

Preliminarily approved by the Board of Directors Of PJSC Inter RAO on May 05, 2017
(Minutes No. 198 of the meeting of the Board of Directors dated May 05, 2017)

Going the extra mile

Chairman of the Management Board

Boris Kovalchuk

Chief Accountant

Alla Vainilavichute

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The 2016 Annual Report of PJSC Inter RAO (hereinafter – “Report”) presents the Group’s key business results in 2016 by type of operations, its development strategy, and continuous improvement of approaches to government in all Group companies. The Report was developed in accordance with the regulatory requirements in the field of financial markets considering the Code of Corporate Governance recommendations based on the data from the Group’s IFRS consolidated financial statements.

The scope of information on subsidiaries included in the Report is in line with the scope of IFRS consolidated reporting. In the reporting period, LLC Power Supply Company of Bashkortostan and LLC INVENT (33%) entered the periphery of Inter RAO Group. LLC Sports Support Centre and INTER JET B.V. were established. The Turkish company was reorganised by way of merger of Turkish assets; the segment is currently represented by Trakya Elektrik Üretim ve Ticaret Anonim Şirketi. During the reporting period, certain assets were sold, such as LLC Mtkvari Energy, LLP Inter RAO Central Asia, JSC HrazTES and CJSC Power Grids of Armenia, LLC Quartz – New Technologies and LLC Mir Agricultural Enterprise. In 2016, certain companies were liquidated, such as Mosenergosbyt – Solnechnogorsk, Mosenergosbyt – Shatura, Mosenergosbyt – Yegoryevsk and Silveteria.

This Report was developed in accordance with the Global Reporting Initiative G4 Sustainability Reporting Guidelines (hereinafter – GRI G4 Guidelines) and Electric Utilities Sector Supplement. The disclosure is performed at the basic level. Attached to this Report (Section 10.5) is additional information on the GRI indicators disclosure. To make this Report useful and concise, we have included links to additional information sources into it, in particular, to the Inter RAO Group website. Continuous improvement of interactions with stakeholders enables consistent improvement of the Group’s statements quality. Details on the interaction with stakeholders are provided in Section 4.7.

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

Dear Shareholders:

The past year of 2016 was marked by a difficult market situation, excessive capacities available in the country and limited access to financial resources. However, in these conditions PJSC Inter RAO managed to retain the status of the leading company in the domestic market.

The electric power sector is one of the core industries of the Russian economy. The electric power system condition affects the feasibility of achieving planned parameters of Russia's economic development, reliability of operation of the manufacturing industry, agriculture and the municipal sector. In the end, the quality of life of Russian citizens.

Today, Inter RAO faces, as does the entire industry, a task related to modernising current facilities and developing effective mechanisms for investment attraction into the corresponding projects. Modernisation is the guarantee of efficiency in the future.

PJSC Inter RAO is building its activities in accordance with the 2020 Strategy. In the coming years, the Company has no intention of deviating from the set vector and will continue implementing projects aimed at strengthening its leading position in the Russian electric power sector.

Ensuring reliability and efficiency of electricity generation remains the main priority of PJSC Inter RAO. In this area, the investment programme completion and successful commissioning of new efficient capacities in the Sverdlovsk Region, Perm Territory and Bashkortostan take on particular importance.

Furthermore, the Company intends to seamlessly implement the project on the construction of four power plants in the Kaliningrad Region required to ensure energy security in the region, as effectively as possible. The term of their commissioning is determined by the Government of the Russian Federation. In terms of the number of projects being implemented, the Inter RAO Group takes the lead among heat generating companies.

One of the key projects that will improve the efficiency and reliability of Inter RAO's activities is the programme for the removal of obsolete facilities. Inter RAO Group was one of the first players in the industry to realise the need for changing the composition of equipment in operation, and in 2016 the Company decommissioned over 835 MW of low-performing capacities, which entailed a significant rise in electricity generation profitability.

In 2016, the Company's stakes in PJSC Irkutskenergo and LLC Mtkvari Energy were successfully sold, which also contributed to the increased financial stability of Inter RAO.

Efficient asset management, as well as competent economic and marketing policies made it possible to achieve convincing financial results in 2016. Thus, Inter RAO Group's EBITDA under the International Financial Reporting Standards increased by 33% reaching RUB 96.3 billion, and net profit increased by 2.6 times up to RUB 61.3 billion.

Strong financial indicators of the Company contribute to the increase in the stock price and capitalisation of Inter RAO: over the past year alone, the shareholder value rose by 3.3 times, and we see the potential for its further growth.

In 2017, it is expected that decisions will be taken to change the state regulation, which will be decisive for the development of the industry. This regulation based on so called benchmark companies, formation of a new heat market model based on the "alternative boiler house"

method and the liberalisation of prices for thermal energy from 1 January 2018. To ensure successful integration into the new regulatory environment, Inter RAO is proactive in terms of interaction with legislative and executive authorities of the Russian Federation.

The Company intends to further improve the efficiency and profitability of all business segments, to optimise investment activities, and to increase the values and financial stability of assets will be strengthened that will undoubtedly be assessed by shareholders and the investment community.

Chairman of the Board of Directors of PJSC Inter RAO.

Igor Sechin

2 Address by the Chairman of the Management Board of PJSC Inter RAO

Dear Shareholders:

I am pleased to present the business results of PJSC Inter RAO in 2016. This year brought new challenges and new opportunities for us, and owing to precise compliance with the strategy and key priorities, we succeed in ending it with unprecedented financial and business results. Notwithstanding the complicated macroeconomic situation, Inter RAO remains one of the most reliable and efficient companies in the industry. The substantial growth in financial indicators occurred not just due to the increase in revenues from CDAs and sale of assets, but largely owing to efforts aimed at improving the operating efficiency of the Group enterprises.

In response to the slowdown in growth of the competitive price for capacity due to its surplus, we were the first major industry players to develop and implement a large-scale programme for the decommissioning of low-performing capacities. In 2015 and 2016, we decommissioned over 1.2 GW, while reallocating the generation to efficient equipment.

Large-scale efforts aimed at improving the fuel efficiency continued. In this segment, the Company succeeded to optimise its fuel expenses – both as part of its work with suppliers (we have switched to an exclusive long-term contract with our strategic partner PJSC Rosneft Oil Company), and through reducing the specific reference fuel consumption by 1%.

In 2016, we were able to implement a range of key projects, which had a positive effect on the financial results. Primarily, I am talking about the sale of our stake in PJSC Irkutskenergo – the transaction that we have been preparing for several years, and the result of which was highly appreciated by the entire financial community.

In 2016, certain purchases important to Inter RAO were also made. We completed a deal on the purchase of the largest power supply company in Bashkortostan. We see strong potential for development of the said asset, in particular, considering the synergy from holding generating and heating grid assets in the region. The second investment critical to Inter RAO was the purchase of the 33% stake in the INVENT industrial holding – a cutting-edge enterprise, one of the largest manufacturers of power cables and transformer substations in Russia, as well as heat-insulated pipes and shaped products for heat-generating and heat-supplying organizations.

As for electricity trade on the foreign markets, we ensured a cumulative increase in exports/imports of electricity supply from Russia by 1.2 billion kWh, as compared to 2015.

The implementation of the investment programme still remains a key priority for Inter RAO. In 2016, we made substantial progress towards its completion: the commissioning of power generating units with total capacity over 1.6 GW at Permskaya and Verkhnetagilskaya TPPs, as well as at Zatonetskaya CHPP in Ufa, as planned for 2017.

Jointly with our key shareholder, JSC ROSNEFTEGAZ, we proceeded to the implementation of the project having a strategic significance for the Russian Federation – construction of four power plants in the Kaliningrad Region, which will almost double the installed generation capacity in the region. The task of Inter RAO is to manage the construction and timely commission power generating units. The first electricity will be supplied from the beginning of 2018.

We have a great deal of work in the field of efficiency improvement ahead of us. We continue following the programme for the decommissioning of old low-performing capacities, and we will soon approach the need to modernise the equipment. We are sure that the mechanism for solving this industry-wide problem will be found and approved by statute in the nearest future.

In addition, we intend to work on increasing business volumes in the heat distribution grid segment, prepare for switching to free pricing for all consumers, and save for the population, starting from 2018.

We will continue implementing the most advanced solutions in our retail business. We set an task to develop new products for consumers and transfer the best practices to all supply companies within the Group (installation of metering devices, energy saving programmes), which will eventually lead to the increased return on sales of additional services. At the same time, we are committed to prevent a decline in the collection of electricity payments.

Our main goal is to promote the Company's capitalisation for the benefit of all shareholders, while ensuring reliable energy saving in the regions of Group's operation, and this goal determined and will determine further development of PJSC Inter RAO. Implementing strategic projects is impossible without the support of the Company's shareholders. I greatly appreciate and thank you for your constructive cooperation.

Chairman of the Management Board of PJSC Inter RAO

Boris Kovalchuk

3 Inter RAO Group today

- A diversified energy holding company managing assets in Russia, as well as in European and CIS countries.
- The Group operates in the following segments:
 1. Electricity and heat generation
 2. Power supply and heat supply
 3. International electricity trading
 4. Engineering, power equipment export
 5. Management of electricity distribution grids outside Russia
- Since 2010, PJSC Inter RAO has been rated in the List of Strategic Enterprises and Strategic Joint Stock Companies of the Russian Federation¹.
- A leading electricity export and import operator in Russia. The Inter RAO Group's supply geography comprises Finland, Belarus, Lithuania, Latvia, Estonia, Poland, Norway, Ukraine, Georgia, Azerbaijan, South Ossetia, Kazakhstan, China and Mongolia.
- Effectively manages power supply companies – guarantee suppliers in 12 regions of Russia.
- 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

in 2016 – 17,0 billion kWh

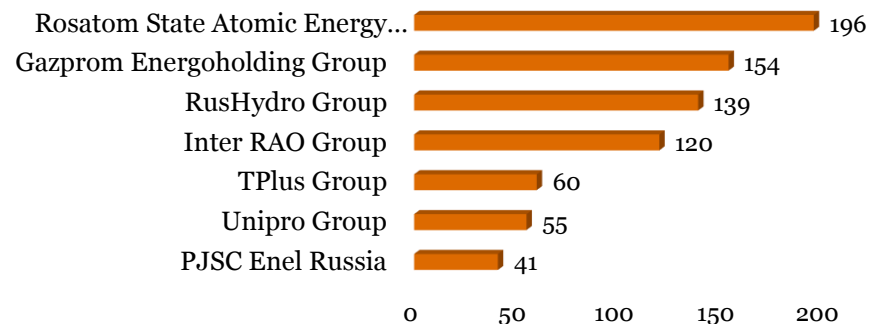
Electricity import

in 2016 – 3,1 billion kWh

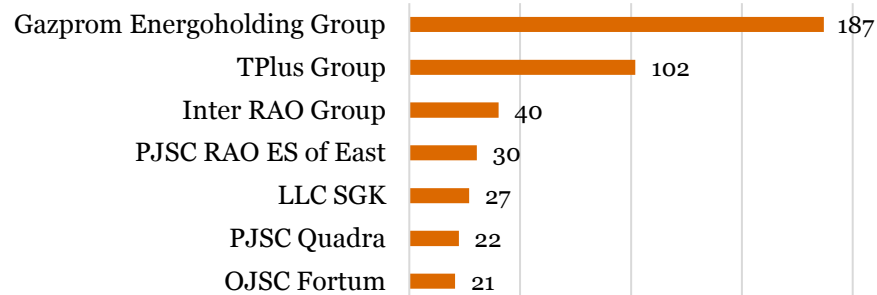
²Considering the acquisition of 100% of shares in LLC Power Supply Company of Bashkortostan

Leading position in electricity and heat generation and supply

Russia's largest producers in the electric power industry (bn kWh)*

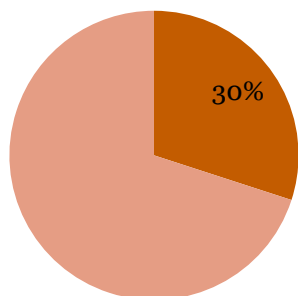


Russia's largest heat producers (m Gcal)*



*Data was obtained from the Company's official websites available at the time of Report preparation

Share of Inter RAO Group's guarantee suppliers in the aggregate amount of guarantee suppliers in Russia in 2016



3.1 Key results 2016

Key Group achievements and milestones in 2016 by development area

Type of operations	Key strategic initiatives	Main achievements in 2016
Electricity and heat generation	Ensuring reliability, security and technological development of the existing production assets	All necessary retooling/modernisation, repair and maintenance measures for 2016 aimed at ensuring reliability and safe operation of the production assets were implemented.
	Implementing construction and modernisation projects, including those under CDAs (capacity delivery agreement)	120 MW of new generating capacities were commissioned under CDA at Omskaya CHPP-3 (JSC TKG-11). CDA transfer to the Verkhnetagilskaya TPP site from the Serovskaya TPP site (PJSC OGK-2) was secured.
	Increasing the operating efficiency of production assets	Measures under the cost management, energy saving and energy efficiency programmes approved for 2016 were implemented. Detailed information about the Energy Saving and Energy Efficiency Programme implementation is provided in Section 4.6.
	Decommissioning of low-performing generating capacities	The decommissioning of outdated low-performing generating equipment with installed capacity of 835 MW was secured.
	Elaborating and promoting offers to develop the regulatory framework in the industry	A considerable amount of work on monitoring amendments to the industry laws was performed; the Company continuously cooperated with the key federal executive authorities (FEAs) and industry expert platforms, in particular:

		<p>— in 2016, the draft main industry planning document – Energy Strategy 2035 – was reviewed. PJSC Inter RAO provided its comments and suggestions, which have been largely considered by the drafters;</p> <p>— the Company contributed to shaping the draft law with respect to using the “alternative boiler house” heat supply method. At the end of 2016, the draft law was adopted by the State Duma in the first reading.</p>
Fuel supply	Mitigating fuel supply risks to generating facilities	In 2016, the coal supply from in-house deposits (LLC Ugolny Razrez) amounted to 15.2% for Russian assets of the Group.
Retail supply business in Russia	Promoting retail market model proposals to the regulatory framework	Participation in the development of a draft bill on the establishment of marketing premiums for guarantee suppliers using a comparative method.
	Expanding the list of additional services	Power supply companies of Inter RAO Group secured the implementation of measures to develop and promote additional paid services (APSs).
	Purchasing and integrating into the Inter RAO Group’s periphery economically attractive power supply companies	Inter RAO Group acquired 100% of shares in LLC PSCB from JSC Energy Supply Company RusHydro. Thus, the number of regions where guarantee suppliers of Inter RAO Group operate reached 12.
Foreign trade operations	Preserving and strengthening the existing positions of the single Russian export/import operator	The total volume of PJSC Inter RAO’s foreign trade operations considering agency agreements with JSC EEC (100% subsidiary of PJSC Inter RAO) roughly amounted to 20,1 billion kWh.
International operations	Expanding the footprint in foreign markets	<p>On 12 May 2016, the contract between LLC Inter RAO – Export (a member of Inter RAO Group) and Energoimport, a Cuban state-owned company, for the construction of four power generating units with a capacity of 200 MW each at two operating Cuban power plants: one unit – at Maximo Gomez TPP, and three units – at East Havana TPP, became effective (total contract price – about EUR 1,2 billion).</p> <p>Furthermore, in 2016, the above mentioned companies entered into several contracts for the supply of equipment for heat power and hydropower industries in the Republic of Cuba totalling about EUR 2.7m.</p>
	Elaborating options for managing the existing assets in foreign markets	<p>Tashir Group and Inter RAO Group completed the last (third) stage of the transaction for the sale of power assets in the Republic of Armenia, by results of which the ownership of 100% of shares in CJSC Power Grids of Armenia and JSC HrazTES passed to Tashir Group.</p> <p>Inter RAO completed the transaction for the sale of the 100% stake in Georgian LLC Mtkvari Energy.</p>
Engineering	Development competencies in the following areas: general contracting, design, commissioning, etc.	In July 2016, the project on the construction of a TPP in the Kaliningrad Region (implemented by LLC Kaliningrad Generation – a JV of JSC Rosneftgaz and PJSC Inter RAO) was started, as part of which LLC Inter RAO – Engineering acts as an agent/general contractor.

Innovations	Contributing to the financing and implementation of major industry projects, in particular, as part of partnerships with the leading Russian enterprises and R&D centres	PJSC Inter RAO jointly with the Fund for Infrastructure and Educational Programs (Rusnano), NP Centre of Innovative Energy Technologies and NPO Saturn continued the implementation of the project on the creation of a production technology for GTD-110M and GTE-110M using nanotechnology.
	Developing cutting-edge technologies and innovations	Inter RAO Group acquired 33% in LLC INVENT, an electrical engineering company in Tatarstan.
	Implementing the innovative development and R&D programme	As part of the Innovative Development and R&D Programme, 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. Detailed information about the Innovative Development and R&D Programme implementation is provided in Section 4.5.
Management of minority interests		Inter RAO Group secured the sale of 40.29% of shares in PJSC Irkutskenergo to LLC Telmamskaya TPP – a subsidiary of JSC Eurosibenergo.
Asset structure optimisation		Sale of the 100% stake in LLC Mtkvari Energy; completion of the transaction for the sale of stakes in CJSC Power Grids of Armenia and JSC HrazTES; sale of Kumertauskaya CHPP.
Improvement of investment appeal and liquidity of Inter RAO Group shares		PJSC Inter RAO shares were included in the calculation basis of the MSCI Russia Standard and Market Vectors – Large indices. The share in other key indices (MICEX, FTSE, Stoxx and S&P) augmented as a result of inventorying the amount of free floating shares and increased capitalisation. The improved level and quality of communications with operating investment funds entailed the 5-fold increase in the average daily trading volume of shares (from USD 1m to USD 5.5m per day).

Credit ratings

- The Moody's Investors Service international agency confirmed the corporate credit rating for Inter RAO Group at the level of Ba2 on the global scale, stable outlook.
- The Fitch Ratings international rating agency confirmed the corporate credit rating for Inter RAO Group at the level of BBB- on the global scale and changed the outlook from “negative” to “stable”, and AA+(rus) on the national scale, stable outlook.

Key awards 2016



Winner of the Annual Report Competition held by the Moscow Exchange in the Best Annual Report of a Company with a Capitalisation of RUB 40 to 200 billion category.



IR magazine Russia & CIS Awards 2016. The IR Service of PJSC Inter RAO won the first place in the Corporates Best for Investor Relations – Russian Federation – Utilities and Best IR Professional categories for the second year in a row.



Best press service in the electric power industry.



Digital Communication Awards. The official Facebook page of PJSC Inter RAO was named the best in the social media & community category.



Digital Communication Awards. Our iOS and Android mobile application Energy Without Borders won the first place the Digital Media & Tools category.



Best corporate media of the year. Best corporate media system.



Maksim Shaskolsky, CEO of JSC St. Petersburg Power Supply Company, was named the best top manager in the power industry according to the Top 100 Award of *Delovoy Peterburg*.



At the regional stage of the ENES-2016 All-Russia Contest of Completed Energy Saving, Energy Efficiency Enhancement and Energy Development Projects, PJSC Tomskenergosbyt took the first place in the following categories: Implementation of Energy Service Contracts for Modernisation of Street Lighting in the Belovsky City District, Implementation of Energy Service Contracts for Modernisation of Street Lighting in the Pervomaysky District and Implementation of Energy Service Contracts in the Public Sector of the Belovsky City District.



PJSC Tambov Power Supply Company received a diploma of the winner of the regional stage of the ENES-2016 Contest of Completed Energy Saving and Energy Efficiency Enhancement Projects.



Yury Baranov, Deputy CEO for Sales of Electricity and Capacity of LLC OPSC, was awarded the medal “In Commemoration of the 300th Anniversary of Omsk”. The medal was established by the Governor of the Omsk Region and is awarded to Omsk residents, who made a notable contribution to the city’s development. The medals were awarded at the Government of the Omsk Region.



Second place diploma for the JSC Altai Energobyt’s project “Implementing an Automated System for Power Resources Recoding at the Facilities of PJSC MRSK Siberia – Altai Energo in the Best Project for Implementing an Automated System for Power Resources Recoding in the Retail Market category granted by results of the third ENES All-Russia Contest of Completed Energy Saving and Energy Efficiency Enhancement Projects.

Events after the reporting date

In June 2016, the Annual General Meeting of Shareholders of PJSC Mosenergosbyt decided to increase the Company’s registered capital by placing common stock of the Company as a private offering. In February 2017, the Group participated in the placement of PJSC Mosenergosbyt stock. State registration of the report on the results of issuance of PJSC Mosenergosbyt stock was performed on 06.03.2017.

In January 2017, the Moody's Investors Service international rating agency upgraded the Group's credit rating to Ba1 on a global scale; the outlook is negative. The outlook of the Group's creditworthiness is consistent with the outlook of the sovereign credit rating of the Russian Federation. The improved credit rating is due to the Group's consistently high financial indicators, diversified business profile, and positive changes in the structure of the electric energy sector in the Russian Federation during the past year. In February 2017, the Moody's Investors Service international rating agency confirmed the corporate credit rating for PJSC Inter RAO at the level of Ba1 on a global scale, having changed the outlook from "negative" to "stable".

Also in February 2017, the Fitch Ratings rating agency withdrew the Group's corporate credit rating on a national scale. This decision was made after the introduction of a new system for regulating the credit rating industry in Russia. It imposes requirements that result in no longer being able to use Fitch Ratings' ratings on a Russian-wide scale for regulatory purposes.

3.2 History of Inter RAO Group

International electricity trade	Generation development	Rapid growth	Consolidation of assets	Increase efficiencies and commission new generating capacity
1997–2002	2003–2006	2007–2011	2012–2014	2015
<ul style="list-style-type: none"> - Launch of projects for trading in electricity produced outside Russia in foreign markets - Establishment of first subsidiaries to ensure operations in foreign power markets - Commencement of independent export of electricity from Russia 	<ul style="list-style-type: none"> - Commencement of electricity generation with the use of a leased power generating unit at Irikhinskaya TPP - Active purchases of power assets in Russia and abroad - Consolidation of Russian and foreign assets, including JSC Ekibastuz TPP-2 (Kazakhstan), CJSC Moldova TPP (Moldova), Severo-Zapadnaya CHPP (Russia), and TGR Enerji (Turkey) 	<ul style="list-style-type: none"> - Merger of the Group's generating assets: Severo-Zapadnaya CHPP, Ivanovskiye CPP, Kaliningradskaya CHPP-2, and Sochinskaya TPP - Acquisition of the status of majority shareholder of JSC OGK-1, JSC OGK-3, JSC TGK-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. - Reorganisation of Inter RAO into an open joint stock company 	<ul style="list-style-type: none"> - Completion of the reorganisation, which resulted in the transfer of 100% control of the Russian generating assets, JSC OGK-1 and JSC OGK-3, to Inter RAO – Electric Power Plants - Acquisition of several promising assets, including assets of Bashkirenergo Group, Trakya Elektrik A.S. in Turkey, and PJSC Tomskenergosbyt - New power plant construction: commissioning of two power generating units of Yuzhnouralskaya TPP-2 with a rated capacity of 417.4 MW and 420 MW respectively - Approval of the updated company development strategy until 2020 by the Inter RAO's Board of Directors - Launch of the plant (a joint venture of Inter RAO Group, GE, 	<ul style="list-style-type: none"> - The consolidation of Inter RAO shares was completed, and PJSC Inter RAO shares with a new par value were admitted for trading on the Moscow exchange - Completion of the spin-off of JSC Tomsk Generation from JSC TGK-11 by Inter RAO Group - Execution of a protocol with respect to the project on the construction of Chuido-1 HPP with a capacity of 637 MW in Argentina - Commissioning of a new coal power generating unit with a rated capacity of 225 MW at Cherepetskaya TPP in the Tula Region - Approval of decommissioning of inefficient generating equipment. - Launch of the investment project on the completion of Zatonetskaya CHPP in Ufa, a branch of LLC BGC, with a rated capacity of 440 MW

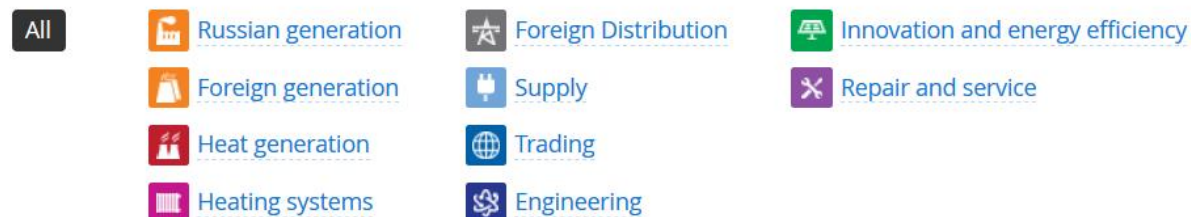
- Public trading in shares at the MICEX and RTS stock exchanges

and JSC United Engine Corporation) for the production, sale and maintenance of 6FA (6F.03) gas turbines with a capacity of 77 MW in Rybinsk, the Yaroslavl Region

- Execution of the agreement for the sale and purchase of electric power assets (CJSC Power Grids of Armenia and JSC Hrazdan Energy Company) in the Republic of Armenia by and between Inter RAO Group and Tashir Group
- Execution of the contract for the construction of four new power generating units with a rated unit capacity of 200 MW (one unit – at Maximo Gomez TPP, and three units – at East Havana TPP)
- Commissioning of a modernised turbine with a capacity of 100 MW at Omskaya CHPP-5 by Inter RAO Group, new gas turbine with a capacity of 120 MW at Omskaya CHPP-3.

3.3 Inter RAO Group foot print

The Group is managed by its parent company PJSC Inter RAO.



