³³

The list of KPIs and TIs comprises financial-economic and industry-specific indicators, as well as bonus cancellation indicators (TIs). The total value of the financial/economic indicators constitutes 60% of the sum of values of all the indicators of PJSC Inter RAO, and the industry-specific indicators constitute 40%.

KPI, TI system indicators of PJSC Inter RAO

KPI	Value	2017 target ³⁴	2018 target ³⁵
KPI for return on equity (ROE) The indicator determines the equity use efficiency, i.e. the Company's income per ruble of its own funds. It defines the efficiency of use of the equity part that belongs to shareholders, rather than the entire equity (or assets).	20% Mandatory indicator	Target level 100% (8.7%)	Target level 100% (12.4%)
KPI for total shareholder return (TSR) 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 distribution of dividends.	10% Mandatory indicator	Target level (P50)	Target level (≥ Average)
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/economic indicators, and, according to the Regulations, falls within the category of Indicator at the Discretion of the Board of Directors.	15% Optional indicator	Target level 100% (RUB 72,082,430 thousand)	Target level 100% (RUB 80,279,361 thousand)

³³ Minutes No. 131 of December 29, 2014 These regulations have been developed in pursuance of the Directive of the Federal Agency for State Property Management (Rosimushchestvo) for representatives of the Russian Federation to participate in meetings of the Board of Directors (supervisory boards) of partially government-owned open joint-stock companies, in pursuance of the Rosimushchestvo Instruction On Approval of the KPI System and, in accordance with the Methodological Guidelines on the Application of Key Performance Indicators by State Corporations, State Companies, State Unitary Enterprises and Business Entities with a Total Share in Their Authorized Capitals Owned by the Russian Federation or a Constituent Region of the Russian Federation Exceeding Fifty Per Cent, as set out in the Rosimushchestvo Letter.

³⁴ Target value of the indicator is shown in brackets.

³⁵ Target value of the indicator is shown in brackets.

EBITDA/person KPI This indicator determines labor productivity of Company employees and characterizes the efficiency of labor resource utilization. A positive trend for this indicator is expected to be achieved through implementing measures aimed at improving the qualitative characteristics of personnel and the organizational structure of the Group companies. In accordance with the Regulations, this indicator falls within the category of Indicator at the Discretion of the Board of Directors.	15% Optional indicator	Target level 100% (RUB 1.8 million/person)	Target level 100% (RUB 2.1 million/person)
KPI for investment program implementation This indicator is set to achieve the following strategic objectives: <ul style="list-style-type: none"> ensuring reliability and energy security; improving the operating efficiency of generating assets; providing modernization and technological development; increasing installed capacity through implementation of investment projects within the set time limits and the approved estimated cost. This KPI is used to assess the implementation of the investment program in terms of financing and assimilation of capital investments and commissioning of generating capacities.	20% Mandatory indicator	Target level 100%	Target level 100%
Integrated innovation index implementation KPI To assess innovative activities, the integrated innovation index is set, which will also provide for a combination of four indicators: <ul style="list-style-type: none"> The number of Inter RAO Group's intellectual property items (IPI) for the reporting year; Percentage of R&D expenditures in Inter RAO Group's revenue; Percentage of new advanced technologies in the total TPP capacity of the Group; Quality of development (actualization) of the innovative development program/implementation of the innovative development program. 	20% Mandatory indicator	Target level 100%	Target level 100%

To improve the efficiency of Company's operations, according to the Regulations, bonus cancellation indicators (target indicators) are used.

Cancellation indicators (target indicators) of PJSC Inter RAO in 2017

1	TI for Implementation of instructions of the Board of Directors of PJSC Inter RAO This indicator describes the accuracy and timeliness of the implementation of instructions of the Board of Directors by Company management.		
	Value for the purpose of financial incentives for the Chairman of the Management Board.		Up to 25%

2	TI for implementation of instructions (operating and priority) of the Chairman of the Management Board of PJSC Inter RAO This indicator describes the accuracy and timeliness of implementation of instructions of the Chairman of the Management Board by the members of the Management Board.	
	Value for the purpose of financial incentives for the members of the Management Board.	Up to 100%
3	Debt/EBITDA TI 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.	
	Value for the purpose of financial incentives for the Chairman of the Management Board and members of the Management Boards	25%
4	TI for reduction of operating expenses by 2-3% annually This indicator is aimed at improving the company's operating efficiency through the implementation of targeted cost optimization parameters as per the corresponding cost items.	
	Value for the purpose of financial incentives for the Chairman of the Management Board and members of the Management Boards	20%
5	TI for absence of fatal accidents or group accidents involving employees of Inter RAO Group This indicator describes the Group management's performance with regard to ensuring occupational health and safety.	
	Value for the purpose of financial incentives for the Chairman of the Management Board and members of the Management Boards	Up to 15%

The Total Shareholder Return (TSR) indicator describes the Company's market return and is included in the list of KPIs and TIs for PJSC Inter RAO for 2017. This KPI is considered to have reached the target level if the TRS value of the Company is in the 50th percentile of the TSR matrix of companies included in the power generation index of the Moscow Exchange (MICEX PWR) for the reporting period, taking into account the liquidity factor. Other indicators are developed based on the operations of Inter RAO Group and were also applied in 2016.

According to the Regulations on Financial Incentives for the Chairman and members of the Management Board of PJSC Inter RAO approved by the Board of Directors of the Company, the size of the annual bonus shall be calculated based on the basic payroll, the planned size of the annual bonus and the actual KPI values. At the end of the year, the Board of Directors considers the fulfillment of KPIs and TIs for the corresponding period based on recommendations of the Nominations and Remunerations Committee. If the Company implements all TIs and achieves the Lower Level target value of the corresponding KPIs, a decision will be made with regard to awarding bonuses to the respective managers based on the Company's performance.

For more information about the financial incentives of the Chairman and members of the Management Board, see the section on Board of Directors and Management Board Remuneration System.

KPI and TI implementation results for 2017

Based on the results of 2017, the KPIs were achieved. The actual values of KPIs were approved by decision of the Board of Directors of the Company on April 19, 2018³⁶ based on the annual accounting (financial) statements of the Company for 12 months of 2017 and the consolidated financial statements of the Company for 12 months of 2017, prepared in accordance with the methods for calculating and evaluating the achievement of annual KPIs and TIs for 2017, which were approved by decisions of the Board of Directors of PJSC Inter RAO on December 23, 2016 (Minutes No. 188 of December 23, 2016), and also based on the report on the implementation of Inter RAO Group's business plan approved by decision of the Board of Directors of PJSC Inter RAO on March 15, 2018 (Minutes No. 219 of March 15, 2017).

KPI achievement level in 2016 as compared to 2017

Name of annual KPIs	Coefficient of indicator/target achievement for 2016	Coefficient of indicator/target achievement for 2017	2017/2016, %
Return on equity (ROE)	1.2	1.2	0%
EBITDA/person	1.2	1.1	-8%
Operating cash flow	1.2	1.09	-9%
Investment program implementation	0.95	1.2	26%
Integrated innovation index implementation	1.12	1.19	6%
Total shareholder return (TSR)	-	1.0, taking into account liquidity factor	-

1.7. Risk Management and Internal Control

The Group has a Enterprise Risk Management Framework (ERM) and Internal Control Framework (IC) covering the main assets, key business processes, businesses and management levels of the Group.

Goals and Objectives of the Enterprise Risk Management Framework and Internal Control Framework

The ERM and IC are essential aspects of the concept of corporate governance that make it possible to detect and assess risks, develop and conduct risk management actions, including control procedures.

Objectives of ERM and IC:

- To assure the Board of Directors and executive bodies that strategic and operational targets will be achieved;

³⁶ Minutes No. 222 of April 19, 2018.

- To ensure the efficiency of financial and economic activities, as well as the use of resources;
- To ensure the integrity of assets;
- To monitor compliance with legislation and internal policies and procedures;
- To ensure reporting is carried out fully and in a reliable manner.

Upper-level documents of ERM and IC

The objectives, basic principles, approaches, and participants of the risk management and internal control procedures in PJSC Inter RAO are stipulated in the Corporate Risk Management Policy and Internal Control Policy of PJSC Inter RAO.³⁷

More detailed information is provided on the website.

http://www.interrao.ru/en/upload/docs/Politika_korporativnogo_upravljenija_riskami.pdf.

http://www.interrao.ru/en/upload/doc/Politika_po_vnutrennemu_kontrolyu.pdf.

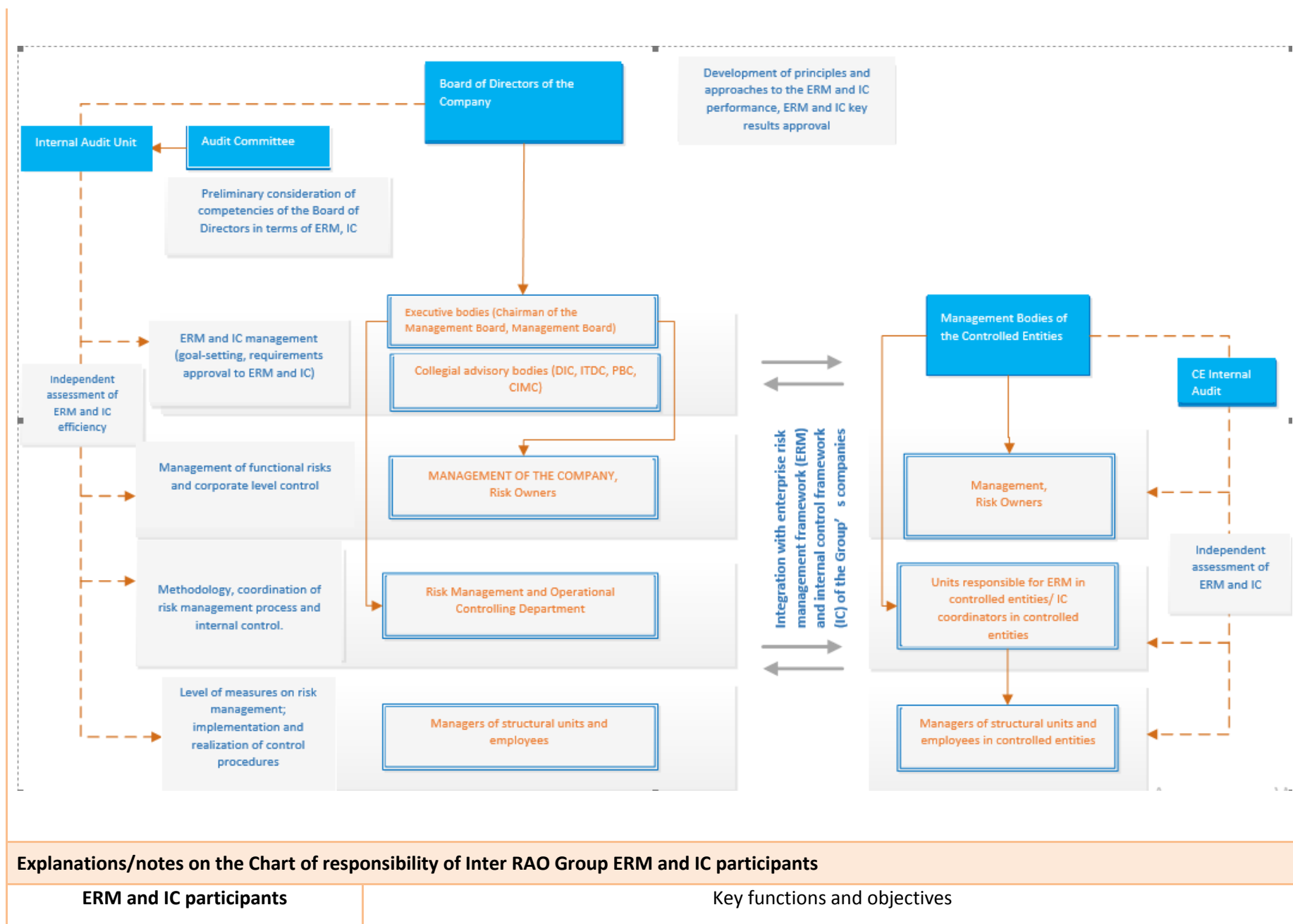
Participants of Risk Management and Internal Control Frameworks

The Group's management ensures efficient interaction between ERM and IC, which are integrated into the Group's key business processes and activities.

Coordination, implementation, and improvement of ERM and IC processes are included into the area of responsibility of the Risk Management and Operational Controlling Department. The Head of the Department reports directly to the Chairman of the Management Board, which ensures independent identification and risk assessment, as well as control of risk management actions, including control procedures.

Flow chart of responsibility and accountability of Inter RAO Group ERM and IC participants

³⁷ The Corporate Risk Management Policy (Minutes of the Board of Directors No. 155 Of October 30, 2015) and Internal Control Policy (Minutes of the Board of Directors No. 180 of October 30, 2016) are the upper-level documents developed on the basis of the PJSC Inter RAO Articles of Association, taking into account the recommendations of Russian and international standards of risk management, the Corporate Governance Code, Methodology guidelines of the Federal Agency for State Property Management (Rosimushchestvo), best practices in risk management and corporate governance, and the listing rules of Russian and international stock exchanges.



Board of Directors	<ul style="list-style-type: none"> • Approves risk management and internal control policies; • Approves risk appetite values, critical risks charts, and Critical Risk Management Action Plan, and analyzes the Risk Management System Report and Internal Control Report on an annual basis.
Executive bodies (Chairman of the Management Board, Management Board)	<ul style="list-style-type: none"> • Ensure that effective ERM and IC is established and maintained in the Company; • Take responsibility for execution of the Board's decisions concerning ERM and IC. • Delegate authority/powers, responsibilities, and liability among the executives and managers of divisions with regard to specific risk management and internal control procedures; • Approve the internal policies and procedures on Risk Management and Internal Control (excluding the documents of the Policy level); • Consider and approve targets for critical risk management of the Group.
Collegial advisory bodies: Planning and Budget Committee (PBC) Development and Investment Committee (DIC) Information Technologies Development Committee (ITDC) Conflict of Interest Management Committee (CIMC)	<ul style="list-style-type: none"> • Consider and make decisions on risk management issues, including: <ul style="list-style-type: none"> ○ Critical risk management coordination; ○ Considering results of risk identification and assessment that affect the execution of the Group's companies business-plans; ○ Considering project risks that affect terms, budget and project results; ○ Coordination and monitoring of anti-fraud and corruption framework; examination of transactions and procedures that are potentially exposed to corruption risks, and issues of probable conflict of interests and methods to prevent it.
Management, Risk Owners	<ul style="list-style-type: none"> • Take responsibility for developing and sustaining ERM and IC performance within headed functional areas, and for implementing, executing, and improving internal control and risk management procedures; • Take responsibility for risk implementation in terms of remuneration when KPI thresholds are violated.
Sole management bodies in controlled entities	<ul style="list-style-type: none"> • Take responsibility for implementing risk management actions and complying with the established risk limits, as well as submitting results of risk management processes for review by PJSC Inter RAO. • Take responsibility for risk implementation in terms of remuneration when KPI thresholds are violated.

Risk Management and Operational Controlling Department (RM&OCD)	<ul style="list-style-type: none"> • Provides coordination of systemic operations and guidance support within the annual ERM and IC cycle (including risk identification and assessment, development of risk management actions, monitoring, and reporting related to risk management and internal control); • Ensures the development of ERM and IC unified methodology, development and actualization of processes and procedures for Risk Management and Internal Control; • Is responsible for information disclosure on risk management and internal control and ensures communications with ERM and IC participants at all Group management levels.
Internal audit	<ul style="list-style-type: none"> • Facilitates the improvement of risk management and internal control processes through an independent expert assessment of the risk management and Internal Control Frameworks at least once a year, including: providing the Board of Directors with reports on assessment results of risk management and Internal Control Frameworks on a regular basis; developing recommendations and monitoring the elimination of violations and implementation of proposals to improve risk management and Internal Control Frameworks.
Managers of structural units and employees	<ul style="list-style-type: none"> • Ensure implementation of ERM and IC procedures and control their execution.

ERM and IC Efficiency Assessment

At PJSC Inter RAO, ERM and IC efficiency is assessed:

- With regard to annual reports on ERM and IC, the management informs the Board of Directors on an annual basis of the achieved results in risk management and internal control within the reporting period.
- Each year, the Internal Audit Unit carries out an audit of ERM and IC, the results of which are reviewed by the Board of Directors.
- At least every three years, an external independent assessment of ERM and IC is conducted.

Role of the Board of Directors and its committees in the assessment of risk management and internal control efficiency

Risk management and internal control issues are regularly examined by the Board of Directors and the Audit Committee, whereby the priorities and activities for the next period are determined:

- The Audit Committee of the Board of Directors carries out control over the reliability and performance of risk management and Internal Control Frameworks, provides preliminary consideration, analysis and formulation of recommendations on competencies of the Board of Directors in terms of risk management results in the reporting period (including in terms of ERM Report), and adopts methodologies for efficiency assessment of risk management and internal control frameworks.
- The Board of Directors analyzes reports on the risk management and internal control frameworks, as well as reports on efficiency assessment of ERM and IC.

Reports on the Enterprise Risk Management Framework (ERM) and Internal Control Framework (IC) and Efficiency Assessment of ERM and IC for 2017.

The following Reports are preliminarily considered by the Audit Committee³⁸ and approved by the Board of Directors³⁹ on an annual basis:

- Reports on ERM and IC.
- Report on adoption, control, and efficiency of the procedures aimed at the organization of risk management and Internal Control Frameworks in order to prevent and combat corruption.
- Reports of the Internal Audit Unit on the efficiency assessment of the Internal Control Framework, the risk management and corporate governance system, as well as on the efficiency assessment of the risk management and Internal Control Framework in the sphere of preventing and combating corruption in PJSC Inter RAO.

Following the ERM and IC efficiency assessment in 2017 The Internal Audit Unit confirms that the current ERM and IC provide reasonable assurance that the targets identified by the Board of Directors of PJSC Inter RAO will be achieved.

According to the analysis results of ERM and IC performance, the auditor determined that the development of systems is at optimum level and that there are no critical defects or violation of ERM and IC procedures. The Internal Audit Unit gave recommendations for further improvement of ERM and IC.

According to the assessment results of corporate governance efficiency, the Corporate Governance Code principles and recommendations are applied within the Company to the extent necessary for ensuring effective corporate governance.

According to the assessment results of the efficiency of risk management and Internal Control Framework processes aimed at preventing and combating corruption, the auditor determined that this process is integrated into the corporate framework of the Company's risk management, is organized and functions in accordance with the Methodological recommendations of the Federal Agency for State Property Management (Rosimushchestvo).

Main Results of the Performance of Risk Management and Internal Control Frameworks in 2017

1. Corruption risks were included in the list of the Group's critical risks. The risk appetite indicator established for 2018 with regard to corruption risks expresses zero tolerance to corruption. The list of combatting corruption functions and positions in the Group's companies was formulated and approved. The Anti-Corruption Plan for 2017 was completed; the Anti-Corruption Plan for 2018 was developed.

³⁸ Minutes No. 110 of March 21, 2018.

³⁹ Minutes No. 221 of April 2, 2018.

2. Critical Risk Maps and Critical Risk Management Action Plans in controlled entities within the ERM and the Group for 2017 were updated. Activities on risk management for 2017 were carried out to the full extent. The Board of Directors approved the Group's Critical Risk Management Action Plan for 2018.
3. Procedures were implemented for quarterly ERM monitoring and informing the Group's Management about risks and actions taken to manage them.
4. Activities in the sphere of antimonopoly and tax compliance were carried out. An antimonopoly audit was conducted, which included identifying and assessing antimonopoly risks; internal policies and procedures for antimonopoly compliance were prepared. Control procedures for Tax Registration and Reporting were developed.
5. A methodology for efficiency self-assessment of IC in business was developed for the Group's companies.
6. Activities to improve IC efficiency in Information Technologies business processes were performed.
7. The regulation on the cooperation of internal control participants in the Group, and a Methodology for identifying, assessing the process-related risks and determining controlling procedures were developed.

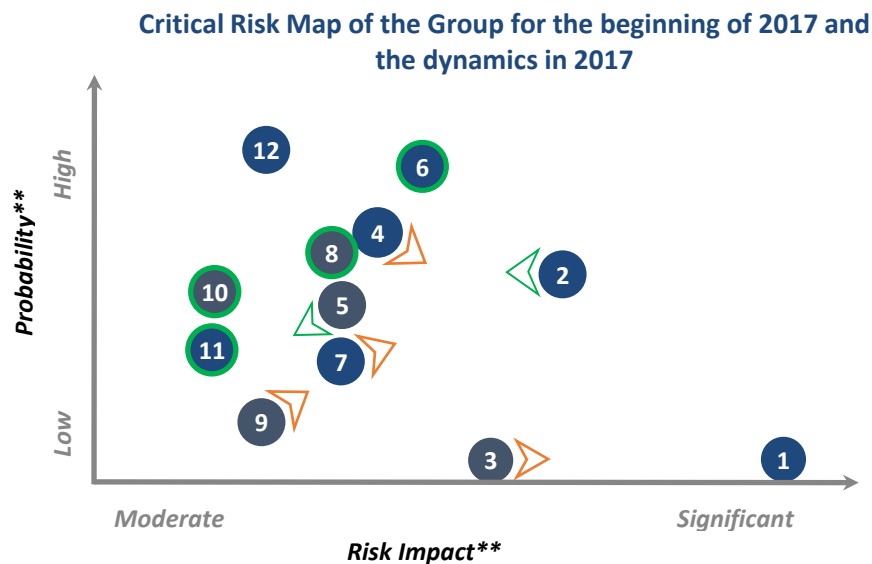
Priorities in risk management and internal control for 2018

- Updating the approaches to determination of the admissible risk level, including risk appetite. In 2018, the Groups is planning to develop and implement the concept of admissible risk level with the following reduction of risk appetite by controlled risk factors;
- Fostering of integration between risk management and business planning processes. Complex approach implementation, which concerns the risks impact and possibilities while developing Business Plan, enables increasing the accuracy of business planning and sustainability to risks of controlled entities and the Group business plans. Development of the approach to a complex risk-oriented factor analysis of business plan deviations for the reporting period will allow determining the completeness of risk indication, assessment accuracy, efficiency and effectiveness of the implemented measure on risk management;
- Strengthening of integration between risk and project management. The development of approaches to identifying, analysis and management of the project risks and testing of these approaches at the Group's key projects, including capital construction and IT projects;
- Strengthening of integration between ERM and IC. In order to comply with Russian legislation (Corporate Governance Cod; Methodological recommendations of RosimushchestvoO, risk management standards and risk management and internal control best practices, it is planned to combine ERM and IC into single risk management and internal control corporate framework (ERM&IC);
- Support of compliance methodology development, including compliance with Federal Law on the Security of the Critical Information Infrastructure of the Russian Federation, requirements of Russian Federal Tax Service to tax monitoring participants.

Critical Risk Map

The Group's critical risk map, approved by the Company's Board of Directors, represents the results of critical risk quantitative assessment with a list of the critical risks. Critical risk maps of controlled entities and the Group are formulated and updated within the annual ERM cycle.

More information on the Group's risks and measures for risk management is given in Appendix 6. Group's significant risks: description and measures for risk management on page 379.



№	Risk title	Risk characteristics dynamics in 2017	
		Possibility	Value
1	Credit risk of counterparty banks	=	=
2	Currency risk	=	✓
3	DAM price reduction risk in the result of approval of changes, connected with order of price bids transformation for volume of production planing	=	△
4	DAM price risk	✓	△
5	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	✓	✓
6	Risk of increased penal coefficients applied to the respective deltas for the non-preparedness of generation equipment for electricity production	○	○
7	Credit risk of debt receivable of buyers of electricity/network organisations	△	△
8	Recognition of the antimonopoly regulation activities of the Company assets as non-conforming to the Russian laws	○	○
9	Credit risk of debt receivable of buyers in WECM	△	△
10	Interest risk	○	○
11	Credit risk of debt receivable of buyers of electricity	○	○
12	Risk of failure to meet the commissioning deadlines (failure to meet the capacity supply schedules under capacity supply agreements)	=	=



The risk profile's dynamics in 2017

The risk excluded from the list of Critical Risks of the Group in 2017

The risk assessment did not change significantly in 2017

* Critical risks for the Group are shown; their influence is higher than the set materiality threshold (as defined by the approved Group's methodology).

** For public disclosure the values and probabilities are not given. The illustration of the risk map demonstrates relative positions of risks to each other.

1.8. Investment Activities

Figures and facts

	2015	2016	2017
Group's capital expenditure (VAT included), RUB bln	32.5	39.9	34.2

Inter RAO Group's Investment Program 2017 was approved as part of the Group's business plan for 2017⁴⁰ and was aimed at fulfillment of the following target objectives:

- commissioning of new capacities using high-performance technologies;
- ensuring reliability and performance of operating equipment, improving competitiveness of the Group's companies on the electricity and heat market;
- ensuring industrial safety of production facilities;
- enhancing energy efficiency of equipment and reducing the environmental impact of production operations;
- ensuring leadership among energy companies in the field of energy asset management efficiency with emphasis on innovation and energy efficiency enhancement.

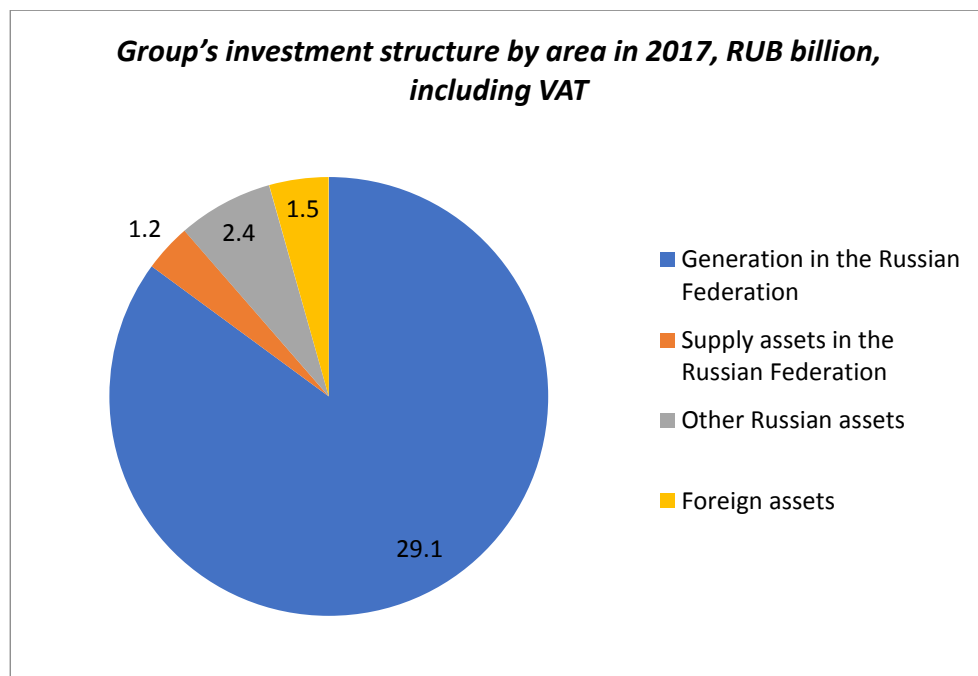
The core areas of the Group's Investment Program are as follows:

- construction of new generating facilities;
- maintenance of power plant equipment.

In 2017, total financing of the Inter RAO Group Investment Program in terms of capital investments amounted to RUB 34,180 million, VAT included.⁴¹ Financing was almost entirely provided by own funds.

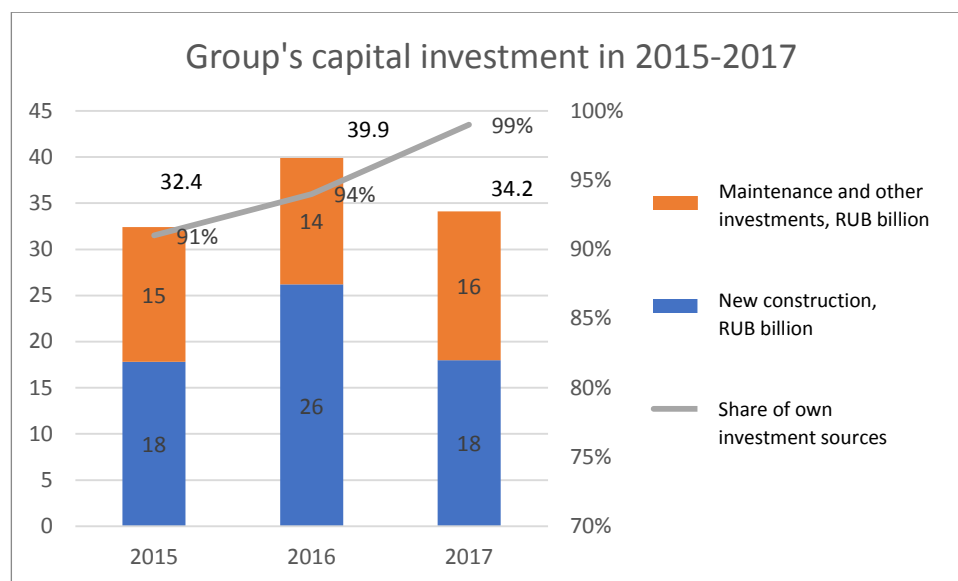
⁴⁰ Approved by the Board of Directors on December 23, 2016 (Minutes No. 188 of December 23, 2016).

⁴¹ The data exclude expenditures under the contracts for acquisition of PJSC Inter RAO's property by JSC Inter RAO – Electricity Plants.



The main area of capital investment for Inter RAO Group in 2017 was construction and commissioning of new power capacities in the “Generation in the Russian Federation” segment. The Group pays particular attention to implementation of projects for supplying capacity in the framework of Capacity Delivery Agreements (CDA).

In general, in 2015-2017 Inter RAO Group incurred investment costs in the form of capital investments to the total amount of more than RUB 106 billion (VAT included), including more than RUB 62 billion (VAT included) in the core area of building new generating capacities, which were financed primarily using own funds.



Attention is paid to integration of risk management processes into the project activities: risk management is considered an integral part of project management with risk identification procedures currently being carried out in the framework of the priority project data sheets. At that, the immediate objective will be switching to the risk-oriented project management model, under which risk management forms the basis for making decisions on investments and monitoring implementation of project decisions during the project life cycle.

The Group's Investment Plans: Key Areas of Capital Investments

Completing implementation of the investment project for construction of Zatonkaya CHPP in Ufa is of key importance in the plans of Inter RAO Group for 2018. The project is included in the list of generating facilities determined by the Order of the Russian Government No. 1334-r of August 11, 2010^{42,43}, and by means of which capacity will be supplied under the Capacity Delivery Agreements (CDA). Zatonkaya CHPP was commissioned in March 2018.

Inter RAO Group's Investment Program 2018–2022 stipulates measures for retooling and modernization of equipment at power plants with the volume of capital investment necessary to ensure safe operation of equipment, heating grids, buildings and structures, as well as to maintain the equipment in sufficient operational conditions to secure reliable and continuous electricity and heat supply. Retooling projects are aimed at extending equipment life, reducing repair and operational expenses, and improving operational reliability of equipment.

⁴² Commissioned in March 2018.

⁴³ As amended by the Order of the Russian Government No. 2784-r of December 30, 2014.

Target indicators of Inter RAO Group's Investment Program 2018

Area of Investment Program	Financing plan 2018, RUB mln (VAT included)
Generation in the Russian Federation	21,358
Supply assets in the Russian Federation	1,490
Other Russian assets	889
Foreign assets	1,858
Total for the Group's companies	25,595

The reduction of target capital investments in 2018 compared to 2017 was mainly due to the completion of construction of the Group's CDA facilities.

Implementation of Inter RAO Group investment projects in 2017 and prospects

Project name	Brief project description	Specifications of new construction projects			
		Type	Fuel	MW	Commissioning date
CDA projects					
2017					
Construction of CCGT-800 at Permskaya TPP ⁴⁴	Commissioning of a new power generating unit resulted in improved reliability and economic efficiency of the TPP and increased installed capacity.	new	gas	903 ⁴⁵	August 2017
Construction of CCGT-420 at Verkhnetagilskaya TPP (Unit No. 12) ⁴⁶	Implementation of the project resulted in an increased amount of modern equipment within the installed capacity structure and increased demand for and competitiveness of the generating assets on the WECM. In addition, the upgrade of the main power equipment fleet resulted in improved reliability and economic efficiency of the plant.	new	gas	447	June 2017

⁴⁴ In accordance with the Order of the Russian Government No. 2784-r of December 30, 2014, the following changes were introduced to the list of CDA facilities: the commissioning date under the CDA of the power generating unit No. 4 of Permskaya TPP was moved to June 30, 2017; the facility "Unit No. 12 at Verkhnetagilskaya TPP (CCGT-420)" was replaced with "Construction of Power Generating Units No. 1, 2 of CCGT at CHPP-5 in Ufa, Republic of Bashkortostan" to be commissioned on December 31, 2016 (420 MW).

⁴⁵ Capacity commissioned under ISO as a result of re-qualification (remarking).

⁴⁶ In accordance with the Order of the Russian Government No. 132-r of February 02, 2016, the following changes were introduced to the list of CDA facilities: "Facility No. 3 (CCGT-420) on the territory of Serovskaya TPP" was replaced with the "Unit No. 12 at Verkhnetagilskaya TPP (CCGT-420)" with the commissioning date scheduled for November 11, 2017 (420 MW).

Project name	Brief project description	Specifications of new construction projects			
		Type	Fuel	MW	Commissioning date
2018					
Construction of power generating units No. 1, 2 of CCGT at CHPP-5 in Ufa, Republic of Bashkortostan ³	Zatonskaya CHPP shall reduce the electricity shortage in the Ufa generation system and increase the reliability of power supply to consumers. In accordance with the Ufa heating arrangement approved by the Order of the Russian Ministry of Energy, Zatonskaya CHPP is recognized as the primary heat source for the prospective development area in Ufa.	new	gas	420 ⁴⁷	March 2018

⁴⁷ Pursuant to the Order of the Russian Government No. 2784 of December 30, 2014, the capacity of 420 MW is specified. The capacity under ISO is 425 MW.

1.9. Operating Results by Segments

Key Business Results of the Group

Figures and facts

32,715 MW total installed capacity of the Group's power facilities

134,801 mln kWh electricity generated by the Group in 2017

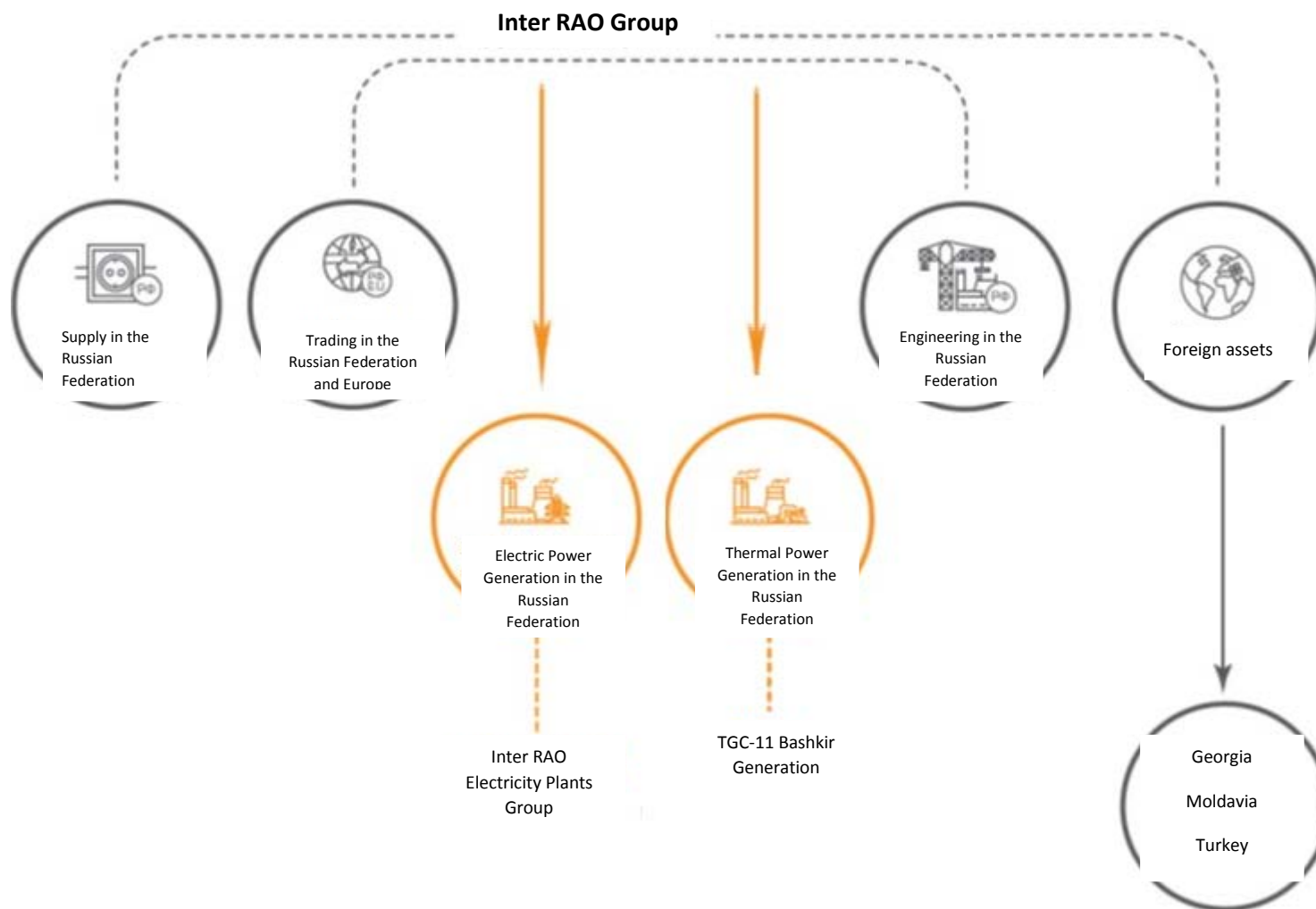
184,040 mln kWh electricity supply by the Group's retail segment in 2017

39,966,000 Gcal heat output from collectors of the Group in 2017

RUB 917,049 mln group revenue (as per IFRS) in 2017

The management of PJSC Inter RAO analyses the Group's operations by type of operations and by geography (by country, in which the company is registered). Each segment represents a type of activity or enterprises of the Group in a certain country⁴⁸.

⁴⁸ Performance assessment of the business areas (operating segments) is provided based on the consolidated financial statements of Inter RAO Group for 2017 prepared in accordance with International Financial Reporting Standards (IFRS).



Key financial results of the Group for 2017

Indicator	Units of measurement	Supply	Electric power generation in the Russian Federation	Thermal power generation in the Russian Federation	Trading	Foreign assets			Engineering	Corporate centre	Total
						Georgia	Moldavia	Turkey			

		The Russian Federation	Inter RAO – Electricity Generation Group ⁴⁹	TGC-11 ⁵⁰	Bashkir Generation ⁵¹	Russian Federation and Europe				Russian Federation		
Revenue	RUB mln	628,632	165,673	31,595	53,299	58,629	10,097	6,142	10,541	15,100	(62,659)	917,049
Percentage of segment revenue in total	%	69	18	3	6	6	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	(249,781)	-	-	(5)	(5,537)	(1,022)	(38)	-	-	-	(256,383)
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)	2,719	-	-	-	-	-	-	(28)	74	2,723
EBITDA	RUB mln	17,757	56,685	5,472	8,009	7,447	1,799	2,724	1,558	(163)	(5,817)	95,471
Depreciation and amortization	RUB mln	(1 700)	(10,972)	(1,882)	(3,188)	(173)	(513)	(307)	(1,217)	(213)	(883)	(21,048)
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)	(23)	(59)	(190)	(104)	(292)	(129)	190	(2,543)
EBITDA margin ⁵²	%	3	46	20	19	13	18	44	15	-1	-	10
Percentage of EBITDA segment in total	%	18	59	6	8	8	2	3	2	0	-6	100

Key operating results of the Group as of December 31, 2017

⁴⁹ Represented by Group Inter RAO – Electric Power Plants, including JSC Nizhnevartovskaya GRES (accounted for under the equity method) (hereinafter in the Report).

⁵⁰ Represented by JSC Tomsk Generation, JSC TGC-11, JSC Omsk RTS and JSC Tomsk RTS (hereinafter in the Report).

⁵¹ Represented by Group Bashkir Generation Company, including LLC BashRTS (hereinafter in the Report).

⁵² The EBITDA margin was calculated excluding inter-segment revenue of Supply in the Russian Federation segment in the amount of RUB 1,533 million, Electric Power Generation in the Russian Federation segment in the amount of RUB 41,911 million, Thermal Power Generation in the Russian Federation segment in the amount of 13,693 million (including TGC-11 in the amount of RUB 3,636 million and Bashkir Generation in the amount of RUB 10,057 million), Trading in the Russian Federation and Europe segment in the amount of RUB 2,268 million, and Engineering in the Russian Federation segment in the amount of RUB 3,356 million.

		Supply	Electric power generation in the Russian Federation	Thermal power generation in the Russian Federation		Trading	Foreign assets				Engineering	Other	Total
		Russian Federation	Inter RAO – Electricity Generation Group	TGC-11	Bashkir Generation	Russian Federation and Europe	Georgia	Moldavia	Kazakhstan	Turkey	Russian Federation		
Installed capacity	MW		22,380	2,051	4,029		227	2,520	1,000	478		30	32,715
Electric power generation	mIn kWh		95,030	8,597	18,460		494	3,557	5,495	3,103		64	134,801
Sale of electricity	mIn kWh	184,040											184,040
excluding IGT	mIn kWh	179,325											179,325
Heat output from collectors	thousand Gcal		4,140	15,274	20,384		-	131	67	-			39,996
excluding IGT	thousand Gcal		3,195	13,086	18,304			131	67				34,783
Installed capacity utilization coefficient	%		50.3	47.9	52.3		24.8	16.1	62.7	74.1		24.4	48.2
Fuel consumption by volume, including:													
Gas	mIn m³		19,731	1,841	6,874		-	999		576			30,021
Coal	thousand tons		7,701	4,654	-				3,520				15,875
Fuel oil	thousand tons		91	18	39			1	3	48			198
Other	thousand tons		2	-	0								2
Fuel consumption in reference terms, including:													
Gas	%		83.2	44.4	99.4			99.9	-	91.4			78.8
Coal	%		16.3	55.1	-			-	99.8	-			20.6
Fuel oil	%		0.4	0.5	0.6			0.1	0.2	8.6			0.6
Other	%		0.0	-	0.0			-	-	-			0.0

Generation in the Russian Federation

Figures and facts

28,460 MW total installed electric capacity of the Group's power facilities as of the end of 2017

24,952 Gcal/h total heat capacity of the Group's power facilities as of the end of 2017

Description

Generation in the Russian Federation includes two segments:

The Electric Power Generation in the Russian Federation segment

17 large thermal power plants of condensing type, which mostly generate electricity for the wholesale electricity and capacity market (territories of regions grouped into pricing and non-pricing zones) in the context of centralized operational dispatch management of the UES of Russia.

Operations of the segment are governed by the laws of the Russian Federation and standards of industry infrastructure organizations.

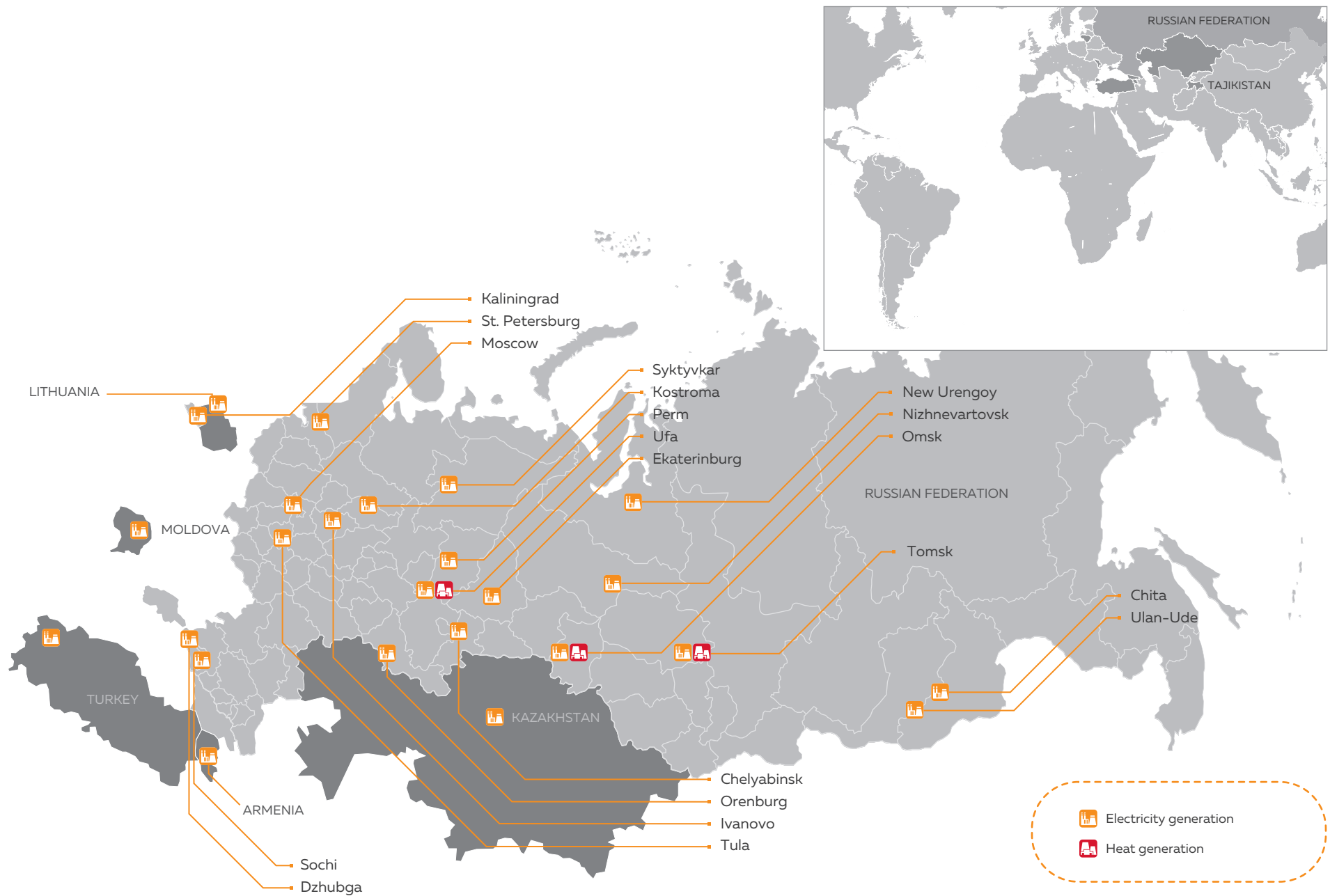
The segment is represented by generating plants of JSC Inter RAO – Electricity Generation, including JSC Nizhnevartovskaya TPP.

The Thermal Power Generation in the Russian Federation segment

16 large CHPPs that produce heat and electricity in the co-generation mode, two HPPs, low-capacity power facilities, as well as boiler houses and heating grids.

Operations of the segment are regulated by laws concerning the electricity industry and heat supply.

The segment is represented by JSC TGC-11, JSC Tomsk Generation, JSC Tomsk RTS and JSC Omsk RTS, as well as by Bashkir Generation (BGC Group).



Electricity

Electric power generation in the Russian Federation

Inter RAO – Electricity Generation Group:

1) JSC Inter RAO – Electricity Generation:

- Verkhnetagilskaya TPP –Sverdlovsk Region, Verkhny Tagil;
- Gusinoozyorskaya TPP –Republic of Buryatia, Gusinoozyorsk;
- Dzhubginskaya TPP – Krasnodar Territory, Tuapse District, Defanovka Settlement;
- Ivanovskiye CCGT, Ivanovo Region, Komsomolsk;
- Iriklinskaya TPP, Orenburg Region, Novoorsky District, Energetik Settlement;
- Kaliningradskaya CHPP-2, Kaliningrad Region, Kaliningrad;
- Kashirskaya TPP, Moscow Region, Kashira;
- Kostromskaya TPP, Kostroma Region, Volgorechensk;
- Permskaya TPP, Perm Territory, Dobryanka;
- Pechorskaya TPP, the Komi Republic, Pechora;
- Severo-Zapadnaya CHPP, St. Petersburg, Olginoy Settlement;
- Sochinskaya TPP, Krasnodar Territory, Sochi;
- Urengoyanskaya TPP, Tyumen Region, Yamalo-Nenets Autonomous District, Novy Urengoy, Limbyayakha District;
- Kharanorskaya TPP, Zabaikalye Territory, Olovyanninsky District, Yasnogorsk Settlement;
- Cherepetskaya TPP, Tula Region, Suvorov;
- Yuzhnouralskaya TPP, Chelyabinsk Region, Yuzhnouralsk;
- Yuzhnouralskaya TPP-2, Chelyabinsk Region, Yuzhnouralsk;

2) JSC Nizhnevartovskaya TPP, Khanty-Mansi Autonomous Region –Yugra, Nizhnevartovsky District, Izluchinsk Urban Settlement
(equity accounted investee)

Thermal power generation in the Russian Federation

JSC TGC-11, Omsk;
JSC Tomsk Generation, Tomsk;
JSC Tomsk RTS, Tomsk;
JSC Omsk RTS, Omsk;
BGC LLC, Ufa;
LLC BashRTS, Ufa.

Market position of the segments: Electric Power Generation in the Russian Federation and Thermal Power Generation in the Russian Federation

Figures and facts

Approximately 12% percentage of segment capacities in the installed electric capacity of IES of Russia

More than 17% percentage of segment capacities in the installed TPP capacity of IES of Russia

Generating enterprises of the segments are located in 19 constituent entities of the Russian Federation and are part of five of the seven integrated energy systems (IES) in Russia.

As of January 01, 2018, the installed capacity of IES of Russia increased by 3,468.60 MW (1.47%), to 239,812.20 MW.

Increased installed capacity of power plants of UES of Russia in 2017 was mainly a result of:⁵³

- commissioning of new generating equipment with capacity of 3,608 MW;
- increased installed capacity of the operating generating equipment to the amount of 292.1 MW due to remarking.

Generating equipment of power plants of UES of Russia with aggregate capacity of 1,435 MW was decommissioned.

Installed electric capacities of the Electric Power Generation in the Russian Federation and Thermal Power Generation in the Russian Federation segments and their percentage in the total structure with breakdown by integrated energy systems of UES as of January 1, 2018

Indicator	Units of measurement	Total for UES of Russia	IES Center	IES North-West	IES South	IES Urals	IES Siberia
Installed electric capacity of IES	MW	239,812	53,077	23,865	21,539	52,715	51,911
including TPPs	MW	162,780	37,690	15,150	12,180	49,238	26,570
Installed electric capacity of segments	MW	28,460	6,285	2,860	359	15,050	3,906
including TPPs	MW	28,216	6,285	2,860	359	14,807	3,906
Percentage of segment capacity in the installed electric capacity of IES	%	11.9%	11.8%	12.0%	1.7%	28.6%	7.5%
Percentage of segment capacity in the installed TPP electric capacity of IES	%	17.3%	16.7%	18.9%	2.9%	30.1%	14.7%
Share of IES in the segment capacity structure	%	100.0%	22.1%	10.0%	1.3%	52.9%	13.7%

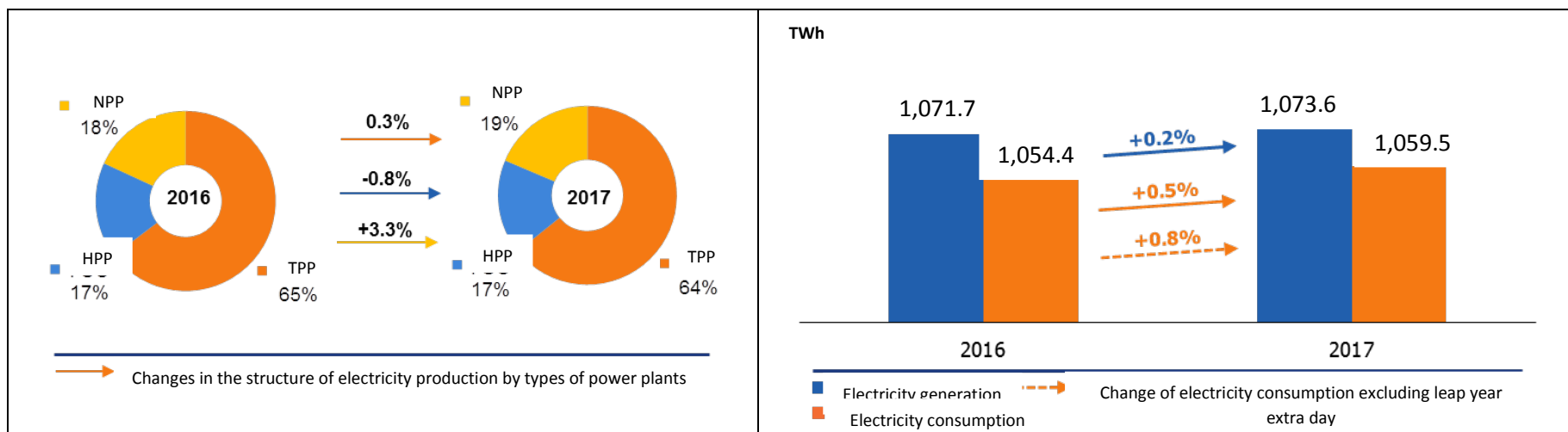
Change of load distribution at power plants in Russia⁵⁴

Change of electricity production and consumption in Russia⁵⁵

⁵³ According to the Report on Functioning of the UES of Russia in 2017 published on the website of JSC SO UES www.so-ups.ru.

⁵⁴ According to data from the Russian Federal Statistics Service (Rosstat).

⁵⁵ According to SO UES data.



Regulated prices (tariffs) on electricity (capacity) in 2017 were approved by FAS of Russia.

Tariffs for consumers who pay for heat generation (who receive heat at collectors), and tariffs for consumers who pay for heat generation and transmission in the heat supply sector were approved by the regulating authorities of the constituent entities of the Russian Federation by the index method in the course of annual adjustment of the 2016-2018 long-term regulation periods that are in effect for the first time and setting of tariffs for the new long-term period of 2018-2022.

Operating results

Figures and facts

122,087 mln kWh electricity generation by the Russian assets of Inter RAO Group

Operating information. Generation in the Russian Federation.

	UOM	2015	2016	2017	2017/2016, %
For Inter RAO Group					
Installed capacity at the end of the period	MW	29,003	28,269	28,460	0.7%
Type of fuel (fuel balance structure)					
Gas	%	79.3	80.6	81.8	1.2
Coal	%	19.9	18.2	17.7	-0.5

Fuel oil	%	0.5	1.2	0.5	-0.7
Other fuel	%	0.3	0.0	0.0	0.0
Electricity output in Russia	mln kWh	1,026,877	1,048,457	1,053,862	0.5%
Electricity output in the segment	mln kWh	127,162	120,005	122,087	1.7%
Percentage of electricity generated by Russian assets of Inter RAO in Russia	%	12.4	11.4	11.6	0.1
Specific fuel equivalent consumption per unit of electricity	gfe/kWh	313.5	309.0	303.1	-1.9%
Installed capacity utilization coefficient	%	50.2	48.5	50.4	2.0
Heat output from collectors ⁵⁶	thousand Gcal	39,360	40,322	39,799	-1.3%
Specific fuel equivalent consumption per heat unit	kgfe/Gcal	145.1	145.1	143.9	-0.9%
Electric Power Generation in the Russian Federation segment (JSC Inter RAO – Electricity Generation and JSC Nizhnevartovskaya TPP)					
Installed capacity at the end of the period		22,853	22,112	22,380	1.2%
Type of fuel (fuel balance structure)					
Gas	%	80.6	81.9	83.2	1.4
Coal	%	19.1	17.6	16.3	-1.3
Fuel oil	%	0.4	0.6	0.4	-0.1
Other fuel	%	0.0	0.0	0.0	0.0
Electricity output in the segment	mln kWh	98,585	91,786	95,030	3.5%
Specific fuel equivalent consumption per unit of electricity	gfe/kWh	307.8	302.7	296.7	-2.0%
Installed capacity utilization coefficient	%	49.4	47.4	50.3	2.9
Heat output from collectors	thousand Gcal	3,736	4,089	4,140	1.3%
Specific fuel equivalent consumption per heat unit	kgfe/Gcal	162.7	157.9	155.4	-1.6%
Thermal Power Generation in the Russian Federation segment (Bashkir Generation, TGC-11)					
Installed capacity at the end of the period		6,150	6,157	6,080	-1.2%
Type of fuel (fuel balance structure)					
Gas	%	76.5	78.0	78.6	0.7
Coal	%	21.7	19.5	20.8	1.3

⁵⁶ Data may differ from earlier disclosed information due to change of the methodology (results of JSC Nizhnevartovskaya TPP included).

Fuel oil	%	0.7	2.6	0.6	-2.0
Other fuel	%	1.1	0.0	0.0	-0.0
Electricity output in the segment	mln kWh	28,577	28,219	27,058	-4.1%
Specific fuel equivalent consumption per unit of electricity	gfe/kWh	334.8	331.2	327.6	-1.1%
Installed capacity utilization coefficient	%	53	52.3	50.8	-1.5
Heat output from collectors	thousand Gcal	35,624	36,234	35,658	-1.6%
Specific fuel equivalent consumption per heat unit	kgfe/Gcal	143.2	143.7	142.6	-0.8%

In 2017, the total installed electric capacity of power facilities in the segments increased by 0.7%, to 28,460 MW. Total heat capacity decreased by 0.8%, to 24,952 Gcal/h:

- total installed electric and heat capacities of the power plants in the Electric Power Generation in the Russian Federation segment amounted to 22,380 MW and 5,813 Gcal/h, respectively;
- total installed electric and heat capacities of the power plants in the Thermal Power Generation in the Russian Federation segment amounted to 6,080 MW and 19,139 Gcal/h, respectively.

The dynamics of indicators was mainly caused by higher rate of commissioning of new efficient generating capacities and modernization of the existing ones compared to the decommissioning rates of outdated equipment. In particular, the installed electric capacity increased by 963 MW at Permskaya TPP, 117 MW at Verkhnetagilskaya TPP, 30 MW at Gusinoozyorskaya TPP, 45 MW at Omskaya CHPP-3 and decreased by 865 MW at Cherepetskaya TPP.

Reduction of the installed heat capacity by 201 Gcal/h was mainly due to disposal of power generating units at Verkhnetagilskaya TPP, CHPP of TGC-11 and power plants of Tomsk Generation.

Electricity output of generating facilities in the segments in 2017 increased by 1.7%, to 122,087 mln kWh. Increased output was mainly caused by commissioning of new efficient capacities as a part of CDA programs, load optimization of unprofitable and low-margin equipment during the periods of low prices on the day-ahead market, as well as by a longer period of repairs performed in 2016 compared to 2017.

As a result, the specific fuel equivalent consumption per unit of electricity sold decreased by 5.9 gfe/kWh, and per unit of heat power supply by 1.2 kgfe/Gcal. The average installed capacity utilization rate (CUR) of power plants in the segments increased by 2.0 p.p.

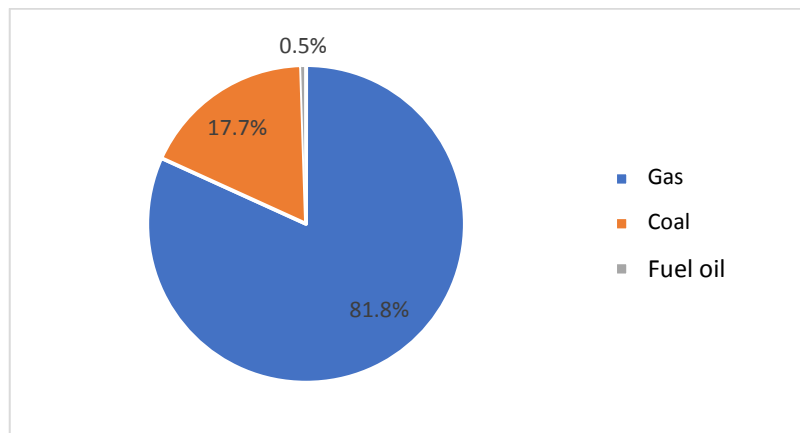
Decrease in supply of heat from collectors by 1.3% was caused by decommissioning of heat capacity and higher average ambient air temperature in the heating season in 2017 as compared to 2016 in the regions where the Group's generating assets operate.

Projects for equipment modernization, retooling and repairs were implemented in 2017. Works were carried out at the following facilities:

- Kostromskaya TPP – generator replacement of Unit No. 7 (300 MW);
- Gusinoozyorskaya TPP – reconstruction of the power generating unit No. 1 (200 MW);
- Nizhnevartovskaya TPP – overhaul of the power generating unit No. 1 (800 MW);
- Tomskaya TPP-2 – modernization of boiler gas supply systems.

In 2017, repairs were complete in full and within the budget.

Fuel balance of the Electric Power Generation in the Russian Federation and Thermal Power Generation in the Russian Federation segments in 2017.



Commissioning of new power generating units in 2017.

Commissioning of power generating unit No. 4 at Permskaya TPP

The new power generating unit at Permskaya TPP is the largest power generating unit in Russia built in the thermal power generation segment in the last ten years. The unit has the best technical and environmental characteristics for this type of equipment. The reliability of electricity supply to consumers of the Perm and Zakamsk generation system was successfully improved in the course of project implementation. Particular attention was paid to environmental protection.

Permskaya TPP reached the capacity of 3,363 MW and became one of five most powerful thermal power plants in the country, while the Perm Region saw 10% growth in the total generation volume. The authorities of the Perm Region assigned priority status to the investment project. The Company invested approximately RUB 40 billion into the regional economy and created new jobs for the local communities. In response, the region will provide state support to the investor for 10 years after commissioning the power generating unit.

Key characteristics:

- Installed capacity of Permskaya TPP before commissioning of the power generating unit No. 4 – 2,400 MW;
- Installed capacity of the power generating unit No. 4 – 903 MW;
- Efficiency of the power generating unit – 59.2% (record efficiency factor for Russian power generating units);
- Construction costs – RUB 34.0 billion, the project budget – RUB 36.7 billion.

Largest 5 TPPs in Russia⁵⁷:

- Surgutskaya TPP-2 (Unipro) in Khanty-Mansi Autonomous Region – 5,657 MW;
- Reftinskaya TPP (Enel Russia) in Reftinsky Settlement (Sverdlovsk Region) – 3,800 MW;
- Kostromskaya TPP (Inter RAO) in Volgorechensk: 3,600 MW;
- Permskaya TPP (Inter RAO) in Dobryanka (Perm Region) – 3,363 MW;
- Surgutskaya TPP-1 (OGK-2) in Khanty-Mansi Autonomous Region – 3,268 MW.

- A new power generating unit with capacity of 447.15 MW was commissioned at Verkhnetagilskaya TPP. The new power generating unit is the first operating generating facility of Inter RAO for which an investment agreement was signed with the regional authorities. The investment agreement provides for property tax privileges for a period of five years. The equipment of the new power generating unit demonstrates one of the highest efficiency factors of the electrical cycle in the industry, amounting to 58%, and complies with the strictest environmental standards. Most of the equipment of the new power generating unit was made by Russian manufacturers;
- Modernization of a gas turbine (with the power generating unit's capacity increase of 6%) was performed at power generating unit No. 3 of Nizhnevartovskaya TPP;
- The installed capacity of CCGT units of st. No. 1, 2, with planned capacity of up to 422.08 and 422.42 MW respectively, was increased, and renewal inspections of the CCGT hot gas path were performed at Yuzhnouralskaya TPP-2;
- Modernization of the boiler at power generating unit No. 1 was performed at Gusinoozyorskaya TPP to enable a wider range of coal combustion (with unit remarking);
- JSC Omsk RTS commissioned the new booster pumping station No. 5A (BPS-5A). The station will provide the technical possibility to connect new consumers in Sovetsky and Kirovsky administrative districts of the city and will help to improve the quality and reliability of the centralized heat supply in these districts. Productivity, reliability and economic efficiency of heat networks will improve considerably due to commissioning of a more powerful and modern equipment at the new pumping station and decommissioning of the outdated equipment at this stage. All power and technological equipment of the station was supplied by domestic manufacturers.

Commissioning of new and modernization of existing generating capacities, decommissioning of worn-out equipment in 2017.

	Installed capacity at the beginning of the period	Capacity commission ed for the	Capacity decommission ed for the	Installed capacity at the end of the period
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⁵⁷ Data provided from open sources.

Units of measurement	period		period	
	MW	MW	MW	MW
Ufimskaya CHPP-4 (Bashkir Generation Company Group)	351		2	350
Verkhnetagilskaya TPP (JSC Inter RAO – Electricity Generation)	945	447	330	1062
Gusinoozyorskaya TPP (JSC Inter RAO – Electricity Generation)	1,160	30		1,190
Permskaya TPP (JSC Inter RAO – Electricity Generation)	2,400	963		3,363
Cherepetskaya TPP (JSC Inter RAO – Electricity Generation)	1,315	0	865	450
Yuzhnouralskaya TPP-2 (JSC Inter RAO – Electricity Generation)	840	5	0	845
Nizhnevartovskaya TPP JSC	2,013	18		2,031
Omskaya CHPP-3 (JSC TGC-11)	520		75	445
Total for segments: Electric Power Generation in the Russian Federation and Thermal Power Generation in the Russian Federation	28,149	1,463	1,272	28,460

Operations in autumn/winter period

In the autumn –winter period 2016-2017, Inter RAO Group's power facilities supplied power to consumers in accordance with the dispatch load schedule.

All Inter RAO Group power plants received a certificate of readiness for the autumn/winter period 2017–2018, confirming that the Group's generating enterprises are ready to bear high loads and provide a reliable supply of electricity and heat to consumers during the peak autumn –winter period.

Financial results

Figures and facts

RUB 165,673 mln revenue of the Electric Power Generation in the Russian Federation segment in 2017

RUB 84,894 mln revenue of the Thermal Power Generation in the Russian Federation segment in 2017

Financial data. Generation in the Russian Federation.

	units of measurement	2015	2016	2017	2017/2016, %
Electric Power Generation in the Russian Federation segment					
Revenue	RUB mln	149,130	156,576	165,673	6%
Share in the revenue of Inter RAO Group	%	18	18	18	0 p.p.
Operating expenses, including:					

Purchased electricity and capacity	RUB mln	(7,725)	(7,511)	(7,006)	-7%
Fuel expense	RUB mln	(79,481)	(73,318)	(76,559)	4%
Share in profit/loss of joint ventures	%	2,339	3,075	2,719	-12%
EBITDA	RUB mln	36,052	53,649	56,685	6%
EBITDA margin ⁵⁸	%	30	46	46	0 p.p.
Share in the EBITDA of Inter RAO Group	%	50	56	59	3 p.p.
Thermal Power Generation in the Russian Federation segment					
TGC-11					
Revenue	RUB mln	28,565	30,131	31,595	5%
Share in the revenue of Inter RAO Group	%	3	3	3	0 p.p.
Operating expenses, including:					
Purchased electricity and capacity	RUB mln	(2,700)	(2,522)	(2,603)	3%
Fuel expense	RUB mln	(13,644)	(12,606)	(12,604)	0%
EBITDA	RUB mln	3,188	4,914	5,472	11%
EBITDA margin ⁵⁹	%	13	18	20	2 p.p.
Share in the EBITDA of Inter RAO Group	%	4	5	6	1 p.p.
Bashkir Generation					
Revenue	RUB mln	50,719	53,476	53,299	0%
Share in the revenue of Inter RAO Group	%	6	6	6	0 p.p.
Operating expenses, including:					
Purchased electricity and capacity	RUB mln	(3,553)	(3,783)	(4,040)	7%
Fuel expense	RUB mln	(28,901)	(28,281)	(28,064)	-1%
EBITDA	RUB mln	6,481	8,740	8,009	-8%
EBITDA margin ⁶⁰	%	16	20	19	-1 p.p.
Share in the EBITDA of Inter RAO Group	%	9	9	8	-1 p.p.

⁵⁸ The EBITDA margin was calculated excluding the inter-segment revenue of the Electric Power Generation in the Russian Federation segment to the amount of RUB 41,911 mln in 2017, RUB 38,826 mln in 2016 and RUB 29,781 mln in 2015.

⁵⁹ The EBITDA margin was calculated excluding the inter-segment revenue of the Thermal Power Generation in the Russian Federation segment with regard to TGC-11 indicators: to the amount of RUB 3,636 mln in 2017, RUB 3,365 mln in 2016 and RUB 3,537 mln in 2015.

⁶⁰ The EBITDA margin was calculated excluding the inter-segment revenue of the Thermal Power Generation in the Russian Federation segment with regard to Bashkir Generation's indicators: to the amount of RUB 10,057 mln in 2017, RUB 9,981 mln in 2016 and RUB 9,327 mln in 2015.

Increased revenue in the Electric Power Generation in the Russian Federation segment in 2017 was mainly caused by growth in capacity sales revenues due to commissioning of new and upgraded generating capacities within the framework of the CDA, as well as increase in the capacity selling price. EBITDA growth amounted to RUB 3,036 mln (6%) due to improved performance efficiency of Inter RAO – Electricity Generation Group caused by commissioning of new and upgraded generating capacities within the framework of the CDA and increase in the capacity selling price in this sector, and optimized load of unprofitable and low-profitable equipment during the low-price periods on the day-ahead market.

Revenue growth in the Thermal Power Generation in the Russian Federation segment in 2017 resulted from increase in the average selling prices for heat in 2016 and 2017 in Bashkortostan, Omsk and Tomsk Regions, and from growth of prices and supplies in the segments: competitive power take-off (CPT) and Capacity Delivery Agreements (CDA) for JSC TGC-11.

Development prospects

Electric Power Generation in the Russian Federation segment

The Strategy for electricity generation, and management of reliability and security of wholesale generating assets of the Group is aimed at achieving the following goals:

- promoting the social and economic development of the Russian Federation, and safeguarding the strategic interests of the country in the sphere of energy security;
- maintaining the leadership position among Russian generating companies in the areas of operating efficiency, reliability, and security by means of innovation and improvement of fuel utilization efficiency;
- reducing negative environmental impact.

The Group carries out the following activities in accordance with the development priorities of the Electric Power Generation in the Russian Federation segment:

- modernization of outdated generating capacities;
- prevention of negative environmental and social impacts of production operations;
- use of innovative technologies and solutions in the area of energy saving and energy efficiency;
- control of new legislation being drafted that may affect the activities of the Group's facilities and timely submission of proposals to help protect the Group's interests.

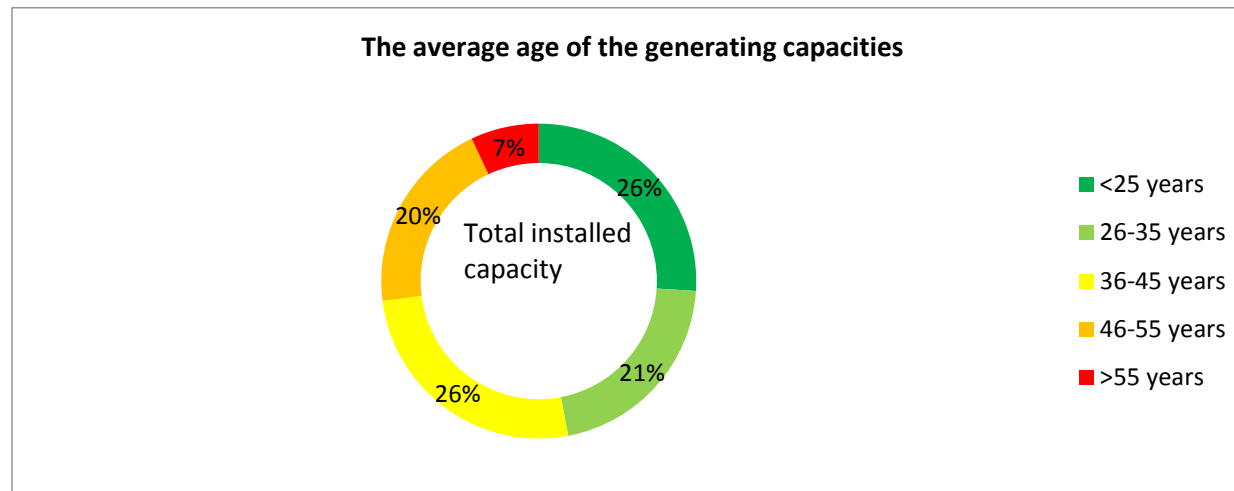
Plans for 2018

Operating efficiency improvement measures in the Electric Power Generation in the Russian Federation segment	Commissioning of generating facilities
<ul style="list-style-type: none"> • Optimizing the generating equipment load in the conditions of output reduction at low-margin power plants; • Continuing optimization of repair schedules without reducing the 	<ul style="list-style-type: none"> • Zatonkaya CHPP (BGC LLC, Ufa. Installed capacity of the power plant – 440 MW: 2 units CCGT-220); • two combined cycle gas turbine plants with the unit capacity of each power generating unit of 110 MW at Pregolskaya TPP;

amount of work, rescheduling of high-performance equipment repair period to avoid repair during periods of high marginality.

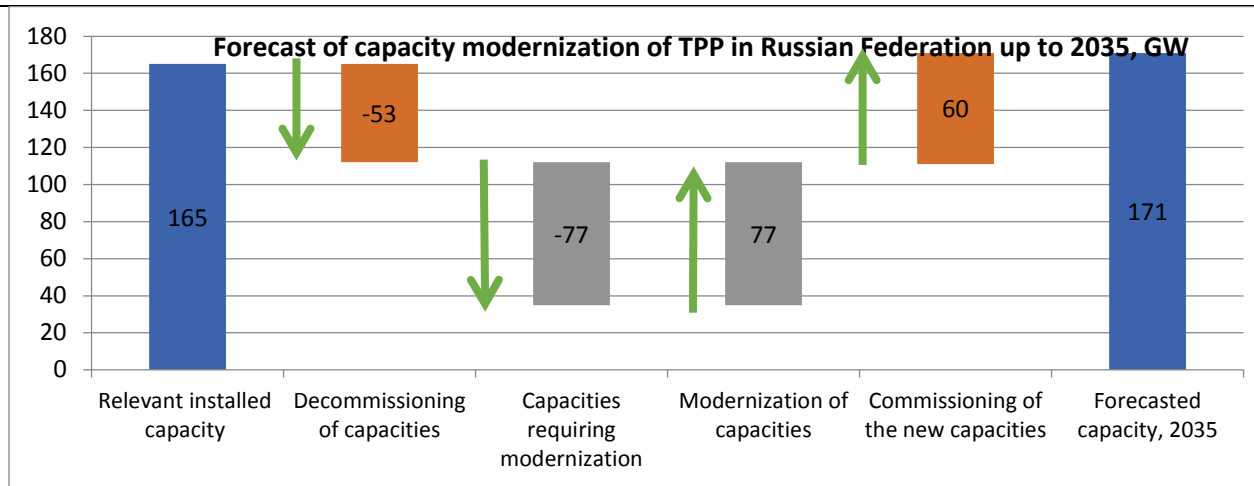
- one gas turbine unit with the generating equipment unit capacity of 78 MW (GTU-78) at Mayakovskaya TPP (Kaliningrad Region);
- one gas turbine unit with the generating equipment unit capacity of 78 MW (GTU-78) at Talakhovskaya TPP (Kaliningrad Region).

