

## 11.11. Approval of Transactions on the Provision of Bank Guarantees on Subsidiaries' Transactions

Currently, there are plans to execute contracts/agreements and such have also been executed with specialized companies of the Inter RAO Group: INTER RAO – Export LLC, INTER RAO Engineering LLC, QUARTZ Group LLC, and with Russian and foreign counterparties, providing financial support for the performance of obligations in the form of bank guarantees.

INTER RAO – Export LLC implements turnkey projects on electromechanical and hydromechanical works under the Toachi-Pilaton hydropower project (Ecuador) and on the development of the front-end engineering design and detailed design, on construction, supply, installation, and commissioning of a gas turbine generator and introduction of a comprehensive cycle at Termogas Machala, and construction of electricity infrastructure for power output into the mains, the customer of which is the Ecuador state-owned electric power corporation Celec E.P. The total value of the projects is USD 145 mln and USD 230 mln respectively. Financial support in the form of bank guarantees provided under the aforesaid contracts stands at USD 30.1 mln and USD 32.4 mln respectively.

In 2016, it is planned to conclude contracts on construction of the Chiuído-1 HPP (Argentina) and upgrade of the Malka Wakana HPP, with replacement of one block (Ethiopia), to a total of USD 617 mln. The planned total value of bank guarantees on these projects stands at USD 104.15 mln. In 2016, expenditure on bank guarantees, according to the company's business plan, will be RUB 48,505 mln.

Inter RAO Engineering LLC has executed contracts for the overhaul of Block No. 5 at the Horazal TPP, Bangladesh, with the Power Industry Development Council of Bangladesh; for reconstruction of GA No. 1, overhaul of GA No. 3, and the turnkey supply of spare parts for Naglu HPP in Afghanistan, with the state-owned energy company of Afghanistan Da Afghanistan Breshna Sherkat; for performance of construction works at the Ruppur NPP construction and installation base, Bangladesh, with the Russian company Atomstroyexport JSC. The total value of these contracts is USD 67.8 mln. Financial support in the form of bank guarantees stipulated under these contracts stands at USD 13.46 mln.

In 2016, Inter RAO Engineering LLC plans to enter into contracts:

- for execution of priority construction and installation works of the preparatory period at the NPP Ruppur site and equipment supply in Bangladesh, with Atomstroyexport Joint-Stock Company; for the turnkey overhaul of the 210-MW Block No.1 at TPP Siddirganch, Bangladesh, with the Power Industry Development Council of Bangladesh.

The total value of the said projects planned for implementation is USD 119.19 mln. Financial support in the form of bank guarantees, stipulated under these contracts stands at USD 27.83 mln.

In 2016, INTER RAO Engineering LLC also plans to prepare proposals for participation in global turnkey construction tenders for electrical substations in the Democratic People's Republic of Algeria to the amount of EUR 25 mln. for reconstruction of Block No. 4 of TPP Gorazal in CCPP 400, Bangladesh, to the amount of USD 200 mln, and a number of projects in Bangladesh, Pakistan, Egypt, and Afghanistan. The approximate volume of estimated tender guarantees will stand at USD 6.74 mln. and EUR 500 thousand.

In 2016, the total cost of bank guarantees will be RUB 19,628,500 in accordance with the business plan of LLC Inter RAO - Engineering.

The core business of QUARTZ Group LLC is provision for power plant operability.

As part of its repair and maintenance activities QUARTZ Group LLC enters into contracts with major Russian energy companies (Enel Russia PJSC, MOESK PJSC, OJSC "Inter RAO - Electric Power Plants", TKG-11 JSC, etc.) for the overhaul, mid-life repair, routine repairs, reconstruction, maintenance and other repairs, one of the main conditions of which is the provision of banking guarantees to secure performance of obligations under contractor agreements. Main customers for the said contracts are companies of Inter RAO Group - about 85% of the total issued bank guarantees (according to 2015 reports).