3.4 Group structure

Major Inter RAO Group companies as of the end of 2016 by type of operations:

Generation

<i>Electricity generation</i>	<i>Heat generation</i>
<p>Inter RAO – Electric Power Plants Group:</p> <p>1) Inter RAO – Electric Power Plants Group:</p> <ul style="list-style-type: none"> • Verkhnetagilskaya TPP • Gusinoozyorskaya TPP • Dzhubginskaya TPP • Ivanovskiye CCGT • Irikhinskaya 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 <p>2) JSC Nizhnevartovskaya TPP (accounted for under the equity method)</p>	<p>JSC TKG-11</p> <p>JSC Tomsk Generation</p> <p>JSC Tomsk RTS</p> <p>JSC Omsk RTS</p> <p>LLC BGC (including LLC BashRTS)</p>

Supply

Guarantee suppliers	Independent power supply companies	Information and computing centre
PJSC Mosenergosbyt (group of companies) JSC Altai Energosbyt JSC St. Petersburg Power Supply Company (including LLC Omsk Power Supply Company) PJSC Saratovenergo PJSC Tambov Power Supply Company PJSC Tomskenergosbyt LLC – Oryol Energy Sales Company LLC PSCB	LLC RN – Energo PJSC Promishlennaya Energetika LLC RT – Energotrading	JSC UICC LR LLC MosOblUIAC

Trading

PJSC Inter RAO
 RAO Nordic Oy
 AB INTER RAO Lietuva
 SIA INTER RAO Latvia
 INTER RAO Eesti OU
 SOO IRL POLSKA
 JSC Eastern Energy Company

Foreign assets

Georgia	Moldova	Kazakhstan	Turkey	Armenia
JSC Telasi JSC Khrami HPP-I JSC Khrami HPP-II LLC Mtkvari Energy until 01 June 2016	CJSC Moldova TPP	JSC Ekibastuz TPP-2 (accounted for under the equity method until 01 December 2016) LLC INTER RAO – Central Asia (until 21.09.2016)	Trakya elektrik Uretim Ve Ticaret A.S.	CJSC Power Grids of Armenia JSC HrazTES (accounted for under the equity method from 30.10.2015 until 29.12.2016)

“Engineering in the Russian Federation” segment

LLC Inter RAO – Engineering
 LLC Quartz – New Technologies (accounted for under the equity method until 07 October 2016)
 LLC Quartz Group
 LLC InterRAO-WorleyParsons (accounted for under the equity method until 01 April 2014)
 LLC INTER RAO – Export

Innovations	Energy efficiency
Energy Without Borders Foundation LLC Energy Without Borders Technology Commercialisation Centre	LLC INTER RAO UES Energy Efficiency Centre

Other

CJSC Inter RAO Capita
 LLC Inter RAO Service
 JSC Elektroluch
 LLC Inter RAO Invest
 LLC Inter RAO IT
 LLC Inter RAO Finance
 CJSC Kambaratinskaya HPP-1 (accounted for under the equity method)
 LLC INTER SMART (accounted for under the equity method)
 LLC Cosy House (accounted for under the equity method)
 Vydmantai Wind Park UAB

3.5 Key indicators of the Group for 2014–2016

Key indicators	UOM	2014	2015 ²	2016	2016/2015
Revenue	bn RUB	741.1	832.0	868.2	+4.4%
Net profit	bn RUB	9.8	23.8	61.3	by 2.6 times
Net assets	bn RUB	348.2	366.2	419.2	+14.5%
Intangible assets	bn RUB	12.5	13.7	9.9	-27.4%
EBITDA	bn RUB	56.3	72.4	96.3	+33.0%

²Considering the acquisition of 100% of shares in LLC Power Supply Company of Bashkortostan

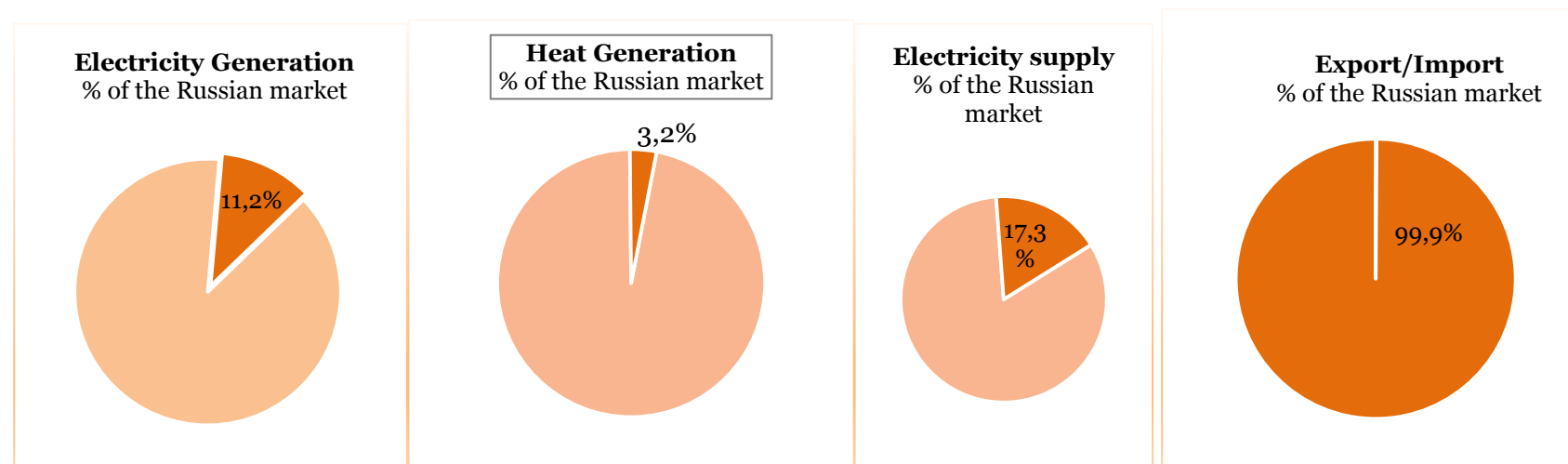
EBITDA per kWh	RUB bn/kWh	0.30	0.35	0.56	+60.3%
Installed capacity, total	MW	35,035	34,968	32,524	-7.0%
Including: Rated capacity, Russia	MW	29,070	29,003	28,269	-2.5%
New capacity commissioning in Russia ³ (CDA)	MW	1,493	269.5	166.4	-38.3%
Decommissioning of inefficient capacity	MW	60.00	362.00	835.36	+131%
Electricity generation	bn kWh	146	141	134	-4.9%
Electricity supply	bn kWh	166	168	169	+0.5%
Average electricity selling price in Russia	RUB/kWh	1.6	1.67	1.79	+6.9%
Year-end number of employees	people	58,479	50,797	48,945	3.6%
Average number of employees per MW of installed capacity (Generation in Russia segment)	people/ MW	0.97	0.88	0.85	-3.9%
Wages, benefits and payroll taxes	bn RUB	42.9	48.0	49.9	4.0%
Average age of employees	years	42	42	41	2.4%
Investments in personnel training	bn RUB	0.21	0.19	0.19	0
Expenses on the implementation of social programs for personnel	bn RUB	5.77	5.10	5.2	2.0%
Injury frequency rate (LTIFR)		0.29	0.32	0.22	-31%
Specific greenhouse gas emissions per unit of electricity generated	g CO ₂ /kWh	0.49	0.49	0.49	0%
Environmental protection investments	bn RUB	1,801	1,898	1,037	-45%
Procurement costs excluding agency fees and intra-group procurement	bn RUB	191.0	161.3	170.0	+5.4
Retained economic value	bn RUB	-18.0	-35.6	+10.0	not applicable

3.6 Position and main competitive strengths of Inter RAO Group in the energy market

Inter RAO Group holds stable positions in the markets where it operates. The strategy of Inter RAO Group is aimed at creating an efficient and diversified international holding company operating in all key competition segments of the electric power industry. The implementation of such strategy will enable Inter RAO Group's joining the world's top ten largest energy companies by 2020.

³ Considering the remarking of the generating equipment

Inter RAO Group's leading positions in each business segment



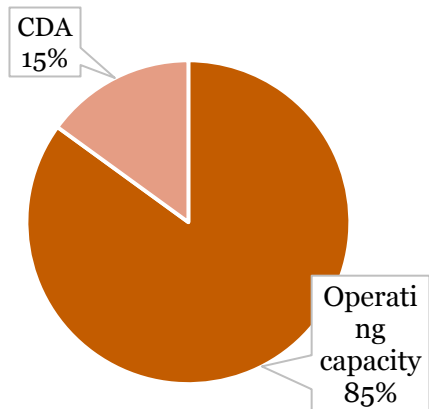
Generation in the Russian Federation

The "Generation in the Russian Federation" segment includes two operating subsegments: Electricity Generation and Heat Generation. Generating enterprises of the subsegments are located in 19 regions of the Russian Federation and are part of the five integrated energy systems (IES) of Russia. 86% of the electricity produced by the segment falls on the European part of the Russian Federation and the Urals, and 14% on Siberia. Due to decommissioning in 2016, we managed to achieve a redistribution of 835 MW to more efficient equipment. Over the reporting period, 134 MW of new capacities (34 MW as a result of reconstruction/modernisation of equipment) were commissioned, and the units previously commissioned, including those under capacity delivery agreements (CDA), were re-qualified.

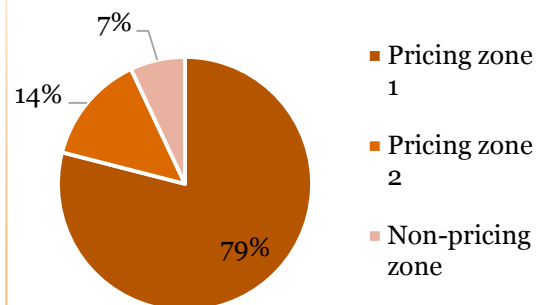
The total installed electric and heat capacities of plants in the "Electricity Generation" subsegment are 22,112 MW and 5,863 Gcal/h, respectively.

The total installed electric and heat capacities of plants in the "Heat Generation" subsegment are 6,157 MW and 19,475 Gcal/h, respectively.

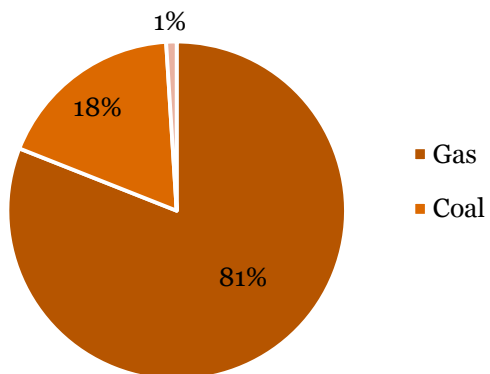
Rated capacity structure



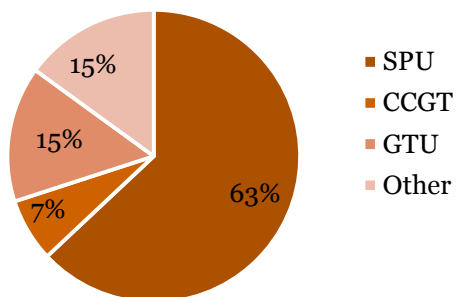
Generating capacity distribution by pricing zone as of the end 2016



Fuel mix



Equipment composition*



- *SPU - Steam powered unit
- CCGT – Combined cycle gas turbine plant
- GTU – Gas turbine unit

Competitive strengths

- Closing cycle of the investment programme implementation in terms of the new construction (4.3 GW constructed under CDAs, which exceeds 70% of total obligations)
- Over 15% of high-performance capacities with a low fuel cost component
- Approved long-term decommissioning of inefficient generating equipment. Total capacity to be decommissioned by 2020 will be more than 4.7 GW.
- Availability of competencies and experience in effective operation in the electricity and capacity market, including effective use of existing mechanisms to optimise the existing generating equipment load to achieve the maximum margin values.
- Effective long-term gas purchase contract considering a discount
- Availability of high-mobility equipment in the assets structure
- Availability of in-demand and competitive generating capacities with a wide geographical spread.
- Most enterprises within the Group are certified under the ISO 14001 international standard. The Group consistently exercises control over the implementation of measures under the target ecological programme, time limits for their implementation, and numerical values/indicators demonstrating the fulfilment of objectives. The programme is updated as necessary.

Supply

The “Supply in the Russian Federation” segment comprises eight power supply companies being guarantee suppliers⁴ and three independent (non-regulated) power supply companies.⁵ Footprint – 62 Russian regions.

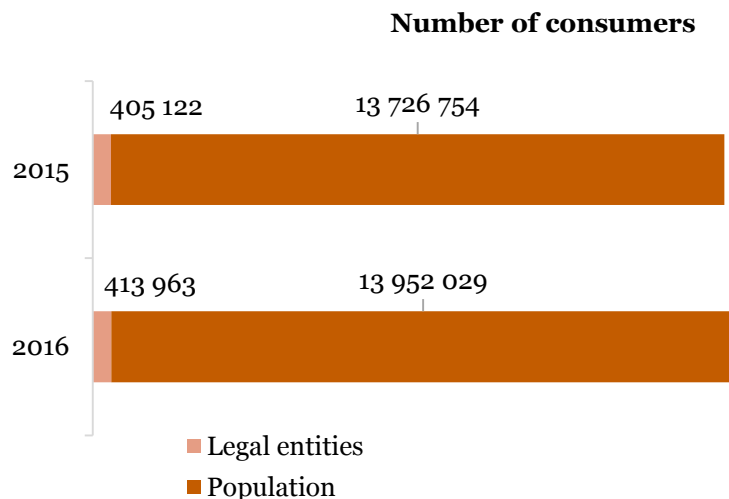
⁴ Guarantee Supplier (GS) is a power supply company obliged to enter into a sale and purchase (power supply) agreement with any individual or legal entity requesting it to do so located in its area of operations. A GS operates within a particular area of operations. A GS performs retail sales of electricity (capacity) purchased by it in the wholesale market using the grid supply points (GSPs) corresponding to its area of operations, or in the retail market from power supply companies and electricity (capacity) producers.

⁵ Independent (non-regulated) power supply company (IPSC) is a power supply company with no GS status, which enters into a sale and purchase (power supply) agreement with a legal entity requesting it to do so. An IPSC purchases electricity (capacity) for the consumer from a GS in the retail market, or by itself in the wholesale market.⁶ Source: <https://yearbook.enerdata.net/> (2016 data for Japan, Canada, Germany, France and South Korea are absent)



Competitive strengths

- Implementation of marketing activities in the largest regions of the Russian Federation: Moscow, Moscow Region, St. Petersburg, and Leningrad Region.
- High market share in regions of presence.
- Unification of the management system of power supply companies within Inter RAO Group.
- Single Billing project – a unified billing methodology for legal entities in the form of a package of business processes that govern the core operations of power supply companies.
- Presence in the portfolio of unregulated sales companies that have contracts for electricity supply with the largest industrial consumers.
- Presence of unique competencies that make it possible to actively develop additional paid services aimed at maximizing customer satisfaction and improving the quality of service.
- Presence of a broad customer base, which allows the implementation of new energy supply services.
- Presence of a synergetic effect for sales companies in the regions where the generating assets operate.
- Customer-focused approach – building an effective system to assess the satisfaction with the quality of services provided.
- High level of payment collection in the retail market.
- Wide range of additional paid services offered.
- A unified model of the grouped brand of power supply companies: guarantee suppliers of Inter RAO Group.



Trading

PJSC Inter RAO is the Russian leading electricity export and import operator involved in both cross-border supplies of electricity and related trading operations in the domestic wholesale electricity and capacity market (WECM). The Group's supply geography comprises 14 countries, including Finland, Lithuania, Belarus, Kazakhstan, Georgia, Norway, Ukraine, Latvia, Estonia, Poland, Azerbaijan, South Ossetia, Mongolia and China.

Competitive strengths

- Unique competency and accumulated experience in foreign economic activities.
- Well-organised system of interaction with Russian and foreign partners.
- Optimal structuring of contract proposals taking account of customer needs to the greatest possible extent.

Engineering

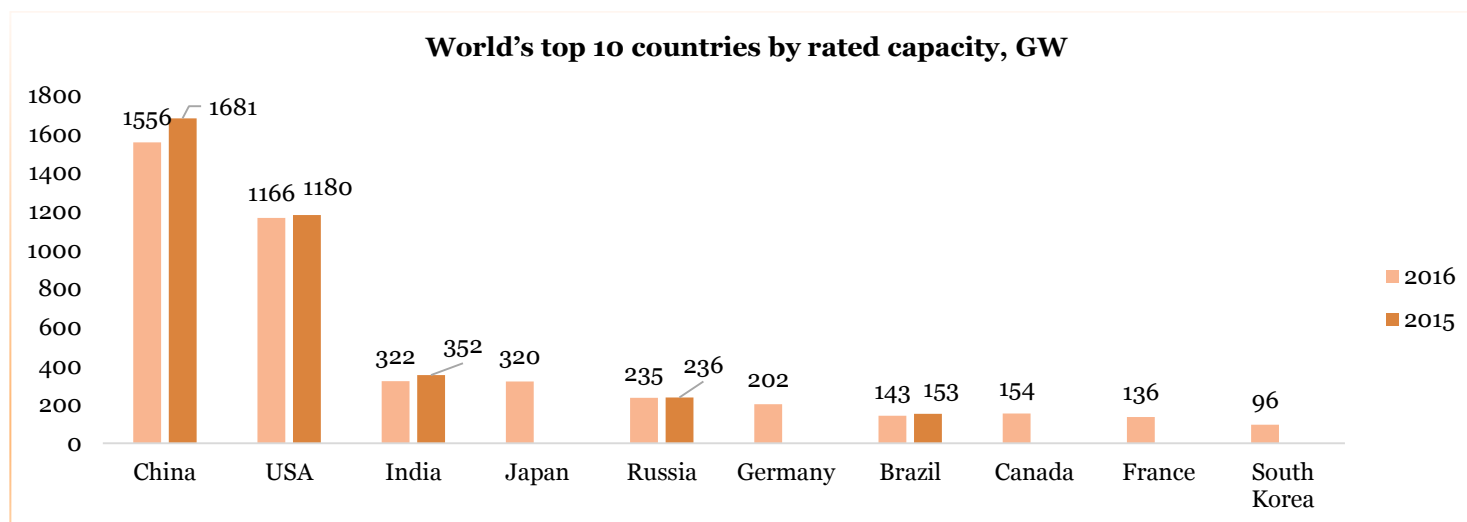
The development of in-house production of modern equipment serves as a tool of import substitution, where the Group implements projects involving the construction/modernisation of generating assets, which is especially relevant in the current political context. The Group currently has 15 constructed and modernised power facilities in Russia and CIS countries, and implements HPP and TPP construction projects in the South America. The presence in the "Engineering" segment enables the use of engineering experience gained in the course of implementing intra-Group projects, for its capitalisation in the external market.

Competitive strengths

- Experienced management team with a large portfolio of implemented projects.
- Growing portfolio of implemented projects, and cooperation with the region's largest energy companies.
- Experience in attracting project financing and using state support.
- Using the world's best management practices consistent with the ISO 9001 quality management standard.
- Established relations with the authorities in Russia and key partner countries.

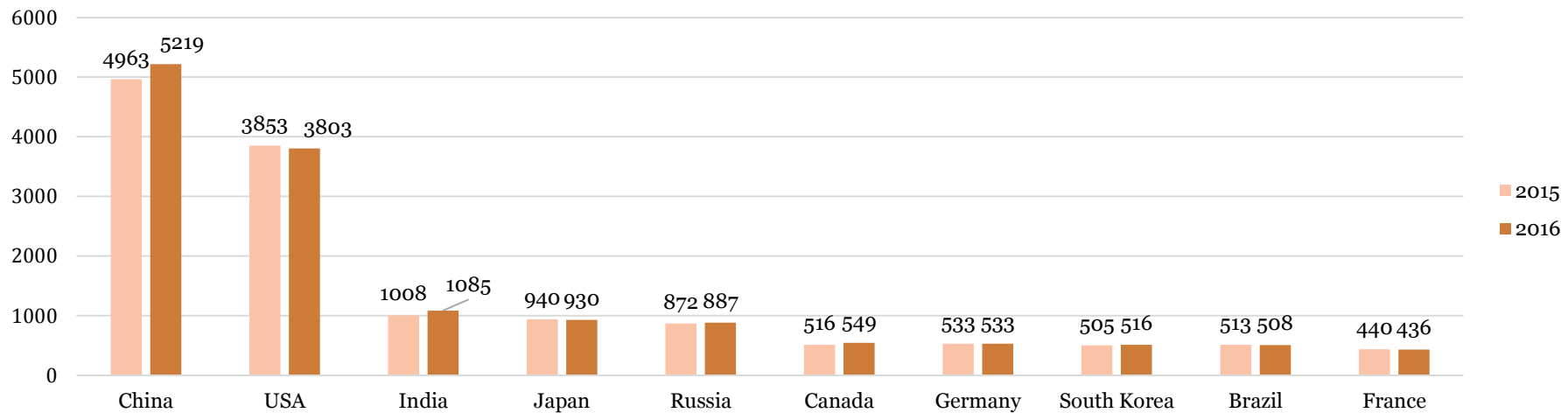
3.7 Investment advantages

1. Footprint in one of the world's largest energy markets⁶

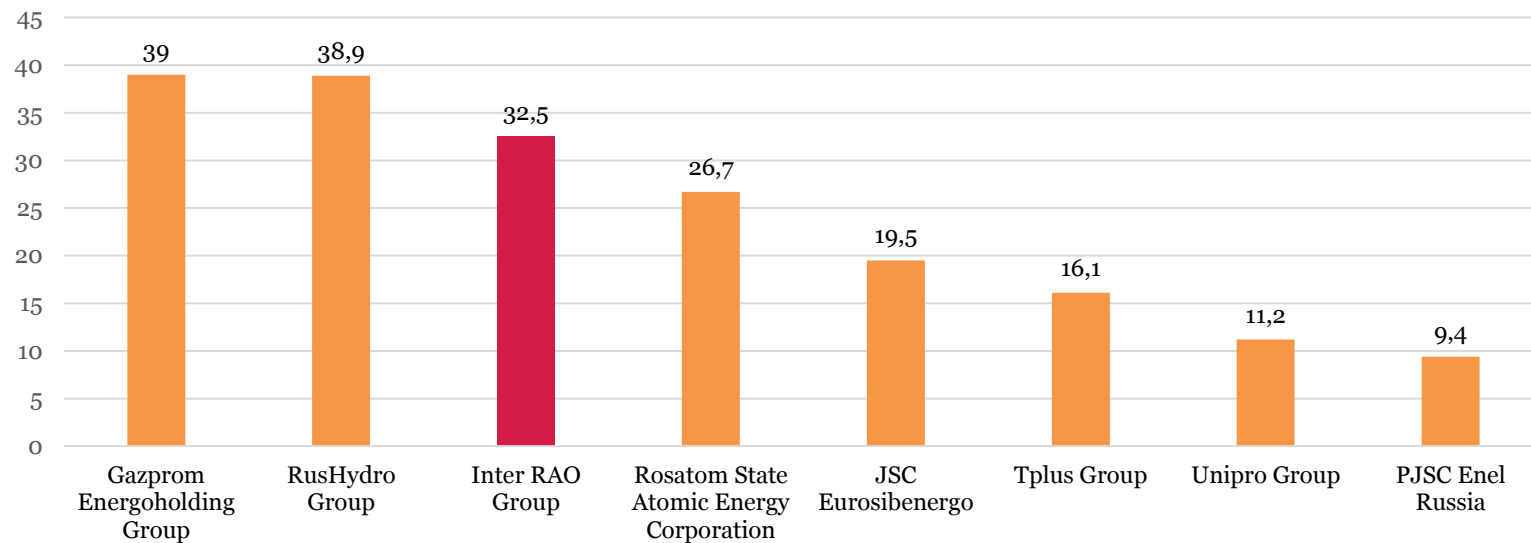


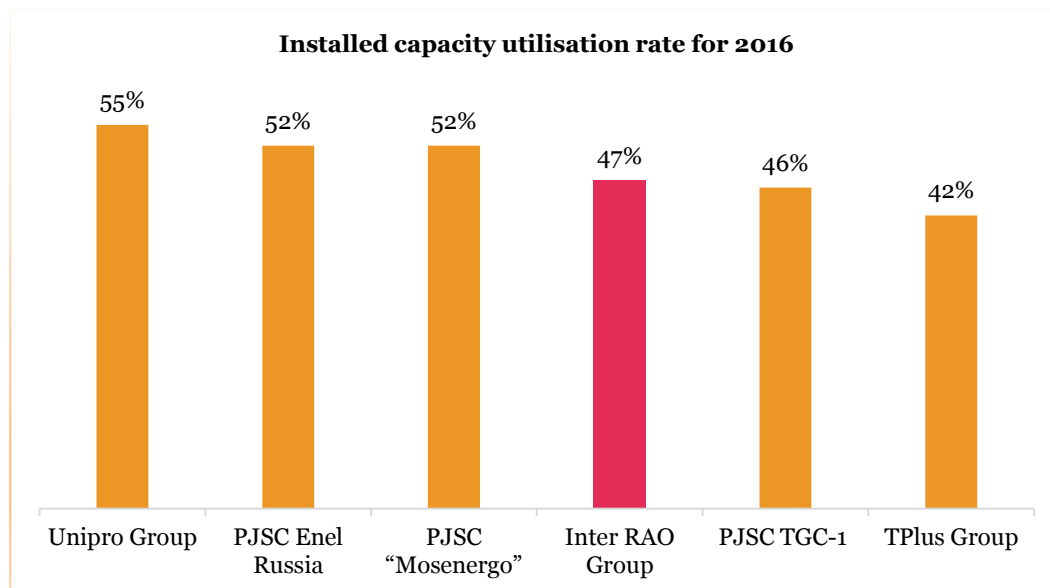
⁶ Source: <https://yearbook.enerdata.net/> (2016 data for Japan, Canada, Germany, France and South Korea are absent)

World's top 10 Economies by energy consumption, TWh*

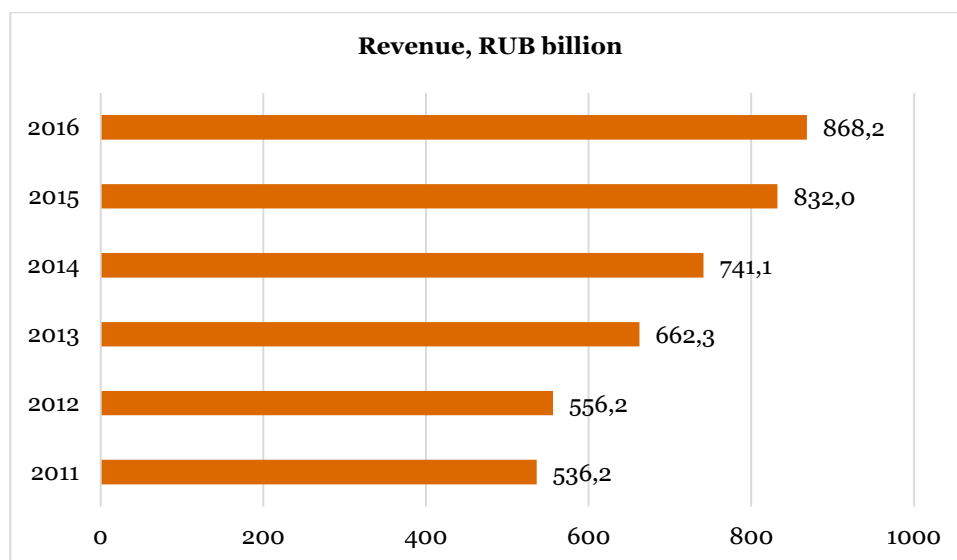


Third rank among Russia's leading generating companies by rated capacity, GW

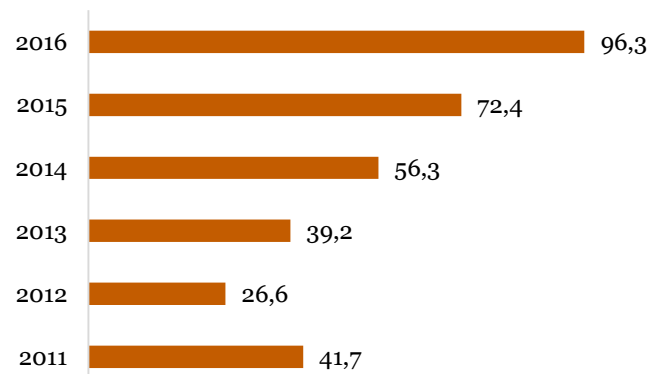




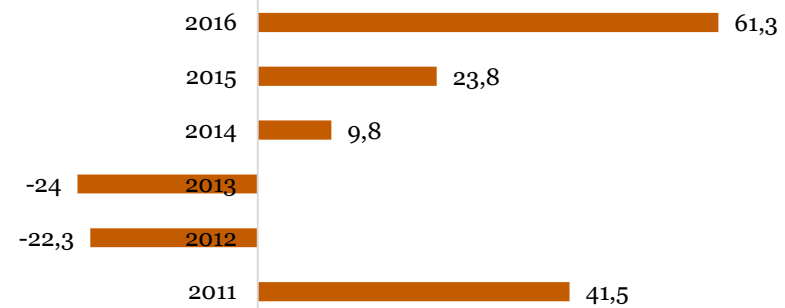
2. Sustainable increase in financial indicators