Modernization of used capacities



According to the General Layout of Electricity Facilities⁶¹, 129 GW of operating TPP capacities will reach the limit of their economic life by 2035 with it being considered expedient to modernize 77 GW of them. In order to avoid any generation shortage in the longer term, the state support is needed to obtain state support for the modernization/replacement of generating equipment.

⁶¹ General Layout of Electricity Facilities until 2030 with extension until 2035.

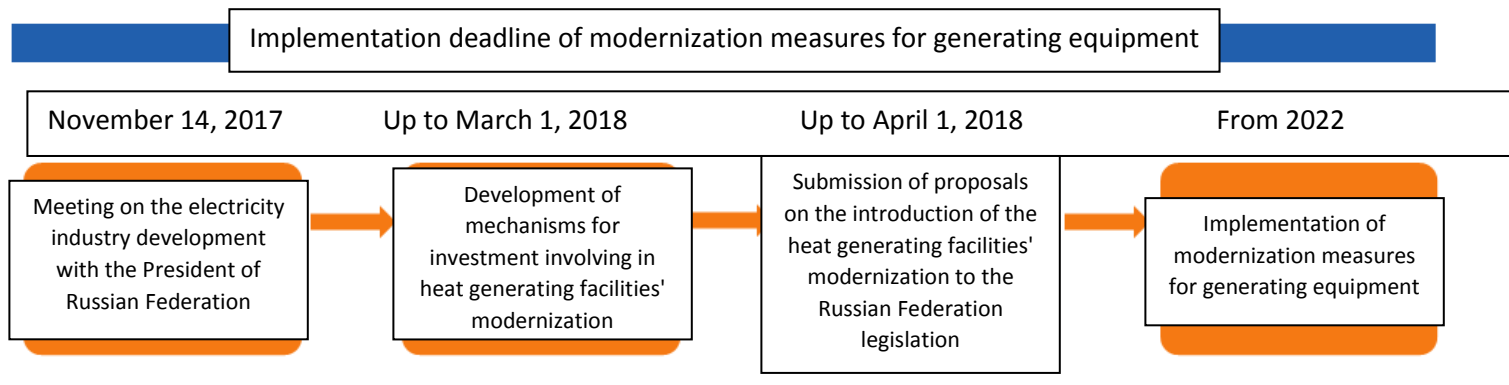


The Russian Government considered two financing options for equipment modernization in the industry:

- market mechanisms involving market stimulating tools or mechanisms to perform modernization;
- a mechanism similar to the CDA in terms of guaranteed return on investments (CDA mark). This option does not imply an increased load on the consumer, and at the same time the service life is extended for a large amount of the generating equipment.

In November 2017, a meeting was held with the President of the Russian Federation on the development of the electricity industry in Russia, at which specific instructions were given, in particular:

- To develop and discuss mechanisms with the leading business associations and constituent entities of the Russian Federation with the aim to attract investments for the modernization of thermal power generating facilities (before March 1, 2018);
- To submit specific proposals for amending legislation related to mechanisms for modernizing thermal power generation in the country (before March 1, 2018).



State authorities made the conceptual decision to use a mechanism similar to the CDA in terms of guaranteed return on investments as a basic financing scheme for the modernization. It was announced consumer payments would not be increased, and tariff setting within inflation limits would be implemented. In addition, the mechanisms to be used shall be further discussed with the aim to ensure they are fair and intelligible. At the moment, the regulatory framework is being developed⁶².

Key principles of the new modernization program:

- The funds available to the generating companies in the course of completion of the projects in the framework of the CDA shall be directed to facilities under the new modernization program;
- TPPs with the highest load are subject to modernization;
- The modernization program shall give preference to domestic equipment;
- Return on investments under the modernization program shall correspond to the CDA project with payback period of 15 years;
- CPT shall be extended to 6 years.

A large volume of capacity from the CDA is expected to move to CPT and the cash flow of generating companies will decrease for several years from 2021 onwards. According to preliminary estimates, approximately RUB 1.5 trillion will become available for 15 years due to reduction of payments under the CDA. This amount is sufficient for modernization of around 40 GW of capacities of the operating fixed assets in electricity generation. Equipment that requires modernization and is in demand in the market⁶³ shall be included into the program.

Inter RAO's Generating Equipment Modernization Program

The Generating Equipment Modernization Program for Production Assets of Inter RAO Group 2022-2030 was approved by the resolution of PJSC Inter RAO's Management Board and includes a list of measures for equipment retooling and measures to improve the energy and environmental efficiency of facilities of power companies of Inter RAO – Electricity Generation Group, BGC LLC, JSC TGC-11, JSC Tomsk Generation until 2030.

The modernization projects can be implemented if mechanisms for stimulating investments in modernization are available, if economic efficiency is achieved or if certain decisions are made at company level. The decision to implement each of the Program's projects (as well as to adjust project parameters) will be made on an individual basis in accordance with the procedure established in the Group based on separate project documentation.

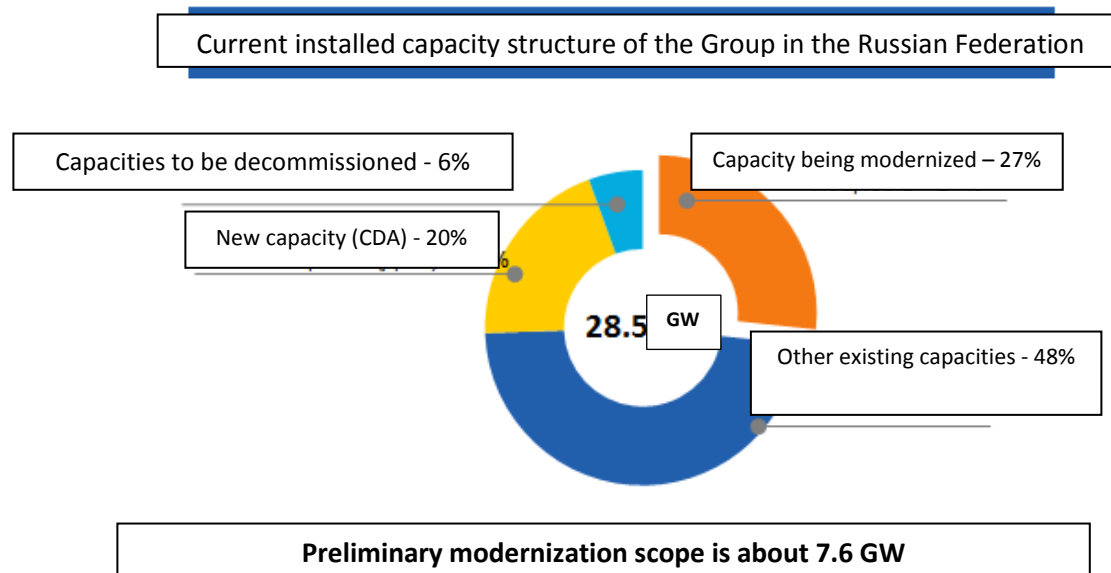
The Modernization Program was developed for CPT+ scenario, excluding the projects for new construction of power generating units. New construction options are being considered separately. Based on analysis of the projects within the Modernization Program for conformity with the requirements of Main Approaches to Selection of Thermal Power Plants for Reconstruction (Retooling, Modernization) (Main Approaches) developed by the Russian Ministry of Energy within the framework of launching a mechanism for stimulating investments in modernization, the proposals for adjustment of technical parameters of the Main Approaches were developed in order to consider the Group's interests.

The modernization of outdated capacities and development of effective mechanisms for attracting investments to the respective projects is one of the

⁶² Interview with Minister of Energy, Alexander Novak <https://minenergo.gov.ru/node/10179>.

⁶³ Interview with Minister of Energy, Alexander Novak <https://minenergo.gov.ru/node/10179>.

main areas of development for the Electric Power Generation in the Russian Federation segment of Inter RAO Group and for the industry as a whole.



Approximately 20% of the existing installed capacity of Inter RAO in the Russian Federation is comprised of new modern CDA facilities that do not require modernization. Outdated capacities to be decommissioned account for approximately 6% (mainly Kashirskaya TPP, a large gas and coal power plant). Up to 30% of capacities will be put forward for modernization (large power plants such as Permskaya TPP, Kostromskaya TPP, Kharanorskaya TPP, as well as a number of CHPPs).

Risks	Opportunities
Failure to include facilities of the new construction and modernization investment program into the modernization program list	Marginal pricing for electricity and capacity
Regulatory risks	Upgrading the capacities fleet using new energy efficient cutting-edge technology

One of the key projects aimed at improving both efficiency and reliability is the program for decommissioning of inefficient capacities. Inter RAO Group is among the industry leaders in terms of changing the composition of equipment in operation. In 2017, the Company decommissioned more than 1.2 GW of inefficient capacities, which led to a significant rise in the profitability of electricity production. Given the substantial positive effect on the Company's operating and financial performance, the optimization efforts in this area will be continued in the coming years.

Thermal Power Generation in the Russian Federation segment

In accordance with the strategy of heat generation, reliability and security, the tasks of Inter RAO Group include:

- ensuring reliability, security and technological development of heat assets of Inter RAO companies;
- maintaining the leadership positions in the industry in terms of operating, energy and environmental efficiency of heat assets;
- further growth in the thermal power generation segment and increase of the heat supply market share in the regions of operations;
- developing the regulatory framework using a functional market model for heat generation.

In accordance with development priorities of the Thermal Power Generation in the Russian Federation segment, the Group plans to implement measures to make use of the existing potential in each specific region of its operations. Such activities include:

- using the "alternative boiler house" method;
- signing contracts at prices determined by agreement of the parties;
- increasing the competitiveness of company products by means of slowing down fuel cost increase, and reducing specific fuel consumption by creating low-cost measures;
- establishing and maintaining long-term guarantees of heat supply;
- maintaining a high level of reliable power supply to consumers by means of timely replacement of equipment and increase in the level of process automation;
- maximum loading of new and upgraded high-performance equipment.

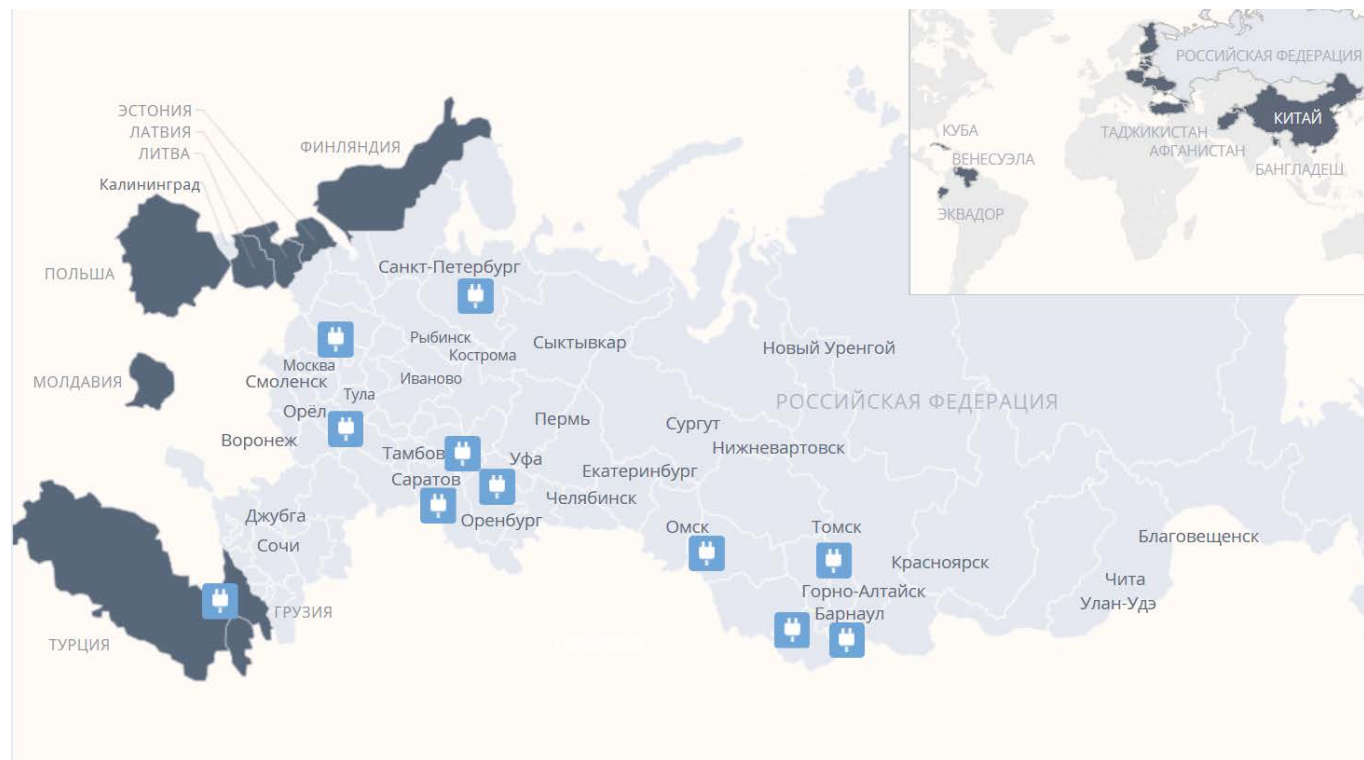
Supply in the Russian Federation

Figures and facts

14.6 mln customers size of customer base

Segment Description

The Supply in the Russian Federation segment unites Inter RAO Group companies that focus on electricity (capacity) supply (sales). The segment includes eight power supply companies that are guarantee suppliers (GS) ⁶⁴ operating on the territory of 12 constituent entities of the Russian Federation, and three non-regulated power supply companies ⁶⁵ that supply electricity to large industrial consumers on the territory of 62 constituent entities of the Russian Federation.



Карта(мини): Куба - Cuba, Венесуэла - Venezuela, Эквадор - Ecuador, Российская Федерация – Russian Federation, Таджикистан – Tajikistan, Афганистан - Afghanistan, Китай - China, Бангладеш – Bangladesh

⁶⁴ Guarantee Supplier (GS) is a power supply company that is obliged to enter into a sale and purchase (power supply) agreement with any individual or legal entity that so requests and that is located within its area of operations. A GS operates within a particular area of operations. A GS purchases electricity (capacity) in the wholesale market and sells it on the retail market using delivery points cluster(s) corresponding to its area of operations or purchases it on the retail market from power supply companies and electricity (capacity) producers.

⁶⁵ A non-regulated power supply company is a power supply company without GS status, which enters into a sale and purchase (power supply) agreement with a legal entity requesting it to do so. A non-regulated power supply company purchases electricity (capacity) for the consumer from a GS on the retail market or directly in the wholesale market.

Карта (большая): Эстония - Estonia, Латвия - Latvia, Литва - Lithuania, Польша - Poland, Финляндия - Finland, Молдавия - Moldavia, Турция - Turkey, Джубга - Dzhubga, Сочи - Sochi, Грузия - Georgia, Калининград - Kaliningrad, Санкт-Петербург – St. Petersburg, Смоленск - Smolensk, Калининград – Kaliningrad, Воронеж - Voronezh, Москва - Moscow, Рыбинск - Rybinsk, Сыктывкар - Syktyvkar, Кострома - Kostroma, Пермь - Perm, Уфа - Ufa, Екатеринбург – Ekaterinburg, Челябинск - Chelyabinsk, Оренбург - Orenburg, Иваново - Ivanovo, Саратов - Saratov, Тамбов - Tambov, Тула - Tula, Орёл - Orel, Новый Уренгой - Novy Urengoy, Сургут - Surgut, Нижневартовск - Nizhnevartovsk, Омск - Omsk, Российская Федерация – Russian Federation, Томск - Tomsk, Красноярск - Krasnoyarsk, Горно-Алтайск - Gorno-Altaysk, Барнаул - Barnaul, Чита - Chita, Улан-Удэ – Ulan-Ude, Благовещенск – Blagoveshchensk

Areas of operations of Inter RAO Group power supply companies as of the end of 2017.				
Company name	Status			Service territory
JSC Altai Energobyt	Guarantee Supplier			Altai Territory, the Republic of Altai
PJSC Mosenergosbyt	Guarantee Supplier			Moscow, the Moscow Region
	Non-regulated company	power	supply	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 Territory, 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, Yaroslavl Region.
JSC St. Petersburg Power Supply Company	Guarantee Supplier			St. Petersburg, Leningrad Region, Omsk Region
PJSC Saratovenergo	Guarantee Supplier			Saratov Region
PJSC Tambov Power Supply Company	Guarantee Supplier			Tambov Region
PJSC Tomskenergosbyt	Guarantee Supplier			Tomsk Region
LLC Oryol Power Supply Company	Guarantee Supplier			Oryol Region
LLC PSCB	Guarantee Supplier			Republic of Bashkortostan
LLC RN – Energo	Non-regulated company	power	supply	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, Moscow, Moscow Region, Nizhny Novgorod Region, Omsk Region, Orenburg Region,

Areas of operations of Inter RAO Group power supply companies as of the end of 2017.

				Oryol Region, Penza Region, Primorsky Territory, Pskov Region, Republic of Altai, Republic of Bashkortostan, Mari El Republic, 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, Udmurt Republic, Ulyanovsk Region, Khabarovsk Territory, KhMAD – Yugra, Chelyabinsk Region, Chuvash Republic, YNAD, Yaroslavl Region.
PJSC Promishlennaya Energetika	Non-regulated company	power	supply	Sverdlovsk Region
LLC RT-ET	Non-regulated company	power	supply	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, Chita Region.

Segment position in the market

Figures and facts

17.4% percentage of the segment's net electricity output in Russia

Power supply companies of Inter RAO Group are participants of the wholesale and retail electricity (WECM and REM) markets. Following the results of 2017, the supply segment of Inter RAO Group accounted for 17.4% of the Russian market, with Inter RAO Group's GSs accounting for 27.5% of all GSs in the Russian Federation.

Non-regulated power supply companies are the main competitors of Inter RAO Group's GSs in the regions where they operate. Among the biggest non-regulated power supply companies are JSC Atomenergopromsbyt, JSC Mezhtregionenergosbyt, JSC Rusenergosbyt, LLC Transenergoprom, and LLC UES Garant.

Operating results

Figures and facts

184.0 bln kWh net electricity output in 2017

Operating information. Supply in the Russian Federation segment

	units of measurement	2015 ⁶⁶	2016	2017	2017/2016, %*
Net electricity output in Russia ⁶⁷	bln kWh	1,036.4	1,054.4	1,059.5	+ 0.5
Net electricity output by segment	bln kWh	168.1	182.6	184.0	0.8
Percentage of the segment's net electricity output in Russia	%	16.2	17.3	17.4	+0.6%
Number of customers ⁶⁸ of power supply companies, including	units	12,558,372	14,219,051	14,636,840	2.9%
individuals	units	12,281,242	13,884,897	14,292,124	+ 2.9
legal entities	units	276,773	333,827	344,414	+ 3.2
network organizations	units	357	327	302	- 7.6

In 2017, electricity sales in the Segment exceeded the 2016 level by 0.8% and amounted to 184.0 billion kWh. The dynamics of this indicator varied among the segment companies:

- electricity sales of LLC RN – Energo increased by 1,493 mln kWh or +5.9% due to new consumers being attracted as part of the project for operation at fixed prices, due to activities aimed at maintaining the customer base, and increased electricity consumption by subsidiaries of PJSC Rosneft Oil Company;
- electricity sales of Mosenergosbyt Group increased by 1,671 mln kWh or +2.0% due to attraction of customers who previously signed power supply agreements with the guarantee supplier JSC Oboronenergosbyt in the wholesale market, due to new power supply agreements signed with consumers both in the Moscow Region and as part of expansion beyond the Moscow Region, and due to reduction of electricity purchases from retail generation facilities by consumers and purchases of this volume from PJSC Mosenergosbyt, as well as natural and climatic factors;
- electricity sales of PSK Group remained at the same level as in 2016;
- total electricity sales by PJSC Saratovenergo, PJSC Tambov Power Supply Company, JSC Altai Energosbyt and LLC PSCB amounted to 321 mln kWh (+216 mln kWh (+3.5%), + 54 mln kWh (+3.65%), + 36 mln kWh (+0.89%), + 16 mln kWh (0.1%) respectively);
- the remaining companies in the segment demonstrated an overall reduction in electricity sales to the amount of 2,088 mln kWh, mainly due to PJSC Promishlennaya Energetika, PJSC Tomskenergosbyt and LLC RT-ET and caused by loss of a number of large consumers due to entry into WECM / switch to services provided by a guarantee supplier or other power supply company.

⁶⁶ Except for LLC PSCB's indicators (the asset became part of the Group in 2016).

⁶⁷ According to JSC SO UES operational data on general electricity consumption in Russia.

⁶⁸ Number of customers as of the end of the reporting period.

The main distribution share of electricity sales in the segment for the reporting period was formed by Mosenergosbyt Group (47.4%), PSK Group (19.8%), LLC RN – Energo (14.5%) and LLC PSCB (7.5%).

The number of customers of power supply companies (guarantee suppliers) increased to 14,636 thousand consumers, including 14,292,000 individuals, 344,000 legal entities and 302 network organizations.

Availability, reliability and security of electricity supplies

The power supply companies in the Group perform activities aimed at improving the availability of power infrastructure by interacting with the network organizations when signing power supply agreements or electricity sales and purchase (supply) agreements⁶⁹. The Regulation on Interaction for Technological Connection was developed in the course of interaction of the Group's power supply companies with a number of network organizations. The Regulation provides for a simplified connection (technological connection) procedure of applicants to electrical grids and signing of the power supply agreement with applicants upon completion of the technological connection procedure.

The Group's companies actively introduce modern technologies to communicate with consumers. In order to provide consumers with quick access to information, newsletters were made available to access and download via SMS and email and optimized using ERM frameworks.

Contact centers and various online services receive messages from consumers concerning interruption of power supply, which are then immediately processed by emergency dispatch services of the companies together with network organizations.

Repair works are planned in cooperation with network organizations depending on the territory, weather conditions, season and required time.

The Group's retail assets initiated joint work with network organizations and executive authorities for the sale/transfer for maintenance of electric grid facilities that do not have a defined owner.

The top management of the Group's companies are members of committees and commissions for electricity supply security, organizational support of settlements with resource providers and utility companies, preparation of the housing and utilities complex and power facilities for operation in winter and the heating season, and settlement of debts of utility companies.

The companies arrange energy conservation courses to school children and students to promote not only power supply security, but also an energy saving lifestyle and modern technologies that allow for considerable saving of power resources. Similar work is carried out in relation to the customers.

Building partnerships with consumers

Interaction with consumers is implemented through various communication channels. In 2017, important changes were made at the united contact center in Oryol (in the course of one year, the center accepted all the Group's guarantee suppliers for service).

⁶⁹ In accordance with the Order of the Russian Government No. 1144-r of June 30, 2012 On Approval of the Road Map, Improvement of Power Infrastructure Availability.

The companies' websites were updated, and a new modern design was introduced; their web pages were adapted for use on different versions of mobile devices for the purposes of usability and quick information search.

With regard to in-person servicing, the Group's companies optimized the working hours of central offices taking into account the work load data, which resulted in reduced queuing time for customers on days when most people get their electricity meter readings and pay the bills, and also made it possible for customers working full time to visit the office after working hours at their convenience and on their first day off.

Live Q&A sessions were arranged both online and at customer offices on a regular basis, as well as "round tables" with participation of consumers, utility companies, and apartment building councils. These channels were also used to promote good practices among consumers, remote services for electricity payment and submission of meter readings.

Financial results

Figures and facts

RUB 628,632 mln segment revenue in 2017

Financial data. Supply in the Russian Federation segment

	units of measurement	2015	2016	2017	2017/2016, %
Revenue	RUB mln	511,088	564,238	628,632	11%
Share in the revenue of Inter RAO Group	%	61	65	69	4 p.p.
Operating expenses, including:					
Purchased electricity	RUB mln	(276,914)	(300,114)	(340,249)	13%
Transmission fees	RUB mln	(200,368)	(227,751)	(249,781)	10%
EBITDA	RUB mln	13,931	15,131	17,757	17%
EBITDA margin ⁷⁰	%	3	3	3	0 p.p.
Share in the EBITDA of Inter RAO Group	%	19	16	18	2 p.p.

⁷⁰ The EBITDA margin was calculated excluding the inter-segment revenue of the Supply in Russian Federation segment to the amount of RUB 1,533 mln in 2017, RUB 1,370 mln in 2016 and RUB 1,402 mln in 2015.

Growth of the segment revenue by 11% (RUB 64,394 mln) was mostly a result of increased average selling prices of guarantee suppliers and non-regulated power supply companies for end consumers, as well as growth of the supplied electricity volume, including due to acceptance of new consumers for service. Increase in electricity and capacity purchase costs by 13% (RUB 40,135 mln) was due to a rise in sales volumes and market prices for purchased electricity and capacity.

Increase in electricity transmission costs by 10% (RUB 22,030 mln) was a result of growth in electricity consumption and transmission tariffs.

Growth of the segment's EBITDA by 17% (RUB 2,626 mln) was caused both by increased electricity supply and positive impact of improved balance of received/paid fines, penalties and interests on use of third party funds, which in turn was achieved as a result of an increase in the number of fines received for untimely performance of obligations related to capacity supply, as well as penalties and fines approved under the power supply contracts for untimely payment of received electricity by consumers.

Fulfillment of contractual obligations

The focus in dealing with debtors was on efficient interaction methods – introduction of power consumption limits and judicial work. In addition, the Group companies actively employ an agency-based system in order to increase payment discipline of utility companies, which allows to deal directly with end consumers: making telephone calls to consumers, sending claims, debt enforcement.

Cases of consumer disconnection from electricity supply due to failure to perform contractual obligations

Item No.	Company	2016	2017	2017/2016
		units	units	%*
1	PJSC Mosenergosbyt	114,545	149,374	30.4
2	JSC St. Petersburg Power Supply Company	1,443	2,791	93.4
2.1.	LLC OPSC	12,215	19,864	62.6
2.2.	JSC Petroelektrosbyt	10,273	17,816	73.4
3	PJSC Saratovenergo	5,265	5,712	8.5
4	JSC Altai Energosbyt	7,126	9,918	39.2
5	LLC Oryol Power Supply Company	2,177	2,832	30.1
6	PJSC Tambov Power Supply Company	790	1,238	56.7
7	PJSC Tomskenergosbyt	6,609	8,490	28.5
8	LLC PSCB	8,876	13,913	56.7

An increased number of limits in 2017 was due to the following reasons:

- Growth in the number of non-paying consumers;
- Changes in the Decree of the Russian Government No. 354 of May 06, 2011 having come into effect which simplify the procedure to notify the consumer/debtor (individual consumer) of the expected electricity supply restrictions.

Engaging a wide network of paying agent offices and terminals, including federal operators and large banks enables consumers to fulfill their obligations regarding payment of consumed electricity in a timely manner and to the full extent. Signing agreements for Internet acquiring with large banks that issue popular bank cards made it possible to increase payments made through consumers' personal accounts.

An efficient algorithm for receiving applications for power resource meter installation/replacement services with mobile billing office has been tested and is under implementation (PJSC Tomskenegrosbyt successfully processed more than 2,800 applications in 2017).

Active work was performed in 2017 with heads of municipal executive authorities and other organizations related to checking addresses and correctly entering them into the FIAS system (federal address reference book) and into company settlement systems.

Billing⁷¹

The **Unified Billing of Legal Entities** project was initiated to unify settlements with consumers who are legal entities of power supply companies of Inter RAO Group, create the opportunity to prepare package offers, and improve the service quality of subscribers, as well as to reduce total costs. As part of the project, a unified billing method for legal entities was developed as a set of business processes that regulate the core activities of power supply companies in Inter RAO Group. The project aims to unify the activities of the Group's power supply companies and enhance their level of automation.

Since the end of 2017, in order to improve consumer service quality and optimize operating costs, work has been underway to migrate to **unified billing of legal entities**, which will improve the quality and speed of bulk operations for receipt of readings, payments, settlements and issue of payment documents. Changes in the Project Data Sheet were approved based on the Minutes of the Management Board No. 701 of July 28, 2017.

The results of the billing projects are as follows:

- development of the unified settlement method and unification of work with consumers (legal entities and individuals);
- timely roll-out of decisions made to the Group's power supply companies.

Developing the Unified Information Billing Centers

⁷¹ Processing of electric power fiscal metering data and ensuring mutual settlements with electricity consumers.

In 2013, LLC Moscow region UIBC was established with the objective to solve the housing and utility issues in the Moscow Region. LLC Moscow region UIBC shareholders are PJSC Mosenergosbyt (50.1%), GUP MO Utility Systems of Moscow Region (25.1%), and OJSC Regional Information Billing Center (24.8%).

JSC UIBC LR was established in 2013 by separate resolution of the regional government (No. 269-r of June 26, 2013) to deal with housing and utility issues in the Leningrad Region. JSC UIBC LR shareholders are the Government of the Leningrad Region (24%), OJSC AB Rossiya (25%) and PJSC Inter RAO (51%).

Background for establishment of UIBC:

- Growing non-payments in the housing and utility sector in Moscow and Leningrad Regions;
- Growing debt of management companies to resource providers and consequently, growth in debt of housing and utility companies to Guarantee Electricity Suppliers;
- Regular bankruptcy of managing companies and housing and utility companies;
- A large number of non-transparent computing centers at the level of separate municipalities.

Objectives and tasks of UIBC:

- Creating a transparent computing system for housing and utility services in said regions;
- Introducing a convenient Unified Payment Document which is easy to use for the customer;
- Developing a convenient and modern public service and information system;
- Improving the public payment discipline (consistent non-payers);
- Reducing the debt to resource providers for supplied electricity.

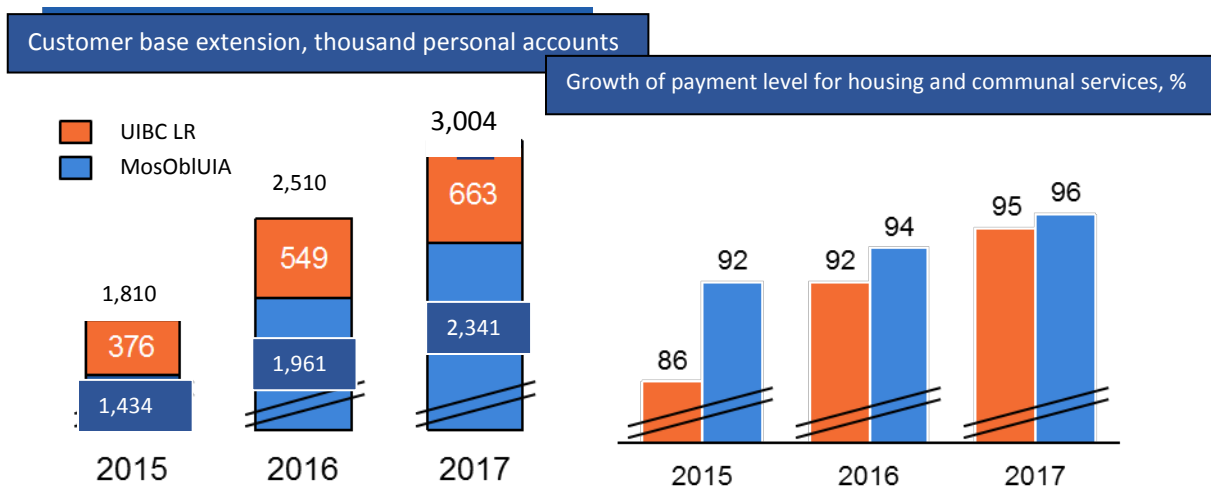
UIBC development history

In 2014-2017, LLC Moscow region UIBC and JSC UIBC LR managed to achieve the following results:

- up to 80% of customer accounts for the housing and utility services in the region were accumulated in its settlements;
- the unified payment document was issued in the form approved by the regional authorities;
- the average unified payment document bill was significantly increased by cooperating with regional management companies and resource providers;
- the unified interactive and remote service format was set up (personal account of the customer, contact center);
- the branched retail network of customer offices within the regions was developed for residents to have face-to-face service;
- since 2016, LLC Moscow region UIBC has been functioning as PJSC Mosenergosbyt's power supply agent across the entire Moscow Region;

- since 2016, JSC UIBC LR has been implementing a project to establish a regional state housing and utilities information system in the Leningrad Region;
- in 2017, the average number of employees amounted to 1,971 employees at LLC Moscow region UIBC, and 353 employees at JSC UIBC LR;
- both companies actively develop the segment of additional and associated services rendered to the public and utility companies.

UIBC performance results



After LLC Moscow region UIBC and JSC UIBC LR were opened in the regions, the collection rate of payments to management companies and resource providers increased from 80% to 95-96%. There is potential for further growth of the payment level to 96-98% in future, which will solve the challenges of debt growth of the regional housing and utility companies when making electricity payments to guarantee suppliers of PJSC Inter RAO Group.

UIBC development goals for 2018

- Unified Payment Document: including the entire list of utility services into the Unified Payment Document;
- Online services and payments: development of remote and online services for general operations and payments;
- Reaching the break-even point: efficiency improvement, geography expansion;
- Development of additional services: growth of additional services sales to consumers of utility services.

Changing the pricing principle on the retail market (Standard Supply)

The development of clear and "transparent" tariff setting services in the framework of improving industry standards for tariff regulation is the main prerequisite for enhancing operating performance of regulated companies and, as a consequence, for making investment decisions.

One of the main directions for improving investment attractiveness is applying long-term tariff regulation methods with switching to standard regulation.

The Decree of the Russian Government No. 863 of July 21, 2017⁷² established the fundamental principles of the new tariff regulation method for guarantee suppliers using the comparative method starting from July 1, 2018.

Furthermore, the Order of FAS of Russia No. 1554/17 of November 21, 2017⁷³ approved the methodological guidelines that determine the main provisions for calculation of marketing premiums for guarantee suppliers and intended for use by executive authorities of the constituent entities of the Russian Federation in the sphere of state tariff regulation starting from 2018.

The comparative method is based on calculation of standard costs on the basis of the best operating practices of guarantee suppliers within the Russian Federation, how they differ depending on region and company size, as well as further application by regional regulatory authorities in the course of setting marketing premiums for guarantee suppliers for 2018 and subsequent years.

Switching to the comparative method will significantly simplify the procedure for setting marketing premiums by calculating a standard revenue, which is based on standard fixed costs established by FAS for 3 years and variable costs in the form of fixed reserve values for doubtful debts and loan service expenses, non-controllable expenses and expected profit from operations.

Given that the guarantee suppliers of Inter RAO Group regularly perform activities to improve business processes and cost optimization, introduction of the new methodology will have a positive impact on the performance of Inter RAO Group's guarantee suppliers.

Development of the energy service contract market

Development of the energy service contract market for the Supply in the Russian Federation segment in 2017 firstly involved additional services for modernization of street lighting, where increment in profit against the previous year amounted to 18%.

The relevant development direction of additional services is the introduction of smart metering systems in distribution circuits of 0.4/10 kV.

According to the Russian Association of Energy Service Companies, the total volume of the energy service market in 2017 implies additional growth of 20% in 2018.

⁷² Decree of the Russian Government No. 863 of July 21, 2017 On Introduction of Changes to Certain Acts of the Russian Government regarding Establishment of Marketing Premiums for Guarantee Suppliers Using a Comparative Method and Revoking the Paragraph of the Second Clause 11 of the Decree of the Russian Government No. 1178 of December 29, 2011.

⁷³ Order of FAS of Russia No. 1554/17 of November 21, 2017 On Approval of Methodological Guidelines for Calculation of Marketing Premiums for Guarantee Suppliers Using a Comparative Method.

Main indicators of the Group's additional services in 2017:

- Revenue from rendering additional services increased by 10% against 2016 and reached RUB 4,242 mln;
- Sales profit increased by 26% against 2016 and reached RUB 1,055 mln;
- Profitability of sales increased to 25% compared to 22% in 2016.

Development prospects

Inter RAO consistently works on improving its position in the industry, increasing the operating efficiency of its existing assets, and regularly considers participation in competitions for the status of Guarantee Supplier in various Russian regions. The Company plans to further increase its share in the Russian retail market, which amounted to 17% in 2017.

The main factors that had a significant impact on retail business were:

- approval of new marketing premium regulation methods;
- introduction of licensing requirements for power supply companies.

All companies that are guarantee suppliers of Inter RAO Group meet the licensing requirements. Switching to Standard Regulation will make it possible for the Company to use the available resources more efficiently. The main development directions for power supply companies that are guarantee suppliers are: digitalization of relationships with customers, introduction of user-friendly customer services and switching to customer-centric service models.

More attention is being paid to the introduction of new technologies within the habitual operating business processes of the Company. Technology for analyzing large data is being implemented on a trial basis to develop individual approaches to dealing with customers and optimizing costs spent on inefficient communications. Upon successful completion of the pilot project, this approach is planned to be rolled out at all power supply companies that have status as guarantee supplier in all regions of operation within the Russian Federation.

The key element in the development strategy of power supply companies is the development of additional services by means of increasing the level of market penetration, expanding traditional profile services, as well as expanding the product portfolio and diversification of this type of business. In 2017, to fulfill these tasks, studies of existing and prospective markets were conducted, reserves for growth were identified, new motivation tools were developed and implemented, a procedure for calculating goods and services was unified, target values for 2017–2022 were identified, and road maps on their achievement were developed. The key objectives of road maps for additional services are to implement activities to optimize business processes aimed at improving the quality of services and meeting customer needs and increase marketing and operational efficiency. For new business areas – entering the market and taking measures to strengthen competitive positions.

Improvement of the customer service system will continue in 2018, both in terms of developing customer services, and improving availability and convenience of payment methods and methods for submission of readings from metering devices.

Trading in the Russian Federation and Europe

Figures and facts

25,108 mln kWh sales of electricity in the segment in 2017

Segment Description

The segment includes the Group's companies that carry out trade operations for the export/import of electricity and sale/purchase of electricity (capacity) within the countries where they operate. Electricity supplies are carried out both under commercial contracts and within the scope of parallel operation with foreign energy systems and emergency mutual support. Depending on the regions of operation, each company is considered a participant in the corresponding energy markets.

Activities aimed at conducting trade operations in the segment in 2017 were also carried out in 2016 in the following countries: Finland, Belarus, Lithuania, Norway, Ukraine, Latvia, Estonia, Poland, Georgia, Azerbaijan, Kazakhstan, South Ossetia, Mongolia, and China. The operations are performed by the following companies of Inter RAO Group: PJSC Inter RAO, JSC EEC, RAO Nordic Oy, AB INTER RAO Lietuva, SIA INTER RAO Latvia, INTER RAO Eesti OU, Vydmantai Wind Park UAB, and IRL Polska S. z o.o.

PJSC Inter RAO (Trading)	JSC Eastern Energy Company (JSC EEC)	RAO Nordic Oy	AB INTER RAO Lietuva	SIA INTER RAO Latvia	INTER RAO Eesti OU	IRL Polska S. z o.o.
In this segment, PJSC Inter RAO acts as an export and import operator of electricity within the Russian Federation. During 2017, electricity supplies were carried out under commercial contracts, and within the scope of parallel operation with	The company was founded in 2007 with a view to implement joint Russian-Chinese investment projects for developing exports of Russian electricity to China, as well as maintaining energy cooperation with other Asian and Asia Pacific countries. The core business of JSC Eastern Energy Company is the supply of electricity	The company is registered in Finland and is the Group's subsidiary – 100% of the company's assets belong to PJSC Inter RAO. The company's core activity is the purchase of electricity from PJSC Inter RAO for sale on the electricity market Nord Pool in the Nordic countries.	The company was founded in 2002 and is an independent electricity supplier in Lithuania and a leading player in the electricity market of the Baltic states. The company trades on the European energy market Nord Pool. Today, Inter RAO Lietuva includes subsidiary trading companies SIA INTER RAO Latvia, INTER RAO Eesti OU, IRL Polska S. z o.o, and wind energy subsidiary UAB Vydmantai wind park. A 51% stake of AB INTER RAO	The company was registered in January 2010 and is one of the largest independent electricity suppliers on the Latvian energy market.	The company was registered in January 2010 and is licensed to sell electricity; the license was issued by the Estonian Competition Board and Elering AS, an independent electricity system operator in Estonia.	The company was registered in October 2012; it trades in electricity in the Day-Ahead and Intraday Market (RDNiB) and the Derivatives Market (RTT) in Poland.

PJSC Inter RAO (Trading)	JSC Eastern Energy Company (JSC EEC)	RAO Nordic Oy	AB INTER RAO Lietuva	SIA INTER RAO Latvia	INTER RAO Eesti OU	IRL Polska S. z o.o.
foreign energy systems and of emergency mutual support.	to China and Mongolia.		Lietuva is held by RAO Nordic Oy, a 29% stake is held by the Lithuanian investment company UAB Scaent Baltic, and 20% shares are in circulation in the market.			

Segment position in the market

The Group's trading companies in Russia carry out trading operations for the purchase and sale of electricity in the Wholesale Electricity and Capacity Market (WECM) in the Nordic and Baltic states – the single stock market Nord Pool and Nasdaq OMX Commodities, and in Poland on the national exchange PolPx.

Change in segment position on markets of individual countries in 2017:

- Since June 11, 2017, due to adopted amendments to Ukraine's legislation, there has been no possibility to provide emergency mutual support between the power systems of Russia and Ukraine in terms of contracts that were previously valid;
- Since January 1, 2017, the imported electricity from Kazakhstan has been supplied with a capacity up to 800 MW.

Electricity price dynamics in key energy markets of the Group's trading companies operation

Electricity prices on key national power markets (WECM and Nord Pool) in different price zones	2015	2016	2017	Change 2017/2016, %
Russia (Europe+Ural), RUB/MWh ⁷⁴	1,153	1,202	1,204	+0.2%
Russia (Siberia), RUB/MWh ⁷⁵	915	867	864	-0.3%
Finland, EUR/MWh ⁷⁶	29.66	32.45	33.19	+2.3%
Lithuania, EURO/MWh ⁷⁷	41.92	36.54	35.13	-3.9%

⁷⁴ Data on average weighted price indexes for the WECM price zones are based on the Weekly Bulletin of the NP Market Council Association.

⁷⁵ Data on average weighted price indexes for the WECM price zones are based on the Weekly Bulletin of the NP Market Council Association.

⁷⁶ Data on annual average electricity prices are based on information from the Nord Pool stock exchange.

⁷⁷ Data on annual average electricity prices are based on information from the Nord Pool stock exchange.

Key exchange rates dynamics

Annual average exchange rate	2015	2016	2017	Change 2017/2016, %
€ / ₰	67.78	74.23	65.9	-11.2%
\$ / ₰	60.96	67.03	58.35	-12.9%

These factors influenced volumes of electricity sales in regional markets in different aspects. For example, as a result of effective measures taken by management, the strengthening of the Russian ruble almost didn't affect the total volume of exports from Russia compared to 2016 and allowed to substantially increase imports from Kazakhstan. The total volume of export and import operations of PJSC Inter RAO including agency agreements with JSC EEC (100% subsidiary of PJSC Inter RAO) accounted for 22.9 billion kWh, which is 13.8% higher compared to the same indicator in 2016.

Key Competitors

The major competition of the segment's companies:

- on foreign power markets – competition with export/import operators of neighboring countries;
- in the Russian Wholesale Electricity and Capacity Market (in terms of import sales) – formal competition with Russia's generation companies that establish prices in the day-ahead market.

Competitor company name	Competitive field	Region	Competitor strengths
Nordic and Baltic suppliers of electricity and traders	Supply of electricity to the Nordic countries and the Baltic states	Finland, the Baltic states	Seasonal (annual breakdown) electricity production capacity with low cost, recurring favorable pricing environment at the energy exchange Nord Pool (in particular, in wet periods in Norway and Latvia)
JSC Azerenergy	Electricity supply to Georgia	Transcaucasia	Surplus generating capacities
Belarusian generating companies	Electricity supply to the domestic market	Belarus	Surplus generating capacities
Russian generating companies	Electricity imported to the Russian domestic market	Russia	Payment in the Russian capacity market to domestic generators and non-payment for imported power

The significant advantages of the segment's companies are accumulated experience in foreign business, a well-organized system of cooperation with Russian and foreign partners, in line with optimal structuring of proposals for contracts taking into account customer needs and offers of sellers.

Operating results

Operating information. Trading in the Russian Federation and Europe segment

	units of measurement	2015	2016	2017	2017/2016, %
Sold electricity, including	mln kWh	25,524	22,134	25,108	13.4%
Russian Federation	mln kWh	6,403	3,143	6,230	98.2%
Finland	mln kWh	3,753	5,701	5,578	-2.2%
Lithuania	mln kWh	3,385	3,452	3,698	7.1%
Belarus	mln kWh	2,815	3,181	2,733	-14.1%
Ukraine	mln kWh	2,462	120	94	-21.5%
China	mln kWh	3,299	3,320	3,319	0.0%
Other	mln kWh	3,406	3,217	3,456	7.4%

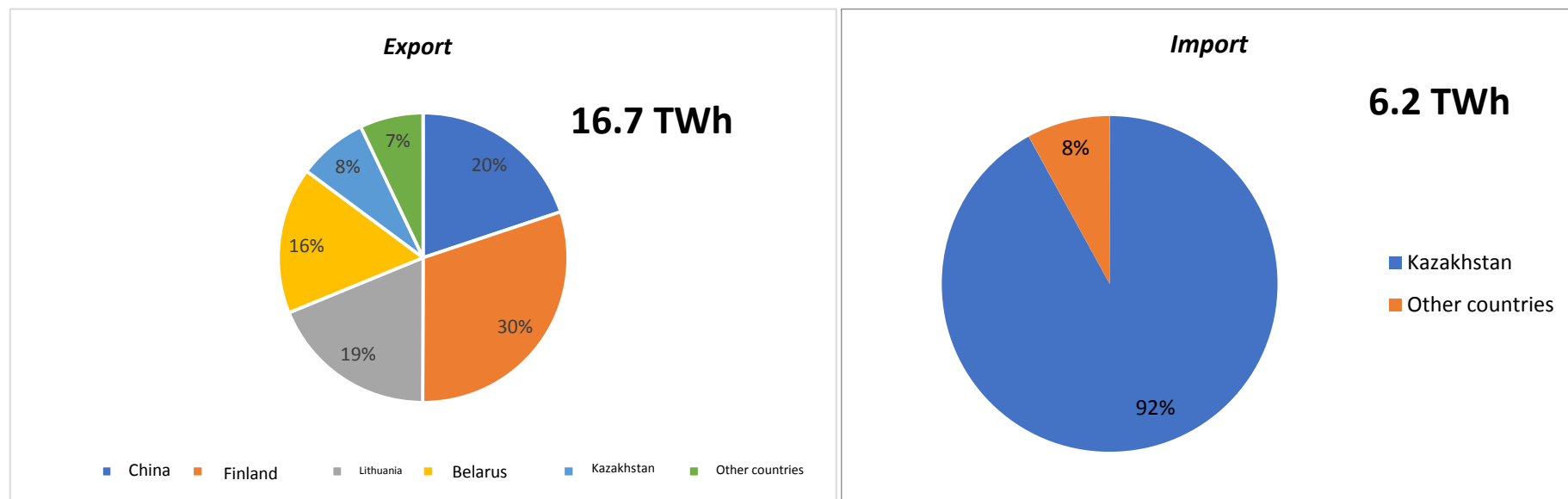
In the reporting period, electricity sales in the segment exceeded the level of 2016 by 13.4% (+2,974 million kWh) which is mainly due to an increase in volumes of electricity supplied in the territory of the Russian Federation (+3,087 million kWh), and to Lithuania (+246 million kWh, due to economic viability of these supplies). Such increase was partially offset by the decrease in volumes of electricity sold to Belarus (-448 million kWh) which is due to the balance of this power system.

Dynamics of volumes of electricity sold to Finland is small (-2.2% or -123 million kWh) and at a comparable level. The volume of sales to Ukraine had a decrease by 21.5% (-26 million kWh) on account of the decrease in deviations in terms of parallel work.

In 2017, the main export destinations of Inter RAO Group without agency agreements for supplies across the border of Russia were Finland (30.2%), China (19.9%), Lithuania (18.7%), and Belarus (16.4%). Electricity was also supplied to Kazakhstan, Georgia, Mongolia, South Ossetia, Ukraine, and Azerbaijan.

Implementation of key activities within the electricity import process led to the following result: the total volume of PJSC Inter RAO's trade operations including agency agreements with JSC EEC (100% subsidiary of PJSC Inter RAO) amounted to roughly 23 billion kWh.

Export and import operations structure in 2017



Financial results

Figures and facts

RUB 58,629 mln revenue in the segment in 2017

Financial data. Trading in the Russian Federation and Europe segment

	units of measurement	2015	2016	2017	2017/2016, %
Revenue ⁷⁸ , including	RUB mln	80,929	81,025	58,629	-28%
Russian Federation	RUB mln	30,119	30,039	13,881	-54%
Finland	RUB mln	7,379	12,574	11,134	-11%
Lithuania	RUB mln	10,064	9,570	8,818	-8%

⁷⁸ The indicator including the inter-segment revenue.

	units of measurement	2015	2016	2017	2017/2016, %
China	RUB mln	10,409	10,170	8,315	-18%
Belarus	RUB mln	7,320	8,795	7,557	-14%
Latvia	RUB mln	819	743	861	16%
Ukraine	RUB mln	5,606	232	114	-51%
other	RUB mln	9,213	8,902	7,949	-11%
Share in the revenue of Inter RAO Group	%	10	9	6	-3 p.p.
Purchased electricity and capacity	RUB mln	(63,847)	(63,928)	(44,890)	-30%
Transmission fees	RUB mln	(5,387)	(6,006)	(5,537)	-8%
EBITDA	RUB mln	9,978	10,193	7,447	-27%
EBITDA margin ⁷⁹	%	13	13	13	0 p.p.
Share in the EBITDA of Inter RAO Group		14	10	8	-2 p.p.

The revenue decreased by 28% mainly because of the dynamics by the segment's companies: RAO Nordic Oy — as a result of a decrease in the ruble price equivalent due to depreciation of the euro in 2017 against 2016; JSC Eastern Energy Company — due to a decrease in export revenue from China mainly in terms of depreciation of the actual dollar rate in 2017 compared to 2016, and others.

The reduction of electricity transmission costs in the segment by 8% was caused by various factors: RAO Nordic Oy costs reduction in ruble terms due to a decrease in electricity export volumes as well as the decrease in the transportation tariff, PJSC Inter RAO costs reduction due to a decrease in electricity export, and the increase in costs of JSC Eastern Energy Company due to growth of exports to Mongolia.

The decrease in the segment's EBITDA by 27% is connected with reduced marginal revenue mainly for the following destinations: Finland and Lithuania due to a decrease of the ruble equivalent of the electricity export selling price on account of depreciation of the dollar to Russian ruble in 2017 compared to 2016, and Belarus due to a decrease of export volumes.

⁷⁹ The EBITDA margin is calculated excluding inter-segment revenue of the Trading in the Russian Federation and Europe segment in the amount of RUB 2,268 million in 2017, RUB 1,631 million in 2016, and RUB 1,450 million in 2015.

Development prospects

The main strategic goal for the segment's companies in 2018 is traditionally the most efficient implementation of foreign trade operations involving electricity produced in Russia and foreign countries. For this purpose, a main set of KPIs has been provided for management and employees; these KPIs are related to the achievement of electricity sales volumes and marginal profit as approved by the companies' business plans.

A decrease in export from the Russian Federation to Belarus is expected in the near term. In this respect, a slight decrease in export sales volume is expected, and the segment's activities may be influenced by weather and technical conditions in countries where the segment's companies operate, as well as by currency rates.

Engineering in the Russian Federation

Segment Description

Figures and facts

RUB 15.1 bln the value of the contract portfolio in 2017



Карта(мини): Куба - Cuba, Венесуэла - Venezuela, Эквадор - Ecuador, Российская Федерация – Russian Federation, Таджикистан – Tajikistan, Афганистан - Afghanistan, Китай - China, Бангладеш – Bangladesh

Карта (большая): Эстония - Estonia, Латвия - Latvia, Литва - Lithuania, Польша - Poland, Финляндия - Finland, Молдавия - Moldavia, Турция - Turkey, Джубга - Dzhubga, Сочи - Sochi, Грузия - Georgia, Калининград - Kaliningrad, Санкт-Петербург – St. Petersburg, Смоленск - Smolensk, Калининград – Kaliningrad, Воронеж - Voronezh, Москва - Moscow, Рыбинск - Rybinsk, Сыктывкар - Syktyvkar, Кострома - Kostroma, Пермь - Perm, Уфа - Ufa, Екатеринбург – Ekaterinburg, Челябинск - Chelyabinsk, Оренбург - Orenburg, Иваново - Ivanovo, Саратов - Saratov, Тамбов - Tambov, Тула - Tula, Орёл - Orel, Новый Уренгой - Novy Urengoy, Сургут - Surgut, Нижневартовск - Nizhnevartovsk, Омск - Omsk, Российская Федерация – Russian Federation, Томск - Tomsk, Красноярск - Krasnoyarsk, Горно-Алтайск - Gorno-Altaysk, Барнаул - Barnaul, Чита - Chita, Улан-Удэ – Ulan-Ude, Благовещенск – Blagoveshchensk

One of the key elements of the integrated business model of Inter RAO Group is the development of the engineering segment. The results in the segment are presented mostly by such companies as Inter RAO – Engineering LLC, Quartz Group LLC, INTER RAO – Export LLC.

Group companies are mainly focused on the implementation of construction, upgrade and renovation of power engineering facilities:

- Inter RAO – Engineering LLC provides a wide spectrum of services in the sphere of construction of power supply facilities and their renovation in Russia and other countries. It also manages projects on EPC/EPCM terms, develops power plant projects, and supplies basic and auxiliary equipment.

Apart from engineering services, the company also represents the interests of the Group in a joint gas turbine unit production venture of GE and Rostekh — Russian Gas Turbines LLC, which is aimed at the localization of gas turbine equipment with characteristics being in line with analogous products of the world's leading companies.

Inter RAO — Engineering LLC considers that all the production processes should meet international requirements and be certified according to the following standards: OHSAS 18001:2007 Occupational Health and Safety Management System, ISO 14001:2015 Environmental Management Systems, and ISO 9001:2015 Quality Management Systems;

Inter RAO — Engineering LLC has successfully implemented 21 projects in the field of construction and renovation of power facilities of a total capacity of 7.84 GW. The current portfolio consists of 4 projects of a total capacity of 1.0 GW.

Among the latest projects is the completion of construction and putting into operation of the Mayakovskaya and Talakhovskaya TPP with a total capacity of 312 MW. The power plants are constructed upon orders from the President of the Russian Federation and under the Order of the government of the Russian Federation. They are aimed at strengthening the power security of the Kaliningrad Region and increasing flexibility and manageability of the energy system of the most Western region of Russia. More details about the company are available on the website: <http://irao-engineering.ru/en/>;

- INTER RAO – Export LLC is a specialized company of Inter RAO Group, established in 2011 to develop international business in the field of supply of energy equipment and engineering, including construction, reconstruction and maintenance of power facilities. The company also promotes the production and services of Inter RAO Group. Information on the projects implemented by the company is available on the website: <http://irao-export.ru/en/projects/>;
- QUARTZ Group LLC is one of the largest energy service companies in Russia. It offers maintenance services, all types of repair, reconstruction, upgrade, installation, engineering and supply of standard and auxiliary power equipment, installations, buildings and facilities. More details about the company are available on the website: <http://www.quartz-group.ru>.

Segment position in the market

Inter RAO – Engineering LLC is one of the leading engineering companies in the Russian power supply market, as well as such players as: United Company JSC NIAEP – JSC Atomstroyexport, JSC TEK Mosenergo, JSC VO Tekhnopromexport.

Significant forecast investments for the construction of power plants and grids to meet the growing demand for energy consumption in the developing countries of Asia, Africa and Latin America by 2035 create the potential to increase the Segment operations in foreign markets. To achieve the goal specified, Inter RAO – Engineering LLC and Inter RAO – Export LLC actively promote Russian engineering services and power equipment made in Russia to the external markets (in relation to Inter RAO Group).

Operating results

The structure of contracts portfolio by contractor

	units of measurement	2015	2016	2017	2017/2016, %
External orders	RUB mln	3,906	5,687	11,744	106.5%
Internal orders	RUB mln	4,627	3,239	3,356	3.6%
Total	RUB mln	8,533	8,926	15,100	69.2%

In 2017, the volume of the external projects implemented by **Inter RAO – Engineering LLC** significantly increased. Main external projects include general contracting in the construction of Primorskaya and Pregolskaya TPPs at Kaliningradskaya Generation LLC, and major repair of Unit 5 at Gorazal TPP (Bangladesh). In 2017, the contracts for construction of Permskaya and Verkhnetagilskaya TPP were terminated, as well as the activity of these branches. As for target indices for 2017, the volume of the works carried out decreased due to the need for postponing activation of a number of works.

Compared to 2016, the revenue of **INTER RAO – Export LLC** increased insignificantly. At the same time, the dynamics of the indices is caused by the end of works for the Termogas-Machala project due to the unilateral termination of the contract by the contractor. In August 2017, minutes with the new management of the contractor was signed, thus demonstrating the intention of the parties to continue their cooperation. The reconciliation of mutual obligations and works performed is currently being performed.

Trends in the indicators of **Quartz Group LLC** are influenced by the contract for construction of the Pregolskaya TPP in Kaliningrad, entered into with Inter RAO – Engineering LLC, and production programs of the contractors: for domestic contracts – Irikliinskaya TPP, Kostromskaya TPP, Niznevartovskaya TPP, Omskaya CHPP-3, Omskaya CHPP-5, JSC OmskRTS, and for external contracts – mostly PJSC Unipro and PJSC MOESK.

In 2017, **RGT LLC** finished the supplying of eight gas turbine units 6F.03, produced in Rybinsk, Yaroslavl Region, and also received approval from the Ministry of Industry and Trade of the Russian Federation for production of 6F.03 units in the Russian Federation (certificate of conformity with requirements of the Decree of the Government of the Russian Federation No. 719).

At all the key projects implemented by engineering companies of the Group, priority is given to using Russian equipment.

Financial results

Figures and facts

RUB 15,100 mln segment revenue in 2017

Financial data. Engineering in the Russian Federation segment

	units of measurement	2015	2016	2017	2017/2016, %
Revenue	RUB mln	8,533	8,926	15,100	69%
Share in the revenue of Inter RAO Group	%	1%	1%	2%	1 p.p.
EBITDA	RUB mln	(417)	(257)	(163)	37%
EBITDA margin ⁸⁰	%	-11%	-5%	-1%	4 p.p.
Share in the EBITDA of Inter RAO Group	%	-1%	0%	0%	0 p.p.
Share in profit/loss of jointly controlled entities	RUB mln	46	(59)	(28)	53%

The revenue in the segment increased by 69.2% compared to 2016 to RUB 15,100 million. The change relative to 2016 is caused by the growth in the revenue of Inter RAO – Engineering LLC under the terms of the general contractor agreement for the construction of the Primorskaya and Pregolskaya TPPs. EBITDA in the segment compared to 2016 comprised 37%, or RUB 94 million, having decreased to minus RUB 163 million, as Quartz Group's negative dynamics was offset by the positive dynamics of Inter RAO – Engineering LLC, INTER RAO – Export LLC, and the Energy Without Borders Foundation. At the same time, EBITDA in 2017 was formed mostly by the financial performance of INTER RAO – Export LLC (minus RUB 152 million).

Development prospects

In recent years, the projects of development of new generating capacities in terms of the CDA program served as the growth driver for engineering business in the Electricity Industry in Russian Federation segment. Most of the CDA projects have been completed by now or are in the final stage. In that regard, engineering companies which took part in these projects and which do not have order/project portfolios, have to enter other markets or end their activities. This has a negative impact on the industry, as the number of potential contractors decreases, as does the number of potential proposals, qualified personnel leave the industry, which leads to reduced competition. Highly competent engineering companies will be especially needed during the startup stage of the Modernization of Generating Capacities program (approved in November 2017 by the President of Russia). This Program is similar to the CDA program and is aimed at maintaining and extending resources and increasing the existing generating capacities. For this reason, if an engineering company with highly professional employees will continue its activity in the Group, the Renovation program will be implemented timely and with the required quality. It is also possible that under the Renovation program the company will provide engineering services to generating companies not included in the Group. An engineering company included in the Group will provide an additional advantage: domestic competence in retooling/modernization, repair and maintenance projects.

The strategic directions of the development of Inter RAO – Engineering LLC and other engineering companies of the Group are:

⁸⁰ The EBITDA margin is calculated excluding inter-segment revenue of the Engineering in the Russian Federation Segment in the amount of RUB 3,356 million in 2017, RUB 3,239 million in 2016 and RUB 4,627 million in 2015.

- Improving the quality of services provided, considering best international practices in quality management, environmental safety and occupational safety;
- Development of product supply (equipment, work, services) for the construction of energy projects, including innovative/energy-efficient products of Inter RAO Group companies.

For Inter RAO – Engineering LLC, the main task for 2017–2018 is to ensure the implementation of all new construction and upgrade of Group projects (including CDA projects), as well as projects implemented with the participation of the Group (for example, projects for construction of generating facilities in the Kaliningrad Region).

Exit from the Russian market of several key EPC players, availability of stable financial resources, prospects of modernization of the generating facilities in Russia, own offers in the gas turbine market and extensive expertise in project design and turn-key construction of the energy plants provide potential opportunities for improvement of the engineering business competitiveness and an increase of its market share in the Russian and foreign markets in the medium term.

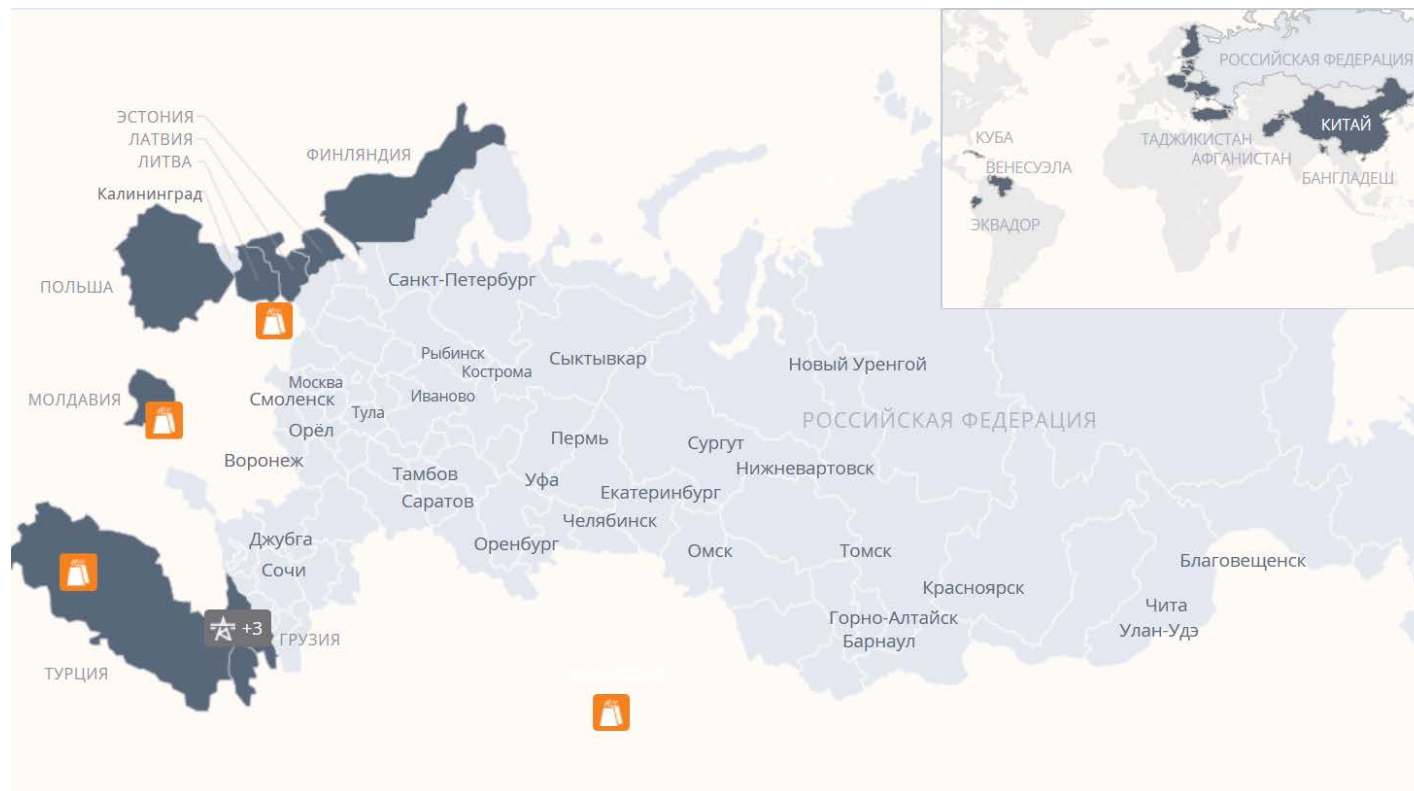
RGT LLC has set the goal of further development and increased level of localization of gas turbine equipment production with specifications similar to the best international products.

The strategic objective of INTER RAO – Export LLC is to expand its presence in target foreign markets and to promote Russian energy practices and solutions in foreign markets. The key markets for the Company to develop and deploy its projects are companies of Latin America, South-Eastern Asia and Africa.

The main strategic objective of Quartz Group LLC for the period through 2020 is to improve the company's market share in the energy and industrial segments while maintaining a specified profitability rate by improving the commercial attractiveness and competitiveness of services provided.

Foreign Assets

International business development is represented by the Foreign Assets segment, which includes the Georgia, Moldova and Turkey operating sub-segments⁸¹.

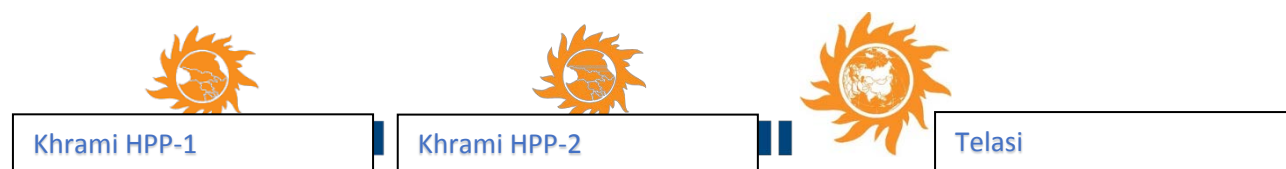


Карта(мини): Куба - Cuba, Венесуэла - Venezuela, Эквадор - Ecuador, Российская Федерация – Russian Federation, Таджикистан – Tajikistan, Афганистан - Afghanistan, Китай - China, Бангладеш – Bangladesh

⁸¹ The Kazakhstan subsegment is not disclosed in the Foreign Assets segment, as in December 2016 a 50% participation share in joint venture JSC Station Ekibastuzskaya TPP-2 was re-classified as assets for sale, and as in September 2016, a 100% participation share in TOO Inter RAO Central Asia was sold. Performance of JSC Station Ekibastuzskaya TPP-2 was included in the operating performance of the Group.

Карта (большая): Эстония - Estonia, Латвия - Latvia, Литва - Lithuania, Польша - Poland, Финляндия - Finland, Молдавия - Moldavia, Турция - Turkey, Джубга - Dzhubga, Сочи - Sochi, Грузия - Georgia, Калининград - Kaliningrad, Санкт-Петербург – St. Petersburg, Смоленск - Smolensk, Калининград – Kaliningrad, Воронеж - Voronezh, Москва - Moscow, Рыбинск - Rybinsk, Сыктывкар - Syktyvkar, Кострома - Kostroma, Пермь - Perm, Уфа - Ufa, Екатеринбург – Ekaterinburg, Челябинск - Chelyabinsk, Оренбург - Orenburg, Иваново - Ivanovo, Саратов - Saratov, Тамбов - Tambov, Тула - Tula, Орёл - Orel, Новый Уренгой - Novy Urengoy, Сургут - Surgut, Нижневартовск - Nizhnevartovsk, Омск - Omsk, Российская Федерация – Russian Federation, Томск - Tomsk, Красноярск - Krasnoyarsk, Горно-Алтайск - Gorno-Altaysk, Барнаул - Barnaul, Чита - Chita, Улан-Удэ – Ulan-Ude, Благовещенск – Blagoveshchensk

Georgia



Figures and facts

227.2 MW total installed capacity of JSC Khrami HPP-I and JSC Khrami HPP-II

5,338.3 km total length of JSC Telasi transmission lines

Subsegment description

The subsegment is represented by two generation assets of the Group in Georgia: JSC Khrami HPP-I, JSC Khrami HPP-II, and JSC Telasi network company.

100% of JSC Khrami HPP-1 and JSC Khrami HPP-2 shares belong to Gardabani Holdings B.V., a subsidiary of PJSC Inter RAO. The Group owns 75.1% of shares in the authorised capital of JSC Telasi; 24.5% of the company's shares are owned by Georgia.

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

JSC Telasi is the largest electricity network and supply company in Tbilisi, which purchases and sells electricity, and provides network services. JSC Telasi buys electricity (capacity) in the wholesale electricity (capacity) markets and under direct agreements with electricity producers to serve consumers in Tbilisi and nearby villages. The main types of activities of JSC Telasi:

- electricity purchase and sale;
- maintenance and operation of electrical grids;
- electric power transit services;
- technical support of subscribers;
- billing and collecting payments for third party service organizations.

As of December 31, 2017, the total length of JSC Telasi transmission lines was 5,338.3 km;

- high-voltage grids – 247 km;
- medium-voltage grids – 2,115.8 km;
- low-voltage grids – 2,975.5 km.

Subsegment position in the market

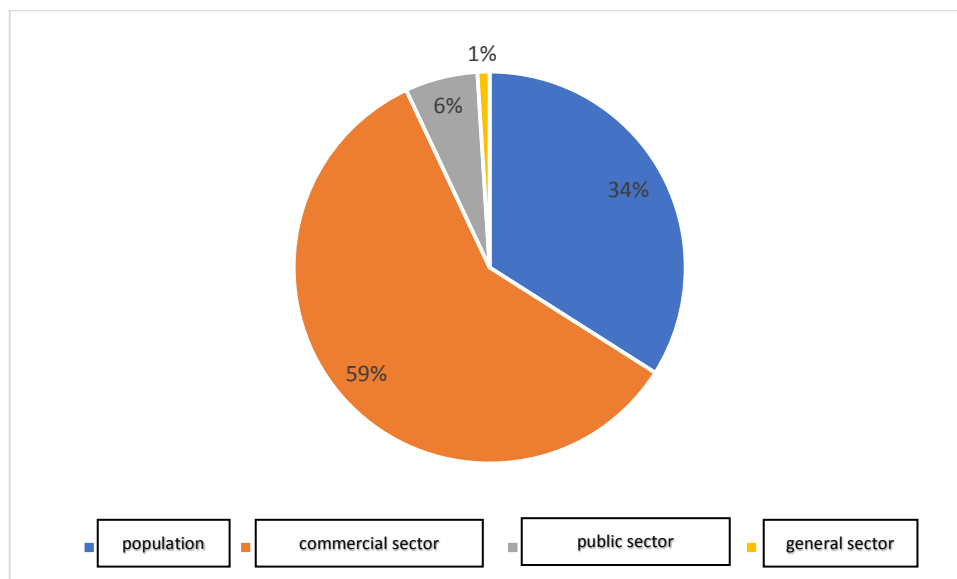
Figures and facts

4.3% *The share of JSC Khrami HPP-I and JSC Khrami HPP-II in the electricity output in Georgia*

The total installed capacity in Georgia is about 3,800 MW. Hydropower plants (HPPs) dominate the production of electricity in Georgia. Inguri HPP is the largest power plant in Georgia, with installed capacity of 1,300 MW. Its output in 2017 comprised 31% of the total electricity output in Georgia. Gas power plants and imported electricity satisfy peak demand in winter. There are four major thermal power plants in Georgia: Mtkvari Energy LLC, Energy Invest LLC, Gardabani TPP and Gpower Ltd, with total capacity of about 910 MW. The country has significant hydropotential; that is why the energy industry is developed mostly in terms of construction of HPPs, which would provide cheap electricity for the needs of the population, and of construction of industrial objects in autumn and winter and for export in summer.

Tariffs for electricity, capacity and heat in Georgia are regulated by legislation which is focused on protecting consumers' rights and interests.

The structure of electricity sale in subsegments in 2017



Operating results

Figures and facts

494 million kWh electricity output of JSC Khrami HPP-I and JSC Khrami HPP-II in 2017

Operating information. The Foreign Assets segment, Georgia subsegment

	units of measurement	2015	2016	2017	2017/2016, %
Installed capacity	MW	827	227	227	0.0%
Type of fuel (fuel balance structure)	coal/gas/fuel oil				
Gas		100	100	-	-
Electricity production in the country	mln kWh	10,360	11,570	11,530	-0.3%
Electricity output in the subsegment	mln kWh	1,786	881	494	-43.9%
Share of electricity production by national subsegment	%	17.2	7.6	4.3	-3.3 p.p.
Specific fuel equivalent consumption per unit of electricity	gfe/kWh	335.7	332.0	-	-
Installed capacity utilization rate	%	24.7	26.6	24.8	- 1.8
Total length of transmission and distribution lines in the subsegment	km	4,826	5,082	5,338	5.0%

Net output of purchased electricity in the subsegment	mln kWh	2,273	2,629	2,773	5.5%
Grid output including losses across the country	mln kWh	11,041	12,435	12,815	3.1%

Installed capacity of generating assets in the subsegment in 2017 has remained at the level of 227.2 MW. By the end of 2017, electricity output has increased by 43.9% due to the sale of Mtkvari Energy LLC shares in Q2 2016, which led to a decrease of installed capacity in the subsegment by 600 MW.

In 2017, the decrease in electricity output by 12.7% was caused by changes in hydrogenerating assets of Khrami HPP I (–13.7%) and Khrami HPP II (–12.0%), the total output of which was 494 million kWh due to a lower water balance level in 2017.

In 2017, JSC Telasi productive supply of purchased electricity exceeded the previous year level by 5.5% due to consumption growth in the commercial sector (a large consumer addition), while the consumption in the population sector decreased (an increase in consumer electricity tariffs caused more economical use of electricity by the population). Organizational, technical and repair works conducted also allowed reduction of power losses in the networks to 5.5% (–0.2 p.p.); standard total losses amount to 6.09%. The total length of electricity lines was increased by 5.0% to 5,338 km as a result of development of lines for new consumers and new cable lines for network protection, as well as reconstruction and upgrade of networks.

In 2017, Maintenance of hydraulic units No.1 and 2 and capital repair of hydraulic unit No. 3 and transformer No. 1 were performed at JSC Khrami HPP-1.