In 2016, the total value of currently expected projects of QUARTZ Group LLC, for which issuance of new bank guarantees is planned, stands at RUB 4,815 mln.

Expenditure on maintaining bank guarantees is expected to be RUB 20.4 mln in the 2016 business plan.

As part of the Inter RAO approved Single Treasury Concept (Minutes No. 130 of Inter RAO Board of Directors Meeting dated December 22, 2014), to limit the credit risk of Inter RAO, it is

proposed to optimize the issuance of documentary instruments (bank guarantees) and to issue bank guarantees on behalf of Inter RAO (hereinafter – the Principal) on the instruction of subsidiaries. This would help reduce the monetary cost of servicing guarantees and the timing of the issuance of bank guarantees, since, in the case of collateral being provided by the parent company's subsidiaries with a lower credit rating, and not by the parent company itself, the price of servicing the bank guarantee is significantly higher.

In addition, the above scheme for documentary product issue would help minimize management risks for the Group, as a considerable amount of the documentary operations of Group companies will be centralized.

With such an arrangement for issuing bank guarantees, the issuance of a documentary instrument on the part of the banks is highly guaranteed due to assuming risks on Inter RAO, but not on subsidiaries.

The need to provide suretyship on the part of the parent company is excluded as well, since it is the Principal.

The volume and period of transactions are determined by a certain list of projects specified in business plans of Inter RAO Engineering LLC, Inter RAO - Export LLC, QUARTZ Group LLC for 2016, as well as by information submitted to Inter RAO regarding the subsidiaries' needs for 2016 with an indication of material conditions of the transactions (name, subject matter of contract/participation in tender, amount, timing, type and amount of security, and others) planned for execution

Tariffs, interest rates and the commission of the Banks are generally determined by financial market conditions, and are calculated taking into account existing similar contracts and agreements, providing that entering into framework agreements does not entail mandatory conclusion of certain transactions under such agreements.

The Agreements entered into between Inter RAO and the company's subsidiaries are controlled transactions in terms of transfer pricing, which requires a market fee to be established with respect to them (agent's remuneration). From an economic point of view, this makes the arrangement being analyzed similar to a suretyship agreement, unless the approach to determining the agent's remuneration will not be based on the subsidiary's credit risk. In accordance with the Tax Code of the Russian Federation, the agent's remuneration shall take into account the agent's costs pertaining to obtaining the guarantee, and the percentage of profitability.

It should be noted that a bank guarantee issued at the request of a principal (in this case – PJSC "Inter RAO") that is not a debtor under primary obligation, is a new phenomenon for Russian practice, so the amount of remuneration for PJSC "Inter RAO" for organizing/securing the Guarantee, as indicated above, will be determined for each individual transaction on the basis of the level of expenses on the organization of the issuance of a financial security and subject to the market conditions of similar transactions in the financial market as of the moment of the transaction, but not less than 0.2 percent per annum.

In accordance with Article 81 of Federal Law No. 208-FZ "On Joint-Stock Companies" dated December 26, 1995, the transactions offered for consideration are (or can be further recognized as) non-arm's-length transactions:

- Yury Sharov is a member of the Management Board of PJSC "Inter RAO" and also holds a post in the management bodies of Inter RAO Engineering LLC
- Pavel Okley is a member of the Management Board of PJSC "Inter RAO" and also holds a post in the management bodies of QUARTZ Group LLC.
- JSC ROSNEFTEGAZ can be acknowledged as an interested party, being a shareholder owning, jointly with its affiliates, more than 20% of the voting shares of PJSC "Inter RAO" because the affiliate of JSC ROSNEFTEGAZ (PJSC "Inter RAO") owns 100 percent of the shares of Inter RAO - Export LLC – a legal entity which is a party to the transaction.

According to Article 49 Clause 3 of the Law "On Joint Stock Companies", the resolutions of the General Shareholders Meeting on the approval of non-arm's-length transactions shall be made only at the suggestion of the Board of Directors.