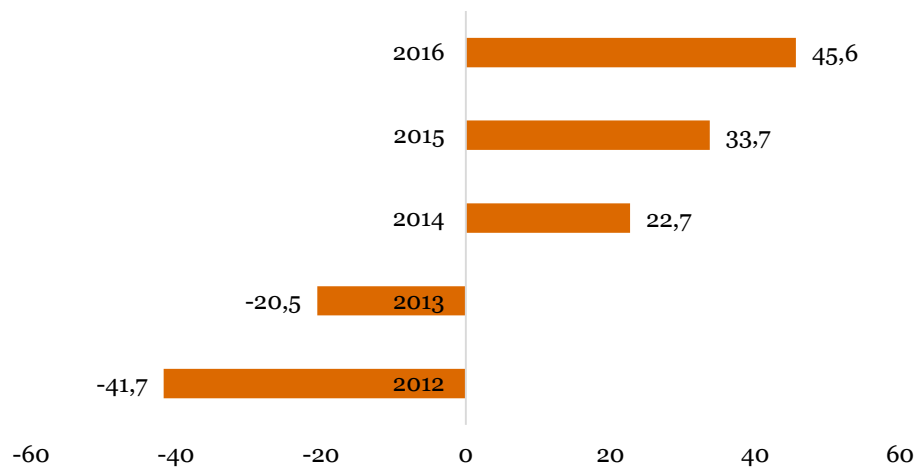
EBITDA, RUB billion



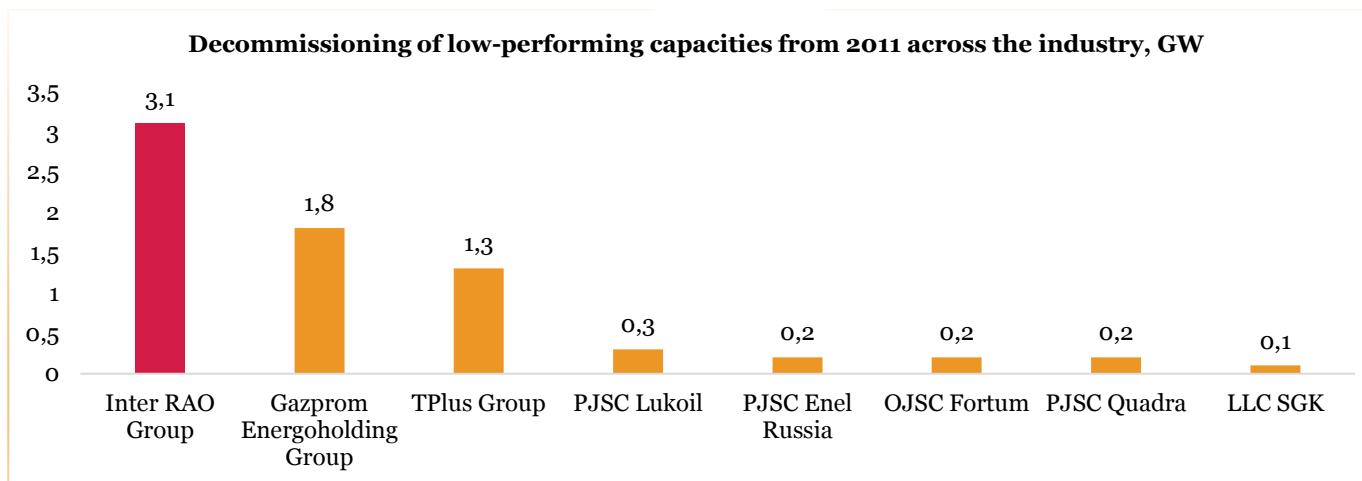
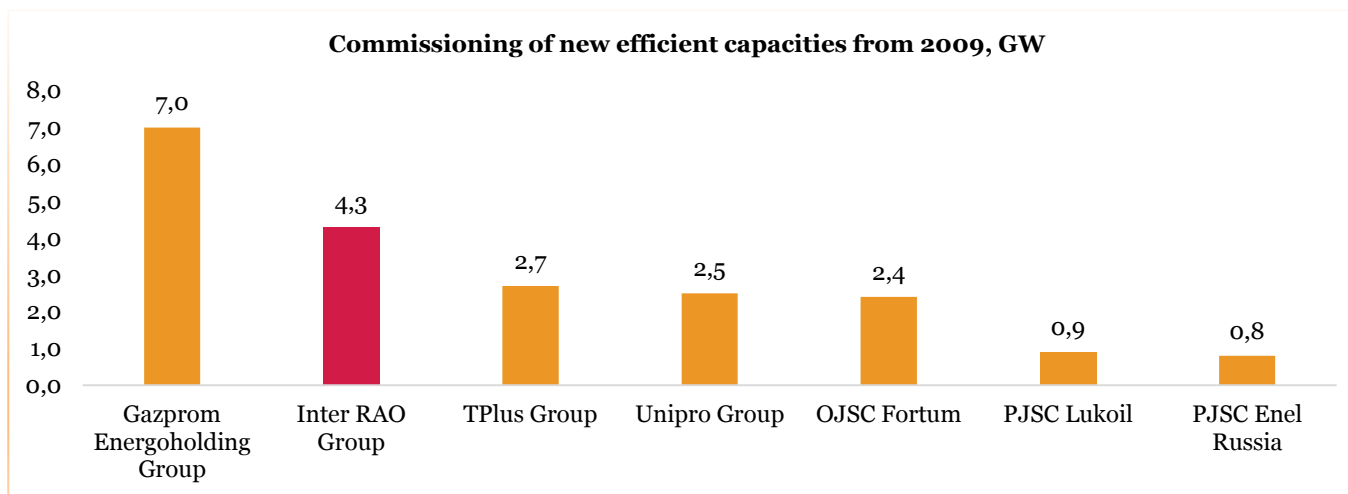
Net profit/loss, RUB billion



Свободный денежный поток млрд. руб.



3. High level of operating efficiency – commissioning of new capacities and decommissioning of low-performing capacities



4. High level of corporate governance

Pursuant to the results of the Corporate Governance Index 2016 study conducted by the Association of Independent Directors jointly with the expert panel comprising representatives of the Bank of Russia, Moscow Exchange and Russian Union of Industrialists and Entrepreneurs, PJSC Inter RAO is ranked second in the top 10 Russian companies with the highest corporate governance scores rating. The study by the Association of Independent Directors is available at:
http://www.nand.ru/upload/medialibrary/Russian_Corporate_Governance_Index_2016.pdf

5. Professional management aimed at creating value for shareholders

3.8 Electric power industry development prospects until 2035

The electric power sector is a systemically important industry of the Russian economy. Inter RAO Group is proactive in terms of interaction with legislative and executive authorities of the Russian Federation and takes part in discussing the key documents and draft laws.

At the moment, the primary governing documents are as follows:

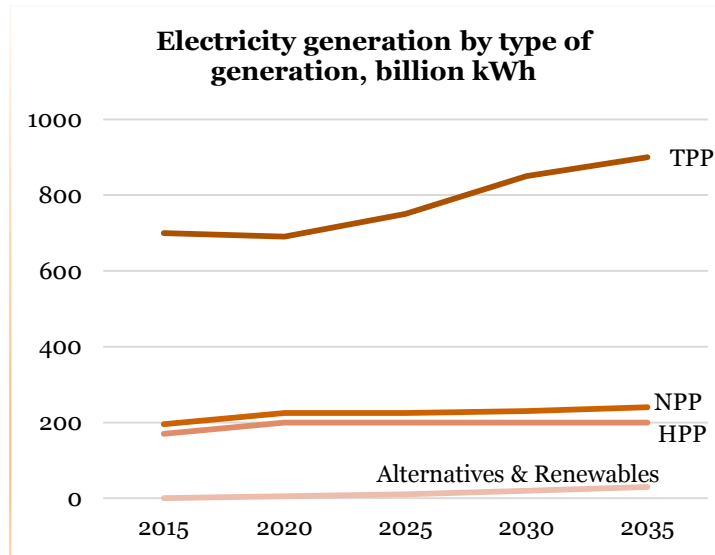
1. Draft. Energy Strategy of Russia until 2035 (Strategy).
2. Draft. General Layout of Electric Power Facilities until 2030 with an extension until 2035 (General Layout).
3. Unified Energy System of Russia Development Scheme and Programme for 2016-2022 (DSP) adopted by Order of the Russian Federation Ministry of Energy No. 147 dated 1 March 2016.

The first two documents currently have the “draft” status; they have been repeatedly discussed at various levels, including at the level of the Governmental Commission for Electric Power Industry Development. All market players take guidance from them as from the main government forecasts with respect to the electric power industry development until 2035.

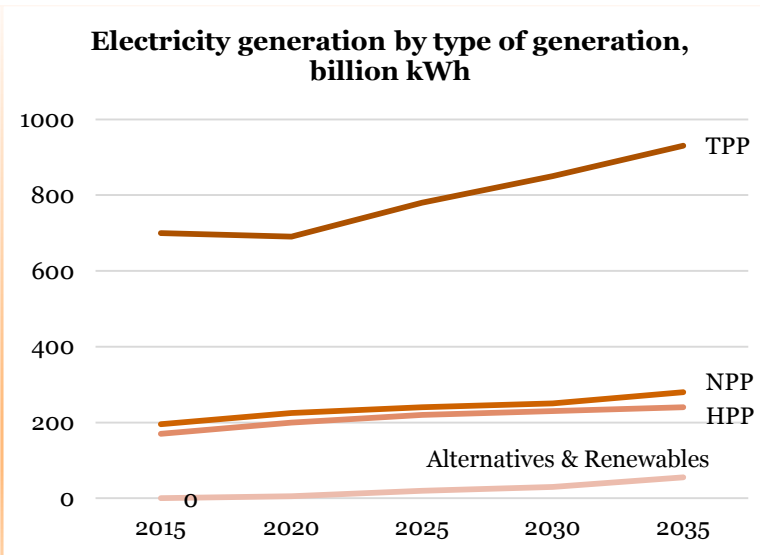
The implementation period of the Energy Strategy of Russia until 2035 is divided into two stages: Stage I – approximately until 2020 (with a possible extension until 2022) and Stage II – approximately from 2021 until 2035. To evaluate the proposed measures and prospects for the fuel and energy complex (FEC) development, two forecasting scenarios have been elaborated – conservative and optimistic, which determine the lower and the upper limits for possible changes in the fuel and energy balance (FEB) parameters.

In terms of electric power and heat supply, the Strategy lists the measures, the implementation of which may enable a 4-5% increment in electricity generation by 2020, and a 30-38% increase by 2035, provided that the rated capacity of power plants rises by 13-16% (from 248 GW to 281-289 GW).

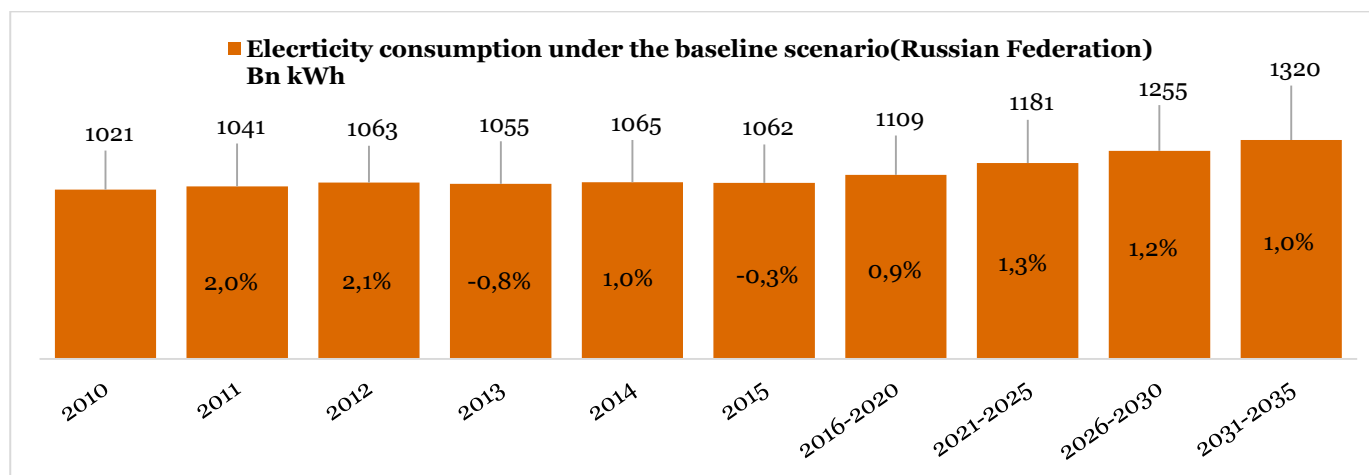
Conservative scenario



Optimistic scenario

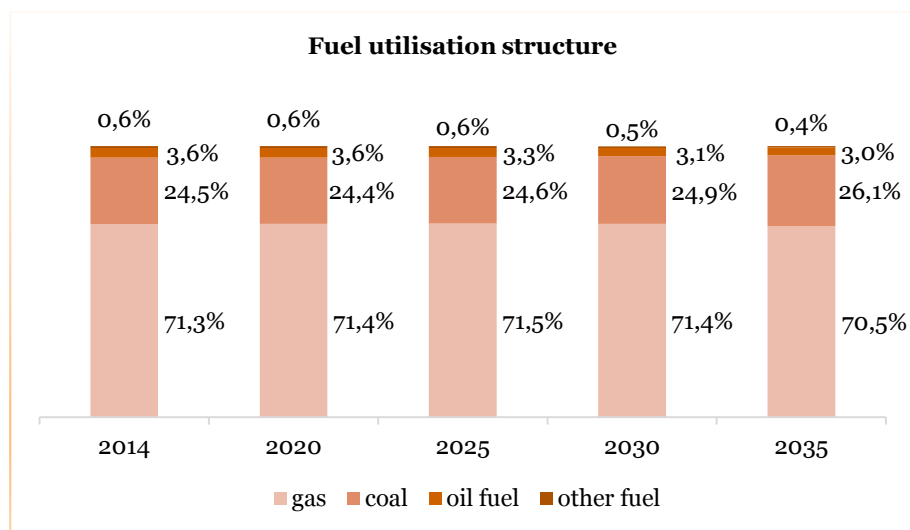


According to forecasts of the Russian Federation Ministry of Energy, electricity consumption demonstrates a steady growth exceeding 1% per year, which will actually lead to a 24% consumption increase by 2035. At the same time, both the government and companies understand that by 2035 equipment will become aged. At the moment, roughly 54% of equipment operating in the energy system (official data from the Russian Federation Ministry of Energy) are beyond their statutory service lives or economic lives.



According to the General Layout of Electric Power Facilities until 2030 with an Extension until 2035, 129 GW of operating TPP capacities are approaching their economic life limits, and modernising 76 GW of them has been found expedient. Therefore, to avoid any generation shortage in the longer term, it is necessary to develop mechanisms to support the generating equipment modernisation/replacement.

Pursuant to the draft General Scheme for Electric Power Industry Development until 2035, certain changes in the heat generation structure are expected in Russia. Until 2030, the heat generation structure will remain in approximately the same condition, with some increase in the coal generation share as against the gas generation share to take place by 2035.



Today, Inter RAO is facing, as does the entire industry, a great challenge associated with a necessity of modernising ageing facilities and developing effective mechanisms for investment attraction into the corresponding projects.

One of the key projects aimed at improving both the efficiency and the reliability is the programme for the decommissioning of old capacities. Inter RAO Group was one of the first players in the industry to realise the need for changing the composition of equipment in operation, and in 2016 alone the Company decommissioned over 1.1 GW of low-performing capacities, which entailed a significant rise in electricity generation profitability. Given the substantial positive effect for the Company's operating and financial performance, the improvement efforts in this area will be continued in the coming years. PJSC Inter RAO sets itself challenging tasks for 2017 in all business segments.

4 Inter RAO Group development strategy and its implementation

4.1 Strategy and long-term development programme

Inter RAO Group mission and strategic objectives

The mission of PJSC Inter RAO 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 in the field of energy efficiency and energy saving.

The Group's strategic objectives are as follows:

- retaining leadership in the Russian energy industry;
- ensuring leadership among Russian energy companies in the efficiency of energy asset management with special attention paid to implementations on innovation and energy efficiency enhancement;
- promoting energy security and serving the strategic interests of the Russian Federation;
- increasing the shareholder value;
- expanding the footprint in target foreign markets and promoting Russian energy practices and solutions in foreign markets.

On 13 March 2014, the PJSC Inter RAO Strategy until 2020 (the "Strategy") was approved by the Board of Directors of PJSC Inter RAO⁷. In December 2014, the PJSC Inter RAO Strategy until 2020 was put before the Governmental Commission for Electric Power Industry Development as the Long-Term Development Programme (LDP) and approved as is⁸.

The Strategy/LDP includes a target vision, mission, strategic objectives, and consolidated indicators of Inter RAO Group until 2020 as well as the list of priority development areas, key activities, and strategic target indicators and their values broken down by development area as specified, etc.

By 2020, PJSC Inter RAO Group is to become a global company – one of the key players in the global energy market and the leader in the Russia's energy industry that ensures the most effective assets management, which will be characterised, inter alia, by the following:

- PJSC Inter RAO Group delivering sustainable growth in shareholder value in the long term;
- PJSC Inter RAO Group managing a diversified portfolio of assets to accomplish the goals of shareholders and the Russian energy policy:
 - PJSC Inter RAO Group operating in different segments of the value chain – from design and construction of power facilities to distribution and supply to end consumers, while achieving multiplicative and synergistic effects;
 - PJSC Inter RAO Group having a balanced portfolio of efficient generating assets and committed to environmental protection;

⁷ Minutes No. 110 dated 17.03.2014

⁸ Minutes No. 18 dated 27.12.2014⁹ Minutes No. 159 dated 28.12.2015

- PJSC Inter RAO Group playing an important role in the integration of national energy systems and strengthening links between energy markets, and being one of the largest global electricity traders in terms of trading volume;
- projects implemented by PJSC Inter RAO Group and its engineering, energy saving and energy efficiency solutions contributing significantly to the modernisation of the Russian electric power industry and innovation development of Russia;
- PJSC Inter RAO Group being one of the key players in the global energy market and a reliable partner of the world's largest energy companies.

Group's key target indicators over time with a forecast on 2020

Indicator	Actual 2014	Actual 2015	Actual 2016	Plan 2020
EBITDA, RUB billion	56,3	72,4	96,3	>100
EBITDA margin, %	7,6%	8,7%	11,1%	>8,7%
Foreign trading volume, bn kWh	17,5	19,0	20,1	>10,7
Russian retail market share, %*	16,0%	16,2%	17,3%	>16,0%

In order to supervise the implementation of the Inter RAO's Strategy/LDP, the Company annually shapes the Strategic Development Priorities (SDP) representing a certain package of strategically important and priority top-level tasks, including quantitative indicators and programme measures, which need to be accomplished to implement the Strategy/LDP.

Group development priorities for 2016

The strategic priorities for 2016 were approved by the Board of Directors of PJSC Inter RAO⁹ on 25 December 2015 and have been shaped in the context of development priorities of the Company's Strategy/LDP, including such areas as:

- electricity and heat generation;
- repair and maintenance service;
- retail supply business;
- foreign trade operations;
- international operations;
- engineering and distributed generation;
- innovations;
- human resources policy and labour efficiency;
- investment appeal and financial stability;
- corporate services and management system.

⁹ Minutes No. 159 dated 28.12.2015

The Auditor reviewed the Report on Implementation of the Inter RAO Group 2016 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 2016 Strategic Development Priorities (issued 21.04.2017). It contains confirmation 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 2016;
- reasons for non-achievement of the indicators and targets included in the SDP, and deviations from the actual values of the Group's performance indicators from those anticipated for the year ending 31 December 2016.

Group development priorities for 2017

The strategic priorities for 2017 are formed taking into account the priorities for 2016. Special attention is paid to corporate services related to the development of procurement activities¹⁰. The priorities were approved by the Board of Directors of PJSC Inter RAO¹¹ on 23.12.2016.

The motivation of the Chairman of the Management Board and members of the Management Board and the strategic management system are interrelated thanks to the implementation of the Strategic Development Priorities (SDP) (pursuant to the Regulations on Financial Incentives for the Chairman of the Management Board and members of the Management Board of PJSC Inter RAO). Pursuant to the Standard for Audit of the PJSC Inter RAO Strategy/Long-Term Development Programme Implementation (DPI)¹², the degree of implementation of the Strategy/LDP over the reporting period is assessed through the audit of the Report on the Implementation of the Company's Strategic Development Priorities. The current procedure for shaping SDPs and preparation of the SDP implementation report was adopted by Order No. IRAO/720 dated 25 December 2015.

Key programs of Inter RAO Group

Pursuant to the management system currently in place, in 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 detailing the Strategy/Long-Term Development Programme in terms of the corresponding key programmes.

The ***Innovative Development Programme of PJSC Inter RAO*** until 2020 with an outlook until 2025 was approved by the Company's Board of Directors¹³ on 28 October 2016 and includes a set of measures in such areas as energy efficiency enhancement, implementation of new technologies at production sites, quality control system, cooperation with universities and research organisations, modernisation of operational capacities, R&D plans, etc.

¹⁰ The "Corporate services and management system" priority title is amended to read as "Procurement development and import substitution"

¹¹ Minutes No. 188 dated 23.12.2016.

¹² Minutes No. 126 dated 24.11.2014

¹³ Minutes No. 183 dated 31.10.2016¹⁴ Minutes No. 175 dated 29.07.2016

The **Investment Programme of Inter RAO Group** for 2016 was approved by the Company's Board of Directors¹⁴ as part of the Inter RAO Group's business plan.

The breakdown of the Strategy/LDP measures as related to cutting operating costs in the medium/short term is carried out as part of the **Cost Management Programme**. The Cost Management Programme for 2014–2016 as updated for 2016 was approved by the Company's Board of Directors¹⁵ on 22 December 2015. The programme comprises activities in the following areas aimed at saving on relatively fixed costs: optimisation of the payroll budget and decrease in other relatively fixed costs (repairs, general and administrative costs, raw materials and supplies, operational services, etc.), as well as, for reference, activities associated with saving on fuel and auxiliary costs of plants. Implementation of the Cost Management Programme for 2014-2016 allowed for savings of more than 21.5 billion roubles.

4.2 Group business model

The external environment, in which Inter RAO Group operates, is the cooperation between competing entities engaged in the generation and supply of electricity within the energy system of Russia and state-operated technological and commercial infrastructure entities. Electricity produced by generating companies is sold in the wholesale or retail markets to supply companies or large end consumers. Thereafter, supply companies resell the purchased electricity to end consumers.

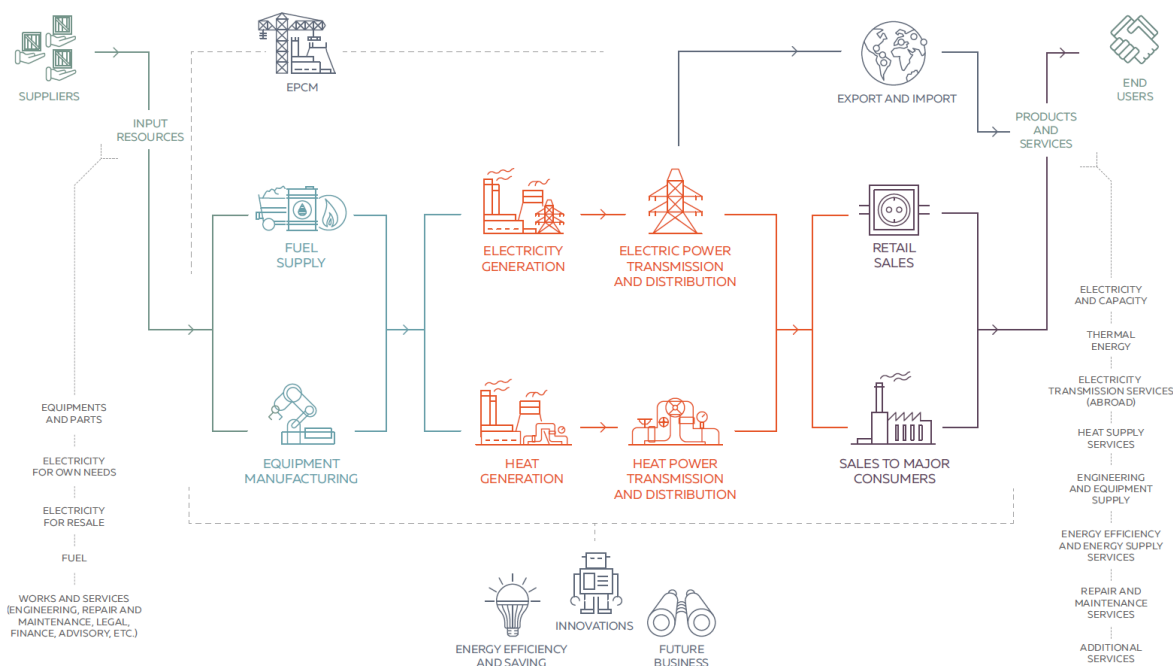
The role of the support/service activities directly related to the operation of generating companies – engineering, maintenance/repair, fuel supply and other companies – should also be noted.

Inter RAO Group is a diversified energy holding company operating in various segments of the electric power industry in Russia, under the applicable electric power industry laws of the Russian Federation, and abroad. The business model involves continuous presence of the Group at all links of the value chain – from the design and construction of power facilities to the supply of electricity and heat to end consumers. In the context 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 selected business diversification strategy is the Group's key factor of risk hedging in the energy industry.

¹⁴ Minutes No. 175 dated 29.07.2016

¹⁵ Minutes No. 158 dated 24.12.2015¹⁶The list of instructions of the President of the Russian Federation No. Pr-3086 dated 27.12.2013. In accordance with item 34 of the list of instructions of the President of the Russian Federation, the Government of the Russian Federation was instructed to cause the adoption of long-term development programmes by joint stock companies included in the lists approved by Russian Federation Government Order No. 91-r dated 23 January 2003, and to ensure the audit of these programmes.

Inter RAO Group business model



The synergies arising between different links of the value chain make the Group business model more resilient, in particular:

- The presence in the “Engineering” segment provides greater control over the CDA projects in the electricity and heat generation segments helping to reduce the risks of failure to comply with the CDA terms and conditions. Thanks to the presence in this segment, it will also be possible to use the engineering experience gained in the course of implementing intra-Group projects for its capitalisation in the external market;
- in-production of modern equipment and the development of this area can serve as a tool of import substitution, where the Group implements projects involving the construction/modernisation of generating assets, which is especially relevant in the current political context, and it adds a competitive advantage to the engineering complex of Inter RAO Group in the external market;
- The availability of fuel assets within the Group enables continuous supply of fuel and ensures reliable operation of generating equipment and mitigation of logistics and price risks, as well as serves as a tool to influence on third-party fuel suppliers during negotiations.

The business model described forms the basis for switching to the target vision of Inter RAO Group recorded in the Strategy/Long-Term Development Programme.

4.3 System of key performance indicators

Principles of the key performance indicator system

In pursuance of the Russian Federation President's list of instructions¹⁶, the Ministry of Economic Development of the Russian Federation articulated the requirements for the formation of a vertical system of strategic planning in joint stock companies included in the lists approved by Russian Federation Government Order No. 91-r dated 23 January 2003. Such a system involves the elaboration of a long-term development programme and a key performance indicator system.

In accordance with the Regulations on Financial Incentives for Executive Bodies of PJSC Inter RAO, a bonus for the implementation of Key Performance Indicators (KPIs) and Target Indicators (TIs) by the Company is one financial incentive for the Company's management. This element of the incentive system is aimed at ensuring the financial interest of the managers in their personal performance and the achievement of objectives set by the Strategy/Long-Term Development Programme. The list of the Company's annual KPIs is approved by the Board of Directors. For instance, 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 2016 were set by the Board of Directors of PJSC Inter RAO as on 25.12.2015¹⁷.

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 Strategy implementation and to provide for adequate motivation for the Company's management with a focus on achieving target values of strategic indicators.

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

Specific features of the KPI system in 2016

The list of KPIs and TIs of PJSC Inter RAO for 2016 was prepared taking into account the requirements of the Regulations on Key Performance Indicators of PJSC Inter RAO approved by the Board of Directors of PJSC Inter RAO on 25.12.2014¹⁸. 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 Authorised 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.

Pursuant to the Methodological Guidelines, the list of KPIs and TIs contains financial and economic and industry-specific indicators, as well as bonus cancellation indicators (TIs). In accordance with the Regulations, the total number of financial and economic indicators shall be

¹⁶The list of instructions of the President of the Russian Federation No. Pr-3086 dated 27.12.2013. In accordance with item 34 of the list of instructions of the President of the Russian Federation, the Government of the Russian Federation was instructed to cause the adoption of long-term development programmes by joint stock companies included in the lists approved by Russian Federation Government Order No. 91-r dated 23 January 2003, and to ensure the audit of these programmes.

¹⁷ Minutes No. 159 dated 28.12.2015

¹⁸ Minutes No. 131 dated 29.12.2014

limited to seven, while their total weight shall be between 50% and 70% of the sum of weights of all indicators. The Regulations also specify the list of mandatory indicators, from which indicators with a total weight of at least 30% of the sum of weights of all Company's indicators may be selected.