Routine repairs of hydraulic unit No. 1, major repairs of hydraulic unit No. 2, and repair of autotransformer AT-2 were performed at JSC Khrami HPP-II, as well as repairs of the room for duty staff and lifting mechanisms of the daily runoff pool.

In 2017, all repair works in JSC Khrami HPP I and JSC Khrami HPP II were completed in full and within the planned budgets.

Loss coefficients

	2015	2016	2017
Transmission loss coefficient	2.20%	1.99%	1.91%
Distribution loss coefficient	6.03%	5.71%	5.50%

The results of studies to assess the level of customer satisfaction in 2017

Date	Number of subscribers surveyed	Evaluating the quality of service		
		Good	Satisfactory	Bad
Total	5594	4651	880	63

Financial results

Figures and facts

RUB 10,097 mln the revenue in the subsegment in 2017⁸²

Financial data. The Foreign Assets segment, Georgia subsegment

	units of measurement	Electricity				Grids			
		2015	2016	2017	2017/2016 %	2015	2016	2017	2017/2016 %
Revenue	RUB mln	4,693	2,662	1,057	-60%	8,704	11,549	10,068	-13%
Share in the revenue of Inter RAO Group	%	1	0	0	0 p.p.	1	1	1	0 p.p.
Operating expenses, including:									
Purchased electricity and capacity	RUB mln	(13)	(4)	-	-100%	(5,277)	(7,177)	(6,476)	-10%
Transmission fees	RUB mln	(1)	(1)	-	-100%	(826)	(1,137)	(1,022)	-10%
Fuel expense	RUB mln	(3,065)	(954)	-	-100%	-	-	-	-
EBITDA	RUB mln	1,060	1,339	863	-36%	821	1,265	936	-26%
Share in the EBITDA of Inter RAO Group	%	1%	1%	1%	0 p.p.	1%	1%	1%	0 p.p.
<i>Including operations within the segment:</i>									
Revenue	RUB mln	3,854	2,332	1,028					
Purchased electricity and capacity	RUB mln					(3,854)	(2,332)	(1,028)	

In the reporting period, revenue in the subsegment decreased by RUB 1,782 million⁸³ due to the weakening of the national currency (lari) relative to the ruble compared to an average rate for the comparable period with the increase of number of consumers, increase of tariffs and the positive dynamic of energy consumption in Georgia.

As for generating assets, revenue from electricity sale decreased by 60.3%, and fuel costs decreased by 100% due to the sale of fuel in 2016. Mtkvari Energy LLC.

The revenue of JSC Telasi decreased by 13% due to the weakening of the average lari to ruble rate compared to the average rate for the comparable period and the increase of electricity sales volume due to growing demand and increase of tariffs from January 1, 2017. The increase in costs for acquisition and decrease in costs for transmission of JSC Telasi electricity was caused by the increase of consumption volume.

Decrease in EBITDA in the Georgia subsegment by RUB 805 million: JSC Telasi — by RUB 329 million was caused by the decrease in marginal revenue due to the excess in the growth of the weighted average tariff of the purchased electricity and the increase of electricity sales volume; the decrease of generating assets was caused by the sale of Mtkvari Energy LLC in 2016 and decrease in water balance in 2017 compared to 2016.

⁸² Excluding operations within the segment.

⁸³ Changes excluding operations within the segment.

Development prospects

Under the EU-Georgia Association Agreement (in effect since July 1, 2016), an amendment to the Energy Law is expected. According to it, the companies shall be divided into producing and selling ones. JSC Telasi is subject to this Law. This factor may have a significant impact on the industry and subsegment performance.

Other factors influencing the industry as a whole and the companies in the subsegment:

- the significant role of the state in regulation of the energy market, including limitation of the tariff growth rate;
- the issues of the ownership of land where power transmission facilities are based are not clarified in the Georgian legislation. In the event of adjustment of the laws there is a possibility that JSC Telasi will have to acquire the right of ownership for a number of areas, or to pay third parties for lease of land;
- Georgian law (energy supply and consumption provisions) makes it possible for dishonest consumers to avoid the responsibility for non-payment for electricity by granting their ownership rights to a third person;
- Current tariffs for switching new consumers to the grid do not cover the connection costs (Decree No. 20 of November 18, 2008).

The development of JSC Telasi is closely connected with its ability to provide guaranteed and uninterrupted power supply to all districts of Tbilisi as a guarantee supplier.

Implementation of activities within the scope of the 5-year development plan of the electricity distribution network of JSC Telasi (2018-2022)⁸⁴ will ensure:

- high quality and reliable electricity supply to consumers; increasing the electricity network capacity; reducing electricity losses;
- required volumes of electricity supplied for the needs of the city of Tbilisi;
- provision of energy security of the city.

In 2018 it is planned to complete a priority project of the Program — the construction of the new 35/6 kV substation in the district of Chugureti, Tbilisi.

Moldavia

⁸⁴ The plan was approved on December 8, 2017 (Resolution of the National Committee for regulation of energy and water supply of Georgia No. 93/1).



Figures and facts

2,520 MW Moldavia TPP installed capacity

Subsegment description

The Moldavia sub-segment includes the Moldavia TPP, which is located in the Southeast part of Pridnestrovian Moldavian Republic. PJSC Inter RAO owns 100% of plant shares.

The Moldavia TPP is a thermal power plant with 12 power generating units of total installed capacity of 2,520 MW; installed heat capacity of the plant is 166 Gcal/h. The total length of high-voltage (400 kV) transmission lines owned by the company is 11.6 km.

The power plant is the most important Moldavian power system generating asset, which can fully meet the electricity needs of Pridnestrovian Moldavian Republic.

Subsegment position in the market

Figures and facts

88.1% The share of the Moldavia TPP in the electricity output of Pridnestrovian Moldavian Republic

The electricity industry is the key sector of the Pridnestrovian Moldavian Republic economy; in 2017 it accounted for 30.8% of the industrial production of the Republic. The installed capacity of the Moldavia TPP was 96.2% of the installed capacity of all Pridnestrovian Moldavian Republic's generating companies.

Electricity generated by the Moldavia TPP is sold in the wholesale and retail market segments. Purchase and sale of electricity in the domestic market is provided at state-regulated tariffs. The Pridnestrovian Moldavian Republic is an energy-surplus region, so electricity is largely exported to the Republic of Moldova.

Operating results

Figures and facts

3,557.2 mln kWh Moldavia TPP electricity output in 2017

131.3 thousand Gcal heat output from collectors of the Moldavia TPP in 2017

Operating information. The Foreign Assets segment, Moldavia subsegment

	units of measurement	2015	2016	2017	2017/2016, %*
Installed capacity	MW	2,520	2,520	2,520	0.0%
Type of fuel (fuel balance structure)	coal/gas/fuel oil				
Gas	%	99.8	99.4	99.9	0.5
Coal	%	0.1	0.4	0.0	- 0.4
Fuel oil	%	0.1	0.2	0.1	-0.1
Electricity production in the country	mln kWh	5,078	4,921	4,037	-18.0%
Electricity output in the subsegment	mln kWh	4,610	4,468	3,557	-20.4%
Share of electricity production by national subsegment	%	90.8	90.8	88.1	- 2.7
Specific fuel equivalent consumption per unit of electricity	gfe/kWh	344.6	347.2	346.9	-0.1%
Installed capacity utilization rate	%	20.9	20.2	16.1	- 4.1
Heat output in the country	thousand Gcal	1,515	1,531	1,543	0.8%
Heat output from collectors in the subsegment	thousand Gcal	142	139	131	-5.4%
The share of heat output at the country level	%	9.4	9.1	8.5	- 0.6

Installed capacity of CJSC Moldavia TPP remained the same in the reporting period. The total electricity output in 2017 has decreased by 20.4% compared to 2016 to 3.557 million kWh (88.1% of the total output in the country). This is caused by the interruption of the power supply in Moldavia in April and May 2017 due to the termination of the contract with a Moldavian consumer; the supply was renewed in June 2017. The coefficient of load factor in the reporting period decreased by 0.7 p.p. compared to 2016. Specific oil equivalent consumption for electricity supply decreased by 0.1% as a result of reduction of the number of unit starts from 64 to 42 and increase from 17% to 30% of the share of electricity generation in a more cost-efficient mode using combined-cycle plants. The main kind of fuel used in 2017 was natural gas, which comprised 99.9% (+0.5 p.p.) of the plant's fuel balance.

In 2017, eight repair works were carried out at the power generating units of CJSC Moldavia TPP. The maintenance program was implemented fully and within the limits of the planned budget.

Financial results

Figures and facts

RUB 6,142 mln revenue in the sub-segment in 2017

Financial data. The Foreign Assets segment, Moldavia subsegment

	units of measurement	2015	2016	2017	2017/2016, %
Revenue	RUB mln	4,660	4,850	6,142	27%
Share in the revenue of Inter RAO Group	%	1	1	1	0 p.p.
Operating expenses, including:					
Purchased electricity and capacity	RUB mln	(16)	(15)	(38)	153%
Fuel expense	RUB mln	(84)	(132)	(1,942)	1,371%
EBITDA	RUB mln	2,692	2,655	2,724	3%
EBITDA margin	%	58	55	44	-11 p.p.
Share in the EBITDA of Inter RAO Group	%	4	3	3	0 p.p.

The increase in the revenue by RUB 1,292 million (27%) was mainly caused by the devaluation of the transnistrian ruble against the United States dollar in June 2017 and the decrease of the total electricity output. The decrease in transmission and fuel costs (by almost 14 times), caused by the increase of the share of natural gas in the total fuel volume was mainly caused by the change in the export plan of electricity to Moldavia.

The increase in EBITDA in the subsegment by RUB 69 million (2.6%) was caused by devaluation of the transnistrian ruble against the United States dollar and the decrease of the total electricity output in the comparable period.

Development prospects

CJSC Moldavia TPP is the largest power plant in the region (its installed capacity comprises 96.2% of the installed capacity of Transdniester generating companies, the share of output of which comprises 88.1%), and its development determines the development of the whole industry.

The Group Strategy aimed at resolution of the following goals for developing the activity of the Moldavia TPP in the long term:

- Improvement of the energy efficiency of the plant's functioning;
- Reconstruction and modernization of equipment.
- Development of export potential.



Figures and facts

478 MW Trakya Elektrik installed capacity

Subsegment description

The Turkey subsegment is represented by Trakya Elektrik Üretim Ve Ticaret A.S, the company that manages the Trakya Elektrik power plant.

The plant is located in a rapidly developing region of Turkey – Marmara Ereğlisi, 100 km west of Istanbul. The installed capacity of the power plant is 478 MW. The equipment consists of 2 Siemens V 94.2 turbines (154 MW each) and a Siemens steam turbine (170 MW). The plant is operated on natural gas, and it is also possible to use diesel as a reserve fuel.

The power plant works using the BOT plan (building – operation – transmission)⁸⁵. The concession agreement remains in force until July 5, 2019 and can be extended until 2046. Within the framework of the agreement, the following contracts have been signed:

- on gas purchase with Turkish oil-and-gas and gas transportation company BOTAS (prolonged until 2019);
- on electricity supply with Turkish state energy company TETAS, valid until 2019, with possible extension until 2046.

The gas and energy contracts have been concluded on a long-term basis, contain take-or-pay conditions with guaranteed volumes of fuel purchase and energy sale, and also with rates set for the whole period. In addition, the obligations under contracts are secured by guarantees of the Turkish government. Thus, the current system of contracts makes it possible to eliminate the risks of electricity prices volatility in the Turkish market and provides a guaranteed level of profitability on the invested capital.

Subsegment position in the market

Figures and facts

9% share of the operators (including Trakya Elektrik) in the Turkish market, working under concession agreements

⁸⁵ The form of project financing provides for construction of an asset, its subsequent operation and transfer of the property complex to the state, which is later usually privatized.

More than 1% share of Trakya Elektrik in the total electricity output of Turkey

There are more than 3,000 power plants in the Turkish market.

The total volume of electricity generated by Turkish power plants of all types in 2017 was 290.5 TWh, which is 6.3% higher than the 2016 volume. The installed capacity of power plants in the reporting period increased by 5.9%, reaching 83.1 GW by the end of 2017. The peak load — 44.7 GW — was recorded in August 2017.

The power reserve in the united power system of Turkey is about 40%.

State company EUAS remains the major player in the electricity market: its market share comprises 25.1%.

Private energy producing companies account for 64%. The share of the companies operating under concession agreements (BOO, BOT, TOR, including Trakya Elektrik Uretim Ve Ticaret A.S.) comprises about 9%.

The share of Trakya Elektrik electricity output comprised a little more than 1% of the all-Turkey indicator. This indicator has insignificantly decreased compared to 2016. There is a possibility that the share of capacity and output of the company will continue to decrease due to the Turkey's intention to increase total installed capacity to 120 GW by 2023. The concession agreement provides that the risks of Trakya Elektrik, connected with this tendency, will be minimized until mid-2018.

The structure of the installed capacity of Turkish power plants according to the types of fuel in 2017.

The fuel balance of Turkish power plants is 50% supported by gas (natural, liquified), coal and diesel fuel. The remaining 50% is represented by renewable energy sources (RES). The share of RES in the fuel balance increased by 4% compared to 2016. According the approved Plan of the Strategic Development of the industry for 2018, the Ministry of Energy and Natural Resources of Turkey is planning to increase the output from RES; the target is to generate no less than 30% of the total output until 2023. The risks of Trakya Elektrik, connected with this tendency, are minimized due to the concession agreement until mid-2019.

Operating results

Figures and facts

3,103 mln kWh Trakya Elektrik electricity output in 2017

Operating information for the year ending December 31, 2015/2016/2017. The Foreign Assets segment, Turkey subsegment

	units of measurement	2015	2016	2017	2017/2016, %
Installed capacity	MW	478	478	478	0.0%
Type of fuel (fuel balance structure)	coal/gas/fuel oil				
Gas	%	94.3	91.6	91.4	- 0.2
Fuel oil	%	5.7	8.4	8.6	0.2
Electricity production in the country	mln kWh	261,783	273,388	290,546	6.3%
Electricity output in the subsegment	mln kWh	3,410	3,470	3,103	-10.6%
Share of electricity production by national subsegment	%	1.30	1.27	1.07	- 0.2
Specific fuel equivalent consumption per unit of electricity	gfe/kWh	271.1	270.7	269.9	-0.3%
Installed capacity utilization rate	%	81.4	82.6	74.1	- 8.5

In 2017, Trakya Elektrik A.S. NPP generated 3,103 million kWh, which is 10.6% less than the 2016 output. The decrease in output in the reporting period was caused by the inspection of the hot section and the dispatch schedule of electricity load, specified by a system operator.

In 2017, the average cost of gas in United States dollars has decreased by 15.0% compared to 2016. But the change in price didn't have a significant impact on the economic efficiency of the plant, as the existing contracts require that fuel costs were included in the electricity tariff. Dynamics of change in specific fuel consumption was determined by the plant schedule in 2017.

A repair program of Trakya Elektrik A.S. is implemented under long-term agreements with the consortium of Siemens Sanayive Ticaret A.Ş. and Siemens Aktiengesellschaft (Siemens), in effect until 2020.

In 2017, Trakya Elektrik hasn't carried out any commissioning/decommissioning or maintenance of gas and steam turbines, caused by replacement of resource-determining elements. Gas turbine units have been inspected, and steam turbine units and power transformers have been renovated.

Financial results

Figures and facts

RUB 10,541 mln sub-segment revenue in 2017

Financial data. The Foreign Assets segment, Turkey subsegment

	units of measurement	2015	2016	2017	2017/2016, %
Revenue	RUB mln	20,306	15,356	10,541	-31%
Share in the revenue of Inter RAO Group	%	3	2	1	-1 p.p.

	units of measurement	2015	2016	2017	2017/2016, %
Operating expenses, including:					
Fuel expense	RUB mln	(16,622)	(11,545)	(7,987)	-31%
EBITDA	RUB mln	2,631	2,915	1,558	-47%
EBITDA margin	%	13	19	15	-4 p.p.
Share in the EBITDA of Inter RAO Group	%	4	3	2	-1 p.p.

In 2017, the decrease of revenue from electricity sale (capacity) by RUB 4,815 million (-31%) was caused by the reduction of the plant load which occurred because the repairs of the GTU in the process of the hot section inspection took 10 days more than in 2016. Moreover, in 2017 one gas turbine was under repair for 25 days. During that period, the plant was functioning as a semi-unit. The positive effect from the decline of prices of technological fuel (gas) was partially offset by the strengthening of the dollar compared to 2016.

The decrease in EBITDA by 1,357 (-47%) compared to the comparable period was caused by the above factors influencing the revenue from electricity sale, and by the strengthening of the average rate of US dollar compared to the ruble.

Development prospects

The main priorities of company development in 2018 include:

- increasing the operating and financial efficiency of the company's activity;
- implementing the decisions approved in line with the results of the Working Group, aimed at the development of optimal conditions for prolonging the functioning of Trakya after 2019.

1.10. Analysis of Financial Results

Figures and facts

RUB 917.0 bln group Revenue in 2017

5.6% (RUB 48.9 billion) growth compared to 2016

RUB 625.1 bln total assets as of the end of 2017

RUB 53.5 billion (9.4%) increase compared to the same indicator as of the end of 2016

RUB 16.4 bln debt load as of the end of 2017

7.6% decrease compared to the indicator as of the end of 2016 including the share of the debt of joint ventures

Key factors influencing the dynamics of financial results of the Group in 2017:

- Putting into operation of 1,470 MW of new and renovated generating capacity under the agreements on capacity delivery (CDA)⁸⁶;
- Growth of the average output prices on heat for end consumers in the Russian assets of the Group;
- Optimization of the capacities load in the Electricity in the Russian Federation segment, including decommissioning of inefficient generating equipment with total installed capacity of 1,271.5 MW;
- Growth of the average output prices for end consumers in the supply segment of the Group;
- Ruble strengthening in relation to the US dollar and the euro;
- Completion of the share sales transaction of CJSC Power Grids of Armenia and JSC Hrazdan Energy Company in December 2016, resulting in the absence of financial results of these companies in 2017.

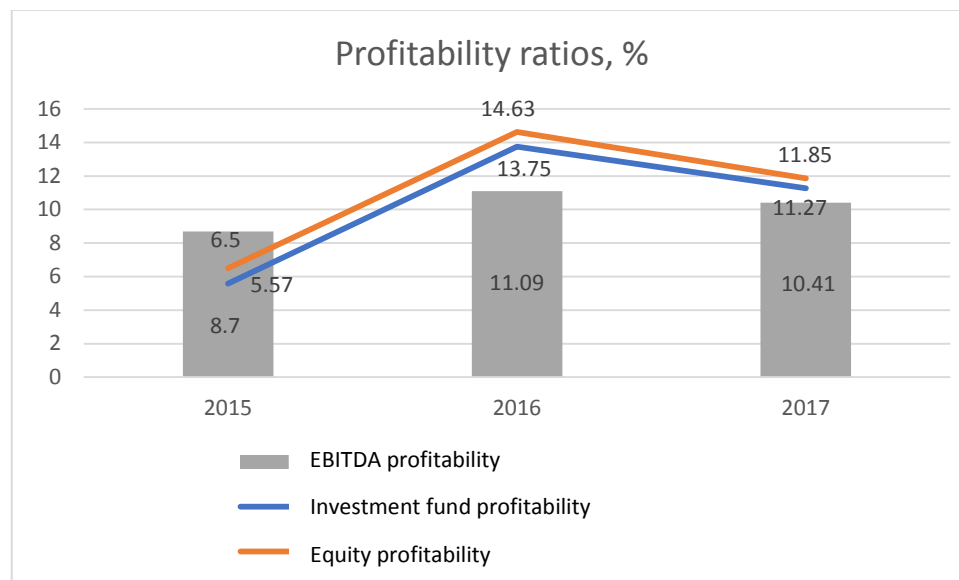
⁸⁶ Taking into account commissioning of T-120 turbine unit at Omskaya CHPP-3 and excluding reassessment of the current CDA equipment.

	2015	2016	2017
Indicators of the consolidated statement of comprehensive income			
Revenue, RUB mln	831,987	868,182	917,049
Other operating income, RUB mln	8,708	39,120	8,533
Operating expenses, RUB million	-814,952	-830,042	-869,462
Profit / (loss) for the year, RUB million	23,822	61,312	54,448
Indicators of consolidated statement of cash flows			
Net cash inflow from operating activities, RUB million	67,482	81,361	87,171
Net cash flows (used for)/from investing activities, RUB million	(28,334)	19,064	(24,798)
Net cash flows used for financing activities, RUB million	(50,438)	(69,912)	(16,198)
Indicators of consolidated statement of financial condition			
Total assets, RUB million	569,009	571,594	625,056
Total equity, RUB million	366,245	419,226	459,409
Total liabilities, RUB million	202,764	152,368	165,647
Financial information not regulated by IFRS			
EBITDA, RUB mln	72,394	96,259	95,471
Coefficients and other indicators			
Return on assets, %	4.21	10.75	9.10
Return on invested capital, %	5.57	13.75	11.27
Return on equity, %	6.50	14.63	11.85
Return on EBITDA, %	8.70	11.09	10.41
Return on adjusted EBITDA ⁸⁷ , %	-	10.77	10.41
Current liquidity coefficient	1.61	1.77	2.07
Equity concentration coefficient	0.64	0.73	0.73
Equity-to-loans ratio	1.81	2.75	2.77
Free cash flow, RUB mln	33,709	45,643	49,109
Total debt, RUB million	78,176	17,624	16,428
<i>Short-term debt, RUB mln.</i>	<i>35,559</i>	<i>8,738</i>	<i>11,707</i>
<i>Long-term debt, RUB mln</i>	<i>42,617</i>	<i>8,886</i>	<i>4,721</i>

⁸⁷ EBITDA for 2016 does not include the indices of disposed assets in Armenia and Georgia, as well as the indicator of JSC GRES-2 Power Station Ekibastuz due to its reclassification to assets held for sale.

Debt ⁸⁸ /EBITDA	1.3	0.2	0.2
Net debt ⁸⁹ , RUB mln	8,022	-78,232	-147,919
Net debt ⁹⁰ / EBITDA	0.1	-0.8	-1.5

Rates of return in 2017 decreased. The decrease was mostly caused by a higher net profit in 2016 which was caused by a one-time effect of recognition of income from sale of shares of PJSC Irkurskenergo of RUB 31.9 billion.

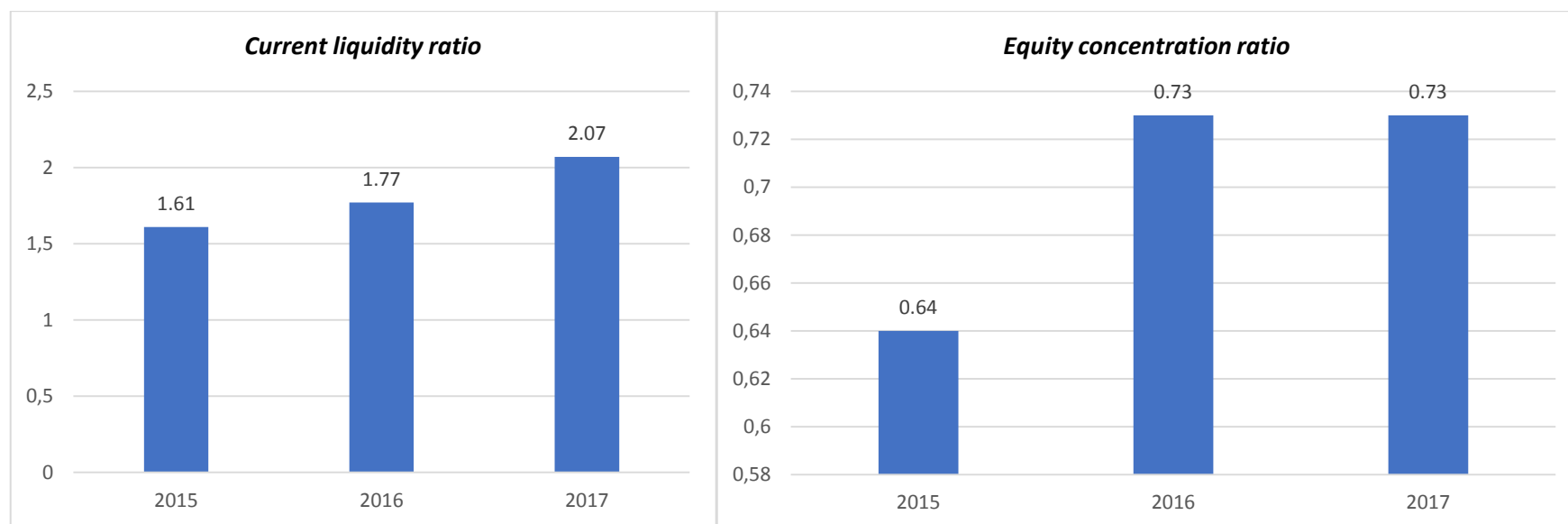


The significant increase of the **current liquidity coefficient** (2.07 for 2017 versus 1.77 for 2016) was caused by higher growth of the current assets relative to the growth of short-term debts.

⁸⁸ Including debt of joint ventures.

⁸⁹ Including debt of joint ventures.

⁹⁰ Including debt of joint ventures.

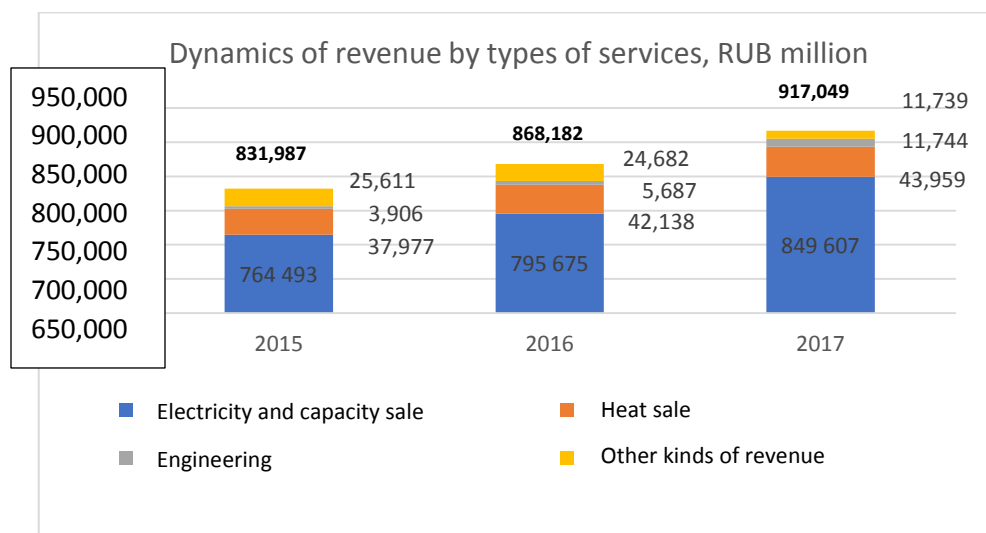


The increase of the current assets was caused by the accumulation of cash received due to the Group activity in the reporting period into settlement accounts and deposits (cash from operational activity of the Group subsidiaries, targeted payment of receivables within the framework of the contract for sale of shares of PJSC Irkutskenergo, receipt of funds under the loan agreements with JSC Nizhnevartovskaya TPP and CJSC Power Grids of Armenia).

The increase in short-term liabilities was caused mainly by the increase in loan debt because of the significant advance payments received during the construction of Pregolskaya TPP and Primorskaya TPP, and by the increase of the volume of short-term loans for Group selling companies in order to finance operating costs caused by an increase in sales volume.

Equity concentration coefficient, showing the share of the Company's assets covered by equity (ensured by own sources) as of the end of the reporting period was 0.73, demonstrating high financial sustainability, stability and independence from external creditors.

Revenue



The revenue of **Electric Power Generation in the Russian Federation** segment increased by RUB 6.0 billion, or 5.1%, mostly due to the growth of the revenue from sale of capacity (RUB 3.4 billion growth from external contractors). Major drivers of growth:

- commissioning of Unit 12 of Verkhnetagilskaya TPP with installed capacity of 447 MW and Unit 4 of Permskaya TPP with installed capacity of 903 MW within the framework of the Capacity Delivery Agreement;
- the increase of electricity output at Permskaya TPP due to the low basis in the comparable period (scheduled and unscheduled repairs in the comparable period of 2016);
- the increase of installed capacity of CDA objects after re-qualification.

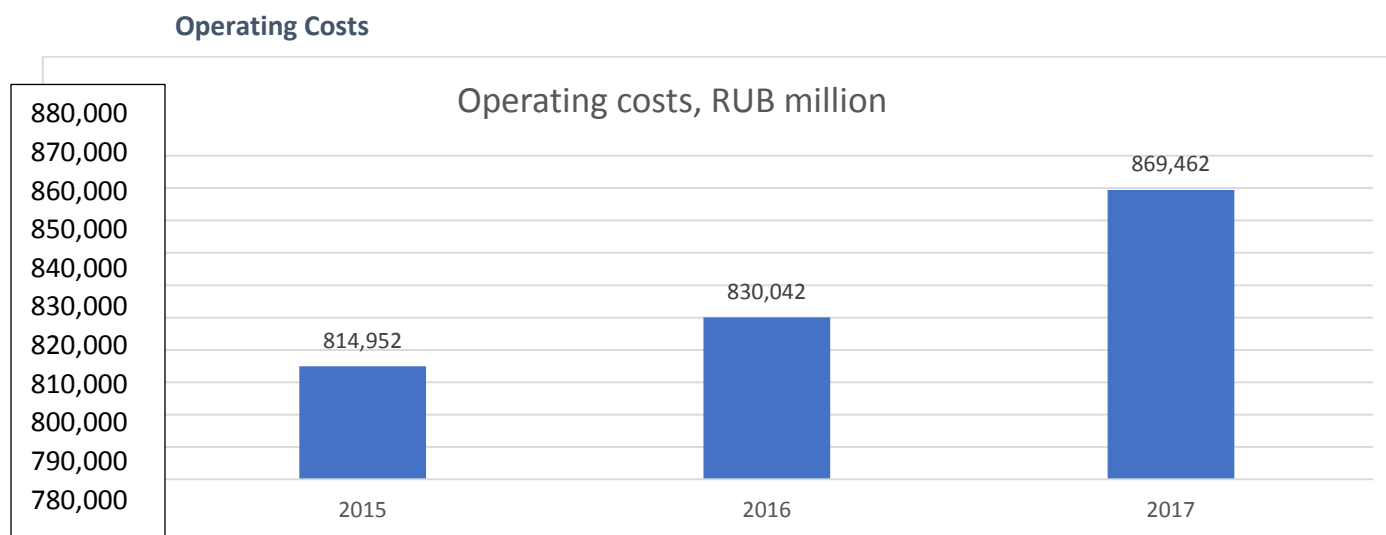
The revenue in the **Thermal Power Generation in the Russian Federation** segment increased by RUB 0.9 billion, or 1.3%:

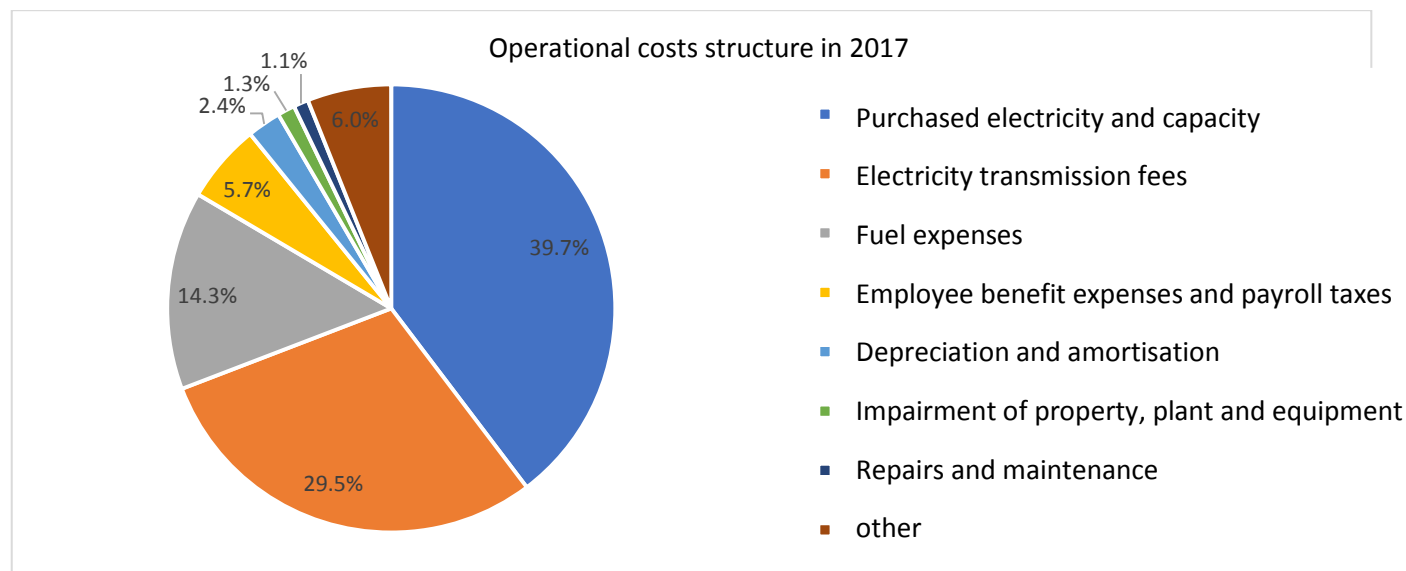
- Income growth of the TGC-11 group by RUB 1.2 billion (4.5%) was achieved, primarily, through the increase of heat tariffs in Tomsk and Omsk Regions, and through changes in the structure of capacity sales of the generating facilities;
- Proceeds of the BGC group decreased by RUB 0.3 billion (0.6%) due to diverse changes: heat tariff growth in Bashkortostan Republic and reduction of electricity generation according to the market conditions.

Proceeds of the **Supply segment** increased by RUB 64.2 billion, or 11.4%, resulting from the increase of the average daily rates of guarantee providers for end users, and new consumers accepted for service by non-regulated sales companies.

Proceeds of the **Trading** segment decreased by RUB 23.1 billion (-29.0%). Reduction of proceeds was due to strengthening of the ruble relative to the main currencies of export contracts (US dollars and euros) and reduction of volumes of supply to Belarus Republic in accordance with the market situation.

Proceeds of the **Engineering** segment increased by RUB 6.1 billion, which was primarily due to the construction projects of Pregolskaya CHPP and Primorskaya CHPP.





In 2017, the operating costs increased by RUB 39.4 billion (4.7%) as compared to 2016 and amounted to RUB 869.5 billion, which is less than the dynamics of proceeds growth.

The increase in **costs related to electricity transmission** by RUB 21.5 billion (9.1%) to RUB 256.4 billion was due to the supply segment and increase of electricity consumption and electricity transmission rates.

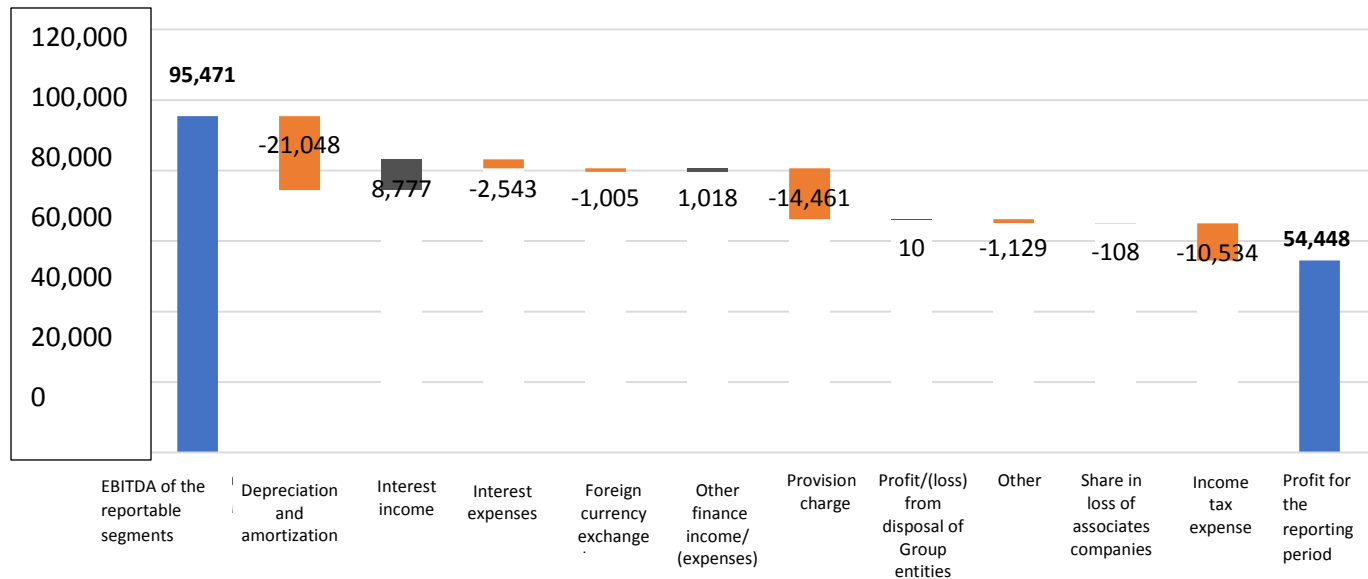
The increase in **purchased electricity and capacity costs** in 2017 by RUB 17.3 billion (5.3%) to RUB 345.0 billion as compared to 2016, was primarily due to the growth of market prices for capacity purchased, and the increase of sales volumes in the supply segment.

In 2017, **process fuel costs** changed insignificantly as compared to 2016 and amounted to RUB 124.6 billion. The change factors are diverse: The reduction of production volumes by Trakya Elektrik power plant, elimination of JSC Mtkvari Energy from the Group perimeter in June 2016, and ruble strengthening as compared to the US dollar and the euro resulted in a reduction of costs, while the generation volume growth in the Electric Power Generation segment and gas prices indexation according to the FAS decree of July 01, 2017 resulted in an increase of costs.

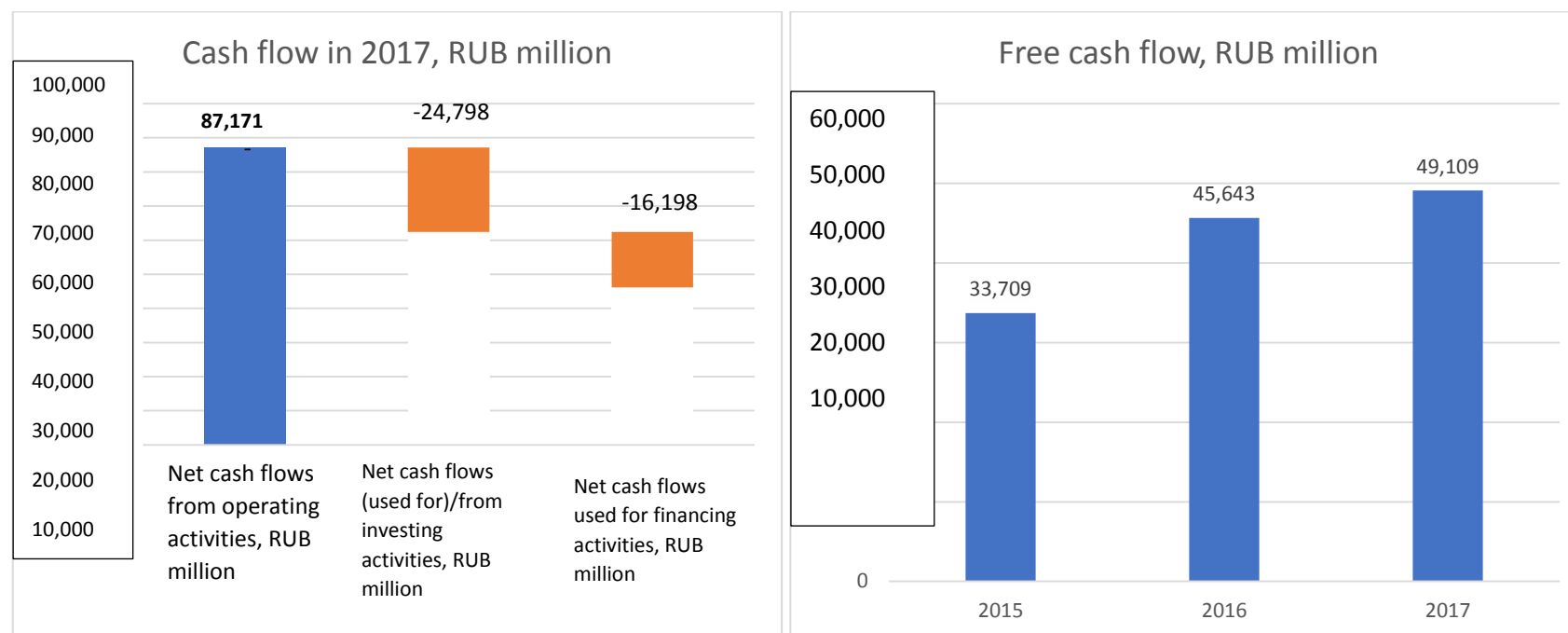
Accrual of reserves for assets impairment. In 2017 impairment of the fixed assets of Cherepetskaya, Gusinoozyorskaya, Iriklinskaya and Kashirskaya TPPs, and the fixed assets of JSC Tomsk Generation and JSC TGC-11 were recognized in a total amount of RUB 11.0 billion. In the period under consideration, the impairment amounted to RUB 4.1 billion.

EBITDA

Profit generation, RUB million



Cash Flow



Net cash flow from **operating activities** increased by 7.1% as compared to 2016, which is a result of outpacing revenue growth over operating costs.

Net cash flow of funds used in **investment activities** in 2017 decreased by RUB 43.9 billion due to several factors:

- reduction of the amount received from the sale of shares of PJSC Irkutskenergo by RUB 38.8 billion;
- increase in the amount of free funds allocated to deposits by RUB 39.7 billion (in 2016, return of free funds remaining from deposits prevailed (RUB +21.8 billion); in 2017 the Group primarily allocated its free funds to deposit accounts (RUB -17.9 billion));
- reduction in the amount of funding of the Group's Investment Program in 2017 by RUB 3.2 billion as compared to 2016;
- increase in the repayments of loans issued in 2017 by RUB 11.6 billion;
- reduction of the amount of investments in other fixed assets by RUB 15.6 billion as compared to 2016.

Net cash flow from **financial activities** in 2017 amounted to **-16.2 billion RUB**; such change totaled RUB 53.7 billion compared to 2016, primarily due to:

- reduction of the Group's credit portfolio by RUB 55.6 billion (in 2016 the credit portfolio decreased by RUB 56.1 billion, in 2017 it decreased by RUB 0.5 billion);
- increase in the number of dividends paid by RUB 10.2 billion;
- reduction of interest paid by RUB 7.6 billion, as a result of a decrease of the Group's debt portfolio.

In 2017 the free cash flow was RUB 49.1 billion, which was a 7.6% increase as compared to 2016 due to the increase of the cash flow from operating activities.

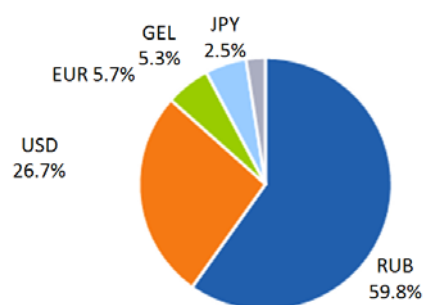
Total Debt Load

The debt load including the share in the debt of joint ventures decreased by 7.6% to RUB 16.4 billion as compared to 2016.

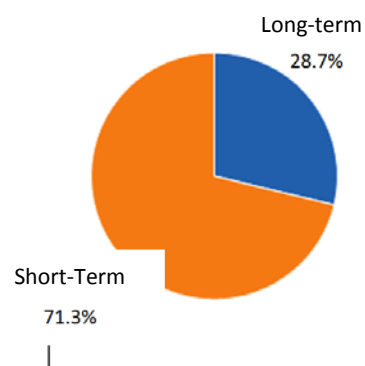
Debt liabilities of the Group (without share of the debt in joint companies) declined by RUB 1.2 billion (6.8%) as compared to the end of 2016 and amounted to RUB 16.4 billion as a result of planned and early repayments of loans by several companies of the Group.

At that time the volume of external credits and loans of joint companies in total debt amounted to RUB 0.2 billion and consisted of the debt of CJSC Kambaratinskaya HPP-1. As of the reporting date, the debt of CJSC Kambaratinskaya HPP-1 was not included in the Group performance indicators, since the stock in this company was sold in December 2017 (the debt was also paid back in December 2017).

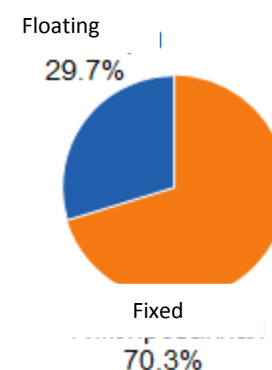
Debt structure, by currency



Debt structure, by repayment period

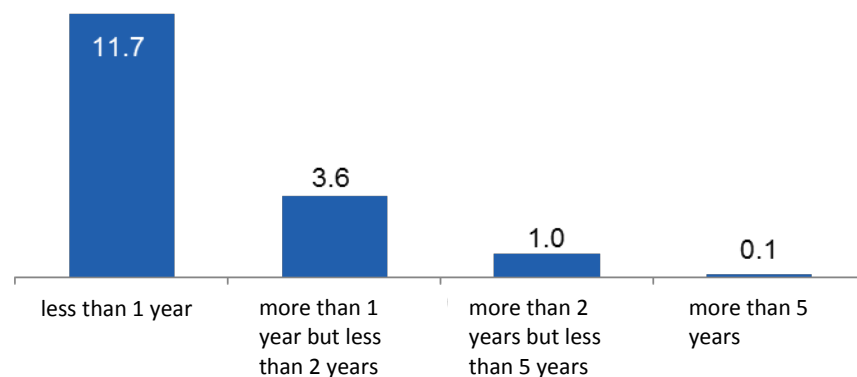


Debt structure, by interest rates



Short-term/long-term debt ratio (excluding the share of the debt of joint ventures) for December 31, 2017 was 28.7% to 71.3% (December 31, 2016 – 50.4% to 49.6%).

Debt structure, repayment period (excluding the share of debt in joint ventures)



The debt structure is presented by credits and loans (RUB 16.15 billion, or 98.3%), and by lease liabilities (RUB 0.27 billion, or 1.7%).

The debt/EBITDA ratio by the end of 2017 was 0.2, which demonstrates the high financial sustainability of the Group. An indicator of the maximum permissible debt load level was declared in Inter RAO Group. The declaration of the Maximum Permissible Debt Load Level of PJSC Inter RAO was approved by the Board of Directors⁹¹. The debt limit, which is equal to the ratio of financial debt to EBITDA, shall be no more than 3.

The Company aims to maintain/improve the loan rates from the leading international agencies and is ready to fully comply with requirements of the rating methodologies.

Net debt of the Group (including the share of the debt of joint ventures and deposits for a period of 3–12 months) was minus RUB 147.9 billion compared to minus RUB 78.2 billion at the end of 2016. Dynamics of the indicator is ensured by the receipt of funds from operations of the Group subsidiaries, scheduled payment of a part of accounts receivable within the framework of the transaction for selling a packet of shares in PJSC Irkutskenergo, and receipt of funds as a loan payment from JSC Nizhnevartovskaya TPP and CJSC Power Grids of Armenia, along with the planned reduction of debt load in several companies of the Group.

⁹¹ The decision of the Board of Directors, Minutes No. 94 of June 24, 2013.

For the purposes of centralization of cash flow control, liquidity and financial risk management, defining a single procedure of raising and placing funds, and carrying out other financial operations, the Group established the Financial Policy.

With regard to the debt obligations, the Financial Policy provides the opportunity for continuous financing of the Group companies, maintaining a sufficient level of open debt limits, and optimization of debt servicing costs. Debt portfolio management is based on the following essential principles:

- minimization of costs of financing while complying with all other conditions (periods, risk limits, etc.);
- minimization of security provision under the concluded agreements;
- diversification of financing sources;
- balance of the Group's debt portfolio according to currencies, periods of financing, structures of interest rates;
- maintaining the solvency of the Group/subsidiaries and international credit rating of the Group.

There are no bond issues in the Group. At the moment, it is not planned to place bond issues in the market as no long-term loan funding is needed.

Net Profit Distribution and Volume of Net Assets

According to the resolution of PJSC Inter RAO AGSM (Minutes No. 17 of June 9, 2017) net profit of PJSC Inter RAO for the 2016 reporting year in the amount of RUB 97,475 million, was allocated for:

- creation of a Reserve Fund — RUB 4,874 million;
- dividend payments – RUB 15,328 million⁹²;
- payment of losses of the previous years – RUB 77,274 million.

	December 31, 2017	December 31, 2016	December 31, 2015
PJSC Inter RAO net assets, RUB million	430,323	429,982	334,367

Credit Ratings

In 2017, the Company had the following ratings:

- Fitch international agency: **BBB-, the outlook is stable;**

⁹² In 2017, RUB 72 of dividends were paid to the federal budget of the Russian Federation. There are no federal dividend debts.

- On January 16, 2017, Moody's international agency increased the credit rating of PJSC Inter RAO to the level **Ba1, the outlook was negative** (previously – Ba2, the outlook was stable), and on February 21, 2017 the outlook was changed to **stable**.

January 29, 2018 Moody's international agency increased its corporate rating of PJSC Inter RAO to the level **Baa3, and the outlook was stable**. Thus, the credit rating of the company Inter RAO Group was brought into investment category.

Formation of the Created Direct Economic Value, Distributed and Undistributed Economic Value

Created and distributed economic value, RUB million

	2015	2016	2017
<i>Revenue</i>	831,987	868,182	917,049
<i>Income from financial investments</i>	1,701	874	940
<i>Income from sale of assets</i>	1,421	31,922	92
Direct economic value generated:	835,109	900,978	918,081
<i>Operating expenses (excluding employee benefit expenses and payroll taxes)</i>	766,965	780,150	819,994
<i>Employee benefit expenses and payroll taxes</i>	47,987	49,892	49,468
<i>Payments to providers of capital:</i>	11,378	9,558	15,660
<i>Payments to government</i>	43,912	50,707	51,330
<i>Local community investments</i>	479	627	1,103
Direct economic value distributed	870,721	890,934	937,555
Retained economic value	(35,612)	10,044	(19,474)

2. Corporate Governance

2.1. Statement of the Chairman of the Board of Directors

In 2017, the Inter RAO Management dedicated its time and energy to working with shareholders and the investment community. Hundreds of meetings with representatives of global investment funds were held, in which the Company announced its plans and activities with regard to medium-term prospects for free cash flow use. Shareholders were given the opportunity to vote electronically at shareholders meetings. Inter RAO has become one of the ten Russian companies to provide this option. As a result, there has been a significant rise in the level of corporate governance in Inter RAO.

Chairman of the Board of Directors

Igor Sechin

2.2. General Information about the Company's Corporate Governance

Inter RAO Group makes continual improvement of the corporate governance system to increase the confidence of the Company's shareholders and investors, for the effectiveness of operations, and to ensure information transparency.

High Level of Corporate Governance

In the area of corporate governance, PJSC Inter RAO is guided by the requirements of legislation, the Listing Rules of the Moscow Exchange (hereinafter — the Listing Rules)⁹³, recommendations of the Corporate Governance Code (hereinafter — the Code)⁹⁴, as well as the best international and Russian corporate governance and information disclosure practices. In recent years, the Company's system of corporate governance was gradually developed and was brought into compliance with the principles and recommendations of the Code. To date, PJSC Inter RAO's corporate governance system includes all key elements which are typical for public companies with a developed governance practice, and fully respects the requirements of legislation and the Listing Rules. Thus, the Company's shareholders and investors are assured of consistent strategy implementation and approved decisions.

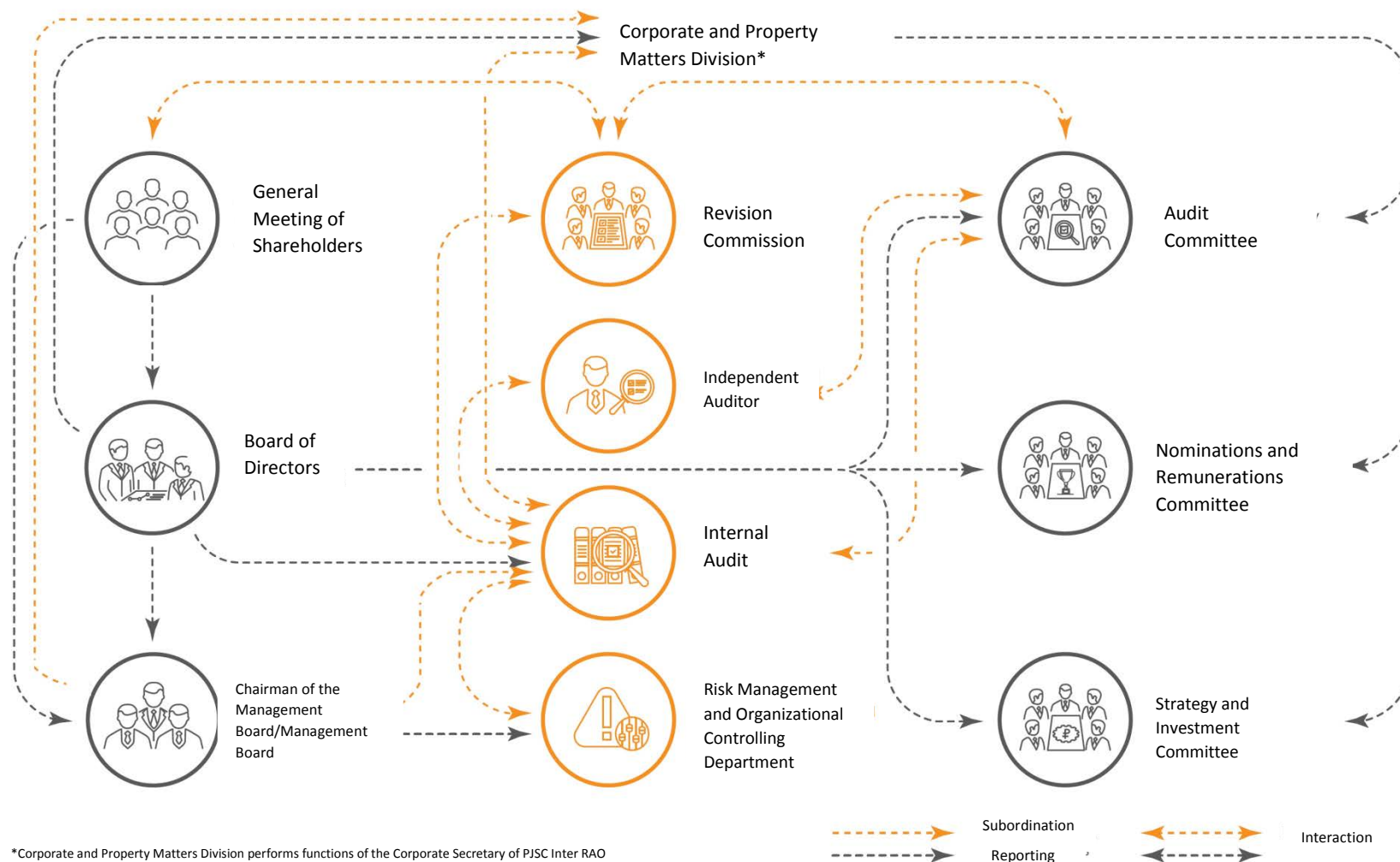
In 2017, The Company continued to cooperate with ISS Corporate Solutions — an independent company that prepares recommendations for foreign shareholders on voting at the General Meeting of Shareholders of PJSC Inter RAO. According to the results of monthly monitoring carried out by ISS Corporate Solutions for foreign investors and shareholders, PJSC Inter RAO's corporate governance system was scored as follows (1 is the highest point) in 2017:

Period	Score
January – March, 2017	7 points
April – May, 2017	6 points
June – December 6, 2017	2 points
since December 6, 2017	1 point

⁹³ Listing Rules of PJSC Moscow Exchange registered by the Central Bank of the Russian Federation (Bank of Russia) on July 14, 2017.

⁹⁴ Recommended for application by letter of the Bank of Russia No. 06-52/2463 of April 10, 2014 On Corporate Governance Code.

Key Participants of the Corporate Governance Model in PJSC Inter RAO



Brief information about the Company's local regulatory acts are specified in Appendix 11. The Company's local regulatory acts. Moreover, the Articles of Association and other internal policies and procedures are available on the corporate website <http://www.interrao.ru/en/investors/corporate-governance/corporate-docs/>

Evaluating the Quality of the Corporate Governance System

99% of the Code's recommendations are fully or partially respected by PJSC Inter RAO

The Company does its best to increase the corporate governance level by means of improving the quality and maturity of governance practices year by year. The Code's recommendations are taken by the Company as a general basis for self-assessment and development of corporate governance practice. This allows the Company to use the Code as an all-in-one tool aimed at analyzing the level of corporate governance in PJSC Inter RAO and comparing it with competitors. The Company complies, to some extent, with 99% of the corporate governance principles, and it significantly improved the indicator of complete compliance with the recommendations of the Corporate Governance Code by 5 p.p. (from 87% to 92%) compared to 2016.

A detailed report on the Code's principles and recommendations is presented in Appendix 4. Report on Compliance with the Principles and Recommendations of the Corporate Governance Code.

Results of the self-assessment of the corporate governance practice on compliance with the Russian Corporate Governance Code's principles and recommendations⁹⁵

Corporate Governance Principles	Number of principles recommended by the Code	2016			2017			
		Observed	Partially observed	Not observed	Observed	Partially observed	Not observed	
Shareholders' rights and equal conditions for the shareholders when exercising their rights	13	12	-	1	12	-	1	
Board of Directors	36	33	3	-	33	3	-	
Corporate Secretary of the Company	2	-	2	-	2	-	-	
Remuneration system of members of the Board of Directors and the Company's top managers	10	9	1	-	9	1	-	

⁹⁵ The statistics were provided on the basis of the Report on Compliance with the Principles and Recommendations of the Corporate Governance Code prepared based on the Bank of Russia's letter of reference No. IN-06-52/8 of February 17, 2016.

Risk management and Internal Control Framework	6	6	-	-	6	-	-	
Disclosure of the Company's information	7	7	-	-	7	-	-	
Significant corporate actions	5	2	1	2	4	1	-	
OVERALL ASSESSMENT	79	69	7	3	73	5	1	
	100%	87 %	9%	4%	92 %	6%	1%	

Furthermore, the Company has conducted self-assessment of the corporate governance level under the method of the Federal Agency for State Property Management (Rosimushchestvo) in recent years⁹⁶. The results of assessment carried out at the start of 2018 registered growth of the compliance level from 86% (2017) to 88%.

Improving the System of Corporate Governance in 2017

The key activities aimed at improving the corporate governance practice in 2017 were as follows:

- Update of the Company's internal documents in accordance with amendments in Russian legislation. Amendments to the Federal Law on Joint-Stock Companies related to changes in control of major and related-party transactions were taken into account in the new edition of the Company's Articles of Association⁹⁷;
- Provision of electronic voting opportunity for shareholders at the Company's Annual General Meeting of Shareholders;
- Approval of the Regulation on the Procedure for Considering Significant Corporate Actions⁹⁸, providing for preliminary consideration of such items by independent directors;
- Development and approval of the Policy of Cooperation with Independent Auditor⁹⁹. The Policy determines the Company's approaches to choosing an auditor, approval of and interaction with this auditor, including the procedure for consideration of issues related to non-audit services;
- Approval of the Regulation on the Board of Directors and the Regulation on the Management Board of PJSC Inter RAO by the Annual General Meeting of Shareholders in the new edition;
- Update and approval of the Succession Plan for members of the Board of Directors and members of the Management Board by the Board of Directors, developed for 2017/2018 inclusively¹⁰⁰;

⁹⁶ Approved by Order No. 306 of August 22, 2014 of the Federal Agency for State Property Management (Rosimushchestvo).

⁹⁷ Approved by the Annual General Meeting of Shareholders of PJSC Inter RAO on June 9, 2017 (Minutes No. 17 of June 9, 2017).

⁹⁸ Approved by the resolution of the Board of Directors of August 30, 2017 (Minutes No. 207 of September 1, 2017).

⁹⁹ Until August 30, 2017, the External Auditor Rotation Policy of PJSC Inter RAO approved by the Board of Directors of July 31, 2015 (Minutes No. 149 of August 3, 2015) was in effect at the Company.

¹⁰⁰ Minutes No. 209 of October 2, 2017.

- Approval of the Regulation on the Audit Committee of the Board of Directors of PJSC Inter RAO by the Board of Directors in the new edition¹⁰¹. The powers of the Committee were expanded in terms of issues related to control and assessment of the Company's corporate governance system;
- In 2017, the Board of Directors reviewed the Report on the Company's Corporate Governance Practice in 2016 prepared by the unit's head exercising the functions of corporate secretary¹⁰². The Corporate Governance Code's recommendation on determining the amount of remuneration and principles of bonus payments to the unit's head exercising the functions of corporate secretary was implemented by the Board of Directors of the Company¹⁰³;
- The Board of Directors reviewed the Report on assessment of the efficiency of the risk management and Internal Control Framework and the corporate governance practice prepared by the Internal Audit Unit¹⁰⁴. All the Internal Audit Unit's recommendations were considered by the Board of Directors and implemented by the management body of the Company.

In 2018, the Company will continue to improve the corporate governance based on the ongoing interaction between all participants of the system of corporate relations: shareholders, members of the Board of Directors, together with committees and management in order to achieve the strategic targets and development priorities of the Company, respect the interests, and maximize profit of the shareholders in the short, medium, and long terms. For more detailed information about the Company's plans, see Appendix 4. Report on Compliance with the Corporate Governance Code.

2.3. General Meeting of Shareholders

The competencies, terms, procedure of preparation and holding of the General Meeting of Shareholders are defined in the Federal Law “On joint-stock companies”, the Company’s Articles of Association and the Regulation on the General Meeting of Shareholders in PJSC Inter RAO.

The General Meeting of Shareholders is the PJSC Inter RAO’s supreme management body in accordance with the Company’s Articles of Association and the Federal Law “On joint-stock companies” that ensures the exercising of the rights by the shareholders of PJSC Inter RAO to manage the Company.

The Regulation on the General Meeting of Shareholders is published on the corporate website <http://www.interrao.ru/en/investors/corporate-governance/management/>

Information on Holding General Meetings of Shareholders in 2017

Annual General Meeting of Shareholders of PJSC Inter RAO June 9, 2017	The following items were addressed: <ul style="list-style-type: none"> • approval of the Company’s annual report;
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¹⁰¹ Minutes No. 191 of February 28, 2017.

¹⁰² Minutes No. 195 of April 7, 2017.

¹⁰³ Minutes No. 197 of May 2, 2017.

¹⁰⁴ Minutes No. 197 of May 2, 2017.

In the form of joint presence with use of the electronic voting technology (Minutes No. 17 of June 9, 2017)	<ul style="list-style-type: none"> • approval of the Company's annual accounting (financial) statements; • distribution of profit (including on payment (announcement) of dividends) and losses of the Company following the results of 2016; • payment of remuneration to members of the Company's Board of Directors; • payment of remuneration to members of the Company's Revision Committee; • electing members to the Company's Board of Directors; • electing members to the Company's Revision Committee; • approval of the Company's auditor; • approval of the amended Articles of Association of the Company; • approval of the Regulation on the Board of Directors in the new edition; • approval the Regulation on remuneration and compensation to the Company's Board of Directors in the new edition; • approval of the Regulation on the Company's Management in the new edition; • participation of the Company in financial and industrial groups, associations, and other unions of commercial organizations.
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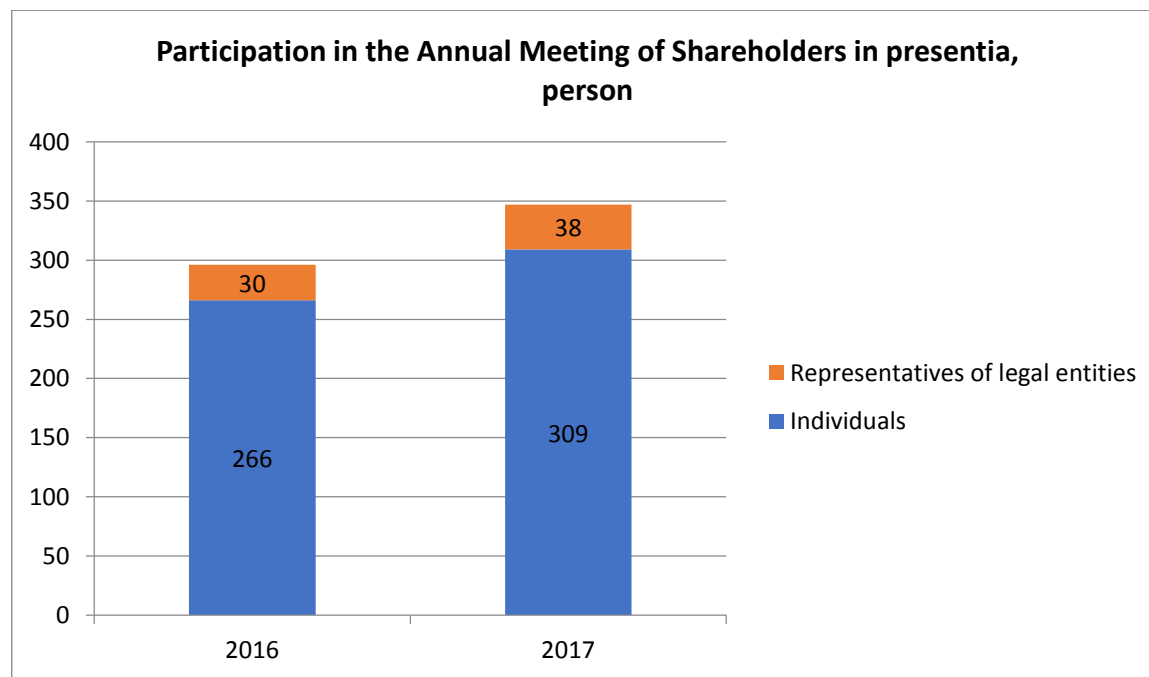
The General Meeting of Shareholders of PJSC Inter RAO was organized with use of the electronic voting technology. For the first time in the Company, with the number of shareholders exceeding 400 thousand¹⁰⁵, the shareholders had an opportunity to vote by electronic means from the moment of sending of notices on holding the meeting to discussing agenda items at the meeting itself.

More than 340 shareholders registered for participation in the Annual General Meeting of Shareholders as present, and more than 20 shareholders voted by electronic methods.

Participants in the Annual General Meeting of Shareholders of June 9, 2017:

	Individuals	Legal entities	Total number of persons
Total number of persons, including	1,038	96	1,134
- present	309	38	347
- in absentia	729	58	787

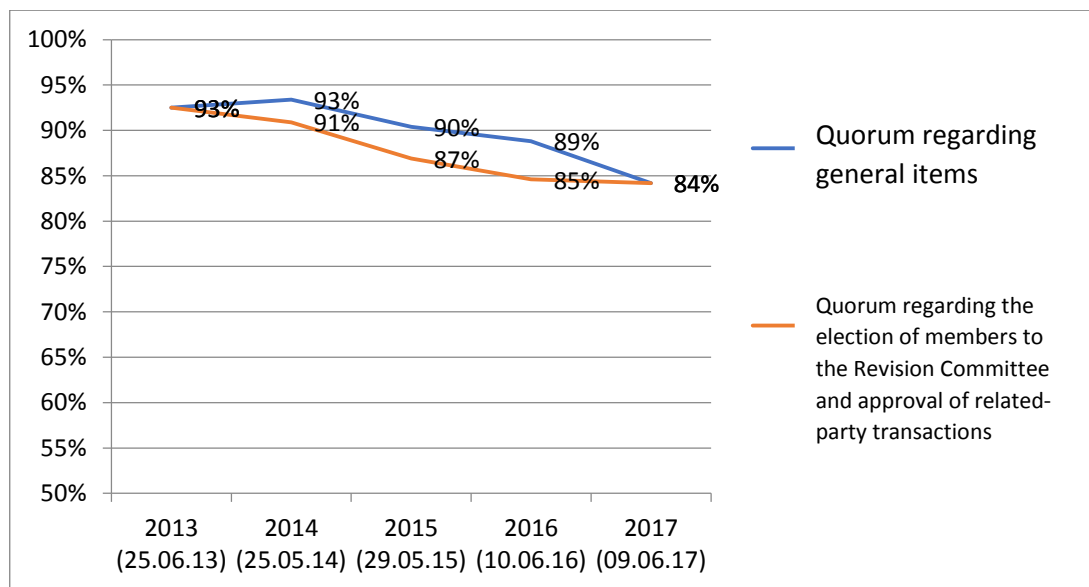
¹⁰⁵ The total number of persons included in the final list of persons who had a right to take part in the General Meeting of Shareholders of the issuer held on June 9, 2017 was 406,022.



Persons recorded in the register of shareholders of PJSC Inter RAO: 354,306¹⁰⁶, of which are individuals – 351,545.
 Register keeper of PJSC Inter RAO in 2017: JSC R.O.S.T. Registrar
 Register keeper of PJSC Inter RAO since April 2, 2018: JSC VTB Registrar

Quorum of general meetings of shareholders

¹⁰⁶ The total number of persons with a non-zero balance on personal accounts, recorded in the register of shareholders of PJSC Inter RAO as of December 31, 2017.



According to the statistics, the number of shareholders who participated in the voting for the last five years decreased by 9 p.p. The Company connects this primarily with a significant increase of free-float with participation of foreign investors, and legislative changes that entered into force in this period and implemented the cascade voting system in Russian practice¹⁰⁷. Such result was obtained, despite the Company's efforts to notify shareholders about the AGMS and implement recommendations of the Corporate Governance Code on opening a forum for agenda items discussion, a hotline regarding items of the AGMS, and interaction with agencies which give recommendations on voting at the meeting, as well as prepare information materials.

Together with the detection of this problem, the Company is analyzing new possibilities for cooperation with shareholders aimed at increasing their involvement in the Company's operations within the framework of their rights. It should be noted that the number of shareholders participating in person at the AGMS is steadily growing.

2.4. Board of Directors Performance Overview

The procedure of work and competence of the Board of Directors shall be defined by the Russian Federation laws, Articles of Association and Regulation on the PJSC Inter RAO's Board of Directors.

¹⁰⁷ Cascade voting: the method of acceptance and transfer of shareholders' votes through a chain of nominal shareholders (depositories) to the registrar and the Company.

The Board of Directors of PJSC Inter RAO carries out general strategic management for the Company and is a key element of its corporate governance system. In particular, the Board of Directors ensures protection and exercising of rights by shareholders, monitors development, analysis, and performance of the strategy, takes part in creation of the effective mechanisms of internal control over the financial and business activities of the Company together with the system of risk management, sets general parameters of the business plan and monitors its implementation, determines the management system for subsidiary companies, and decides on key projects and significant transactions.

The Articles of Association and the Regulation on the Board of Directors set the establishment procedure, status, functions, goals and targets, authority of the Board of Directors, its work, and its interaction with other management bodies of PJSC Inter RAO. PJSC Inter RAO¹⁰⁸.

The Regulation on the Board of Directors is published on the website:

http://www.interrao.ru/en/upload/doc/Regulations_on_the_Board_of_Directors_09.06.17.pdf

Evaluation of the Board of Directors' Performance

In 2017, the average rating of the performance of the Board of Directors, its committees, and the Corporate Secretary was 4.8 on a scale from 1–5. The average score showed an increase by 11% compared to the previous self-assessment conducted in 2015 for the 2014-2015 corporate year.

According to the Corporate Governance Code, the Board of Directors shall assess the quality of the Board of Directors itself, as well as its members and committees in terms of the balance of their professional experience, expert knowledge, and independence. Evaluation of the Board of Directors' activity provides the Company with a range of competitive advantages, including an increase of the investment attractiveness and shareholders' trust due to the Board's higher transparency as a key management body. Moreover, evaluation is important for timely amendment of work plans, as well as the work conditions of the Board of Directors in order to maximize its effectiveness, creation of an efficient training system for the Board's members, and consideration of the results when electing new members to the Board of Directors.

The annual procedure of self-assessment of the Board of Directors' performance¹⁰⁹ was conducted in 2017 for the 2016/2017 corporate year with the assistance of JSC VTB Registrar. Results of the self-assessment conducted in the reporting year were reviewed at the attendee meeting of PJSC Inter RAO's Board of Directors of June 26, 2017¹¹⁰.

Key Conclusions of the Self-Assessment of the Board of Directors' Performance

- The performance of the Board of Directors, the Chairman of the Board of Directors, the Corporate Secretary, the Audit Committee, the Strategy and Investment Committee, and the Nominations and Remunerations Committee is generally highly efficient;

¹⁰⁸ Minutes No. 17 of June 9, 2017.

¹⁰⁹ The self-assessment procedure is stipulated by the Regulation on Assessment of Performance of the Board of Directors of PJSC Inter RAO approved by the Company's Board of Directors on February 21, 2014 (Minutes No. 108 of February 24, 2014 of the Board of Directors' meeting) and is conducted by surveys of the Board's members followed by data processing.

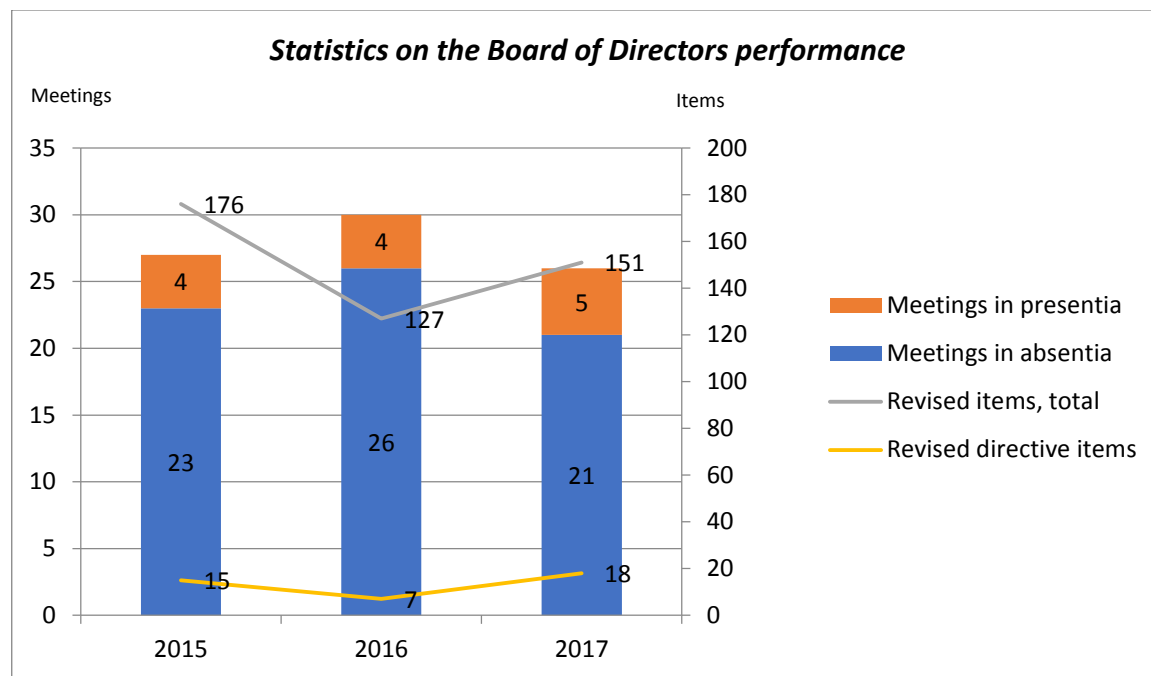
¹¹⁰ Minutes No. 203 of June 26, 2017.