In accordance with Article 83 Clause 7 and Article 77 of the Law "On Joint Stock Companies", when the General Shareholders Meeting approves a related-party transaction, the price of such transaction shall be approved by the Board of Directors.

☞ Recommendations to the annual General Meeting on approving such transactions were given by the Board of Directors at the meeting on April 7, 2016 (Minutes No. 165 dated April 7, 2016); in addition, the price (monetary value) of the property (monetary funds) under these transactions was determined in the following amount:

➔ *To determine the price (monetary value) of the liabilities under the agreements entered into between PJSC "Inter RAO" and Inter RAO Engineering LLC, and/or INTER RAO - Export LLC, and/or QUARTZ Group LLC (hereinafter referred to individually as Debtor) on the provision of bank guarantees for the debtor obligations as interrelated non-arm's-length transactions, and which may be performed in the future in the regular course of the Company's business:*

1. *Guarantees issued under the obligations in the amount of up to fifteen billion (15,000,000,000) rubles, inclusive, or its equivalent in US dollars or euro for each Debtor individually.*

2. *Commission of the banks that arrange the issuance of guarantees and of the issuing banks for the guarantees, including foreign credit institutions (hereinafter, the Banks), for the issue of guarantees in an amount not exceeding four (4) percent per annum.*

3. *Other costs and expenses incurred by the Banks in an amount of not more than three hundred thousand (300,000) rubles.*

4. *PJSC "Inter RAO"'s remuneration for the provision of the Guarantee under the Agreement is at least 0.2 (zero point two) percent per annum on the actual amount of guarantees used, including VAT at 18.0% (except for the amounts of penalties (fines) charged in connection with the Debtor's payment default under the Agreement).*

**It is proposed that the annual general shareholders meeting approve the following resolution:**

**11.11. Approve agreements on the provision of bank guarantees as inter-related non-arm's-length transactions, and which may be performed in the future in the regular course of the Company's business, entered into under the following material conditions:**

**11.11.1. Parties to the Agreements: PJSC "Inter RAO" — the Principal, Inter RAO Engineering LLC, and/or Inter RAO - Export LLC, and/or QUARTZ Group LLC — the Debtor.**

**11.11.2. Agreement(s) price (the ceiling amount of the Agreement(s)):**

**The amount of liabilities under the Agreements between the Principal and each Debtor individually, including:**

• **Guarantees issued under the obligations in the amount of up to fifteen billion (15,000,000,000) rubles, inclusive, or its equivalent in US dollars or euro for each Debtor individually.**

• **Commission of the banks that arrange for the issue of guarantees and issuing banks for the guarantees, including foreign credit institutions (hereinafter, the Banks), for issue of guarantees in an amount not exceeding four (4) percent per annum;**

• **Other costs and expenses incurred by the Banks in the amount of not more than three hundred thousand (300,000) rubles;**

**Remuneration to PJSC "Inter RAO" for providing the Guarantee under the Agreement of not less than zero point two (0.2) percent per annum of the actual amount of the guarantee used, including VAT at eighteen (18.0) percent.**

**11.11.3. Subject matter of the Agreements:**

**In order to perform the Debtor's obligations in terms of financial support of the latter's participation in tenders/competitions, as well as contracts entered into/concluded between the Debtor and its Russian and foreign partners (hereinafter, also the "Beneficiaries"), on individual requests-orders of the Debtor, the Principal may, on its own behalf but at the expense of the Debtor, make provision for/organize the issue of an independent bank**

**guarantee/counter-guarantee/standby letter of credit (hereinafter, the "Guarantee") by Russian or foreign banks (hereinafter, the Guarantors) in favor of the Beneficiaries.**

**11.11.4. Effective term of each Agreement:**

**The effective term of each Guarantee is not more than five (5) years (inclusive).**

**The effective term of the Agreement — until the Parties perform their obligations.**