Financial and economic indicators of the KPI and TI system of PJSC Inter RAO in 2016

Financial and economic indicators

1	Return on equity (ROE) KPI 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).			Weight: 30%
	Lower level 95%	Target level 100%	Higher level 110%	Mandatory indicator
2	Operating cash flow KPI The indicator describes the ability of maintaining a certain level of solvency and enabling coverage of existing debt obligations with the required liquidity. This indicator is not part of the list of mandatory financial and economic indicators, and, pursuant to the Regulations, it falls within the "Indicator at the discretion of the Board of Directors" category.			Weight: 15%
	Lower level 95%	Target level 100%	Higher level 110%	Optional indicator
3	EBITDA/person KPI This indicator defines labour efficiency of Company's employees and characterises the efficiency of labour resource utilisation. A positive trend for this indicator is expected to be achieved through the implementation of measures aimed at improving the staff qualitative characteristics and the organisational structure of the Group companies. Pursuant to the Regulations, this indicator falls within the "Indicator at the discretion of the Board of Directors" category.			Weight: 15%
	Lower level 95%	Target level 100%	Higher level 110%	Optional indicator

The total weight of the financial and economic indicators is 60% of the sum of weights of all indicators of PJSC Inter RAO, which corresponds to the requirements of the Regulations.

Therefore, the total weight of the financial and economic indicators is 60% of the sum of weights of all indicators of PJSC Inter RAO, which corresponds to the requirements of the Regulations.

In accordance with the Regulations, the total number of industry-specific indicators shall be limited to four, while their total weight shall be between 30 and 50% of the sum of weights of all Company's indicators. Pursuant to the Regulations, the list of industry-specific indicators is open.

The following indicators have been set for PJSC Inter RAO for 2016 as industry-specific indicators that consider the specific features of Company's operations, and state policy with respect to the development of the Company and the industry as a whole.

Industry-specific indicators of the KPI and TI system of PJSC Inter RAO in 2016

Industry-specific indicators				
1	Investment programme implementation KPI This indicator is set to achieve the following strategic objectives: ensuring reliability and energy security; improving the operating efficiency of generating assets; providing modernisation and technological development; increasing the rated capacity through the 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 programme in terms of financing and assimilation of capital investments and commissioning of generating capacities.			Weight: 20%
	Lower level 80%	Target level 100%	Higher level -	Mandatory indicator
2	Integrated innovation index implementation KPI To assess innovative activities, the integrated innovation index is set, which will particularly provide for a combination of four indicators: number of intellectual property items obtained as part of projects; share of completed projects recommended for implementation at Inter RAO Group's facilities; share of third party co-financing of innovative projects; and quality of the innovative development programme.			Weight: 20%
	Lower level 90%	Target level 100%	Higher level 110%	Mandatory indicator

The total weight of the industry-specific indicators is 40% of the sum of weights of all indicators of PJSC Inter RAO, which corresponds to the requirements of the Regulations.

The total weight of all key performance indicators of PJSC Inter RAO set for 2016 is 100%.

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

Pursuant to the Regulations, the list of bonus cancellation indicators is open. The following bonus cancellation indicators have been set for PJSC Inter RAO for 2016.

Bonus cancellation indicators of the KPI and TI system of PJSC Inter RAO in 2016

Bonus cancellation indicators

1	Implementation of instructions of the Board of Directors of PJSC Inter RAO TI The indicator defines the accuracy and timeliness of the implementation of instructions of the Board of Directors by the Company's management.	
	Weight for the purpose of financial incentives for the Chairman of the Management Board	Up to 25%
2	Implementation of instructions (operating and priority) of the Chairman of the Management Board of PJSC Inter RAO TI The indicator defines the accuracy and timeliness of implementation of instructions of the Chairman of the Management Board by the members of the Management Board.	
	Weight 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 recognised global indicator, which characterises the company's level of debt burden and its ability to pay off existing liabilities.	
	Weight for the purpose of financial incentives for the Chairman of the Management Board and members of the Management Boards	25%
4	Cost Management Programme (CMP) implementation as compared to the planned value TI This indicator is aimed at improving the company's operating efficiency through the implementation of targeted cost optimisation parameters as per the appropriate cost items.	
	Weight for the purpose of financial incentives for the Chairman of the Management Board and members of the Management Boards	20%
5	Non-availability of fatal accidents or group accidents involving employees of Inter RAO Group TI This indicator characterises the Group's management performance in terms of occupational health and safety activities.	
	Weight for the purpose of financial incentives for the Chairman of the Management Board and members of the Management Boards	Up to 15%

The list of KPIs and TIs of PJSC Inter RAO for 2016 was applied in 2015 and has been developed based on the operations of Inter RAO Group.

KPI and TI implementation results for 2016

The actual values of KPIs were approved by decision of the Board of Directors of the Company dated 28.04.2017¹⁹ based on the annual accounting (financial) statements of the Company for 12 months of 2016, the consolidated financial statements of the Company for 12 months of 2016 in accordance with the methods for calculating and evaluating the achievement of annual KPIs and Tis for 2016 approved by decisions of the Board of Directors of PJSC Inter RAO dated 25.12.2015²⁰, 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 dated 07.04.2017²¹.

KPI achievement level in the reporting year as compared to the previous year

2015			2016			Comparison
Item	Name of annual KPIs	Coefficient of indicator/target achievement for 2015	Item	Name of annual KPIs	Coefficient of indicator/target achievement for 2016	
1	ROE (return on own equity)	1.2	1	ROE (return on shareholder equity)	1.2	Mandatory indicator
						-
2	EBITDA/person	1.2	2	EBITDA/person	1.2	-
3	Operating cash flow	1.2	3	Operating cash flow	1.2	-
4	Investment programme implementation	1.01	4	Investment programme implementation	0.95	Mandatory indicator
						6%
5	Integrated innovation	1.2	5	Integrated innovation	1.12	Mandatory indicator

¹⁹ Minutes No. 197 dated 02.05.2017

²⁰ Minutes No. 159 dated 25.12.2015

²¹ Minutes No. 195 dated 07.04.2017

	index implementation			index implementation		7%
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At the end of 2016, KPIs were met.

KPI achievement in 2015

Item	Name of annual KPIs	KPI progress values			Coefficient of indicator/target achievement	Performance assessment
		Lower level	Target level	Upper level		
1	Return on shareholder equity (ROE)	90%	100%	110%	1.2	Implemented
2	EBITDA/person	90%	100%	110%	1.2	Implemented
3	Operating cash flow	90%	100%	110%	1.2	Implemented
4	Investment programme implementation	80%	90%	100%	1.01	Implemented
5	Integrated innovation index implementation	90%	100%	110%	1.2	Implemented

KPI achievement in 2016

Item	Name of annual KPIs	KPI progress values			Coefficient of indicator/target achievement	Performance assessment
		Lower level	Target level	Upper level		
1	Return on shareholder equity (ROE)	95%	100%	110%	1.2	Implemented
2	EBITDA/person	95%	100%	110%	1.2	Implemented
3	Operating cash flow	95%	100%	110%	1.2	Implemented
4	Investment programme implementation	80%	100%	-	0.95	Implemented
5	Integrated innovation index implementation	90%	100%	110%	1.12	Implemented

The achievement of financial indicators in the reporting period is due to increased marginal profits in the "Generation of the Russian Federation" and "Trading" segments, while simultaneously saving fixed expenses for all operating segments, as well as increased revenues from electricity and capacity sales on the wholesale market in the "Generation of the Russian Federation" segment.

The final level of achievement of the "Investment programme implementation" KPI is due in part to the following factors:

- achieved savings on investment projects;
- deviations associated with decisions made by the Company's governing bodies, orders made by supervisory bodies and superior organisations.

Achievement of the "Integrated innovation index implementation" KPI was the result of the Group's intensive cooperation with leading scientific organisations and universities, as well as the use of high-performance energy technologies in production.

The main objective of the KPI system is to translate Inter RAO Group's strategy into specific operational management indicators, assess their medium- and long-term achievement, and create a basis for making managerial decisions. The KPI system is an integral part of the system of financial incentives for the Company management's work. Approval of a map of objectives makes it possible to control the implementation of Inter RAO Group's Development Strategy and also establishes the relationship between the size of financial incentives for managers and the degree to which the strategic indicators are achieved.

Pursuant 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. The list of annual KPIs and target values thereof for the Chairman and members of the Company's Management Board based on the approved business plan and strategic development priorities shall be approved by the Board of Directors. At the end of the year, the Board of Directors considers the implementation of KPIs and TIs for the corresponding period based on recommendations of the Human Resources and Remuneration Committee. In the event that the Company has implemented all TIs and achieved the "Lower level" target value of the corresponding KPIs, a decision to award bonuses to the respective managers based on the Company's performance will be made.

As a result of the meeting of the Board of Directors of PJSC Inter RAO on 25.12.2015,²² it was decided to include the "Total Shareholder Return (TSR)" indicator, which determines the market return of the company, in the list of KPIs and TIs for 2016 as being indicative.

By the decision of the Board of Directors dated 23.12.2016,²³ this indicator is included in the list of KPIs and TIs for 2017.

The actual value of the Company's TSR for 2016 is in the 95th percentile of the TSR matrix of companies included in the power index of the Moscow Exchange (MICEX PWR) and exceeds the Company's average annual TSR calculated on the basis of profitability for the last 3 years.

4.4 Investment activities

The investment programme of Inter RAO Group is aimed at achieving the following strategic objectives:

- commissioning of new capacities using high-performance technologies;
- securing reliability and operability of existing equipment, and improving the competitiveness of Group companies in 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 terms of efficiency of energy asset management with a accent on innovation and energy efficiency enhancement.

The main areas of the Group's investment programme are as follows:

- investment projects involving the construction of new generating facilities;

²² Minutes No. 159 dated 28.12.2015

²³ Minutes No. 188 dated 23.12.2016

- investment projects involving the retooling and modernisation of power plant equipment.

In 2016, the total financing of the Inter RAO Group's investment programme in terms of capital investment amounted to RUB 39,944m, VAT included²⁴. The Group's investment programme was funded²⁵ out of internal and external resources, which accounted for 95% and 5%, respectively in the reporting period.

Group's investment structure by area in 2016

Indicator	Investment programme financing in 2016, RUB million, VAT included (actual)
Generation: new construction	24 170
Generation: retooling/reconstruction and other	10 473
Supply assets: retooling/reconstruction and other	1 292
Other Russian assets: new construction	13
Other Russian assets: retooling/reconstruction and other	542
Foreign assets: new construction	2 056
Foreign assets – retooling/reconstruction and other	1 398
Total for Group companies ²⁶	39 944

The main Group's investment area in 2016 was the construction and commissioning of new power capacities in the “Generation in the Russian Federation” segment. The Group pays particular attention to the construction of facilities, using which the capacity delivery will be performed under capacity delivery agreements (CDAs).

Completed CDA Projects since 2009 (as at 31.12.2016)

Integrated energy system (IES)	Commissioning date	Project name	Capacity increase ²⁷ , MW
IES	2009	Unit No. 3 of Kashirskaya TTP	330.0

²⁴The data exclude the acquisition of PJSC Inter RAO's property by JSC Inter RAO – Electric Power Plants in 2016.²⁵The data are provided with respect to the financing.

²⁵The data are provided with respect to the financing.

²⁶The data are provided based on the results of operations in 2016; audit reports issued on 14.02.2017

²⁷Capacity commissioned under ISO as a result of remarking²⁸ Pursuant to the Russian Federation Government Order No. 2784-r dated 30.12.2014, the list of CDA facilities has been amended: as to power generating unit No. 4 at Permskaya TPP, the date of commissioning under CDA was moved to 30.06.2017; unit No. 12 at Verkhnetagil'skaya TPP (CCGT-420) was replaced with the construction of CCGT power generating units No. 1 and 2 at CHPP-5 in Ufa, Republic of Bashkortostan to be commissioned on 31.12.2016 (420 MW).

Centre	2012	Unit No. 2 of Ivanovskiye CCGT		325.0
	2014	Unit No. 8 of Cherepetskaya TPP		225.0
	2015	Unit No. 9 at Cherepetskaya TPP		225.0
	IES Centre total			1,105
IES South	2009	Unit No. 3 of Sochinskaya TPP		82.5
	2013	GTU No. 1 and 2 of Dzhubginskaya TPP		198.0
	IES South total			280.5
IES Urals	2012	Unit No. 1 of Urengoyanskaya TPP		505.7
	2014	Unit No. 1 of Yuzhnouralskaya TPP-2		420.0
		Unit No. 2 of Yuzhnouralskaya TPP-2		420.0
		Unit No. 3 of Nizhnevartovskaya TPP		413.0
	IES Urals total			1,758.7
IES Siberia	2009	Reconstruction of turbine No. 2 at Tomskaya TPP-2		50.0
	2010	PT-60-130 turbine generator unit of plant No. 11 at Omskaya CHPP-3 (reconstruction)		60.0
		PT-60-90 turbine generator unit of plant No. 9 (without replacing the transformer) at Omskaya CHPP-3 (reconstruction)		60.0
	2012	Unit No. 3 of Kharanorskaya TPP		235.0
		GTU-17 at the peak-load and reserve boiler house (Tomskaya CHPP-1)		14.7
	2013	Unit No. 4 of Gusinoozyorskaya TPP		210.0
		CCGT-90 at Omskaya CHPP-3		85.2
		Reconstruction of the turbine of plant No. 12 at Omskaya CHPP-3		60.0
	2014	Reconstruction of the turbine of plant No. 1 at Omskaya CHPP-5 (+18 MW)		100.0
		Reconstruction of the turbine of plant No. 13 at Omskaya CHPP-3 (+10 MW)		60.0
	2015	Reconstruction of the steam turbine of plant No. 2 at Omskaya CHPP-5		100.0
	2016	Installation of T-120 turbine to replace PT-50-130 of plant No. 10 at Omskaya CHPP-3		120.0
	IES Siberia total			1,154.9
All IESs total				4,299.1

Group's investment plans: key capital investment areas

The key area in the Inter RAO Group's plans until year-end 2017 is the completion of implementation of investment projects on the construction of new generating facilities, the list of which is determined by Russian Federation Government Order No. 1334-r dated 11.08.2010 (as amended by Russian Federation Government Orders No. 1637-r dated 10.09.2012, No. 2784-r dated 30.12.2014 and No. 132-r dated 02.02.2016) and using which the capacity delivery will be performed under capacity delivery agreements.

New electricity generation facilities will be constructed using modern technologies. Inter RAO Group is committed to ensuring maximum reliability and operability of equipment at its facilities, enhancing its energy efficiency and reducing the environmental impact of production operations;

The main parameters of CDA projects implemented by Inter RAO Group companies are specified in the Table "Implementation of Inter RAO Group investment projects". The Inter RAO Group investment programme for 2016-2021 provides for measures on the retooling and reconstruction of equipment at power stations with a capital investment volume required to ensure safe operation of equipment, heating grids, buildings and structures, as well as to maintain the operational condition of equipment sufficient to secure reliable and continuous electricity and heat supply. Retooling projects are aimed at extending operational life of equipment, reducing repair and operational expenses, improving operational reliability of equipment, and expanding the voltage control range in the energy system.

Implementation of Inter RAO Group investment projects in 2016 and plans for 2017

Project name	Brief description	Specifications of new construction projects			
		Type	Fuel	MW	Commissioning date
CDA projects					
2016					
Installation of T-120 turbine to replace PT-50-130 of plant No. 10 at Omskaya CHPP-3	The purpose and objective of the T-120 CDA investment project is to improve the technical and economic performance of the plant and renew fixed production assets of CHPP-3 in order to ensure reliable and continuous supply of heat and electricity to consumers by replacing turbine generator unit (turbine, generator) of PT-60-130 type of plant No. 10, which has served out its economic life, with the turbine generator unit of T-120-12.8 type involving further supply of capacity under capacity delivery agreements pursuant to the List of Generating Assets approved by Russian Federation Government Order No. 1334-r dated 11.08.2010. The facility was reconstructed in accordance with agency agreement No. 0118-AD-01C-10 dated 01.11.2010.	modernisation	gas	120	Q4 2016
2017					
Construction of CCGT-800 at Permskaya TPP ²⁸	The purpose and objective of the Construction of CCGT-800 MW at the Permskaya TPP investment project is the construction and commissioning of power generating unit No. 4 based on CCGT-800 MW at Permskaya TPP located in Dobryanka, Perm Territory. The commissioning of a new power generating unit will result in the improved reliability and economical efficiency of the TPP and increased rated capacity.	new	gas	800 ²⁹	Q2-3 2017

²⁸ Pursuant to the Russian Federation Government Order No. 2784-r dated 30.12.2014, the list of CDA facilities has been amended: as to power generating unit No. 4 at Permskaya TPP, the date of commissioning under CDA was moved to 30.06.2017; unit No. 12 at Verkhnetagilskaya TPP (CCGT-420) was replaced with the construction of CCGT power generating units No. 1 and 2 at CHPP-5 in Ufa, Republic of Bashkortostan to be commissioned on 31.12.2016 (420 MW).

²⁹ Pursuant to the Russian Federation Government Order No. 2784 dated 30.12.2014, the capacity of 800 MW is specified. The capacity under ISO is 849 MW.

Construction of CCGT-420 at Verkhnetagilskaya TPP (Unit No. 12)	The purpose and objective of the Construction of unit No. 12 at Verkhnetagilskaya TPP investment project is the construction and commissioning of power generating unit No. 12 based on CCGT-420 MW at Verkhnetagilskaya TPP. The project is aimed at increasing the share of modern equipment in the rated capacity structure and improving the demand for, and competitiveness of, the generating assets in the wholesale electricity and capacity market. In addition, the major power equipment fleet renewal will improve the reliability and economical efficiency of the plant.	new	gas	420 ³⁰	Q2 2017 ³¹
Construction of CCGT power generating units No. 1 and 2 at Zatonskaya CHPP in Ufa, Republic of Bashkortostan ³²	Zatonskaya CHPP is supposed to reduce the electricity shortage in the Ufa generation system and increase the reliability of power supply to consumers. Pursuant to the Ufa heating arrangement approved by the Order of The Russian Federation Ministry of Energy, Zatonskaya CHPP is recognised as the primary heat source for the future development area in Ufa.	new	gas	420 ³³	Q2-4 of 2017

4.5 Innovative development

The successful accomplishment of innovative development tasks set in the Group's Strategy is achieved by means of integrated implementation of the Innovative Development Programme of PJSC Inter RAO until 2020 (with an outlook until 2025) approved by the Board of Directors of PJSC Inter RAO³⁴.

As part of its innovative development in 2016, Inter RAO Group continued focusing on the key areas such as developing the scientific and technological potential and technological renewal of the Group, improving the efficiency, reliability and safety of assets, and enabling the Group to take leading positions in the industry.

The Innovative Development Programme provides for achieving a range of target values and implementing integrated measures in the field of new construction, retooling and reconstruction, enhancement of energy efficiency of existing production facilities, ecology, human capital development and R&D support.

³⁰ Pursuant to the Russian Federation Government Order No. 132-r dated 02.02.2016, the capacity of 420 MW is specified. The capacity under ISO is 446 MW.

³¹ Pursuant to the Russian Federation Government Order No. 132-r dated 02.02.2016, unit No. 12 at Verkhnetagilskaya TPP (CCGT-420) was included in the list of CDA facilities to be commissioned on 01.11.2017 (420 MW) (replacing CCGT-420 at Serovskaya TPP). In compliance with the right to perform capacity delivery obligations early, a new date of performance of capacity delivery obligations is set – 01.05.2017.

³² Pursuant to the Russian Federation Government Order No. 2784-r dated 30.12.2014, the list of CDA facilities has been amended: as to power generating unit No. 4 at Permskaya TPP, the date of commissioning under CDA was moved to 30.06.2017; unit No. 12 at Verkhnetagilskaya TPP (CCGT-420) was replaced with the construction of CCGT power generating units No. 1 and 2 at CHPP-5 in Ufa, Republic of Bashkortostan to be commissioned on 31.12.2016 (420 MW).

³³ Pursuant to the Russian Federation Government Order No. 2784 dated 30.12.2014, the capacity of 420 MW is specified. The capacity under ISO is 425 MW.

³⁴ Minutes No. 183 dated 31.10.2016

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 the leading foreign and Russian energy companies.

Target indicators of the Innovative Development Programme of Inter RAO Group to 2020 with an outlook until 2025

Indicators	UOM	2016		2017	2020	2025	Change over 10 years
		Actual	Plan	Plan	Plan	Plan	-
CO ₂ emissions per unit of electricity generated	gCO ₂ /kWh	596,22	598,33	591,93	565,73	553,22	-7%
Specific consumption of reference fuel per unit of electricity supplied	g/kWh	311,01	313,36	306,71	290,5	290,0	-7%
Specific consumption of reference fuel per unit of heat supplied	kg/Gcal	145,34	144,03	143,79	141,2	141,0	-3%
Percentage of completed R&D projects recommended for implementation at Group facilities	%, min	100	75	80	85	87	-
Percentage of innovative solutions implemented by Group companies in the total number of innovative solutions recommended for implementation ³⁵	%, min	-	-	10,0	13,3	14,6	-
Number of intellectual property items (IPIs)	pieces, min	22	17	20	58	60	+224%
Number of applications submitted for the R&D Programme	pieces	226	220	230	400	500	+125%
Number of employees per MW of rated capacity ³⁶	people/MW	0,71	0,82	0,81	0,75	0,70	-1%
Profit from sales of additional paid services in the retail market;	RUB thousand/	751 778	380 000	441 943	685 087	838 315	+125%

³⁵This indicator is indicative and has been developed in pursuance of the instruction of the Strategy and Investment Committee meeting dated 25.04.2016 (Minutes No. 104 dated 25.04.2016, Order No. IRAO/172 dated 04.05.2016).

³⁶ According to the Group's generation assets at the end of the year.

	year						
Percentage of R&D expenditures in Group's revenue	%	0,03	0,39	0,39	0,39	0,39	+92%
Average operating efficiency	%	39,55	39,20	40,05	40,63	41,78	+6%
Percentage of new advanced technologies in the total TPP capacity of the Group	%	14,64	14,00	15,10	18,83	19,50	+35%

The register of innovative solutions that contains information on innovative solutions recommended for implementation by the Innovations Development Committee of the Energy Without Boundaries foundation to satisfy the needs for innovative products and R&D results of entities operating in the electricity and heat power industry, including Inter RAO Group companies, is provided at <http://energy-fund.ru/okno-innovatsiy/reestr-innovatsionnykh-resheniy/>

4.6. Energy efficiency enhancement

Inter RAO Group consistently continues its efforts on improving 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 the Russian and foreign industry leaders. LLC INTER RAO UES Energy Efficiency Centre was established within Inter RAO Group (jointly with Rosatom State Corporation). It is engaged in developing and implementing energy efficiency solutions. Developments of LLC INTER RAO UES Energy Efficiency Centre are used by both Inter RAO Group enterprises and other Russian energy companies. For more details about LLC INTER RAO UES Energy Efficiency Centre operations, please visit <http://www.interef.ru/>

On 22 December 2016, the Management Board of PJSC Inter RAO approved the Energy Saving and Energy Efficiency Programme of Inter RAO Group (ESEEP) for 2016³⁷.

The planning and implementation of the ESEEP is considered an integral part of the systems approach to energy saving and energy efficiency management, which covers all phases of activity – from the energy analysis to identify the energy saving potential and set of priority energy efficiency measures aimed at achieving target values to the arrangement of their financing as part of investment and production programmes, implementation of planned measures, and consideration of their economic effect (savings on power resources) in practice. The ESEEP is developed based on the integrated analysis and assessment of

³⁷ Minutes No. 661 dated 22.12.2016.

plants, equipment, systems, processes and staff that have a substantial impact on the pattern of use and volume of power resources consumed as part of the unified system based on the following: Company's Development Strategy, Group's Innovative Development Programme, Group's Technical Policy, and R&D Programme. As part of improving the ESEEP planning and assessment system, certain adjustments have been introduced at the programme development stage to enable conducting the energy analysis (define the fuel overburn level) by production unit (PU). The said analysis enables identification and assessment of the energy efficiency enhancement potential. In addition, the efficiency criterion, coefficient of fuel heat utilisation (CFHU), introduced into the programme characterises the equipment on the books in terms of efficiency of fuel energy conversion into finished products (heat and electricity). This indicator enables detecting low-performing equipment and developing measures to improve fuel utilisation efficiency.

Results of ESEEP measures implementation (for Inter RAO Group as a whole) for 2016:

- energy effect in terms of reference fuel – 153,826 tonnes of reference fuel;
- economic effect – RUB 642,296m;
- CFHU improvement – 0.14%;
- reduction in specific overconsumption of fuel – 0.25 g/kWh;
- improvement in specific consumption of reference fuel per unit of electricity supplied – 1.00 g/kWh;
- improvement in specific consumption of reference fuel per unit of heat supplied – 0.12 kg/kWh;
- reduction in heat losses during its transmission through heating grids – 0.65%;
- reduction in electricity consumption during heat transmission through heating grids – 0.01 kWh/Gcal.

Inter RAO Group energy management system 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 through the recertification audit in terms of compliance with the ISO 50001:2011 international standard requirements in 2016. By 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 dated 31.03.2016 and valid through 28.12.2018. In 2016, the following sites were included in the periphery of the Group's certified EnMS: LLC Inter RAO – Management of Electric Power Plants, a management company, 16 power stations – branches of JSC Inter RAO – Electric Power Plants and JSC Nizhnevartovskaya TPP.

In 2016, LLC INTER RAO UES Energy Efficiency Centre carried out certain activities to ensure public promotion of energy saving:

- energy saving lessons for primary-grade schoolers in Perm and Tyumen;
- cycle of events dedicated to promoting energy saving among children and adults held in 12 Moscow libraries and one city club jointly with the Moscow City Library Centre of the Moscow Department of Culture;
- cycle of events dedicated to promoting energy saving among Moscow schoolers held as part of the Back to School festival;
- several events, including the Smart City Quest developed by the Centre employees, held as part of the Russian National Energy Saving Festival #VmesteYarche ("Together–Brighter") jointly with the Moscow Department of Fuel and Energy.

5 Inter RAO Group operations

5.1 Key business results of the Group

Key business results of the Group

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

The growth in values of the key financial and economic indicators of the Group³⁸ in 2016 is attributed to both the increase in revenue from CDAs and sale of assets, and the implementation of measures to improve the operating efficiency of the Group companies.

Key financial and economic results of the Group for 2016

Indicator	UOM	Supply	Generation			Trading	Foreign assets					Engineering In Russia	Other	Undistributable items and eliminations	TOTAL
		Russian Federation	Russian Federation			Russian Federation and Europe	Armenia	Georgia	Moldova	Kazakhstan	Turkey				
			Electricity generation	Heat generation											
			Inter RAO – Electric Power Plants Group ³⁹	TGK-11 ⁴⁰	Bashkir Generation ⁴¹										
Revenue	m RUB	564,238	156,576	30,131	53,476	80,661	-	11,879	4,850	-	15,356	8,926	5,005	(62,916)	868,182
Percentage of segment revenue in total	%	65	18	3	6	9	0	1	1	0	2	1	1	-7	100
Operating expenses, including:															
Expenses for electricity and capacity acquisition	m RUB	(300,114)	(7,511)	(2,522)	(3,783)	(63,928)	-	(4,849)	-	-	-	-	(33)	55,000	(327,740)
Expenses for electricity transmission	m RUB	(227,751)	-	-	(8)	(6,006)	-	(1,138)	(15)	-	-	-	-	-	(234,918)

³⁸ The assessment of performance of the business areas (operating segments) is provided based on the consolidated financial statements of Inter RAO Group for 2016 prepared in accordance with the International Financial Reporting Standards (IFRS).

³⁹ Represented by Inter RAO – Electric Power Plants Group, including JSC Nizhnevartovskaya TPP (hereinafter in the Report).

⁴⁰ Represented by JSC Tomsk Generation, JSC TGK-1, JSC Omsk RTS and JSC TomskRTS (hereinafter in the Report).

⁴¹ Represented by LLC BGC, including LLC BashRTS (hereinafter in the Report).