- The number of members of the Board of Directors corresponds to the Company's needs;
- The Board of Directors' level of engagement in analysis of critical risks, as well as analysis of achievement of the management performance indicators, is high;
- The Board of Directors achieved a high level in terms of rotation of its members, succession, and support of competences development of the Board's members;
- The Board of Directors contributes to and supports the development of competences and knowledge of its members;
- The Board of Directors achieved a high level in many issues related to effectiveness of its meetings;
- Independent directors constantly maintain a high level of preparation both in specialized and the industry's subject matters, which allows them to monitor efficiently the completeness of financial information and the financial control system;
- The communication level between Non-executive Directors and the Chairman of the Board of Directors is high;
- All committees of the Board of Directors and the Corporate Secretary are functioning at a high level.

Based on results of the self-assessment of the Board's activities in 2017, the Nominations and Remunerations Committee developed recommendations on improving the performance of the Board of Directors, which were adopted as instructions of the Board of Directors and are considered when developing the Nominations and Remunerations Committee and the Board of Directors' work plans for 2017/2018 corporate year. Following the results of the implementation of the instructions, the Succession Plan for persons who are members of the Company's management bodies was updated; a list of materials presented to members of the Board of Directors for their preparation for the Board's meetings was specified; and benchmarking of remuneration systems of the Board's members and the Company's management was reviewed at a meeting of the Nominations and Remunerations Committee.

In 2016, the Company carried out an independent evaluation of the Board of Directors' performance, the results of which were disclosed in PJSC Inter RAO's Annual Report 2016. The next independent evaluation is scheduled for 2019.

Report on the Board of Directors' Performance in Priority Areas



In 2017, 26 meetings of the Board of Directors were held, 5 of them attendee and 21 in absentia.

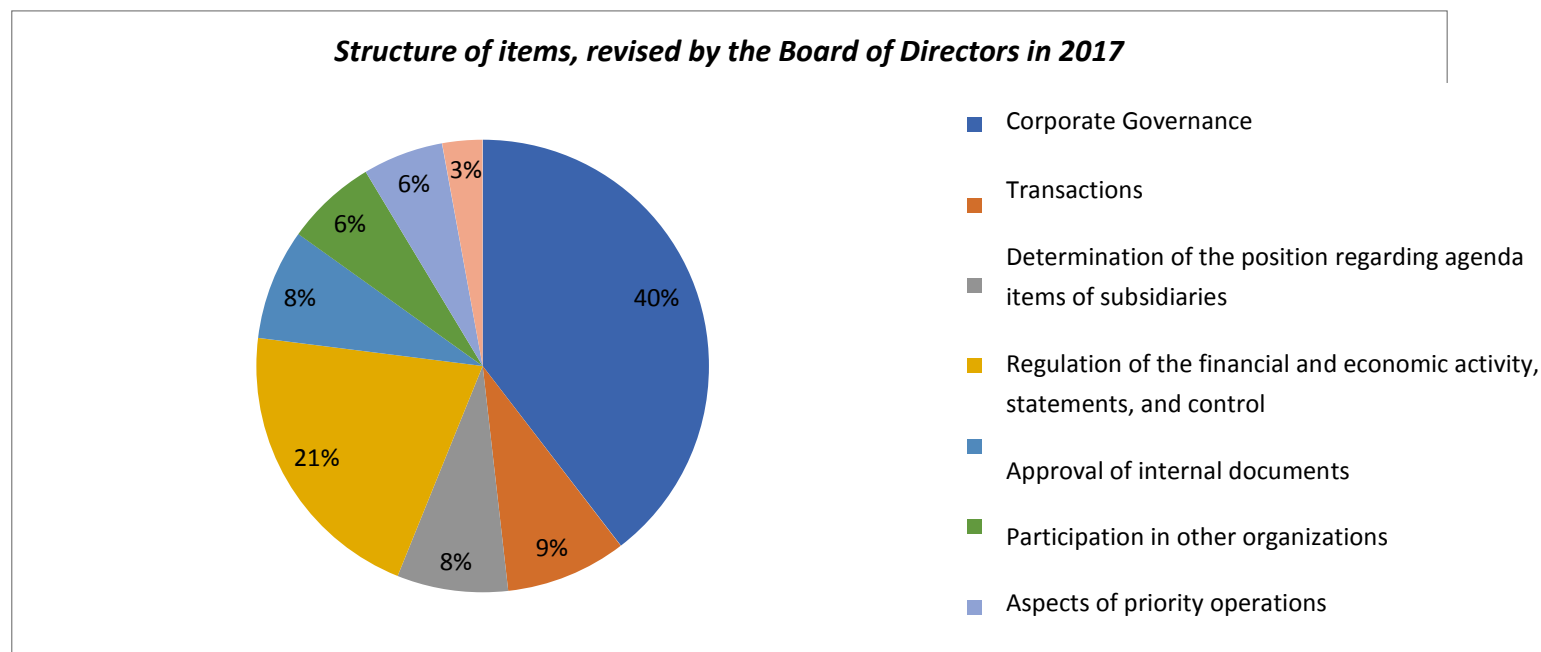
	Board of Directors¹¹¹	<i>Strategy and Investment Committee (19 meetings)</i>	<i>Audit Committee (17 meetings)</i>	<i>Nominations and Remunerations Committee (22 meetings)</i>
Igor Sechin	25(2)/26			
Dmitry Shugaev	9/26		2/2	1/1
Boris Ayuyev	26(1)/26			
Andrei Bugrov	26/26		15/15	22/22
Anatoly Gavrilenko	24/26	8/8		
Boris Kovalchuk	26/26			

¹¹¹ Attendance of the Board of Directors' meetings is calculated by the formula X(Y)/Z: X – number of meetings attended by the Board's member or if he/she provided a written opinion, Y – number of meetings in which the Board's member took part by sending a written opinion, Z – total number of meetings in which the Board's member could take part.

Alexander Lokshin	25(1)/26		17/17	
Andrei Murov	26(1)/26			
Ronald J. Pollet	26/26	11/11	17/17	22/22
Elena Sapozhnikova	26/26	11/11	9/9	21/21
Denis Fedorov	26(3)/26			

The minutes of meetings of the Board of Directors are available on the website: <http://www.interrao.ru/en/investors/corporate-governance/management/minutes/2017.php>

At the meetings, 151 items were considered, including 81 directive items. In the reporting year, principal attention at the meetings of the Board of Directors was paid to the issues of corporate governance, approval of transactions, aspects of priority operations, regulation of the Company's financial and economic activity, and also questions of controlled organizations' performance.



While planning its work and performing activities, the Board of Directors focuses on priority areas which are the most important for successful current and future development of PJSC Inter RAO.

Corporate Governance Improvement

The Board of Directors of PJSC Inter RAO plays a key role in continuous improvement of the corporate governance system. Timely updating of corporate practices of the Company and introduction of the best corporate governance management innovations known worldwide and in Russia contribute to keeping the corporate governance level in the Company high. The level of full or partial fulfillment of the principles and recommendations of the Corporate Governance Code almost achieved 100% thanks to the work done in 2017.

You may find more information in sections Corporate Governance: Quality Assessment of the Corporate Governance System and Corporate Governance: Improvement of the Corporate Governance System in 2017.

Strategy and development of priority businesses

Within the framework of implementation of PJSC Inter RAO Strategy through 2020, the Board of Directors during the year monitored the performance of priority businesses. In the reporting year, the strategic priorities of Inter RAO Group for 2018 were considered and approved within the competence of the Board of Directors.

Performance evaluation and control over adopted plans and budgets execution

In 2017, the Board of Directors approved the reports on execution of the Business Plan of PJSC Inter RAO and Inter RAO Group for 2016, on achievement of the annual key performance indicators of PJSC Inter RAO proceeding from results of 2016, and on investor relations. All the above issues were considered at attendee meetings with preliminary discussion at attendee meetings of specialized committees of the Board of Directors.

Remuneration and motivation of the Board of Directors and management

In 2017, the General Meeting of Shareholders approved a new revision of the Regulations on the payout of remuneration and compensations to the Board of Directors' members of PJSC Inter RAO. Changes were introduced to make the Board members remuneration system comply with the Corporate Governance Code based on the recommendations submitted as a result of independent assessment of the Board of Directors' performance in 2016: eliminating the possibility of paying additional remuneration to the members of the Board of Directors.

For more information on remuneration of the Board members and management – please see the section Remuneration to members of the Board of Directors and Management Board.

Planning the succession in the Board of Directors

To support the balance of qualifications and experience of the members of the Board of Directors and continuous updating of its composition, taking into consideration the need for independent directors in the membership of the Board of Directors, the Board of Directors, according to recommendations of the Nominations and Remunerations Committee, annually updates the Succession Plan of the Board of Directors and the Management Board first approved by the Board of Directors in 2014. The current Succession Plan for members of the Board of Directors and members of the Management Board was developed for the period from 2017 to 2018, inclusive.

Control over fulfillment of instructions and resolutions of the Board of Directors

In the Company, control over fulfillment of instructions of the Board of Directors is provided by the Corporate and Property Matters Unit (division functioning as a corporate secretary), and decrees of the Chairman of the Management Board. Fulfillment of instructions of the Board of Directors is one of the indicators for cancellation of a bonus to the Chairman of the Company's Management Board.

In 2017, 67 instructions of the Board of Directors were fulfilled. The 2017 report was considered at the attendee meeting of the Board of Directors on March 15, 2018.¹¹²

Introductory program for newly elected members of the Board of Directors

The members of the Board of Directors elected for the first time go through an introductory program, which includes holding a meeting (or a number of meetings) with executive management and the Company's key employees, in the course of which the members of the Board of Directors listen to reports of the management of PJSC Inter RAO and other relevant materials on key questions of the Company's activity.

In 2017, the composition of the Board of Directors did not change; therefore, the introductory meeting was not held.

Composition of the Board of Directors

The composition of the Board of Directors of PJSC Inter RAO is determined by the Company's Articles of Association as consisting of 11 persons. The members of the Company's Board of Directors are elected on an annual basis by the General Meeting of Shareholders, by cumulative vote.

Box:

According to clause 2.1 of the Regulation on the Board of Directors, PJSC Inter RAO, the Board of Directors should be formed in such a way as to ensure the balance of professionalism, knowledge, and experience for due performance of their duties by the members of the Board of Directors in the Company's interests, considering the development strategy of the Company. Members of the Company's Board of Directors must have a well-established high business reputation, in particular, among investors, and have no conflict of interests with the Company.

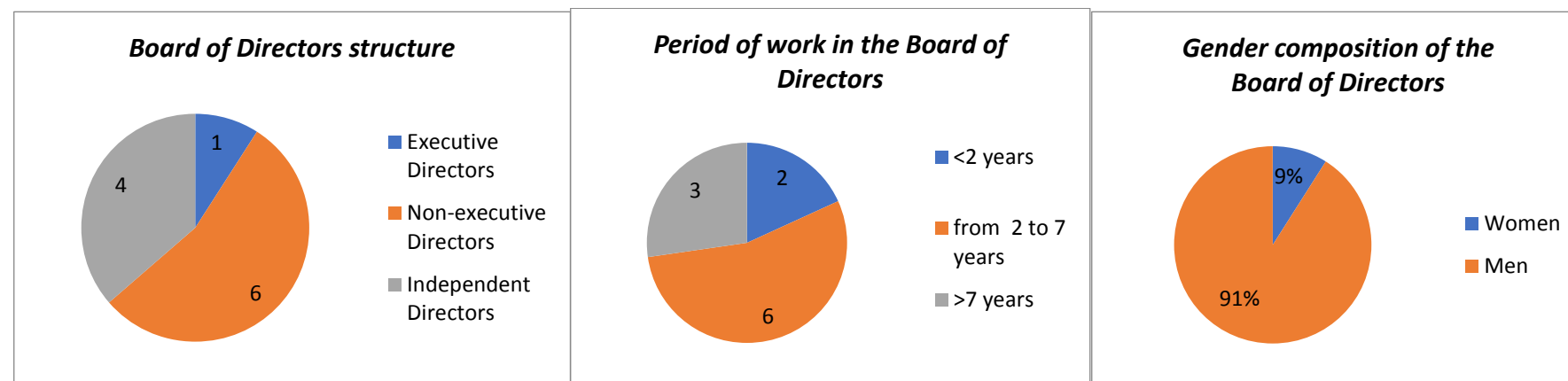
Candidates to the Board of Directors shall meet at least one of the following criteria:

- be respected experts in electric energy, finances, law, strategic management, audit, risk management, HR management, corporate governance, production modernization, innovations and investments;
- have experience working on the boards of directors or at top management positions of other joint-stock companies, which are on the quotation lists of the official trade platforms (stock exchange), including international companies.


¹¹² Minutes No. 219 of March 15, 2018


The Nominations and Remunerations Committee evaluates all the candidates nominated to the Board of Directors for compliance with the established criteria.

The number of the Board members best corresponds to the current objectives and goals of the Company, and industry practices, ensuring the required balance of competences among the Board members. In addition, the Board of Directors is well-balanced in terms of independence, which ensures an effective system of checks and balances in the model of the Company's corporate governance. The current composition of the Board of Directors comprises four independent directors, i.e., over 1/3 of the total number of Board members, which exceeds the number specified in the Rules of listing and the Corporate Governance Code recommended by the Bank of Russia.





Biographies of the Members of the Board of Directors

 <p>Igor Sechin <i>Chairman of the Board of Directors of PJSC Inter RAO</i></p>	<p>Positions held during five past years: 2012 – present day: Chief Executive Officer, Chairman of the Management Board of PJSC Rosneft; 2008–2012: Deputy Chairman of the Government of the Russian Federation.</p> <p>Membership on boards of directors (supervisory boards) of other organizations: Chairman of the Board of Directors of JSC ROSNEFTEGAZ; Chairman of the supervisory Board of Directors of PHC CSKA LLC; Deputy Chairman of the Board of Directors of PJSC Rosneft; Chairman of the Board of Directors in National Oil Consortium LLC.</p> <p>Does not hold shares of PJSC Inter RAO.</p>
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<p>Non-executive Director</p> <p>Was first elected to the Board of Directors on October 23, 2008 and executed the powers of a member of the Board of Directors until June 24, 2011. Newly elected to the Board of Directors on June 25, 2013.</p> <p>Year of birth: 1960 Education: Graduated in 1984 from Leningrad State University. PhD in Economics.</p> <p>Citizenship: Russian Federation</p>	
 <p>Dmitry Shugaev</p> <p>Deputy Chairman of the Board of Directors of PJSC Inter RAO Non-executive Director</p> <p>Independent director until February 28, 2017 ¹¹³ First elected to the Board of Directors on June 24, 2011 Year of birth: 1965 Education: Graduated in 1987 from Moscow State Institute of International Relations under the USSR Ministry of Foreign Affairs. International journalist with a command of a foreign language. PhD in Economics.</p>	<p>Positions held during five past years: 2017 – present: Director of the Federal Service for Military and Technical Cooperation; 2008–2017: Deputy General Director of Rostech State Corporation.</p> <p>Membership on boards of directors (supervisory boards) of other organizations: Member of the Board of Directors of JSC Rosoboronexport.</p> <p>Does not hold shares of PJSC Inter RAO.</p>

¹¹³ By the decision of the Board of Directors of February 28, 2017, the Deputy Chairman of the Board of Directors of PJSC Inter RAO, D. Shugaev was appointed as non-executive officer since he was appointed by the decree of the President of Russia No. 42 of January 31, 2017 to the position of director of the Federal Service for Military and Technical Cooperation; thus, he is no longer an independent director.

Citizenship: Russian Federation	
 <p>Boris Ayuyev <i>Non-executive Director</i></p> <p>First elected to the Board of Directors on June 10, 2016. Year of birth: 1957 Education: Graduated in 1979 from Ural Polytechnic Institute with a specialty in Electricity Networks. PhD in Technical Sciences.</p> <p>Citizenship: Russian Federation</p>	<p>Positions held during five past years: 2004 – present: Chairman of the Management Board of JSC SO EUS. 2015 – present: Member of Presidium of the Non-commercial Partnership “Russian National Committee of the International Council on Large High-Voltage Systems” (2009 – 2015: Chairman).</p> <p>Membership on boards of directors (supervisory boards) of other organizations: Member of the Board of Directors of JSC SO UES, PJSC Rosseti.</p> <p>Awards: 2017 – by decree of the Ministry of Energy of Russia No. 21p of March 10, 2017, for his considerable personal contribution to the development of the fuel and energy complex and many years of dedicated work, the award Honorary Worker of the Fuel and Energy Complex was conferred. 2017 – by decree of the Ministry of Energy of Russia No. 39p of April 06, 2017, for his considerable personal contribution to the development of the fuel and energy complex and many years of dedicated work, the medal in Recognition of Contribution to the Development of Fuel and Energy Complex, 1 grade was awarded. 2014 – by decree of the President of Russia No. 593 of September 01, 2014, he was awarded the Order of Friendship for his considerable contribution to the preparation and conducting of the XXII Olympic Winter Games and XI Paralympic Winter games of 2014 in Sochi; 2013 – received a commendation of the Russian Federation President by order of the Russian Federation President of December 25, 2013 No. 484-rp, for his considerable contribution to the liquidation of consequences of the accident at the P.S. Naporozhniy Sayano-Shushenskaya HPP; 2012 – was awarded an Order of Honor by Decree of the Russian Federation President of May 30, 2012 No. 746 for achieved success in work and many years of diligent work; 2008 – received a second-class medal of the Order of Merit for the Motherland by Decree of the Russian Federation President of March 8, 2008 No. 329 for his considerable contribution to the development of the fuel and energy complex and many years of diligent labor.</p>

	Owns 7,306,329.79 shares of PJSC Inter RAO (0.0069984% of the Company's authorized capital).
 <p>Andrei Bugrov <i>Independent director</i>¹¹⁴</p> <p>First elected to the Board of Directors on May 25, 2014. Year of birth: 1952 Education: Graduated in 1974 from the Moscow State Institute of International Relations majoring in International Economic Relations. PhD in Economics.</p> <p>Citizenship: Russian Federation</p>	<p>Positions held during five past years: 2016 – present: Senior Vice President of PJSC MMC Norilskiy Nickel; 2013 – present: member of the Management Board of PJSC MMC Norilskiy Nickel; 2013 – present: Vice President of CJSC Holding Company INTERROS; 2016 – present: Chairman of Shares Issuers Committee, PJSC Moscow Exchange; 2016 – present: Member of the Expert Council for Corporate Management, Bank of Russia; 2014 – present: member of the Expert Council under the Russian Federation President Administration for fighting corruption; 2013 – present: Vice President of the Russian Union of Industrialists and Entrepreneurs; 2006 – present: Member of the Management Board of the Russian Union of Industrialists and Entrepreneurs; 2002 – present: member of the Non-Governmental Public Association “Council for Foreign and Defense Policy”; 2015 – 2016: Member of the Investments Committee of PJSC Federal Hydro Generating Company – RusHydro; 2015–2016: Vice President of PJSC MMC Norilskiy Nickel; 2013–2015: Deputy General Director of PJSC MMC Norilskiy Nickel; 2010–2013: Deputy General Director, member of the Management Board of CJSC Holding Company INTERROS.</p> <p>Membership on boards of directors (supervisory boards) of other organizations: Deputy Chairman of the Board of Directors of PJSC MMC Norilskiy Nickel;</p> <p>Awards: 2017 - winner of 12th National Award Director of the Year, nomination Contribution in the Development of the Institute of Independent Directors. 2013 – winner of the 8th National Award Director of the Year, nomination</p>

¹¹⁴ The status was determined by the resolution of the Board of Directors of June 9, 2017 (Minutes No. 202 of June 9, 2017), confirmed by the Board of Directors on December 26, 2017 (Minutes No. 215 of December 28, 2017).

	<p>Independent Director.</p> <p>Does not hold shares of PJSC Inter RAO.</p>
 <p>Anatoly Gavrilenko <i>Non-executive Director</i></p> <p>Independent director until May 5, 2017¹¹⁵ First elected to the Board of Directors on May 29, 2015. Year of birth: 1972 Education: Graduated in 1995 from Lomonosov Moscow State University, majoring in Economic Cybernetics, qualification: Economist – Mathematician. Graduated in 2001 from Lomonosov Moscow State University, majoring in Jurisprudence, qualification: Lawyer.</p> <p>Citizenship: Russian Federation</p>	<p>Positions held during five past years: 2004 – present: General Director of CJSC Leader.</p> <p>Membership on boards of directors (supervisory boards) of other organizations: Member of the boards of directors of PJSC Leader, PJSC Mosenergo, JSC GAZ-Tec, PJSC RCC Energy, JSC GAS-service, JSC GAZCON, Bank GPB (JSC), PJSC MOESK.</p> <p>Does not hold shares of PJSC Inter RAO.</p>

¹¹⁵ By the decision of the Board of Directors of May 5, 2017, Member of the Board of Directors of PJSC Inter RAO, A. Gavrilenko was appointed as non-executive officer (Minutes No. 198 of May 5, 2017).



Boris Kovalchuk

***Chairman of the Management Board of PJSC Inter RAO
Executive Director***

First elected to the Board of Directors on June 25, 2009.

Year of birth: 1977

Education: In 1999, graduated from St. Petersburg State University, majoring in Jurisprudence, qualification: Lawyer.

Citizenship: Russian Federation

Positions held during five past years:

2010 – present: Chairman of the Management Board of PJSC Inter RAO;

2010 — present: member of the Management Board of the Russian National Association of Employers, the Russian Union of Industrialists and Entrepreneurs, the Russian National Public Organization and the Russian Union of Industrialists and Entrepreneurs;

Membership on boards of directors (supervisory boards) and management bodies of other organizations:

Chairman of the Board of Directors in JSC Inter RAO Capital;

Chairman of boards of directors (supervisory boards) in PHC TSSKA LLC, JSC Russian Regional Development Bank, RIG Research Pte. Ltd;

Member of the Board of Trustees of the Federal State Budgetary Educational Establishment of Higher Education National Research University “MPEI”;

Member of the Board of Trustees of the Fund to Support Scientific and Project Activities of Students, PhD Candidates, and Young Researchers National Intellectual Development.

Awards:

2017 — Received an Honorary Certificate of JSC SO EUS.

2015 — awarded a silver medal for Cooperation of the Ministry of Justice of the Russian Federation.

2014 – awarded a commemorative medal and the Order of Friendship for his considerable contribution to the preparation and holding of the 22nd Winter Olympics and 11th Winter Paralympics – 2014 in Sochi;

2012 – received an Order of Honor, a state award.

2011 – awarded the title Honorary Energy Worker.

Owns 2,429,000 shares of PJSC Inter RAO (0.00233% of the Company’s authorized capital).



Alexander Lokshin

Independent director¹¹⁶

First elected to the Board of Directors on October 23, 2008 and executed the powers of a member of the Board of Directors until June 25, 2009.

Newly elected to the Board of Directors on June 25, 2010.

Year of birth: 1957

Education: Graduated in 1980 from Kalinin Leningrad Polytechnic Institute (today – St. Petersburg State Polytechnical University), majoring in Thermal Physics.

Received training in the Academy of National Economy under the Russian Federation Government, program “President”.

Citizenship: Russian Federation

Positions held during five past years:

2012 – present: First Deputy General Director for operations management of Rosatom State Corporation;

2008 – present: member of the Management Board of Rosatom State Corporation.

Membership on boards of directors (supervisory boards) of other organizations:

Chairman of the Board of Directors of JSC Atomredmetzoloto, JSC Concern Rosenergoatom.

Awards:

Awarded the title “Honorary Worker of Energy Industry of the Russian Federation”.

Does not hold shares of PJSC Inter RAO.

¹¹⁶ Recognized as an independent director according to resolutions of the Board of Directors of June 9, 2017 (Minutes No. 202 of June 9, 2017) and December 26, 2017 (Minutes No. 215 of December 28, 2017).



Andrei Murov

Non-executive Director

First elected to the Board of Directors on May 25, 2014.

Year of birth: 1970

Education: Graduated in 1993 from St. Petersburg State University majoring in Jurisprudence.

In 1998, he took a retraining course in the Financial Management program at the Interdisciplinary Institute of Advanced Training and Retraining of Executive Staff.

In 2009, he graduated from the State University of Civil Aviation majoring in Organization of transportation and management of transport (air transport).

PhD in Economics.

Citizenship: Russian Federation

Positions held during five past years:

2013 – present: Chairman of the Management Board of PJSC FGS UES;

2012 – present: Member of the Management Board of PJSC FGS UES;

2012–2013: First Deputy Chairman of the Management Board, Acting Chairman of the Management Board of PJSC FGS UES;

2012-2013: Chief Executive Officer of JSC Rosseti;

2015 – present: Chairman of the Non-Commercial Partnership Russian National Committee of the International Council on Large Electric High-Voltage Systems;

2014 – present: member of the Board of Overseers of the Federal State Budgetary Educational Establishment of Higher Professional Education National Research University “MPEI”;

2014 – present: member of the Board of Overseers of the Federal State Budgetary Educational Establishment of St. Petersburg State University;

2014 – present: member of the Board of Overseers of the Federal State Budgetary Educational Establishment of St. Petersburg State University of Economics.

Membership on boards of directors (supervisory boards) of other organizations:

Member of the Board of Directors of PJSC FGS UES, JSC SO UES, PJSC Rosseti, Association for Development of International Studies and Projects in the Energy Industry Global Energy;



Member of the High Council of the All-Russian non-commercial organization Sport Federation (Union) of Rugby Schools of Russia

Awards:


Received a second-class medal of the Order of Merit of the Motherland, the Order of Honor, the Order of Friendship, has letters of recognition and acknowledgment from the Governor and administration of St. Petersburg, and the award pin Honored Transport Worker of Russia;

Conferred the title Honorary Energy Worker.

Does not hold shares of PJSC Inter RAO.

 <p>Ronald James Pollett <i>Independent director</i>¹¹⁷</p> <p>First elected to the Board of Directors on June 25, 2013. Year of birth: 1969 Education: Graduated in 1991 from Colgate University (New York State) majoring in Russian studies.</p> <p>Citizenship: USA</p>	<p>Positions held during five past years: 2015 – present: Vice President of General Electric Company, President and Chief Executive Officer of General Electric Company in Russia and CIS; 2008 – present: Head of branch of the Corporation General Electric International Inc. (USA) in Moscow; 2003 – present: General Director of GE Rus LLC. 2009–2015: General Director of GE Rus Infra LLC; 2008 – 2015: President and Chief Executive Officer of General Electric Company in Russia and CIS;</p> <p>Membership on boards of directors (supervisory boards) of other organizations: Member of the Board of Directors RIG RESEARCH PTE. LTD; Chairman of the Board of Directors of the American Chamber of Commerce in Russia; Member of boards of directors of the American-Russian Business Council, American Chamber of Commerce in Russia.</p> <p>Does not hold shares of PJSC Inter RAO.</p>
 <p>Elena Sapozhnikova</p>	<p>Positions held during five past years: 2013 – present: Partner of UCP Group of Companies United Capitals Partners Advisory LLC; 2013-2017 – Chief Executive Officer of UCP Group United Capitals Partners Advisory LLC July 2013–October 2013: Lawyer at the branch of Freshfields Bruckhaus Deringer LLP (Great Britain) in Moscow; 2004–2013: Lawyer at the representative office of Freshfields Bruckhaus Deringer LLP (Great Britain) in Moscow.</p> <p>Membership on boards of directors (supervisory boards) of other organizations: Member of the boards of directors of Tendril Ventures Pte Ltd., Tendril Ventures 2 Pte Ltd., Tendril Ventures 3 B.V., Essar Oil Limited</p>

¹¹⁷ The status was determined by the resolution of the Board of Directors of June 9, 2017 (Minutes No. 202 of June 9, 2017), confirmed by the Board of Directors on December 26, 2017 (Minutes No. 215 of December 28, 2017).

<p>Independent director¹¹⁸</p> <p>First elected to the Board of Directors on June 10, 2016. Year of birth: 1978 Education: Graduated in 2000 from Lomonosov Moscow State University, majoring in Jurisprudence.</p> <p>Citizenship: Russian Federation</p>	<p>Does not hold shares of PJSC Inter RAO.</p>
 <p>Denis Fedorov</p> <p>Non-executive Director</p> <p>First elected to the Board of Directors on June 24, 2011. Year of birth: 1978 Education: Graduated in 2001 from Bauman Moscow State Technical University with a specialty as Economist – Manager. In 2003, he graduated from the Moscow Power Engineering Institute (Technical University) after his post-graduate studies in two majors: Economics and Industrial Heat Power Engineering. PhD in Economics.</p> <p>Citizenship: Russian Federation</p>	<p>Positions held during five past years: 2007 – present: Head of the Administration PJSC Gazprom. 2009 – present: General Director of Gazprom Energoholding LLC; 2009 – present: General Director of PJSC Centrenergoholding; 2017 – 2016: General Director of Adlerskaya CHPP LLC; 2010–2013: Chairman of the Management Board of CJSC Kauno Electriner; 2010-2013: Member of the Management Board of the Foundation for the Development of Education, Science and Engineering "Nadezhda"; 2009–2013: Chairman of the Management Board of CJSC Fortis Energy; 2008-2013: Member of the Management Board of PJSC Kaunasskaya Thermal Power Plant.</p> <p>Membership on boards of directors (supervisory boards) of other organizations: Chairman of boards of directors of PJSC OGK-2, JSC Tyumenskaya Energy Sales Company, PJSC Moscow United Energy Company, GEH Engineering LLC; Chairman of the Supervisory Board of NCP "Energy Manufacturers Council"¹¹⁹; Member of the Board of Directors of PJSC Centrenergoholding, PJSC Mosenergo, PJSC TGC-1, Amurskaya CHPP LLC.</p> <p>Does not hold shares of PJSC Inter RAO.</p>

¹¹⁸ The status was determined by the resolution of the Board of Directors of June 9, 2017 (Minutes No. 202 of June 9, 2017), confirmed by the Board of Directors on December 26, 2017 (Minutes No. 215 of December 28, 2017).

¹¹⁹ At the moment of election to the Board of Directors of PJSC Inter RAO on June 9, 2017

During the year 2017, the composition of the Board of Directors did not change.

The information on the number of ordinary registered uncertified shares, owned by the members of the Company's Board of Directors as of December 31, 2017, is presented above in this section of the present Report, as part of the data on the members of the Board of Directors. In the reporting year, no Company shares were acquired or alienated by the members of the Board of Directors.

In 2017, neither the Company nor its subsidiaries issued any loans (credits) to members of the Board of Directors.

Independent Directors

Membership of independent directors in the Board of Directors contributes to independent and reasonable perception using their knowledge, expertise and qualification. Objectivity of independent directors and their constructive feedback is very valuable for the Board of Directors and the Company as a whole. Participation of independent directors contributes to development of resolutions in line with the interests of various groups of parties involved, and improvement in the quality of managerial decisions. Experience of cooperation with independent directors confirms that they show a high degree of professionalism, independent consideration and independent voting on all agenda matters.

An important innovation in the Company's corporate governance practices, beginning in 2017, is the preliminary consideration of material corporate actions by independent directors.

Moreover, the Company conducts business meetings with independent directors for preliminary discussion of key matters to be further considered by the Board of Directors. In 2017, three working meetings were held with the participation of independent Board members.

In 2017, the Nominations and Remunerations Committee of the Board of Directors of PJSC Inter RAO continued the practice of quarterly monitoring of the directors' compliance with the independence criteria set out by the Code and Listing Rules of Moscow Stock Exchange. If the Committee identifies changes in the status of the Board members, the issue of analyzing compliance of the independent Board members with the independence criteria is submitted for consideration to the Board of Directors¹²⁰.

On the Company's Board of Directors, as of the end of the reporting year, 4 Board members had received the status of independent directors¹²¹: Andrei Bugrov, Alexander Lokshin, Ron Pollett, Elena Sapozhnikova.

¹²⁰ In 2017, this matter was considered on February 28, 2017 and May 5, 2017.

¹²¹ Resolution of the Board of Directors of June 9, 2017 (Minutes No. 202 of June 9, 2017), resolution of December 29, 2017 (Minutes No. 215 of December 28, 2017).

Training and Development Program for Members of the Board of Directors

The Company annually organizes training, including workshops, for the Board members in order to develop and improve certain competences and expand knowledge in specific areas. The topics of the programs are subject to prior discussion at the attendee meetings with participation of independent directors, giving due consideration to their high professionalism, recognized business reputation, vast experience of the Board members and based on their work schedule. The activities represent an in-depth study of specific areas of the Company's activity, involving well-known specialists in the market and key managers and employees of the Group. This form of training contributes to increased involvement of the Board members in the Group business, and improvement in the performance of the Board of Directors as a whole.

Within the framework of the Succession Plan, in 2016-2017, the Company conducted two events:

- In 2017, a workshop for members of the Audit Committee on Risk management and internal audit: areas of focus of the Board of Directors;
- In April 2017, the directors received a presentation with analytical materials on responsibility of the Board members, including a description of legislative innovations and current practices.

Within the framework of the Succession Plan for 2017-2018 and according to proposals of the Board members, in September 2017a workshop was held related to supply business of PJSC Inter RAO.

Box:

"All in all, I consider such workshops and seminars for the Board members to be a positive practice. This workshop was conducted in reply to an inquiry made at a Board meeting, on the need to obtain a deeper understanding of key challenges of the Company's supply business, in particular, of matters related to debts receivable. The workshop was held within the specified period with sufficient materials provided, and the information and discussions were very useful."

E. Sapozhnikova

"The seminar on the supply business of PJSC Inter RAO created a good platform for discussion of the challenges in this business and solution approaches. Taking in consideration the structural aspects of these problems, an understanding arose of the challenges and the fact that it will take much time to overcome them. The practice of conducting such seminars is to be continued."

A. Bugrov

Liability Insurance

Based on the best practices and recommendations of the Code, PJSC Inter RAO since 2011 has provided liability insurance for Board members at its sole cost and expense. The insurance is to compensate for potential damage resulting from causing losses to the Company or third parties by management-related activities of the insured persons. The limit of liability according to the Directors, Officers and Companies Liability Insurance amounts to USD 250 million for a period from July 15, 2017 until July 14, 2018. The insurance premium is USD 260,000.

Regulating Conflict of Interest

The Company pays a particular attention to the matters of preventing potential or actual conflict of interests of members of the management and control bodies, and employees of the Company with interests of Inter RAO Group; thus the Company seeks to take all measures allowed by law and internal documents to prevent conflict of interests of these persons with the interests of the Group.

In particular, the Company has the following working mechanisms:

1. The Company has Regulations approved by the Board of Directors on the procedure for notifying the employer of any person applying to the employee for inducing corruption offenses, of a conflict of interest or the possibility of its occurrence. These Regulations determine:
 - the procedure of the employee notifying the employer (PJSC Inter RAO) as to any person attempting to entice him/her into engaging in corrupt actions, or as to the occurrence of a conflict of interests / possible conflict, and the activities of the employee and the employer to be carried out to prevent or eliminate the conflict of interests;
 - procedure of accepting and consideration by the Board of Directors of notices of the Chairman of the Management Board on any person attempting to entice him/her tempting into engaging in corrupt activities, or as to an actual or possible conflict of interests;
 - the procedure for the consideration by the Chairman of the Management Board of notifications of an appeal to a member of the Management Board, the head of structural subdivisions of direct subordination and the chief accountant of any persons with a view to inciting to commit corrupt offenses and the occurrence of a conflict of interests or the possibility of its occurrence.
2. The Corporate Ethics Code of PJSC Inter RAO establishes the main duties of persons who are members of the Company's management bodies to prevent a conflict of interests:
 - members of the Management Board prior to the transaction with the Company's securities are to obtain prior written consent of the Chairman of the Management Board for the transaction with the Company's securities. Chairman of the Management Board and the members of the Company's Board of Directors are required to obtain prior written consent of the Chairman of the Board of Directors. Chairman of the Board of Directors is to obtain the prior written consent of the Chairman of the Management Board;
 - in the event of circumstances arising where these persons may be considered to be an interested party in the Company's transaction(s), they must notify the Company according to the procedure set out by the law of Russia and the Company's internal regulations¹²²;
 - these persons must refrain from having any employment or civil relations with a competitor, participation in a competitive organization, have no financial or any other relations or dependence that may result in a conflict of interests, may not accept gifts, services or other profit either material or non-material from persons or organizations that have business relations with the Company, or striving for such relations, ensure the return to the Company of illegally received bonuses (clawback clause); they also carry out other responsibilities.

¹²² The form of the Notice on signs of possible interest in the Company's transaction is provided in the Regulations on the Board of Directors of PJSC Inter RAO.

2.5. Committees of the Company's Board of Directors

The Board of Directors has formed the Audit Committee, the Nominations and Remunerations Committee, and the Strategy and Investment Committee for preliminary consideration of key issues of the Company's activity.

Name of Committee	Key functions of the Committee ¹²³	List of Committee Members ¹²⁴	Statistics on Committee performance in 2017
Audit Committee	<ul style="list-style-type: none"> assessment of candidates to Company auditors; assessment of the Auditor's Report; assessment of the efficiency of internal control, risk management, and corporate governance procedures, and development of proposals for improvement for the Board of Directors; ensuring independence and objectivity of the independent and internal audit; ensuring the precision, accuracy and integrity of financial reports; development of recommendations for the Board of Directors regarding the Company's audit and reporting issues; 	Bugrov (Chairman of the Committee, Independent Director) Alexander Lokshin (Independent Director) Ron Pollett (Independent Director) Elena Sapozhnikova (Independent Director)	Attendee meetings – 6 Meetings in absentia – 11 Items considered – 46
Nominations and Remunerations Committee	<ul style="list-style-type: none"> development of recommendations for the Board of Directors in respect of principles and criteria for the determination of remuneration of the members of the Board of Directors and Management Board and the person discharging the functions of the Sole Executive Body development of material terms of agreements with the members and the Chairmain of the Management Board of the Company, as well as definition of terms and conditions of early termination of employment agreements with them; 	Ron Pollett (Chairman of the Committee) Andrei Bugrov (Independent Director) Elena Sapozhnikova (Independent Director)	Attendee meetings – 6 Meetings in absentia – 16 Items considered – 33

¹²³ A complete list of the functions of Committees of the Board of Directors is available in the provisions on the Committees of the Board of Directors published on the website. <http://www.interrao.ru/en/investors/corporate-governance/management/>.

¹²⁴ As of December 31, 2017

	<ul style="list-style-type: none"> • development of recommendations for the Company's Board of Directors regarding the amount of remuneration and the principles of bonus payments to the corporate secretary, and suggestions on bonus payments to the corporate secretary; • assessment of professional qualification and independence of the candidates nominated to the Board of Directors and development of recommendations to the Company's shareholders regarding the election of candidates for the Company's Board of Directors. • approval of target (adjusted) KPI and TI for the Chairman of the Management Board and the members of the Management Board of the Company, reports on their fulfillment, methods of their calculation and assessment of their performance. 		
Strategy and Investment Committee	<ul style="list-style-type: none"> • Development of recommendations for the Board of Directors concerning Company's priority areas and strategic goals. • development of recommendations to the Board of Directors on making investment decisions 	Elena Bezdenezhnyh, Chairman of the Committee Andrey Marchenko Aleksey Moslkiy Sergey Nikitin Vasiliy Nikonov Fedor Opadchiy Ron Pollett Elena Sapozhnikova (Independent Director) Pavel Snikkars Charlotte Philipps	Attendee meetings – 5 ¹²⁵ Meetings in absentia – 14 Items considered – 33

¹²⁵ One of the meetings (December 14, 2017) was held with the participation of the Nominations and Remunerations Committee.

Audit Committee

The priority of the Audit Committee in 2017 was a supervision of the proper and efficient functioning of risk management systems, internal control, and corporate governance in the Company.

In the reporting year, an amended Regulation on the Audit Committee of the Board of Directors in a revised version was adopted; it concerns the extension of authority of the Audit Committee in the area of control and assessment of the Company's corporate governance, which is in line with the best practices.

Moreover, during the attendee meeting the Committee discussed the Company's Policy of Cooperation with Independent Auditor and recommended to the Board of Directors to adopt it instead of the previous Policy of the Rotation of Independent Auditor, which has significantly changed the approach to the rendering of non-auditing services by an auditor. The adopted changes are aimed at increasing control over the principle of independence of an auditor.

Andrei. Bugrov, Chairman of the Committee

The activity of the Company's Board of Directors Audit Committee is subject to the Regulations on the Audit Committee of the Board of Directors of PJSC Inter RAO.

Composition of the Committee is determined by the decision of the Board of Directors and can include from 3 to 7 people. Pursuant to the Regulations, the Audit Committee shall include Independent Directors only, and if this is not possible due to objective reasons, most of the Committee members must be Independent Directors, and the remaining members of the committee may be members of the Board of Directors (who are not Chairman or members of the Management Board). The Committee may be chaired by an Independent Director only.

In 2017, there were three Audit Committees, which were formed exclusively of independent directors.

The List of the Members of the Audit Committee for 2017:

From June 10, 2016 ¹²⁶ to February 28, 2017	From February 28, 2017 to June 9, 2017	after June 9, 2017 ¹²⁷
Dmitry Shugaev (Chairman of the Committee, Independent Director) ¹²⁸	Andrei Bugrov (Chairman of the Committee, Independent Director) ¹²⁹	Andrei Bugrov (Chairman of the Committee, Independent Director)

¹²⁶ The List was approved by the resolution of the Board of Directors of June 10, 2016 (Minutes No. 171 of June 10, 2016).

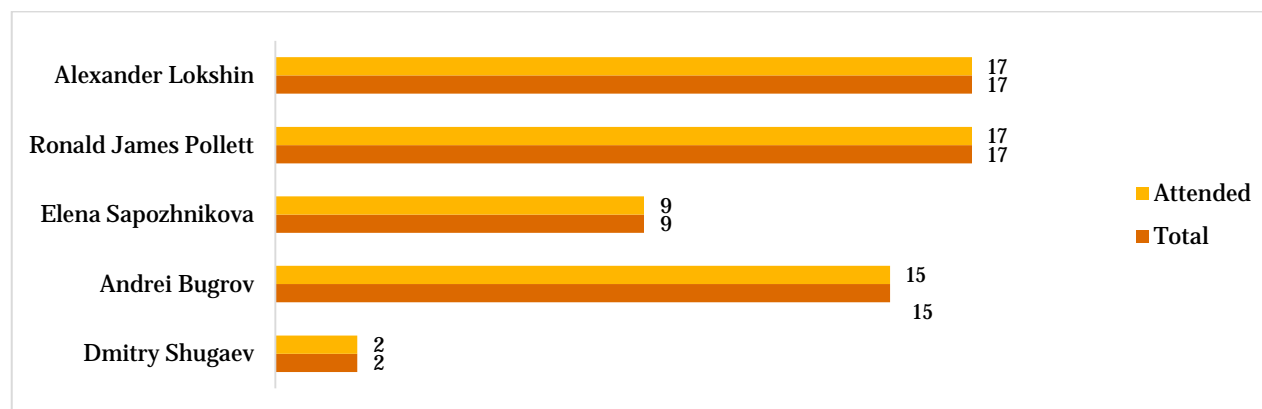
¹⁰⁶ Was approved by the resolution of the Board of Directors of June 6, 2017 (Minutes No. 202 of June 9, 2017).

¹²⁸ The powers are terminated due to the loss of the status of an independent director in line with the resolution of the Board of Directors of PJSC Inter RAO of February 28, 2017 (Minutes No. 191 of February 28, 2017).

¹²⁹ Elected to the Committee by the resolution of Board of Directors of PJSC Inter RAO on February 28, 2017 (Minutes No. 191 of February 28, 2017).

Alexander Lokshin (Independent Director) Ronald James Pollett (Independent Director)	Alexander Lokshin (Independent Director) Ronald James Pollett (Independent Director)	Alexander Lokshin (Independent Director) Ronald James Pollett (Independent Director) Elena Sapozhnikova (Independent Director)
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Participation of the Audit Committee members in the meetings of the Committee in 2017



The most important items considered by the Committee in 2017 included¹³⁰:

- recommendations to the Board of Directors on the items involving approval of the Annual Report and annual statutory financial statements of the Company for 2016;
- consideration of consolidated financial statements for 2016 prepared in accordance with International Financial Reporting Statements (IFRS), results of the audit of the IFRS consolidated financial statements for 2016;
- approval of 2016 Internal Audit Unit Activities Report;
- evaluation of auditor's reports and quality of performance of audits;
- evaluation of independence, objectivity of the Company's independent auditors and ensuring that there is no conflict of interest between them; consideration of the report for 2016 on audit and other services, rendered to the Group by the companies included in the network of audit organizations along with the Company's Auditor;
- consideration of the Report on Corporate Governance;
- approval of the Policy of Cooperation with independent auditor of the Company;
- consideration of the Reports of Internal Audit Unit on the assessment of the efficiency of the Internal Control Framework, the system of risk management, and corporate governance, as well as the efficiency of the risk management and internal control procedure in the area of combating and preventing corruption;

¹³⁰ The Report of the Audit Committee was considered at the meeting of the Board of Directors on March 30, 2018 (Minutes No. 221 of February 2, 2018).

- consideration of the Reports for 2016 on adoption, control and efficiency of the procedures aimed at organization of risk management systems and internal control in order to fight and prevent corruption.

Nominations and Remunerations Committee

In 2017, activities aimed at assessing whether the Board of Directors complies with the criteria of independence continued. As a result, the Board of Directors was recommended to recognize A. Lokshin as an Independent Director, and D. Shugaev and A. Gavrilenko were recognized as non-executive directors.

In the reporting year, the Committee focused its attention on the Training and Development Program for the members of the Board of Directors, and we offered approaches to its formation, including workshops relevant for different activities of the Company. We also discussed the succession plan for the Company's management and the development of leadership for middle management. Moreover, within the framework of preparation of Annual Report the Committee considered the Company's Report on the remuneration of the members of the Board of Directors and the Management Board.

R. J. Pollett, Chairman of the Committee

The activity of the Nominations and Remunerations Committee of the Company's Board of Directors is regulated by the Regulations on the Nominations and Remunerations Committee of the Board of Directors of PJSC Inter RAO.

The number of Committee members is determined by the Resolution of the Company's Board of Directors as at least three and no more than seven people. Pursuant to the Regulations on the Nominations and Remunerations Committee, Committee members can only include Independent Directors, and if this is not possible due to objective reasons, most of the Committee members must be Independent Directors and other members may include any Company directors who are not members or Chairman of the Company's Management Board. In 2017, there were three Nominations and Remunerations Committees, which were formed exclusively of Independent Directors.

The List of Members of Nominations and Remunerations Committee for 2017

From June 10, 2016¹³¹ to February 28, 2017	From February 28, 2017 to June 9, 2017	after June 9, 2017¹³²
Andrei Bugrov (Chairman of the Committee, Independent Director)	Andrei Bugrov (Chairman of the Committee, Independent Director)	Ronald James Pollett (Chairman of the Committee, Independent Director)
Ronald James Pollett (Independent Director)	Elena Sapozhnikova (Independent Director) ¹³³	Elena Sapozhnikova (Independent Director)

¹³¹ The List was approved by the resolution of the Board of Directors of June 10, 2016 (Minutes No. 171 of June 10, 2016).

¹³² Was approved by the resolution of the Board of Directors of June 9, 2017 (Minutes No. 202 of June 9, 2017).

¹³³ Elected to the Committee by the resolution of Board of Directors of PJSC Inter RAO on February 28, 2017 (Minutes No. 191 of February 28, 2017).

Dmitry Shugaev (Independent Director) ¹³⁴	Ronald James Pollett (Independent Director)	Andrei Bugrov (Independent Director)
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Participation of the Nominations and Remunerations Committee members in the Committee meetings in 2017.



The most important items considered by the Committee in 2017 included¹³⁵:

- preliminary evaluation of candidates to the Board of Directors of PJSC Inter RAO regarding their meeting the independence criteria;
- results of the annual self-assessment of the Board of Directors of PJSC Inter RAO;
- preliminary consideration of the item on the approval of the Regulations defining the procedure for considering significant corporate actions;
- consideration of financial incentives, approval of KPIs, and status reports;
- recommendations to the Board of Directors regarding the extension of authority of the Management Board's members;
- determining the amount of remuneration and the principle of payment of bonuses for the head of the division carrying out the responsibilities of a corporate secretary;
- approaches to the system of motivation of the Company's Board of Directors;
- recommendations to the Board of Directors concerning the activity of the Board of Directors and its committees based on the Report on the results of the annual self-assessment;
- consideration of the Succession Plan of the Board of Directors and Management Board of PJSC Inter RAO;
- consideration of the Report on implementation of the policies on remuneration, including consideration of application of an efficient correlation between variable and fixed components of the remuneration system;

¹³⁴ The powers are terminated due to the loss of the status of an Independent Director in line with the resolution of the Board of Directors of PJSC Inter RAO of February 28, 2017 (Minutes No. 191 of February 28, 2017).

¹³⁵ The Report of the Strategy and Investment Committee was considered at the meeting of the Board of Directors on March 30, 2018 (Minutes No. 221).

- consideration of disclosure of information on remuneration policies and practices, as well as ownership of the Company's shares.

Strategy and Investment Committee

Dear colleagues!

As in prior years, activity of the Strategy and Investment Committee is still aimed at the multilateral analysis of the key issues in the area of strategic, financial and investment planning of the Company's activity in order to form recommendations for the Board of Directors to take into account making their decisions.

The most important issues concerning the approval of the reporting of financial information, adjustment and approval of target performance indicators of the Company, as well as issues concerning market capitalization growth were discussed at attendee meetings in accordance with annual practice of the Committee. In order to discuss the issues of the Long-term Program for Company Development properly and from different points of view, the development programs of the Company were considered together with the Nominations and Remunerations Committee.

Moreover, in the reporting year the Committee has considered a number of issues concerning innovative activities, one of which was also considered at the attendee meeting of the Committee with participation of an independent expert, as is recommended by the Federal Agency for State Property Management.

It also has to be mentioned that the managers of the Company took an active part both in the Committee attendee meetings and in absentia meetings.

The functioning of the Committee in 2018 is directly connected with the Working Plan of the Board of Directors and is aimed at the consideration of key issues regarding operational activity of the Company.

E. Bezdenzhnyh, Chairman of the Committee

The activity of the Strategy and Investment Committee of the Company's Board of Directors is regulated by the Regulations on the Strategy and Investment Committee of the Board of Directors of PJSC Inter RAO¹³⁶.

The composition of the Committee is determined by the Resolution of the Company's Board of Directors as at least three, but no more than eleven people.

In 2016, there were two teams of the Strategy and Investment Committee.

From June 10, 2016¹³⁷ to June 9, 2017	after June 9, 2017¹³⁸
Elena Bezdenzhnykh (Chairman of the Committee)	Elena Bezdenzhnykh (Chairman of the Committee)

¹³⁶ Approved by the resolution of the Board of Directors of September 29, 2016 (Minutes No. 180 of October 3, 2016).

¹³⁷ The List was approved by the resolution of the Board of Directors of June 10, 2016 (Minutes No. 171 of June 10, 2016).

¹³⁸ Created by the resolution of the Board of Directors of June 9, 2017 (Minutes No. 202 of June 9, 2017).

From June 10, 2016¹³⁷ to June 9, 2017	after June 9, 2017¹³⁸
Andrei Marchenko	Andrei Marchenko
Ilnar Mirsiyapov	Ilnar Mirsiyapov
Aleksey Molsky	Aleksey Molsky
Vasily Nikonov	Vasily Nikonov
Fyodor Opadchy	Fyodor Opadchy
Pavel Snikkars	Pavel Snikkars
Charlotte Philipps	Charlotte Philipps
Anatoly Gavrilenko (Independent Director until May 5, 2017 ¹³⁹)	Ronald James Pollett (Independent Director)
	Elena Sapozhnikova (Independent Director)
	Sergey Nikitin

The most important items considered by the Committee in 2017 included¹⁴⁰:

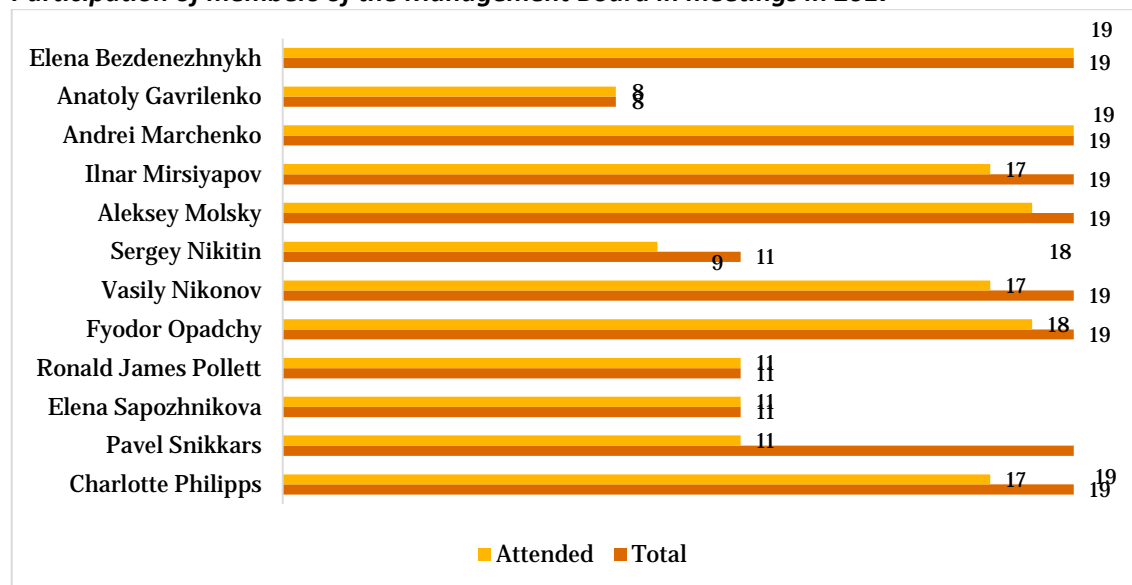
- consideration of the reports on implementation of the Business Plan of PJSC Inter RAO and Inter RAO Group (Minutes No. 121 of April 3, 2017; No. 127 of June 26, 2017; No. 132 of September 25, 2017; and No. 135 of December 14, 2017);
- consideration of the report on realization of the strategic priorities of the development of PJSC Inter RAO for 2016 (Minutes No. 123 of April 26, 2017);
- consideration of the report on meeting Key Performance Indicators (KPI) and control indicators of the Company in 2016 (Minutes No. 123 of April 26, 2017);
- consideration of the report on engagement with investors in 2016 (Minutes No. 121 of April 3, 2017);
- consideration of the Report on the implementation of the Innovation Development Program of PJSC Inter RAO until 2020, and with prospects until 2025, for 2016 (Minutes No. 121 of April 3, 2017);
- on the proposals for the General Meeting of Shareholders of PJSC Inter RAO concerning the distribution of profit of PJSC Inter RAO for 2016 (Minutes No.121 of April 3, 2017);
- consideration of the adjusted Business Plan of PJSC Inter RAO and Inter RAO Group for 2017 (Minutes No. 130 of July 20, 2017), and PJSC Inter RAO and Inter RAO Group business plan for 2018 (Minutes No. 135 of December 14, 2017);
- strategic priorities of the development of PJSC Inter RAO for 2018 (Minutes No. 135 of December 14, 2017);
- consideration of the list and Key Performance Indicators and control indicators of the Company for 2018 (Minutes No.135 of December 14, 2017);
- issues on the implementation of directives of the Federal Agency for State Property Management and the Government of the Russian Federation (Minutes No. 128 of June 28, 2017);

¹³⁹ By the decision of the Board of Directors of May 5, 2017, Member of the Board of Directors of PJSC Inter RAO, A. Gavrilenko was defined as a Non-executive Director

¹⁴⁰ The Report of the Strategy and Investment Committee was considered at the meeting of the Board of Directors on March 30, 2018 (Minutes No. 221).

- items involving participation of the Company in other organizations and approval of transactions.

Participation of members of the Management Board in meetings in 2017 ¹⁴¹



¹⁴¹ A. Gavrilenko was a member of the Strategy and Investment Committee from January 1, 2017 to June 9, 2017.

S. Nikitin was a member of the Strategy and Investment Committee from June 9, 2017 to December 31, 2017.

R.J. Pollett was a member of the Strategy and Investment Committee from June 9, 2017 to December 31, 2017.

E. Sapozhnikova was a member of the Strategy and Investment Committee from June 9, 2017 to December 31, 2017.


2.6. Corporate Secretary

In 2016, in accordance with the recommendations of the Corporate Governance Code, the function of Corporate Secretary was implemented.

The Corporate and Property Matters Division is the Company's structural division that performs the functions of the Corporate Secretary. Information on the Division is presented on the website http://www.interrao.ru/en/upload/docs/Prilozhenie_3_Polozhenie.pdf.

The Head of the Corporate and Property Matters Division is appointed by resolution of the Company's Board of Directors. The Head of the Corporate and Property Matters Division is accountable to the Board of Directors, and administratively - to the Chairman of the Board, which provides the necessary degree of independence..

Tamara Merebashvili is the Head of Corporate and Property Matters Division.

 <p>Tamara MEREBASHVILI</p> <p>The Head of the Corporate and Property Matters Division of PJSC Inter RAO</p> <p>Year of birth: 1977</p> <p>Education: Graduated from St. Petersburg State University, Candidate of Jurisprudence.</p> <p>Citizenship: Russian Federation</p>	<p>Positions occupied:</p> <p>2016 – present: Head of the Corporate and Property Matters Division, PJSC Inter RAO; 2016 – present: General Director of Inter RAO-IT LLC; 2016 – present: Deputy Head of the Assets Management Division in Central Asia and Transcaucasia, external concurrent job, PJSC Inter RAO; 2015–2016: Deputy Head of the Assets Management Division in Central Asia and Transcaucasia, PJSC Inter RAO; 2011–2015: Deputy General Director for Prospective Development, Deputy General Director on Commercial Issues, Deputy General Director – Commercial Director, Inter RAO UES Energy Efficiency Center LLC;</p> <p>Does not hold PJSC Inter RAO shares.</p>
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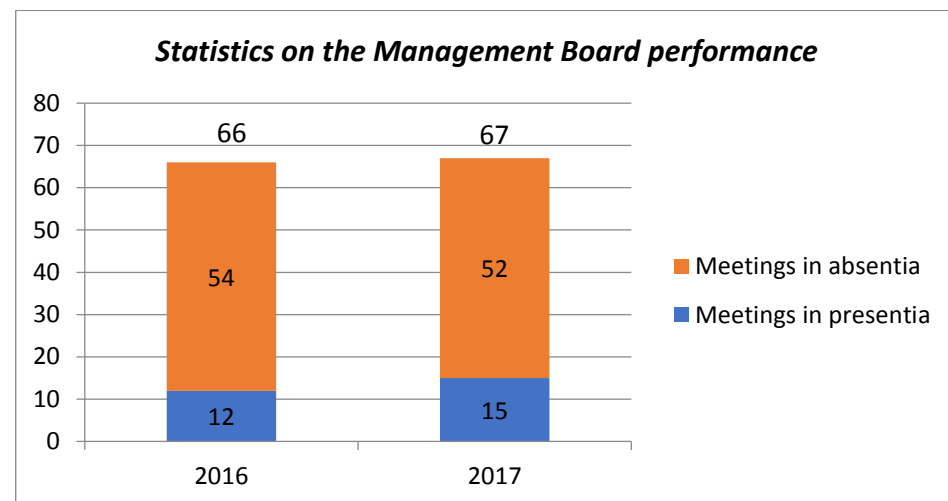
2.7. Executive Bodies

Management Board as a collegial executive body of PJSC Inter RAO performs day-to-day operations and is responsible for the implementation of the Group's goals, strategy, and policy. The Management Board's activity is governed by the Articles of Association and Regulations on the Management Board¹⁴².

Chairman of the Management Board manages the day-to-day operations of the Company in accordance with the Articles of Association, resolutions of the General Meeting of Shareholders, Board of Director, and Management Board. The Chairman of the Management Board ensures achievement of the Group's goals by coordinating the efforts of the Deputy Chairman and members of the Management Board, as well as heads of their reporting units. The Chairman of the Management Board is elected by resolution of the General Meeting of Shareholders upon recommendation of the Board of Directors. The members of the Management Board are elected by resolution of the Board of Directors upon proposal of the Chairman of the Management Board.

Management Board and Chairman of the Management Board report to the Company's General Meeting of Shareholders and Board of Directors.

In the reporting year, the Company's Management Board included 10 members.



Statistics on participation of the members of the Management Board in the meetings of Management Board in 2017.¹⁴³

¹⁴² Approved by the Annual General Meeting of Shareholders on June 9, 2017 (Minutes No. 17 of June 9, 2017).

¹⁴³ Data is provided in the format X/Y, where X stands for the number of meetings of the Management Board in which the member of the Board took part, and Y stands for the number of the Meetings of the Management Board in which the member could take part.

Full name of the member of the Management Board	Participation in meetings (total)	Participation in attendee meetings	Participation in meetings in absentia
Boris Kovalchuk	66/67	15/15	51/52
Boris Ayuev	62/67	15/15	47/52
Mikhail Konstantinov	59/67	13/15	46/52
Evgeny Miroshnichenko	62/67	14/15	48/52
Ilnar Mirsiyapov	59/67	13/15	46/52
Valery Murgulets	65/67	13/15	52/52
Pavel Okley	57/67	13/15	44/52
Dmitry Filatov	65/67	14/15	51/52
Karina Tsurkan	52/67	11/15	41/52
Yury Sharov	61/67	10/15	51/52

Biographies of the Management Board Members

<p>Boris Kovalchuk</p> <p>Chairman of Management Board of PJSC Inter RAO</p> <p>Year of birth: 1977</p> <p>Education: In 1999, graduated from St. Petersburg State University, majoring in Jurisprudence, qualification: Lawyer.</p> <p>Citizenship: Russian Federation</p>	<p>Positions held during five past years:</p> <p>2010 — present: Chairman of the Management Board of PJSC Inter RAO (elected Chairman of the Management Board until 2020);</p> <p>2010 — present: member of the Management Board of the Russian National Association of Employers, the Russian Union of Industrialists and Entrepreneurs, the Russian National Public Organization and the Russian Union of Industrialists and Entrepreneurs.</p> <p>Awards:</p> <p>2017 — Received an Honorary Certificate of JSC SO EUS.</p> <p>2015 — awarded a silver medal for Cooperation of the Ministry of Justice of the Russian Federation.</p> <p>2014 – awarded a commemorative medal and the Order of Friendship for considerable contribution to preparation and holding of the 22nd Winter Olympics and 11th Winter Paralympics – 2014 in Sochi;</p> <p>2012 – received an Order of Honor, a state award;</p> <p>2011 – received the title of Honorary Energy Worker.</p> <p>Owns 2,429,000 shares of PJSC Inter RAO (0.00233% of the Company's authorized capital).</p>
<p>Alexander Boris</p> <p>Deputy Chairman of the Management Board of PJSC Inter RAO</p>	<p>Positions held during five past years:</p> <p>2016 – present: Deputy Chairman of the Management Board of PJSC Inter RAO (term of office in accordance with the employment agreement until April 27, 2020);</p>

<p>Year of birth: 1959</p> <p>Education: In 1985, graduated from the Institute of Refrigeration and Biotechnologies as a mechanical engineer.</p> <p>In 2005, he graduated from the North-West Academy of Public Administration with a degree in State and Municipal Administration.</p> <p>Citizenship: Russian Federation</p>	<p>2010–2016: Member of the Management Board of PJSC Inter RAO.</p> <p>Awards:</p> <p>awarded the medal Labor Glory of the III degree of the Ministry of Energy of the Russian Federation; awarded a commemorative medal 22nd Winter Olympics and 11th Winter Paralympics – 2014 in Sochi from the Ministry of Energy of the Russian Federation – Certificate to the commemorative medal (Russian President);</p> <p>awarded the medal of the Order for Services to the Motherland, II degree;</p> <ul style="list-style-type: none"> - awarded an Order of Honor; - received a Letter of Gratitude from the Government; - received a Letter of Gratitude from the Ministry of Energy of the Russian Federation. <p>Owns 35,423,600 shares of PJSC Inter RAO (0.0339% of the Company's authorized capital)¹⁴⁴.</p>
<p>Mikhail Konstantinov</p> <p>Member of the Management Board – Head of the Legal Affairs Division of PJSC Inter RAO</p> <p>Year of birth: 1968</p> <p>Education: In 2003, graduated from Tver Institute of Ecology and Law majoring in Jurisprudence.</p> <p>PhD in Law.</p> <p>Citizenship: Russian Federation</p>	<p>Positions held during five past years:</p> <p>2016 – present: Member of the Management Board – Head of the Legal Affairs Division, PJSC Inter RAO (term of office in accordance with the employment agreement until 04.11.2021).</p> <p>2012–2016: Head of the Corporate and Property Matters Unit, Director for Corporate Governance at the Corporate and Property Matters Unit of PJSC Inter RAO.</p> <p>Awards:</p> <p>Awards: Received a Medal of Merit (Federal Bailiff Service), honorary certificate of the Ministry of Justice of the Russian Federation.</p> <p>Owns 34,452,000 shares of PJSC Inter RAO (0.0330% of the Company's authorized capital)¹⁴⁵.</p>
<p>Evgeny Miroshnichenko</p> <p>Member of the Management Board – Chief Financial Officer of PJSC Inter RAO</p> <p>Year of birth: 1980</p> <p>Education: In 2003, graduated from State University of Management with a specialty in Management.</p> <p>In 2017, graduated from the Executive MBA program, Kellogg – Hong Kong University of Science and Technology (HKUST) (Hong Kong,</p>	<p>Positions held during five past years:</p> <p>2016 – present: Member of the Management Board – Chief Financial Officer, PJSC Inter RAO (term of office in accordance with the employment agreement until October 29, 2021);</p> <p>2010–2016: Director for Strategic Development, Deputy Head of the Division – Head of the Strategy Department, Strategy and Investments Division of PJSC Inter RAO.</p> <p>Awards:</p> <p>Has a Letter of Gratitude from the Ministry of Energy of the Russian Federation.</p> <ul style="list-style-type: none"> - awarded an Honorary Certificate from the Ministry of Energy of the Russian Federation.

¹⁴⁴ As of December 31, 2017, A. Boris held 971,600 shares of PJSC Inter RAO (0.0009% of the Company's authorized capital).

¹⁴⁵ As of December 31, 2017, M. Konstantinov did not own PJSC Inter RAO shares.

China). Citizenship: Russian Federation	Owns 34,488,435 shares of PJSC Inter RAO (0.0330% of the Company's authorized capital)¹⁴⁶.
Ilnar Mirsiyapov Member of the Management Board – Head of Strategy and Investment Division of PJSC Inter RAO Year of birth: 1982 Education: Graduated in 2005 from the Moscow State Institute of International Relations with a degree in Management with Knowledge of Foreign Languages. In 2007, he graduated from the Almeteyev State Oil Institute as an Engineer with a degree in Development and Operation of Oil and Gas Fields. In 2012, graduated from Kutafin Moscow State Law University, majoring in Jurisprudence. In 2017, graduated from the Executive MBA program, Kellogg – Hong Kong University of Science and Technology (HKUST) (Hong Kong, China). Has a PhD in Economics and Social Science. Citizenship: Russian Federation	Positions held during five past years: 2010 – present: Member of the Management Board – Head of the Strategy and Investment Division, PJSC Inter RAO (term of office in accordance with the employment agreement until August 20, 2020); 2010 – present: member of the Strategy and Investment Committee of the Board of Directors – PJSC Inter RAO UES Awards: Awarded the Certificate of Merit by the Ministry of Energy of the Russian Federation and the Order for Merit to the Nuclear Industry, II class; Holds the title of Honorary Power Engineer. Awarded a commemorative medal 22nd Winter Olympics and 11th Winter Paralympics – 2014 in Sochi (Ministry of Energy of the Russian Federation). Owns 971,600 shares of PJSC Inter RAO (0.0009% of the Company's authorized capital).
Valery Murgulets Member of the Management Board – Head of the Innovation, Investment and Costs Management Division of PJSC Inter RAO Year of birth: 1977 Education: Graduated in 1999 from St. Petersburg State University with a specialty in Jurisprudence. Graduated from the Stockholm School of Economics in 2006. Citizenship: Russian Federation	Positions held during five past years: 2012 – present: Member of the Management Board – Head of the Innovation, Investment and Costs Management Division, PJSC Inter RAO (term of office in accordance with the employment agreement until September 25, 2022). 2011–2014: Head of the Energy Without Borders Foundation, supporting the scientific, technical and innovative activities. Awards: Awarded a commemorative medal 22nd Winter Olympics and 11th Winter Paralympics – 2014 in Sochi (Ministry of Energy of the Russian Federation). Owns 34,488,435 shares of PJSC Inter RAO (0.0330% of the Company's authorized capital)¹⁴⁷.

¹⁴⁶ As of December 31, 2017, E. Miroshnichenko owned 36,435 shares of PJSC Inter RAO (0.00003% of the Company's authorized capital).

<p>Pavel Okley Member of the Management Board – Head of the Operations Division of PJSC Inter RAO Year of birth: 1970 Education: In 1992, graduated from the Omsk Institute of Railway Engineers with a degree in Railway Automation, Telemetry and Communication as a Railway Electrical Engineer. Specialization: electrical engineer of communication routes. PhD in Economics. Citizenship: Russian Federation</p>	<p>Positions held during five past years: 2010 – present: Member of the Management Board – Head of the Operations Division, PJSC Inter RAO (term of office in accordance with the employment agreement until October 30, 2020).</p> <p>Awards:</p> <ul style="list-style-type: none"> - has the title “Honorary Energy Worker;” - awarded the Certificate of Merit by JSC RAO UES of Russia, the title of Honored Worker of Unified Energy System of Russia, the Certificate of Merit of the Ministry of Energy of the Russian Federation, and a Badge of Honor for Impeccable Work in the Distribution Network Sector. - received a letter of gratitude from the President of the Russian Federation. - awarded a 22nd Winter Olympics and 11th Winter Paralympics 2014 in Sochi commemorative medal. <p>Owns 34,452,000 shares of PJSC Inter RAO (0.0330% of the Company’s authorized capital).¹⁴⁸</p>
<p>Dmitry Filatov Member of the Management Board – Head of the Procurement Division of PJSC Inter RAO Year of birth: 1968 Education: in 1991, graduated from the Ustinov Leningrad Mechanical Institute majoring in Thermal Impulse Machines. Citizenship: Russian Federation</p>	<p>Positions held during five past years: 2016 – present: Member of the Management Board – Head of PJSC Inter RAO Procurement Division (term of office in accordance with the employment agreement until November 4, 2021); 2016 — present: General Director of Inter RAO LLC (concurrently) – Procurement Management Center; 2012 — 2016: General Director of Inter RAO LLC – Procurement Management Center; 2014 — 2016: Head of the PJSC Inter RAO Supply Division.</p> <p>Does not hold PJSC Inter RAO shares.</p>
<p>Karina Tsurcan Member of the Management Board – Head of the Trading Division of PJSC Inter RAO Year of birth: 1974 Education: Graduated in 1999 from the International Independent University of Moldavia majoring in Economic Law. In 2004 received an MBA from the University</p>	<p>Positions held during five past years: 2012 – present: Member of the Management Board – Head of the Trading Division, PJSC Inter RAO (term of office in accordance with the employment agreement until February 14, 2022)</p> <p>Awards:</p> <ul style="list-style-type: none"> – assigned the title Honorary Energy Worker of the CIS; – received a letter of gratitude from the Ministry of Energy of the Russian Federation. - awarded an Honorary Certificate from the Ministry of Energy of the Russian Federation.

¹⁴⁷ As of December 31, 2017, V. Murgulets owned 36,435 shares of PJSC Inter RAO (0.00003% of the Company’s authorized capital).

¹⁴⁸ As of December 31, 2017, P. Okley did not own PJSC Inter RAO shares.

<p>Consortium of Spain (IUP). Citizenship: Russian Federation</p>	<p>- awarded a commemorative medal 22nd Winter Olympics and 11th Winter Paralympics – 2014 in Sochi (the Ministry of Energy of the Russian Federation).</p> <p>Owns 36,914,877.36 shares of PJSC Inter RAO (0.0354% of the Company's authorized capital)¹⁴⁹.</p>
<p>Yury Sharov Member of the Management Board – Head of the Engineering Division of PJSC Inter RAO Year of birth: 1959 Education: In 1986, graduated from Moscow Power Engineering Institute (National Research University) with a degree in Power System Cybernetics as an electrical engineer. In 1998, graduated from Plekhanov Russian Academy of Economics – with a degree in Finance and Credit. Graduated from Moscow International Higher Business School MIRBIS (MBA). Mr Sharov is a professor and has PhD in Technological Sciences. Citizenship: Russian Federation</p>	<p>Positions held during five past years: 2008 – present: Member of the Management Board, Head of the Engineering Division of PJSC Inter RAO (term of office in accordance with the employment agreement until May 24, 2018), Head of the Capital Construction Division and Engineering, Head of the Central Asia — Far East Geographical Division; 2012 – present: CEO of Inter RAO – Engineering LLC; 2014 – present: member of the Board of Overseers of the Federal State Budgetary Educational Establishment of Higher Professional Education National Research University “MPEI”; 2016 – present: Chairman of the Technical Committee of the Russian National Committee of the International Council on Large High-Voltage Systems Association</p> <p>Awards: - Honorary Power Engineer of the Russian Federation. Honorary Worker of the Unified Energy System of Russia. Received a letter of gratitude from the President of the Russian Federation; - awarded the Order of Merit; - received an Honorary Certificate from the Russian Federation Government; - awarded a 22nd Winter Olympics and 11th Winter Paralympics – 2014 in Sochi commemorative medal.</p> <p>Owns 34,452,000 shares of PJSC Inter RAO (0.0330% of the Company's authorized capital)¹⁵⁰.</p>

Changes in the Composition of the Management Board in 2017

In 2017, no changes took place in the composition of members of the Management Board.

By the resolution of the Board of Directors of February 10, 2017 (Minutes No. 190 of February 13, 2017) Karina Tsurkan was reelected as a member of the Board of Directors and took the position of Head of the Trading Division for five years starting from February 14, 2017.

¹⁴⁹ As of December 31, 2017, K. Tsurkan owned 2,462,877.36 shares of PJSC Inter RAO (0.00236% of the Company's authorized capital).