Fuel expenses	m RUB	-	(73,318)	(12,606)	(28,281)	-	-	(954)	(132)	-	(11,545)	-	-	2,433	(124,403)
Share in profit/loss of jointly controlled entities	m RUB	(13)	3,075	-	-	-	1,838	-	-	774	-	(59)	57	-	5,672
EBITDA	m RUB	15,131	53,649	4,914	8,740	9,895	1,838	2,604	2,655	776	2,915	(257)	1,608	(8,209)	96,259
Depreciation and amortisation	m RUB	(2,175)	(11,710)	(1,740)	(3,370)	(61)	-	(594)	(350)	(2)	(1,638)	(207)	(717)	(340)	(22,904)
Interest income	m RUB	3,756	895	-	382	280	-	62	-	1	50	252	138	3,679	9,495
Interest expenses	m RUB	(1,708)	(3,969)	(779)	(114)	(181)	-	(146)	(221)	-	(456)	(101)	(4,457)	4,903	(7,229)
Percentage of segment EBITDA in total	%	16	56	5	9	10	2	3	3	1	3	0	1	-9	100
EBITDA margin ⁴²	%	3	46	18	20	13	-	22	55	-	19	-5	321	-	11

Key operating results of the Group as at 31 December 2016

Indicator	UOM	Supply	Generation			Trading	Foreign assets					Engineering	Other	TOTAL
		Russian Federation	Russian Federation			Russian Federation and Europe	Armenia	Georgia	Moldova	Kazakhstan	Turkey			
			Electricity generation	Heat generation										
			Inter RAO – Electric Power Plants Group	TGK-11	Bashkir Generation									
Rated capacity	MW	-	22,112	2,126	4,031	-	-	227	2,520	1,000	478	-	30	32,524
Electricity generation	m kWh	-	91,786	8,487	19,732		-	881	4,468	4,976	3,470	-	57	133,857
Electricity supply ⁴³	m kWh	168,068	-	-	-	-	-	-	-	-	-	-	-	168,068
excluding IGT ⁴⁴	m kWh	163,996	-	-	-	-	-	-	-	-	-	-	-	163,996
Productive heat supply ⁴⁵	thousand Gcal	-	4,280	24,268	25,821	-	-	-	81	41	-	-	-	54,491

⁴² The EBITDA margin is calculated with exclusion of the inter-segment revenue of the subsegment “Heat generation” in “Supply in the Russian Federation” Segment in the amount of RUB 13, 346 million (including TGK-11 in the amount of RUB 3,365 million and “Bashkir Generation” in the amount of RUB 9,981 million), “Trading in the Russian Federation and Europe” Segment in the amount of RUB 1,631 million and “Other” Segment in the amount of RUB 4, 504 million.

⁴³ Intra-group turnover (IGT) – allocating financial flows and financial performance resulting from the sale of materials/goods/products/services by one Group company to another Group company.

⁴⁴ Electricity supply excluding IGT – with respect to the supply in Russia – consolidated data of the “Electricity (capacity) supply in the national market” item

⁴⁵ Heat supply to heating grids reduced by process (standard, actual) losses of heat in heating grids.

excluding IGT ⁴⁶	thousand Gcal	-	3,149	13,212	18,579				81	41				35,062
Installed capacity utilisation rate	%	-	47.4	48.2	54.4			26.6	20.2	56.7	82.6		21.5	46.8
Fuel consumption in the fuel mix in physical terms/in reference terms ⁴⁷		-	-	-	-	-	-	-	-	-	-	-	-	-
Gas	million m3 %	-	19,038/81.9	1,960/46.7	7,043/96.0	-	-	87/100,0	1,243/99.4		647/91.6	-	-	30,018/78.2
Coal	thousand tonnes/%	-	7,869/17.6	4,555/52.7	57/0.3	-	-		7/0.4	3,164/99.7		-	-	15,651/20.5
Fuel oil	thousand tonnes/%	-	112/0.6	22/0.6	244/3.7	-	-		2/0.2	3/0.3	52/8.4	-	-	435/1.3
Other	thousand tonnes/%	-	0	-	0	-	-					-	-	0

⁴⁶ Productive supply excluding IGT – with respect to the generation in Russia – consolidated data of the “Heat supply to end consumers” item; the foreign generation provides for no IGT; Ekibastuz TPP is accounted for as an associate; it is understood to be = to supply

⁴⁷ Expressed in terms of reference fuel.

5.2 “Generation in the Russian Federation” segment

28,269 MW <i>Total rated electric capacity of power facilities</i>	25,153 Gcal/h <i>Total heat capacity</i>	Key measures: <ul style="list-style-type: none"> ✓ commissioning of new generating capacities as part of the existing CDA programme; ✓ modernisation and retooling of power equipment as part of the Group’s investment programme; ✓ decommissioning of outdated, low-performing and over-aged equipment.
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Segment description

The “Generation in the Russian Federation” segment includes two operating subsegments:

“Electricity generation” subsegment	“Heat generation” subsegment
<p>17 large condensing thermal power plants, which mostly generate electricity for the wholesale electricity and capacity market (territories of regions united into pricing and non-pricing zones) in the context of the operational dispatch management of the UES of Russia.</p> <p>Operations in the subsegment are governed by the laws of the Russian Federation and the standards of industry infrastructure organisations. The subsegment is represented by generating plants of JSC Inter RAO – Electric Power Plants, including CJSC Nizhnevartovskaya TPP.</p>	<p>16 large CHPPs, which produce heat and electricity in the co-generation mode, two HPPs, low-capacity power facilities, as well as boiler houses and heating grids.</p> <p>Operations in the subsegment are particularly governed by the laws concerning electric power industry and heat supply. The subsegment is represented by JSC TGK-11, including JSC Tomsk Generation, JSC OmskRTS, JSC TomskRTS and Bashkir Generation (LLC BGC).</p>



Heat generation



Russian generation

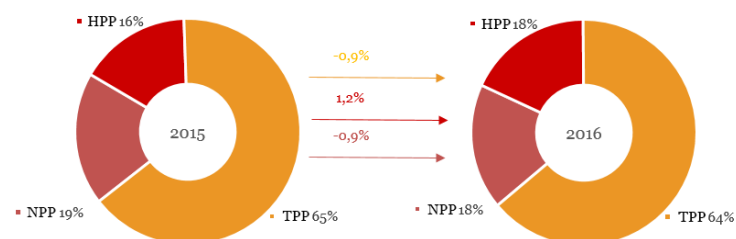
Market position

As at 01 January 2017, the rated capacity of power plants being part of integrated energy systems (IESs) in Russia has increased by 1,037.6 MW (0.44%) and equals to **236,343.6** MW. Generating enterprises of the subsegments are located in 19 constituent entities of the Russian Federation and are part of five of seven integrated energy systems (IES) of Russia.

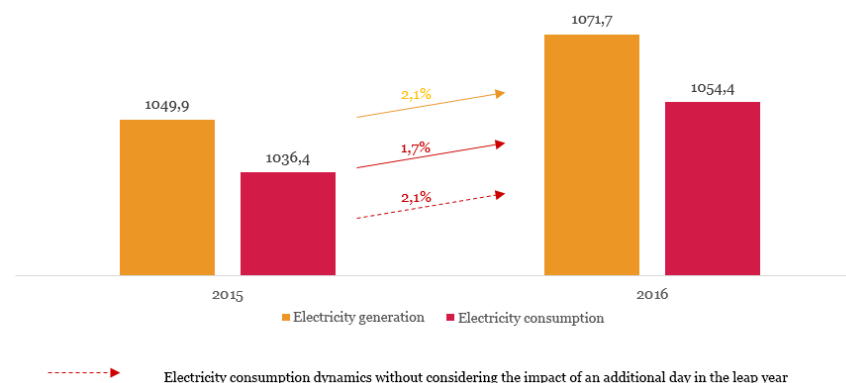
Rated electric capacities in the “Generation in the Russian Federation” segment and their shares in the overall structure by UES integrated energy system

Indicator	UOM	Total for UES of Russia	IES Centre	IES North-West	IES South	IES Urals	IES Siberia
IES rated electric capacity as at 01.01.2017	MW	236,343.6	52,878.6	23,572.1	20,601.7	51,131.7	51,969.8
including TPPs:	MW	160,242.2	37,477.3	14,856.5	11,667.1	47,733.3	26,668.2
Segment rated electric capacity as at 01.01.2017	MW	28,268.8	7,150.0	2,860.0	358.5	13,949.6	3,950.7
including TPPs:	MW	28,269.0	7,150.0	2,860.0	358.5	13,705.3	3,950.7
Segment capacity share in the IES rated electric capacity							
as at 01.01.2017	%	12.0%	13.5%	12.1%	1.7%	27.3%	7.6%
as at 01.01.2016	%	12.3%	14.2%	12.4%	1.8%	28.4%	7.3%
Segment capacity share in the IES rated capacity of TPPs	%	17.5%	19.1%	19.3%	3.1%	28.7%	14.8%
IES share in the Segment capacity structure	%	100.0%	25.3%	10.1%	1.3%	49.3%	14.0%

Dynamics of load distribution at power plants in Russia



Dynamics of electricity generation and consumption in Russia



The volume of electricity generated by IES power plants in Russia in 2016 increased by 2.1%, while the share of electricity generated by the Russian assets of Inter RAO Group in Russia declined by 0.9 percentage points and amounted to 11.4%. The volume of electricity consumed in 2016 amounted to 1,026.9 billion kWh (1.8% increase as compared to 2015). The factors that entailed the reduction in the electricity generation share are provided in the “Operating results” subsection.

Targets for 2016:

- ensure reliability, safety and technological development of the existing production assets;
- improve operating efficiency, energy efficiency and environmental performance of production assets, and retain leadership in the Russian energy industry;
- secure further growth in the heat generation segment and increase in the heat market share.

Share of electricity generated by Russian assets of Inter RAO Group in Russia

Indicator	UOM	2014	2015	2016	2016/2015
Electricity generation in Russia ⁴⁸	m kWh	1,024,943	1,026,877	1,048,457	+2.1%
Electricity generation in the Segment	m kWh	131,570	127,163	120,005	-5.6%
Share of electricity generated by Russian assets of Inter RAO Group in Russia	%	12.8	12.4	11.4	-0.9 pp

Major factors that determined the operating results:

- effect from the commissioning of 445 MW of new generating capacities in the previous periods under capacity delivery agreements (CDAs);
- decommissioning of 835 MW of outdated low-performing capacities;
- increase in the capacity fee under CDAs by 27.7% in average due to the incremented return on long-term government bonds, adjustment of the Kdam⁴⁹ calculation mechanism, indexation of operational expenses for the consumer price index, and commencement of CDA delta payments from the seventh year of delivery for certain facilities;
- growth in the prices for capacities sold in the competitive capacity auction (CCA) segment by 16.5%;
- growth in the electricity prices on the day-ahead market (DAM) in the first pricing zone (by 4.0%) and unfavourable pricing environment in the second pricing zone (electricity prices declined by 5.7%);
- growth in the average heat supply tariffs for end consumers for the Russian assets of the Group by 9.6%;
- optimisation of fuel procurement prices for the Russian assets of the Group.

Operating results

Operating information for the year ending 31 December 2014/2015/2016

Indicator	UOM	2014	2015	2016	2016/2015
Closing installed capacity	MW	29,070	29,003	28,269	-2.5%
Electricity generation in Russia ⁵⁰	m kWh	1,024,943	1,026,877	1,048,457	2.1%
Electricity generation in the Segment	m kWh	131,570	127,162	120,005	-5.6%

⁴⁸ Report on the functioning of the UES of Russia in 2016 published on the website of JSC SO UES at www.so-ups.ru.

⁴⁹ Share of expenses covered out of profit from the participation in electricity sale based on the results of the day-ahead price bid competitive selection

⁵⁰ Report on the functioning of the UES of Russia in 2016 published on the website of JSC SO UES at www.so-ups.ru.

⁵¹ Taking into account corrections +20 MW TG No. 2 at OCHPP-5 in December 2015.

Share of electricity generated by Russian assets of Inter RAO in Russia	%	12.8	12.4	11.4	-0.9 pp
“Electricity generation” subsegment					
Rated electric capacity at the end of the period	MW	22,854	22,853	22,112	-3.2%
Fuel mix:					
Gas	%	80.6	80.6	81.9	1.3 pp
Coal	%	19	19.1	17.6	-1.5 pp
Fuel oil	%	0.4	0.4	0.6	0.2 pp
Other fuel	%	–	–	–	
Electricity production in the subsegment	m kWh	102,740	98,585	91,786	-6.9%
Fuel equivalent consumption per unit of electricity sold	gfe/kWh	312.7	307.8	302.7	-1.7%
Installed capacity utilisation rate	%	53	49.4	47.4	-2.0 pp
Heat output	thousand Gcal	3,770	3,512	3,826	9.0%
Fuel equivalent consumption per unit of heat sold	kgfe/Gcal	161.7	162.7	157.9	-2.9%
“Heat generation” subsegment					
Rated electric capacity at the end of the period	MW	6,216	6,150 ⁵¹	6,157 ⁵²	0.1%
Fuel mix:					
Gas	%	77.8	76.5	78.0	1.5 pp
Coal	%	20.8	21.7	19.5	-2.2 pp
Fuel oil	%	0.4	0.7	2.6	1.9 pp
Other fuel	%	1	1.1	0.0	-1.1 pp
Electricity production in the subsegment	m kWh	28,830	28,577	28,219	-1.3%
Fuel equivalent consumption per unit of electricity sold	gfe/kWh	327.3	334.8	331.2	-1.1%
Installed capacity utilisation rate	%	53.2	53	52.3	-0.7 pp
Heat output	thousand Gcal	37,307	35,624	36,234	1.7%
Fuel equivalent consumption per unit of heat sold	kgfe/Gcal	143.5	143.2	143.7	0.3 pp

During the reporting period, the total installed electric capacity of energy facilities in Segment decreased by 2.5%, reaching 28,269 MW; the value of total heat capacity decreased by 2.0% and amounted to 25,153 Gcal/h:

⁵¹ Taking into account corrections +20 MW TG No. 2 at OCHPP-5 in December 2015.

⁵² Taking into account the launch of 120 MW at TGK-11 in December 2016.

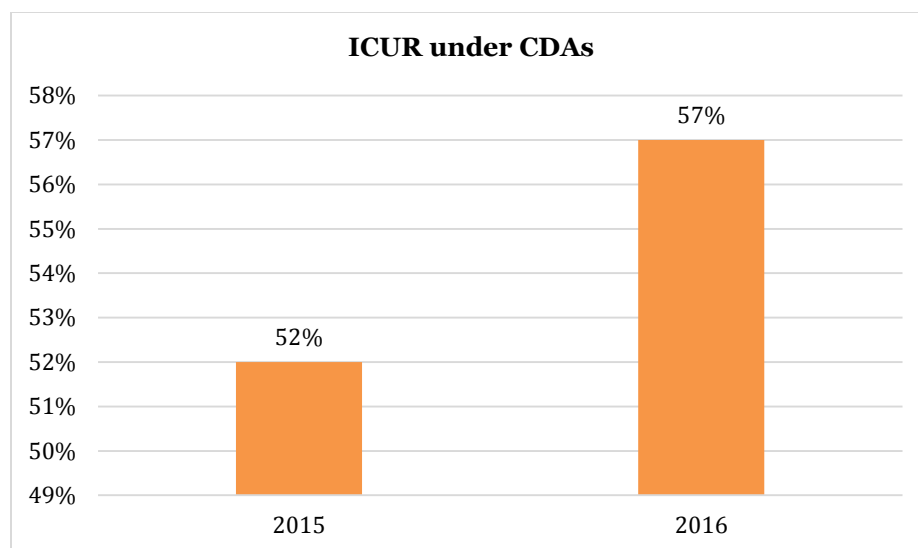
- the total installed electric and heat capacities of plants in the subsegment “Electricity Generation” are 22,112 MW and 5,838 Gcal/h, respectively.
- the total installed electric and heat capacities of plants in the subsegment “Heat Generation” are 6,157 MW and 19,315 Gcal/h, respectively.

The dynamics of these indicators is driven by a higher rate of decommissioning of outdated inefficient equipment than the rate of commissioning and modernisation of existing generating capacities. In particular, 376 MW at the Verkhnetagilskaya TPP, 420 MW at the Cherepetskaya TPP, 35 MW at the Yuzhnouralskaya TPP, 4 MW at power plants in Bashkiria. Mostly for the same reasons, as of year-end 2016, the installed heat capacity was reduced by 518 Gcal/h.

In addition to decommissioning of equipment in 2016, Kumertauskaya CHPP (LLC Bashkir Generation Company) was sold. The installed capacity of the power plant was 120 MW.

Gross electricity output of generating assets of Segment in 2016 decreased by 5.6% and amounted to 120,005 m kW/h. The decrease in output is mainly due to the optimisation of load of unprofitable and marginally profitable equipment during the periods of low prices in the day-ahead market, and a more extensive repair work in summer 2016 as compared to the summer 2015. As a result, the fuel equivalent consumption per unit of electricity sold decreased by 4.5 gfe/kWh, and per unit of heat power supply – left the same. The average installed capacity utilisation rate (ICUR) of Segment power plants decreased by 1.7 pp. At the same time, in 2016 the installed capacity utilisation rate (ICUR) of the “Electricity generation” subsegment amounted to 47.4% while the “Heat generation” subsegment – to 52.3%. These two rates exceed ICUR of Russia’s TPP UES (in 2016 the rate was 46.7%⁵³). The ICUR increased by 5 pp on PSC objects of the Group.

⁵³ JSC SO UES. Report on the functioning of the UES in 2016



Increase in the supply of heat from headers by 2,4% is due to a increase in demand because of a lower average ambient air temperature in autumn and winter in 2016 as compared to 2015 in the regions where the Group's generating assets operate.

Commissioning of new and modernisation of current generating capacities, decommissioning of worn-out equipment in 2016

Item No.		Inter RAO Group – Electric Power Plants	JSC Tomsk Generation	Bashkir Generation	TGK-11
1.	Installed capacity increase in 2016, MW (asset by asset including remarking)	90.4	0	13.5	140.0
1.1	Gusinoozyorskaya TPP Article No. 2 (remarking)	10	–	–	–
1.2	Gusinoozyorskaya TPP No. 5 (remarking)	10	–	–	–
1.3	Gusinoozyorskaya TPP No. 6 (remarking)	10	–	–	–
1.4	Iriklinskaya TPP No. 2	14	–	–	–
1.5	Sochinskaya TPP No. 3 (remarking)	2.5	–	–	–
1.6	Urengoyskaya TPP CCGT unit No. 3 (remarking)	31.3	–	–	–
	Kharanorskaya TPP No. 3 (remarking)	10	–	–	–

1.1	Yuzhnouralskaya TPP-2 No. 1 (remarking)	2.6	–	–	–
1.5	Ufinskaya TPP-2 No. 1	–	–	13.5	–
1.6	Omskaya TPP-5 No. 2	–	–	–	20.0
1.7	Omskaya TPP-3 No. 10 T-120	–	–	–	120
2.	Decommissioning of inefficient capacity in 2016, MW (asset by asset) including remarking	831	0	6.86	0
2.1	Verkhnetagilskaya TPP No. 1	88	–	–	–
2.2	Verkhnetagilskaya TPP No. 4	88	–	–	–
2.3	Verkhnetagilskaya TPP No. 5	100	–	–	–
2.4	Verkhnetagilskaya TPP No. 6	100	–	–	–
2.5	Yuzhnouralskaya TPP-1 No. 4	35	–	–	–
2.6	Cherepetskaya TPP No. 1	140	–	–	–
2.7	Cherepetskaya TPP No. 2	140	–	–	–
2.8	Cherepetskaya TPP No. 3	140	–	–	–
2.9	Ufinskaya TPP-2 No. 1	–	–	2.5	–
2.10	GCU ASSY GCU-1	–	–	1.03	–
2.11	GCU ASSY GCU-2	–	–	1.03	–
2.12	GCU Krasnougolsk GCU-1	–	–	0.98	–
2.13	GCU Krasnougolsk GCU-2	–	–	0.98	–
2.14	Tanalykskaya SHPP	–	–	0.05	–
2.15	Abdulkarimovskaya SHPP	–	–	0.3	–

Measures for the reconstruction and modernisation of the main production assets of power plants met the established criteria in terms of flexibility, economy and environmental safety. The choice of basic and auxiliary power plants equipment, electrical network equipment and heat supply systems for new construction, technical re-equipment and modernisation was carried out with due account for the Group's Technical Policy requirements for 2016 to the type of equipment, its parameters, technical characteristics and performance indicators.

In the autumn-winter period (AWP) 2015-2016, the Group's energy facilities provided power supply to consumers in accordance with operations schedules.

The AWP 2015-2016 was characterised by an increase in electricity consumption in the Russian UES by 0.3% compared to the AWP 2014-2015 (from 148.8 GW to 149.2 GW) and a decrease in the electricity generation by 0.05% compared to the AWP 2014-2015 (from 565.2 billion kWh to 564.9 billion kWh). Warm weather conditions contributed to the reduction of overall accidents at Russian UES power plants by 9%, the 2.4% decrease in thermal generation and the 15.1% increase in hydroelectric power generation. In the autumn-winter period of 2015-2016 there was a 19.8% decrease in the total number of technological violations compared to the 2014-2015 AWP.

All Inter RAO Group power plants received a certificate of readiness for the autumn-winter period 2016-2017 which confirms that Company's generating enterprises are ready to bear high loads and provide reliable electricity and heat to consumers during the autumn-winter maximum.

Financial information for the year ending 31 December 2014/2015/2016

Inter RAO – Electric Power Plants Group						TGK-11				Bashkir Generation			
	UOM	2014	2015	2016	2016/ 2015	2014	2015	2016	2016/ 2015	2014	2015	2016	2016/ 2015
Revenue	m RUB	147,492	149,130	156,576	5%	27,240	28,565	30,131	5%	49,400	50,719	53,476	5%
Share in the revenue of Inter RAO Group	%	20	18	18	0 pp	4	3	3	0 pp	7	6	6	0 pp
Operating costs, including													
Expenses for electricity and capacity acquisition	m RUB	(7,837)	(7,725)	(7,511)	-3%	(2,493)	(2,700)	(2,522)	-7%	(3,635)	(3,553)	(3,783)	6%
Fuel expenses	m RUB	(83,908)	(79,481)	(73,318)	-8%	(12,743)	(13,644)	(12,606)	-8%	(28,869)	(28,901)	(28,281)	-2%
Share in profit/(loss) of joint ventures	m RUB	2,325	2,339	3,075	31%	-	-	-	-	-	-	-	-
EBITDA	m RUB	29,052	36,052	53,649	49%	3,230	3,188	4,914	54%	7,223	6,481	8,740	35%
EBITDA margin⁵⁴	%	24	30	46	16 pp	13	13	18	5 pp	16	16	20	4 pp
Share in EBITDA of Inter RAO Group	%	52	50	56	6 pp	6	4	5	1 pp	13	9	9	0 pp

⁵⁴ The EBITDA margin is calculated with exclusion of the inter-segment revenue of the "Electricity generation" Segment in the amount of RUB 38,826 million in 2016, RUB 29,781 million in 2015 and RUB 26,548 million in 2014. The EBITDA margin is calculated with exclusion of the inter-segment revenue of the "Heat generation" subsegment for TGK-11 indicators: in the amount of RUB 3,365 million in 2016, RUB 3,537 million in 2015 and RUB 2,832 million in 2014; for Bashkir Generation indicators: in the amount of RUB 9,981 million in 2016, RUB 9,327 million in 2015 and RUB 4,758 million in 2014.

The increase in Segment revenue was RUB 11,769m (5%) during the reporting period, happened mainly due to the increase in capacity sales revenues thanks to the commissioning of new and upgraded generating capacities within the framework of the CDA, the increase in the capacity selling price in the “Electricity generation” subsegment, and also due to the revenue growth in the “Heat generation” subsegment because of the rise in average prices for heat energy in 2015 and 2016 in Bashkiria, Omsk and Tomsk regions, and due to the increase in prices and supply volumes in the CCA (competitive capacity auction) and CDA for JSC TGC-11.

Electricity and capacity expenses remained at the level as in 2015 (-1%).

The process fuel expenses decreased by RUB 7,821m (6%) due to the reduction of electricity generation by segment assets, partly because of the repair and decommissioning of inefficient capacities. Savings are also achieved because of turning to Rosneft’s more favourable gas purchase terms for Russian generation assets.

The EBITDA growth in the Segment amounted to RUB 21,582 million (47%). It deals with the improvement of the Inter RAO-Electricity Group’s operating efficiency due to the introduction of new and upgraded generating capacities under CDA terms, load optimisation of unprofitable and low-profitable equipment during low prices periods on the day-ahead market, semi-constant expenses optimisation and increase in the estimated capacity selling price in the CDA sector. In addition, savings during fuel purchase also made a substantial contribution to the overall result. In the “Heat generation” subsegment EBITDA increased due to upward rise in average prices for heat energy in operating regions and increase in PP generation in the Republic of Bashkortostan.

Electricity (capacity) and heat payment level, %

	2014	2015	2016	2016/2015
Electricity (capacity)	99.25%	99.34%	99.02%	-0.32 pp
Heat	98.23%	95.05%	96.97%	+1.92 pp

The following key activities were carried out as a part of work with accounts receivable:

- constant monitoring of settlements with counterparties;
- claim management;
- out-of-court dispute resolution;
- activities for the reduction of accounts receivable based on plans approved by management;
- participation in working groups of wholesale electricity (capacity) regulators; Transition to various forms of direct contact with heat consumers;
- nonpayers disconnection based on the results of the disconnection commissions regular work;
- activities of Committees (Commissions) dealing with accounts receivable;

- negotiations with local authorities.

The reduction of electricity (capacity) collection in 2016 was due to the following significant factors:

- Partial non-fulfilment of financial obligations by wholesale electricity (capacity) market players.
- In 2016, the conclusion of non-regulated capacity sale contacts instead of planned CCA contracts provoked a single cash flow shift as a result of applying a new payment schedule (change of advance amount from 30% to 15%).

Key achievements in 2016:

In 2016, as part of the implementation of one of the main strategic tasks set for the Group at the state level – the design and construction of four power stations on the territory of Kaliningrad region power system – the implementation of the Roadmap was performed. Design of power plants was performed taking into account the requirements of the Group's Technical Policy. A positive conclusion on the state expertise of project documentation was received. Complex tests of power units on the operating Kaliningrad CHPP-2 were carried out while working in the “semi-units” mode: tests on the participation in GPFC (General primary frequency control) and emergency control to ensure power system stable operation, as well as tests in the heating mode to clarify the maximum thermal loads.

In 2016, together with the Ministry of Energy and the Ministry of Industry and Trade of the Russian Federation, and also in the framework of activities done by the Import Substitution Working Group, the Company continued its work on the substitution of imported equipment use during the implementation of investment programmes of the Group's companies, the need and the possibility of its replacement with domestic counterparts. The list of the most critical imported equipment in use, the replacement of which is impossible, has been created.

In 2016, together with the Ministry of Energy of the Russian Federation, the Ministry of Industry and Trade of the Russian Federation, the Russian Academy of Sciences and interested enterprises of power engineering industry, priority tasks have been identified as part of the corporate Import Substitution Programme, and suggestions on the development and implementation of the Federal Import Substitution Programme have been provided. The Group's specialists have actively participated in the work of the interdisciplinary working group on the development of the Federal Import Substitution Programme. While working on the implementation of the road map for the Federal Import Substitution Programme, sessions with participants from leading scientific and technical organisations and power engineering enterprises were held on the basis of a unified competence centre (UCC on the basis of JSC VTI).

As part of the implementation of the Group's investment programme, the generating unit No. 2 at the Irikhinskaya TPP has been modernised. The transition to reaction blading and four-valve steam turbine regulating system was for the first time performed at supercritical-pressure units of the Inter RAO Group. Based on certification tests results, the unit installed capacity has been increased from 300 MW to 314 MW, which fully corresponds with parameters declared within the framework of long-term competitive capacity selection for 2016-2019. Installed capacity of the Irikhinskaya TPP amounted to 2 414 MW (+14 MW).

In 2016, 835 MW of outdated low-performing capacities were decommissioned. In particular, 376 MW at the Verkhnetagilskaya TPP, 420 MW at the Cherepetskaya TPP, 35 MW at the Yuzhnouralskaya TPP, 4 MW at power plants in Bashkiria. Also in 2016, preparations were made for decommissioning of power units No. 1 and 2 at Kashirskaya TPP (decommissioning is planned for 2018).

Development prospects

“Electricity generation” subsegment

Priorities for the development of “Electric generation” subsegment include the achievement of some objectives in the field of improving reliability, energy and economic efficiency and asset security. These objectives include:

- optimisation of energy equipment loading, remarking and increasing the installed capacity of existing equipment, as well as decommissioning of outdated and inefficient equipment;

For the period from 2010 to 2020, the total capacity output will be 4.7 GW. Beginning 1 January 2017, 1,270 MW are planned for decommissioning.

Table. Plan of outdated equipment decommissioning by 2020

Generating facility name	Model	Capacity, MW	Putting into commission	Decommissioning date, month, year			
				2017	2018	2019	2020
Verkhnetagilskaya TPP	Power unit No. 7 K-200-130-1	165	1961	from 01.01.2017	-	-	-
	Power unit No. 8 K-200-130-1	165	1962	from 01.01.2017	-	-	-
Cherepetskaya TPP	Power unit No. 5 K-300-240	300	1963	from 01.01.2017	-	-	-
	Power unit No. 6 K-300-240	300	1964	from 01.01.2017	-	-	-
	Power unit No. 7 K-300-240	265	1966	from 01.01.2017	-	-	-
Kashirskaya TPP	Power unit No. 1 K-300-240	300	1967	-	from 01.05.2018	-	-
	Power unit No. 2 K-300-240	300	1967	-	from 01.05.2018	-	-
	Power unit No. 4 K-300-240	300	1974	-	-	-	from 01.01.2020
	Power unit No. 5 K-300-240	300	1975	-	-	-	from 01.01.2020
	Power unit No. 6 K-300-240	300	1975	-	-	-	from 01.01.2020
	Power unit No. 7 PT-80/100-130	80	1983	-	-	-	from 01.01.2020

Omskaya CHPP-3	TS No. 4 R-25-90/18	25	1956	from 01.01.2017	-	-	-
	TS No. 7 RT-25-90/10M	25	1957	from 01.01.2017	-	-	-
	TS No. 8 R-25-90/18	25	1958	from 01.01.2017	-	-	-
Group total				1,270	600	-	980

- the use of innovative technologies and solutions in the field of energy saving and improving energy efficiency;
- reduction in fuel consumption per unit of electricity sold;
- increase in technical readiness coefficient;
- prevention of negative environmental and social impacts of production operations.

Key directions for increasing subsegment operational efficiency in 2017:

- Timely commissioning of the CDA facilities: CCGT-420 of Verkhnetagilskaya TPP and CCGT-800 of Permskaya TPP with an increase in installed capacity beyond CDA parameters.
- Optimisation of generating equipment loading in response to energy consumption reduction at low-margin plants.
- Decommissioning of 1,195 GW of inefficient generating capacity at Verkhnetagilskaya and Cherepetskaya TPP.
- Continued optimisation of repair deadlines without reducing the amount of work, change of time for high-performance equipment repair (to avoid repair during periods of high marginality).
- Remarking (increase in paid capacity) by 64 MW at Permskaya TPP (60 MW), Yuzhnouralskaya TPP-2 (4 MW).
- Carrying out pilot incineration of coals provided by alternative suppliers for optimising fuel costs.

Achieving these objectives should improve the efficiency of JSC Inter RAO – Electric Power Plants among Russian energy companies in the field of energy assets management with a accent on innovation and energy efficiency. The commissioning of new generating capacities under CDAs also contributed to the achievement of these objectives.

Prospects for improving legislation which may affect the segment:

- Modernisation of outdated generating capacities: The Russian Ministry of Energy supports the generating companies initiative on the necessity to introduce a mechanism for financing modernisation programmes. Several possible mechanisms for financing modernisation are considered. The most advantageous mechanism is the “CDA mark” mechanism, which is a centrally developed comprehensive programme taking into account regional development forecasts.
- Increase in capacity payments on CDA (accounting for a decrease in capacity sales volumes by the volume of own needs): the Russian Ministry of Energy initiated public discussion of the notification regarding the start of changes development to the Russian Government Regulation.

- Elimination of fines increase for equipment unavailability: changes to Wholesale market rules. In December 2016, the Government of the Russian Federation examined the Ministry of Economic Development's concept suggesting not to increase (decrease from current rates) fines in case of high equipment ICUR and low accident rate.

“Heat generation” subsegment

Among the priority areas for the development of the “Heat generation” subsegment there will be:

- the increase in the number of customers, in particular, the return of large consumers who previously cancelled the consumption of heat, as well as the development and implementation of measures aimed at reducing the level of accounts receivable;
- transfer of heat load from boiler facilities to the CHPPs, maximum loading of the high-performance new and renovated equipment;
- increasing in the competitiveness of the Company products through the slowdown of the fuel cost increase, reduction of specific fuel consumption by creating low-cost measures;
- technological renewal of fixed production assets demanded in the heat market, decommissioning of power plants with inefficient equipment;
- maintaining of a high level of reliable supply of energy to consumers through the timely replacement of equipment and increase in the level of process automation;
- development and implementation of measures aimed at reducing the process losses in the heat transfer;
- establishing and maintaining of long-term guarantees of heat supply;
- improving of the environmental safety of CHPPs, first of all coal-fired plants, introduction of best available flue gas treatment technologies and reducing of waste water volumes;
- solving of problems of ash and slag waste treatment, mainly through the increase of their sales to outside customers.

Key directions for increasing subsegment operational efficiency in 2017:

- Timely commissioning of the CDA facilities: Zatonkaya CHPP and TG-10 on Omskaya CHPP-3.
- Company presence expansion due to the construction of new Zatonkaya CHPP in the Zabelie Microdistrict in Ufa.
- Continuation of activities for reducing the loss level in heating networks.
- More focused and efficient claim-related work with debtors on the heat market.
- Transfer of consumers – premises owners in the MAB and apartment houses to direct settlements with the resource provider for excluding the debt growth of management companies.
- Increase of heat sales including sales to collector consumers using the mechanism of open contractual price.
- Update of heat supply schemes for cities of assets presence, confirmation of the unified heat supply organisation status.
- Analysis of possibilities for making concession agreements in heat supply to upgrade assets and reduce companies' losses.

Prospects for improving legislation which may affect the Segment:

A draft law to the Federal Law “On Heat Supply” offering the establishment of the so-called “alternative boiler house method” (“ABH”)⁵⁵ suggests that the heat regulation system turns from the state regulation of all heat tariffs to the establishment of only the maximum heat energy price level for end consumers. The maximum consumer price is defined for each heat supply zone based on the price of heat supply from the simulated source (ABH) that substitutes centralised heat, taking into account regional peculiarities and climatic conditions. This price includes both compensation of operating expenses and return on investment (similar to CDA in generation and RAB-regulation in the power grid).

Within the context of long-term regulation consumer tariffs for heat generation (consumers getting heat energy on collectors) and consumer tariffs for heat generation and transmission in 2017-2018 are approved.⁵⁶

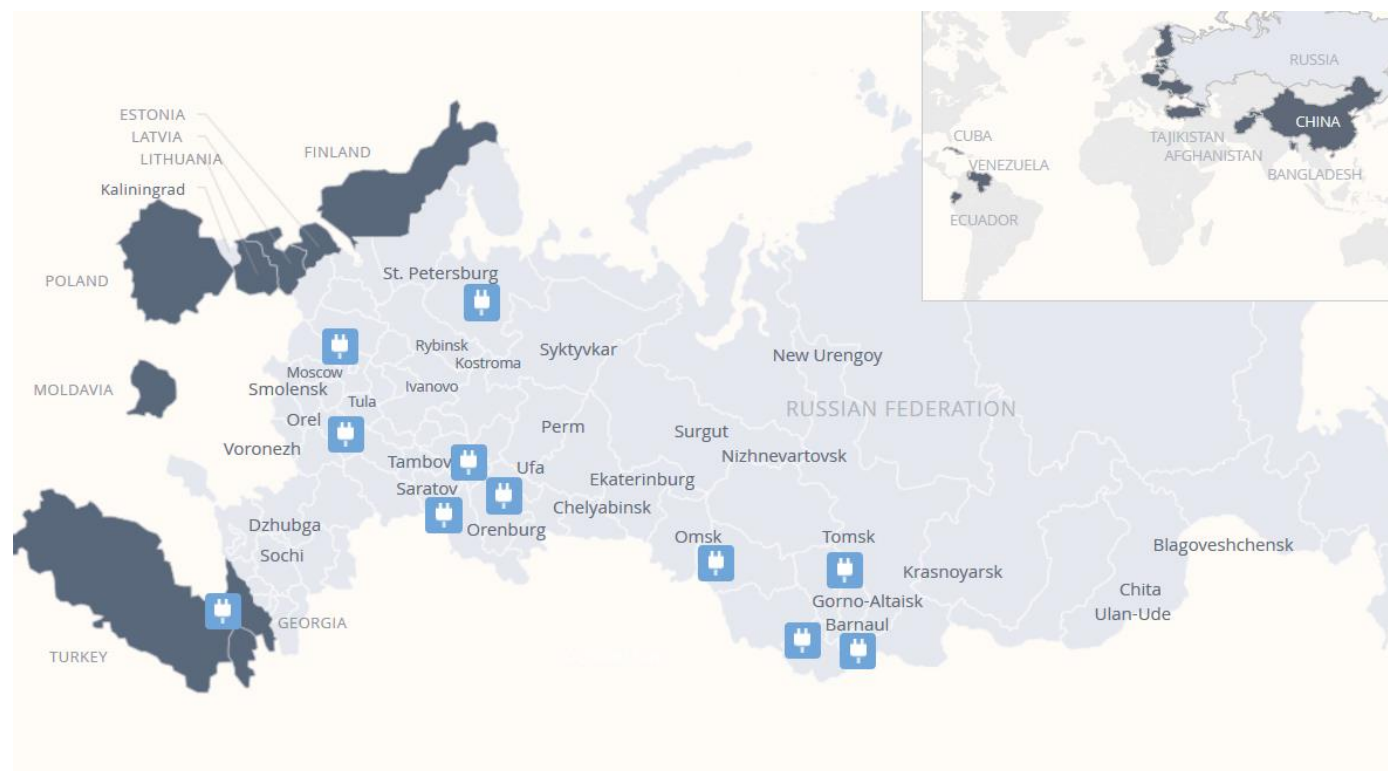
⁵⁵ In mid-December 2016 the draft law on the “ABH method” was adopted in the first reading by the Russian State Duma.

⁵⁶ The period of current (approved) long-term regulation of some Group’s companies will end in 2017, and a programme for a new stage of long-term regulation has not yet been approved.

5.3 “Supply in the Russian Federation” segment

Segment description

The segment “Sales in the Russian Federation” unites companies of the Inter RAO Group which focus on electricity (capacity) sales. The segment includes eight energy supply companies (ESCs) – guaranteed suppliers (GSs), and three non-regulated energy supply companies (IESCs).



Operations territory of energy supply Inter RAO Group companies as of year-end 2016

Company name	Status	Service territory
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JSC Altai Energobyt	Guarantee Supplier	Altai Territory, the Republic of Altai
PJSC Mosenergosbyt	Guarantee Supplier	Moscow, the Moscow Region
	Non-regulated energy supply company (NRESC)	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
LLC PSCB	Guarantee Supplier	Republic of Bashkortostan
PJSC Saratovenergo	Guarantee Supplier	Saratov Region
PJSC Tambov Power Supply Company	Guarantee Supplier	Tambov Region
PJSC Tomskenergosbyt	Guarantee Supplier	Tomsk Region
LLC Oryol Energy Sales Company	Guarantee Supplier	Oryol Region
LLC RN – Energo	Non-regulated energy supply company (NRESC)	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, 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, YNAO, Yaroslavl Region.
JSC Promishlennaya Energetika	Non-regulated energy supply	Sverdlovsk Region

	company (NRESC)	
LLC RT-ET	Non-regulated energy supply company (NRESC)	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 on the market

The energy supply companies of the Inter RAO Group are participants on the wholesale and retail electricity (capacity) market.

According to 2016 results, the segment share “Sales in the Russian Federation” on the Russian retail electricity market amounted to 17.3% including LLC BESC and 16.0% excluding LLC BESC.

The main competitors of GS of Inter RAO Group in the operations territory are NESK. Among the biggest NESK are: JSC Atoenergopromsbyt, JSC Mezhtregionenergobyt, JSC Rusenergobyt, LLC Transenergoprom, LLC UES Garant.

Influence of LLC BESC purchase on the Group and the Segment

LLC BESC has been a guaranteeing supplier in the Republic of Bashkortostan for over 6 years. It serves 1.35 million consumer citizens and over 48,000 legal entities. The purchase of LLC BESC allowed the Group’s sales segment to increase the volume of productive supply from 168.2 billion kWh in 2015 to 182.6 billion kWh in 2016 and to expand market share of electricity supplies to the Russian Federation up to 17.3%.

Major changes in the electric power regulatory framework that impact segment operation

Major changes in the electric power regulatory framework, which impacted the financial results of energy supply companies of the Inter RAO Group in 2016

Item No.	Regulatory act	Key Provisions	Consequences of the adoption
Changes adopted in 2016			
1.	Federal Law No. 45-FZ of 2 March 2016 “On introduction of amendments to the Civil Procedure Code of the Russian Federation (CPC RF) and Arbitration Procedure Code of the Russian Federation (APC RF)”	<ul style="list-style-type: none"> • Introduction of simplified production concept to the CPC RF; • the list of requirements for issuing a court order is added: it is established that a court order is issued if a claim is made for collection of debts for payment of housing and utilities, as well as telephone communication services. 	The procedure for collecting debts for utilities payment is simplified.
2.	Federal Law No. 469-FZ of 28	• Deadline change for the information	• The term that can be used to establish

	<p>December 2016 “On introduction of amendments to the Housing Code of the Russian Federation (HC RF) and certain Russian legislative acts”</p>	<p>providers’ obligation to place information in the GIS HCS from 1 July 2016 to 1 July 2017;</p> <ul style="list-style-type: none"> • deadline change for the application of administrative responsibility for non-placement of information from 1 January 2017 to 1 January 2018; • the date of the commencement of the provisions of Part 2.2 of Art. 155 HC RF, according to which the consumer has the right not to pay for utilities if no payment documents and information on the amount of fees are seen in the system, is changed from 1 January 2017 to 1 January 2018; • it is established that after 1 January 2017 the fee for utilities consumed in the maintenance of common property in an apartment building is added to the fee for communal services in case of apartment building direct management when no management method has been chosen or the management method has been chosen but hasn’t been implemented. <p>(For providers of information to the GIS HCS who operate on the territory of federal cities, the corresponding terms of placement and responsibility are additionally postponed for two years)</p>	<p>technological and business processes for the placement of information and payment documents in the GIS HCS without imposition of administrative sanctions and fines is extended for power supply companies and resource providers;</p> <ul style="list-style-type: none"> • it is established that a resource provider can receive utility fees for communal use directly from owners in case of direct management, as well as when the management method is chosen, but not implemented.
3.	<p>Decree of the Government of the Russian Federation No. 1498 of 26 December 2016 “On the issues of providing public utilities and maintenance of common property in multi-apartment buildings (MAB)”</p>	<ul style="list-style-type: none"> • Expanding the list of cases when a resource provider provides utility services to premises owners in MAB; • changing the order of communal resources supply to non-residential premises owners (fixing the rule on concluding direct resource supply contracts between resource-supplying organisations and owners of non-residential premises); • establishing the procedure for approving and determining the standard of communal resources consumption for maintaining common property in an apartment building, approval conditions, methods of establishing such a standard, basic requirements for its 	<ul style="list-style-type: none"> • Acceptance of non-residential premises for maintenance by resource providers; • necessity to perform contractor functions in additionally specified cases; • possibility to notify consumers about upcoming restrictions using cheaper, faster and more convenient ways of communication; • the resource provider’s (executor’s) right to reimburse expenses related to the introduction of restrictions, suspension and renewal of communal service provision to the consumer-debtor.

		composition; • expanding the list of ways to notify consumers of utilities regarding the introduction of restrictions/suspension of utility services provision and the availability of debt; • consumer reimbursement of contractor expenses dealing with the introduction of restrictions, suspension and renewal of communal services provision to the consumer-debtor.	
4.	Decree of the Government of the Russian Federation No. 1419 of 21 December 2016 “On introduction of amendments to the Rules of non-discriminatory access to electricity transmission services and provision of these services on synchronisation of payments for electricity transmission services”	• Terms of payment for electricity transmission by power supply companies have been changed, differentiation of payment terms by consumer categories has been introduced.	• Terms of payment for electricity transmission by power supply companies have been adjusted for a consumer structure.

Operating results

	UOM	2014	2015	2016	2016/ 2015, %
1. Electricity output in Russia ⁵⁷	bn kWh	1,040.6	1,036.4	1,054.4	+1.7
2. Electricity output in Segment (including LLC BESC)	bn kWh	182.0	182.5	182.6	0.1
3. Electricity output in Segment (excluding LLC BESC)	bn kWh	168.1	168.1	168.9	0.5
4. Share of electricity output in Russia (including LLC BESC)	%	17.5	17.6	17.3	-0.3
5. Share of electricity output in Russia (excluding LLC BESC)	%	16.0	16.2	16.0	-0.2
4. The number of clients of electricity supply companies ⁵⁸ (Guarantee Suppliers excluding LLC BESC),	pcs.	12,501,193	12,729,331	12,910,304	1.4

⁵⁷ According to JSC SO UES data for electricity consumption in Russia as a whole.

⁵⁸ Number of clients as of the end of reporting period

including:					
4.1) individuals	pcs.	12,154,704	12,374,768	12,549,855	1.4
4.2) legal entities	pcs.	346,113	354,202	360,155	1.7
4.3) network organisations	pcs.	376	362	295	-18.5
5. The number of clients of electricity supply companies ⁵⁹ (Guarantee Suppliers including LLC BESC), including:	pcs.	13,658,903	14,130,284	14,363,017	1.6
5.1) individuals	pcs.	13,264,682	13,726,578	13,951,841	1.6
5.2) legal entities	pcs.	393,784	403,345	410,882	1.9
5.3) network organisations	pcs.	437	362	295	-18.5
6. The number of clients of electricity supply companies ⁶⁰ (non-regulated suppliers), including:	pcs.	1,210	2,013	3,324	65.1
6.1) individuals	pcs.	186	176	188	6.8
6.2) legal entities	pcs.	1,018	1,833	3,132	70.9
6.3) network organisations	pcs.	6	4	4	0.0

In 2015, electricity sales in the Segment slightly exceeded the 2016 level (by 0.1%) and amounted to 182.6 billion kWh. The behaviour of this index among the companies in Segment was varied:

- electricity sales of LLC RN – Energo increased by 2,224 million kWh basically due to the implementation of a project related to the work with fixed pricing, activities on maintaining the client base, attracting new consumers;

- electricity sales of Mosenergosbyt Group increased by 912 million kWh, which is due to conclusion of new energy supply contracts with consumers within the framework of expansion outside the Moscow Region and due to a natural and climatic factor;

⁵⁹ Number of clients as of the end of reporting period

⁶⁰ Number of clients as of the end of reporting period

⁶¹ The EBITDA margin is calculated with exclusion of the inter-segment revenue of the “Supply in the Russian Federation” Segment in the amount of RUB 1,370 million in 2016, RUB 1,402 million in 2015 and RUB 834 million in 2014.

- electricity sales of PJSC St. Petersburg Power Supply Company Group increased by 661 million kWh. It is associated with an increase in number of consumers (individuals) due to commissioning of new residential properties, and consumers (legal entities) due to an increase in customer requests.

- the cumulative increase in electricity sales of LLC Orlovskiy Energosbyt, PJSC Saratovenergo, PJSC Tambovskaya Energy Supply Company amounted to 116 million kWh (+30 million kWh (+1.3%), +30 million kWh (+0.5%), +57 million kWh (+3.9%), respectively).

- other companies of Segment showed a cumulative decline in the volume of electricity sales in the amount of -3,791 million kWh (mainly because of JSC Industrial Energy and LLC Bashkortostan Energy Supply Company) which is mainly due to a significant decline in electricity consumption by large industrial and other consumers in the Group's sales companies regions.

In the reporting period, the main share of electricity sales in Segment is distributed among Mosenergosbyt Group (46.8%), PJSC St. Petersburg Power Supply Company Group (20.0%) and RN-Energo (13.8%) and LLC Bashkortostan Energy Supply Company (7.5%).

The number of electricity supply companies (Guarantee Suppliers) including LLC Bashkortostan Energy Supply Company increased to 13,952,000 individuals, and 411,000 legal entities. The number of network organisations decreased to 295.

Results of financial activity

Financial information for the year that ended on 31 December 2014/2015/2016.

	UOM	2014	2015	2016	2016/2015
Revenue	m RUB	450,864	511,088	564,238	10%
Share in the Revenue of Inter RAO Group	%	61	61	65	4 pp
Operating costs, including	m RUB				
Electricity purchase costs	m RUB	(246,815)	(276,914)	(300,114)	8%
Expenses for electricity transmission	m RUB	(178,911)	(200,368)	(227,751)	14%
EBITDA	m RUB	9,423	13,931	15,131	9%
EBITDA margin ⁶¹	%	2	3	3	0 pp

⁶¹ The EBITDA margin is calculated with exclusion of the inter-segment revenue of the "Supply in the Russian Federation" Segment in the amount of RUB 1,370 million in 2016, RUB 1,402 million in 2015 and RUB 834 million in 2014.

	UOM	2014	2015	2016	2016/2015
Share in EBITDA of Inter RAO Group	%	17	19	16	-3 pp

The increase in Segment revenue by 10% (RUB 53,150 million) is mainly due to the increase in average consumer selling prices of Guarantee Suppliers, as well as the start of providing services to new consumers by non-regulated sales companies.

The increase in electricity purchase cost by 8% (RUB 23,200 million) is due to the rise of sales volumes and market prices for purchased electricity (capacity).

The increase in electricity transmission cost by 14% (RUB 27,383 million) is due to the increase in electricity consumption and tariffs for its transmission.

There is an increase in Segment EBITDA by 9% (RUB 1,200 million). The main positive effect was provided by Guarantee Suppliers who demonstrated the outstripping revenue growth from the electricity distribution over variable costs due to the increase in a sales premium for each group of consumers and tariffs indexing in 2015 and 2016.

Key achievements in 2016:

Increasing operational efficiency

In 2016, more than 50 energy service contracts were signed for a total amount of more than RUB 300 million. The main activities to maximise energy efficiency include installation of energy accounting systems, modernisation of street lighting, reconstruction, automation and re-equipment of boiler houses.

To strengthen partner relations with consumers, in 2016 ESC of Inter RAO Group held complex activities on functioning of electricity (capacity) markets, as well as promoting energy- and resource-saving culture:

- holding workshops on accounting, pricing and optimisation of electricity (capacity) consumption;
- organisation of round tables and energy saving activities for individuals and legal entities, including for condominium partnerships, housing associations and councils of apartment buildings;
- conducting campaign for customers of companies that promote energy saving technologies;
- implementation of energy surveys in apartment buildings and budget organisations.

Billing

“Unified billing of entities” project was initiated for the purposes of unification of settlements with consumers of energy supply companies of Inter RAO Group, creation of opportunity to prepare packaged offers to consumers, and reduction of the total cost of billing operation services. As part of the project, a single billing methodology for corporate entities and other organisations was developed as a set of business processes that regulate the core activities of energy supply companies of Inter RAO Group. A single billing IT solution has been implemented and operated commercially at LLC Oryol Energy Sales Company, LLC OESC, and PJSC Tomskenergosbyt. At JSC St. Petersburg Power Supply Company software update is being done. The system currently provides services to over 130,000 users (legal entities) on the territory of five time zones and two price zones.

As part of the “Unified billing of individuals” project, PJSC Tambov Energy Supply Company successfully completed a pilot project aimed at centralisation of settlements with consumers-individuals. In 2016 PJSC Saratovenergo was selected as a next site for the IT solution. The project helps to standardise work with consumers-individuals, improve the quality and speed of mass operations related to receiving readings, payments, settlements and issuing payment documents, improve practices on the application of consumer-related legislation. The project increases control over key focus of marketing assets, and also improves the quality of customer service. The solution currently allows to serve over 7,800,000 subscribers-individuals on the territory of Moscow and the Moscow Region, Tambov and Saratov Regions.

The project “Development, standardisation and unification of HCS billing systems” aims to develop a national solution for HCS billing on the pilot territory (Moscow Region) which later on can be scaled to the Group’s sales companies and supplied to external customers. The project will reduce dependence on foreign proprietary software and let improve a professional level of payment centres for utility services. In 2016 a survey was conducted and a task for the development of this solution was prepared based on the experience of payment centres for utility services in the Moscow, Tomsk and Omsk Regions. Besides, efforts are underway to design product architecture.

Unified contact centres

In 2016 the replication of contact centre services was completed. Services to ESCs are now provided in two contact centres: the European Part and Siberia. In 2017 LLC BESC will be integrated into a unified contact centre.

Due to replication of the contact centre services in 2016, the number of processed incoming requests increased by 10%, the number of received readings from individual meters increased by 19%.

Personal Account for consumers

A Personal Account is a service that helps customers to resolve energy consumption issues in the comfort of their homes:

- provide readings;
- pay for electricity without any fees;

- check balance;
- sign up for electronic account, etc.

The main goal of a Personal Account is to switch the maximum number of customers to a remote servicing which will increase customer loyalty, reduce in-person customer service costs.

The following improvements were made at PJSC Mosenergosbyt in 2016:

- updating the module of frequently asked questions which is placed on the main page of “Ask a question” module;
- possibility to file an application and documents for the registration of benefits/ closing benefits;
- implementation of a pop-up window for subscriptions to an electronic account;
- implementation of functionality for customers living in a communal apartments.

Development of additional services

The key element of the strategy for the development of additional services is an increase in the level of market penetration, an expansion in traditional core services, a growth of product portfolio and a diversification of this type of business. To fulfil these tasks, in 2016 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 2017-2021 were identified, and road maps on their achievement were developed.

Revenue from the provision of additional services increased by 13.5% compared to 2015 and amounted to RUB 3,748,542,000.

Profit from additional services sales increased by 40% compared to 2015 and amounted to RUB 823,743,000.

Profitability of sales increased to 22% compared to 18% in 2015.

Development and implementation of Standards for in-person and remote servicing

Quality standards for customer service were developed and introduced in all ESC of Inter RAO Group⁶². Standards are regulatory documents that define terms for interaction with customers, uniform requirements for quality of service, optimisation and formalisation of procedures for interaction between the Group companies and the customer. They also determine necessary qualitative characteristics and requirements for customer service, including rules and principles of in-person and remote service.

Among key principles of interaction between the Group companies and customers are reliability and continuity of power supply, as well as services availability.

⁶² To implement the Russian Government Decree No. 442 of 4 May 2012 “On the functioning of retail electricity markets, full and/or partial restriction of electricity consumption”.

Below there's a list of results achieved thanks to Standards implementation:

- customer service based on Standard's rules;
- analysis of customer needs and expectations;
- staff training in effective communication skills;
- creation of comfortable service conditions;
- Providing customers a remote interaction with the Group companies, namely the development of online services on official websites and electronic methods of payment documents delivery.

To inform consumers about services companies provide, information videos about remote ways of interaction are shown in customer areas of central offices, and opportunities for demonstrating online services are also introduced.

The possibility of using a website not only as a source of information but also as an online office positively affects the quality of the services provided, and as a result, has a positive impact on the Group companies reputation.

The following services are provided on the Group official websites:

- “Personal Account”;
- “Internet reception area”;
- “Submitting readings from metering devices”;
- printing receipts for payment in cash;
- personal appointment.

Group companies are constantly working on the development of client services, especially those allowing consumers to save time and use services online.

Assessments of customer satisfaction levels are conducted on a regular basis. Customers' surveys in company offices, by phone, as well as via an online service “Customer's Personal account” allow to assess the level of customer satisfaction with the quality of provided electricity services and access to paid services.

In 2016 72 inspections of client offices belonging to PJSC Mosenergosbyt were conducted using a “Control Purchase” procedure, also 82 audits of the PJSC Mosenergosbyt contact centre were made in Orel. As part of programs for the development of client base of the Inter RAO Group non-regulated sales companies, the productive leave increased by more than 1.5 billion kWh by the end of 2016 due to conclusion of contracts with new consumers.