¹⁵⁰ As of December 31, 2017 Yu. Sharov did not own PJSC Inter RAO shares.

By the resolution of the Board of Directors of September 15, 2017 (Minutes No. 208 of September 18, 2017) Valery Murgulets was re-elected as a member of the Company's Management Board and took the position of Head of the Division of Innovation, Investment and Costs for five years starting from September 26, 2017.

Information on Transactions Carried out in 2017 by the Members of the Management Board with Shares They Own

March 29, 2017 — Member of the Management Board, Head of the Engineering Division of PJSC Inter RAO Mr. Sharov has decreased his share in the authorized capital of the Company to 0% by alienating his shares (971,600 shares of PJSC Inter RAO (0.00093% of the authorized capital of the Company)).

In the reporting year, neither the Company nor its subsidiaries issued any loans (credit) to the members of the Board of Directors.

Events After the Reporting Date

On March 14, 2018, a number of members of the Management Board altered their share in the Company's authorized capital under the options program.

2.8. Board of Directors and Management Board Remuneration System

General Information on the Company's Remuneration Policy

Taking into account the structure of the Company's management system and subordination of its members, there are two documents controlling remuneration payout in the Company: for the members of the Board of Directors, elected by the General Meeting of Shareholders and reporting to it, and for the members of the Management Board, elected by the Board of Directors and reporting to it.

Payment of remuneration to the members of the Board of Directors and members of Committees of the Board of Directors is made in accordance with the Regulations on the Payout of Remuneration and Reimbursement¹⁵¹ to PJSC Inter RAO Board of Directors' Members and is available on the website: http://interrao.ru/en/upload/docs/Renumeration_SD_09062017.pdf, and is in line with the recommendations of the Corporate Governance Code.

Procedure for determination and payout of remuneration to the members of the Management Board is outlined in the Regulations on Financial Incentives for the Chairman and members of the Management Board of PJSC Inter RAO¹⁵².

Specified documents were preliminarily reviewed by the Nominations and Remunerations Committee of the Board of Directors. The sphere of their application is limited only by the members of the Board of Directors of PJSC Inter RAO and members of the Management Board of PJSC Inter RAO,

¹⁵¹ Approved by the Annual General Meeting of Shareholders of June 9, 2017 (Minutes No. 17 of June 9, 2017).

¹⁵² Approved by the resolution of the Board of Directors of November 1, 2013 (Minutes No. 103 of November 5, 2013).

respectively. Remuneration of the members of Strategy and Investment Committee who are not members of the Board of Directors is determined by the Regulation on this Committee¹⁵³, which is available on the Company's website: http://interrao.ru/en/upload/doc/Polozhenie_o_KSI_031016.pdf

In 2017, only one change to the policy of the Board of Directors remuneration was made¹⁵⁴ – according to the Corporate Governance Code, additional remuneration for the members of the Board of Directors is not provided for, as its amount is not based on any criteria and, theoretically, can depend on the economic and financial performance of the Company. No amendments have been made to the Management Board remuneration system¹⁵⁵.

In 2017, during an attendee meeting the Nominations and Remunerations Committee considered the Report on practical implementation of policies on remuneration which includes information on application of reasonable and justified ratio between fixed components and variable components of remuneration. Based on the results of the Committee's meeting, it was determined that the Company complies with recommendations of the Corporate Governance Code with respect to remuneration of management and directors, in particular:

- Remuneration policy includes transparent mechanisms of determining the amount of remuneration of the Management Board and the Board of Directors.
- Fixed annual remuneration is the only form of material remuneration paid to the members of the Board of Directors. No forms of short-term motivation or additional incentives are applicable to the members of the Board of Directors.
- Remuneration of the members of the Management Board is determined in a way ensuring the balance of fixed and variable parts of remuneration which depends on the performance of the Company.
- The Nominations and Remunerations Committee reviews the remuneration system annually. In the event of internal or external changes the Committee provides the Board of Directors with relevant recommendations.

Remuneration of the managers in controlled companies

The system of material incentives paid to the members of the Board of Directors of controlled entities is not formalized in the Company as corporate standard, but the Group is gradually moving to a system of non-payment of remuneration to the Board members of controlled entities.

The payment of salary and material incentives to the sole executive bodies of the Group's companies is determined based on the labor agreement, and regulations on financial incentives for the CEO approved by the Board of Directors of the relevant controlled entity of the Company, which set out the following elements of the system:

- base salary;
- additional incentives and reimbursements paid to managers;
- bonus paid to managers based on the achievement of the KPIs by the Company;
- one-time bonus to managers for their contribution to Company development or in relation to any corporate or industrial awards;

¹⁵³ Approved by the resolution of the Board of Directors of September 29, 2016 (Minutes No. 180 of October 3, 2016).

¹⁵⁴ See the Report on the Activity of the Board of Directors in Priority Areas — Remuneration and Motivation of the Board of Directors and Management.

¹⁵⁵ On changes to the KPI system in 2017 – see "Key Performance Indicator System – 2017 KPI System Features".

- material incentive paid to managers under an additional resolution of the Board of Directors aimed at motivating the head of the Company.

The amount of the salary, as well as issues concerning bonuses for the head of a controlled entity is determined by a decision of the Board of Directors according to the regulations.

Key principles of the policy in the area of remuneration, approaches to defining the amount of remuneration

Remuneration for the members of the Board of Directors

Regulations determine a basic annual remuneration and the formula for calculation of the number of actual payouts which are reduced if Board of Directors members miss Board of Directors meetings (attendee or in absentia) and increased if Board of Directors members combine jobs in Board of Directors' committees. The amount of the fixed remuneration of a member of the Board of Directors is RUB 3 million for a corporate year.

Remuneration of the Chairman of the Board of Directors is increased by 30%, of the Chairman of the Board Committee – by 15%, of Committee members – by 10%. The specified allowances are cumulative. No remuneration shall be paid out if Board of Directors members participate in less than 50% (from the time a member is elected and until his/her powers are terminated) of meetings (in absentia and attendee) held.

Regulations also provide for the payout to the Board of Directors members of PJSC Inter RAO of compensations in the amount of their actual expenses, including travel expenses from/to Board of Directors and Committee meeting venues, accommodation and other expenses related to the Company's operations, and also regulate the questions of ownership of the Company's shares by members of the Board of Directors.

Other forms of remuneration, including short-term and long-term incentives, which depend on financial results, and the forms of incentive involving stock options, are not applied in the Company. In the event of early termination of powers of a member of the Board of Directors, no remuneration is paid except the remuneration provided for by the Regulations on the Payout of Remuneration to the members of the Board of Directors of PJSC Inter RAO.

Regulations on the Payout of Remuneration to the members of the Board of Directors of PJSC Inter RAO do not cover the Company's Board of Directors who are members of the Company's collegiate executive authority.

Remuneration of the members of the Management Board

The PJSC Inter RAO system of remuneration of the members of Management Board is aimed at ensuring their financial interest in the achievement of the strategic goals and increasing the economic efficiency of management, as well as a fair and competitive payment level. As part of improving information transparency, the Nominations and Remunerations Committee adopted a decision to publish the information on the amount of remuneration payable to the person that occupies the position of Chairman of the Management Board, as well as members of the Management Board, on the Company's official website¹⁵⁶.

The financial interest of the Management Board members in the achievement of the Company's strategic goals is attained by short- and long-term incentives programs.

¹⁵⁶ Minutes No 55 of December 27, 2016.

Key components of the incentive system of the executive bodies of the Company's management

	Base salary	Short-term incentives of management	Long-term incentives of management	Benefits and other types of remuneration
Form of implementation	Base salary	Annual award based on the achievement of the KPI Special bonus for the achievement of the EBITDA index	Options program	Various forms of additional incentives
Goal	Attraction and retention of professional managers due to fair and competitive remuneration.	Incentive to achieve the annual target indicators in accordance with the Group Strategy and business plan.	Incentive to increasing the key indicators – TSR, ROE, EBITDA – in the long-term	Attraction and retention of highly professional managers due to additional competitive advantages as benefits and compensations
Key parameters	The payment level is consistent with market conditions, which provides stability of the composition of the Company's management. Base salaries of managers in 2017 are indexed in accordance with the Regulation on Financial Incentives based on the decision of the Company's Board of Directors (Minutes No. 204 of July 3, 2017)	An annual bonus to a manager is calculated based on achieved KPIs according to the Company's performance. The Company's KPI system is related to the Business Plan, including the Company's Investment Program, and strategy and operational discipline. Furthermore, subject to the achievement of annual targets based on net profit, Company managers are entitled to a special annual bonus calculated based on the Company's IFRS consolidated financial statements. A condition for bonus payment is the achievement of the Implementation of the Company's Strategic Priorities target. The amount of special bonus for the Chairman of the Management Board is 0.1% of EBITDA, and for other managers it is calculated by a special formula based on the amount of the bonus of the Chairman of the Management Board. Moreover, the Chairman and/or the members of the Management Board may be paid a bonus based on a decision of the Board of Directors for contribution to the Company's development. The amount of the bonus is determined by the Board of Directors on the recommendation of the Nominations and Remunerations Committee, but it cannot exceed 6 base salaries of the manager during the calendar year.	The right to acquire Company shares at market price is given to key managers who provide a contribution to the realization of the Group strategy and long-term growth of the Company. The amount of the options program is 2% of the Company's registered capital. The program is valid through the period of February 2016 to February 2018.	<ul style="list-style-type: none"> The insurance protection based on Voluntary Medical Insurance plans and professional indemnity plans Other types of compensation and remuneration in accordance with the conditions of the employment agreement, which are determined by the Company's Board of Directors. In accordance with the adopted decisions of the Board of Directors of the Company, there is a practice in the Company to pay lump sum compensation in the amount of three average monthly earnings in the event of termination (early termination) of the employment agreement.
Target ratio of the components in the structure of the annual remuneration	50%	50% ¹⁵⁷	The program is intended for several years and it does not provide payment of the annual bonus.	<1%

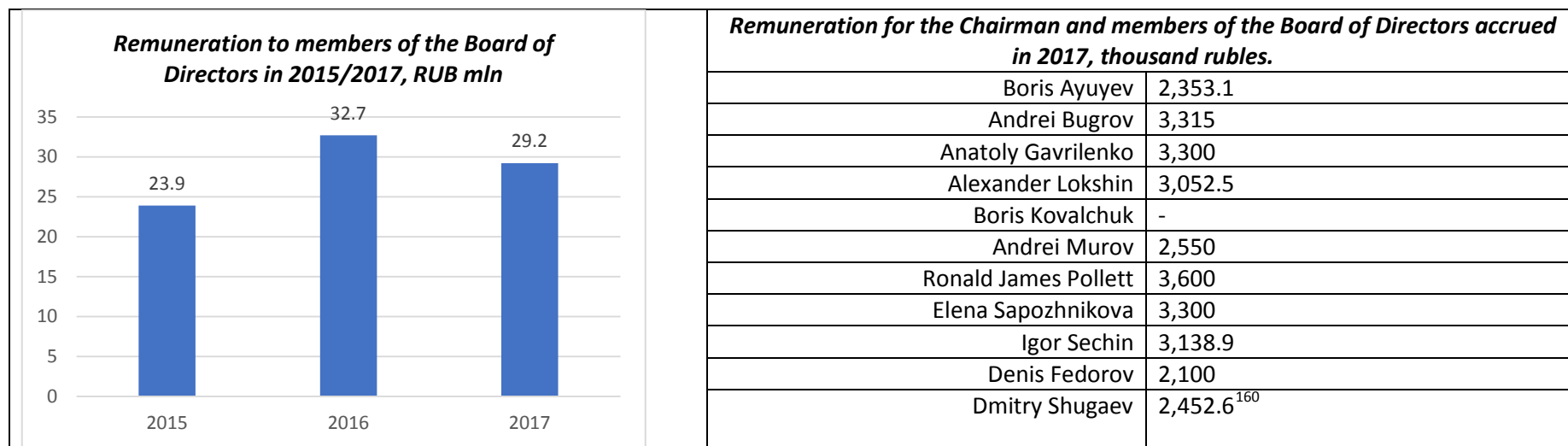
¹⁵⁷ Excluding special annual bonus.

The Company has a procedure ensuring repayment to the Company of bonus payments unjustly received by members of executive bodies and other key management personnel of the Company¹⁵⁸. Such cases did not occur in practice at PJSC Inter RAO.

Report on the Payment of Remuneration in 2017.

Remuneration for the Chairman of the Board of Directors and its members.

In 2017, the members of the Company's Board of Directors¹⁵⁹ received remuneration for their work on the Board of Directors in the amount of 29.2 million rubles, including remuneration for their work on Committees.



Remuneration to Chairman of the Management Board and members of the Management Board

The Board of Directors decided to pay the remunerations in 2017 regarding the results of 2016 to the Chairman of the Management Board and its members. The decision was adopted on April 28, 2017 (Minutes No. 197 of May 2, 2017) and May 31, 2017 (Minutes No. 200 of June 2, 2017).

¹⁵⁸ Changes in the Regulations on Financial Incentives of the Chairman and Management Board (approved by the decision of the Company's Board of Directors of December 29, 2016 (Minutes No. 189 of December 30, 2016)).

¹⁵⁹ The remuneration for the Chairman of the Management Board for his work on the Board of Directors isn't accrued and isn't paid. The specified information is provided regarding Independent and Executive Directors.

¹⁶⁰ During the period of fulfillment of the obligations by the Independent Director in 2016 until the day of appointment to the position of FSMTC executive.

<i>The remuneration for the Chairman of the Management Board and its members in 2017, thousand rubles.</i>	
Base salary	323,008
Bonuses (within short-term incentive program)	480,811
Compensations	3,564
Other kinds of remuneration	1,425
Total	808,808

<i>The remuneration for the Chairman of the Management Board in 2017, thousand rubles.</i>	
Base salary	52,431
Bonuses (within short-term incentive program)	53,288
Compensations	-
Other kinds of remuneration	-
Total	105,719

The amount of the bonus part of remuneration was based on the achievement of KPI target values. For more detailed information on the level of achievement of KPI see section System of Key Performance Indicators.

In 2017, the members of the Company's Management Board received RUB 25,477 thousand for their participation in the management bodies of the Group companies.¹⁶¹

2.9. Corporate Control

Control bodies have been implemented and are being constantly improved in PJSC Inter RAO to improve operational efficiency, asset security, and compliance with the laws of the Russian Federation, as well as conformity to the Articles of Association and internal policies and procedures of the Company. The Revision Commission, the Internal Audit Unit, and the internal control and Enterprise Risk Management Frameworks function to ensure the internal control of internal and external stakeholders, the procedure of preparing the statements, and the efficiency of the corporate management system.

Revision Commission

The PJSC Inter RAO Revision Commission is the permanent elected body which carries out control over the Company's financial and economic activities in accordance with the Articles and Regulation on the Revision Commission¹⁶². The members of the Revision Commission are elected annually at the Annual General Meeting of Shareholders until the next Annual General Meeting of Shareholders.

The composition of the Revision Commission for the 2017-2018 corporate year¹⁶³

<i>Members of the Revision Commission in 2017</i>	<i>In office by December 31, 2017</i>
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¹⁶¹ The amount of remuneration paid in foreign currency was recalculated into Russian rubles at the rate of the CB on December 31, 2017.

¹⁶² http://interrao.ru/upload/docs/polowenie_o_pk_eng_.pdf

¹⁶³ Elected by resolution of the Annual General Meeting of Shareholders in 2016 (Minutes No. 17 of June 9, 2016).

Gennady Bukaev	Vice President – Chairman of the PJSC Rosneft Oil Company Internal Audit Service. General Director of JSC ROSNEFTEGAZ (as a second job).
Tatyana Zaltsman	Manager of the Economic Planning Department of PJSC Inter RAO Financial and Economic Center.
Svetlana Kovaleva	Internal Audit Director – Head of the PJSC FGC UES Internal Audit Department.
Igor Feoktistov	Director of Internal Control for PJSC FGC UES.
Tatyana Fisenko	Director of the Budget Planning and Accounts Department of the Ministry of Energy of the Russian Federation.

Performance and compensation of the Revision Commission

Pursuant to the approved program for the revision of PJSC Inter RAO's activity in 2017, an inspection of the Company's financial and economic activities is going to be conducted.

The manner of compensating the members of the Revision Commission of the Company's financial and economic activity is established by the Regulation on the Company's Revision Commission. The volume of the remuneration amounts to 120 000 rubles for each member of the Revision Commission and 180 000 rubles for its Chairman.

Remuneration paid to the members of the Revision Commission in 2017¹⁶⁴, thousand rubles.

Remuneration	540
Base salary	4 473
Bonus and other types of remuneration	326
Total	5 339

Internal Audit Unit

The Internal Audit Unit (IAU) reports functionally to PJSC Inter RAO's Board of Directors and administratively to the Chairman of the PJSC Inter RAO Management Board¹⁶⁵.

The goals and objectives of the Internal Audit Unit are defined in the Internal Audit Policy published on the website http://www.interrao.ru/en/upload/docs/politica_po_vnutrennemu_auditu.pdf, as well as in the Regulation on IAU¹⁶⁶.

¹⁶⁴ The table contains the information on the remuneration paid to the members of the Revision Commission in the 2016-2017 corporate year by the resolution of the Annual General Meeting of Shareholders in 2016 (Minutes No. 17 of June 9, 2016).

¹⁶⁵ The Internal Audit Policy was approved by decision of the PJSC Inter RAO Board of Directors of August 21, 2015 (Minutes No. 152 of August 24, 2015).

¹⁶⁶ The Regulations on the Internal Audit Unit was approved by decision of the PJSC Inter RAO Board of Directors of October 28, 2015 (Minutes No. 155 of October 30, 2015).

A systematic and consistent approach of the IAU to the analysis and assessment of internal control, risk management and corporate governance systems helps to ensure the improvement of the Company's financial and economic activities and to improve the effectiveness of decisions regarding controlled entities.

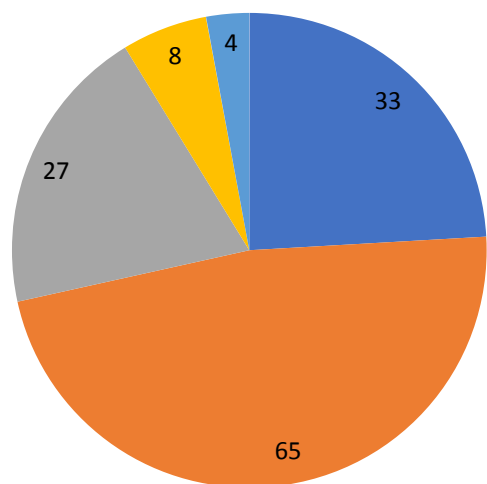
The Inter RAO Internal Audit Unit includes the PJSC Inter RAO Internal Audit Unit, as well as Units of Internal Audit of subordinate persons. The head of IAU functionally coordinates internal audits at LLC Inter RAO – Management of Electricity Plants and PJSC Mosenergosbyt (Moscow Power Supply Company).

Structure of the Internal Audit Unit of Inter RAO Group:

PJSC Inter RAO	Retail Assets and Trading Audit Department
	Engineering Audit Department
LLC Inter RAO – Management of Electricity Plants	Technical Activities Audit Control
	The Financial Audit Department
PJSC Mosenergosbyt	Internal Audit Control

The activity of the Internal Audit Unit in 2017 was conducted in accordance with the work plan approved by the Board of Directors of PJSC Inter RAO, which was fulfilled in a timely manner and in full.

Events held by IAU in 2017



■ Audits of PJSC Inter RAO and subsidiaries

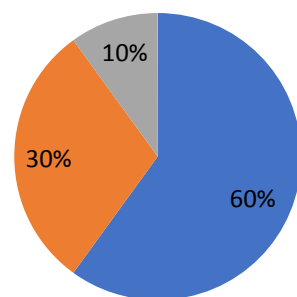
■ Revision audits of subsidiaries

■ Monitoring of implementation of corrective measures upon the audit results

■ Consultating services provided to the management

■ Assessment of the internal control system, the risk management system (including in the area of combating corruption), and the corporate governance practice of Inter RAO Group

Structure of corrective measures upon the audit results in 2017



■ Measures developed to increase the efficiency and optimization of business processes

■ Amendments introduced to IRR aimed at implementing additional management actions

■ Initiated command investigations

To ensure the perfection of the internal audit in 2017, PJSC Inter RAO's Regulation on the Internal Audit Unit and internal methodological documents have been updated and the annual training plan has been fulfilled in order to ensure the constant professional development of the auditors. We looked

at how to streamline the Internal Audit Unit's activity, which resulted in development of the terms of reference and forming a plan to implement an automated system.

The internal audit's 2018 function development plan has been approved by the Board of Directors of PJSC Inter RAO¹⁶⁷ and includes measures to improve the standard methodological base and automatize the internal audit, as well as measures for maintaining and developing the auditors' professional qualifications.

Evaluation of the Internal Audit Unit's activity

During preparation of the report on the activity of IAU, the self-assessment of the internal audit is conducted annually. The results of the self-assessment conducted in 2017 confirm that the activity of the internal audit is mostly consistent with the International Professional Standards of the internal audit and with the Corporate Ethics Code of the Institute of Internal Auditors. No circumstances were identified that could influence the volume and content of the Internal Audit, or prevent the auditors from fulfilling their duties.

External evaluation of the Internal Audit's activity was not conducted in 2017.

Internal Control Framework and Enterprise Risk Management Framework

The Group has Enterprise Risk Management Framework (ERM) and Internal Control Framework (ICS) covering the main assets, key business processes, businesses and management levels of the Group.

For detailed information on the ERM and IC in the Company – see unit Risk Management and Internal Control Framework.

Information Security

In accordance with the Information Security Policy at Inter RAO Group, LLC Inter RAO – IT has the following functions:

- information security – actions aimed at organizational information security, including the development and update of regulations;
- information protection – the determination of requirements for information security technical support at Inter RAO Group and technical protection measures taken within its scope of responsibility;
- information security audit – information security audits within the scope of its responsibility.

¹⁶⁷ Minutes No. 212 of November 1, 2017.

Since May 2017, the information monitoring of ongoing global incidents in the field of information security has been conducted on a regular basis. When the information on all on-going incidents in Inter RAO Group is obtained, a central mail-out of all the information messages is conducted, which includes the requirements for reinforcing security measures, as well as detailed recommendations on Malware detection, measures for combating contamination and opportunities to minimize the negative consequences. In particular, a list of administrative and technical measures was developed in order to prevent the consequences of possible malicious attacks in the future.

In 2017 there were no problems related to the Malware in Inter RAO Group's Companies.

The Group has analyzed information security risks and determined the risk level of disclosure of confidential information, as well as that of malicious infrastructural actions which lead to reputational and financial loss as the result of both unintended acts and pre-arranged attacks on the Inter RAO Group's IT infrastructure.

In 2017 we deployed a company-wide system for protecting IT systems from malicious software (virus protection), regarding increasing the Group's information security and minimizing the consequences of the treats identified, should they be realized. Other events took place as well, including:

- updating internal policies and procedures (Technical information protection Policy of Inter RAO Group and Methodology of processing personal data as part of personnel management were updated; the threat model of Inter RAO Group's Corporate Center was updated to take into account FSTEC Russia's bank of information security threats; the Methodology of Collection and analysis of the technical data during internal investigation of information security cases was developed and launched);
- approval and implementation of the annual plan for on-site inspections of the state of information security in accordance with corporate standards;
- monitoring of the corporate data transmission network;
- instruction for Inter RAO Group's employees in order to increase user awareness about information security issues.

The plan approved at the meeting of the Information Security Committee concerning the implementation of Inter RAO Group's Corporate computer network information security systems for 2015-2017 included organizing and implementing pilot projects aimed at increasing CPCS protection.

Compliance, Combating Fraud and Corruption

The goals, tasks, principles and key processes¹⁶⁸ of Compliance are identified in the Group's Compliance Policy. http://www.interrao.ru/en/upload/docs/Komplaens_politika.pdf. In 2017 the Company updated the Compliance Policy of PJSC Inter RAO¹⁶⁹,

¹⁶⁸ "Compliance" shall mean the compliance of activities of the Group and employees of Group companies with the requirements of international, Russian and, in the case of activities outside the Russian Federation, applicable foreign laws, internal corporate standards, organizational and administrative documents, and resolutions of the Group companies' management bodies.

¹⁶⁹ Approved by the resolution of the Board of Directors of January 31, 2018 (Minutes No. 216 of February 2, 2018)

including adding new Compliance principles and a new key Compliance process – Antimonopoly risks management – to the documents. These are aimed at minimizing the risk of antimonopoly law violations during the implementation of the economic activity.

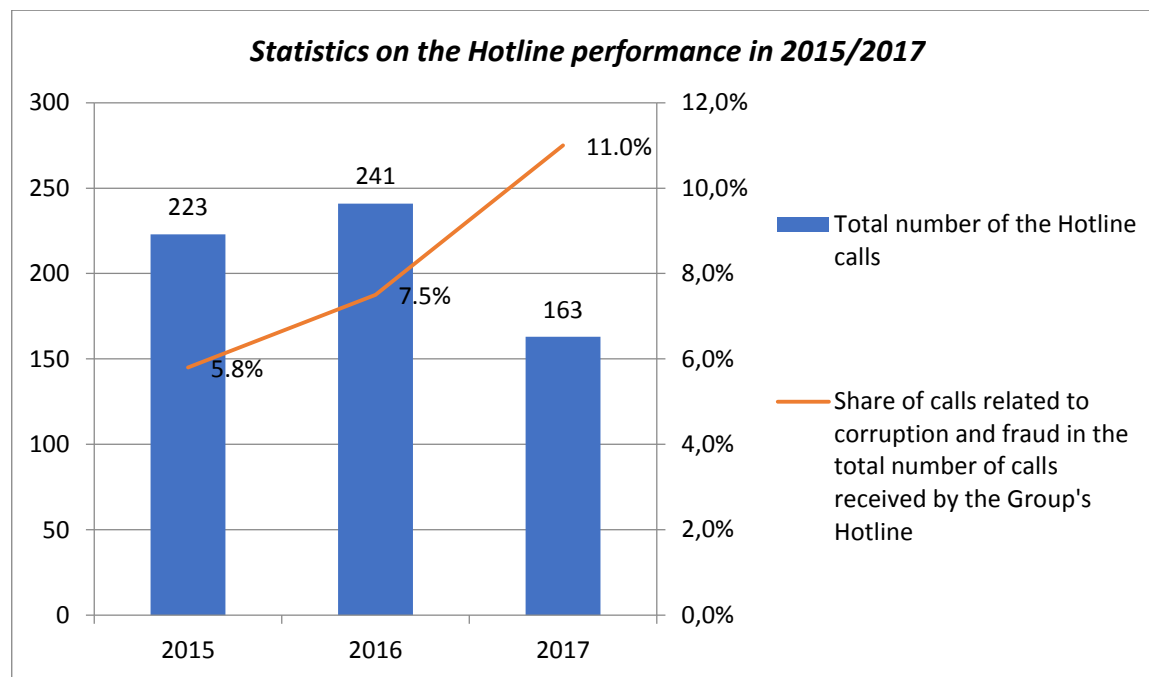
A central place in the Group's Compliance system is devoted to issues on combating fraud and corruption.

The Anti-Corruption Hotline has been available at Inter RAO Group since 2012. Detailed information is available on the website. <http://www.interrao.ru/en/company/corrupt/>. Any Group employee or other stakeholder who becomes aware of an incident or impending violation with signs of corruption made by other employees, counteragents of Group companies, or by other persons, may inform us thereof via the Hotline. Hotline Regulations implement independent audits of the circumstances described in messages (including anonymous messages), and an opinion on the matter is issued to all stakeholders.

Neither evidences for corruption, nor other abuses of authority were identified in 2017. In the reporting period, no complaints of incidents causing economic loss were sent to law enforcement bodies.

Statistics on anti-fraud and corruption work

	Year		
	2015	2016	2017
Share of complaints related to corruption or fraud out of the total volume of complaints received by the Group's Hotline	5.8% (13), 0 are substantiated	7.5% (18), 0 are substantiated	11% (18), 0.6% of them are substantiated (1)
Total number of the Hotline calls	223	241	163
Total number of the cases related to potential risk of corruption or fraud	34	36	16
Total number of dismissed or punished employees for proven cases of corruption or fraud	9	0	0



In 2017, the Company organized training to help employees familiarize themselves with legal requirements and the Company's anti-corruption measures. A third-party trainer was engaged to conduct four classes for Company employees to maintain their knowledge and skills to combat corruption. In total, 144 Company employees have been trained.

Besides that, extra training was organized for employees whose position is related to the corruption risk, for employees to maintain their knowledge in the legal requirements for combating corruption, internal policies and procedures, and measures of combating corruption with the engagement of a third-party trainer. Four classes were conducted, and 46 employees of such category were trained.

Employees of all Company units are regularly informed by the directors on the Company's measures and requirements of combating corruption and employees' duties to fulfill these requirements. Two to four (depending on the Unit) informational events were conducted in 2017.

In total, 40 Inter RAO Group companies conducted training for combating corruption in 2017. 40% to 100% of employees of these companies were engaged in the training. The classes were conducted in the form of lectures and workshops organized by human resources and conducted by the safety unit employees or company/unit executives.

Moreover, the obligation of Group employees to immediately inform the head of the Personnel Management and Organizational Development Unit and/or the head of the Security Unit about incidents or impending legal violations, as well as our internal policies and procedures' requirements in the

field of combating corruption, are provided for in PJSC Inter RAO's Corporate Ethics Code: https://www.interrao.ru/en/upload/doc/Kodeks_korp_etiki.pdf.

External Auditor

Audit of the Company's financial and economic activities in accordance with the requirements of Russian legislation shall be carried out by the Company's Auditor on the basis of the contract concluded with them. The Company's Auditor shall be approved by the General Meeting of Shareholders. The criteria and procedure for selecting an Auditor, and the rules for the rotation of audit leads shall be governed by PJSC Inter RAO's Policy of Engagement with an Independent Auditor.

Private competitive negotiations were held in August 2015 in order to select the single auditor for 2016, 2017, and 2018. Based on the outcome of these private competitive negotiations, the winning bidder was Ernst & Young, Limited Liability Company. PJSC Inter RAO's General Meeting of Shareholders, which took place on June 9, 2017, approved the candidate proposed by the Board of Directors as the Company's Auditor for 2017.

Services of the external auditor in 2017

	Cost
The audit of Inter RAO Group's consolidated financial statements, prepared in accordance with the IFRS for 2017.	RUB 20,200,000 (excluding VAT)
Review of Inter RAO Group's interim condensed consolidated financial statements, prepared in accordance with the IFRS for 3 months ended on March 31, 2017.	RUB 4,600,000 (excluding VAT)
Review of Inter RAO Group's interim condensed consolidated financial statements, prepared in accordance with the IFRS for 6 months ended on June 30, 2017.	RUB 4,300,000 (excluding VAT)
Review of Inter RAO Group's interim condensed consolidated financial statements, prepared in accordance with the IFRS for 9 months ended on September 30, 2017.	RUB 4,300,000 (excluding VAT)
The audit of the PJSC Inter RAO annual accounting statements for 2017 prepared in accordance with the RAS for 2017.	RUB 900,000 (excluding VAT)

In February, 2018. During an in-person meeting, the Audit Committee¹⁷⁰ reviewed the report for 2017 on audit and other services, rendered to the Group by the companies included in the network of audit organizations, jointly with the Company's Auditor. The share of the value of non-audit services, rendered by the auditor and parties affiliated with him, makes up 22.8% of the cost of the auditor's services in total.

¹⁷⁰ Minutes No. 108 of February 22, 2018.

In order to increase efficiency in both external and internal audit, the external auditors actively interact with the IAU and use separate internal audit results as part of external audit procedures. The interaction is conducted within the following:

- information exchange on the results of the Company's IC performance assessment;
- discussion of the external auditor's action plans to minimize work being performed twice;
- analysis of implementation of corrective measures aimed at elimination of the Company's IC shortcomings.

In February 2018, the Audit Committee also considered the issue of evaluation of auditors' reports and quality of audit performance in accordance with Russian and international standards¹⁷¹; the external audit process is recognized as efficient.

2.10. Information for Shareholders and Investors

Company Share Capital

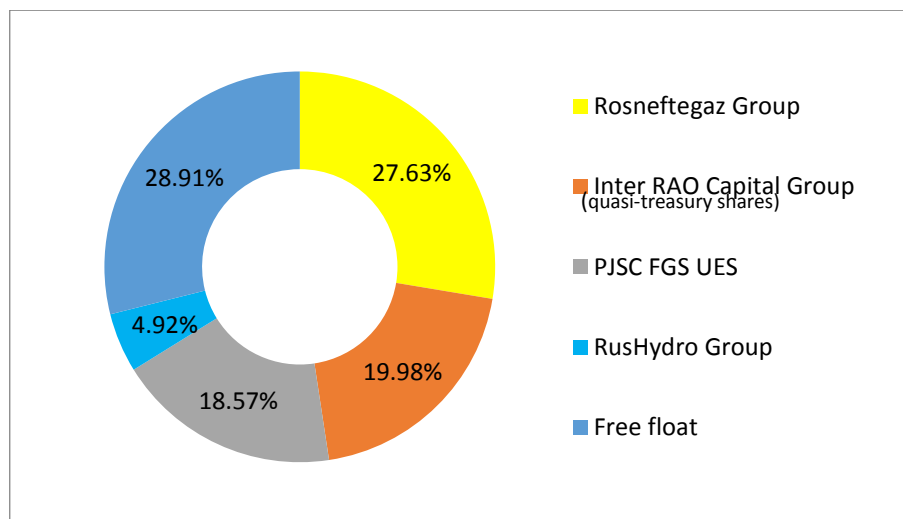
The authorized capital of PJSC Inter RAO amounts to RUB 293,339,674,800 and is divided into 104,400,000,000 ordinary shares with a nominal value of RUB 2.809767 each. The shares were added to the First Level of the List of Securities admitted for trading on the PJSC MICEX Stock Exchange, which is the top stock exchange level. As of December 31, 2017, PJSC Inter RAO had no preferred shares.

The Russian Federation, represented by the Federal Agency for State Property Management (Rosimushchestvo), owns 493.69 ordinary shares (0.0000005% of the authorized capital). The Russian Federation does not own any special right to manage the Company ("a golden share").

In the reporting year, the share capital structure did not undergo any significant changes.

Share capital structure as of December 31, 2017

¹⁷¹ Minutes No. 107 of July 2, 2018 and No. 108 of February 22, 2018.



28.91% – the amount of free-float shares of PJSC Inter RAO¹⁷²

Free-floating shares among foreign shareholders, shown geographically, as of December 31, 2017¹⁷³

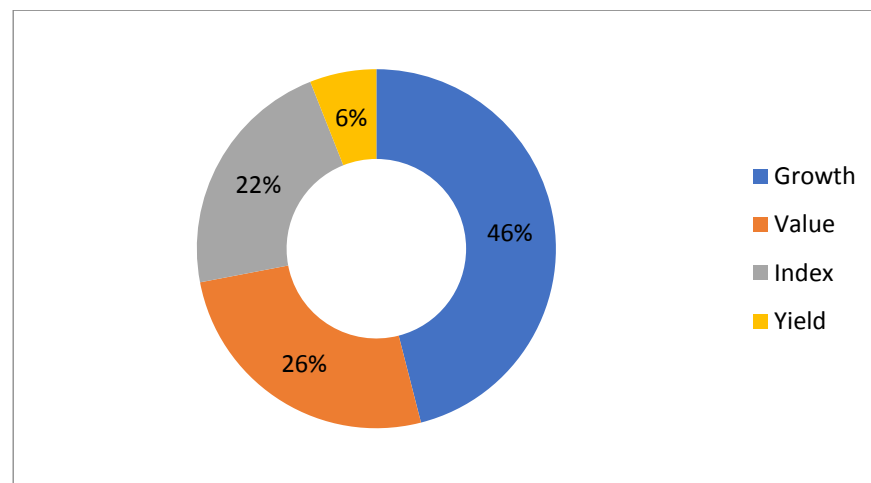
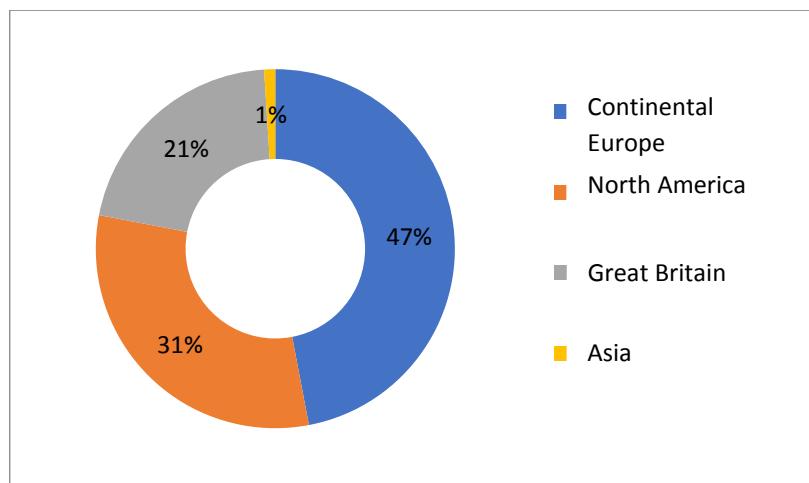
Free-floating shares among foreign shareholders, shown by investor type as of December 31, 2017¹⁷⁴

¹⁷² The amount of free-float shares is determined by analyzing share capital ownership structure, by way of subtracting a number of non-free-float shares from the total amount of Issuer shares. The calculation is made in accordance with the Listing Rules of PJSC Moscow Exchange and the approved Free-float Calculation Methodologies.

In March 2018, free-float increased to 30.4% as a result of the sale of a part of shares received by PJSC Inter RAO management due to an option program.

¹⁷³ Based on public information as of December 31, 2017.

¹⁷⁴ Based on public information as of December 31, 2017.



Information on end beneficiaries as of December 31, 2017

Item No.	Full name or company	End beneficiary	Number of shares	
			Total, pcs.	% of authorized capital
1	Russian Federation represented by Rosimushchestvo	Russian Federation	493.69	0.0000005
2	Rosneftegaz Group		28,844,020,032.02	27.63
3	PJSC FGS UES		19,386,053,950.04	18.57
4	PJSC RusHydro		5,131,656,433.76	4.92
Company Shareholders belonging to Inter RAO Group			20,859,483,939.06	19.98
Other shareholders (free-float shares)			30,178,785,151.43	28.91
TOTAL			104,400,000,000	100.00
Total number of shareholders of PJSC Inter RAO			354,306	
of which are individuals			351,545	

Shareholders recorded in the register of shareholders of PJSC Inter RAO with more than 2% of voting shares of the Company as of December 31, 2017 (excluding nominee shareholders).

SHAREHOLDERS	The amount of shares as of December 31, 2017
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	Total, pcs.	% of authorized capital
JSC ROSNEFTEGAZ	27,526,226,999	26.4%
JSC Inter RAO Capital	5,593,399,155	5.4%
Non-Banking Credit Organization Closed Joint-Stock Company National Settlement Depository (nominee shareholder)	40,889,250,558	39.2%
Depository and Corporate Technologies LLC (nominee shareholder)	27,766,732,676	26.6%
TOTAL:	101,775,609,387	97.5%

The Company lacks information on the existence of ownership shares greater than 5%, except those which have already been disclosed.

Stock Exchange Information on PJSC Inter RAO Shares

PJSC Inter RAO shares	
Amount of ordinary shares, pcs.	104,400,000,000
Share nominal value, RUB	2.809767
Total nominal value of the issue, RUB	293,339,674,800
ISIN	RU000A0JPNM1
State registration number	1-04-33498-E
Trade platform	MOEX
Trading start date	December 1, 2009
Quotation list	Level One
Stock ticker (MOEX)	IRAO
Ticker in Bloomberg	IRAO RX
Ticker in Thomson Reuters Eikon	IRAO MM

Depository receipts

In 2008, PJSC Inter RAO, together with Bank of New York Mellon, acting as a depository, implemented the program of global depository receipts issued for the Company's shares, in accordance with Regulation S and Rule 144A (1 GDR = 100 ordinary shares). Considering foreign investors' significant interest in PJSC Inter RAO capital, in addition to information disclosure in Russian, the Company simultaneously discloses information in English through its Information Disclosure Service, which is authorized by the British regulator.

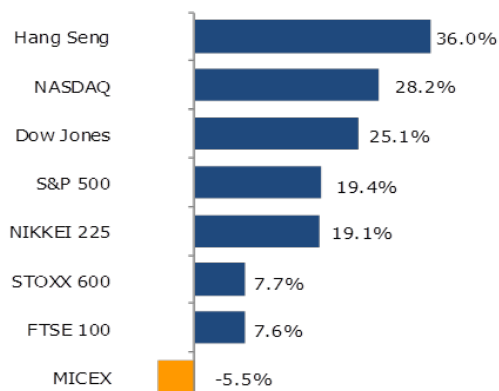
Detailed information is provided on the website <http://www.interrao.ru/en/investors/securities-information/>.

Ordinary shares of PJSC Inter RAO included in the index calculation bases as of December 31, 2017

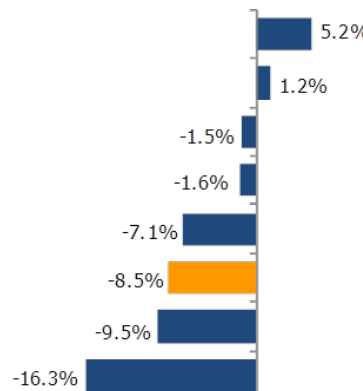
Index	Ticker	Inter RAO Securities in the December 31, 2017 index, %
Moscow Exchange Index (composite)	MICEXINDEXCF	1.11%

index)		
Moscow Exchange Power Industry Index	MICEXPWR	14.25%
General Market Index	MICEXBMI	1.05%
Moscow Exchange Blue-Chip Index	RTSSTD	1.5%
RTS Index	RTSI	1.21%
FTSE Emerging	AWALLE	0.004%
FTSE Russia	WIRUS	0.87%
FTSE All-World	AWORLDS	0.039%
FTSE4Good Emerging	F4GEM	0.068%
MSCI Russia	MXRU	1.02%
MSCI Emerging Markets	MXEM	0.034%
MSCI ACWI Index	ACWI	0.004%
RUSSIA ESG LEADERS	-	3.94%
S&P Russia BMI	SRUU	0.90%
Dow Jones Russia	DJRUSGD	0.89%
Nasdaq Russia	NQRU	1.60%
Nasdaq AlphaDEX Emerging Markets	NQDXEM	0.99%
Market Vectors Russia Index (Van Eck)	MVRSX	1.88%
STOXX Russia Total Market	TCRUP	1.15%
STOXX Optimised Russia	EEORGT	1.90%

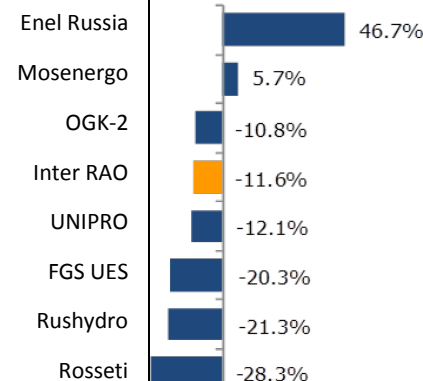
WORLD MARKET INDEXES



INDUSTRIAL INDEXES



CAPITALIZATION OF ELECTRIC UTILITY COMPANIES



Major world indices increased due to many positive factors, particularly:

- China: plans of global infrastructure development around the world as a part of the New Silk Road project, with the preliminary value of USD 150 billion for the next 5 years;
- USA: an economic growth revival as a consequence of high corporate profits of large companies. Sharp tax cuts might speed up the change, as Donald Trump signed a law which will ultimately enable more than USD 1 trillion to return to the USA from offshore (according to Moody's Agency estimate);
- Europe: the mitigation of political uncertainty due to the election of Emmanuel Macron as the president of France, the victory of Angela Merkel's Party in German elections, and the more confident position of the Conservative Party in Britain, which allows the Brexit process to become more concrete;
- A rise in the price of oil, instigated by world oil-producing countries' agreement to constrain the volume of oil production;
- Global central banks' policy on keeping low interest rates for the next few years. Low yields of developed countries' government bonds encourages investors to look closer at the stock market in search for higher returns.

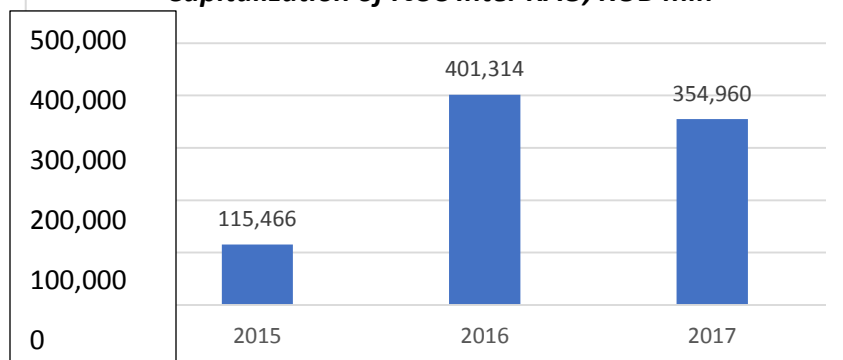
Among main world indices, Moscow Exchange Index showed negative dynamics, due first of all to the pessimistic attitude of investors after the USA tightened sanctions against Russia and to the financial difficulties of the largest Russian banks. Among Moscow Exchange Industry Indices, the Metallurgy Index showed the highest growth, which is determined by the positive dynamics of raw material prices. The Energy Index took the 6th place among Industry Indices. The key factors lowering the price of power companies are a common tendency in the Russian stock market, the high capability of 2016 (increase by 110%), and dividend payouts by specific state-owned companies amounting to less than 50% of net income, which does not

correspond to investors' expectations after the Russian Government took the initiative, as well as uncertainties of further development of the energy market. The reduction of PJSC Inter RAO share price by 12% at year-end is a small change after the exponential growth in 2016.

Results of shares trading for 2015-2017

Year	Minimum closing price, RUB	Maximum closing price, RUB	Average daily trading volume, RUB	Closing price, RUB		Capitalization as of year end, RUB mln	Market capitalization growth, %
				1 January	31 December		
2015	0.706	1.271	71,268,949	0.712	1.106	115,466	+55%
2016	1.2295	4.0435	356,136,069	1.106	3.844	401,314	+248%
2017	3.3205	4.251	380,785,668	3.844	3.400	354,960	-12%

Capitalization of PJSC Inter RAO, RUB mln



Analytical coverage of Inter RAO shares

According to the results of the year, Inter RAO's analytical coverage was provided by eight specialists from leading Russian and international banks. All investment institutions updated the financial models, and most of them increased the target prices and recommendations on PJSC Inter RAO shares. On 21 November 2017, the global international bank CITI initiated PJSC Inter RAO share coverage with the target price of RUB 3.65 per share and the position "Hold."

Broker	Recommendations on shares	Target price	Growth potential	Publication date
CITI	Hold	3.65	7%	November 21, 2017
BCS*	Buy	4.70	38%	October 23, 2017
Veles Capital	Buy	4.60	35%	September 27, 2017
Raiffeisen Bank	Hold	4.58	35%	June 14, 2017
Renaissance Capital**	Buy	7.60	124%	March 9, 2017

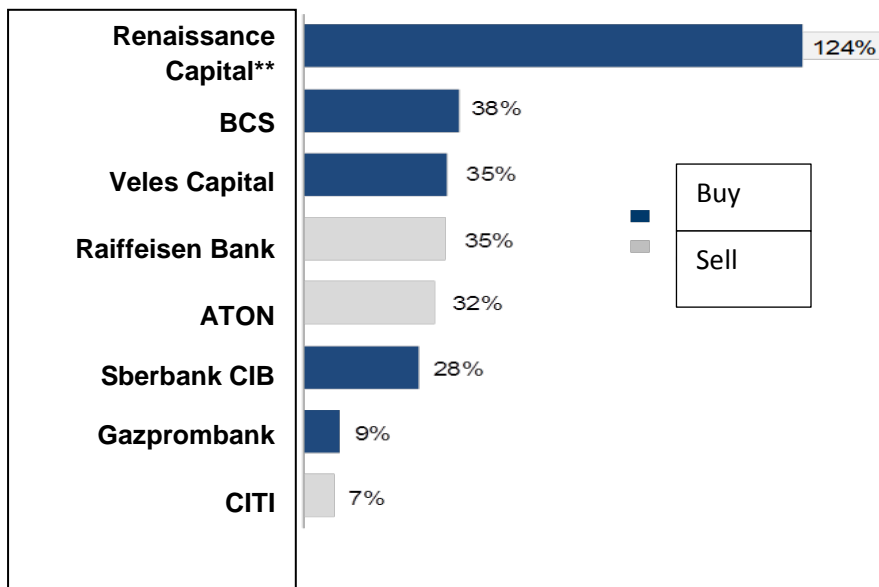
ATON*	Hold	4.50	32%	November 24, 2016
Sberbank CIB*	Buy	4.36	28%	October 20, 2016
Gazprombank*	Buy	3.70	9%	August 30, 2016
Consensus forecast		4.71	+39%	

The business-models of Sberbank CIB and Gazprombank have not been updated since 2016 due to the relevance of the target price, according to an investment broker. The BCS business-model was updated as of February 26, 2018, with the target price of RUB 4.6 per share (position "Buy"); ATON was updated as of February 1, 2018, with the target price of RUB 4.5 per share (position "Hold").

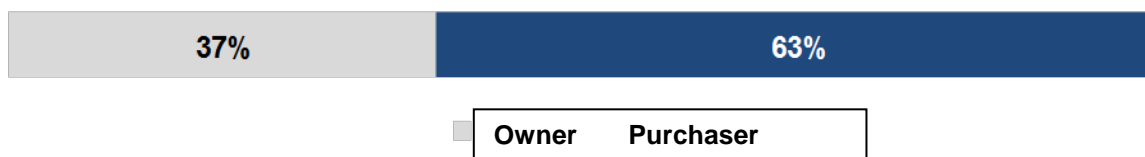
*** Analytical coverage suspended in 2018.*

Relevant assessments by investment analysts are available on the website <http://www.interrao.ru/en/investors/analyst-coverage/analysts/>.

Analysts from the investment banks evaluate the company's development potential quite highly and consider the company to be undervalued compared to other electric utilities.



Market price as of December 31, 2017: **RUB 3.4**
 Consensus forecast: **RUB 4.7**
 Growth potential: **+39%**



We consider **Inter RAO** one of the strongest companies in the Russian power industry. Right now, the increase in dividend payout to >25% of IFRS is one of the factors that can speed up the growth in Company's share prices, along with the certainty and understanding of the profitability of our modernization program.

We consider Inter RAO financially efficient and disciplined in the issues of capital expenditure, a company possessing huge resources to implement its modernization programs, making the Company even stronger. Right now, Inter RAO shares are being traded with a significant discount as compared to companies on both foreign and Russian markets. **We suggest considering Inter RAO as a company of long-term prospects with a high potential.**

Report on IR activities held in 2017 is presented in the section Information Disclosure and Investor and Shareholder Relations. The report on IR activities held in 2017.

Dividend Policy (Report on Dividend Payout)

Dividends amount and payment procedure in the Company are stipulated by the Regulation on Dividend Policy of PJSC Inter RAO¹⁷⁵. PJSC Inter RAO Dividend Policy involves a balanced approach to profit distribution that takes into account the interests of the Company's long-term development and profitability and value increase for shareholders.

Dividend Policy aims at meeting the following challenges:

- increasing investment appeal;
- optimizing net profit distribution;
- observing the rights and legitimate interests of shareholders.

The Dividend Policy Regulation establishes a target level of dividend payouts equal to 25% of the Company's consolidated profit, while the Company's net profit set in accordance with RAS is the source of dividend payments. When determining the net profit share to be used for dividend payout, the following factors shall be considered:

- necessity to raise funds;
- net profit forecast for the next fiscal year;
- necessity to finance the investment activity of PJSC Inter RAO;
- availability and streaming of sources to finance the investment activity of PJSC Inter RAO.

In the last several years, dividends per PJSC Inter RAO share have significantly increased: from RUB 0.001 per share in 2015 up to RUB 0.1468 per share in 2017. As a percentage, the dividend amount to net profit under the IFRS increased from 1.5% in 2015 to 25% in 2017.

¹⁷⁵ Minutes of the Board of Directors No. 118 of July 03, 2014.

When determining the net profit share to be used for dividend payout, no corrections of this indicator were applied in 2017.

In comparison with dividends in 2015, the dividend amount paid in 2016 increased over eight times and comprised about RUB 15 billion. Dividends for the year 2016 were paid by July 25, 2017.

Payout of dividends

Year	2013	2014	2015	2016	2017
Dividend per share, RUB	-	-	0.0010	0.0178	0.1468
Dividend amount/net profit under RAS, %	-	-	24.8%	50.0%	15.7%
Total dividends declared, RUB thousand	-	-	108,543	1,860,727	15,328,000
Total dividends paid, RUB thousand	-	-	107,719	1,860,156	15,323,779

As a result of performance in 2017 In March 2018, at the General Shareholders' Meeting, the PJSC Inter RAO Board of Directors recommended approving a decision on dividend payout in the amount of RUB **13.612** billion or RUB **0.130383141762452** per share, which is equal to 25% of the PJSC Inter RAO net profit calculated according to International Financial Reporting Standards.

Information Disclosure and Investor and Shareholder Relations

Information disclosure system

In accordance with the legislation of the Russian Federation and the Regulation on Information Policy of PJSC Inter RAO¹⁷⁶, the Company provides timely disclosure of reliable information on all material facts relating to its activity, including the details of its financial position, social and environmental metrics, performance results, and ownership and management structure, as well as free access to this information for all stakeholders.

Also, PJSC Inter RAO discloses its information on the website of Interfax–TsRKI LLC – information agency, accredited by the Central Bank of Russia to disclose information. The Company's page on the Interfax–TsRKI website: <http://www.e-disclosure.ru/portal/company.aspx?id=12213>.

In accordance with federal laws and other regulatory acts, as well as the requirements of the trade organizers in the securities market, the Group shall disclose additional information, in addition to the mandatory disclosure of information, in order to ensure maximum transparency.

The principles and areas of the Group's interaction with external audiences, including information disclosure, are described in the Company's Information Policy. Inter RAO Group discloses the information on its activities using the following communication channels:

- publications in mass media;
- publications on its corporate website at www.interrao.ru (in Russian and in English);
- publications in brochures, booklets, corporate media, and other printed and electronic media;
- the provision of access to information (documents) to shareholders and distribution of document copies, whenever required by law;
- press conferences, Internet conferences, briefings, conference calls, meetings with stakeholders involving the submission of relevant comments, and the holding of other public events.

The Company and Inter RAO Group are committed to maintaining a constant dialog with stakeholders. The list of Inter RAO Group's stakeholders is outlined in the Corporate Ethics Code of PJSC Inter RAO¹⁷⁷ and the Group's Communication Strategy. This list takes into account, on one hand, the economic, social, and environmental impact of the Group companies' operations on different categories of stakeholders and, on the other hand, the impact of different categories of stakeholders on the Group's operations.

The Group has common approaches to ensure optimal and regular communication with every group of stakeholders based on individual forms and methods, taking into account their interests and demands.

Report on Compliance with the Information Policy

The Report on Compliance with the Information Policy of the Company is prepared in accordance with the Corporate Governance Code, PJSC Inter RAO's Information Policy Regulation, and the Letter of the Bank of Russia No. IN-06-52/8 of February 17, 2016.

¹⁷⁶ Approved by decision of PJSC Inter RAO's Board of Directors on 29 December 2016 (Minutes No. 189 of December 30, 2016).

¹⁷⁷ Approved by the PJSC Inter RAO Board of Directors Minutes No. 180 of October 3, 2016.

In order to maintain control by the Board of Directors over compliance with the Information Policy, the Report on Compliance with the Information Policy is annually submitted for consideration by the Company's Board of Directors as part of the Report by the Division which acts as PJSC Inter RAO's Corporate Secretary.

The main conclusions of the 2017 Report on Compliance with the Information Policy approved by PJSC Inter RAO's Board of Directors at the attendee meeting on 30 March 2018 (Minutes No. 221 of March 30, 2018) are as follows:

- The Company complies with the procedure and timeframe for the mandatory disclosure of information by issuers of securities, which were established by law;
- The Company voluntarily discloses the information specified in PJSC Inter RAO's Regulation on Information Policy.

Information about events/actions disclosed as part of mandatory information disclosure:

Disclosure of significant facts which affect economic and financial activity	110
Notice of access to insider information	38
Information on material risks	5
RAS financial statements	4
IFRS financial statements	4
Information on AGSM convocation, meetings, agenda, and resolutions	4
Lists of affiliates	4
Quarterly reports	4
Articles of Association	1
Annual Report	1
Information on the value of hard copies	1
Company's internal documents regulating the activities of its bodies	1

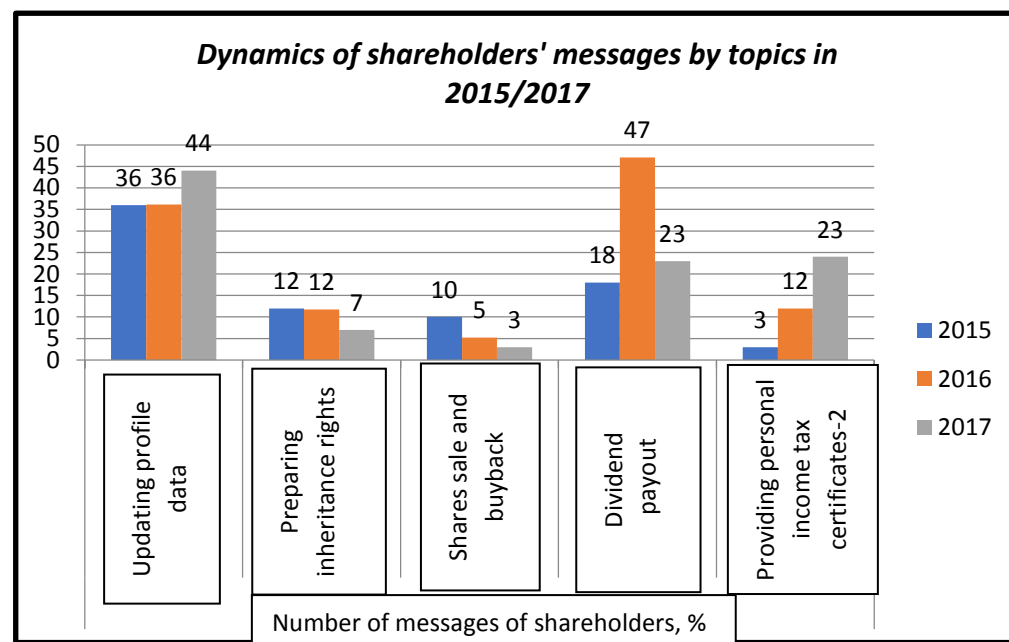
Information on events/activities disclosed as part of voluntary information disclosure:

Information on decisions taken by the Board of Directors in the form of press releases	20
Press releases, webcasts, and presentations on IFRS financial statements	4
Quarterly performance	4
Board of Directors committee members	3
Information on policies approved by the Board of Directors	1
Information on the mission, strategy, and key business areas	1
General corporate governance principles	1
Membership of the Board of Directors	1
Executive bodies	1

Report on shareholder relations

PJSC Inter RAO is one of the public joint-stock companies in Russia with the largest number of minority shareholders, and relations with them is a special focus for the Company. To develop a system of effective dialog with shareholders, the Company annually implements programs of relations with minority shareholders¹⁷⁸, developed on the basis of analyzing messages received from the shareholders and surveys conducted by the Company.

Internal and external communication channels with shareholders



The most important communication channel with shareholders is the Company's corporate website. The PJSC Inter RAO website views analysis shows that the numbers of purposeful views increased significantly in the last two years.

Detailed information for shareholders is presented in the website section especially for investors and shareholders <http://www.interrao.ru/en/investors/>.

¹⁷⁸ The program of relations with minority shareholders in PJSC Inter RAO for 2017 was approved at the meeting of the Management Board on December 28, 2016 (Minutes No. 663).

Box:

There is a special section for minority shareholders in the corporate newspaper Energy Without Boundaries where the results of shareholders meetings, answers to the most popular questions, and another information for shareholders is published.

In the reporting year, employees from the shareholders relations division answered 205 calls and 94 e-mails from shareholders, prepared 23 Personal income tax certificates upon shareholders' request, and held 53 personal meetings with Company shareholders. The Company's Registrar's call-center answered 2,107 shareholders' calls and 117 e-mails.

As a part of the minority shareholder relations program, in 2017, the Company performed the following activities:

- The 2017 edition of the PJSC Inter RAO Shareholder Information Card has been actualized, revised, supplemented and published (the section about the opportunity of electronic voting at shareholder meetings was added; information was added on the dividend payout procedure to Company shareholders in case securities of the Company's registered holder and nominee holders are considered; the FAQ section was revised and expanded);
- The second interactive informative item (video) was created, where specific features of consideration of the Company's Registrar and depository shares are explained to shareholders;
- An online forum for shareholders on agenda items for the Annual General Shareholders' Meeting was developed;
- Persons with the right to participate in the AGSM were provided with all required technical conditions for participation – an opportunity to fill out an electronic ballot on the Registrar's website.

A free online service is highly popular among shareholders. It is the Customer's Personal Account which gives shareholders the opportunity to be aware of all PJSC Inter RAO's planned and performed activities. This service allows shareholders recorded in the register of shareholders to not only know about the information and documents the Company has published regarding corporate activities, including General Shareholders' Meetings, but also to have remote access to the information about their personal accounts in the register of shareholders and to the information about distributed and paid dividends.

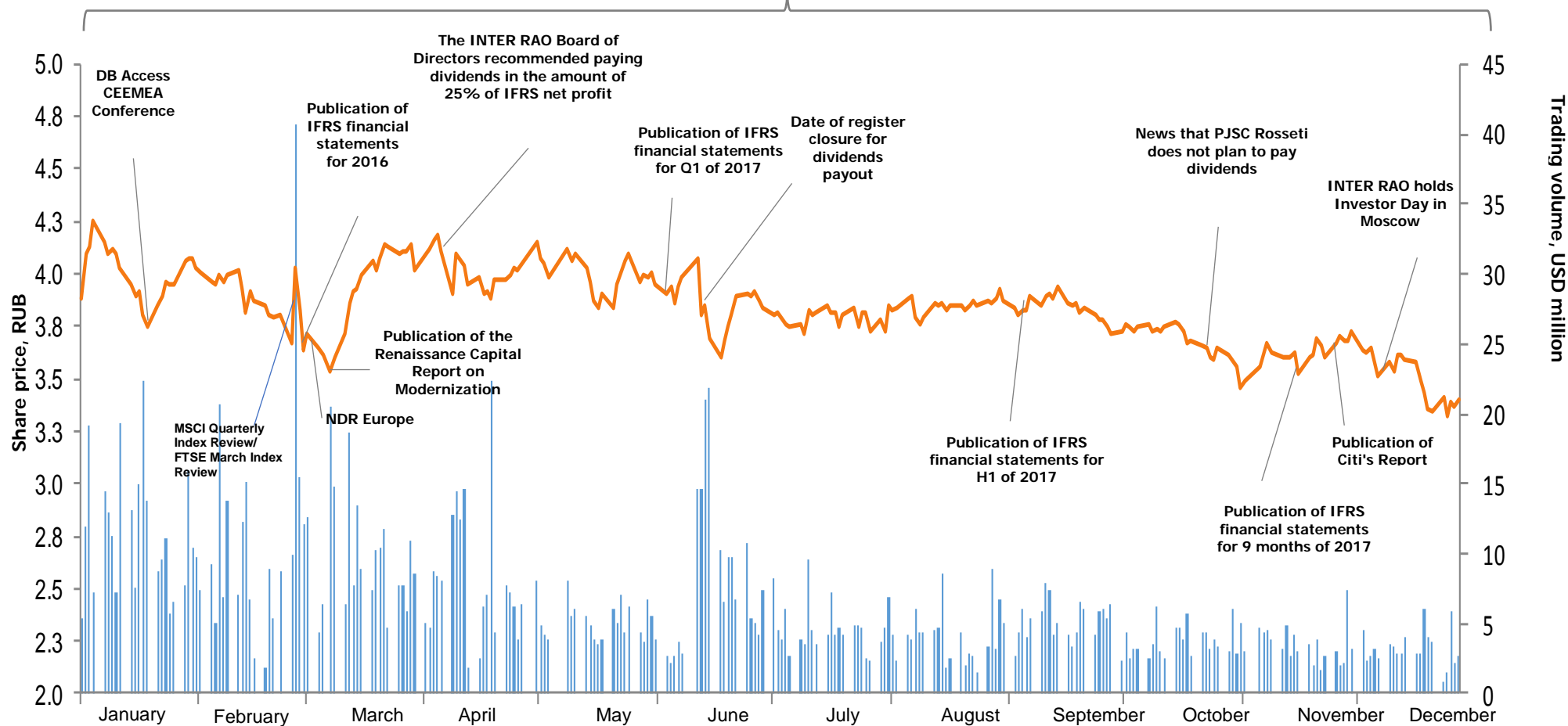
As of the date of the Report approval, an exponential growth of shareholders using this service was observed; the total number of users exceeded 300 persons.

In 2017, a new PJSC Inter RAO minority shareholder relations program for 2018-2020 was developed. Key aims of the new program are observing the rights of minority shareholders, making a positive image of the Company as an issuer of shares, and increasing the liquidity and investment interest of the Company's shares.

Report on IR activities held in 2017

In 2017, the management continued to enhance the attractiveness of investing in Inter RAO's shares. The results of the management activity were constantly reported to the investment community as part of IR activities.

IRAO ▼ -11.6% MICEX ▼ -5.5% MICEX PWR ▼ -8.5%



The Group applies a wide range of shareholder and investor relations channels. The Group's Management is committed to improving the quality of the voluntary information disclosure. To improve information transparency, for the third year in a row via quarterly webcasts, the Group's management has disclosed not only financial metrics but also plans and forecasts, offered quarterly reports on events aimed at increasing operational efficiency, and highlighted key and current market trends, and finished it off with detailed Q&A sessions for analysts and investors.

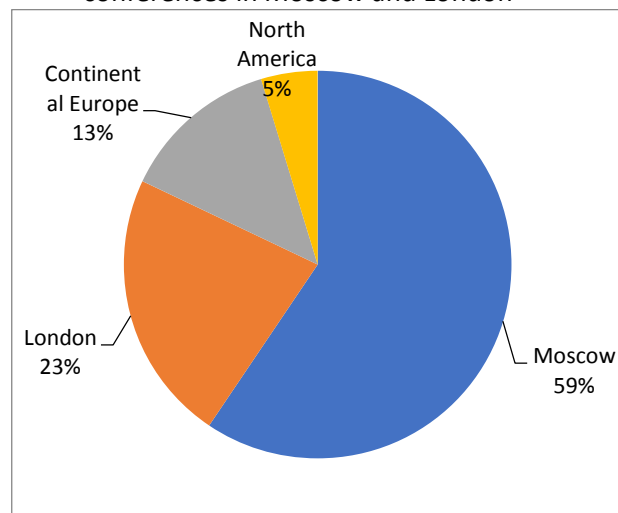
Two hundred and twelve meetings with Russian and foreign investors took place in 2017. Meeting format: Investor Day, non-deal road-show, webcast, conference calls. Among participants of the meetings were representatives of major global European and Russian investment funds, such as:

- Blackrock (more than USD 4.3 trillion);
- JP Morgan Asset Management (more than USD 1.5 trillion);
- Amundi Asset Management (more than USD 900 billion);
- Franklin Templeton (more than USD 850 billion);
- Abu Dhabi Investment Authority (more than USD 770 billion);
- T Rowe Price (more than USD 765 billion);
- Schroders (more than USD 462 billion);
- Pictet & CIE (more than USD 437 billion);
- Aberdeen (more than USD 395 billion);
- HSBC Global Asset Management (more than USD 71 billion) and others.

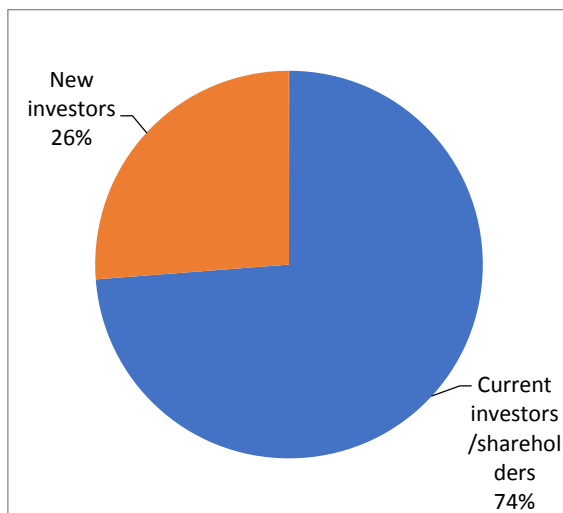
Activities held in 2017

Q1 of 2017	Q2 of 2017	Q3 of 2017	Q4 of 2017
<ul style="list-style-type: none"> • DB Access CEEMEA Conference (London) • Webcast/conference call under IFRS (Moscow) • Roadshow (London, Stockholm, Helsinki) • Raiffeisen Institutional Investors Conference (Austria) 	<ul style="list-style-type: none"> • Moscow Exchange and Sberbank Forum (Moscow) • Webcast/conference call under IFRS (Moscow) • Renaissance Capital's 21st Annual Russia Investor Conference (Moscow) • Roadshow (London) 	<ul style="list-style-type: none"> • Webcast/conference call under IFRS (Moscow) • Corporate Day UBS (Moscow) • Roadshow (Moscow, London, Stockholm, Helsinki, Copenhagen) • Utilities Day ATON (Moscow) 	<ul style="list-style-type: none"> • Roadshow (New York/Boston) • Investment conference Russia Calling! VTB Capital (Moscow) • BCS Finance Group Energy Day (Moscow) • Webcast/conference call under IFRS (Moscow) • Investor Day (Moscow)

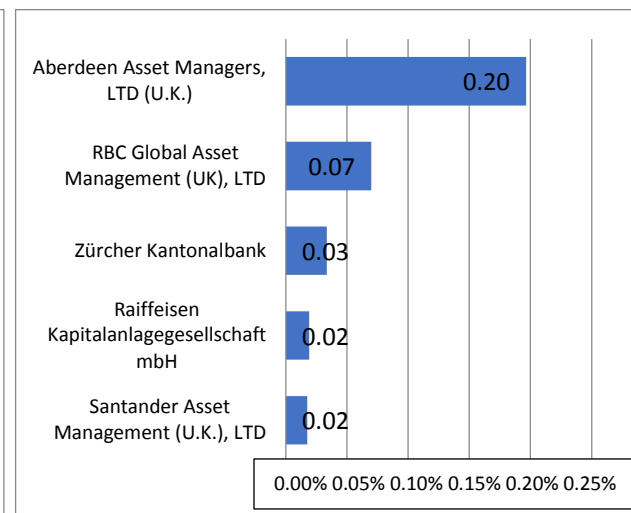
Most of the meetings with Russian and foreign funds were held during roadshows and conferences in Moscow and London



26% of all meetings were held with potential investors.



Top-5 new foreign investor-buyers of Inter RAO shares as of December 31, 2017¹⁷⁹



The largest group meetings were held during the conferences organized in Moscow by investment banks such as Renaissance Capital, ATON, and VTB Capital. A significant number of investment community representatives participated in the Investor Day held by Inter RAO Group in Moscow in November 2017.

During these events, the following issues were discussed:

- Strategic development of Inter RAO Group: prospects of modernizing our generator equipment and a cost compensation mechanism;
- The standard supply model and its influence on long-term strategic indicators of the supply business;
- Development of heat-generating business by the example of an alternative boiler house model; CPT results for the period up to 2021;
- Option program and other incentives for the Group's senior management;
- Dividend payout and more.

The Group's management has regularly improved the quality of investor relations. Following the annual study of Russian and international investments made by Extel and IR magazine Russia & CIS 2017, Inter RAO Group once again became one of the leaders of all Russian electric companies.

¹⁷⁹ Aberdeen AM is an asset management group with a full range of services which aims at fulfilling global investment requirements. It operates in 25 countries managing assets in the amount of GBP 304 billion. <http://www.aberdeen-asset.com/>

RBC Global Asset Management provides a wide range of investment solutions for investors around the world. Working within a general system of risk management and governing, each of the company's investment teams located in North America, Europe, and Asia has its own specific areas and accountabilities. The company manages assets in the amount of USD 336 billion. <http://www.rbcgam.com/landing.html#>

IR calendar for investors for the next year.

The **IR calendar for 2018** is presented on the website <http://www.interrao.ru/en/investors/calendar/>.

3. Report on Sustainable Development

Key indicators	Units of measurement	2015	2016	2017	2017/2016 +/-, %
Injury frequency rate (LTIFR)	-	0.32	0.22	0.128	-42%
Gross greenhouse gas emissions	Mln tn	89.5	88.2	84.6	-4.1%
Costs on the capital repairs of environmental support assets	RUB mln	191	428	992	+132%

Inter RAO Group operates taking into account established business standards, one of which is compliance with the principles of sustainable development. The purpose of following these principles is to fulfill the requirements of all stakeholders by the integrated economic, social and environmental development of the Group, which shall meet current needs, and not endanger the opportunities and aspirations of future generations.

Principles of Inter RAO Group's Sustainable Development Policy:

- increasing economic efficiency in the interests of shareholders;
- ensuring quality, reliability, and operational safety;
- meeting public demand when creating a business development strategy;
- promoting sustainable economic and social performance in the regions where the Company operates;
- promoting the development and expansion of efficient, environmental friendly and resource-saving technologies;
- protecting the life, health, labor activity, and career longevity of the employees;
- observing human rights and avoiding any forms of discrimination;
- developing social partnerships;
- combating corruption;
- promoting sustainable development principles within the business community;
- maintaining relations with internal and external stakeholders on a balance of interests and mutual benefits.

Inter RAO Group strives to meet best international standards in corporate social responsibility and sustainable development. Within its activity, the Group seeks to productive dialog with all groups of stakeholders.

For an independent assessment of the level of development of our sustainable development mechanisms, the Company addresses independent ESG providers, who analyze the Group's activity on the basis of open sources and information provided by the Company.