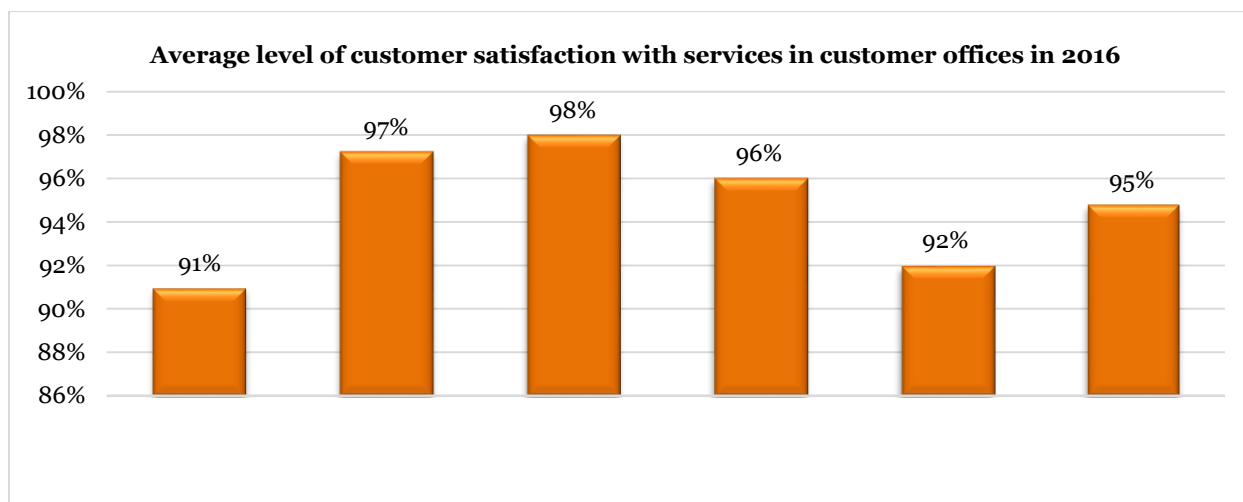
Relations between GPs of Inter RAO Group and electricity consumers, as well as other WECM and REM entities are strictly regulated by the current legislation. Due to the public nature of energy supply contracts (purchase and sale contracts), consumer services are provided on standard terms and according to the approved Quality of Service Standards.

To develop customer-orientated approach on ESC of Inter RAO Group, regular researches of customer satisfaction level are conducted.

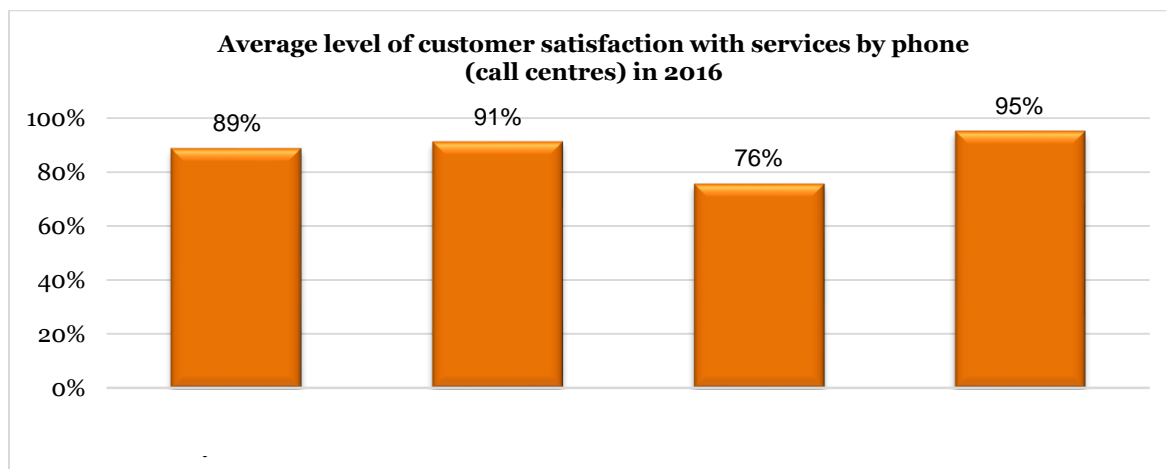
Assessment of user satisfaction level by the PJSC “Mosenergosbyt” example

The average level of customer satisfaction with services in customer offices is 95%. The level of customer satisfaction with staff professionalism and correctness of their work amounts to 97% and 98% respectively. A significant increase in the level of customer satisfaction has become a result of constant improvement of working processes. In 2016 the level of customer satisfaction rose from 75% to 95%.

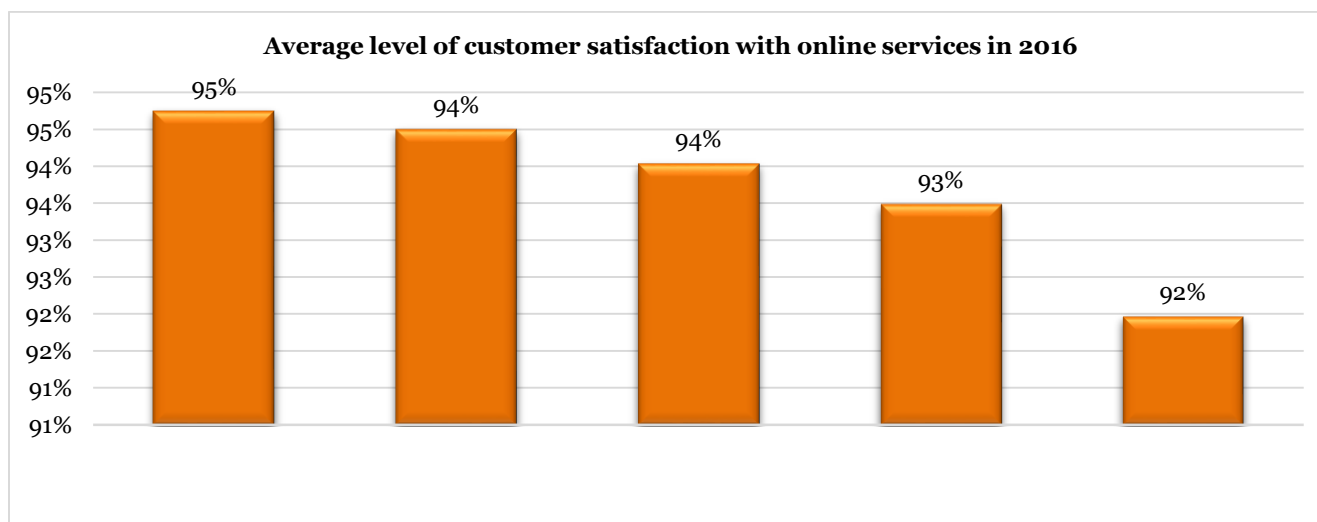
The level of satisfaction with waiting time in the queue amounts to 91%.



The Service Satisfaction Index in the contact centre has grown from 85% to 89%.



The level of customer satisfaction with the use of Personal Account is also high, and it amounts to 89%.



Thus, the average level of satisfaction with customer service on all communication channels is about 90%

Examples of interaction with authorities in regions of presence:

- Together with the Moscow Region government PJSC Mosenergosbyt is implementing a complex common project aimed at increasing the transparency of citizens' settlements with resource-supplying organisations. LLC MosOblUIAC has been established within the framework of the project. It provides complex services to individuals in the Moscow Region on all issues related to settlements for used utilities.
- LLC Oryol Energy Sales Company takes part in the work of the reliability headquarters affiliated to the Government of the Oryol Region.
- The General Director of PJSC Tomskenergosbyt is a member of the Interdepartmental Commission on Settlement of Debts for Fuel and Energy Resources of Housing and Communal Services Organisations in the Tomsk Region, also the Working Group for the Preparation of the Tomsk Oblast Energy Complex for 2016-2017 OWP.

The tables show the structure of consumers by payment time starting from the moment of power outage and the structure of consumers by time that passed from the moment of debt payment till the moment of electricity supply restoration.

The structure of consumers by payment time starting from the moment of power outage

Company	2015					2016				
	less than 48 hours	48 hours – 1 week	1 week – 1 month	1 month – 1 year	over 1 year	less than 48 hours	48 hours – 1 week	1 week – 1 month	1 month – 1 year	over 1 year
Supply	41,646	17,618	9,301	10,267	3,424	57,973	21,590	11,528	11,453	3,648

The structure of consumers by time that passed from the moment of debt payment till the moment of electricity supply restoration

Company	2015			2016		
	less than 24 hours	24 hours – 1 week	over 1 week	less than 24 hours	24 hours – 1 week	over 1 week
Supply	57,167	28,279	1,210	72,592	26,877	978

Development prospects

In accordance with the Supply Business Development Strategy, PJSC Inter RAO identified the following directions for the development of the supply segment:

- **Participating in the development of electric power and utilities regulations** in order to eliminate existing statutory conflicts and inconsistencies between market participants. At present, the FAS of Russia is developing recommended guidelines for calculation of Guarantee Suppliers marketing premiums using a comparative method. These guidelines are estimated to be approved by the end of 2017.
- **Increasing operational efficiency:** development and implementation of the target model energy supply company, taking into account expected changes in the procedure for determination of gross revenue requirement of Guarantee Suppliers using standard costs, increase efficiency in reducing the level of accounts receivable, and automation of supply business processes. Plans for 2017 include:
 - Keeping the collection of payments on the retail market;
 - Increase in customer-orientated approach on ESC of Inter RAO Group (client offices work, loyalty programs);
 - “Unified billing of legal entities” project implementation in JSC St. Petersburg Power Supply Company, PJSC Tambov Power Sales Company and LLC Bashkortostan Energy Supply Company;
 - Unification of settlements with individuals within the framework of the project “Unified billing of individuals”, development and implementation of the Unified Methodology for Working with Consumers – Individuals;
 - Development of new products for additional services and implementation of best practices in the Group’s companies (installation of metering devices, energy saving programs);
 - Increase in sales profitability on additional services;
 - LLC Bashkortostan Energy Supply Company integration to the sales segment of the Group;
 - Switch of LLC Bashkortostan Energy Supply Company consumers to the Group’s unified contact centre for the European area.
- **Developing the customer base:** Building an effective system of quality satisfaction assessment in order to maintain the existing customer base, and developing a set of measures to increase the presence of PJSC Inter RAO in the retail market, including the purchase of new supply assets and competitive efforts of NESK to attract large industrial and holding companies as customers and, as a consequence, value creation of the supply segment of PJSC Inter RAO.
- **Developing additional services:** Dissemination of best practices of services, design and implementation of service development and promotion programmes in Group energy supply companies, taking into account their regional characteristics, training of personnel engaged in the provision of services, as well as the development of an effective incentive system. The key tasks of roadmaps for the development of additional paid services are implementation of

activities to optimise business processes aimed at improving the quality of services and meeting customer needs, increasing marketing and operational efficiency. For new business areas – entering the market and measures for strengthening competitive positions. According to the strategy adopted by the ESC of Inter RAO Group, by 2021 profit from APS sales should be at least RUB 1,500 million with RUB 8,000 million revenue.

Prospects for improving legislation which may affect the segment:

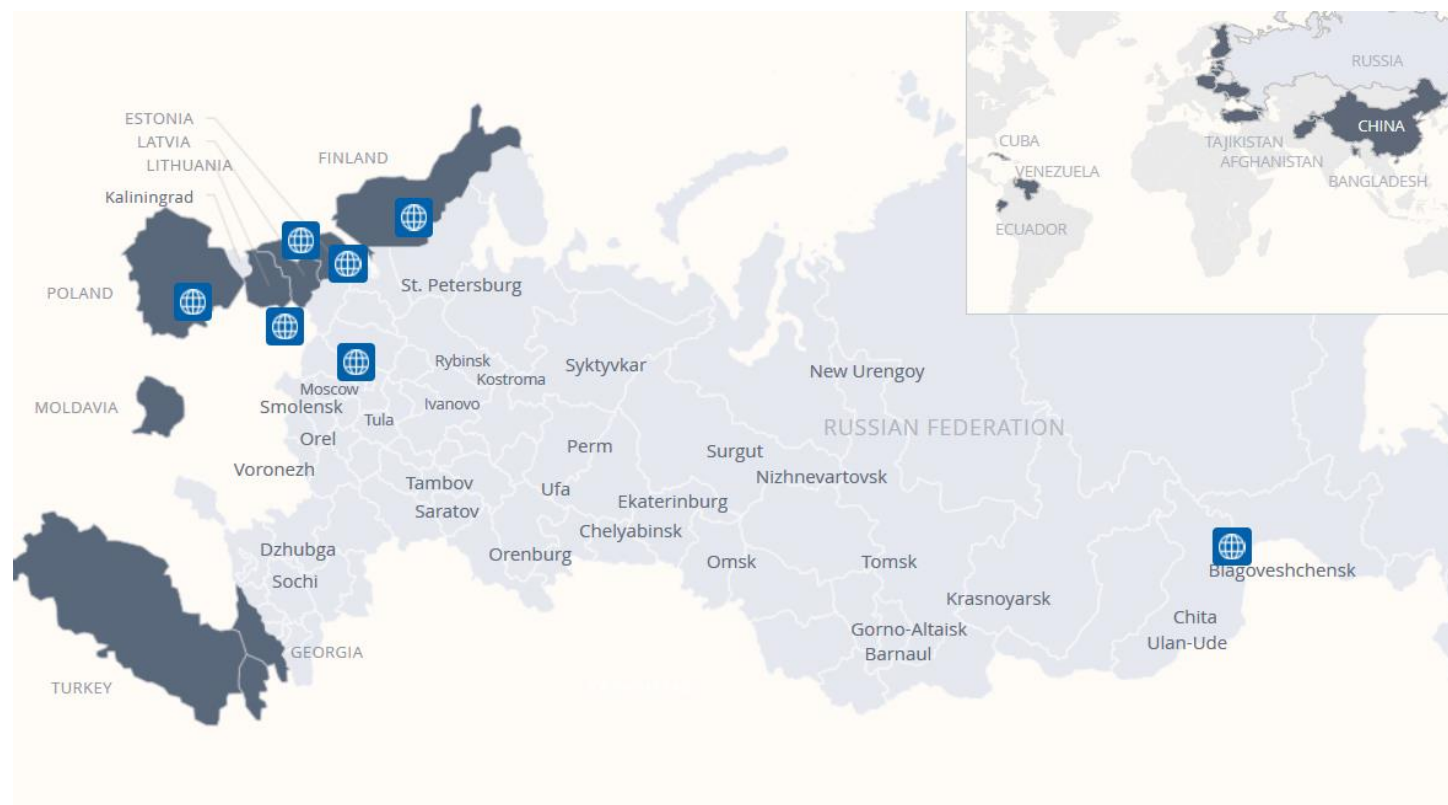
- establishment of compulsory licensing of energy supply activities;
- improvement of work with consumers, including those having debts for electricity;
- introduction of additional mechanisms for wholesale and retail electricity markets liberalisation;
- approval of a new mechanism for determining the GS of the necessary gross proceeds using reference costs;
- changes in the Housing code of the Russian Federation, providing for the transition to “direct” communication between consumers and resource-supplying organisations in case a management company exists.

5.4 “Trading” Segment

Segment description

This Segment includes Group companies that perform trade operations for export/import of electricity and for sale/purchase of electricity (capacity) in the territory of countries where they operate. Electricity supplies are carried out under commercial contracts, and as part of parallel operation with foreign energy systems and provision of emergency mutual aid. Depending on the region of operation, each company is a participant in the respective energy market.

In 2016 trade operations in the Segment were carried out 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 companies of Inter RAO Group: PJSC Inter RAO, RAO Nordic Oy, AB INTER RAO Lietuva, SIA INTER RAO Latvia, INTER RAO Eesti OU, IRL Polska Sp. z o.o. and JSC EEC.



PJSC Inter RAO (Trading)	RAO Nordic Oy	AB Inter RAO Lietuva	SIA INTER RAO Latvia	INTER RAO Eesti OU	IRL Polska Sp. z o.o.	JSC Eastern Energy Company (JSC EEC)
In this Segment, PJSC Inter RAO acts as an export and import operator of electricity in the territory of the	The company is registered in Finland and is a subsidiary of the Group – 100% of the company assets belong to PJSC	The company was founded in 2002, and is an independent electricity supplier in Lithuania and the leading player of the electricity market of	The company was registered in January 2010, and it is one of the largest independent	The company was registered in January 2010, licensed to sell electricity; license issued by the Estonian	The company was registered in October 2012; it trades in electricity in the Day-Ahead and Intraday	The company was founded in 2007 with a view to implementation of joint Russian-Chinese investment

Russian Federation. During 2016, electricity supplies were carried out under commercial contracts, and as part of parallel operation with foreign energy systems and provision of emergency mutual aid.	Inter RAO. The core activity of the company is the purchase of electricity from PJSC Inter RAO for its subsequent sale in the electricity market Nord Pool in the Nordic countries.	the Baltic states. The company trades in the European energy market Nord Pool. Today Inter RAO Lietuva includes subsidiary trading companies SIA INTER RAO Latvia, INTER RAO Eesti OU, IRL Polska Sp. z o.o and wind energy subsidiary UAB Vydmantai wind park. 51% stake of AB INTER RAO Lietuva is held by RAO Nordic Oy, 29% stake is held by the Lithuanian investment company, UAB Scaent Baltic, 20% shares are in circulation on the market.	electricity suppliers in the Latvian energy market.	Competition Board and Elering AS, independent electricity system operator in Estonia.	Market (RDNiB) and Derivatives Market (RTT).	projects aimed at the development of Russian electricity exports to China, as well as energy cooperation with other Asian and Asia Pacific countries. The core business of JSC Eastern Energy Company is the supply of electricity to China and Mongolia.
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Market position

Group Trading companies in the Russian Federation carry out trading operations for purchase and sale of electricity in the Wholesale Electricity and Capacity Market in the Nordic and Baltic states – a single stock market Nord Pool and Nasdaq OMX Commodities.

- 1) The LitPol Link power bridge (± 500 MW) between Lithuania and Poland has been put into operation since February 2016. Considering growing electrical connections between Baltic States and Nordic countries, LitPol Link has an impact on the price environment and trade terms for Russian electricity in the Lithuanian electricity market zone.
- 2) On 7 March 2016 NordBalt direct current transmission between Lithuania and Sweden (± 700 MW) was tested. Thus, the NordBalt power bridge has increased the capacity of electrical connections between electric power systems of Baltic and Northern Europe countries. This contributes to the convergence of electricity prices in Baltic and Nordic trading zones of the Nord Pool power exchange and influences the Russian electricity trade in the region.

- 3) After a long break the commercial supply of Kazakh electricity to Russia (with the capacity of 450 MW) has been resumed since 17 March 2016. Kazakh electricity supplies to Russia were discontinued in November 2014 amid a depreciation of the Russian ruble against the Kazakh tenge.

Electricity price behaviour on key energy markets of the Group's trading companies operation.

Electricity prices on key national energy markets (WECM and Nord Pool) in different price zone.	2014	2015	2016	Change 2016/2015, %
Russia (Europe+Ural), RUB/MWh. ⁶³	1,163	1,153	1,202	4.2
Russia (Siberia), RUB/MWh. ⁶⁴	789	915	867	-5.2
Finland, Euro/MWh. ⁶⁵	36.02	29.66	32.45	9.4
Lithuania, Euro/MWh. ^{**}	50.13	41.92	36.54	-12.8

Key exchange rates dynamics

Annual average exchange rate	2014	2015	2016	Change 2016/2015, %
€/P	50.82	67.78	74.23	+9.5
\$/P	38.42	60.96	67.03	+10.0

Factors listed above had a different impact on volumes of electricity supply on regional markets, however, they helped to ensure the aggregate growth of export/ import electricity supplies from Russia. The current volume of export/ import supplies is forecasted in the near future.

⁶³Data on average equilibrium price indices for the WECM price zones are provided based on the Weekly Bulletin of the NP Market Council Association.

⁶⁴Data on average equilibrium price indices for the WECM price zones are provided based on the Weekly Bulletin of the NP Market Council Association.

⁶⁵ Data on annual average electricity prices are provided based on the Nord Pool stock market information.

Key competitors

Competitor company name	Competitive field	Territorial allegiance	Competitor strengths
Russian generating companies	Electricity imported to the Russian national market	Russia	Payment in the Russian capacity market to domestic generators and non-payment for imported power
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 generation capacity with low cost, recurring favourable pricing environment at the energy exchange Nord Pool (in particular, in wet periods in Norway and Latvia)
JSC Azerenerji	Supply of electricity to Georgia	Transcaucasia	Surplus generating capacities
Turkish wholesale energy supply traders	Supply of electricity to Georgia	Transcaucasia	Favourable pricing environment in the Turkish electricity market resulted from the devaluation of national currency
Electricity suppliers from Central Asian region (Kyrgyzstan)	Supply of electricity to Kazakhstan	Kazakhstan	Waterpower potential in spring and summer

The strengths of the Segment companies include the following: experience in foreign economic activity, a well-organised system of interaction with Russian and foreign partners, the optimal structuring of proposals for contracts, taking account of customer needs.

Major changes in the electric power regulatory framework that impact segment operation

Regulatory act	Key Provisions
Government Resolution of the Russian Federation No. 699 of 20 July 2016 "On introduction of amendments to the Wholesale Electricity and Capacity Market Rules"	Price-dependent consumption mechanism starts operating in the procedures of competitive capacity auction (CCA) and the selection of price bids on the day-ahead market (DAM). The document regulates the procedure for electricity and capacity consumers' participation in regulating the balance on the DAM, provided that consumers are ready to change the schedule of their own consumption.
Order of the Russian Ministry of Energy No. 1090 of 18 October 2016 "On Introduction of Amendments to the Procedure for Determining Free Energy (Capacity) Transfer Zones Approved by Order of the Ministry of Energy of the Russian Federation No. 99 of 6 April 2009"	Amendments to the Basic list of free energy transfer zones (FETZ) have been made: Buryatia FETZ became a part of Siberia FETZ. The list of FETZ for a specific calendar year is determined based on the Basic list of FETZ.
Protocol "On Introduction of Amendments to the Treaty on Ensuring Parallel Operation of Electric Power Systems of the Member Countries of the Commonwealth of Independent States of 25 November 1998"	The Protocol "On Introduction of Amendments to the Treaty on Ensuring Parallel Operation of Electric Power Systems of the Member Countries of the Commonwealth of Independent States of 25 November 1998", which had been signed on 30 May 2012, entered into force for the Russian Federation, the Republics of Armenia, Belarus since 28 December 2016.
Decision of the Supreme Eurasian Economic Council No. 20 dated 26.12.2016 "On the Programme to Form a Common Electricity Market of the Eurasian Economic Council"	On 26 December 2016, the decision of the Supreme Eurasian Economic Council approved the Programme to Form a Common Electricity Market of the Eurasian Economic Council. The programme includes a set of interrelated organisational, legislative, technological and other measures that ensure the formation of the Council's common electricity market, the sequence of activities, the time frame for their implementation, the contractors, as well as sources of financing ⁶⁶ .

Operating results

Operating information for the year ending 31 December 2014/2015/2016

	UOM	2014	2015	2016	2016/2015, %*
Electricity supplied, including:	m kWh	22,478	25,524	22,134	-13.3
Russian Federation	m kWh	6,442	6,403	3,143	-50.9
Finland	m kWh	3,454	3,753	5,701	51.9
Lithuania	m kWh	3,910	3,385	3,452	2.0

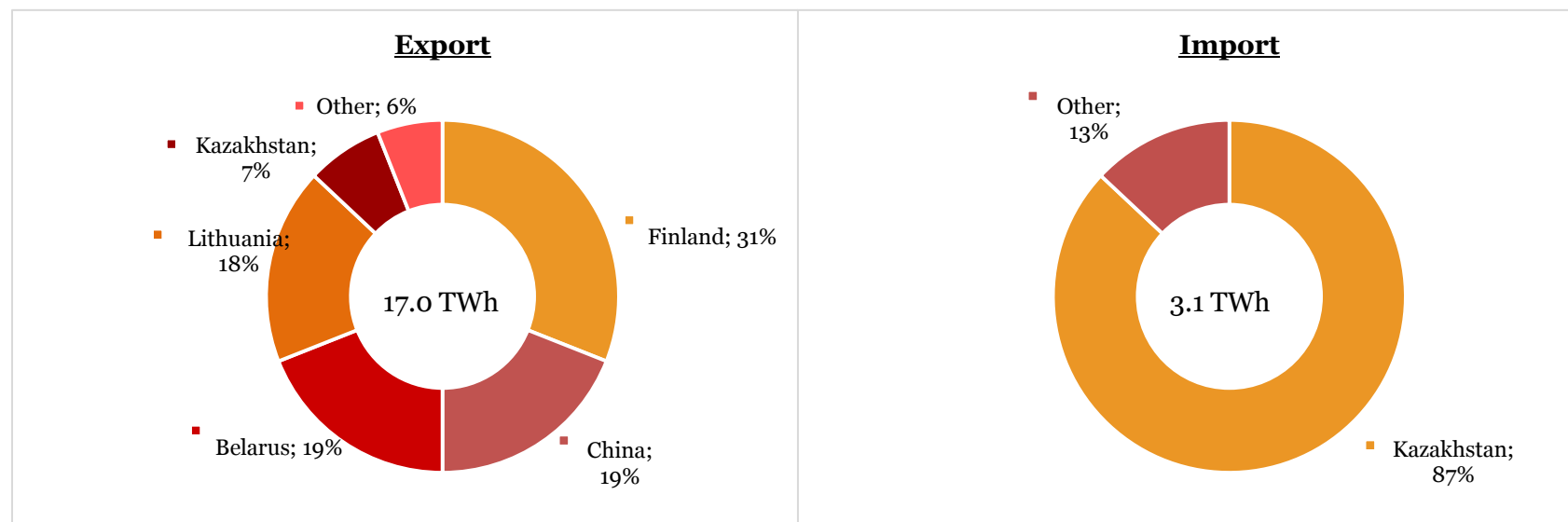
⁶⁶ Publication source - Official website of the Eurasian Economic Union <http://www.eaeunion.org/>, 11.04.2017

Belarus	m kWh	1,425	2,815	3,181	13.0
Ukraine	m kWh	178	2,462	120	-95.1
China	m kWh	3,376	3,299	3,320	0.6
Other	m kWh	3,693	3,406	3,217	-5.5

In the reporting period, the volume of electricity sales in the Segment decreased by 13.3% (-3,390 million kWh) compared to 2015. It is mainly caused by a decrease in the volume of electricity supply on the territory of Russia (-3,260 million kWh) and to Ukraine (-2,342 million kWh), an increase in electricity sales in Finland (+1,948 million kWh) and Belarus (+366 million kWh), which is due to the fact that the supply was expedient in economic terms.

The change of volume of electricity sales in Lithuania by +2.0% (+67 million kWh) and in Latvia by -17.8% (-44 million kWh) was caused mainly by changes in conditions of the external and internal markets. Volume of supply to Estonia increased by 78.6% (+214 million kWh), to Poland by 52.0% (132 million kWh). Volume of supply to Georgia decreased by -20.6% (-105 million kWh), and it increased to South Ossetia by 4.3% (+6 million kWh) and to Azerbaijan by 8.6% (+5 million kWh). In Kazakhstan, the volume of supply decreased by 24.5% (-378 million kWh). The volume of electricity supplies to countries of East Asia was the following: to China +0.6% (+21 million kWh), to Mongolia +5.4% (+15 million kWh).

Structure of export and import operations in 2016



The main export destinations of Inter RAO Group without agency agreements for the supply across the border of the Russian Federation in 2016 were Finland (31.1%), China (19.5%), Belarus (18.7%) and Lithuania (17.8%). Electricity was also supplied to Kazakhstan, Georgia, Mongolia, South Ossetia, Ukraine and Azerbaijan.

Implementation of key activities within electricity import process led to the following result: the total volume of PJSC Inter RAO's trade operations considering agency agreements with JSC EEC (100% subsidiary of PJSC Inter RAO) roughly amounted to 20 billion kWh.