Results of Company's performance assessment in sustainable development made by independent rating agencies/consultants

Resume

As of December 31, 2017

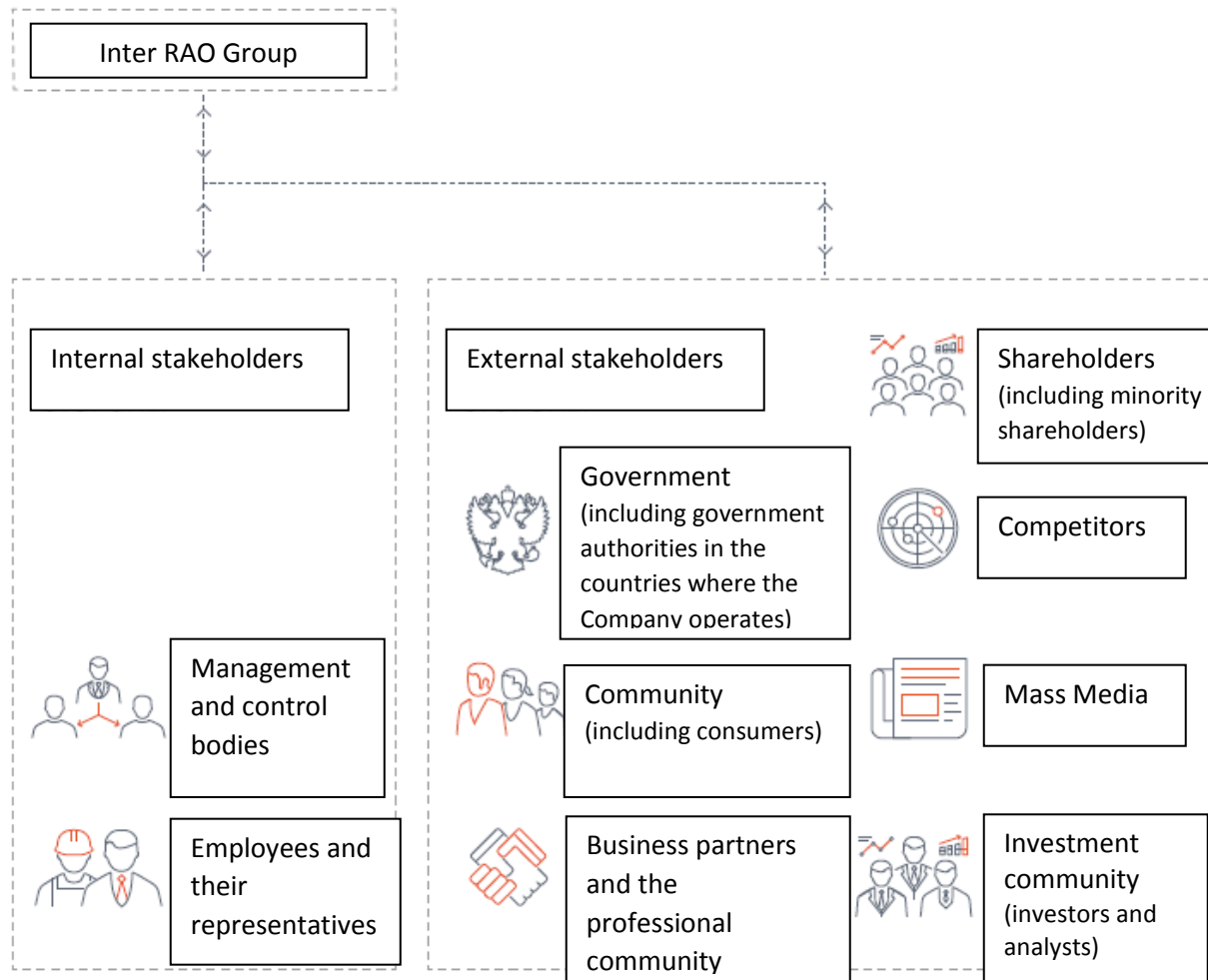
Sustainalytics	61
CDP	D-
FTSE4 Good	3.1 out of 5
RobecoSam	30
Oekom	C-
ISS	1
MSCI ESG	A

3.1. Stakeholders

The Company and Inter RAO Group are committed to maintaining a constant dialog with stakeholders. The list of Inter RAO Group's stakeholders is outlined in the Corporate Ethics Code of PJSC Inter RAO¹⁸⁰ and the Group's Communication Strategy. This list takes into account, on one hand, the economic, social, and environmental impact of operations of the Group companies on different categories of stakeholders and, on the other hand, the impact of different categories of stakeholders on the Group's operations.

¹⁸⁰ Approved by decision of PJSC Inter RAO's Board of Directors on October 18, 2011 (Minutes No. 50 of October 21, 2011).

Inter RAO Group's stakeholders



Main Communication Channels and Key Subjects for Contact with Stakeholders

Stakeholders	Forms of relations	Informing channels	Key subjects in 2017	Benefits stakeholders receive from interacting with the Company
Internal stakeholders				
Employees and their representatives	<ul style="list-style-type: none"> • Creating a safe work environment for each employee: carrying out large-scale measures in occupational health and industrial safety. • Regular meetings between employees of PJSC Inter RAO and the head of the HR and Organization Development Unit. • Labor Union meetings. • Conducting surveys on employee job satisfaction • Meetings with trade union representatives. 	<ul style="list-style-type: none"> • Message from the Chairman of PJSC Inter RAO's Management Board to the Group employees via corporate press and video messages. • Corporate publications. • Internet portal. 	<ul style="list-style-type: none"> • Prospects of employment in Group companies. • The rights and obligations of Group employees. • Provision of jobs. • Labor conditions. • Occupational health and industrial safety. • Social guarantees and benefits. • Work satisfaction, an incentives system, and the social and psychological atmosphere in the workplace. • Option program and other incentives for the Group's senior management. 	<ul style="list-style-type: none"> • The Company is a reliable major employer allowing employees to build long-term plans for their careers. • Competitive salary. • Full range of social guarantees and wide opportunities for study and development.

Stakeholders	Forms of relations	Informing channels	Key subjects in 2017	Benefits stakeholders receive from interacting with the Company
Management and control bodies	Meetings and appointments within the scope of exercising authority to benefit the Group and its shareholders.	<ul style="list-style-type: none"> • Management accounts and financial statements. • Current relations within business processes. 	<ul style="list-style-type: none"> • Financial and operations performance. • Key performance indicators. • Production process. • Strategy and areas for development. • Approval of related party and major transactions. • Business plans and investment programs. • The amount of remuneration (including the auditor's remuneration). • Market performance. • Cooperation with ESG funds. • Restructuring: acquisition/liquidation of companies. • Development of heat-generating business by the example of an alternative boiler house model. • Standard supply model and its influence on long-term strategic indicators of the supply business. 	<ul style="list-style-type: none"> • Management of one of the largest integrated electricity generating holdings in Russia.
<i>The external stakeholders</i>				
Shareholders	<ul style="list-style-type: none"> • General Meeting of Shareholders, meetings with minority shareholders. • Official correspondence. 	<ul style="list-style-type: none"> • Information disclosure in accordance with Russian legislation. • PJSC Inter RAO's Shareholder Hotline. • JSC R.O.S.T. Registrar Hotline. • Shareholder Information Card. • Publications by Interfax, LLC – TsRKI. • Corporate publications. • Group Companies' websites. 	<ul style="list-style-type: none"> • Development strategy and priority areas of the Company's activity. • Financial and operational performance. • Dividend payout and Dividend Policy. • Election of management bodies. • Approval of the Company's auditor. • Shareholders' personal data update. 	<ul style="list-style-type: none"> • Dividend payout. • Information transparency allowing investors to make investment decisions.

Stakeholders	Forms of relations	Informing channels	Key subjects in 2017	Benefits stakeholders receive from interacting with the Company
Investors and analysts	<ul style="list-style-type: none"> • Meetings and presentations. • Investor Days and Analyst Days. • Meetings with investors during road shows and conferences. • Conference calls and video calls. • Webcasts. • Visits to industrial facilities. • Official correspondence and telephone negotiations. 	<ul style="list-style-type: none"> • Specialized materials for the investment community (Analyst's Guidelines etc.). • Group Companies' websites. • Voluntary disclosure of additional information beyond that which is required by Russian legislation. 	<ul style="list-style-type: none"> • The Group's financial and operations performance, forecast till 2020. • PJSC Inter RAO's Dividend Policy. • The Group's development strategy and its implementation in each business area. • Investment program implementation. • Share capital structure. • Information on significant facts and changes. • Major events that the Group is involved in/initiates. • Industry regulation. • Operational performance improvement and cost optimization programs. • Feedback from investors and analysts for management to improve operational performance and the Group's investment potential. 	<ul style="list-style-type: none"> • Information transparency allowing investors to make investment decisions. • Dividend payout. • Company's capitalization growth in the context of global trends. • High credit ratings which show the stability and efficiency of the business.
The Government (including government authorities in the countries where the Company operates)	<ul style="list-style-type: none"> • Involvement in developing regulations and strategies for the energy industry's development, in task force teams, boards, and committees. • Involvement in intergovernmental commissions. 	<ul style="list-style-type: none"> • Providing financial, statistical, and ecological statements to the regulating bodies. • Publishing Reports on Company performance. 	<ul style="list-style-type: none"> • Implementation of the government's strategy goals. • Enforcement of instructions and decrees by government authorities. • Tariff regulation. • Involvement in strategic national and international projects. • Sustainable use of natural resources. • Contribution to the development of the regions of the Group's operation. • Energy security. • Disclosure of information and reporting. • Regional social and economic development. • Jobs creation. • Adjustments in CPT for 2020-2021. • Modernization of our generating equipment, cost compensation mechanism. 	<ul style="list-style-type: none"> • The Group is one of major taxpayer and a major source of tax payouts to all budget levels. • The active involvement of Company representatives in joint committees and working parties allows government authorities to receive professional expert opinions and recommendations in the sphere of industry legislation.

Stakeholders	Forms of relations	Informing channels	Key subjects in 2017	Benefits stakeholders receive from interacting with the Company
The Community (including consumers)	<ul style="list-style-type: none"> • Public hearings. • Conferences. • Charity projects, regional social and economic development projects. • Measures on environmental protection. 	<ul style="list-style-type: none"> • The Group companies' websites and web pages in social media. • Consumer Hotlines. • Group public reporting. 	<ul style="list-style-type: none"> • Provision of the energy security. • Reliable and uninterrupted power supply. • Quality monitoring of supplied energy. • Supply chain and procurement. • Environmental footprint. • Regional social and economic development. • Improvement of product and consumer services quality. • Price policy. • Accounts receivable. 	<ul style="list-style-type: none"> • Providing reliable and continuous electricity supply for both new and existing customers. • Environmental protection programs. • Charity programs. • Development of a volunteering institute based on Company employees.
Business partners and the professional community	<ul style="list-style-type: none"> • Contractual relations and cooperation agreements. • Participation in the Russian Union of Industrialists and Entrepreneurs. • Project activities. • Procurement procedures. • Trading in WEM and REM. 	<ul style="list-style-type: none"> • Providing information about Company activity on the corporate website and special procurement websites. • The publication of the industry-wide magazine Energy Beyond Borders. 	<ul style="list-style-type: none"> • Fulfillment of the Group's commitments. • Improving performance. • Supply chain and procurement. • Promising areas of cooperation. • Project activities. • The development of trading rules for WEM and REM. • Support of commercial and process infrastructure. • Contractual activity. • Market regulations. 	<ul style="list-style-type: none"> • Wide application of anti-corruption policies and measures to create equal opportunities for all business partners. • The Company's unblemished reputation as a business partner.
Competitors	<ul style="list-style-type: none"> • Contractual commitments. • Involvement in the development of WEM and REM rules. 	<ul style="list-style-type: none"> • Group public reporting. • Official websites of the Group's companies. 	<ul style="list-style-type: none"> • Open, honest, and good-faith competition. • Compliance with financial discipline and commitments. • The settlement of differences regarding consumer servicing by Group companies. 	<ul style="list-style-type: none"> • Development of a competitive environment on the basis of transparency and integrity that promotes to further industry development.

Stakeholders	Forms of relations	Informing channels	Key subjects in 2017	Benefits stakeholders receive from interacting with the Company
Mass media	<ul style="list-style-type: none"> • Press conferences. • Press tours. • Press lunches. 	<ul style="list-style-type: none"> • The Group's website. • Corporate media. 	<ul style="list-style-type: none"> • Open, honest, and good-faith competition. • Compliance with financial discipline and commitments. • The settlement of differences regarding consumer servicing by Group companies. • The financial and operations performance of the Group. • Group development strategy. • Information on material facts and changes. • Major events that the Group is involved in/initiates. • Industry regulation. • Customer support. • Promotion of goods and services. • Improvement of operations performance. • Charity. 	<ul style="list-style-type: none"> • Company's information transparency. • Relevant and timely Company reviews of events, trends, and development areas.

3.2. HR Management and Corporate Culture

Highly skilled employees, motivated to efficient performance, are the key values and primary assets of Inter RAO Group. The Company's staff is characterized by a well-balanced structure, experience and professional competences, which guarantees efficient realization of the Group's operational and strategic goals. In its operations, the Company is guided by international ILO's conventions, ratified in the Russian Federation.

Goals and objectives of the HR policy

The main goals of the Company's HR management are high levels of labor productivity, involvement by highly-skilled staff, continuous improvement of employee skills, corporate culture development, and improvement of the staff commitment.

During the reporting period, Inter RAO Group's HR policy activities were as follows:

- increase in labor productivity;
- improvement of the staff satisfaction level;
- development of the Company's recruitment policy;
- diversifying new employee adaptation methods;
- development and introduction of new training courses;
- improvement of payment and remuneration policies;
- development of the internal communications system.

Company staff

The headcount of the Group at the end of the reporting period amounted to 48,586 employees¹⁸¹.

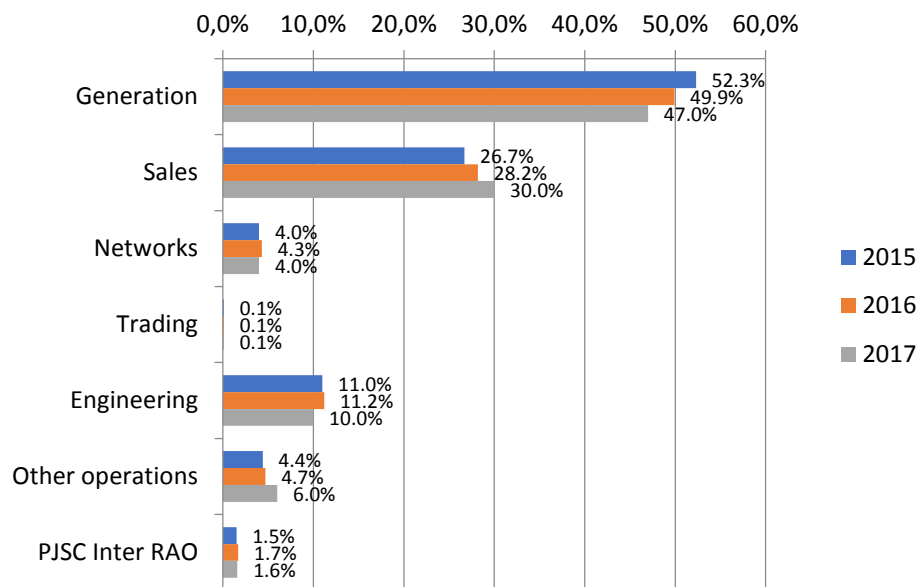
The average age of the Group employees is 41 years. 73% of Group staff are under 50 years old.

Though the power industry is typically characterized by gender imbalance with male dominance, the percentage of women among employees of the Company is rather high.

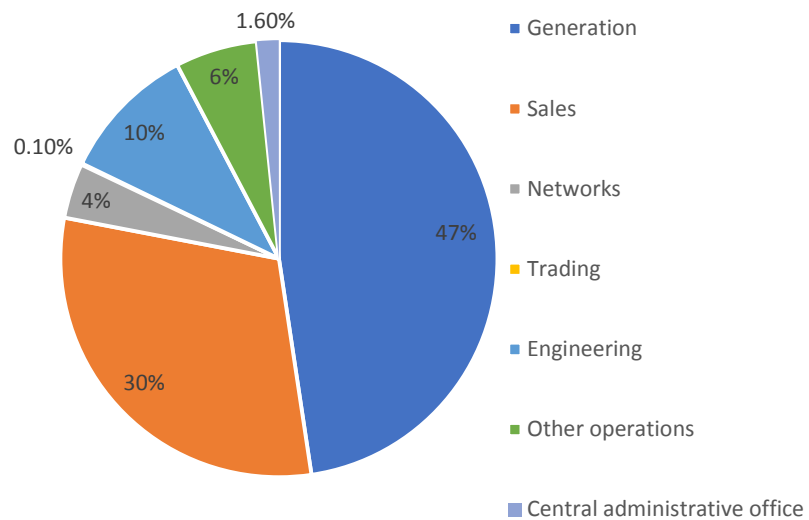
93% of employees have unlimited term employment contracts. 98% of staff are full-time employees. Both indicators keep the positive dynamics of previous reporting periods.

¹⁸¹ The headcount of the Group included in GRI perimeter. In accordance with the GRI guidelines, while calculating HR and social indicators, the statements shall include the Group businesses, including associated companies, which have a significant impact in terms of HR management. The 2016 and 2017, data on social and HR indicators were aligned with the perimeter of this report and may differ from those disclosed in other Inter RAO Group reports for the previous reporting periods and from the data in the perimeter of the Group's consolidated financial statements.

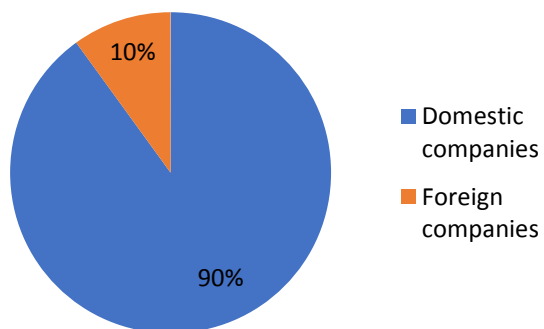
Dynamics of the personnel structure by aspects of operations



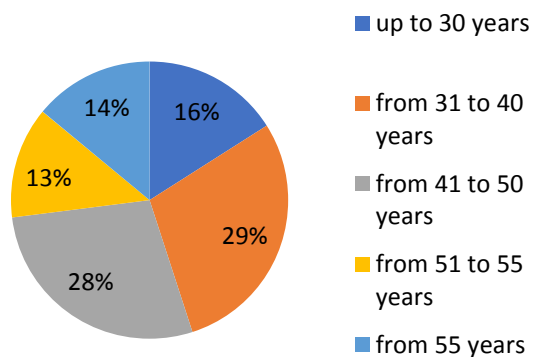
Personnel structure by segments in 2017



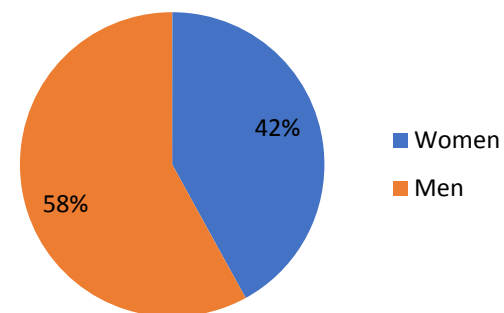
Personnel structure by regions as of December 31, 2017



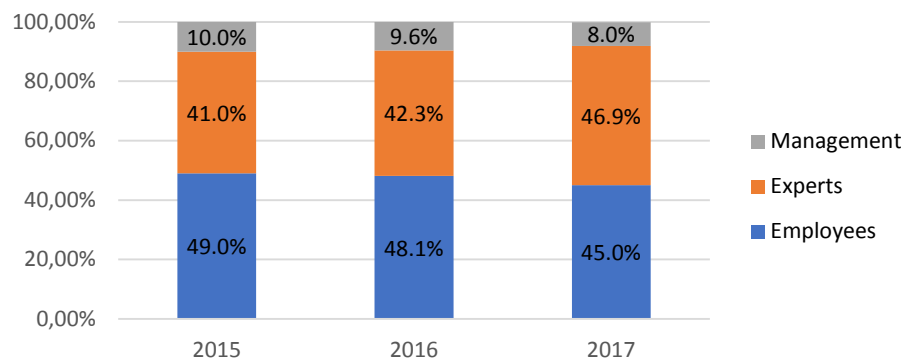
Personnel structure by age as of December 31, 2017



Gender personnel structure as of December 31, 2017



Personnel structure by their positions

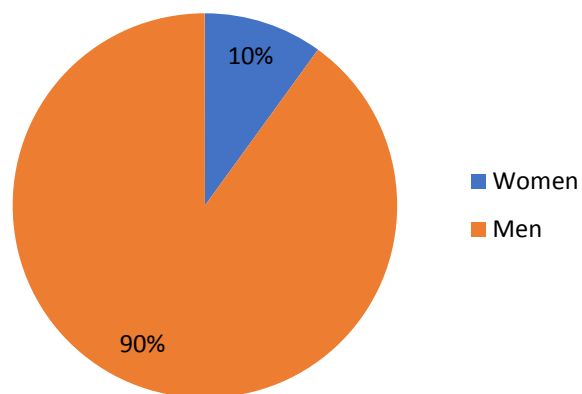


In the reporting year, a new dynamically developed asset – BPSC LLC – engaged in the Group's sales operations, thus ensuring the successful integration of a large employee pool (1,140 employees), introduction of the Group's corporate policies, and, in particular, the HR management policies.

Commitment to gender policies

The Company is committed to recruitment practices which fully prevent discrimination as stipulated by law. The Company's regulations set forth provisions which prevent any form of discrimination or harassment, including nationality, gender and age discrimination. No special gender targeting policies are applied.

***Gender composition of PJSC Inter
RAO's management bodies***

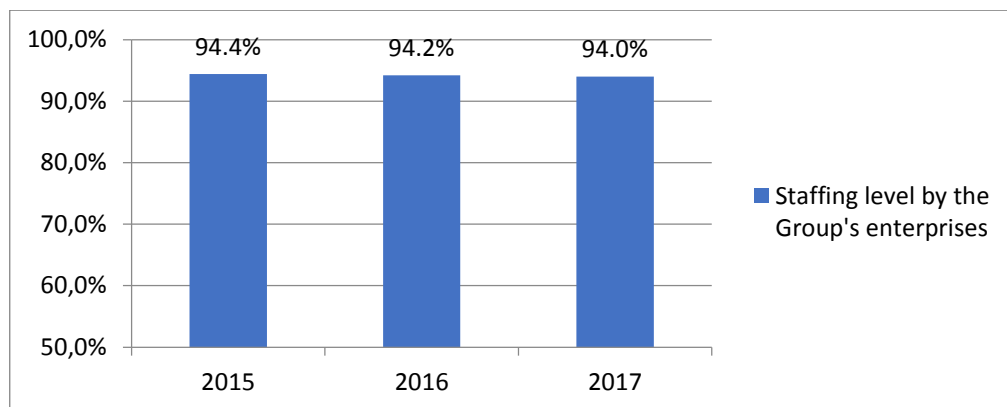


182

Staffing level in terms of vacant positions

The efficient HR policy and advanced staff recruitment methods traditionally applied by Inter RAO Group ensure a high staffing level equal to 94% of positions occupied. However, in the Engineering segment there was a traditional seasonal staff shortage of all staff categories during the peak repair periods. Repair staff rotation among the branches and cooperation with specialized recruitment agencies for staff engagement under the fixed-term agreements ensure an acceptable indicator level.

¹⁸² Members of the Company's Board of Directors and Management Board are included in the calculation.

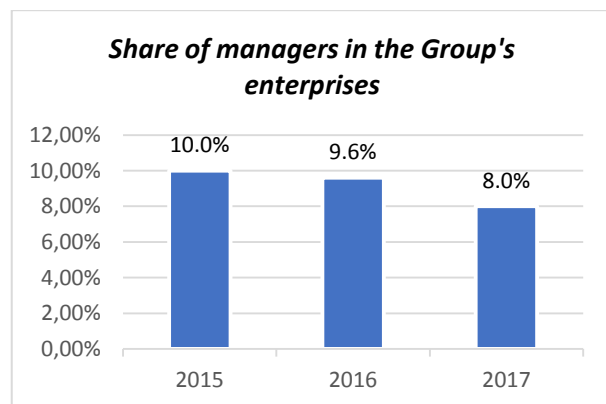


Staff structure and headcount optimization

In 2017, the key objective of the Group's headcount regulation was to optimize the headcount while taking the production facilities out of operation and outsourcing the repair staff. Moreover, during the reporting year, HR continued to strive to bring the headcount to meet the target values, in line with the 2015-2016 projects. Along with setting the minimum time required for typical operations, this approach enables us to achieve the optimum number of employees required to meet the business indicators and ensure highly efficient development.

In 2017, the headcount of the Group's managerial staff was optimized (by 8%) in order to improve the efficiency of the management matrix. Based on the main functional criteria: headcount drivers and centralization of management functions.

During the reporting period, the optimization targets were fully met. The Company further plans to apply digital technologies for headcount regulation processes, such as computer-aided learning and big data.



In 2017, the Company's staff turnover slightly increased compared to 2016 by less than 1%, with a total of 10.04%¹⁸³. Taking in consideration some business areas of operation, this indicator is rather low. This resulted in the Company's occasional application of additional tools to attract and keep highly skilled employees. The priority was to fill the vacancies using our own HR pool with limited staff recruitment from the market.

Furthermore, the Engineering segment proposed to attract and keep employees by means of implementing projects aimed at improving the motivational system for the core facilities staff.

Labor productivity

During the reporting period, labor productivity was ensured by means of investments in staff development and training and introduction of advanced operational efficiency technologies (lean production, outsourcing of the non-core functions within the Group). This resulted in EBITDA/person rate total of RUB 1.9 million per employee, which is 106% of the planned value for the reporting period.

In particular, in 2017 the Lean Six Sigma¹⁸⁴ methodology introduction continued **in the Supply segment** in order to improve operational efficiency and business processes. For more efficient realization of modifications, a unique staff training program was developed. For each management level, an individual approach was applied and the required competences development plan was compiled.

In the Services segment, projects were launched aimed at improving the efficiency of the repair staff, which proved the efficacy of transferring the repair staff to Quartz Group LLC, which specializes in repair.

¹⁸³ The data do not include the staff turnover connected to implementation of the business development projects within new territories, streamlining the call center's functions at PJSC Mosenergosbyt, changing the business processes of the integrated companies, and seasonal and project-based aspects of operations.

¹⁸⁴ The integrated concept which combines the most popular quality management concepts: Lean manufacturing which is focused on eliminating losses and non-production costs, and Six Sigma which is aimed at reducing process variability and stabilizing product specifications.

Material stimulation and assessment of the staff

Remuneration and motivation

Optimization of the remuneration and motivation system is traditionally one of the priority HR management areas for the Group's management. In 2017, these operations continued and were extended by the projects which showed themselves to be highly effective.

In the key companies which have a positive impact on the Group's productivity, a three-year remuneration program for the Group's key managers based on the production indicators continued. The program is aimed at achieving long-term goals and sustainable business development, keeping the essential employees within the Company and targeting the strategic indicators.

During the reporting year, projects to increase the staff salary rate to the 75th percentile of the labor market continued **in the Supply segment**. Most of the companies within the segment have already achieved 75th percentiles (7 out of 11). It is expected that in 2018, three more companies will achieve 75th percentiles.

The polling provided in the Generation segment showed that most employees of this segment are satisfied with the labor remuneration system. A spot grade revision was carried out in the companies belonging to this segment, while checking the responsibilities and competence requirements for the job positions within these companies.

Low staff turnover rate in the Group is ensured, in particular, by orientation to the 75th percentile of the salary rate, along with bonuses depending on production indicators.

Personnel performance assessment

Inter RAO Group conducts an annual assessment of its personnel with the key objectives to:

- monitor personnel performance;
- determine needs for professional training and personal development of the personnel;
- develop the staff route;
- identify efficient and highly effective employees;
- revise the salaries of employees within the scope of the approved budget.

The personnel assessment approach 360 Degrees is applied to revise the basic salaries of the Company's employees. This assessment has been conducted annually for all executives of Group companies since 2015.

The innovative personnel assessment system Business Sociometry AZIMUT 2.0 was introduced to assess the efficiency of the management teams. The system makes it possible to promptly identify problems in the interaction of employees and units and to assess the input and competences of each employee. During the reporting year, such assessment of management teams was performed in 14 Group companies. Based on its results, development programs were made for 247 managers.

Professional training, staff development, building a candidate pool

Due to the implementation of advanced training programs, the Group manages to provide a high level of employee qualification, occupational safety and compliance with the requirements and regulations of the wholesale electricity market. Moreover, the professional training system is an additional non-material remuneration tool for employees.

In 2017, the percentage of employees who had completed mandatory training amounted to an average of 47.4% in the Group. This is a 7.9% increase compared to 2016.

Proportion of employees who completed mandatory training, by segments	2015	2016	2017
Electricity	43.3%	46.5%	62.2%
Supply	13.5%	13.4%	15.9%
Grids	55.4%	58.0%	63.5%
Trading	7.3%	1.5%	4.2%
Engineering	63.3%	64.5%	70.1%
Other operations	32.0%	34.2%	38.4%
Central administrative office	7.5%	6.6%	6.9%

In 2017, Group staff training and development were implemented in the following areas, apart from the mandatory training programs:

- additional professional training (improvement and support of the staff competences);
- simulation training of operating staff;
- training under talent pool training programs (developing the management skills of talent pool members);
- adaptation courses for new employees (reducing the induction period).

Training of staff is carried out in a variety of forms, including intramural training, internship and job training, and distance learning using advanced technologies, such as online training, webinars, micro training, internal training.

Among the key projects in the reporting period was a pilot project called Technical Manager School, which will be deployed in 2018. The project shall be used to develop 23 thousand employees of the Generation segment. Within the scope of the project, a training portal is launched with over 170 training courses for distance learning for all production employee categories. New training program matrices were created to define the programs recommended to the employees depending on their position in the company. The training covers finance, economics and project management basics. It aims to expand employee competences and improve their personal productivity. The training courses are divided into two levels – basic (developing the competences required for the current job) and additional (which is mandatory for further career development).

Should the pilot project be successful, its further distribution to all functional units of the Company will be considered.

Mentorship

To ensure successful adaptation of new employees, to involve them in the working process and to share professional knowledge and experience with them, the mentorship program was continued. Newly employed young specialists and interns at the Group's structural units are supervised by a mentor. Mentors are chosen from among the most prepared employees who possess high professional qualities and have a comprehensive idea about the scope of their work and the work of their units, demonstrate stable performance indicators, are able and willing to share their experience, have proper communication skills and flexibility, supporting the standards and rules of work.

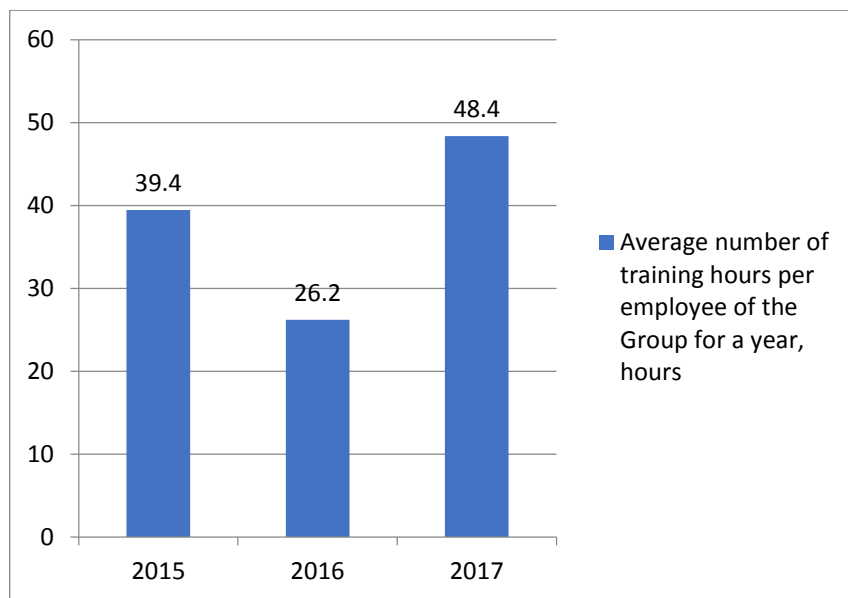
The Company pays much attention to building a talent pool, which is mainly used to fill vacant positions internally. The operating and strategic reserve is formed by creating a system of organizational and training measures that enable us to identify prospective candidates from among the company employees for a position, and to ensure their professional development and preparedness for taking up the higher positions.

Professional contests and competitions

The Company holds professional skills competitions annually for its permanent staff to ensure advanced experience exchange and strengthen professional corporate relations:

- open competitions between combined operating personnel teams for combined-cycle power plants
- corporate professional excellence competitions for the operating personnel of cross-connection thermal power plants

The first corporate professional excellence competitions for the personnel of Inter RAO Group's heating grid companies are scheduled for 2018.



Work satisfaction level of the Group employees

The Group companies carry out polling of the staff satisfaction level on an annual basis. In 2017, it covered over 80% of employees from 38 subsidiaries of the Group. The satisfaction level amounted to 86.9% which is a 1.8% increase compared to 2016.

HR development plans for 2018

In 2018, Inter RAO Group's HR divisions will work to:

- achieve the key performance indicators Labor productivity and Headcount of the Group companies to the planned value;
- improve the staff training and development system;
- develop internal communications.

In 2018, the following objectives are set for the individual business segments:

In the Generation segment the main efforts will be focused on improving productivity, reducing absenteeism, improving staff quality by effective training, and keeping the personnel satisfaction level at the previous years' level.

In 2018, the key event **in the Supply segment** will be a transfer to tariff formation using the Reference Sales model, thus changing the approaches to managing staff costs. The priority objectives for the next year include, but are not limited to: improving the staffing level and reducing absenteeism (total targeted value – maximum 4%), improving the operating productivity by using LIN¹⁸⁵ and Six Sigma¹⁸⁶ technologies (estimated total effect – over RUB 700 million), and creating an IT-based HR management system.

The objectives of **the Engineering and Services segments** are to further improve labor productivity by deploying projects which improve operating efficiency (such projects as Six Sigma, 5S, and top management and teams assessment and development).

Corporate Culture and Social Support for the Company's Employees

Social responsibility

Social benefits and guarantees are essential tools in the HR policy of Inter RAO Group, and are crucial both for non-financial motivation of personnel and for maintaining the Company's image as an attractive employer. In 2017, the costs of social programs for employees amounted to RUB 10.87 billion compared to RUB 5.20 billion the year before¹⁸⁷.

These programs are being implemented in the following key areas:

- life and work safety of employees;
- health and activity of employees;
- support of young specialists;
- professional career development;
- support for the candidate pool and best employees;
- help for young families;
- improving the well-being of employees;
- help for pensioners;
- maintaining a high level of culture at the facilities.

The Group companies provide extensive support to their employees in various circumstances, pay serious attention to the treatment and recovery of their personnel, and provide them with free medical aid and health resort treatment.

¹⁸⁵ The "Lin" concept is based on creating values for the consumers. Within the scope of the Lin model, all activities are divided into value-adding or neutral operations (processes). The first group is developed, while the second group is considered as losses and is eliminated.

¹⁸⁶ Six Sigma is a process optimization methodology which is based on mathematical models. The maturity of the production process is assessed by calculating the output of zero-defect products.

¹⁸⁷ The cost increase is due to introduction of a new calculation methodology.

The Company also cares for their employees' children by providing financial assistance to large or single-parent families, orphans and disabled children. Moreover, recreation in children's health centers and participation in festivities and sports events are available to the employees' children.

The procedures for providing benefits and social guarantees to employees are constantly being improved. An essential project of the Company for benefits distribution to employees is the Benefits cafeteria, which provides all employees with a free choice of benefits from the total list of benefits, depending on the number of points they have. The project facilitates attracting and keeping employees thanks to the flexibility of its individual approach to non-material motivation.

In 2016-2017, a project for the automation of the business process of monitoring employee health, identifying work-related diseases in a timely manner, and organizing medical examinations on the basis of LLC BGC was implemented. This tool makes it possible to increase the rate of information preparation and processing, to create a unified information base to ensure data transparency, to make sure that employees have timely medical examinations, and to coordinate the HR and labor safety services.

The social policy of Inter RAO Group aims to involve its employees in physical culture and sport. To that end, a sports infrastructure is being developed and regular corporate sporting events are held, such as spartakiads and hockey tournaments.

One of the key areas in the Group's social policy is cooperation between the trade unions and the management in pursuing a consistent labor relations policy based on the principles of social partnership. In particular, an active dialog is being maintained with trade union organizations, aimed at protecting the rights and interests of employees. Trade union representatives take part in addressing all significant social and labor issues: from structural transformations to changes in labor remuneration, working hours, and the Group structure.

Much focus is placed on providing assistance and comprehensive support to pensioners and industry veterans, as well as World War II veterans, in the form of regular financial and non-financial aid from the Group.

PJSC Inter RAO Corporate Culture

PJSC Inter RAO's mission is to promote sustainable economic development and improve the quality of life in all regions of the Group's operations by ensuring reliable energy supply, meeting the growing demand for electricity, and using innovative technologies and solutions in the field of energy efficiency and energy saving.

Inter RAO Group's corporate culture is based on the following principles: priority of overall performance, and mutual aid and respect among employees regardless of their position, gender and other features. It is a united system of values and beliefs, regulations and principles of behavior shared by most employees.

The Company is committed to forming a unified concept of values among its employees and creating a world of honesty and transparency, as well as a favorable psychological environment which facilitates the achievement of the Company's strategic objectives and improves productivity.

VALUES PJSC Inter RAO	<ul style="list-style-type: none">• commitment to shareholders interests;
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	<ul style="list-style-type: none"> • profitability, efficiency and performance; • innovative development and modernization; • energy efficiency and energy saving; • data transparency; • morals; • social responsibility; • partnership; • fairness; • aversion to corruption; • rejection of improper payments.
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To improve its personnel involvement, the Company forms a competitive environment and develops corporate communications by simplifying and intensifying vertical and horizontal communications.

Development of communications within the corporation

In 2017, over 17 thousand employees from 35 subsidiaries of the Group took part in an investigation of the internal communication channels. Based on the results, employees were classified into three groups depending on their style of information consumption: Traditional users – 34.2% (using the Internet, if required), modern users – 42.5% (using the Internet in addition to traditional communication channels), and digital users – 23.3% (preferring the Internet over other communication channels). This research identified the individual needs and preferences of each group. The results were used to launch new projects for optimizing the data flows and improving the efficiency of intercorporate communications.

3.3. Occupational Safety

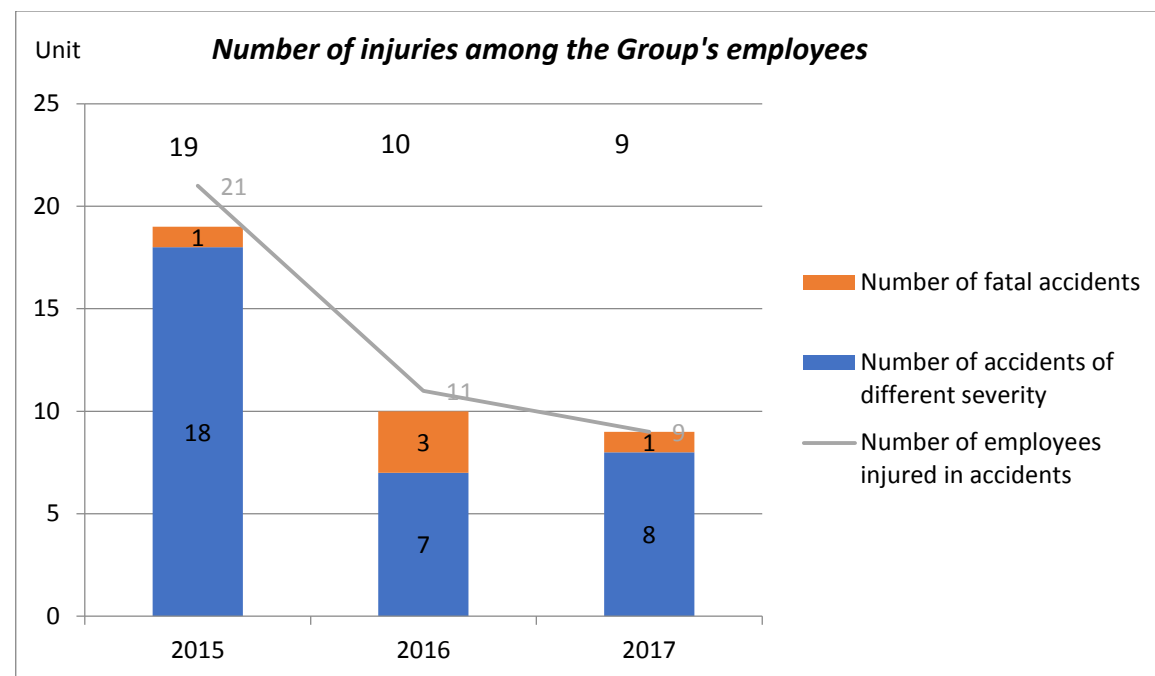
Ensuring the occupational health and safety of employees has historically been a strategic priority for Inter RAO Group. Constant improvement of processes ensuring accident-free performance is immediately related to the adaptation of best world practices concerning occupational safety. A priority area in occupational health and safety is a reduction of the industrial injury and accident rate.

Reduction of the Injury Rate at Production Facilities

The long-term goals of Inter RAO Group regarding occupational health and safety until 2020 include reducing the targeted injury frequency rate and the complete absence of accidents at hazardous production facilities.

For 2017, Group management approved the key indicator “Absence of Emergencies or Accidents, or the Attainment of the Injury Frequency Rate” in accordance with the Methodological Guidelines for Assessing the Fulfillment of Inter RAO Group’s Strategy Implementation Plan. The injury frequency rate for 2017 is 0.358, for 2018 – 0.356.

In 2017, the Group companies demonstrated positive dynamics in reducing the total number of production-related injuries: the number of accidents reduced as compared to 2016: 10 in 2016 versus 9 in 2017. And 3 out of 9 accidents in 2017 were by no fault of the Group companies’ employees. The number of fatal accidents was reduced from 3 accidents in 2016 to 1 in 2017. There were no group accidents at the Group companies. The total number of persons injured in accidents also went down as compared to 2016 from 11 to 9. As of the end of 2017, 3 instances of work-related diseases were recorded, versus 6 in 2016.



An analysis of the industrial injury in 2017 showed that a significant number of accidents were due to poor organization of the performance of work, as well as non-compliance with the occupational health rules. In 2017, one fatal accident was through the fault of employees.

In 2017 the following activities were carried out to ensure occupational safety:

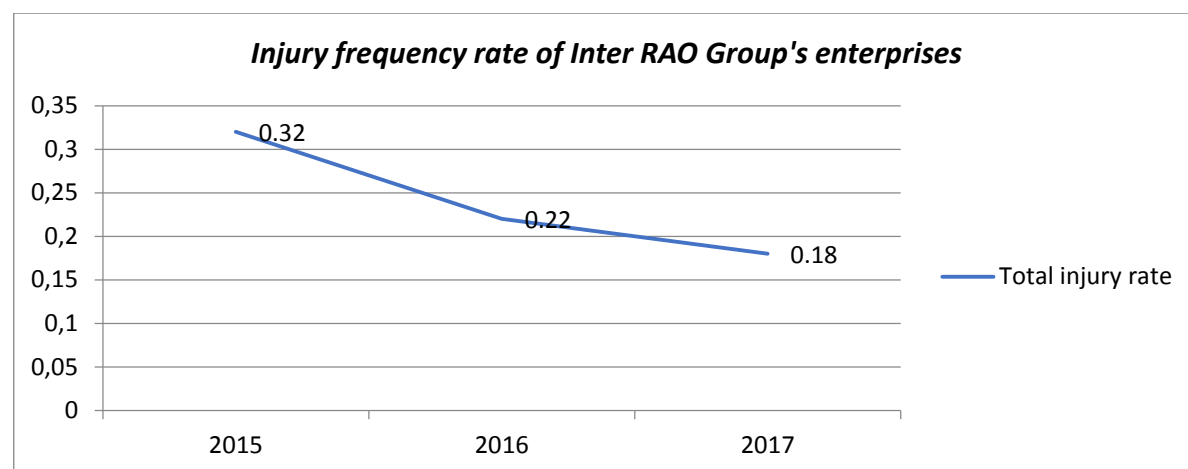
- the project Introduction of the electronic instructions system (at the facilities of Inter RAO LLC – Management of Electricity Plants); at the present time, repetitive instructions for the personnel are made in the form of electronic training courses with further tests and photographic evidence of this process;

- a pilot project for the installation of stationary and mobile video devices to monitor personnel operations (at the facilities of BGC LLC).

Moreover, to minimize injury, the Group's specialists take a complex of control and preventive measures:

- limited-scope, complex, regular and extraordinary audits of the safety of manufacturing work;
- assessment of the efficiency of accident-prevention measures;
- corrective and preventive measures, including measures aimed at raising safety and reliability levels.

Thanks to the activities of the reporting period, the injury frequency rate among Group employees did not exceed its target value (≤ 0.3580) and amounted to 0.18.



Occupational Health and Safety

To combine the joint efforts of the management and employees in improving the methods of safe work organization and work safety inspections, the Group has established Work and Health Safety Committees that consist of 587 employees.

Based on the results of the reporting year, PJSC Inter RAO and Company subsidiaries carried out special assessment of the labor conditions (special assessment, job attestation) of 6,237 jobs versus the planned 6,210 jobs. Based on the assessment results in the Group, most jobs were referred to Classes 2 (admissible), 3.1 and 3.2 (harmful). For the short-term (2018–2019), a series of works are planned to continue SALC and improve the working conditions on sites. In 2018, SALC is scheduled for 4,180 jobs.

In 2017, 28,703 Group employees underwent medical examinations.

To maintain a high level of health and work safety, the Group constantly increases the volume of its investments into improvements in this area. In 2017, investments in these areas grew by 6% compared to 2016 and totaled RUB 26.64 thousand per employee. In 2018, the Group plans to increase investments by 7% up to RUB 1.38 billion.

Occupational safety research

The key to enhancing a culture of manufacturing safety is personnel training on occupational health and safety, which is also one of the key constituent elements to the reliable operation of the Group's assets.

In 2017, 16,533 Group employees underwent training on occupational health and safety.

Traditionally, emergency and fire drills and trainings for the operating personnel that are conducted in accordance with the developed schedules and programs are mandatory for the Group. The training programs are updated annually taking into account the investigations of the emergencies that took place at the power facilities. Fire trainings were conducted thanks to the efforts and resources of fire departments responsible for the fire safety of the power facilities. The results were analyzed and assessed by the technical managers of the power facilities.

Developing a culture of commitment to the health rules in contract organizations

Inter RAO Group is also making active efforts to prevent injury among its contractors. Controlling the contractors' compliance with the occupational health and safety rules made it possible to reduce the number of production-related fatal accidents.

An additional mechanism for stimulating strict compliance with safety requirements is the proven method of imposing penal sanctions on contractor organizations. Proceeding from the results of 2017, over 930 letters and 119 claims were sent to contractors for over RUB 34.64 million.

Reduction of Emergency Events

The emergencies that occurred in 2017 at the Group's power facilities were investigated by the commissions with the drawing-up of investigation reports, and their registration in the automated information system "Power Industry Emergency Rate Base" of the System Operator. Each emergency is investigated to identify its circumstances and causes. Corrective measures are then developed, and their execution is controlled, in particular, through audits, reports inspection, etc.

The Company pays much attention to analysis of emergencies and to the activities during the autumn and winter period. To reduce the accident rate at the Group facilities, various activities are carried out, in particular:

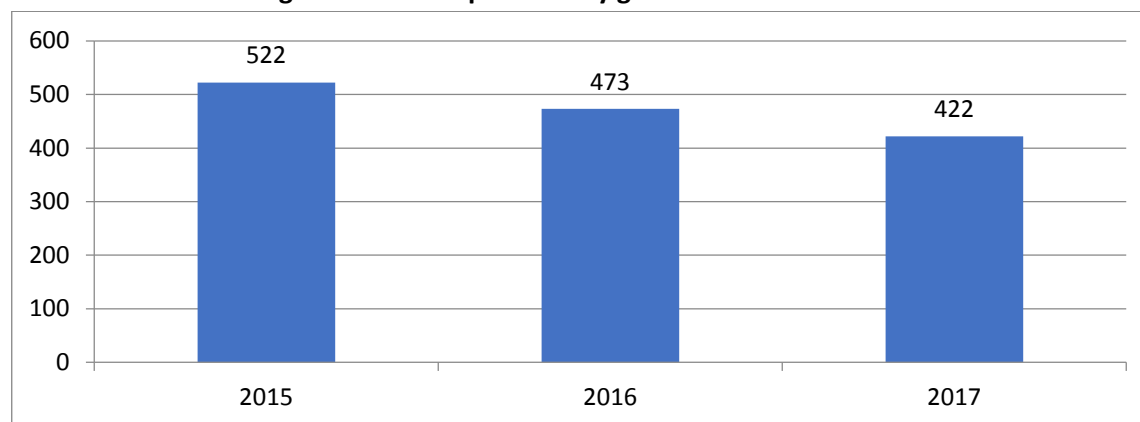
- timely and quality fulfillment of scheduled programs of repair, reconstruction, and modernization of equipment and technical devices;
- strengthening control over the quality of work performed by the maintenance organizations when carrying out scheduled repairs;
- certification testing and industrial safety examination of technical devices, buildings, and the structures of hazardous production facilities;
- increasing the automation of technological processes on power plant equipment;

- using the results of emergency cause analysis to form production programs and staff training programs;
- utilizing the best industrial practices for equipment operation.

Number of emergency shutdowns in 2015-2017

The activities performed ensured an overall reduction in the total number of emergencies¹⁸⁸ at Group generation facilities of 10.7% in 2017 as compared to 2016.

Total number of emergencies at Group electricity generation facilities



In 2017, technical audits of the power facilities of Inter RAO Group were carried out in accordance with the Plan of corporate audits of production safety. In the reporting period, 29 Group facilities were audited (15 scheduled and 14 extraordinary audits). Based on the results of technical audits of occupational safety, the Acts were compiled in accordance with the Regulations. The results were sent to the management of the inspected power facilities and executives of the managing companies. Based on an analysis of the identified breaches, the subsidiaries developed and approved elimination plans through decrees, with assigning of responsible persons and deadlines. The reports on execution of the scheduled activities were developed on an annual basis.

¹⁸⁸ In accordance with the Russian legislation, an accident is defined as technological violations at an electric power industry site and (or) an energy receiving installation that led to the destruction or damage of buildings, structures and (or) technical devices (equipment) of an electric power industry site and (or) power receiving installation, uncontrolled explosion, fire and (or) emission of hazardous substances, deviation from the established technological mode of operation of electric power units and (or) power receiving installations, disruption in the operation of the relay protection and automation, automated systems of the operational dispatch management in the electric power or operational process management or communication systems ensuring their functioning, complete or partial restriction of electricity consumption mode (power), outbreak or threat of an emergency power generation mode of the power system. (Resolution of the Government of the Russian Federation No. 846 of October 28, 2009 "On approval of the rules for investigating the causes of accidents in the electric power industry").

Safety Cooperation with the Community

One of Inter RAO Group's strategic priorities is the safety of its assets.

The key performance indicator Implementation of Inter RAO Group Investment Program for 2017 Related to the Security Equipment was among the KPIs related to asset safety specified in Inter RAO Group's strategy implementation Plan for 2017. The KPI value set in the Investment program amounted to over RUB 700 million; over RUB 670.0 million (i.e. about 95%) was spent. Altogether, this KPI is considered to be achieved.

The safety KPIs for 2018 are as follows:

- Implementation of Inter RAO Group's 2018 safety equipment Investment program;
- Implementation of the plan of activities for rating the facilities of the fuel and energy complex;
- Reduction of the hazard class facilities of the fuel and energy complex as required by Federal Law 256-FZ On the Security of Heat and Energy Complex Facilities.

Moreover, among the essential objectives for 2018 is implementation of safety activities at the fuel and energy complex facilities during elections of the President of the Russian Federation and Football World Cup 2018.

Introduction of the automated management system KAIUS-BEZOPASNOST

In order for the Safety and Regime Unit to organize and control physical protection, anti-terrorism security, and emergency prevention and elimination, the complex automated management system "KAIUS-BEZOPASNOST" was implemented at the Group's power facilities. This system is installed and operating at all branches of JSC Inter RAO – Electricity Generation, JSC TGC--11, JSC Tomsk Generation and six facilities of LLC BGC. In certain periods, the system made it possible to provide information support for managerial decisions made on the prevention and elimination of emergencies in real time, to give the basic physical protection parameters, and to forecast the expected changes in the operating conditions at the power facilities.

The key elements of the Group's asset safety are the security of the power generation facilities against terrorism and the level of emergency preparedness.

Anti-terrorist protection

In 2017, there were no acts of unauthorized intervention at the Group's power generation facilities. In the regions of the Group's presence, terror-alert levels were not determined, except in the course of organized trainings.

The most significant anti-terrorist measures and disaster protection measures successfully taken by the Group in the reporting year include:

- preparing the safety systems of the power facilities operated by the Group companies for state control over the safety of the heat and energy complex by the Federal National Guard Troops Service of the Russian Federation;
- updating the safety certificates of the fuel and energy complex facilities of the Group companies;

- inspecting the anti-terrorist security, assessing the preparedness for emergency protection of all generating subsidiaries and seven facilities of the fuel and energy complex (Cherepetskaya, Permskaya, Gusinoozyorskaya and Kharanorskaya TPPs, Kaliningradskaya CHPP-2, Severo-Zapadnaya CHPP and Pavlovskaya HPP);
- attestation and certification of off-duty emergency and rescue teams for emergency and rescue operations as specified by law.

Preparedness for emergencies

In 2017, the Group carried out 14 complex training sessions, 56 command-and-staff training exercises, and 298 on-site trainings for the prevention and elimination of emergencies. These activities were done in cooperation with the local governing bodies of the Ministry of Internal Affairs of Russia, the Ministry of Emergency Situations of Russia, and the Federal Security Service of Russia. Over 12.9 thousand Group employees took part in training exercises and sessions. During the reporting period, 121 meetings of the commissions for prevention and elimination of emergencies and fire safety were held. Furthermore, the Group companies took part in civil defense staff training exercises on: organization of civil defense activities in the situation of large-scale natural and industrial emergencies within the territory of the Russian Federation.

3.4. Energy Saving and Energy Efficiency

Inter RAO Group consistently continues its efforts to improve business processes to manage energy saving and enhance energy efficiency at all of its major Russian and foreign generating assets. Energy efficiency projects have a large innovative component and are based on the world's best practices. In addition to its in-house studies and developments, the company cooperates with other Russian and foreign industry leaders.

LLC INTER RAO UES Energy Efficiency Center was established within Inter RAO Group (jointly with Rosatom State Corporation). It is engaged in developing and implementing energy efficiency solutions. The developments of LLC INTER RAO UES Energy Efficiency Center are used by both Inter RAO Group enterprises and other Russian energy companies. For more details about LLC INTER RAO UES Energy Efficiency Center operations, please visit the website <http://www.interef.ru/>

Inter RAO Group's energy management system is in accordance with the ISO 50001:2011 international standard

As part of procedures associated with the certification of certain operations, the Group's energy management systems (hereinafter "EnMS") successfully passed the recertification audit in terms of compliance with the ISO 50001:2011 international standard requirements in 2016. According to the results of the audit, the Group's EnMS was declared compliant with the ISO 50001:2011 international standard requirements, which is evidenced by International Certificate of Compliance No. 2015/70013.6 of March 31, 2016 and valid through December 28, 2018. 2017, the EnMS system successfully passed inspection audits at several Group production facilities.

It is planned to carry out the EnMS recertification audit in six Group companies in 2018.

The Energy Saving and Energy Efficiency program (ESEEP), one of the targeted programs, formed at the Group's production assets and consolidated for the Company as a whole, is the main real tool for achieving the EnMS energy saving and energy efficiency improvement targets. The Company's and its subsidiaries' Commission on energy saving and energy efficiency improvement is involved in developing the ESEEP and the reports on its implementation. The ESEEP is a mid-term program and has a 5-year horizon of planning based on the rolling planning principles. All ESEEP indicators refer to the production units, power plants, and companies of the Group.

The ESEEP for 2017-2021 was approved by the Management Board of PJSC Inter RAO on 10 May 2017 (Minutes No. 687).

The main objectives of the program are as follows:

- implementation of the main provisions of Russia's Energy strategy and of the Russian State Program Energy Efficiency and Development of the Power Industry;
- achievement of the objectives stipulated in the Strategy of PJSC Inter RAO;
- achievement of the targets in energy saving and energy efficiency improvement as specified in the Innovative Development program of Inter RAO Group;
- rational use of energy resources;
- improvement of energy efficiency indicators along with minimization of operating and development costs;
- development of an energy management system;
- reducing negative environmental impact.

The ESEEP activities are divided into two sections: activities with a "direct" energy effect and activities with an "accompanying" energy effect. The activities with a "direct" energy effect are those developed specifically for obtaining the energy effect; its share in the total economic effect of such activities shall be greater than 80%. These activities shall be commercially reasonable with a mandatory calculation of the cost efficiency in accordance with the Methodology of cost efficiency assessment for the investment projects with capital investments.

The total effect of implementing these energy saving activities within the scope of the ESEEP in 2017 exceeded RUB 2 billion.

The key results of ESEEP measures implementation (for Inter RAO Group as a whole) in 2017:

- energy effect in terms of fuel equivalent – 642 thousand tons of oil equivalent;
- economic effect – more than RUB 2 billion;
- CFHU improvement by 0.04%;
- improvement in specific fuel consumption per unit of electricity supplied – 4.85 g/kWh;

Results of achievement of the ESEEP targets for Russian generation and heat supply assets

	Units of measurement	Year		
		2015	2016	2017
Power consumption				
Specific fuel consumption for electricity generation	gfe/kWh	310	306	301
Specific fuel consumption for heat generation	kg/Gcal	145	145	144
Reduction of energy consumption				
Total reduction of fuel and energy products consumption as a direct effect of energy saving and energy efficiency improvement initiatives	<i>t.o.e.</i>	112,048	80,292	606,560
	<i>mln kWh</i>	9.6	160	14.2
	<i>Gcal</i>	0.00	18,485	202,515
Reduction of energy needs for goods production or services provision				
Reduction of fuel consumption for heat and energy generation as a result of energy consumption reduction activities	<i>g/kWh</i>	1.38	0.95	5.16
	<i>kg/Gcal</i>	0.08	0.06	0.28
Reduction of heat and energy consumption for Company's own needs resulting from the energy consumption reduction activities	%	0.01	0.01	0.01
Reduction of heat and energy consumption for Company's own needs resulting from the energy consumption reduction activities	<i>kWh/Gcal</i>	0.21	0.002	0.005

Group's Energy Resources Consumption¹⁸⁹

Company's fuel consumption

	Total fuel consumption (tons or m3)			Energy used (GJ)		
	2015	2016	2017	2015	2016	2017
Consumed fuel, tons or m3:						
including non-renewable energy sources				1,267,878,656	1,196,837,806	1,193,214,310
petroleum fuel, in particular:	152,251	378,643	149,820	5,926,919	14,672,444	5,945,654
residual fuel, tons	152,175	378,455	148,034	5,923,465	14,664,036	5,868,812
diesel fuel, tons	76	188	1,785	3,453	8,407	76,841
gas, in particular:	29,356,771	28,051,641	28,448,097	1,009,600,690	964,375,450	975,818,441
natural gas, thousand m3	25,281,832	24,349,589	24,811,932	866,729,642	834,779,922	848,051,548
accompanying gas, thousand m3	4,037,574	3,683,617	3,619,607	141,720,578	129,023,619	127,258,933
factory gas, thousand m3	37,364	18,435	16,558	1,150,470	571,909	507,959

¹⁸⁹ The information provided applies to Russian assets of Inter RAO Group. In its operations, PJSC Inter RAO does not consume fuel and energy resources since it is a management company of the Group and it does not carry out any production operations.

coal, in particular:	14,505,764	12,481,008	12,354,479	252,351,047	217,789,912	211,450,215
black coal, tons	7,690,823	6,198,120	5,621,061	144,581,646	115,704,361	101,874,278
brown coal, tons	6,814,942	6,282,888	6,733,418	107,769,401	102,085,551	109,575,937
including renewable energy sources with the use of bio fuel	Russian generating assets of the Group have no renewable energy sources with the use of bio fuel					

Electricity and heat procurement

	Year		
	2015	2016	2017
Purchased (traded) electricity (minus the energy supplied to third parties), thousand kWh, including:	6,943,274	6,601,806	6,159,550
Purchased (traded) heat energy (minus energy supplied to third parties), Gcal, including:	3,082,521	3,550,803	3,665,092

3.5. Ecology and Environmental Protection

Goals and Objectives of the Company's Environmental Policy

Our commitment to sustainable development and integration of electricity markets in the regions where the Company operates define the growing importance of environmental aspects of the Group business for the achievement of its strategic objectives. The environmental impact of our production activities and the ecological risks it entails have a growing influence on the level of capitalization and the availability and cost of credit resources. They represent an important indicator of the business' social responsibility to the community and its commitment to sustainable development. They have become an imperative factor to Company development.

In order to achieve mutually sustainable development by the Group and the regions where the Group operates, and to procure economic benefits and privileges, while accepting its responsibility to the environment, the Company sets the following environmental goals and objectives:

- making the production activities of the Group's companies compliant with regulatory requirements and obligations;
- reducing the environmental impact of the Group's companies to the minimum technically and economically feasible level;
- consistent reduction of costs and risks related to the environmental aspects of the production operations;
- reaching a consensus between stakeholders.

Based on the objectives, the environmental targets for the Group as a whole and for those of its subsidiaries that have a significant environmental impact have been set, as well as the list of measures to achieve these goals.

With consideration of the amendments to environmental legislation coming into effect in 2018-2019, the Targeted environmental program of Inter RAO Group through 2020 with a perspective up to 2030 was updated. Besides approval of the new edition of the Targeted program, the following corporate documents were updated:

- Business procedure for the review, approval and monitoring of production programs;
- Business procedure for the production safety audit;
- Methods of Prompt Incident Reporting.

Stage-by-stage implementation of the Targeted environmental program is a primary way to achieve the environmental targets and reduce the environmental impact of the Group's production assets. The Group as a whole plans to achieve the following indicators by 2030 as a result of the program:

1. Compliance with regulations and commitments
 - reducing the amount of contaminated waste water discharged into water bodies;
 - equipping all water intakes with special devices to prevent damage to hydrobiological resources, as required by state regulations.
2. Reducing environmental impact
 - increasing the share of dust-collecting boiler units with specific emissions of solid particles, according to the best available technologies;
 - increasing the number of power units that meet the targets of nitrogen oxide emissions;
 - by 2030, equipping all power units of class I with metering devices to provide continuous emissions control.
3. Reducing costs and environmental risks
 - maximizing the proportion of beneficial bottom ash waste;
 - reducing the average annual consumption of fresh water for production needs.
4. Achieving a consensus among stakeholders on the environmental aspects
 - introducing the environmental management system, certified by an independent organization, in all production subsidiaries by the end of 2030.

Environmental Management System

Environmental impact management is based on the international standard Environmental management systems: Requirements with guidance for use. To manage the environmental risks associated with its production activities, Inter RAO Group has implemented an environmental management system (EMS) based on ISO 14001. In 2017, the recertification audit by the DQS certification body confirmed the efficiency of transferring PJSC Inter RAO's environmental management system to the new version of the ISO 14001:2015 international standard. A risk-oriented approach to the assessment of environmental aspects and their impact management was introduced.

Compliance with Legislative Requirements

The Group continuously improves its system of internal environmental protection and safety regulations in order to meet the changing requirements of Russia's dynamically developing environmental legislation, and to successfully achieve the program objectives and goals.

In 2017, representatives of PJSC Inter RAO within the working team actively participated in the revision and approval of the technical reference document Fuel Combustion at Large Facilities for Electricity Production, in order to define the measures for maximum reduction of environmental impact. Therefore, a list of the best available technologies was defined and recommended for use at the Group power facilities, as well as their main parameters and technological indicators.

Group personnel continuously monitors changes to environmental legislation, analyzes the draft environmental and natural management regulations, and participates in public discussions of the draft documents under consideration. In 2017, over 70 draft regulations were examined. Comments and proposals were developed for over 30 draft regulations and sent to the Ministry of Energy and the Ministry of Economic Development within the scope of assessment of the regulatory impact of draft regulations and in the course of public discussions of draft regulations. For two projects in particular, the Company took initiatives to change the regulatory provisions that impeded business development.

In 2017, no accidents involving the equipment at production assets with an environmental impact were identified.

Areas of the Group's Environmental Activities

In the area of **air protection**, to reduce air emissions, a number of measures have been taken to improve combustion gas purification technologies and to ensure continuous environmental monitoring and control. The use of advanced technologies makes it possible not to exceed the norms of admissible air emissions of harmful substances.

Another important area of environmental efforts is **minimizing the discharge of polluted waste water** and **increasing the share of recycled water**. In terms of **optimizing waste management** at the Group's facilities, separate waste collection is practiced with mandatory recycling of hazardous waste. A portion of the waste is recycled.

Apart from the above, the Group takes measures to **reduce the noise impact, to increase the energy efficiency of production, and to prevent emergencies**.

Investments for Environmental Protection

In 2017, the total environmental costs amounted to RUB 3,276 million.

The investments in traditional environmental areas, including water and air protection measures, totaled RUB 1,091 million. The costs on the capital repairs of environmental support assets grew substantially as compared to 2016 by RUB 564 million and amounted to RUB 992 million.

During the reporting year, operating costs for environmental protection increased by 24% to RUB 1,193 million.

Total environmental costs by type of cost	Year		
	2015	2016	2017
Total environmental costs	3,080	2,426	3,276
operating costs, RUB mln	991	961	1,193
water resources protection	520	499	701
air protection	159	314	312
environment protection from waste	277	145	179
land remediation	34	2	2
expenses on the capital repairs of environmental support assets, RUB million	191	428	992
investment costs, RUB mln	1,898	1,037	1,091
water resources protection	497	390	427
air protection	270	491	616
waste recycling plants	1,067	97	29
other	64	59	18

Furthermore, in 2017 the Group implemented projects for noise impact reduction at a total cost of RUB 57 million, replacement of the oil-filled equipment at a total cost of RUB 177 million.

Adverse Environmental Impact Fee

The fee for adverse environmental effects and the penal sanctions imposed to a large extent depend on the natural and climatic characteristics of the region where the facilities are located, presence of large industrial productions, the atmospheric and seasonal phenomena (frequent adverse meteorological conditions, high water, etc.).

One efficient method of environmental impact management is recording of claims and public statements of third parties. Controlling and analyzing such claims and statements are being carried out. Similar work is organized for monitoring by supervisory bodies. In 2017, 48 audits were conducted,

including 15 scheduled and 33 extraordinary inspections (including complaints, claims, statements by the media, and inspections as per previously issued orders). In 58% of cases no breaches were identified.

The largest fees were as follows:

- a penalty in the amount of RUB 1,333 thousand for a contaminated substances discharge along with waste water into a water body, the parameters of which exceeded the norms, imposed by the Department of Rosprirodnadzor for the Omsk region;
- a penalty in the amount of RUB 310 thousand for a supposed waste water discharge without permissive documents, imposed by the Department of Rosprirodnadzor for the Komi Republic (contested in the courts);
- a penalty in the amount of RUB 270 thousand for the supposed damage to biological water resources, imposed by the Moscow-Oskoe territorial Department of Rosrybolovstvo (contested in the courts).

No proven adverse environmental impact was identified by the supervisory bodies.

	2015	2016	2017
Number of non-financial sanctions, pcs.	-	1	1 + 1 transient
Total amount of penalties, RUB thousand	4,613	396	2,221 (including 859 contested in the courts)

Cooperation with the community on environmental protection issues

Informing and involving the community is provided at all stages of the power plants life cycle.

In line with the policy of inefficient coal-operated energy capacities replacement, the preparations for returning lands occupied by ash dumps have been going on since 2017. During the reporting period, public hearings were held on the project of remediation of ash dump No. 2 at the branch of Verkhnetagilskaya TPP. The ash dump remediation project is made up of two stages: technical and biological. The technical stage means creating the recultivating soil layer with properties which a favorable for further biological remediation. The biological recultivation comprises surface soil layer consolidation by the root system of plants to prevent soil erosion, resumption of the soil formation process, increase of the soil self-treatment capacity, and biocenosis reconstitution. The total recultivation period is planned to last seven years. Public hearings of project decisions were held on 10 May 2017 and included a presentation of the recultivation information by the project designer and representatives of Verkhnetagilskaya TPP, with further answers to participants' questions. No negative comments were received during public hearings.

The information sharing process was as follows: at the stage of environmental impact assessment, a statement was published in the media of various territorial levels, and on the web sites of the local administration and of the power plant.

In December 2017, public hearings were held on the construction of Primorskaya CHPP in the Kaliningrad Region.

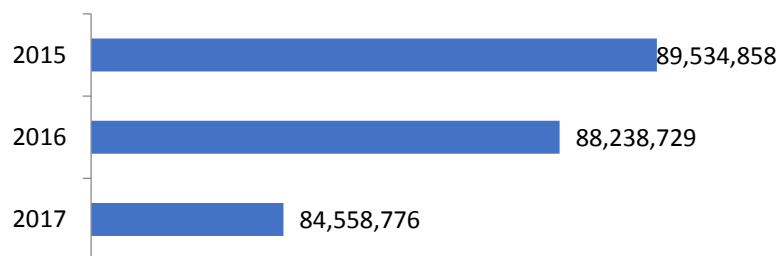
Beyond all that, in 2017, three stages of public hearings were held on the project of renovation of the ash dump at Omskaya CHPP-4. The project documentation, engineering study results and Minutes of the public hearings were submitted for the state environmental expertise. The project is expected to improve the operating reliability of the hydro plant.

Protection of the Atmosphere, Emission Control

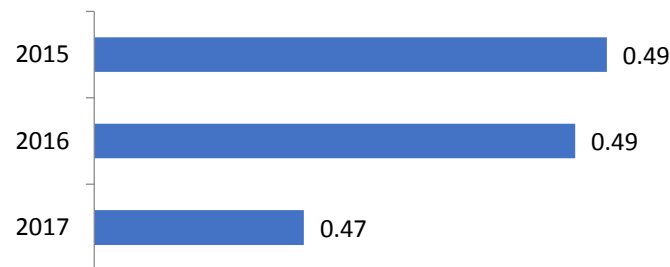
Tracking atmospheric pollution emissions

The emissions of greenhouse gases by the Group are assessed in accordance with the Methodological Instructions and the Guidelines for Quantitative Assessment of Greenhouse Gas Emissions by Companies Engaged in Business or Other Activities in Russia, approved by Order of the Ministry of Nature of Russia No. 300 of June 30, 2015.

Gross greenhouse gas emissions, tons



Greenhouse gas emissions per unit of produced energy, tons/thousand kWh



Volume and intensity of atmospheric emissions of various types of pollutants

	2015		2016		2017	
	Total, thousand tons	Intensity (per unit of generated energy, tons / thousand MWh)	Total, thousand tons	Intensity (per unit of generation, tons / thousand MWh)	Total, thousand tons	Intensity (per unit of generated energy, tons / thousand MWh)
Gaseous and liquid substances, including:	333	1.78	306.6	1.69	304.6	1.68
— CO (carbonic oxide)	15.2	0.08	23.9	0.13	14.3	0.08

— NO _x	150.1	0.80	147.9	0.82	132.0	0.73
— SO _x	167.2	0.89	157.4	0.87	158.3	0.87
Solid substances	97.1	0.52	68.6	0.38	53.8	0.29
- persistent organic pollutants (benzo(a) pyrene)	0.125*10 ⁻³	0.00	0.09*10 ⁻³	0.00	0.09*10 ⁻³	0.0

Activities for reduction of greenhouse gas emissions

Activities to improve the energy efficiency of manufacturing and reduce the specific fuel consumption, to introduce the new highly-efficient equipment and take the outdated equipment out of operation – all these measures contribute to reducing the volumes and intensity of greenhouse gas emissions. These measures are described below in the sections labeled Energy saving and energy efficiency, Performance results as per two segments: Electric Power Generation in Russia and Thermal Power Generation in Russia.

The measures taken in recent years have resulted in a reduction of greenhouse gas emissions as compared to 2015 and 2016 by 5.5% and 4.1% respectively. Gross greenhouse gas emissions of the Group in 2017 amounted to 84.6 million tons. Specific air emissions of pollutants per unit of produced energy was reduced by 0.02 tons / thousand kWh.

Activities for reduction of other pollutants

Gross emissions of pollutants decreased by 13 thousand tons compared to 2016 and by 69 thousand tons compared to 2015. The positive dynamics of pollutant emissions reduction in 2017 were ensured by the measures taken in 2016, primarily, by:

- the effect of taking out of operation in 2016 the outdated inefficient equipment at the facilities of Verkhnetagilskaya, Cherepetskaya, and Yuzhnouralskaya TPPs. Moreover, the specific emissions reduced as a result of using more environmentally-friendly fuel, i.e. natural gas (share of gas consumption in total fuel structure increased by 1.2% as compared to 2016);
- the technical retrofit of the existing electric filters at CHPP-5 of JSC TGC-11;
- the installation of low-toxic burners with air staging into the upper section of the furnace at the branches of BGC LLC;
- the installation of continuous emissions control systems at stationary emissions sources in 2016 (the process was completed in 2017) at Karmanovskaya TPP, Priufimskaya CHPP, Novo-Sterlitamaskaya CHPP of BGC LLC and Omskaya CHPP-5 (JSC TGC-11).

In 2017, active measures were taken to protect the atmosphere. In the reporting year, the following activities contributed to a reduction of pollutant emissions:

- the technical retrofit of the existing electric filters at Omskaya CHPP-5 (JSC TGC-11);
- continuing the installation of low-toxic burners at the branches of BGC LLC;
- the renovation of the ash collecting plant of the boiler unit at plant No. 10 at Tomskaya TPP-2 (JSC TG), along with installation of highly efficient 2nd generation emulsors;

- continuing the process of taking outdated equipment out of operation; operation of two power generating units at Verkhnetagilskaya TPP and three power generating units at Cherepetskaya TPP was finished.

Use of Water Resources

The Group's thermal power plants withdraw large volumes of water from surface sources in order to meet the essential needs of cooling the auxiliary and generating equipment, to compensate for water losses in process cycles, and to feed the centralized heat supply systems.

	Year		
	2015	2016	2017
Water consumption			
Total water withdrawal, million m3, including	17,011.4	14,983.3	12,735.5
from surface water bodies	6,190.7	5,780.5	5,411.7
from third party suppliers	71.4	95.1	151.9
from underground water bodies	3.7	3.2	2.9
rain water collected and preserved by the company	0.1	2.5	1.2
reuse of water	451.2	409.1	780.2
Gross amount of water used in circulating water systems (repeated use), million m3	10,294.3	8,699.5	6,386.8
Water disposal			
Waste water disposal including:	5,954.3	5,741.8	5,962.0
Disposed to third party companies	6.8	5.7	5.3
Disposed to surface water bodies including:	5,947.5	5,736.2	5,956.7
standards-compliant clean	5,926.4	5,718.1	5,940.6
treated to standard quality	4.8	2.7	3.0
insufficiently treated	7.3	6.8	3.7
polluted untreated	9.1	8.6	9.4
The share of standards-compliant clean water in total water disposal	99.6%	99.7%	99.72%

The following measures implemented in 2017 contributed to the increase in water reuse and the reduction of polluted waste water discharge:

- the project of treatment and reuse of blowdown water from the recycling water supply system at the branch of Severo-Zapadnaya CHPP, based on the existing equipment;
- modernization and reconstruction of cooling towers at Salavatskaya CHPP, Sterlitamakskaya CHPP of BGC LLC, CHPP-5 (JSC TGC-11), and Tomskaya TPP-2 (JSC TG);
- organization of collecting the clean technical drainage and storm water at the site of Priufimskaya CHPP of BGC LLC for water reuse (the project is being completed);
- modernization of the water processing unit along with installation of the reverse osmosis plant and heating grids makeup scheme at Priufimskaya CHPP of BGC LLC;
- completion of construction and putting in operation of a section of new treatment plants for industrial oil-contaminated waste water treatment at Verkhnetagilskaya TPP;
- implementation of the project to install devices to control the content of oil products in the cooling system waters at the branches of Yuzhnouralskaya TPP, Urengoyanskaya TPP, Iriklianskaya TPP of JSC Inter RAO – Electricity Generation Group, and Karmanovskaya TPP (BGC LLC).

Special attention is paid to protection of water resources where the environmental situation is rather challenging. In particular, at Kostromskaya TPP, located on the right bank of the Volga river, the project for renovating the water treatment, chemical water treatment, and industrial waste water treatment systems has been implemented in order to minimize the power plant's adverse impact. At Gusinoozyorskaya TPP, located on the bank of Gusinoe lake within the buffer zone of the Baikal natural territory, fisheries research was done in 2017 to assess the impact of water discharged by the branch of Gusinoozyorskaya TPP on the biological environment of Teli river and Gusinoe lake. Besides that, the employees of the power plant regularly control the temperature mode in the discharge channel and the quality of waters withdrawn and discharged into the lake.

Furthermore, the Group actively cooperates with supervisory and governmental bodies on environmental protection issues. In Omsk, to reduce the share of polluted waste waters at CHPP-5 (JSC TGC-11), a treatment facilities construction project is being carried out within the scope of the four-party agreement between the Ministry of Natural Resources and Ecology of Russia, the Federal Supervisory Natural Resources Management Service, the administration of the Omsk region, and JSC TGC-11.

Production Waste Management

The main types of waste at the Group's power facilities are the substances produced from coal combustion, or bottom ash waste. Bottom ash waste accounts for 98% of the total volume of waste generated by the Group. Pursuant to the law, Inter RAO Group develops draft standards for waste generation and limits on its disposal. By its environmental impact, bottom ash waste refers to Hazard Class V, which means that it has a minimal environmental impact. In 2017, the volume of bottom ash waste at the Group's power facilities was 10.7 thousand tons less than in 2016.

	2015	2016	2017
Waste generation, tons			
Hazard class I	22	16	14

Hazard class II	41	12	12
Hazard class III	828	1,469	1,760
Hazard class IV	14,526	18,696	19,665
Hazard class V	4,291,990	4,223,615	4,220,977
Total	4,307,408	4,243,809	4,242,428
<i>including bottom ash waste</i>	4,260,868	4,201,335	4,190,600
Waste recycling, tons			
Disposed of at own storage sites	4,040,873	4,090,097	4,089,622
Bottom ash waste disposed of at own sites	4,030,684	4,054,501	4,085,371
Used	71,916	385,078	12,193
Decontaminated	1,044	111	68
Transferred to third parties	832,238	214,365	193,483
<i>including bottom ash wastes transferred</i>	793,933	177,559	152,293

It shall be noted that selective collection of individual types of waste is arranged at the power plants of the Group which is then transferred for further disposal.

Moreover, to reduce the volumes of oil-contaminated wastes, the oil circuit breakers are widely replaced by SF6 circuit breakers (CHPP-3 of JSC TG Tomskaya, Kharanorskaya TPP, Pechorskaya TPP, Urengoyskaya TPP, Yuzhnouralskaya TPP, Gusinoozyorskaya TPP, and Salavatskaya TPP of BGC LLC) and vacuum circuit breakers (in JSC OmskRTS, BashRTS LLC, Sterlitamaskaya CHPP, and Gusinoozyorskaya TPP of JSC Inter RAO – Electricity Generation Group).

Noise Impact Reduction

Assessment of environmental noise impact and protective measures are defined during the engineering stage of production facilities. Protective measures are fully implemented during construction or modernization of production assets.

An example of measures to protect the neighboring residential area from noise is an additional acoustic insulation installed by JSC Tomsk RTS at the pumping house of Tomsk heating grids after pumps replacement.

In 2017, the following noise control activities were carried out:

- installation of sound absorbers at boiler units of Omskaya CHPP-5 (JSC TGC-11);
- installation of acoustic shields for cooling towers No. 2 and 3 at Omskaya CHPP-4 (JSC TGC-11);
- installation of acoustic insulation of the gas pipeline at KC-1 in Ufa city (BashRTS LLC).

3.6. Procurement

In order for the Group to have all products in a timely manner as required for its operations with economically efficient expenditures, it has the centralized supply system LLC Inter RAO – Procurement Management Center.

The regulation on the procedure of regulated procurement of goods, works and services for the needs of PJSC Inter RAO is the main document regulating the Group's procurement activities. This document defines a single procedural framework for ensuring efficient procurement procedures, carried out primarily on a competitive basis.

The main principles of procurement activities are as follows:

1. Compliance with the current legislation governing procurement activities;
2. Commitment to a united approach to organizing the supply management system in the Company's structural units;
3. Commitment to a unified corporate approach while selecting suppliers, contractors and providers;
4. Ensuring transparency of procurement activities for third parties to the extent sufficient for potential contractors, the state and the community;
5. Supply system transparency and consistency for internal supervisory bodies of the Company and supply process participants;
6. Commitment to purchasing products directly from the producer. If that is not possible, to minimizing the number of intermediaries between the Company and the producer;
7. Implementation of a single technical policy in terms of the Company's providing goods, works and services;
8. Priority for Russian producers and suppliers according to the procedure stipulated by the Company's corporate regulations;
9. Eliminating the obstacles to procuring prototypes of innovative and/or import replacement equipment and technologies with only a few cases of application of such equipment and services from Russian manufacturers of goods, technologies and services.

The Company's procurement system comprises:

1. organizing and arranging marketing research of products in order to expand the competitive environment and make decisions in the course of procurement activities;
2. Maintaining a unified data base containing the regulatory information on the Company's supply system, including unified classifiers of goods, works and services;
3. Arranging activities for the development, confirmation and approval of the draft annual comprehensive procurement program in accordance with corporate standards;
4. Arranging a system of expert evaluation and conduct of evaluations in the course of regulated purchases, as well as evaluations of materials for extraordinary purchases for consideration by the central procurement committee;

5. Arrangement, provision and documentary support of all stages of competitive and regulated non-competitive purchases in accordance with the Annual comprehensive procurement program;
6. Development, approval and control over the execution of the supply contracts and fulfillment of work and services, if such activities are stipulated in the contracts;
7. Generating consolidated statements on procurement activities for the Company's management bodies;
8. Reducing the level of non-productive withdrawal of capital for reserves.

The Consultative body has been operating in the Group since its creation in 2015 and deals with the efficiency of procurement by Inter RAO Group's companies. Among its members are the representatives of local authorities, non-commercial organizations and others. The Consultative body is an advisory body of the companies of Inter RAO Group. Its function is to cooperate with federal and local state authorities, the entrepreneurship community and other stakeholders in order to develop proposals for the improvement of procurement efficiency, including the expansion of small and medium-sized business' access to the procurement activities of the companies of Inter RAO Group.

Interested party	Number of representatives	Members of the Consultative body
Representatives of Inter RAO Group	17	
Representatives of the local authorities of the territories of Russia	3	Chairman of the Manufacturing Committee of the Department of Industry and the Development of Entrepreneurship of the Tomsk region Deputy Minister of Economy, Omsk region Minister of Economic Development, Republic of Bashkortostan
Representatives of JSC Corporation for the Development of Small and Medium-sized Businesses	1	Deputy General Director
Representatives of noncommercial associations	1	Member of the Management Board, Chairman of the Import Replacement Commission of OPORA of RUSSIA
Representatives of small and medium-size businesses	1	General Director, Material and Technologies of the Future, LLC

Procurement System Improvement

In 2017, extensive work was done on improving Inter RAO Group's procurement system.

Among the innovations was a new procurement principle: the customer shall provide an opportunity for entering into long-term agreements with Russian suppliers against guaranteed volumes of future supplies while purchasing equipment that currently has no analogs in Russia. A mandatory condition thereof is the availability of duly made special investment contracts for mastering the manufacture of said products in Russia, or the availability of the report of the Ministry of Industry and Trade of Russia on the absence of the products' analogs manufactured in Russia if the products manufacturing in Russia is arranged without a special investment contract.

Among the main objectives was eliminating the obstacles to procuring prototypes of innovative and/or import replacement equipment and technologies, with only a few cases of application of such equipment and services, from Russian manufacturers of goods, technologies and services, and arranging application in the course of procurement procedures of the information on suppliers and goods, technologies and services contained in the State information system of the industry.

With consideration of the active policy of import replacement in manufacturing, Inter RAO Group has stipulated that Russian products get a priority according to the procedure set by the Company's internal regulations.

The main results of work on improving the procurement system in 2017 include:

1. The corporate standard Principles of managing our own existing production reserves in the companies of Inter RAO Group was approved and put into effect;
2. The project for creation of the electronic trading platform for selling the unclaimed material and technical resources and property by the companies of Inter RAO Group was launched;
3. Implementation and development of the Corporate online shop service started to carry out simplified procurement procedures by the companies of Inter RAO Group in order to expand access to purchases for small and medium-size businesses;
4. The concept of the Unified information procurement system transfer to the platform which is based on an open source code component was adopted;
5. Conceptual approaches were developed on the location of the Unified information procurement system in the information space of financial and economic management of Inter RAO Group's companies belonging to the Sales and Others segments;
6. The functionality of the Unified information procurement system was expanded;
7. To fulfill the directives of the Federal Agency for State Property Management of May 5, 2016 No. DP-11/17668, the Board of Directors of PJSC Inter RAO approved ¹⁹⁰the Implementation plan for regulation of procurement of goods, works and services for the needs of PJSC Inter RAO on June 29, 2016. In the reporting year 2017, the Company's purchases were made in accordance with the approved norms and established limits. No revision (update) of the regulation of procurement of specific types of goods and services is required.

¹⁹⁰ Minutes No. 173 of July 4, 2016 of the Board of Directors of PJSC Inter RAO held on 29 June 2016.

Cooperation with Small and Medium-Sized Business

In 2017, LLC Inter RAO – Procurement Management Center carried out activities to attain the target indicators of the Strategy for Small and Medium-Sized Business Development in the Russian Federation for the Period up to 2030.¹⁹¹

In the course of implementation of the program of partnership with small and medium-sized businesses, from July 1, 2015 till December 31, 2017, 193 small and medium-sized businesses, including 41 businesses in 2017 became members of the Partnership Program.

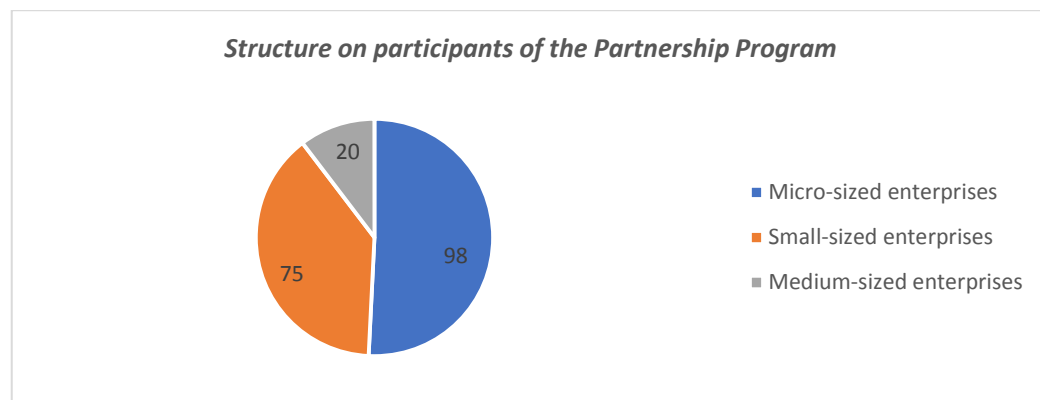


Table of annual procurement volumes from small and medium-sized businesses in 2017.

	Total procurement from SMBs, %	Direct procurement from SMBs, %
The share of procurement from SMBs with consideration of the total amount of contracts concluded during the reporting year as a result of procurement procedures	34.49	23.79
The share of procurement from SMBs with consideration of the costs during the reporting year (with consideration of payment during the reporting year under the contracts with an execution term exceeding one calendar year, including the contracts concluded during the previous reporting periods)	46.39	33.73

¹⁹¹ Approved by decree No. 1083-r of the Government of the Russian Federation of June 2, 2016.

Key Procurement Results for 2017

By virtue of the effective operation of the centralized purchasing department of the Company, costs for the annual complex procurement program for generating assets were reduced by 4.8% in 2017 compared to target expenses.

Procurement statistics	2016	2017
Total amount of procurement procedures carried out by the Group	14,520	16,073
Total value of procurement procedures of the Group, RUB mln	2,793,848	585,571
Total amount of procurement procedures centrally carried out for the Group companies	2,162	2,623
Total value of procurement procedures centrally carried out for the Group companies	45,093	69,643
Savings, RUB mln	15,728	6,046
Total amount of suppliers who applied for participation in Group procurement procedures	7,509	8,362
Number of suppliers accredited in accordance with the Regulation on accreditation of suppliers of goods, works and services as of December 31, 2017	38	51

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 technology independence of the power sector and adequate competences in all the activities crucial for the sustainable development of the power sector, while enhancing and expanding the global technology competitiveness of Russian HEC". In accordance with the Strategy of PJSC Inter RAO, import substitution is one of the mechanisms of its implementation. Key strategic objectives have been determined as follows:

- increase the portion of Russian-manufactured products to satisfy consumers of the Company within operational and investment activities;
- develop production of turbine equipment with characteristics complying with the best world analogs.

In order to implement the Directive of the Government of the Russian Federation No. 830p-P13 of February 6, 2017, considering the Methodical recommendations for preparation of corporate import substitution plans,¹⁹² the Company has reworked the Import Substitution Corporate Plan – ISCP – of Inter RAO Group in the reporting year and approved it at the meeting of the Board of Directors of PJSC Inter RAO in August, 2017.¹⁹³ Being a constituent part of the Company Strategy, the Import Substitution Corporate Plan has been developed to detail the objectives and activities of the Company Strategy, which are aimed at decreasing the Company's dependence on foreign-made products, in the short-term period up to 2020.

¹⁹² Decree of the Ministry of Economic Development of the Russian Federation No. 219R-AU of August 11, 2016.

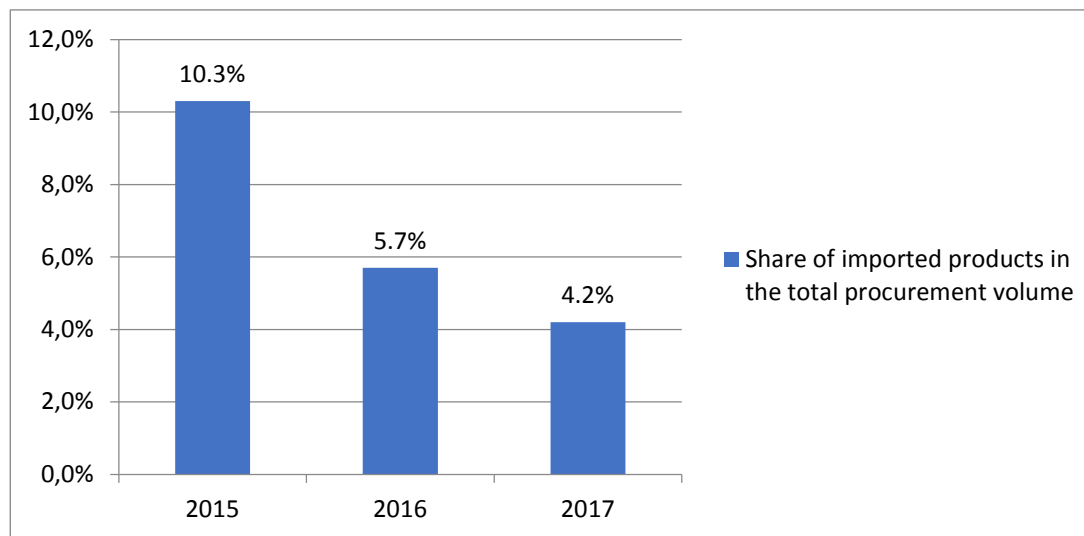
¹⁹³ Minutes No. 208 of September 18, 2017 of the Board of Directors of PJSC Inter RAO meeting held on September 15, 2017.

Key principles of the Import Substitution Corporate Plan are:

- elimination of risks of reducing the level of product safety and safety at capital construction projects (if the supplier chain changes during implementation of investment projects);
- non-regression of the main parameters and of investment projects being implemented;
- non-allowability of cost increase due to change in the supplier chain of certain goods, required for implementation of the investment project;
- a risk-oriented approach during project selection concerning assessment of risk arising from technical solutions in projects which require domestic or foreign solutions.

Import substitution of the Company is carried out by fair procurements without discrimination against foreign suppliers.

As a result of implementation of all package of measures directed to substituting the purchase of foreign products with Russian products, the portion of import products in the total amount of purchases of Inter RAO Group decreased from 10.3% to 4.2% in 2017 as compared with 2015.



Scrupulous approach for supplier selection

The technique of forming specifications for holding procurement procedures for delivery of goods, performance of works, and rendering of services stipulates desirable requirements for supplier compliance to the requirements established by ISO 9001 and ISO 18000 concerning participants of procurement procedures. Use of the ISO 9001 system allows us to achieve steady success due to improving operations and increasing our competitive edge (achievement of long-term success by the maximum satisfaction of requests by consumers, employees and the organization, and mutually

beneficial relations with suppliers). Use of the ISO 18000 system allows us to manage the risk of accidents, failures and emergencies, as well as to increase performance efficiency by means of cost reduction for work safety and spending less on compensation, aid, and penalties.

In 2017, The Company started doing business with 1,754 new suppliers.

3.7. Social Policy

<u>Figures and facts</u>	Units of measurement	2015	2016	2017
Charity	RUB bln	0.48	0.6	1.1
Charity and sponsorship projects implemented	pcs.	344	376	>400

In 2017, the main objective of the Group's charity was to improve the effectiveness of the implemented projects and to increase the amounts provided, as well as to apply the best practices for the Group's companies in order to solve social problems in the specific region where the charity took place.

The charity efforts of Inter RAO Group were accumulated in seven key areas:

- support of vulnerable social groups;
- assistance to artists;
- support of cultural events;
- support of industry veterans, combat veterans and the disabled;
- support of environmental organizations and environmental reserves;
- support of educational institutions and health-care facilities, mass and youth sports;
- financing of objects of historical and cultural value.

In 2017, the projects aimed at supporting sports for the masses and for youth, and at supporting disabled athletes, were of high priority.

In addition, serious attention was paid to the support of environmental projects and assistance to vulnerable social groups. The crises in the world and in the countries where the Group companies operate have not affected the formation of budgets for charity and sponsorship activities. In this regard, in 2017, the Group companies managed to increase the number of projects fulfilled. During the reporting period, Group companies fulfilled over 400 charity and sponsorship projects; in 2016 the number of such projects comprised 376.

During determination of priorities in social policy, the relevance of issues for which sponsorship and charity support shall be implemented is taken into account. To ensure the achievement of synergetic effect, areas of sponsorship and charity are associated with the Group's major activities and objectives specified in the Strategy. The basic principles for selection of Inter RAO Group's charity and sponsorship projects are:

- targeting;
- effectiveness;
- fairness;
- efficiency.

The choice of current areas of charity and sponsorship support may also be based on the instructions of the President of the Russian Federation, the instructions of the Government of the Russian Federation, and other government programs.

Improvement of control mechanisms over charity projects at the stage of their selection has helped increase the effectiveness of charity and sponsorship support and cost transparency. In addition to legal and accounting documents, videos and photos, representatives of the Group companies exercise personal control over the implementation of projects, visits to site events, interaction with beneficiaries, collection of information from third parties, inspection of beneficiaries by internal security, and monitoring of information fields and the media.

The Report on the use of funds for the sponsorship and charity activities of the Company and its subsidiaries and affiliates is considered by the Company's Board of Directors together with the review of reports on implementation of the Business Plan.

Contribution to the Development of the Regions of the Group's Operations

Reliability and power supply continuity

Traditionally, the main objectives of Inter RAO Group in terms of developing the regions where the Company operates are providing a reliable and uninterrupted supply of energy and power, implementing projects aimed at modernizing the energy infrastructure and the social and economic development of the regions, decommissioning outdated equipment, and optimizing unprofitable facilities.

In 2017, the most significant projects were:

Facility commissioning

- The power generating unit of Permskaya TPP has been launched. The installed electric power of the unit comprises 903 MW due to the implementation of several unique technical solutions. The new power generating unit is the largest unit constructed in the Russian heat generation sector in the last decade. The unit has the best technical and environmental characteristics for this kind of equipment;

- A new power generating unit with a capacity of 447 MW had a commission ceremony at Verkhnetagilskaya TPP. The new power generating unit is the first operating generating facility of Inter RAO for which an investment agreement was signed with the regional authorities.

Modernization of current facilities

- The gas turbine at power generating unit No. 3 of Nizhnevartovskaya TPP was modernized;
- Yuzhnouralskaya TPP-2 increased the installed electric power of its two combined cycle gas turbines;
- Modernization of the boiler at power generating unit No. 1 was performed at Gusinoozyorskaya TPP for combustion of a wider range of coal.

Decommission of obsolete non-effective facilities

- Three units with a total capacity of 865 MW were decommissioned at Cherepetskaya TPP;
- Two units with a total capacity of 330 MW were decommissioned at Verkhnetagilskaya TPP.

Charity projects

RUSSIAN FEDERATION

Network projects of the Group

In 2017, network projects were proactively continued and were pursued by almost all of the Group's companies, adapted to the specific needs of each region.

“Energy of Remembrance and Kindness” The objective of this project is to support veterans of World War II, survivors of the siege, workers on labor fronts and prisoners of concentration camps. In 2017, the project was widely practiced and was implemented by many Group companies. The employees of the Group conducted large-scale activities and special events dedicated to Victory Day and the International Day for the Elderly. Monuments and memorials of World War II in the Kaliningrad, Tula, Oryol and Omsk Regions, as well as in Altai Territory and the Republic of Altai, have been repaired and restored. In the regions where the Group operates, veterans of World War II received targeted welfare assistance, home appliances, food and articles of prime necessity.

“Light and Heat for Children” The objective of the project is to support disabled children, orphans and children without parental care by purchasing necessities, medicines, medical and sports equipment, and organizing sports and creative events for children.

“The Brightest Christmas Tree” A good tradition for the Group’s employees is holding the charity event for orphans and children in difficult life situations. On New Year’s Eve, the employees of the Group companies held entertainment events in 34 orphanages, residential facilities and special medical institutions.

“From Heart to Heart” The main goal of the project is to support and promote creativity in young talents in the regions where the Group operates. It promotes classical music among the regional population of the Russian Federation. The project is to support talented young performers of classical music and organize concerts in adult and children’s hospitals, orphanages and nursing homes.

“Your Choice is a Career in Energy” To promote the professions of the power industry among the next generation, the Group conducts special Olympiads and competitions on a regular basis, creates lectures and lessons for students, and supports the educational institutions in buying office appliances, PCs and providing up-to-date equipment for laboratories. Research and development activities related to power supply and energy efficiency improvement are made in close cooperation with educational institutions, and winners in different categories are selected based on the results of this R&D work.

“Energy of sports” This project aims to promote the culture of sports and a healthy lifestyle in the regions where Group companies operate. As part of the project, the companies purchase sports equipment for children and youth sports schools, create facilities for sports, and organize sports tournaments with the participation of residents of the regions where Group companies operate. Thus, Ivanovskiye CCGT personnel has organized an open sport contest dedicated to the 87th anniversary of Ivanovskaya TPP, in which residents of the Komsomolsky district took part; Kaliningradskaya CHPP-2 has organized a mini-football tournament among youth teams dedicated to Power Engineers' Day; Kharanorskaya TPP personnel has organized sport games for school students dedicated to the beginning of the school year: for the second year in a row, the Yuzhnouralskaya TPP-sponsored hockey team has participated in a warm-up match against PJSC Inter RAO's adult team.

The Group also provides targeted support to Paralympic athletes, aimed at creating favorable conditions for training and providing athletes with necessary equipment and facilities.

LITHUANIA

AB INTER RAO Lietuva supports projects aimed at the preservation and renovation of monuments belonging to the historical and cultural heritage of the country, retrieval of Lithuanian art masterpieces, educational and cultural events, and supporting a healthy lifestyle and sports, as well as projects for the disadvantaged population. In 2017, the Company supported an international art and sculpture exhibit, a project on development of culture and sport clubs for Vilnius and Kaunas school students, and projects on sport and culture promotion in Lithuania, including help in staging theatrical

performances and holding tours of the Vilnius theater and the theater of disabled people. Not for the first time, the company helped to organize the Christmas sport contest for children from orphanages, as well as to publish books about culture and magazines.

GEORGIA

JSC Telasi charity activity includes implementing the most significant social projects, which can bring benefit to society and draw public attention to different social problems. For seven years now, the Company has rendered technical and financial aid to the international childhood leukemia association, helped organize social services individuals with disabilities and lonely persons with limited opportunities in cooperation with the all-Georgian association of children of God (union of disabled people). In 2017 an exhibit took place whereby disabled individuals presented their works made at the Chinari social educational enterprise and created with the financial support of Telasi. Within the framework of this event, the association of disabled people presented to the Company a special award Solid and Reliable Partner.

Telasi provides financial support to the Lazarus Charitable Foundation of the Patriarchate of Georgia, aimed primarily at creating craft workshops for children from socially-vulnerable families and providing information and educational initiatives.

In addition, the company annually supports churches and cathedrals, as well as Georgian charities, offsetting the cost of the electricity they consume.

MOLDAVIA

CJSC Moldavia TPP is the largest enterprise in the region. The company conducts charitable activities in the form of material support for: educational institutions in the city of Dnestrovsk and nearby settlements, helps public organizations with their activity; supports socially disadvantaged population (financial support, health resort vouchers, funeral services to pensioners, help for World War II veterans, orphan children, disabled people). Every year CJSC Moldavia TPP participates in the financing and organization of cultural events for residents of the region.

Non-network projects of the Group

Non-network projects of the Group are primarily targeted projects and are mainly focused on support of vulnerable social groups, support of social infrastructure, and sporting events.

Volunteer Activities

Besides implementation of charity and sponsorship projects, PJSC Inter RAO, in coordination with the Young Active Members of the Group, proactively implements various volunteer initiatives, and their number increases every year, which indicates the improvement of awareness among employees about social problems and their desire to make their own contribution. In 2017, the main areas of volunteer projects were targeted support to people in difficult life situations, and environmental projects.

During the reporting year, the Group companies organized a number of urgent charitable social events to raise funds for people in need, including employees trapped in hardship. The total donations of employees comprised nearly RUB 2,000,000.

In 2017, many Group companies had traditional donor days, when 350 employees donated about 150 liters of blood.

Within the year of ecology in Russia, many Group companies participated in independent or regional ecological projects. For example, Kostromskaya TPP has supported a unique ecological project on the development and research of the reserved fund of the Kostroma Region. Thanks to implementation of this project, the experts of the Kostroma Nature Museum and Russian Geographical Society collected valuable data on flora and fauna of the remote corners of the region and compiled a list of especially protected territories for the Red Book. The employees of the Company are more and more committed to a responsible attitude to consumption of resources and separating the collection of waste. In particular, in 2017 PJSC Mosenergosbyt employees collected more than four tons of waste paper, which comprises 40 saved trees, and helped the Company to become the leader of the all-Russian marathon and the Green Friday event in the Moscow region.

Moreover, community work days, planting of trees, redevelopment of parks and squares were held.

Group Personnel, along with young activists, participated in activities dedicated to Victory Day, events like We Remember and Gift to the Veteran, Flag of Memory, St. George Ribbon, and the All-Russian Initiative the Immortal Regiment. They also organized meetings and festive actions for veterans.

Within educational projects, young activists and Group company volunteers organized projects connected with energy saving and energy efficiency, prevention of children's injury, and popularized the idea of responsible consumption. They even held career guidance events.

For example, within the All-Russian #BrighterTogether festival only, Group company personnel carried out about 100 events: thematic quizzes, quests and intellectual tournaments, excursions to power plants, drawing competitions on the topic of energy saving, and lectures on energy efficiency. Moreover, a series of classes called Ecology and Energy Saving at schools and specialized secondary educational establishments have been held in the territory where the Company operates.

Interaction with Authorities and Public Organizations

Inter RAO Group is working closely with the authorities of the regions where its companies operate in the following areas:

- activities aimed at sustainable social and economic development of the regions where the Company operates and increasing their investment attractiveness;
- support and implementation of measures aimed at preventing the growth of a deficit of heat and electricity and increasing the reliability of electricity and heat supply for consumers;
- implementing measures on saving energy and increasing the energy efficiency of businesses, public institutions, and enterprises of housing and communal services;

- social and economic interaction in order to optimize the combination of economic, labor and social interests of the parties, enabling the sustainable growth of production and economic activity indicators and the maintenance of social stability in the regions where the Company operates;
- issues of determining tariffs and reduction of receivables;
- maintaining the level of tax revenues to the budget system of the regions;
- organizing and conducting practical lessons on energy saving for students, as well as workshops on energy saving at companies' sites.

Combating accounts receivable outstanding and close collaboration in this field with the executive authorities of the regions where the Company operates is an integral part of payment discipline stabilization. This not only leads to the increased operational efficiency of Group companies, but also maintain the level of tax revenues to the budgets of the regions. The Group is constantly working on improving mechanisms aimed at more accurate fulfilment by consumers of their payment obligations for the services received. In each of the Group's sales companies, there is a committee to deal with receivables, and corresponding local regulations are developed.

The presence of Group companies in the regions contributes to the development of local suppliers of goods, works and services, the material and technical bases of the regions, and the creation of jobs at the Group sites and in supply chains.

4. 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: **01 November 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

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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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Shareholder Hotline:
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5. Appendixes

5.1. Appendix 1. Consolidated Financial Statements of PJSC Inter RAO for 2017 as per IFRS

Report of the independent auditor
on the summary consolidated financial statements of
PJSC Inter RAO and its subsidiaries
for 2017

March 2018

**Report of the independent auditor
on the summary consolidated financial statements of
PJSC Inter RAO and its subsidiaries**

Translation of the original Russian version

Contents	Page
Report of the independent auditor on the summary consolidated financial statements	3
Appendices	
Summary consolidated financial statements of PJSC Inter RAO and its subsidiaries for 2017:	
Consolidated statement of financial position	5
Consolidated statement of comprehensive income	6
Consolidated statement of cash flows	7
Consolidated statement of changes in equity	9
Appendix 1	10

Translation of the original Russian version

Opinion

In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of the Group for 2017 are consistent, in all material respects, with the audited consolidated financial statements, in accordance with criteria described in Appendix 1.

I.A. BUYAN
Partner
Ernst & Young LLC

5 March 2018

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.

**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

The accompanying summary consolidated financial statements of PJSC Inter RAO and its subsidiaries (the Group), which consist of the consolidated statement of financial position as at 31 December 2017, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for 2017 are derived from the audited consolidated financial statements of the Group for 2017. We expressed an unmodified audit opinion on those consolidated financial statements in our auditor's report dated 26 February 2018. Those consolidated financial statements and the summary consolidated financial statements of PJSC Inter RAO do not reflect the effect of events that occurred subsequent to the date of our report on those consolidated financial statements.

The summary consolidated financial statements do not contain all the disclosures required by the International Financial Reporting Standards. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of the Group.

Management's responsibility for the summary financial statements

Management of the Group is responsible for the preparation of a summary of the audited consolidated financial statements in accordance with criteria described in Appendix 1.

Auditor's responsibility

Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, *Engagements to Report on Summary Financial Statements*, as adopted in the Russian Federation by Order No. 207n of the Ministry of Finance of the Russian Federation dated 9 November 2016.

Consolidated statement of financial position*(in millions of RUR)*

	31 December 2017	31 December 2016
Assets		
Non-current assets		
Property, plant and equipment	275,261	280,499
Intangible assets	13,183	9,908
Investments in associates and joint ventures	22,785	28,886
Deferred tax assets	7,762	6,527
Available-for-sale financial assets	10,324	7,810
Other non-current assets	2,986	15,430
Total non-current assets	332,301	349,060
Current assets		
Inventories	16,927	14,104
Accounts receivable and prepayments	105,766	104,105
Income tax prepaid	873	625
Cash and cash equivalents	142,062	95,988
Other current assets	24,127	4,712
	289,755	219,534
Assets classified as held-for-sale	3,000	3,000
Total current assets	292,755	222,534
Total assets	625,056	571,594
Equity and liabilities		
Equity		
Share capital	293,340	293,340
Treasury shares	(58,787)	(58,787)
Share premium	69,312	69,312
Hedge reserve	2	16
Actuarial reserve	7	(182)
Fair value reserve	1,825	2,485
Foreign currency translation reserve	2,152	2,972
Retained earnings	149,968	107,879
Total equity attributable to shareholders of the Company	457,819	417,035
Non-controlling interest	1,590	2,191
Total equity	459,409	419,226

Non-current liabilities		
Loans and borrowings	4,721	8,886
Deferred tax liabilities	11,016	10,678
Other non-current liabilities	8,152	7,260
Total non-current liabilities	23,889	26,824
Current liabilities		
Loans and borrowings	11,707	8,738
Accounts payable and accrued liabilities	118,378	105,468
Other taxes payable	9,117	9,005
Income tax payable	2,556	2,333
Total current liabilities	141,758	125,544
Total liabilities	165,647	152,368
Total equity and liabilities	625,056	571,594

Chairman of the Management Board

Kovalchuk B.Yu.

Member of the Management Board, Chief Financial Officer

Miroshnichenko E.N.

5 March 2018

The consolidated statement of financial position is to be read in conjunction with Appendix 1 to, and forming part of, the summary consolidated financial statements.

5

Consolidated statement of comprehensive income*(in millions of RUR)*

	<i>For the year</i>	
	2017	2016
Revenue	917,049	868,182
Other operating income	8,533	39,120
Operating expenses, net	(869,462)	(830,042)
Operating income	56,120	77,260
Finance income	9,885	10,121
Finance expenses	(3,638)	(24,311)
Share of profit of associates and joint ventures, net	2,615	5,478
Income before income tax	64,982	68,548
Income tax expense	(10,534)	(7,236)
Income for the period	54,448	61,312
Other comprehensive income/(loss)		
<i>Other comprehensive income/(loss) that will be reclassified subsequently to profit or loss when specific conditions are met</i>		
Actuarial gain/(loss), net of tax	189	(85)
(Loss)/gain on available-for-sale financial assets, net of tax	(660)	1,620
Net (loss)/gain on hedge instruments, net of tax	(27)	55
Exchange loss on translation to presentation currency	(784)	(4,497)
Other comprehensive loss, net of tax	(1,282)	(2,907)
Total comprehensive income for the period	53,166	58,405
Income attributable to:		
Shareholders of the Company	53,851	60,761
Non-controlling interest	597	551
	54,448	61,312

Total comprehensive income attributable to:

Shareholders of the Company

52,546

58,257

Non-controlling interest

620

148

53,166

58,405

Basic income per ordinary share for income attributable to the shareholders of the Company

RUR

0.645

RUR

0.726

Diluted income per ordinary share for income attributable to the shareholders of the Company

RUR

0.634

RUR

0.721

Chairman of the Management Board



Kovalchuk B. Yu.

Member of the Management Board, Chief Financial Officer



Miroshnichenko E. N.

5 March 2018

The consolidated statement of comprehensive income is to be read in conjunction with Appendix 1 to, and forming part of, the summary consolidated financial statements.

PJSC Inter RAO

Consolidated statement of cash flows*(in millions of RUR)*

	<i>For the year</i>	
	<i>2017</i>	<i>2016</i>
Operating activities		
Income before income tax	64,982	68,548
<i>Adjustments to reconcile income before tax to net cash flows from operating activities</i>		
Depreciation and amortisation	21,048	22,904
Provision for impairment of account receivable, net	4,120	8,496
Other provisions (release)/charge	(1,667)	3,398
Impairment of available-for-sale financial assets and assets classified as held-for-sale	225	3,020
Impairment of property, plant and equipment and intangible assets	11,783	4,082
Share of profit of associates and joint ventures	(2,615)	(5,478)
Income from electricity derivatives, net	(134)	(330)
Foreign exchange loss, net	1,005	3,642
Interest income	(8,777)	(9,495)
Other finance income	(651)	(366)
Interest expense	2,543	7,229
Other finance expenses	90	13,440
Dividend income	(457)	(260)
Income from sale of assets classified as held-for-sale	—	(31,870)
Shares option plan	919	2,524
(Gain)/loss from disposal of controlling interest	(10)	2,192
Other non-cash operations/items	229	1,065
Operating cash flows before working capital adjustments and income tax paid	92,633	92,741
(Increase)/decrease in inventories	(2,960)	816
Increase in accounts receivable and prepayments	(12,703)	(12,562)
Decrease in value added tax recoverable	5,188	3,374
Decrease/(increase) in other current assets	3,043	(525)
Increase in accounts payable and accrued liabilities	12,139	4,915
Increase in taxes other than income tax prepaid/payable, net	1,108	1,787
Other working capital adjustments	53	(146)
	98,501	90,400
Income tax paid	(11,330)	(9,039)
Net cash flows from operating activities	87,171	81,361

Consolidated statement of cash flows (continued)

(in millions of RUR)

	<i>For the year</i>	
	<i>2017</i>	<i>2016</i>
Investing activities		
Proceeds from disposal of property, plant and equipment	151	277
Purchase of property, plant and equipment and intangible assets	(31,508)	(34,746)
Purchase of controlling interest, net of cash acquired	(500)	(3,600)
(Outflow)/proceeds from disposal of controlling interest, net of cash disposed	(10)	698
Purchase of shares in the associate	—	(3,000)
Proceeds from disposal of joint venture and associate	54	1,102
Proceeds from disposal of assets classified as held-for-sale	12,500	51,250
Proceeds from repayment of loans issued	12,639	1,003
Loans issued	(216)	(52)
Bank deposits placed	(45,747)	(19,164)
Bank deposits returned and proceeds from promissory notes repayment	23,455	34,805
Interest proceeds for bank deposits placed	4,358	6,148
Purchase of other non-current assets	(285)	(15,869)
Dividends received	467	403
Cash flows used for other investing activities	(156)	(191)
Net cash flows (used for)/from investing activities	(24,798)	19,064
Financing activities		
Proceeds from loans and borrowings	45,354	41,933
Repayment of loans and borrowings	(45,851)	(98,005)
Repayment of finance leases	(474)	(535)
Interest paid	(2,255)	(9,832)
Dividends paid	(12,185)	(1,953)
Purchase of non-controlling interest in subsidiaries	(787)	(76)
Acquisition of treasury shares	—	(1,667)
Proceeds from treasury shares sold	—	223
Net cash flows used for financing activities	(16,198)	(69,912)
Effect of exchange rate fluctuations on cash and cash equivalents	(101)	(805)
Net increase in cash and cash equivalents	46,074	29,708
Cash and cash equivalents at the beginning of the period	95,988	66,280
Cash and cash equivalents at the end of the period	142,062	95,988

Chairman of the Management Board

Kovalchuk B. Yu.

Member of the Management Board, Chief Financial Officer

Miroshnichenko E.N.

5 March 2018

shareholders of the Company

Fair value reserve	Hedge reserve	Actuarial reserve	Retained earnings	Total	Non- controlling interest	Total equity
865	(12)	(99)	49,277	363,540	2,705	366,245
1,620	28	(83)	60,761	58,257	148	58,405
-	-	-	(1,707)	(1,707)	(621)	(2,328)
-	-	-	(4,100)	(4,100)	-	(4,100)
-	-	-	(43)	(43)	(33)	(76)
-	-	-	8	8	(8)	-
-	-	-	2,524	2,524	-	2,524
-	-	-	(107)	223	-	223
-	-	-	1,266	(1,667)	-	(1,667)
2,485	16	(182)	107,879	417,035	2,191	419,226
2,485	16	(182)	107,879	417,035	2,191	419,226
(660)	(14)	189	53,851	52,546	620	53,166
-	-	-	(12,656)	(12,656)	(461)	(13,117)
-	-	-	2	2	-	2
-	-	-	(27)	(27)	(760)	(787)
-	-	-	919	919	-	919
1,825	2	7	149,968	457,819	1,590	459,409

Kovalchuk B.Yu.

Miroshnichenko E.N.

to, and forming part of, the summary consolidated financial statements.

Consolidated statement of changes in equity

(in millions of RUR)

	Attributable to shareholders			
	Share capital	Treasury shares	Share premium	Foreign currency translation reserve
Balance at 1 January 2016	293,340	(56,184)	69,312	7,041
Total comprehensive (loss)/income for the year ended 31 December 2016	-	-	-	(4,069)
Dividends to shareholders	-	-	-	-
Acquisition of controlling interest in subsidiary	-	-	-	-
Acquisition of non-controlling interest in subsidiary	-	-	-	-
Disposal of controlling interest in subsidiary	-	-	-	-
Share option plan	-	-	-	-
Sale of treasury shares	-	330	-	-
Acquisition of treasury shares	-	(2,933)	-	-
Balance at 31 December 2016	293,340	(58,787)	69,312	2,972
Balance at 1 January 2017	293,340	(58,787)	69,312	2,972
Total comprehensive (loss)/income for the year ended 31 December 2017	-	-	-	(820)
Dividends to shareholders	-	-	-	-
Undrawn dividends returned	-	-	-	-
Acquisition of non-controlling interest in subsidiary	-	-	-	-
Share option plan	-	-	-	-
Balance at 31 December 2017	293,340	(58,787)	69,312	2,152

Chairman of the Management Board



Member of the Management Board, Chief Financial Officer

5 March 2018



The consolidated statement of changes in equity is to be read in conjunction with Appendix 1 to,

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 2017, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for 2017. These summary consolidated financial statements was signed by the management of PJSC Inter RAO on 5 March 2018 and derived from the audited consolidated financial statements for 2017. 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 earnings (loss) per share). These summary consolidated financial statements do not include all the disclosures required by International Financial Reporting Standards. Audited consolidated financial statements for 2017 can be found at <http://www.interrao.ru>.

5.2. Appendix 2. Annual Accounting Statements of PJSC Inter RAO for 2017 as per RAS

Report of the independent auditor
on the summary financial statements of
Public Joint Stock Company "Inter RAO UES"
for 2017

February 2018

**Report of the independent auditor
on the summary financial statements of
Public Joint Stock Company "Inter RAO UES"**

Translation of the original Russian version

Contents	Page
Report of the Independent auditor on the summary financial statements	3
Appendices	
Summary financial statements of Public Joint Stock Company "Inter RAO UES" for 2017:	
Statement of financial position	5
Statement of income	7
Appendix 1	8

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"

The accompanying summary financial statements of Public Joint Stock Company "Inter RAO UES" (the Company), which consist of the balance sheet as at 31 December 2017 and statement of income for the period from 1 January through 31 December 2017 are derived from the audited financial statements of the Company for 2017. We expressed an unmodified audit opinion on those financial statements in our auditor's report dated 8 February 2018.

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, therefore, is not a substitute for reading the audited financial statements of the Company.

Management's responsibility for the summary financial statements

Management of the Company 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 the summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, *Engagements to Report on Summary Financial Statements*, as adopted in the Russian Federation by Order No. 207n of the Ministry of Finance of the Russian Federation dated 9 November 2016.

Translation of the original Russian version

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of the Company for 2017 are consistent, in all material respects, with the audited financial statements, in accordance with criteria described in Appendix 1.

I.A. BUYAN
Partner
Ernst & Young LLC

8 February 2018

Details of the audited entity

Name: Public Joint Stock Company "Inter RAO UES"

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.

Translation of the original in Russian language

Attachment No.1 to Order No.66n of the
RF Ministry of Finance dated July 2,
2010

BALANCE SHEET
As of 31 December 201 7 year

Entity Public Joint Stock Company «Inter RAO UES»
Taxpayer's identification number _____
Type of activity sales of electricity
Legal/ownership form _____

OKUD Form
Date (DDMMYY)
OKPO code
TIN
OKVED code

Codes		
0710001		
31	12	2017
33741102		
2320109650		
35.14		
12247	49	
385		

Public Joint Stock Company/Other mixed Russian ownership OKOPF/OKFS code
Measurement unit: RUB mln OKEI code
Location (address) 119435, Moscow, ul. Bolshaya Pirogovskaya, 27, bld. 2

	Description	Code	At 31 December 2017	At 31 December 2016	At 31 December 2015
	ASSETS				
	I. NON-CURRENT ASSETS				
	Intangible assets	1110	69	14	32
	Research and development results	1120	-	-	-
	Property, plant and equipment	1150	1 186	911	1 188
	including construction in progress	1155	1 150	871	1 143
	Income-bearing investments in tangible assets	1160	-	3	4
	Financial investments	1170	347 899	346 279	306 466
	Deferred tax assets	1180	3 821	1 585	2 152
	Other non-current assets	1190	4 016	12 872	3 849
	TOTAL for Section I	1100	356 991	361 664	313 691
	II. CURRENT ASSETS				
	Inventory	1210	7	6	3
	VAT on purchased assets	1220	371	410	336
	Accounts receivable, payments on which are expected within 12 months after the reporting date	1230	30 956	24 911	16 269
	including trade accounts receivable	1231	2 137	3 868	4 417
	Financial investments (other than cash equivalents)	1240	10 838	8 441	3 977
	Cash and cash equivalents	1250	68 914	41 656	20 395
	Other current assets	1260	9	835	1
	TOTAL for Section II	1200	111 095	76 259	40 981
	BALANCE SHEET	1600	468 086	437 923	354 672

	Description	Code	At 31 December 2017	At 31 December 2016	At 31 December 2015
	CAPITAL AND LIABILITIES				
	III. CAPITAL AND RESERVES				
	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	5 378	504	318
	Retained earnings (loss)	1370	(63 811)	(59 278)	(154 707)
	TOTAL for Section III	1300	430 323	429 982	334 367
	IV. LONG-TERM LIABILITIES				
	Loans and borrowings	1410	-	-	950
	Deferred tax liabilities	1420	34	411	41
	Provisions	1430	-	-	10 096
	Other liabilities	1450	-	-	99
	TOTAL for Section IV	1400	34	411	11 186
	V. SHORT-TERM LIABILITIES				
	Loans and borrowings	1510	28 853	-	1
	Accounts payable, payments on which are expected within 12 months after the reporting date	1520	6 492	5 454	7 602
	including:				
	trade accounts payable	1521	3 243	2 625	4 511
	accrued payroll	1522	66	69	1
	social insurance and social security payable	1523	36	30	-
	taxes and levies payable	1524	15	15	1
	advances received	1525	2 151	2 295	2 684
	other accounts payable	1527	981	420	405
	Provisions	1540	2 384	2 076	1 516
	Other liabilities	1550	-	-	-
	TOTAL for Section V	1500	37 729	7 530	9 119
	BALANCE SHEET	1700	468 086	437 923	354 672



Chief Executive Officer

B.Yu. Kovalchuk

February

201 8 year

Translation of the original in Russian language

Attachment No.1 to Order No.66n of the
RF Ministry of Finance dated July 2, 2010

STATEMENT OF INCOME

for the period from January 01 through December 31, 2017

Entity Public Joint Stock Company «Inter RAO UES»
Taxpayer's identification number _____
Type of activity sales of electricity
Legal/ownership form _____

Public Joint Stock Company/Other mixed Russian ownership

Measurement unit: RUB mln

OKUD Form
Date (DDMMYY)
OKPO code
TIN
OKVED code

OKOPF/OKFS code
OKEI code

Codes		
0710002		
31	12	201
33741102		
2320109650		
35.14		
12247	49	
385		

	Description	Code	January - December 2017	January - December 2016
	Revenue from the sale of goods, products, works and services, net (less VAT, excise duties and similar obligatory payments), including:	2110	40 975	43 180
	export of energy	2111	27 323	30 681
	domestic sales of energy (capacity)	2112	13 227	9 689
	sales of power generation equipment	2113	223	2 683
	other	2114	202	127
	Cost of sales of goods, products, works and services	2120	(32 884)	(31 669)
	purchase of energy (power) from domestic market	2121	(26 571)	(26 130)
	import of energy	2123	(6 043)	(3 247)
	sales of power generation equipment	2124	(269)	(2 291)
	other	2125	(1)	(1)
	Gross profit	2100	8 091	11 511
	Selling expenses	2210	(2 991)	(3 163)
	Administrative expenses	2220	(5 783)	(5 720)
	Profit (loss) from operations	2200	(683)	2 628

Income from equity participation	2310	13 795	1 037
Interest receivable	2320	3 529	5 695
Interest payable	2330	(414)	(188)
Other income	2340	2 387	131 826
Other expenses	2350	(5 242)	(42 409)
Profit (loss) before tax	2300	13 372	98 589
Current profit tax	2410	(596)	(158)
including permanent tax liabilities (assets)	2421	222	(7 672)
Deferred tax liabilities change	2430	376	(370)
Deferred tax assets change	2450	83	(567)
Other	2460	2 434	(19)
Profit (loss) after tax	2400	15 669	97 475
FOR REFERENCE			
Cumulative financial result for the period	2500	15 669	97 475
Basic earnings (loss) per share (rub.)	2900	0,1501	0,9337
Diluted earnings (loss) per share (rub.)	2910	0,1501	0,9337

Chief Executive Officer



B.Yu. Kovalchuk

February

201 8 year

Translation of the original in Russian language

Public Joint Stock Company "Inter RAO UES"

Summary financial statements
for 2017

Appendix 1

These summary financial statements of Public Joint Stock Company "Inter RAO UES" include the balance sheet as of 31 December 2017 and the statement of income for the period from 1 January through 31 December 2017. These summary financial statements derived from the audited financial statements for 2017 that was signed by the management of Public Joint Stock Company "Inter RAO UES" on 8 February 2018. 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 2017 can be found at <http://www.interrao.ru>.

5.3. Appendix 3. Report of the Revision Commission

To the Meeting of Shareholders
PJSC Inter RAO

**REPORT OF THE REVISION COMMISSION
PUBLIC JOINT STOCK COMPANY
INTER RAO UES**

March 13, 2018

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 25, 2014 (Minutes No. 14 of May 25, 2014) and pursuant to the Resolution of the Revision Commission of PJSC Inter RAO of July 25, 2016 (Minutes No. 2 of July 25, 2016), the Revision Commission of the Company in the period from February 19, 2018 to March 12, 2018 consisting of:

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:

Tatyana Zaltsman – Manager of Department of Economic Planning of PJSC Inter RAO Financial and Economic Center;

Svetlana Kovaleva – Internal Audit Director, Head of the PJSC FGC UES Internal Audit Department;

Igor Feoktistov – Director for Internal Control of PJSC FGC UES;

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 2017.

During the audit of financial and economic activities of PJSC Inter RAO, the Revision Commission carried out the following tasks:

- monitor 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 financial state of the Company.

The Report of the Revision Commission is prepared after check of the following materials:

1. Accounting (Financial) statements of PJSC Inter RAO for 2017 with all appendixes and an explanatory;
2. PJSC Inter RAO 2016 Annual Report for 2017;
3. Audit conclusion of an independent auditor (Ernst & Young LLC) towards accounting statements of PJSC Inter RAO for 2017;
4. Report on the implementation of the PJSC Inter RAO Business Plan for 2017;
5. Report on the Annual Comprehensive Procurement Program for 2017;
6. The Minutes of meetings of the Board of Directors, materials of the Management Board;
7. Auditor report on assessment of internal control framework for 2017;
8. Auditor report on assessment of Enterprise Risk Management Framework of Inter RAO Group
9. Report on the implementation of the PJSC Inter RAO Investment Program for 2017;
10. Auditor report on assessment of corporate governance system of PJSC Inter RAO for 2017;
11. Report on concluded transactions where there is a related party in their conclusion;
12. The Minutes of meetings of the Board of Directors, materials of the Management Board;
13. 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 2017 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 2017 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 non-compliance with the essential requirements of 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, 2017 and the financial results of the Company's operations for 2017.
3. The internal control and audit system, Enterprise Risk Management Framework and also 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 2017, as well as for reliability

confirmation of the data contained in the annual report of PJSC Inter RAO for 2017 and in the report on related party transactions concluded by PJSC Inter RAO in 2017.

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

5.4. Appendix 4. Report on Compliance with the Principles and Recommendations of the Corporate Governance Code

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, 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 73 principles (92%), partially observes 4 principles and does not observe only 2 principles, out of total 79 principles stipulated below.¹⁹⁴

Therefore, it can be said that the Company complies with more than 97% corporate governance principles to a certain extent, and as compared to 2016, has improved the indicator of complete compliance with the recommendations of the Corporate Governance Code by 5% (from 87% to 92%).

Level 2 principles that are not complied with

1.3.2. The Company takes no action that will or may lead to artificial redistribution of corporate control **as concerns the recommendation on the absence of quasi-treasury shares or their non-participation in voting.**

7.2.2. The rules and procedures related to significant Company corporate acts are stated in internal Company documents **as concerns the recommendations on the engagement of valuers for approval of interested party deals, deals of acquisition and repurchase of shares, and existence of an extended list of grounds, on which members of the Board of Directors of the Company and other persons stipulated by the law are recognized as interested parties in the Company's deals.**

Level 2 principles that are complied with in part

2.1.1. The Board of Directors is responsible for decisions related to appointment and dismissal of executive bodies, in particular, for the reason of improper fulfilment 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.**

2.5.1. 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 **as concerns the recommendation that the Chairman of the Board of Directors shall be an independent Director or there shall be a senior independent Director among the elected independent Directors.**

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).**

¹⁹⁴ Hereinafter, "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.

4.3.2. The Company has implemented a program for long-term motivation of members of executive bodies and other key officials of the Company using the company shares (options or other financial derivatives with shares of the Company as the underlying asset) **as concerns the recommendation that the right of sale of shares or other financial instruments shall arise not earlier than three years after they are granted, and the right to sell them shall be conditional upon achievement of certain parameters of the Company's business.**

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 on 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 authorities and responsibilities of each management body of the Company, and a system for evaluation of their functions and duties.

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.

Item	Item	Principles of Corporate Governance	Criteria for evaluation of compliance with corporate governance principles	Status of compliance with the corporate governance principle in 2017	Explanation of the deviation from Criteria for evaluation of compliance with the corporate governance principle	Change in compliance with the principle as compared to 2016
	1.1	The Company shall provide an equal and fair attitude to all shareholders to exercise their right to participate in management of the Company.				
1.	1.1.1	The Company provides the best possible conditions for shareholders to participate in the General Meeting, conditions for 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.	<p>1. An internal Company document adopted by the General Meeting of Shareholders and governing the procedures of the General Meeting is publicly available.</p> <p>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</p>	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed.

			preparation for the General Meeting. That was done by the Company prior to each General Meeting in the reported period.			
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.	<p>1. Notice of the General Meeting of Shareholders is published on the Internet at least 30 days before the General Meeting date.</p> <p>2. The meeting notification states its place and the required identification for entrance to the room.</p> <p>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.</p>	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed.
3.	1.1.3	In the course of preparation and	1. In the reported period, the shareholders were able to ask	<input checked="" type="checkbox"/> observed		Continues to be observed

		<p>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.</p>	<p>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.</p> <p>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 were included in the materials for the General Meeting of Shareholders.</p> <p>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.</p>	<input type="checkbox"/> observed partially <input type="checkbox"/> not observed		
4.	1.1.4	<p>Exercise of the shareholder's right to demand that a General Meeting be convened, to nominate candidates to management bodies, and to make proposals for inclusion on the General Meeting agenda was not related</p>	<p>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.</p>	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed

		to unjustified difficulties.	2. In the reported period, the Company did not refuse to accept proposals for the agenda or candidates to bodies of the Company for the reason of misprints or other immaterial flaws in the shareholder's proposal.			
5.	1.1.5	Every shareholder was able to exercise their voting right using the easiest and most convenient method.	1. 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
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 presentia General Meetings of Shareholders within the reported period, there was time for reports and discussion on the agenda items.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed.

			<p>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.</p> <p>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.</p>			
	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.	<p>1. The Company has a dividend policy that has been developed, approved and disclosed by the Board of Directors.</p> <p>2. If the dividend policy uses numbers from the Company's statements to determine the dividend amount, then the relevant regulations of the</p>	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed.

			dividend policy are based on the consolidated numbers of the financial statements.			
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.	1. The Company 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.
10.	1.2.4	The Company aims to exclude any other methods for the shareholders to receive income (profit)	1. In order to exclude any other methods for the shareholders to receive income (profit) from the Company's account except dividends and liquidation value,	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed.

		from the Company's account except 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.			
	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.	1. 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.

12.	1.3.2	The Company takes no action that will or may lead to artificial redistribution of corporate control.	1. Quasi-treasury shares do not exist or did not participate in 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>Carve-out of this material holding of shares is technically complex and may have a significant impact on the quotation of the Company shares.</p> <p>Treasury shares are used for nomination of independent candidates to the Board of Directors, voting for such candidates, and voting on other meeting agenda items in the absence of conflict of interest. Voting of JSC Inter RAO Capital enables election of independent members to the Board of Directors without determining the results of voting on other agenda</p>	No changes.
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					<p>items.</p> <p>As an alternative mechanism for limiting management by quasi-treasury votes, the Board of Directors in 2017, when preparing for the Annual General Meeting, considers the issue of the recommendations on quasi-treasury share voting simultaneously with the recommendations to all shareholders of the Company on the voting on each agenda item when they are raised on the General Meeting of Shareholders. Consequently, following these recommendations, a subordinate person will act according to the Board of Directors decisions, not the decisions of the Company management, which eliminates the conflict of interest and risks connected with it.</p> <p>Besides, non-participation of a considerable quasi-treasury interests in voting will consequently increase the minority interests which is not participating in vote, specifically as a result of</p>	
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					<p>international sanctions towards the Russian Federation. Thus, from 2014 to 2017 the quorum of the meeting decreased from 93.39% to 84.25%, which means that 15.75% of shareholders – owners of voting shares did not participate in the meeting, at the same time work with most of minority shareholders is impracticable after entry into force of the Federal Law of No. 210-FZ as of June 29, 2015, which established a new legal regulation of corporate actions, including terms of disclosure of clients of nominee holders. In this regard, maintenance of election of independent directors in the structure of Board of Directors may be threatened.</p> <p>The Company acts in accordance with Russian legislation without violating the rights of shareholders and waits for the outcomes of the consideration of the draft law, which is to determine new principles of legal regulation of quasi-treasury shares.</p> <p>Taking into account the above circumstances, the Company does not intend to follow this</p>	
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					recommendation in the near future without changes in the legal regulation regarding the nomination and voting for independent directors.	
	1.4	The shareholders have reliable and efficient methods for 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	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 appointment and dismissal of executive bodies, in particular, for the reason of improper fulfilment of their duties. The Board of Directors also controls	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.	<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</p>	It is observed at the same level.

		<p>the actions of Company executive bodies in accordance with the adopted development strategy and main directions of Company operations.</p>	<p>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.</p>		<p>matter of election and early dismissal of the Chairman of the Management Board is a competency of the General Meeting of Shareholders.</p> <p>Amendments to the Charter on changes in the competence of the Meeting of Shareholders in this part may result in the shareholders having the right to demand the repurchase of their shares in accordance with Art. 75 of the Federal Law on Joint-Stock Companies (this approach is supported by judicial practice), which will entail additional expenses for the Company.</p> <p>Nevertheless, article 13.1.18 provides for the right of the Board of Directors to suspend the powers of the Chairman of the Management Board and appoint the Acting Chairman of the Management Board. In addition, in practice, the Board of Directors advises the Meeting of Shareholders on each item of the agenda, expressing its opinion on a</p>	
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					<p>decision.</p> <p>Amendments to the Articles stipulating the authority of the Board of Directors on appointment of the Chairman of the Management Board shall be proposed for resolution to the General Meeting either after amendment of the Federal Law On Joint-Stock Companies”, which do not allow the shareholders to demand repurchase of shares in the event of relevant change in the General Meeting’s competency or if the General Meeting does other business that entails the right to demand repurchase of shares.</p> <p>As of January 12, 2018, the State Duma of Federal Assembly of Russia in the second reading adopted the Bill No. 204628-7 On Making Amendments to the Federal Law on Joint-Stock Companies, according to which the shareholder right to demand redemption of stocks in cases of transfer of the questions referred to competence of shareholder meeting in competence of Board of Directors is excluded. At the</p>	
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					time of preparation of this Annual report, the bill is not passes yet.	
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. In 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 fulfilment of Company strategy and business plans were reviewed at 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 in	1. A policy (policies) for remuneration and compensation of costs for	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially		Continues to be observed.

		remuneration or/and compensation of costs for members of the Board of Directors, executive bodies and other Company key officials.	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. In the reported period, matters related to such policy (policies) were reviewed at the Board of Directors meetings.	<input type="checkbox"/> not 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.
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 at 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.
	2.2	The Board of Directors is reporting to the shareholders of the Company.				
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 in 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.
	2.3	The Board of Directors is an efficient and professional management body of the Company that is able to make objective independent				

		judgments and make resolutions in the best interest of the Company and its shareholders.				
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.	<p>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.</p> <p>2. In 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.</p>	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed.
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.	<p>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</p>	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed.

			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.			
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 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.

	2.4	The Board of Directors includes a sufficient number of independent Directors.				
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 state may not be regarded as	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.

		independent under ordinary conditions.				
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.	<p>1. In 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.</p> <p>2. In 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.</p> <p>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.</p>	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed.
29.	2.4.3	Independent Directors account for less than one	1. Independent Directors account for at least one third of	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially		Continues to be observed.

		third of the elected members of the Board of Directors.	the elected members of the Board of Directors.	<input type="checkbox"/> not observed		
30.	2.4.4	Independent Directors play a key role in the prevention of internal conflicts at the Company and performance of significant corporate actions by the Company.	1. Independent Directors (having no conflict of interest) make a preliminary evaluation of significant corporate actions that may involve 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 type="checkbox"/> observed <input checked="" type="checkbox"/> observed partially <input type="checkbox"/> not observed	There is no compliance with the recommendation of clause 1 that the chairman of the Board of Directors is an independent director or that a senior independent director has been determined. The internal documents of the Company (Charter, Regulations on the Board of Directors) stipulate the possibility of electing a senior independent director. This new institution for the Russian legal system was the subject of an analysis of the consultant in conducting an external evaluation of the work of the Board of	No changes.

					<p>Directors in 2016.</p> <p>By consideration of outcomes of the specified assessment at an internal meeting of the Board of Directors as of June 27, 2016 (Minutes No. 172 as of June 28, 2016), the decision was made that the existing structure and system of work of the Board of Directors is effective without creation of institute of the senior independent director.</p> <p>This decision was made unanimously, including the independent Directors.</p> <p>Among the alternative mechanisms used by the Company, one can name the consideration of a number of material issues in the competency of the senior independent Director by the Nomination and Remuneration Committee and its Chairman, as well as business meetings of independent directors organized by the corporate secretary.</p> <p>In 2018 review of the decision made at June 27, 2016 is not planned, however the Board of Directors may</p>	
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					return to this question following the results of the next external job evaluation of the Board of Directors which is planned in 2019.	
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 fulfilment 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 in 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.
	2.6	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.				

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.	<p>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.</p> <p>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.</p> <p>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.</p>	<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	<p>1. The internal Company document clearly stating the rights and duties of the Board of Directors members is adopted and published.</p>	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed.

		documents.				
36.	2.6.3	Members of the Board of Directors have enough time to fulfill their duties.	<p>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.</p> <p>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 management bodies of other organizations (save for the ones controlled or affiliated with the Company) and of the fact of such appointment.</p>	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed.
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	<p>1. Pursuant to internal Company documents, members of the Board of Directors are entitled to access documents and make enquiries concerning the Company and the organizations that it controls, and the executive bodies of the Company must deliver such</p>	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed.

		Company and the operation of the Board of Directors as soon as possible.	data and documents. 2. The Company has a formal program of introductory events for newly elected members of the Board of Directors.			
	2.7	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.				
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 reported 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	It is stipulated by the Articles of Association or an internal	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially		Continues to be observed.

		Directors is determined in view of the importance of the agenda items. The most important business is done at meetings in presentia.	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 presentia.	<input type="checkbox"/> not observed		
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. 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	The Board of Directors establishes Committees for preliminary review of the most important matters of the Company's business.				

42.	2.8.1	For 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.	<p>1. The Board of Directors has established an Audit Committee consisting solely of independent Directors.</p> <p>2. Internal Company documents define the objectives of the Audit Committee including objectives as per the recommendation 172 of the Code.</p> <p>3. At least one member of the Audit Committee, which is an independent Director, has experience and knowledge in preparation, analysis, evaluation and audit of financial (accounting) statements.</p> <p>4. In the reported period, meetings of the Audit Committee were held at least once a quarter.</p>	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed.
43.	2.8.2	For preliminary review of matters related to	1. The Board of Directors has established a Remuneration	<input checked="" type="checkbox"/> observed		Continues to be observed.

		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.	<p>Committee consisting solely of independent Directors.</p> <p>2. The Chairman of the Remuneration Committee is an independent Director who is not the Chairman of the Board of Directors.</p> <p>3. Internal Company documents define the objectives of the Remuneration Committee including objectives as per the recommendation 180 of the Code.</p>	<input type="checkbox"/> observed partially <input type="checkbox"/> not observed		
44.	2.8.3	For 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.	<p>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.</p> <p>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.</p>	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed	The objectives of the Nominations Committee are resolved in the framework of the Nominations and Remuneration Committee.	Continues to be observed.

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 unnecessary.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		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, nomination committee and remuneration	<input type="checkbox"/> observed <input checked="" type="checkbox"/> observed partially <input type="checkbox"/> not observed	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	No changes.

			<p>committee may attend to committee meetings only by invitation of the Chairman of the respective committee.</p>		<p>committee was not mandatory, and the requirements for its composition were and are absent in legislation.</p> <p>The Strategy and Investment Committee is historically headed by Elena Bezdenezhnykh, who is not a member of the Board of Directors, is not connected to the Company, its material shareholders, counterparties, competitors or the government. Based on the Company's experience, selection of Committee members from professionals proposed by members of the Board of Directors particularly makes it possible for independent directors to devote more time to the work of the Nomination and Remuneration Committee and the Audit Committee which should consist of independent directors. Based on the assessment and self-assessment results of the Board of Directors and the Committees, the Company considers such practice possible and efficient.</p>	
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					<p>The question of the chairman of the Strategy and Investment Committee was considered in the process of self-assessment of the Board of Directors in 2017. In particular, the managerial effectiveness of the Chairman of the Committee got 4,7 points on a 5-point assessment scale. Once again, the question concerning the Chairman of the Committee will be considered by the new Board of Directors after AGSM, which will take place in 2018.</p>	
47.	2.8.6	<p>The chairpersons of the committees regularly inform the Board of Directors and its Chairman of the work of their committees.</p>	<p>1. During the reporting period the chairpersons of the committees regularly reported on the work of the committees to the Board of Directors.</p>	<p><input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed</p>		<p>Continues to be observed.</p>
	2.9	<p>The Board of Directors ensures the assessment of the performance of the Board of Directors, its committees and members of the Board of Directors.</p>				

48.	2.9.1	Assessment of the performance of the Board of Directors aims at the determination of 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.	<p>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.</p> <p>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.</p>	<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	<p>1. At least once during the last three reporting periods, the Company engaged an external entity (advisor) to carry out an independent assessment of performance of the Board of Directors.</p>	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed.

		entity (advisor) to carry out an independent assessment of performance of the Board of Directors.				
	3.1	The Corporate Secretary of the Company shall efficiently interact with shareholders, coordinate the Company's activities as regards protection of shareholders' rights and interests, support efficient operation of the Board of Directors.				
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.	<p>1. The Company adopted and disclosed an internal document – Regulation on Corporate Secretary.</p> <p>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.</p>	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		<p>Observed in part Improvements as compared to the previous year.</p> <p>The Regulation on the Unit Performing the Functions of a corporate Secretary of PJSC Inter RAO was adopted. The corporate secretary is appointed, information on him is published on the website of Company and is opened in the Annual report of the Company for 2016.</p>
51.	3.1.2	The Corporate Secretary has enough independence from Company executive bodies and has the	1. The Board of Directors approves appointment, dismissal and additional remuneration of the Corporate Secretary.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Change in compliance with the principle as compared to 2016: Additional remuneration of the Corporate

		necessary power and resources for his/her objectives.				Secretary (Key Performance Indicator System) is approved by the Board of Directors as of April 28, 2017 (Minutes No. 197 of May 02, 2017). The decision on payment of additional remuneration following the results of 2016 was made by the Board of Directors at the same meeting.
	4.1	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 in the Company.				
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	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 remuneration of the aforesaid individuals.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed.

		above the necessary level and unjustified large gap between the remuneration levels of the said individuals and the Company's employees.				
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 in 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	The Company's remuneration policy (policies) includes (include) transparent mechanisms for determination	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially		Continues to be observed.

		determination of the remuneration for 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.	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 type="checkbox"/> not 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.	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.
	4.2	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.				
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.	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	1. If the internal document (documents), i.e. the Company's remuneration policy (policies) provide 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	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed.

		Company does not make the right of share disposition dependent on achievement of any specific performance indicators and the members of the Board of Directors do not participate in option programs.	and disclosed which would be aimed at stimulation of long-term holding of such shares.			
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.	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.
	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	1. During the reporting period, annual performance indicators approved by the	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially		Continues to be observed.

		<p>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.</p>	<p>Board of Directors were used to determine the amount of the variable part of remuneration of members of executive bodies and other key management personnel of the Company.</p> <p>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.</p> <p>3. The Company has a procedure ensuring repayment to the Company of premium payments unjustly received by members of executive bodies and other key</p>	<p>□ not observed</p>		
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			management personnel of the Company.			
60.	4.3.2	The Company has implemented a key long-term incentives 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 incentives 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 incentives 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 checked="" type="checkbox"/> observed partially <input type="checkbox"/> not observed	<p>Clause 2 of the recommendations is partially not observed.</p> <p>The long-term incentives plan was approved by the Board of Directors on January 1, 2016 but it does not provide for any limitations in accordance with cl. 2 of these Recommendations.</p> <p>When developing the option program, the recommendations of the Code were not taken into account for the following reasons.</p> <p>The option plan is intended for 4 years; the right of share disposal within the framework of the plan arises 2 years after the start of the plan and continues for 2 subsequent years, taking into account the Company's defined growth points for capitalization and other indicators of the Company as defined by the Company's Strategy.</p> <p>The right of disposal does not depend on achievement of any performance indicators of the Company for the purposes of avoidance of repetition of other</p>	No changes.

					<p>incentive tools for the management, namely, the variable part of the annual remuneration of the management which directly depends on the achievement of the key performance indicators approved by the Board of Directors and of goals and objectives of the Company 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 approval of this Report, the option program is under implementation. The deadline for the exercise of the right to purchase shares is 2020.</p> <p>In the event of development of the next long-term motivation program, when it is drafted, the recommendations of the Corporate Governance Code will be considered in more detail.</p>	
61.	4.3.3	The compensation amount ("golden parachute") paid by the	The compensation amount (golden parachute) paid by the Company in the event of early	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially		Continues to be observed.

		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 shall not exceed twofold fixed part of their annual remuneration.	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 type="checkbox"/> not observed		
	5.1	The Company established an efficient risk management and Internal Control Framework aimed at providing reasonable assurance of achievement of objectives set to the Company.				
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 creation and sustaining performance of an effective risk	1. The executive bodies of the Company ensured allocation and departments subordinate to them.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed.

		management and Internal Control Framework in the company.				
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.
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	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	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed.

		organization and is applied effectively.	annual report.			
	5.2	The Company shall arrange for internal audit for systematic independent evaluation of reliability and efficiency of the risk management and Internal Control Framework and the practice of corporate management.				
66.	5.2.1	To conduct 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 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	1. During the reporting period, an assessment of the efficiency of the internal control and risk management system was performed as part of	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed.

		and the corporate management system. The Company uses common standards of activity in the field of internal audit.	internal audit. 2. The Company uses common approaches to internal control and risk management.			
	6.1	The Company and its operations are transparent for 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.
69.	6.1.2	The Company discloses information about the system and practices of corporate	1. The Company discloses information about the system of corporate management in the Company and the general	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed.

		management, including detailed information on observance of the principles and recommendations of the Code.	<p>principles of corporate management used in the Company, including at the Company's website in the Internet network.</p> <p>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).</p> <p>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 government in the Company</p>			
	6.2	The Company shall disclose in a timely manner complete, up-to-date and fair information on the Company to enable making grounded decision by shareholders of the Company and by investors.				
70.	6.2.1	The Company shall	1. The information policy of	■ observed		Continues to

		disclose information in accordance with the principles of regularity, consistency and promptness as well as accessibility, fairness, completeness and comparability of disclosed information.	<p>the Company determines approaches to and criteria of 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.</p> <p>2. If the Company's securities are traded at foreign exchanges, disclosure of material information in the Russian Federation and in such markets shall be performed synchronously and equally during the reporting year.</p> <p>3. If foreign shareholders own significant amount of the Company shares, disclosure of information during the reporting year was performed both in Russian and in a wide-spread foreign language.</p>	<input type="checkbox"/> observed partially <input type="checkbox"/> not observed		be observed.
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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.	<p>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.</p> <p>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.</p>	<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	<p>1. The annual report contains information on the key aspects of the Company's operation and its financial performance.</p> <p>2. The Company's annual report contains information on the environmental and social aspects of the Company's activities.</p>	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed.

		performance results during the year.				
	6.3	The Company provides information and documents upon shareholders' requests in accordance with the principles of equal and unhindered access.				
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	1. During the reporting period, the Company did not reject any shareholders' requests of information or such requests were reasonable. 2. In cases determined by the informational policy of the Company, shareholders are warned about confidential nature of information and	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed.

		impact materially its competitiveness confidential.	assume the obligation of keeping it confidential.			
	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 rights and interests of shareholders and other stakeholders.				
75.	7.1.1	Material corporate actions are reorganization of the Company, acquisition of 30 or more per cent 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 material change of shareholders' rights or violation of their interests. The Articles of Association 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:	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Continues to be observed.

		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.	reorganization of the Company, 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.			
76.	7.1.2	The Board of Directors plays a key role in decision-making 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		Change in compliance with the principle as compared to 2016: Regulation on the Procedure for Considering Significant Corporate Actions approved by the Board of Directors of August 30, 2017 (Minutes No. 207 of September 1, 2017).
77.	7.1.3	In material corporate actions that affect the rights and legitimate interests of shareholders, there are equal conditions provided for all the	1. The Articles of Association of the Company establishes lower minimal criteria of classifying transactions as material corporate actions than those provided by the law, taken into account the specific nature of	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed partially <input type="checkbox"/> not observed		Change in compliance with the principle as compared to 2016: In 2017, all significant corporate actions (mainly significant transactions of

		<p>shareholders of the Company and, if the legal remedies for 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.</p>	<p>its operations.</p> <p>2. During the reporting period, all material corporate actions underwent the approval procedure before their performance.</p>			<p>controlled entities) were approved before they were committed.</p>
	7.2	<p>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.</p>				
78.	7.2.1	<p>Information about material corporate actions is disclosed providing explanations concerning reasons for, conditions and</p>	<p>1. During the reporting period, the Company disclosed in a timely and detailed manner the information on significant corporate actions of the company,</p>	<p><input checked="" type="checkbox"/> observed</p> <p><input type="checkbox"/> observed partially</p> <p><input type="checkbox"/> not observed</p>		<p>Continues to be observed.</p>

		consequences of such actions.	including the grounds and timing of such actions.			
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 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 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 type="checkbox"/> observed partially <input checked="" type="checkbox"/> not observed	<p>The recommendations of clause 1 are not observed in terms of the presence in internal documents of the regulation on mandatory involvement of an independent assessor to determine the value of the acquired property.</p> <p>The recommendation of clause 2 is partially not observed in terms of the presence in internal documents of a procedure for attracting an independent assessor to determine the value of acquiring and purchasing the Company's shares.</p> <p>Historically, the Company engages an appraiser on a mandatory basis to determine the value of repurchase of shares as provided for under the Federal Law on Joint-Stock Companies. No resolutions on approval of major transactions or purchase of stock were made by the Company during the recent years. The implementation of the obligation of mandatory engagement of an appraiser in all cases of</p>	No changes.

					<p>determination of the value of related parties' transactions seems economically infeasible and increasing the cost of corporate government for shareholders.</p> <p>As alternative measures that reduce the risks of non-compliance with recommendations of the Corporate Governance Code, the Company applies the following measures:</p> <p>1) Taking into account the purchasing policy of the Company approved by the Board of Directors, all agreements undergo established purchasing procedures before their conclusion and the Board of Directors receives complete information on the value of the transaction and the procedure for its determination (tender results, competitor charts, cost sheets, market prices analysis). With such an alternative, the Board of Directors does not request the report of an independent appraiser due to sufficiency of the motivation provided.</p> <p>2) In addition, the Company has approved and is working with the</p>	
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					<p>Methodology of work with independent appraisers and appraisal organizations, which establishes a list of cases when the involvement of an independent appraiser is mandatory: including cases when the issue of approval of a transaction related to the alienation of property is submitted to the management bodies for consideration. An independent appraiser is also involved in all cases of acquisition or alienation of immovable property and intellectual property.</p> <p>3) In determination of stock purchase value in cases where engagement of an appraiser is not required by law, the Company intends to use the information of the Moscow exchange and engage an independent appraiser where necessary.</p> <p>4) Upon acquisition / alienation of shares / interests in other organizations, an independent appraiser is engaged in practice.</p> <p>5) All transactions made by the Company are also considered taking into account the rules of transfer pricing established by the legislation and internal documents of the Company.</p> <p>The recommendation of clause 3 is</p>	
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					<p>partially not observed, according to which internal documents establish other cases of interest.</p> <p>In particular, the Charter stipulates that executive directors do not vote on issues related to their employment contracts and determination of their remuneration.</p> <p>As for any other reasons of interest, in practice members of the Board of Directors do not vote in the event of any conflict of interests which does not constitute an interest in the meaning of Chapter XI of the Federal Law on Joint-Stock Companies.</p> <p>Full compliance with the Company in the near future, these principles are not planned, but in 2018-2019 the Company plans to consider the issue of approaches to determining prices in the transactions specified in this paragraph.</p>	
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Information of the compliance with the Corporate Governance Code is also disclosed at the website of the

Company: http://www.interrao.ru/investors/disclosure/corporate_behavior/

5.5. Appendix 5. GRI Content Index

GRI SRS indicator	Name	Disclosure in the report	Section (or direct disclosure of information in the table)
GENERAL INDICATORS			
101 (Core)	General information about the Report	Yes	About the Report
	General information about the organization		
102-1 (Core)	Name of the organization	Yes	Contact Details
102-2 (Core)	Activities, brands, products and services	Yes	Brief Information about the Company
102-3 (Core)	Location of headquarters	Yes	Contact Details
102-4 (Core)	Number of countries where the organization operates, and the names of countries where it has significant operations and/or that are relevant to the topics covered in the report	Yes	Geographical Footprint
102-5 (Core)	Ownership and legal form	Yes	Brief Information about the Company, Contact Details
102-6 (Core)	Markets served, including: geographic locations where products and services are offered; sectors served; types of customers and beneficiaries	Yes	Competitive Review, Market Review
102-7 (Core)	Scale of the organization	Yes	At a Glance, Brief Information about the Company
102-8 (Core)	Information on employees and other workers	Yes	Company Staff
102-9 (Core)	General information about the Report	Yes	Supply Chain
102-10	Significant changes to the organization's size, structure, ownership, or supply	Yes	About the Report

(Core)	chain, including changes in the location of, or changes in, operations, including facility openings, closings, and expansions; changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organizations); changes in the location of suppliers, the structure of the supply chain, or relationships with suppliers, including selection and termination.		
102-11 (Core)	Precautionary Principle of approach (Principle 15 of the Rio Declaration on Environment and Development, 1992)	Yes	<p>Inter RAO Group adheres to the principles of rational nature management and minimizes the negative impact on the environment, in this regard, special attention is paid to conducting the necessary studies on environmental impact assessment, the results of which are used to develop measures to minimize negative impacts and reduce environmental risks.</p> <p>The Group organizes ongoing work to identify, assess and manage the risks associated with the implementation of production activities by the controlled entities, including in terms of labor protection, industrial safety, and environmental protection.</p> <p>When planning production activities, the Company ensures compliance with the requirements of the Russian legislation in the field of environmental protection, including:</p> <ul style="list-style-type: none"> • the values of emissions and discharges set in the permits; • standards for waste generation and disposal limits; • water use conditions and the terms of a license for hazardous waste management
102-12 (Core)	A list of externally-developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes, or which it endorses	Yes	In the reported period, the Group did not subscribe to any economic, environmental or social charters, principles, or other initiatives.

102-13 (Core)	Membership of associations	Yes	Appendix 16. Associations and Partnerships in Which PJSC Inter RAO Takes Part; Voluntary Initiatives and Public Projects Supported by the Company
102-14 (Core)	A statement from the most senior decision-maker of the organization	Yes	Address of the Chairman of the Board of Directors of PJSC Inter RAO and Address of the Chairman of the Management Board of PJSC Inter RAO
102-15 (Comprehensive)	<i>Key impacts, risks, and opportunities</i>	<i>Partially</i>	<i>Risk Management and Internal Control</i> Appendix 6. Group's Significant risks: Description and Measures for Risk Management
102-16 (Core)	A description of the organization's values, principles, standards, and norms of behavior	Yes	Corporate Culture and Social Support for the Company's Employees
102-17 (Comprehensive)	<i>Mechanisms for advice and concerns about ethics</i>	Yes	<i>Compliance, Combating Fraud and Corruption</i>
102-18 (Core)	Governance structure (Committees responsible for decision-making on economic, environmental, and social topics)	Yes	General Information about the Company's Corporate Governance
102-19 (Comprehensive)	<i>Process for delegating authority for economic, environmental, and social topics from the highest governance body to senior executives and other employees</i>	No	
102-20 (Comprehensive)	Whether the organization has appointed an executive-level position or positions with responsibility for economic, environmental, and social topics; whether post holders report directly to the highest governance body	No	
102-21 (Comprehensive)	<i>Processes for consultation between stakeholders and the highest governance body on economic, environmental, and social topics. If consultation is delegated, describe to whom it is delegated and how the resulting feedback is provided to the highest governance body</i>	No	
102-22 (Comprehensive)	<i>Composition of the highest governance body and its committees</i>	Yes	<i>Composition of the Board of Directors</i>

<i>ensive)</i>			
102-23 (Compreh ensive)	<i>Whether the chair of the highest governance body is also an executive officer in the organization</i>	Yes	<i>The Chairman of the Board of Directors is not a member of the Company's management</i>
102-24 (Compreh ensive)	<i>Nomination and selection processes for the highest governance body and its committees; criteria used for nominating and selecting highest governance body members, including whether and how: stakeholders (including shareholders) are involved; diversity is considered; independence is considered; expertise and experience relating to economic, environmental, and social topics are considered</i>	Yes	<i>Composition of the Board of Directors</i>
102-25 (Compreh ensive)	<i>Processes for the highest governance body to ensure conflicts of interest are avoided and managed</i>	Yes	<i>Regulating Conflict of Interest</i>
102-26 (Compreh ensive)	<i>Highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental, and social topics</i>	No	
102-27 (Compreh ensive)	<i>Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental, and social topics</i>	No	
102-28 (Compreh ensive)	<i>Processes for evaluating the highest governance body's performance with respect to governance of economic, environmental, and social topics (additionally mark whether such evaluation is a self-assessment)</i>	Yes	<i>Evaluation of the Board of Directors' Performance</i>
102-29 (Compreh ensive)	<i>Highest governance body's role in identifying and managing economic, environmental, and social topics and their impacts, risks, and opportunities – including its role in the implementation of due diligence processes</i>	No	
102-30 (Compreh ensive)	<i>Highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental, and social topics</i>	No	
102-31 (Compreh ensive)	<i>Frequency of the highest governance body's review of economic, environmental, and social topics and their impacts, risks, and opportunities</i>	No	
102-32 (Compreh	<i>The highest committee or position that formally reviews and approves the organization's sustainability report and ensures that all material topics are</i>	Yes	<i>Responsibility for the Report preparation</i>

<i>ensive)</i>	<i>covered.</i>		
<i>102-33 (Comprehensive)</i>	<i>Process for communicating critical concerns to the highest governance body</i>	<i>Yes</i>	<i>Main Communication Channels and Key Subjects for Contact with Stakeholders</i>
<i>102-34 (Comprehensive)</i>	<i>Total number and nature of critical concerns that were communicated to the highest governance body. Mechanism(s) used to address and resolve critical concerns</i>	<i>Yes</i>	<i>Main Communication Channels and Key Subjects for Contact with Stakeholders</i>
<i>102-35 (Comprehensive)</i>	<i>Remuneration policies for the highest governance body and senior executives for the following types of remuneration: fixed pay and variable pay, including performance-based pay, equity-based pay, bonuses, and deferred or vested shares; sign-on bonuses or recruitment incentive payments; termination payments; callbacks; retirement benefits, including the difference between benefit schemes and contribution rates for the highest governance body, senior executives, and all other employees</i>	<i>Yes</i>	<i>Board of Directors and Management Board Remuneration System</i>
<i>102-36 (Comprehensive)</i>	<i>The reporting organization shall report the following information: process for determining remuneration; whether remuneration consultants are involved in determining remuneration and whether they are independent of management; any other relationships that the remuneration consultants have with the organization</i>	<i>No</i>	
<i>102-37 (Comprehensive)</i>	<i>How stakeholders' views are sought and taken into account regarding remuneration.</i>	<i>No</i>	
<i>102-38 (Comprehensive)</i>	<i>Ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual)</i>	<i>Yes</i>	<i>The ratio of the remuneration of the highest paid employee of the Company to the average annual remuneration of other employees is 16.12</i>
<i>102-39 (Comprehensive)</i>	<i>Ratio of the percentage increase in annual total compensation for the organization's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual)</i>	<i>Yes</i>	<i>The ratio of the annual growth of the remuneration of the highest paid employee to the annual growth of remuneration of other employees in 2017 was 1.</i>
<i>102-40 (Core)</i>	<i>A list of stakeholder groups engaged by the organization (local communities, civil society, clients, shareholders and suppliers of capital, suppliers, employees)</i>	<i>Yes</i>	<i>Stakeholders</i>
<i>102-41</i>	<i>Percentage of total employees covered by collective bargaining agreements</i>	<i>Yes</i>	<i>As of December 31, 2017, 53.2% of the Group's</i>

(Core)			employees were covered by collective agreements.
102-42 (Core)	The basis for identifying and selecting stakeholders with whom to engage	Yes	Stakeholders
102-43 (Core)	The organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process	Yes	Stakeholders
102-44 (Core)	Key topics and concerns that have been raised through stakeholder engagement, including how the organization has responded to those key topics and concerns, including through its reporting	Yes	Stakeholders
102-45 (Core)	A list of all entities included in the organization's consolidated financial statements or equivalent documents. Whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report	Yes	Company Structure
102-46 (Core)	Methodology for determining the content of the report (materiality, topic priorities in the report, identification of stakeholders considered as potential users of the report). An explanation of how the organization used the Reporting Principles for defining report content	Yes	<p>Significant topics were highlighted when preparing the Report. At the preparatory stage of selection, the materials of the regular interaction of PJSC Inter RAO with investors, federal and regional authorities, business partners, non-profit and public organizations, experts, local communities, as well as the materials of public hearings in the regions, were analyzed. For information on key topics of the Company interaction with the stakeholders see the section Report on Sustainable Development Activities – Stakeholders.</p> <p>To determine the degree of the topics' relevance, a survey of internal stakeholder groups representatives was conducted, including employees of the Company. Respondents were asked to assess the degree of the topic relevance. A list of significant topics</p>

			was determined based on the analysis of the survey results.
102-47 (Core)	List of material topics	Yes	Material topics: <ul style="list-style-type: none"> • Economic results • Emissions • Compliance with legislation
102-48 (Core)	The effect of any restatements of information given in previous reports, and the reasons for such restatements (for example, mergers or acquisitions, changes of reporting periods, nature of business, measurement methods)	Yes	About the Report; any changes in the methodology for calculating individual indicators in comparison with previous periods are indicated in footnotes directly to this indicator
102-49 (Core)	Significant changes from previous reporting periods in the list of material topics and topic Boundaries	Yes	About the Report
102-50 (Core)	Reporting period for the information provided	Yes	From January 1, 2017 to December 31, 2017.
102-51 (Core)	Date of most recent report	Yes	The annual report for 2016 was published in June 2017.
102-52 (Core)	Reporting cycle	Yes	The report is prepared on an annual basis.
102-53 (Core)	Contact point for questions regarding the report	Yes	Contact Details
102-54 (Core)	Claims of reporting in accordance with the GRI Standards: basic (Core) or advanced (Comprehensive).	Yes	Basic (Core)
102-55 (Core)	The GRI content index, which specifies each of the GRI Standards used and lists all disclosures included in the report	Yes	GRI Content Index
102-56 (Core)	External assurance	Yes	The report did not undergo external attestation.
MANAGEMENT APPROACH			
103-1 (Core)	Explanation of the material topic and its Boundary	Yes	The description of significant topics and information on management approaches in these areas is disclosed in the text of the entire report in the relevant sections
103-2 (Core)	The management approach and its components		

103-3 (Core)	Evaluation of the management approach		
INDICATORS OF SUSTAINABILITY AND PERFORMANCE			
Economic indicator category			
Topic: Economic performance			
201-1	Direct economic value generated and distributed	Yes	Formation of the Created Direct Economic Value, Distributed and Undistributed Economic Value
201-2	Risks and opportunities for the organization's activities posed by climate change (for operating activities, regulatory risks, etc.), as well as measures taken to mitigate the consequences of these risks and the company's costs of implementing these measures.	Yes	<p>Demand for electric and thermal energy is in close dependency from seasonal temperature fluctuations and the volatility of current weather conditions -net electricity output capacity is directly linked to the dynamics of the weather conditions. Thus, any significant climate change in the regions of the Group's operations may affect the income of the assets of the segment Generation in the Russian Federation.</p> <p>Considering that the significant climate change in the short and medium term is unlikely and in the long run is weakly susceptible to accurate forecasting, to date the Group does not quantify the financial implications for the Group due to climate change. As measures to adapt to possible climate change, the Group takes into account projections of the future global and local climate in order to identify risks in a timely manner and incorporate response measures into the decision-making process. The procedures for regular monitoring of changes in legislation have been established in the Company and Group's companies, including climate change requirements and emission</p>

			allowances the Group's controlled entities participate in joint projects for the reduction of GHG emissions.
201-3	Defined benefit plan obligations and other retirement plans	No	
201-4	Total monetary value of financial assistance received by the organization from any government during the reporting period, including: tax relief, subsidies, investment grants, research and development and R&D grants, cash awards, grace period, and other types of financial support received by the organization from government agencies. Information on whether, and the extent to which, any government is present in the shareholding structure	Yes	Company Share Capital Appendix 13. Government Support
Topic: Market presence			
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	No	
202-2	Proportion of senior management hired from the local community	Yes	76%
Topic: Anti-corruption			
205-1	Total number and percentage of operations assessed for risks related to corruption	No	
205-2	Communication and training about anti-corruption policies and procedures	Yes	Compliance, Combating Fraud and Corruption
205-3	Confirmed incidents of corruption and actions taken	Yes	Compliance, Combating Fraud and Corruption
Environmental indicator category			
Topic: Energy Efficiency			
302-1	Total fuel consumption of the company by type of fuel. Total consumption of alternative energy sources by the company, broken down by source. Consumption of electricity and heat for own needs. Sales of electricity and heat	Yes	Group's Energy Resources Consumption
302-2	Indirect fuel consumption due to the company's activities by type of fuel (for example, fuel consumption during use and/or disposal of the company's products by consumers)	No	
302-3	Energy efficiency: it is possible to use any performance indicators adopted by the organization, but it is necessary to indicate the efficiency for each type of fuel used	Yes	Energy Saving and Energy Efficiency
302-4	Energy saved as a result of measures to reduce energy consumption and improve energy efficiency. Types and amount of fuel saved	Yes	Energy Saving and Energy Efficiency
302-5	The company's initiatives aimed at improving energy efficiency and the need for	Yes	Energy Saving and Energy Efficiency

	fuel reduction as a result of these initiatives for the reporting period		
303-1	Water withdrawal by source (water bodies, groundwater, rainwater harvesting, treated wastewater, etc.)	Yes	Use of Water Resources
303-2	Water sources significantly affected by withdrawal of water – are they specially protected and what is their significance for biodiversity (the total number of endemic, rare and endangered species that live in them)	No	
303-3	Percentage and total volume of water recycled and reused	Yes	Use of Water Resources
Topic: Greenhouse gas emissions			
305-1	Direct greenhouse gas emissions	Yes	Accounting of the pollutant atmospheric emissions
305-2	Indirect greenhouse gas emissions	No	
305-3	Other indirect greenhouse gas emissions	No	
305-4	Greenhouse gas emissions intensity	Yes	Accounting of the pollutant atmospheric emissions
305-5	Initiatives to reduce greenhouse gas emissions and the reduction achieved compared to the base year	Yes	Activities for Reduction of Greenhouse Gas Emissions
305-6	Emissions of ozone-depleting substances	No	
305-7	Air emissions of NOx, SOx and other significant pollutants with indication of their type and mass	Yes	Accounting of the pollutant atmospheric emissions
Topic: Sewage and production waste			
306-1	The total volume of wastewater discharges indicating their quality, host facilities, and the methods of cleaning used	Yes	Use of Water Resources
306-2	The total mass of waste broken down into hazardous and non-hazardous and the method of elimination. Indication of how the liquidation method was chosen: by the company itself or by an external expert organization. If there is a subcontractor, indicate its certification	Yes	Production Waste Management
306-3	Total number and volume of significant spills	No	
306-4	The mass of transported, imported, exported or recycled wastes that are dangerous according to Appendixes I, II, III, and VIII to the Basel Convention and	No	

	the proportion of waste transported between countries		
306-5	Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the organization's objects' discharges of water and runoff	No	
Topic: Standard compliance			
307-1	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Yes	Adverse Environmental Impact Fee
Social indicator category			
Topic: Terms and conditions of employment			
401-1	The total number of new employees hired during the reporting period, and the turnover of staff by age group, sex and region	Yes	7,513
401-2	Differences in payments and benefits provided to full-time employees and employees working under conditions of temporary or part-time employment. Data broken down by major geographical areas of activities	No	
401-3	The total number of employees in the reporting period who were entitled to maternity leave and who actually took maternity leave, broken down by sex. The total number of employees who returned to work after maternity leave in the reporting period and the proportion of those who worked there after 12 months or more, broken down by sex	No	
Topic: Mutual relations of management and personnel			
402-1	The minimum period (s) for notifying employees and/or representatives of their interests about significant changes in the activities of the organization, and whether it is defined in a collective agreement.	Yes	The minimum period for notifying employees and/or representatives of their interests about significant changes in the organization's activities is established in accordance with Russian law.
Topic: Health protection and workplace safety			
403-1	Information on how to ensure the protection of health and safety in the workplace.	Yes	Occupational Safety
403-2	Level of industrial injury	Yes	Reduction of the Injury Rate at Production Facilities
403-3	Report on the presence of employees engaged in work with a high risk of injury or	No	

	occupational diseases.		
403-4	Health and safety topics covered in formal agreements with trade unions	No	
Topic: Staff development and training			
404-1	Average number of hours of training per employee per year	Yes	Professional Training, Staff Development, Building a Candidate Pool
404-2	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	No	
404-3	Percentage of employees receiving regular performance and career development reviews	No	
Topic: Diversity and equal opportunity			
405-1	The composition of the organization's governance bodies and personnel	Yes	Composition of the Board of Directors, Company Staff
Topic: The evaluation of the impact that suppliers have on society			
414-1	The share of new suppliers with which the company began to cooperate in the reporting period, tested for compliance with the standards of the company in the social sphere.	Yes	Procurement
414-2	Negative social effect from suppliers' actions	No	
Topic: Compliance with legislation			
419-1	Non-compliance with laws and regulations	Yes	Appendix 14. Information on Legal Proceedings and Significant Fines
OPERATING INDICATORS			
EU1	Installed capacity broken down by energy source and regions with the common regulatory regime	Yes	The Group's key Indicators for 2015–2017
EU2	Net energy produced broken down by energy source and regions with a common	Yes	The Group's key Indicators for 2015–2017

	regulatory regime		
EU3	Number of industrial, institutional and commercial consumers, as well as customers of the utility sector	Yes	The Group's key Indicators for 2015–2017
EU4	Total length of overhead and underground transmission and distribution power and heat lines	Yes	The Group's key Indicators for 2015–2017
EU10	Planned capacity against projected electricity demand over the long-term, broken down by energy source and regions with the common regulatory regime	Yes	Generation in the Russian Federation
EU11	Average utilization rate of thermal plant installed capacities broken down by energy source and regions with a common regulatory regime	Yes	Key Business Results of the Group
EU12	Transmission and distribution losses as a percentage of total supplied energy (loss factor)	Yes	Foreign assets – Georgia
EU15	Percentage of employees eligible to retire within the next 5 and 10 years, broken down by nature of work and by region	Yes	12.9%
EU27	Number of residential disconnections for non-payment, broken by duration of disconnection and by regions with the common regulatory regime	Yes	Supply in the Russian Federation
EU28	Power outage frequency	Yes	Foreign assets – Georgia

EU29	Average power outage duration	Yes	Foreign assets – Georgia
EU30	The average value of equipment technical availability with breakdown by energy sources and the regulatory regime	Yes	Generation in the Russian Federation

5.6. Appendix 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 the Risk Management and Internal Control section of this Strategic Report for detailed information about the Company's Enterprise Risk Management Framework.

Corruption Risks

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 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 policy¹⁹⁵, 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 risks¹⁹⁶, followed by creation and maintenance of a list of corruption-hazardous functions and a list of posts related to corruption risks¹⁹⁷, 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.

Financial Risks

In the reporting period, the Group focused on managing the following financial risks:

Financial risks

¹⁹⁵ 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)

¹⁹⁶ In accordance with the Methodology for identifying and evaluating (analyzing) corruption risks (Order No. IRAO / 618 of December 29, 2016).

¹⁹⁷ The lists based on the results of the evaluation in 2017 were approved by Order No. IRAO / 487 of September 22, 2017.

Key risks	Description
Currency risk	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.
Interest rate risk	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.
Credit risk of counterparty banks	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.
Credit risk of counterparties (the risk of receivables from electricity and heat buyers, grid organizations, buyers' receivables in the Wholesale Electricity and Capacity Market)	A delay or failure by the Group's counterparties to fulfill their obligations, including as a result of reduced solvency or bankruptcy of power supply companies, deprivation of counterparty companies of their WECCM subject and GS statuses, and a decline of payment discipline in the key groups of electricity and heat consumers expose the Group to credit risk.

To manage the currency and interest rate risks, the Group:

- assesses the currency and interest rate risks using simulation modeling, scenario modeling and stress testing;
- manages the Group's currency position, credit and deposit portfolios in accordance with the approved methodology;
- makes transactions on the financial derivative market with a view to hedging currency and interest rate risks.

To manage credit risk, the Group:

- 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;
- takes measures to reduce overdue receivables;
- analyzes the counterparties for their solvency and financial stability and the accounts receivable are monitored on an annual basis;
- prepares legislative initiatives and works as a member of inter-agency commissions for the settlement of payment arrears for heat and power resources;
- arranges pretrial and claim-related work with nonpaying counterparties;
- assesses the solvency and financial stability of the controlled entities based on their Internal Credit Rating, which implies qualitative and quantitative assessment of their activities;
- takes measures directed towards maintaining and increasing the Internal credit rating of subsidiaries.

Industry Risks

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.

Risks of the Generation segment

Key risks	Description
Risk of changes in the Wholesale Electricity and Capacity Market and/or restrictive measures imposed by the government	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 composition of included generating equipment (SCIGE) may lead to increasing the volume of the price-taking offer on the DAM and creating low DAM prices, which would reduce the marginal profit of the Group.

Day-ahead market (DAM) price risk	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.
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	<p>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 the capacity sale under CDAs with respect to the values established in the business plan.</p> <p>The necessity to specify the value of compensable costs¹⁹⁸ that reflect the expected profit from electricity sales as regards the actual value of profits for the period preceding the adjustment, leads to the deviation of proceeds earned by CDA objects as regards the values established in the business plan.</p>
Risk of reduced productive supply of heat energy	The decrease in productive supply of heat power due to seasonal temperature variations, cessation/reduction of consumption by major heat consumers, 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.
Risk of unfavorable tariff balance resolutions in the field of heat supply made by the regulator	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.
Risk of reduced equipment availability	Equipment failures at the Group's production units, high rate of fixed assets 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).

¹⁹⁸ After 3 and 6 years from the beginning of the capacity supplies.

Fuel supply risks	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.
Risks of industrial injury	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.
Environmental risks	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.

To manage these risks, the Group:

- 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;
- audits technical safety and controls the measures taken based on investigations of process violations;
- develops plans of organizational and technical measures based on the analysis of the breakdown rate with regard to the indicators and 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 fulfilment of measures based on the investigation reports of process violations;
- plans production repair, reconstruction and re-equipment programs based on the breakdown rate analysis;
- 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;

- optimizes fuel balance, uses long-term fuel supply contracts, creates fuel reserves, and monitors the quality of fuel supplied;
- 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;
- disputes any tariff and balance resolutions in compliance with industry laws;
- 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;
- mitigates harmful and hazardous production factors, meets the mandatory fire, health, and safety requirements, and observes its local safety regulations;
- 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;
- elaborates measures aimed at preventing departure or returning previously departed consumers of thermal energy, expanding existing sales markets for thermal energy while connecting with new consumers and setting unregulated prices for consumers of heat energy released by steam;
- 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 sales activities of Inter RAO Group's controlled entities;
- takes part in actualizing heat supply schemes for municipal entities in the regions where thermal assets of Inter RAO Group are present.

Risks of the Supply segment

Key risks	Description
Risk of unfavorable tariff balance resolutions made by the regulator	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.

Risk of reduced electricity and capacity sales (productive supply)

Seasonal temperature variations, as well as the loss of clients because of their withdrawal in favor of competitive retail companies and WECM entry, may lead to a decrease in electricity and capacity output and failure to earn the expected marginal profit.

To manage these risks, the Group:

- 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;
- disputes any tariff and balance resolutions in compliance with industry laws;
- 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;
- increases the quality of customer services and develops distance and interactive communication channels and client services.

Risks of the Trading segment

Key risks

Description

Foreign trade price risk

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.

Risk of changes in foreign trade supply

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

volumes

the electricity export/import laws of Russia or neighboring states, or the effect of various force-majeure circumstances on the volumes of trade transactions cause changes in the supply volumes.

To manage these risks, the Group:

- manages its trade portfolio on the domestic and foreign markets to ensure return on its trade operations at the target level;
- enters into contracts with counterparties for electricity (capacity) purchase/sale at a fixed price;
- 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;
- 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.

Country and Regional Risks

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:

- analyzes the markets, including the regulatory legal framework;
- takes part in Russia's support programs, the work of intergovernmental commissions and the development of intergovernmental treaties;
- organizes the interaction with governmental authorities and major companies in the countries of the Group's presence;
- promotes projects for developing intergovernmental relations in prospective areas;
- diversifies and makes a regular inventory of the Group's investments and contract portfolios to ensure a balance between its strategic opportunities and obligations;
- 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.

Investment Risks

The Group's investment activities are associated with a number of risk factors with a focus on managing the risk of rescheduling of capacity supplies under the capacity supply contracts.

Investment risks

Key risks	Description
Risk of failure to meet the commissioning deadlines (failure to meet the capacity supply schedules under capacity supply agreements)	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:

- uses the competences of its own engineering company LLC Inter RAO – Engineering when implementing projects;
- organizes project management in accordance with the best Russian and international practices;
- interacts with its contractors to make a plan of compensatory measures, revises the construction schedule and controls the work schedules;
- manages claims and complaints with respect to the contractors that do not meet the construction time schedule or other terms of the agreements.

Legal Risks

The Group operates in strict compliance with Russian law and the laws applicable in the jurisdictions of its presence, and historically places increased focus on legal risks.

Legal risks

Key risks	Description
Risk of the antimonopoly regulation activities of the Company/Group assets being discovered to be in violation of Russian law	The likelihood that the Office of the Federal Antimonopoly Service may issue resolutions on the ascertained violations of the antimonopoly laws with respect to the Group's power/heat supply assets may entail the necessity to form reserves for the identified estimated liabilities in excess of the reserves determined in the business plan.
Risk of the tax regulation activities of the Company/Group assets being discovered to be in violation of the law	There is a possibility of additional tax (fines, penalties) assessment by a tax authority based on tax audits conducted in connection with the identified violations of laws on taxes and charges.

To manage these risks, the Group:

- monitors the antimonopoly and tax laws of Russia and engages counsellors (under the prescribed procedure) for any disputable interpretations of legal regulations;
- 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;
- 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;
- analyzes the Group's corporate standards to identify the algorithms of actions that may be viewed as 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.
- 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.

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:

- risks associated with changes in the legislation regulating the Group's activities (including currency, customs, and tax regulation);
- risks associated with changes in the court practice regarding the issues related to the Group's activities.

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.

Reputational Risks

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 sullyng 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 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 can't 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

The successfully completed project of the construction of the CCGT 800 MW power generating unit at Permskaya TPP is an investment with an expected return of more than 10% per annum (IRR > 10%), which was financed in 2017, and which cost over 5% of the Group's assets under IFRS (28.6 billion rubles). The remaining projects with IRR > 10% cost less than 1% of the Group's assets under IFRS.

Item No.	Name of investment	Purpose of investing	Investment amount in 2017¹⁹⁹	Sources of funding in 2017
1	The construction of the CCGT 800 MW power generating unit at Permskaya TPP	Receiving income by increasing the supply of electricity and power	9,903,275	Own funds

¹⁹⁹ Financing amount, thousand rubles, VAT included

5.7. Appendix 7. Information on Holding Meetings of the Board of Directors and Committees of the Board of Directors.

Holding Meetings 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/2017.php>

Holding Meetings of Committees of the Board of Directors

	Audit Committee	Nominations and Remunerations Committee	Strategy and Investment Committee
Number of meetings	17	22	19
Minutes of meetings	Minutes No. 89 of January 27, 2017 Minutes No. 90 of February 21, 2017 Minutes No. 91 of February 28, 2017 Minutes No. 92 of March 10, 2017 Minutes No. 93 of March 31, 2017 Minutes No. 94 of April 24, 2017 Minutes No. 95 of April 28, 2017 Minutes No. 96 of May 25, 2017 Minutes No. 97 of July 17, 2017 Minutes No. 98 of July 31, 2017 Minutes No. 99 of 15 August 2017 Minutes No. 100 of August 24, 2017 Minutes No. 101 of November 25, 2017 Minutes No. 102 of October 20, 2017 Minutes No. 103 of November 22, 2017 Minutes No. 104 of December 14, 2017 Minutes No. 105 of December 25, 2017	Minutes No. 56 of January 30, 2017 Minutes No. 57 of February 21, 2017 Minutes No. 58 of March 7, 2017 Minutes No. 59 of March 29, 2017 Minutes No. 60 of March 31, 2017 Minutes No. 61 of April 5, 2017 Minutes No. 62 of April 10, 2017 Minutes No. 63 of April 24, 2017 Minutes No. 64 of April 28, 2017 Minutes No. 65 of May 2, 2017 Minutes No. 66 of May 29, 2017 Minutes No. 67 of June 16, 2017 Minutes No. 68 of June 27, 2017 Minutes No. 69 of July 17, 2017 Minutes No. 70 of August 15, 2017 Minutes No. 71 of August 24, 2017 Minutes No. 72 of September 11, 2017 Minutes No. 73 of September 25, 2017 Minutes No. 74 of October 20, 2017 Minutes No. 75 of October 26, 2017 Minutes No. 76 of December 14, 2017 Minutes No. 77 of December 20, 2017	Minutes No. 119 of February 7, 2017 Minutes No. 120 of March 30, 2017 Minutes No. 121 of April 3, 2017 Minutes No. 122 of April 12, 2017 Minutes No. 123 of April 26, 2017 Minutes No. 124 of May 4, 2017 Minutes No. 125 of May 15, 2017 Minutes No. 126 of June 5, 2017 Minutes No. 127 of June 26, 2017 Minutes No. 128 of June 28, 2017 Minutes No. 129 of July 24, 2017 Minutes No. 130 of July 20, 2017 Minutes No. 131 of August 10, 2017 Minutes No. 132 of September 25, 2017 Minutes No. 133 of October 12, 2017 Minutes No. 134 of November 22, 2017 Minutes No. 135 of December 14, 2017 Minutes No. 136 of December 19, 2017 Minutes No. 137 of December 22, 2017

5.8. Appendix 8. Requirements and Guidelines, According to Which the Report is Prepared

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 11. Internal Regulation Effective in the Company).

5.9. Appendix 9. Report on the Transactions Entered into by the Company in the Reporting Year, Which are of Interest

Information on Major Transactions and Transactions Made by PJSC Inter RAO in 2017, Recognized in Accordance with the Legislation of the Russian Federation as Being of Interest, Which Required Approval by the Authorized Management Body of the Company.

The information is disclosed at the Company's website – http://www.interrao.ru/en/investors/disclosure/other-disclosures/major_deals/

Information on the Most Significant Transactions of PJSC Inter RAO and Legal Entities Controlled by it in 2017.

The body that made the decision to approve it	Subject of the transaction	Counterparties to the transaction	Transaction amount
PJSC Inter RAO			
Board of Directors	Agreement on general conditions for raising funds.	Parties to the transaction: PJSC Sberbank is the Bank, Public Joint-Stock Company Inter RAO UES is the Client.	The amount of each deposit / minimum balance must be at least 10,000,000 (ten million) rubles or 200,000 (two hundred thousand) US dollars or 200,000 (two hundred thousand) euros, while the amount of simultaneously acting deposits (deposits) / minimum balance(s) must not exceed 60,000,000,000 (sixty billion) rubles or their equivalents in US dollars or euros (at the exchange rate of the Central Bank of the Russian Federation on the day of the transaction), without limiting the number of transactions, taking into account interest on these transactions.
Limited Liability Company Bashkir Generation Company			
Decision of a single participant	The loan agreement between the Public Joint-Stock Company Inter RAO UES and the Limited Liability Company Bashkir Generation Company (LLC BGC), concluded within the material pooling in Inter RAO Group	Parties and beneficiaries to the transaction: BGC LLC is the loaner; PJSC Inter RAO is the loanee	Taking into account interest, is no more than 40 968 750 000 (forty billion nine hundred and sixty-eight million seven hundred and fifty thousand) rubles 00 kopecks
Decision of a single participant	The loan agreement between the Public Joint-Stock Company Inter RAO UES and the Limited Liability Company Bashkir Generation Company (LLC BGC), concluded within the material pooling in Inter RAO Group	Parties and beneficiaries to the transaction: BGC LLC is the loanee; PJSC Inter RAO is the loaner	Taking into account interest, is no more than 40 968 750 000 (forty billion nine hundred and sixty-eight million seven hundred and fifty thousand) rubles 00 kopecks

5.10. Appendix 10. Information on Fulfillment of the Orders of the President and the Government of the Russian Federation Aimed at Improving the Business Activities of PJSC Inter RAO in 2017

Item No.	Type of instruction	Registration data	Name of instruction	Execution status	Details and content of the decisions adopted
1	Directive of the Government of the Russian Federation	No. 830p-P13 of February 6, 2017	On the Progress of Development and Implementation of Import Substitution Plans.	Implemented	The resolution of the Board of Directors of April 13, 2017 (Minutes No. 196 of April 17, 2017)
2	Directive of the Government of the Russian Federation	No. 2602p-P7 of April 17, 2017	On the Acquisition or Lease of Aircraft, Including with Passenger Lounges of High Comfort.	Implemented	The resolution of the Board of Directors of May 31, 2017 (Minutes No. 200 of June 2, 2017)
3	Directive of the Government of the Russian Federation	No. 3538p-P13 of May 23, 2017	On approval of the procedure for agreeing investment programs and other plans for the infrastructure development implemented by joint-stock companies with state participation in the Far Eastern Federal District with the Ministry for the Development of the Russian Far East.	Implemented	The resolution of the Board of Directors of June 30, 2017 (Minutes No. 204 of July 3, 2017)
4	Minutes of the meeting of the Government of the Russian Federation	No. 9 of March 24, 2016	On the introduction of professional standards in the activities of the Company (to consider at the meeting of the Board of Directors at least once every six months).	In progress	The resolution of the Board of Directors of June 30, 2017 (Minutes No. 204 of July 3, 2017) and December 26, 2017 (Minutes No. 215 of December 28, 2017)
5	Directive of the Government of the Russian Federation	No. 5945p-P13 of August 25, 2017	On joint-stock companies presenting information on ownership of assets located in the territory of the Russian Federation through foreign legal entities for the reporting period beginning starting from 2016 to the Ministry of Economic Development of Russia.	In progress	The resolution of the Board of Directors of November 28, 2017 (Minutes No. 209 of September 6, 2017), letter of the Company No. IN/KB/187 of September 7, 2017
6	Directive of the Government of the Russian Federation	No. 2303p-П13 of April 16, 2015	On decrease in operation expenses not less than by 2–3% a year.	Implemented	The resolution of the Board of Directors of March 30, 2018 (Minutes No. 221 of April 2, 2018)

7	Order of the Government of the Russian Federation	No. 894-p May 10, 2017	On the advisability of making changes to the current program and the register of alienation of non-core assets.	Implemented	The resolution of the Board of Directors of September 28, 2017 (Minutes No. 209 of October 2, 2017) and December 26, 2017 (Minutes No. 215 of December 28, 2017)
8	Order of the Government of the Russian Federation	No. 894-p May 10, 2017	On the introduction of amendments to the labor agreement with the sole executive body for it to include regulations on personal responsibility for the untimely placement or placement of apocryphal information on the sale of non-core assets on the Interdepartmental Portal for the Management of State Property.	Implemented	The resolution of the Board of Directors of October 31, 2017 (Minutes No. 212 of November 1, 2017)

5.11. Appendix 11. Internal Regulation Effective in the Company

	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: — procedure for convening and preparing for GMS; — information support of GMS holding; — in presentia form of GMS; — in absentia form of GMS; — working bodies of the Company's GMS; — financial support of the GMS.	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: — procedure for convening and holding meetings of the Board of Directors of the Company; — arrangement of work of the Board of Directors; — rights, duties and liability of the members of the Board of Directors; — procedure for adoption of resolutions by voting in absentia; — procedure for recording Minutes of the meetings.	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.	Board of Directors (Minutes No. 108 of February 24, 2014)

	Name of the internal regulation	Basis regulations	Management body that approved the document
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, procedure for establishment 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.	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)		Board of Directors (Minutes No. 180 of October 3, 2016)
6.	Regulation on the Nominations and Remuneration Committee of the Board of Directors of PJSC Inter RAO (new version)		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 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 presentia of the Management Board,	General meeting of shareholders (Minutes No. 17 of June 9,

	Name of the internal regulation	Basis regulations	Management body that approved the document
		procedure for adopting resolutions by voting in absentia, and also establishes control over execution of the Board's resolutions.	2017)
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 to the report (protocol) of the Revision Commission.	General meeting of shareholders (Minutes No. 15 of May 29, 2015)
9.	Policy of interaction with external auditor of PJSC Inter RAO	The Policy controls selection of procedures and criteria for Company auditors based on bidding results, the procedure of auditor approval by the Annual General Meeting of Shareholders, and rotation rules for the heads of audit.	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.	General Meeting of Shareholders (Minutes No. 17 of June 9, 2017)
	Corporate Ethics Code of PJSC Inter RAO (new version)	The Code contains the standards of conduct accepted by the Company which define fundamental requirements for ethical corporate conduct.	Board of Directors (Minutes No. 180 of October 3, 2016)

	Name of the internal regulation	Basis regulations	Management body that approved the document
11	Regulation on the Informational Policy of PJSC Inter RAO	The Regulation determines the main principles of disclosure of Company activities, the procedure and terms for 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.	Board of Directors (Minutes No. 189 of December 30, 2016)
12	Regulation on the Dividend Policy of PJSC Inter RAO	The Regulation determines the procedure for determining the dividend amount, procedure for adopting resolutions on declaration (payment) of dividends, terms of payment (declaration) of dividends and restrictions to the payment (declaration).	Board of Directors (Minutes No. 118 of July 3, 2014)
13	Regulation on the Insider Information Policy of JSC Inter RAO (new version)	The Regulation controls matters concerning 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 handling and protection of insider information.	Board of Directors (Minutes No. 104 of December 2, 2013)
14	The Internal Control Policy of PJSC Inter RAO	The Policy defines the objectives, key principles, and united approaches to organization of internal control at the Company, as well as the roles and liability of internal control participants.	Board of Directors (Minutes No. 180 of October 3, 2016)
15	The Corporate Risk Management Policy of PJSC Inter RAO	The Policy defines the objectives, key principles, and united approaches to organization of the Enterprise Risk Management Framework at the Company, as well as the liability of the participants of the Enterprise Risk Management Framework.	Board of Directors (Minutes No. 155 of October 28, 2015)

	Name of the internal regulation	Basis regulations	Management body that approved the document
16	Regulation on the Internal Audit Unit of PJSC Inter RAO	The Regulation develops the principles of the Internal Audit Policy in regard to the procedure on 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 liability of the Unit personnel.	Board of Directors (Minutes No. 216 of February 2, 2018)
17	Regulation on Insurance Protection of PJSC Inter RAO	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.	Board of Directors (Minutes No. 83 of December 17, 2012)
18	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.	Board of Directors (Minutes No. 64 of April 2, 2012)
19	Declaration of the Maximum Permissible Debt Load Level of PJSC Inter RAO	The Declaration establishes the procedure for determining limits of the Company's management authority with respect to loan borrowing transactions.	Board of Directors (Minutes No. 94 of June 24, 2013)
20	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.	Board of Directors (Minutes No. 216 of February 2, 2018)

	Name of the internal regulation	Basis regulations	Management body that approved the document
21	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.	Board of Directors (Minutes No. 200 of May 31, 2017)
22	Fraud and Corruption Management Policy of PJSC Inter RAO	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.	Board of Directors (Minutes No. 180 of October 3, 2016)
23	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.	Board of Directors (Minutes No. 155 of October 28, 2015)
24	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	Board of Directors (Minutes No. 213 of December 1, 2017)

	Name of the internal regulation	Basis regulations	Management body that approved the document
		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.	
25	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.	Board of Directors (Minutes No. 170 of June 1, 2016)
26	Regulation on the Procedure for Considering Significant Corporate Actions of PJSC Inter RAO (with additions)	The Regulation provides for the procedure for preliminary consideration by the independent directors of significant corporate actions of the Company.	Board of Directors (Minutes No. 207 of September 1, 2017 and No. 215 of December 28, 2017)

5.12. Appendix 12. Information on the Participation of PJSC Inter RAO in the Activities of Subsidiaries, Affiliates and Other Business Entities in 2017. Information on the Concluded Contracts of Purchase and Sale of Shares, Stock, Units of Economic Partnerships and Companies, Including Information on the Parties, Subject, Price and Other Terms of These Contracts.

Information on participation in other companies

	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 2017		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
Item		January 1, 2018	January 1, 2017	January 1, 2018	January 1, 2017		Revenue	Net profit		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Information on business entities with interest of PJSC Inter RAO in their authorized capital amounting to 2 to 20%										
1.	Open Joint-Stock Company Inter RAO LED-Systems	17.58%	17.58%	-	300,000 thousand rubles	-	no information	no information	Production of semiconductor components, devices, including photosensitive and optoelectronic	No changes
2.	Open Joint-Stock Company Sangutdinskaya GES-1	14.87%	14.87%	161,412 thousand rubles	161,412 thousand rubles	113,671 thousand rubles	no information	no information	Generation and delivery (sale) of electricity	No changes
Information on business entities with interest of PJSC Inter RAO in their authorized capital amounting to 20 to 50%										
3.	Public Joint-Stock Company Tomsk Energy Retail Company	31.27%	31.27%	104,960 thousand rubles	104,960 thousand rubles	-	12,929,258 thousand rubles	857 thousand rubles	Electricity purchase and supply	No changes
4.	Limited liability company RT-Energotrading	50%	50%	9,805 thousand rubles	9,805 thousand rubles	-	2,964,288 thousand rubles	(41,329) thousand rubles	Wholesale trade in electric and heat energy (without their transmission and distribution). Wholesale trade via intermediaries (for a	No changes

									consideration or on a contractual basis).	
									Intermediary activities in wholesale trade in electric and heat energy (without their generation, transmission and distribution).	
5.	Limited liability company INTER RAO UES Energy Efficiency Center	50%	50%	258,250 thous and rubles	258,250 thous and rubles	-	2,077,397 thou sand rubles	(56,544) thous and rubles	Works/services in the area of energy efficiency and energy saving	No changes
6.	Limited liability company INTERENERGOEFFECT	50%	50%	-	-	-	no information	no information	Works/services in the area of energy efficiency and energy saving	No changes
7.	Joint-Stock Company Ekibastuz GRES-2 Power Station	50%	50%	603,311 thousand rubles	603,311 thous and rubles	-	34,435,729 thousand tenge	(19,092,010) thousand tenge	Generation, transmission and distribution of electric and heat energy	No changes
8.	Closed Joint-Stock Company Kombaratinsk GES-1	-	50%	-	28,864 thousand rubles	-	—	79,442 thousand Kyrgyz soms	Generation and delivery (sale) of electricity	December 26, 2017, the Group sold a 50% stake in CJSC Kambaratinskaya HPP-1.
9.	Closed Joint-Stock Company Industrial Energy Company	50%	50%	-	-	-	no information	no information	Electricity delivery to enterprises of the military-industrial complex of the Russian Federation and to other consumers	No changes
Information on subsidiaries in whose registered capital the interest of PJSC Inter RAO amounts to 50% + 1 share to 100%										
10.	Limited liability company Engineering Center Gas Turbine	52.95%	52.95%	695,086 thous and rubles	695,086 thous and	-	17,797 thousan d rubles	(14,844) thous and rubles	Production of gas turbines except for	No changes

	Technologies				rubles				turbojet and turboprop	
11.	Open Joint-Stock Company Saratovenergo	56.23%	56.23%	418,399 thousand rubles	496,283 thousand rubles	-	21,508,216 thousand rubles	7,115 thousand rubles	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 changes
12.	Open Joint-Stock Company Tambov Power Supply Company	59.3845%	59.3845%	145,507 thousand rubles	137,222 thousand rubles	-	5,971,709 thousand rubles	186 thousand rubles	Electricity distribution	No changes
13.	Public Joint-Stock Company Mosenergosbyt	37.56%	50.92%	5,753,700 thousand rubles	5,753,700 thousand rubles	-	326,205,344 thousand rubles	2,998,292 thousand rubles	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.	As a result of an additional issue of shares in PJSC Mosenergosbyt, the ownership stake of PJSC INTER RAO in PJSC Mosenergosbyt decreased to 37.56%. However, on June 9, 2017, the Group announced a voluntary public offer for the acquisition of ordinary shares of PJSC Mosenergosbyt, owned by non-controlling shareholders. The offer expired on August 28, 2017. As a result of the voluntary public offer, the Group increased its stake in PJSC Mosenergosbyt to 100%.
14.	Open Joint-Stock Company Tomsk Energy Supply Company	98.54%	98.54%	2,929,170 thousand rubles	2,929,170 thousand rubles	-	6,847,449 thousand rubles	382,503 thousand rubles	Electricity generation by thermal power stations	No changes

15.	Open Joint-Stock Company Territorial Generating Company No. 11	98.54%	98.54%	4,978,688 thousand rubles	4,978,688 thousand rubles	-	18,592,080 thousand rubles	1,203,303 thousand rubles	Electricity and heat generation	No changes
16.	Limited Liability Company Inter RAO – Export	99.99%	100%	-	300,000 thousand rubles	84,527 thousand rubles	314,696 thousand rubles	(264,003) thousand rubles	Wholesale trading in machinery and equipment is the principal economic activity	On October 27, 2017, 0.01% share of LLC INTER RAO – Export belonging to PJSC Inter RAO was alienated to LLC Inter RAO – Engineering as a result of a sale and purchase agreement
17.	Limited Liability Company Bashkortostan Energy Supply Company	100%	-	4,100,000 thousand rubles	-	-	37,320,967 thousand rubles	590,765 thousand rubles	Resort treatment and prophylaxis; medical services; operation of buildings and structures; property management	In December 2016, The Group acquired a 100% stake in LLC Energy Supply Company of Bashkortostan. July 5, 2017, 100% share was transferred to PJSC Inter RAO.
18.	Joint-Stock Company Inter RAO Capital	100%	100%	93,561,523 thousand rubles	93,561,523 thousand rubles	-	7,372,002 thousand rubles	(8,214,308) thousand rubles	Participation in investment projects aimed at 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 changes
19.	RAO Nordic Oy	100%	100%	43,410 thousand rubles	43,410 thousand rubles	362,120 thousand rubles	169,120 thousand euros	4,421 thousand euros	Electricity trade	No changes
20.	Inter RAO Holding B.V.	100%	100%	4,413,668 thousand rubles	4,413,668 thousand rubles	-	-	(314) thousand US dollars	Managing company	No changes
21.	Open Joint-Stock Company Eastern Energy Company	100%	100%	2,190,290 thousand rubles	2,190,290 thousand rubles	800,000 thousand rubles	9,908,910 thousand rubles	(1,131,476) thousand rubles	Wholesale power trading	No changes
22.	Open Joint-Stock Company Electroluch	100%	100%	2,065,573 thousand rubles	2,065,573 thousand rubles	-	857,165 thousand rubles	52,346 thousand rubles	Rental of own non-residential real property	No changes

23.	Closed Joint-Stock Company Moldavia TPP	100%	100%	645,751 thousand rubles	645,751 thousand rubles	-	1,407,351 thousand rubles PMR	222,843 thousand rubles PMR	Generation and delivery (sale) of electricity	No changes
24.	RAO Intertech B.V.	100%	100%	908,860 thousand rubles	908,860 thousand rubles	-	-	(72) thousand euros	Project activities.	No changes
25.	Limited Liability Company Inter RAO – Management of Electricity Plants	100%	100%	500 thousand rubles	500 thousand rubles	79,724 thousand rubles	1,518,238 thousand rubles	28,002 thousand rubles	Management of financial industrial groups and holding companies.	No changes
26.	Joint-Stock Company Inter RAO – Electricity Plants	100%	100%	185,648,281 thousand rubles	185,648,281 thousand rubles	7,500,000 thousand rubles	188,726,547 thousand rubles	37,471,208 thousand rubles	Electricity and heat generation	No changes
27.	Inter RAO Finance B.V.	100%	100%	82,748 thousand rubles	82,748 thousand rubles	-	-	56 thousand euros	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 changes
28.	Open Joint-Stock Company Altayenergosbyt	100%	100%	330,000 thousand rubles	330,000 thousand rubles	35,000 thousand rubles	13,290,981 thousand rubles	3,785 thousand rubles	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 changes
29.	Open Joint-Stock Company St. Petersburg Power Supply Company	100%	100%	3,994,714 thousand rubles	3,994,714 thousand rubles	3,062,615 thousand	126,603,474 thousand	1,267,803 thousand	Purchase of electricity and thermal energy on	No changes

						rubles	rubles	rubles	the electricity and thermal energy (capacity) wholesale and retail markets; realization (sale) of electricity on the electricity and thermal energy (capacity) wholesale and retail markets to consumers (including individuals), etc.	
30.	Limited liability company RN-Energo	100%	100%	4,995,804 thousand rubles	4,995,804 thousand rubles	-	79,277,673 thousand rubles	3,970,381 thousand rubles	Wholesale electric and heat energy trading (excluding transmission and distribution). Installation of engineering equipment in buildings and constructions; electrical installation work	No changes
31.	Limited Liability Company Inter RAO – Orlovsky Energosbyt	100%	100%	60,000 thous and rubles	60,000 thous and rubles	-	8,167,649 thousand rubles	35,838 thousand rubles	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 changes
32.	Limited Liability Company Inter RAO – Engineering	100%	100%	775 thousand rubles	775 thousand rubles	-	11,174,949 thousand rubles	8,218 thousand rubles	Structural works in construction of thermal and other power plants; structural works in construction of buildings; installation of other engineering equipment.	No changes

33.	Limited Liability Company Inter RAO Finance	100%	100%	12,023 thousand rubles	10,000 thousand rubles	-	-	(4,699) thousand rubles	Securities trading and investments; property investments; other financial intermediation; consulting on financial mediation, consulting on commercial activities and management	No changes
34.	Limited Liability Company Ugolny Razrez	100%	100%	243,074 thousand rubles	243,074 thousand rubles	-	2,630,538 thousand rubles	40,637 thousand rubles	Brown coal open cast mining	No changes
35.	Limited Liability Company Bashkir Generation Company	100%	100%	24,038,482 thousand rubles	24,038,482 thousand rubles	1,750,000 thousand rubles	43,316,261 thousand rubles	3,260,880 thousand rubles	Electricity and heat generation	No changes
36.	Limited liability company Energokonnekt	100%	100%	2,537 thousand rubles	4,206 thousand rubles	-	-	(44) thousand Belarusian rubles	Implementation of cross-border projects in designing and installation of direct current links	No changes
37.	Limited Liability Company Inter RAO – Procurement Management Center	100%	100%	122,038 thousand rubles	122,038 thousand rubles	6,905 thousand rubles	1,008,281 thousand rubles	14,445 thousand rubles	Organization and provision of centralized material support for Group companies	No changes
Information on entities in the holding structure										
38.	Open Joint-Stock Company Testing Stand of Ivanovskaya TPP	-	-	-	-	-	7,187 thousand rubles	(24,723) thousand rubles	Holding presentation and acceptance testing of serial gas turbine engines GTE-110 and their modifications, test operation of the GTE-110; production and sale of electric energy (capacity).	December 29, 2017, state registration of the report on the results of the additional issue of shares of JSC Stand
39.	Joint-Stock Company Nizhnevartovskaya TPP	-	-	-	-	-	18,680,846 thousand rubles	3,305,002 thousand rubles	Electricity and heat generation	Change of business legal structure March 30, 2017

40.	NVGRES Holding Limited	-	-	-	-	-	328,372 thousand rubles (unaudited accounts)	2976113 thousand rubles (unaudited accounts)	Provision of loans to related parties, including any activity that generates interest income	The company was liquidated on October 24, 2017.
41.	Joint-Stock Company Lukomoriye Sanatorium-Dispensary	-	-	-	-	-	91,217 thousand rubles	556 thousand rubles	Sanatorium and health resort activities	Change of business legal structure August 4, 2017
42.	Joint-Stock Company Technological Transport Management	-	-	-	-	-	133,547 thousand rubles	871 thousand rubles	Passenger transportation; cargo transportation; organizing special transport and handling equipment; vehicle repair and maintenance services	Change of business legal structure June 20, 2017
43.	Limited Liability Company Verkhnetagilskaya Utility Company	-	-	-	-	-	42,279 thousand rubles	668 thousand rubles	Maintenance and operation services	No changes
44.	Joint-Stock Company Repair and Service Company of Thermal and Underground Communication Lines of Kostromskaya TPP	-	-	-	-	-	281,529 thousand rubles	785 thousand rubles	Operation and repair of heating, water supply, and sewage networks; transportation and sale of thermal energy	Change of business legal structure June 8, 2017
45.	Joint-Stock Company Integrated Energy Repairs	-	-	-	-	-	-	(17) thousand rubles	Repair of boiler inspection facilities; manufacture of non-standard equipment supervised by Rostekhnadzor; repair and adjustment of lifting facilities	Change of business legal structure July 20, 2017
46.	Joint-Stock Company Heat Service	-	-	-	-	-	363,813	898 thousand	Operation and	Change of business legal

	Company						thousand rubles	rubles	operability assurance of heat networks; operation, maintenance and repair of hot water supply networks	structure July 4, 2017
47.	Joint-Stock Company Kommunalnik	-	-	-	-	-	107,590 thousand rubles	(27,220) thousand rubles	Operation and ensuring the efficiency of heat networks	Change of business legal structure August 30, 2017
48.	Joint-Stock Company Energy-1	-	-	-	-	-	174,486 thous and rubles	(8,950) thousa nd rubles	Operation and ensuring the efficiency of heat networks, sales and distribution of thermal energy	Change of business legal structure June 19,2017
49.	Joint-Stock Company Volgorechensk Hotel	-	-	-	-	-	12,419 thousand rubles	155 thousand rubles	Hotel services	June 28, 2017, the name and business legal structure of the company was changed (former business legal structure and name: JSC Kostromskaya TPP Hotel
50.	Joint-Stock Company Yuzhnouralskaya Power Supply Company	-	-	-	-	-	289,708 thous and rubles	210 thousand rubles	Operation and ensuring the efficiency of thermal networks in the city of Yuzhnouralsk; delivery of thermal energy to consumers	Change of business legal structure June 20, 2017
51.	Limited Liability Company Bashenergotrans	-	-	-	-	-	877,771 thousa nd rubles	709,798 thous and rubles	Road transportation: passengers, cargo, oversized cargo, hazardous cargo	No changes
52.	Limited Liability Company Bashkir Distribution Heat Grids	-	-	-	-	-	15,322,086 thousand rubles	230,882 thous and rubles	Generation of thermal and electricity	No changes
53.	Limited Liability Company Integrator IT	-	-	-	-	-	410,363 thous and rubles	39,447 thousa nd rubles	Creating secure document management and providing services including information encryption, maintenance and distribution of encoding (cryptographic) facilities	No changes

54.	Limited liability company Moscow Regional Single Information Computing Center	-	-	-	-	-	2,602,807 thousand rubles	3,923 thousand rubles	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	No changes
55.	Limited liability company MES-Development	-	-	-	-	-	-	1,116,470 thousand rubles	Wholesale trade in electric and heat energy (without their transmission and distribution).	No changes
56.	Joint-Stock Company Korolyov Electric Grid SK	-	-	-	-	-	2,205,735 thousand rubles	84,924 thousand rubles	Electricity distribution	No changes
57.	JSC Energy Supply Company of the Moscow Region	-	-	-	-	-	-	(12,378) thousand rubles	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)	The share of PJSC Mosenergosbyt in the Company increased to 100% February 20, 2017
58.	Limited Liability Company Mosenergosbyt – Sergiev Posad	-	-	-	-	-	111 thousand rubles	(382) thousand rubles	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	The company was liquidated on September 18, 2017
59.	Limited Liability Company Mosenergosbyt – Zhukovsky - -	-	-	-	-	-	-	-	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided,	The company was liquidated on March 28, 2017

	- - -								etc.	
60.	Public Joint-Stock Company Mosenergosbyt – Serpukhov	-	-	-	-	-	-	(2,041) thousand rubles	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	The company was liquidated on May 31, 2017
61.	Limited Liability Company Mosenergosbyt – Chekhov	-	-	-	-	-	-	-	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	The company was liquidated on June 28, 2017
62.	Limited Liability Company Mosenergosbyt – Orekhovo-Zuevo	-	-	-	-	-	-	-	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	The company was liquidated on March 9, 2017
63.	Limited Liability Company Mosenergosbyt – Elektrostal	-	-	-	-	-	-	-	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	The company was liquidated on February 9, 2017
64.	Public Joint-Stock Company Mosenergosbyt – Pushkino	-	-	-	-	-	-	-	Providing services connected with supply of electric energy, including collection of	The company was liquidated on January 12, 2017

									payments for goods sold and services provided, etc.	
65.	Limited Liability Company Mosenergosbyt – Domodedovo	-	-	-	-	-	-	-	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	The company was liquidated on February 14, 2017
66.	Public Joint-Stock Company Mosenergosbyt – Podolsk	-	-	-	-		1 thousand rubles	(1,320) thousand rubles	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	The company was liquidated on October 26, 2017
67.	Limited Liability Company Mosenergosbyt – Narofominsk	-	-	-	-	-	-	-	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	The company was liquidated on February 22, 2017
68.	Public Joint-Stock Company Mosenergosbyt – Shchelkovo	-	-	-	-	-	-	(150) thousand rubles	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	The company was liquidated on June 27, 2017
69.	Limited Liability Company Mosenergosbyt – Noginsk	-	-	-	-	-	-	-	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	The company was liquidated on March 22, 2017

									etc.	
70.	Limited Liability Company Mosenergosbyt – Ramenskoye	-	-	-	-	-	-	-	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	The company was liquidated on April 4, 2017
71.	Limited Liability Company Mosenergosbyt – Troitsk	-	-	-	-	-	-	-	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	The company was liquidated on January 20, 2017
72.	Joint-Stock Company Petroelektrosbyt	-	-	-	-	-	5,000,251 tho usand rubles	193,460 thous and rubles	Purchase and sales of electric and thermal power; Collection and processing of payments for electricity and communal services	No changes
73.	QUARTZ Group Limited Liability Company	-	-	-	-	-	6,662,850 thousand rubles	(252,464) tho usand rubles	Activities to ensure power plant operation	No changes
74.	Limited Liability Company Inter RAO Information Technologies - - - -	-	-	-	-	-	1,611,954 thousand rubles	107,648 thous and rubles	Development and implementation of software and consulting in this area	No changes

	-									
75.	Limited Liability Company Inter RAO Service - - - - -	-	-	-	-	-	40,651 thousand rubles	5,266 thousand rubles	Exercise of customs agent and customs representative functions	No changes
76.	Limited Liability Company Inter Interstroj	-	-	-	-	-	No data available	No data available	Construction of power facilities, civil engineering facilities; installation, adjustment and repair of power facilities, electricity equipment.	No changes
77.	Limited Liability Company Inter RAO Invest - - - - -	-	-	-	-	-	658,226 thousand and rubles	(5,235) thousand rubles	Brokerage activities; dealer activity on the securities market; securities management activities, depository activities; investments in securities; other financial intermediation	No changes

78.	Limited Liability Company Energetik Health and Leisure Center	-	-	-	-	-	270,243 thousand rubles	(29,508) thousand rubles	Resort treatment and prophylaxis; medical services; operation of buildings and structures; property management	No changes
79.	Limited liability company Energospetsstservisobsluzhivaniye	-	-	-	-	-	5,837 thousand rubles PMR	482 thousand rubles PMR	Repair of energy equipment, operation of housing grids	No changes
80.	Joint-Stock Company Tomskenegobalans	-	-	-	-	-	2,271 thousand rubles	129 thousand rubles	Any business not prohibited by the law	No changes
81.	Joint-Stock Company Industrial Energy	-	-	-	-	-	515,183 thousand rubles	1,323 thousand rubles	Sale of electricity services	No changes
82.	Limited Liability Company Omsk Energy Supply Company	-	-	-	-	-	1,126,362 thousand rubles	118,643 thousand rubles	Sale of electricity services	No changes
83.	Joint-Stock Company Omsk Heat Distribution Grids	-	-	-	-	-	9,018,268 thousand rubles	1,287 thousand rubles	Assets management	No changes
84.	Joint-Stock Company OmskRTS	-	-	-	-	-	4,901,032 thousand rubles	(108,691) thousand rubles	Assets management	No changes
85.	Joint-Stock Company United Information and Payment Center of the Leningrad Oblast	-	-	-	-	-	305,774 thousand rubles	1,321 thousand rubles	Development and use of databases and information resources, delivery of united bills for housing services, and technical support of this operation	No changes
86.	Limited Liability Company Clearing Center	-	-	-	-	-	-	(12,273) thousand rubles	Electricity trade	No changes
87.	Limited Liability Company Inter	-	-	-	-	-	-	(240) thousand	Electricity generation	No changes

	RAO – Distributed Generation							d rubles		
88.	Limited Liability Company Inter RAO – SP	-	-	-	-	-	-	(1,053) thousand rubles	Assets management	No changes
89.	Limited liability company Inter RAO – Single Information Computing Center	-	-	-	-	-	331 thousand rubles	(36,051) thousand rubles		The company was founded on January 16, 2017
90.	Limited Liability Company Praktika	-	-	-	-	-	-	(7,698) thousand rubles		The company was founded on May 2, 2017
91.	Limited Liability Company Inter RAO Platforma	-	-	-	-	-	-	(169) thousand rubles		The company was founded on June 28, 2017
92.	Limited Liability Company Energoby Volga	-	-	-	-	-	62,900 thousand rubles	2,313 thousand rubles		The company was founded on July 31, 2017
93.	Limited liability company PSCB – Razvitiye	-	-	-	-	-	-	44,698 thousand rubles		The company was founded on June 23, 2017
94.	Limited Liability Company Hestion de Projectos	-	-	-	-	-	-	(46) thousand rubles		The company was founded on November 27, 2017
95.	Inter RAO Management B.V. - - - - -	-	-	-	-	-	129 thousand US dollars	(146) thousand US dollars	Management	No changes
96.	Gardabani Holdings B.V. - - - -	-	-	-	-	-	-	(1,182) thousand US dollars	Holding	No changes

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97.	Silk Road Holdings B.V.	-	-	-	-	-	-	(402) thousand US dollars	Managing company	No changes
98.	Inter Jet B.V.	-	-	-	-	-	1,125 thousand US dollars	11 thousand US dollars	Lease of property to third parties	No changes
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	-									
	-									
	-									
	-									
99.	Inter RAO Trust B.V.	-	-	-	-	-	-	(74) thousand euros	Holding	No changes
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100.	Orange Wings Ltd	-	-	-	-	-	—	(3) thousand US dollars	Project activities.	No changes
101.	Joint-Stock Company Telasi	-	-	-	-	-	420,338 thousand GEL	22,312 thousand GEL	Generation and delivery (sale) of electric and thermal power	No changes
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102.	Joint-Stock Company Khramhesi I	-	-	-	-	-	16,512 thousand GEL	4,615 thousand GEL	Electricity production	No changes
103.	Joint-Stock Company Khramhesi II	-	-	-	-	-	28,823 thousand GEL	8,474 thousand GEL	Electricity production	No changes
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	-									
	-									
	-									
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104.	Inter RAO Credit B.V.	-	-	-	-	-	-	(402) thousand euros	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 changes

105.	AB INTER RAO Lietuva	-	-	-	-	-	141,787 thousand euros	7,181 thousand euros	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 changes
106.	SIA Inter RAO Latvia - - - - -	-	-	-	-	-	13,058 thousand euros	90 thousand euros	Electricity trade	No changes
107.	INTER RAO Eesti OU	-	-	-	-	-	7,079 thousand euros	(18) thousand euros	Electricity trade	No changes
108.	Vydmantai Wind Park UAB	-	-	-	-	-	5,529 thousand euros	1,423 thousand euros	Electricity generation and sale	No changes
109.	Inter Green Renewables and Trading AB	-	-	-	-	-	-	-	Electricity trade	The company was liquidated on December 16, 2017
110.	IRL POLSKA spółka z ograniczoną odpowiedzialnością	-	-	-	-	-	51,216 thousand PLN	(389) thousand PLN	Electricity production, distribution, trade	No changes
111.	Trakya Elektrik Uretim ve Ticaret A.S.	-	-	-	-	-	770,759 thousand TRY	52,087 thousand TRY	Electricity generation and sale	No changes

112.	RIG RESEARCH PTE. Ltd	-	-	-	-	-	No data available	No data available		No changes
113.	Limited liability company INVENT	-	-	-	-	-	371,156 thousand rubles	(57,089) thousand rubles	Resort treatment and prophylaxis; medical services; operation of buildings and structures; property management	No changes
114.	Limited liability company Sports Support Center	-	-	-	-	-	-	(9,322) thousand rubles	Management of operation of non-residential property for a consideration or on a contractual basis	No changes
115.	Limited Liability Company Inter RAO – Service Management	-	-	-	-	-	-	(204) thousand rubles	Fish farming	February 17, 2017, the name of the company was changed (former name is LLC Fish Farming)
116.	Joint-Stock Company CASCADE	-	-	-	-	-	547,384 thousand rubles	20,777 thousand rubles	Design, production, and sale of electric connectors	No changes

Information on the concluded contracts of purchase and sale of shares, stock, units of economic partnerships and companies, including information on the parties, subject, price and other terms of these contracts.

In December 2017, the Group sold to a 50% stake in CJSC Kambaratinskaya HPP-1 (500 ordinary registered shares) to CJSC Power Grids for a cash consideration of 54 million rubles.

5.13. Appendix 13. Government Support

1. List of foreign projects implemented by Inter RAO Group that received government support

Item	Project name	Goals and objectives of investment project	Form of government support	Amount of government support	Events in the reporting period
1.	The project of Construction of four new power units with a single installed capacity of 200 MW within the international contract signed on October 22, 2015 with Energoimport (part of the state power company Union Electrica)	In accordance with the contract, LLC INTER RAO – Export, a subsidiary of PJSC Inter RAO, will perform organizational and management functions for the project, services of designing, supplying and commissioning all main and auxiliary power equipment of Russian production.	State export intergovernmental credit.	up to 1.2 billion euros	On November 28, 2017, at the expense of the state export credit, part of the basic remuneration for the project in the amount of 393.6 million rubles (5.66 million euros) was paid to LLC INTER RAO – Export.
2.	Supply of disconnected power equipment and spare parts in accordance with contracts signed with Energoimport (part of the state power company Union Electrica)	Supply of spare parts for turbines and other power equipment, carried out by LLC Inter RAO – Export for EMSE, Maksimo Gomez TPP and SHPP	Lines of credit of JSC ROSEXIMBANK to BICSA and BEC banks for financing the supply of high-tech domestic products. The loans are granted at preferential rates. In order to compensate for the lost income under credits, JSC Roseximbank receives compensation in the form of subsidies from the Federal budget of the Russian Federation.	2,694.6 thousand euros	On behalf of Energoimport, 3 letters of credit were issued in favor of LLC INTER RAO – Export amounting to 2,694.6 thousand euro

2. Tax benefits and preferences received by the Group's enterprises in 2017

In total in 2017, the enterprises of the Group received tax preferences in the amount of **4,067,488.6** thousand rubles, including:

- 2,019,633.6 thousand rubles of property tax benefits;
- 1,069,324.0 thousand rubles of income tax benefits;
- 127 thousand rubles of transport tax benefits;
- 978,404.0 thousand rubles of accelerated depreciation benefits.

5.14. Appendix 14. Information on Legal Proceedings and Significant Fines

Significant legal proceedings in which PJSC Inter RAO participated as a plaintiff or defendant in 2017

Plaintiff	Defendant	Subject matter of the claim	Amount of the claim, RUB	Likelihood of a negative outcome	
PJSC Inter RAO	PJSC NPO Saturn	Recovery of loss of opportunity as lost profit from sale of electricity resulted by deficiencies of delivered equipment	329 005 535	medium	The case is at the first instance.
PJSC Inter RAO (co-plaintiff)	Government of Georgia	Compensation for losses due to non-compliance with contractual obligations	123 million US dollars (preliminary, will be specified during the proceedings)	low	The case is under consideration by the arbitration institute (there are no instances)

Significant fines imposed on companies of Inter RAO Group

A significant fine is:

- - a single fine of more than 10 million rubles, lump sum imposed on the Group's company
- - a set of fines imposed on the Group's company during the reporting period, amounting to more than 30 million rubles.

Subsidiary	Authority that imposed the fine or sanction	Fines and sanctions imposed on the company, thousand rubles.
PJSC Mosenergosbyt	Moscow OFAS (Office of the Federal Antimonopoly Service) Russia	22,399.57
PJSC Tambov Power Supply Company	OFAS for the Tambov region	35,083.47

5.15. Appendix 15. Information on the Sale of Non-Core Assets in 2017

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)

Description of the Non-Core Asset Alienation Program

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, 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 progress 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).

In 2017, PJSC Inter RAO didn't alienate non-core assets.

5.16. Appendix 16. Associations and Partnerships in Which PJSC Inter RAO Takes Part; 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 2016

Organization	Group companies
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 (Cooperation agreement)
Non-profit Partnership Center of Innovative Energy Technologies (NP CIET)	PJSC Inter RAO, JSC EEC, CJSC Moldavia TPP
Non-profit Partnership Russian-Chinese business council (RCBC)	PJSC Inter RAO
Non-profit Partnership Russian Risk Management Society	PJSC Inter RAO

Organization	Group companies
Association Non-Profit Partnership Market Council for organizing an efficient system of trading at wholesale and retail electricity and capacity market (Association NP Market Council)	PJSC Inter RAO
International Union of Public Associations the International Congress of Industrialists and Entrepreneurs (ICIE)	PJSC Inter RAO
Russian National Committee of the International Council on Large Electric Systems (RNC CIGRE)	PJSC Inter RAO
Non-profit partnership of the self-regulatory organization the Association of Engineers of Builders (NP SRO OBINZH STROY) (the membership was terminated in connection with the Council Decision, the Council Minutes No. 07/17-s of July 1, 2017 in accordance with Section 7 of Article 3.3 of the Federal Law No. 191-FZ of December 29, 2004 (as amended on July 29, 2017) On the Implementation of the Urban Development Code of the Russian Federation).	JSC EEC
Chamber of Commerce and Industry of Dniestrian Moldavian Republic (DMR)	CJSC Moldavia TPP
Union of Industrialists, Farmers and Entrepreneurs of Pridnestrovye (from April 1, 2017, the membership was terminated due to cost optimization).	CJSC Moldavia TPP
Association European Federation of Energy Traders	RAO Nordic Oy (Finland)
Nordic Association of Electricity Traders	RAO Nordic Oy (Finland)