	UOM.	2014 г.	2015 г.	2016 г.	2016/2015, %
Group's electricity export without agency agreements across the border of the Russian Federation					
Volume of exports, including by destination	m kWh	14,043	17,492	17,002	-2.8
China	m kWh	3,376	3,299	3,320	0.6
Finland	m kWh	2,995	3,383	5,282	56.1
Lithuania	m kWh	3,216	2,995	3,019	0.8
Belarus	m kWh	1,425	2,815	3,181	13.0
Kazakhstan	m kWh	1,644	1,542	1,164	-24.5
Other	m kWh	1,388	3,458	1,036	-70.0
PJSC Inter RAO electricity imports including agency agreements across the border of the Russian Federation					
Volume of imports, including by destination:	m kWh	3,453	1,464	3,143	114.8
Kazakhstan	m kWh	3,084	990	2,726	175.4
Georgia	m kWh	160	170	148	-12.9
Other countries	m kWh	208	304	269	-11.5

Results of financial activity

Financial information for the year ending 31 December 2014/2015/2016

	UOM	2014	2015	2016	2016/2015
Revenue, including	m RUB	56,679	80,525	80,661	0%
Russian Federation	m RUB	22,628	30,119	30,039	0%
Finland	m RUB	6,332	7,379	12,574	70%
China	m RUB	6,705	10,409	10,170	-2%
Lithuania	m RUB	9,251	9,660	9,206	-5%
Belarus	m RUB	2,871	7,320	8,795	20%
Latvia	m RUB	1,532	819	743	-9%

	UOM	2014	2015	2016	2016/2015
Ukraine	m RUB	426	5,606	232	-96%
other	m RUB	6,934	9,213	8,902	-3%
Share in the Revenue of Inter RAO Group	%	8	10	9	-1,pp
Expenses for electricity and capacity acquisition	m RUB	(46,434)	(63,847)	(63,928)	0%
Expenses for electricity transmission	m RUB	(3,991)	(5,387)	(6,006)	11%
EBITDA	m RUB	4,575	9,635	9,895	3%
EBITDA margin ⁶⁷	%	8	12	13	1 pp
Share in EBITDA of Inter RAO Group	%	8	13	10	-3 pp

The revenue in the Segment is slightly higher in 2016 than it was in 2015 (RUB +136 million) but the dynamics is mixed in different countries: the increase in the volume of electricity supplies to Finland and Belarus made a positive effect, while a negative effect was caused mainly due to a decrease in the volume of supply to Ukraine. The negative effect of the supply interruption to Ukraine in the framework of commercial contracts was replaced by the growth of supplies to Finland thanks to favourable market conditions.

The rise of electricity transmission costs in the Segment by 11% is mainly caused by various factors: RAO Nordic Oy costs growth in ruble terms due to the increase in electricity purchase volumes, the rise of transportation tariff, the reduction of PJSC Inter RAO costs due to a decrease in electricity exports, the increase in costs for a number of other companies of the Group.

A slight increase of EBITDA in the Segment (3%) is based on a combination of different factors including an increase in euro and US dollar exchange rate against Russian ruble, as well as a decrease in electricity market price on the European market Nord Pool in the Lithuania zone.

Development prospects

The main strategic goal for the Segment companies in 2017 shall be the most effective implementation of foreign trade operations involving electricity produced in Russia and foreign countries. For the purposes of this goal, a main set of KPIs has been provided for management and employees; these KPIs are related to the achievement of the electricity sales volumes and marginal profit as approved by business plans of the companies.

⁶⁷ The EBITDA margin is calculated with exclusion of the inter-segment revenue of the "Trading in the Russian Federation and Europe" Segment in the amount of RUB 1,631 million in 2016, RUB 1,450 million in 2015 and RUB 1,501 million in 2014.

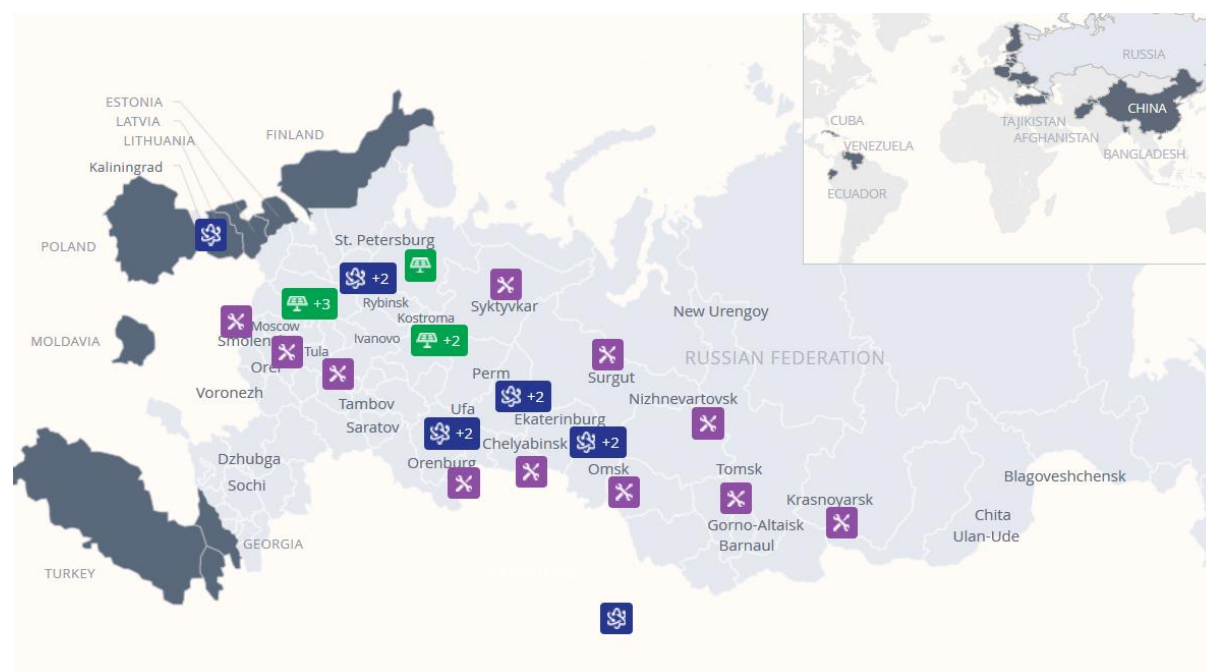
5.5 “Engineering” Segment

RUB 8,926 million
segment revenue
(5% growth compared to 2015)

For LLC Inter RAO – Engineering, the main task for 2016-2017 is to ensure the implementation of all new construction and upgrade of Group projects

Segment description

The following Group assets are included in the operating Segment “Engineering”: LLC Inter RAO – Engineering, LLC Quartz Group, LLC Inter RAO UES Power Efficiency Centre⁶⁸ (considered under equity method), LLC Inter RAO – Export, and LLC Energy Without Borders Technology Commercialisation Centre, non-commercial organisation Energy Beyond Borders Fund that supports research, research and technological development, and innovative development.⁶⁹



⁶⁸ A detailed information regarding a non-commercial organisation Energy Beyond Borders Fund that supports research, research and technological development, and innovative development, LLC Energy Without Borders Technology Commercialisation Centre, is provided in section 2.5. “Innovative development”; LLC Inter RAO UES Power Efficiency Centre – in section 2.6. “Energy efficiency enhancement”.

⁶⁹ LLC InterRAO-WorleyParsons (accounted for under the equity method until 1 April 2014)⁷⁰ Subsegment “Armenia” is not included in the section as the sale of the Group’s assets in Armenia was completed in 2016.

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

- LLC Inter RAO – Engineering is an engineering company providing management of all Group’s engineering assets that implement energy construction projects in Russia and abroad. LLC Inter RAO – Engineering represents the Group in a joint venture with GE and Rostec Corporation which was established to produce 6FA gas turbine systems. For more details on the company, go to <http://irao-engineering.ru/ru/>
- LLC QUARTZ Group 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 additional power equipment, installations, buildings and facilities. The main customers of LLC Quartz Group are biggest electricity generating enterprises: JSC Inter RAO, JSC Inter RAO – Electric Power Plants, JSC TSK-11, LLC BGC, PJSC OGK-2, JSC Fortum, JSC TSK-6, JSC E.ON Russia, as well as leading enterprises of general industrial and municipal sectors. For more details on the company, go to <http://www.quartz-group.ru>
- LLC Inter RAO – Export is a specialised engineering company belonging to the Inter RAO Group which was created in 2011 for the development of international business. It is focused on the supply of power engineering equipment, implementation of energy construction, repair and modernisation projects abroad. Among main services are supplies of standard and additional equipment, installation and commissioning, project management (EPC/EPCM contracts); “Single point of contact” for promoting products and services of the Group’s enterprises on foreign markets. Geography of the company’s business now encompasses a number of countries in Latin America, such as Venezuela, Cuba, Ecuador, and the company’s development strategy is aimed at entering new promising markets in both South America and other regions, including Africa, the Middle East, South and South-East Asia. For more details on company projects, go to <http://irao-export.ru/projects/>

Segment position on the market

The current lack of statutory schemes to attract investment in the Russian electric power industry and heat supply after CDA expiry against the background of the difficult economic situation has resulted in a significant reduction in investment programmes of generating companies. As a consequence, a decrease in the volume of the general contracting market in the electric power industry of the Russian Federation and a shortage of new major orders for engineering companies can be seen. One of promising directions in the electric power industry is the development of distributed generation which is due to industrial companies interest in the construction of their own TPPs.

LLC Inter RAO – Engineering is one of the leading companies on the market of engineering services in the electric power sector in Russia along with the major players in this segment: NIAEP – ASE United Company, JSC HPC Mosenergo, JSC VO Technopromexport.

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, LLC Inter RAO – Engineering and LLC Inter RAO – Export actively promote Russian engineering services and power equipment made in Russia to the external markets (in relation to Inter RAO Group).

Operating results

In 2016, there were changes in the distribution of shares in contracts portfolio of LLC Inter RAO – Engineering in terms of customer structure: the share of external projects (in regard to Inter RAO Group) has increased. In 2016 the main revenue was received from contracts with JSC Inter RAO – Electric Power Plants, with the major share being contracts for providing agency services to Permskaya TPP and Verkhnetagilskaya TPP, and a contract for the project “Construction of a combined-cycle power unit of Permskaya TPP with an installed electric capacity of at least 800 MW”. The decrease in revenues from sales and services of JSC Inter RAO – Elektrogeneratsiya facilities occurred due to the shutdown of a project “Construction of a 110 kW GIS at Cherepetskaya TPP” and the shutdown of supervisory works on the project “Upgrade of the steam turbine K-300-240-1 LMZ of the power unit No. 2 on Iriklienskaya TPP”. Main external projects include the fulfilment of functions of a customer-builder’s technical agent during the construction of generating facilities at LLC Kaliningradsкая Generation; Primorskaya and Pregolskaya TPPs general contractor agreements, contracting agreements for the construction of JSC Atomstroyexport, implementation of the project “Reconstruction of Voronezhskaya CHPP-1, construction of CCGT-223MW”.

LLC QUARTZ Group indicators are based on the stage of sales contracts fulfilment at Gusinozerskaya TPP, Kaliningradsкая CHPP-2, Severo-Zapadnaya CHPP, JSC Omsk RTS, JSC Tomsk Generation, JSC TomskRTS and on external contracts, mainly with MUEGC and Mining Complex Norilskiy Nickel PJSC.

LLC Inter RAO-Export indicators dynamics is based on the implementation of the following projects:

- In May 2016, after approval by authorised ministries of Russia and Cuba, the largest contract between LLC Inter RAO-Export and the state-owned Cuban company Energoimport entered into force. The contract deals with the construction of four power units with a total capacity of 800 MW at two Cuban power plants: one power unit with a capacity 200 MW – at Maksimo Gomez TPP (Mariel), and three power units with a capacity 200 MW – at the East Havana TPP (Santa Cruz del Norte). The project with an indicative cost of 1.2 EUR billion is 90% financed from the Russian state loan and is aimed at maximising the use of Russian equipment, machinery, materials and services of subcontractors. At the end of 2016 the first procurement procedures for the project began.
- Supplies of standard and additional equipment for a total amount of over USD 45 million which is meant for Toachi-Pilaton hydro complex with a 254 MW capacity situated in Ecuador. At all stages of the hydrocascade the installation of

electrical and hydromechanical equipment was carried out, the first hydraulic unit of the Sarapuyo HPP was installed by over 90%.

- Two contracts were fulfilled in the framework of the development of the direction of deliveries of disparate equipment with Energoimport (three new contracts were signed for the supply of auxiliary equipment and spare parts for Cuban TPPs and mini-HPPs).

- In the project of expansion of thermal power plant Thermogas Machala in Ecuador, supplied of standard and additional electric network equipment were carried out, and construction and installation works were carried out on the site.

Results of financial activity

Segment revenue increased by 5% compared to 2015 and amounted to RUB 8,926 million. The dynamics is mainly due to the growth in revenue of LLC Inter RAO-Engineering under a constructing contract with Atomstroyexport JSC and an increase in the volume of proceeds under contracts for the performance of technical agent's functions of the developer's customer in the construction of generating facilities at the LLC Kaliningrad Generation facilities, and also a reflection of revenue on general contractor agreements with Primorskaya and Pregolskaya TPP concluded in the third quarter of 2016. This increase was partially offset by a decrease in revenues from PJSC Quadra in the framework of the project "Reconstruction of Voronezhskaya CHPP-1.

Decrease in negative EBITDA of the segment by RUB 160 million up to RUB 257 million was achieved mainly because of reducing the cost of works for current and capital repairs, as well as by reducing the cost of subcontracted work in LLC QUARTZ Group.

Financial information for the year that ended on 31 December 2014/2015/2016.

	UOM	2014	2015	2016	2016/2015
Revenue	m RUB	6,746	8,533	8,926	5%
Share in the Revenue of Inter RAO Group	%	1	1	1	0 pp
EBITDA	m RUB	(287)	(417)	(257)	-38%
Share in profit (loss) of jointly controlled entities	m RUB	(10)	46	(59)	-228%

Development prospects

The strategic areas of development of Segment "Engineering" are as follows:

- Improving the quality of services provided, taking into account best international practices in quality management, environmental safety and occupational safety;
- Expansion of business geography;

- Diversification of formats for participation in projects related to the construction and modernisation of energy facilities, as well as the typology of these projects, both in terms of types of generating facilities and categories of customers and project implementation schemes;
- Development of product supply (equipment, work, services) for the construction of energy projects, including innovative/energy-efficient products of Inter RAO Group companies;

For LLC Inter RAO – Engineering, the main task for 2016-2017 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 of construction of generating facilities in the Kaliningrad Region).

The development plan for LLC QUARTZ Group for 2016-2020 includes the achievement of the following financial and economic indicators:

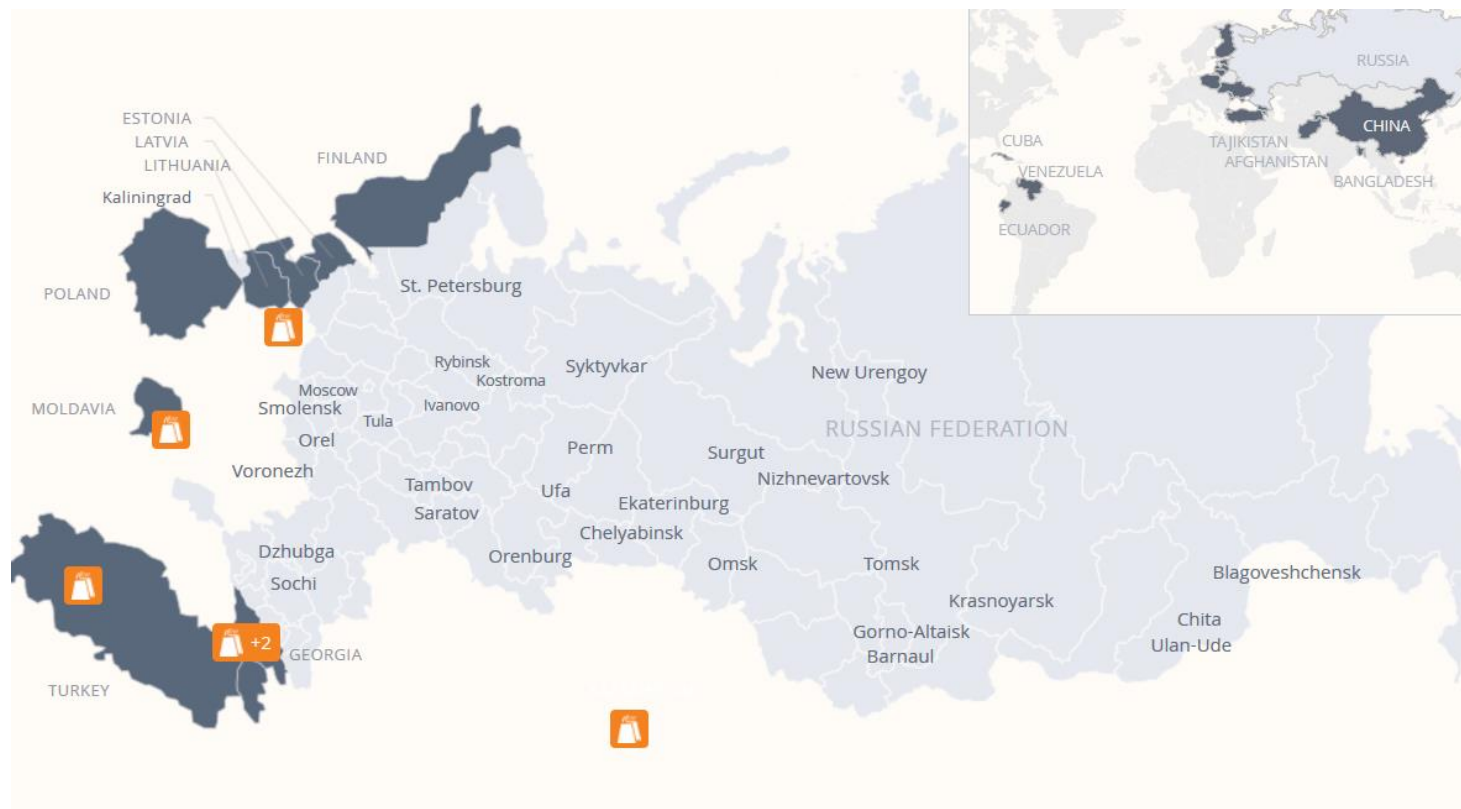
- development of own competence in the use of modern technologies and innovations. In 2017 it is planned to continue the development of coating production using robotic machines based on the Kostroma branch which was put into commercial operation in 2015.
- development of its own competence for servicing equipment based on the combined cycle. In 2017, the Company plans to participate by its own forces in the two main inspections of the North-West TPP;
- development and implementation of ISO 14001 series standards, environmental management system after getting a corresponding certificate;
- implementation of the recertification of the Quality Management System based on a new international standard ISO 9001: 2015.

LLC Inter RAO – Export in the near future plans to work further on geographical diversification of business on markets of Africa, Asia and Middle East. Some projects in Argentina, Ethiopia, Iraq, Vietnam and other countries are currently at the in-depth research stage. At the same time, the rate of increase of the contract portfolio will depend on several factors, including financing options, the macroeconomic situation and political stability in the priority regions and countries.

5.6 Segment “Foreign assets”

Development of international activity is represented by segment “Foreign assets” which includes operating subsegments “Georgia”, “Moldova”, “Turkey” and “Kazakhstan”⁷⁰.

The Group’s strategic goal in the “Foreign Assets” Segment is to expand its presence on target foreign markets.



⁷⁰ Subsegment “Armenia” is not included in the section as the sale of the Group’s assets in Armenia was completed in 2016.

Subsegment “Georgia”



227.2 MW The installed electric capacity (decreased by 72.5% due to the LLC Mtkvari Energy asset sale in the second quarter of 2016)	26.6% Installed capacity utilisation rate increased by 1.9 pp	94% of active subscribers were identified while gathering subscribers' data A standard energy supply contract with electricity consumers was developed to settle legal issues with the Company's subscribers.
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Subsegment description

The Subsegment is represented by two generating companies JSC Khrami HPP-1, JSC Khrami HPP-2 which are the part of the Group's assets in Georgia, and the network company JSC Telasi. LLC Mtkvari Energy was sold in the second quarter of 2016.

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-1 and JSC Khrami HPP-2 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 hydroelectric power plants are in working order and are operated throughout the calendar year. Electricity is sold under contracts concluded with JSC Telasi.

JSC Telasi is the largest electric 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. Main types of activity: purchase and sale of electricity; maintenance and operation of electrical networks; electricity transit services; services for technical maintenance of subscribers; billing and collection services for third-party service organisations. JSC Telasi has ten business centres and two branches serving more than 550,000 subscribers.

Subsegment position on the market

The electric energy system of Georgia generates surplus energy in spring and summer, with an energy shortfall in winter. The total installed capacity in Georgia is about 3,800 MW. Hydroelectric power plants (HPPs) dominate the production of electricity

in Georgia. The largest power plant in Georgia is Inguri HPP with an installed capacity of 1,300 MW. Its annual output in 2016 amounted to 3.55 billion kWh which is roughly 30% of all electricity produced in Georgia. Gas power plants and imported electricity satisfy peak demand in winter. There are four main thermal power plants in Georgia: Tbilisi SDPP, LLC Mtkvari Energy, LLC Gardabani TPP and Gpower Ltd with a total installed capacity of about 910 MW.

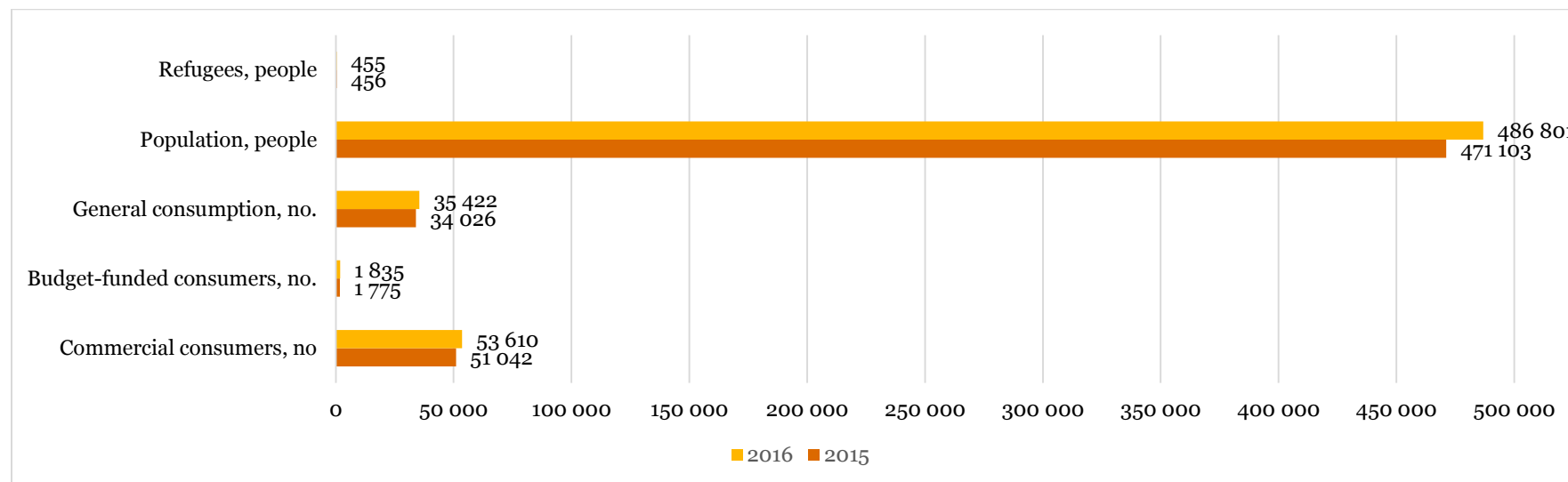
Supply and consumption of electricity in Georgia are regulated by laws of Georgia, the Law of Georgia “On Electric Power and Natural Gas”, Resolution of the National Commission for Energy and Water Supply Regulation No. 20 of 18 September 2008 “On Approval of Rules for Supply and Consumption of Electricity (Capacity)”. The purchase and mutual settlement of electricity is carried out based on the Georgian Electricity (Capacity) Market Rules.⁷¹

Electricity traffic control and transmission are carried out by JSC “State Electricity System of Georgia”, LLC Energotrans, JSC GruzRosenergo.

General industry development tendencies are estimated as moderately optimistic.

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

The structure of JSC “Telasi” consumers in 2015/2016: population (pers.), refugees (pers.), budget consumers (pcs.), commercial consumers (pcs.), total consumption (pcs.).



⁷¹ Rules of the Georgian electricity (capacity) market are approved by the Order of the Georgian Minister of Energy No. 77 of 30 August 2006.

Operating results

		UOM	2014	2015	2016	2016/2015
1	Rated capacity	MW	827.2	827.2	227.2	-72,5%
2	Type of fuel (fuel balance structure)	coal/gas/fuel oil				
	Gas		100	100	100	-0 pp
3	Electricity production in the country	m kWh	10,371	10,832	11,574	6.9%
4	Electricity production in the subsegment	m kWh	1,732	1,786	881	-50.7%
5	Share of electricity generation by national subsegment	%	16.7	16.5	7.6	-8.9%
6	Fuel equivalent consumption per unit of electricity	goe/kWh	332.1	335.7	332.0	-1.1%
7	Installed capacity utilisation rate	%	23.9	24.7	26.6	1.9%
8	Total length of transmission and distribution lines in the subsegment	km	4,593	4,826	5,082	5.3%
9	Net supply of purchased electricity	m kWh	2,115	2,273	2,629	15.7%
10	Network output including national losses	m kWh	10,153	10,592	11,365	7.3%

The installed electric capacity of the generating assets in the subsegment during the reporting period reduced by 600 MW and amounted to 227.2 MW. It is associated with the sale of 100% of LLC Mtkvari Energy shares in the second quarter of 2016 which resulted in the reduction of volume of electricity generation by 50.7% as of the end of 2016.

In 2016 the decrease in electricity generation by 1.6% was caused by the hydrogenerating assets of Khrami HPP I (-0.9%) and Khrami HPP II (-2.1%), the total output of which was 565 million kWh due to a lower water balance level in 2016.

In 2016 the SC Telasi productive supply of purchased electricity exceeded the previous year level by 15.7% due to consumption growth in the commercial sector (a large consumer accession), while the consumption in the population sector decreased (an increase in consumer electricity tariffs caused more economic use of electricity by the population). Conducted organisational, technical and repair work also allowed to reduce power losses in the networks to 5.7% (-0.3 pp), standard total losses amount to 6.09%. The total length of transmission and distribution lines was increased by 5.3% to 5,082 km as a result of development of lines for new consumers and new cable lines for network protection, as well as networks reconstruction and upgrade.

All repairs works in JSC Khrami HPP I and JSC Khrami HPP II have been completed in full and within the planned funds.

In 2016 the actual expenses for electric networks repair amounted to 2,704,760 lari which is 172.04 lari less than planned. The deviation of expenses by 6% is due to the fact that repair works for 2016 were planned on the basis of historical expenditure statistics. In addition, planned operating expenses decreased due to a decrease of incidents in the JSC Telasi network.

Loss factors and indices of incidence and duration of system outages

	2015	2016
Transmission loss coefficient	2.20%	1.99%
Distribution loss coefficient	6.03%	5.71%
System average interruption frequency index, number of cases per consumer, pcs.	14.31	11.168
Average electricity interruption duration per consumer, min	974.65	1,036.24

To ensure short-term and long-term availability and reliability of electricity supply to JSC Telasi consumers, the following activities were implemented in 2016:

- Provision of additional vehicles to operational structures for quick identification of damaged place and incident localisation, as well as for switching consumers to an emergency power source.
- Installation of vacuum circuit-breakers with digital relay protection on the outgoing feeders in the PIU for compliance with selectivity and disconnection of solely damaged section, rather than the entire plume, as it was before which led to the blackout of all consumers feeding from PIU.
- At the Navtlugi-2 substation a neutral grounding system is installed via a resistor to compensate for capacitive currents in a single-phase earth fault. This prevented from simultaneous damage of cable power lines and, accordingly, massive power outages to consumers.
- Introduction of dielectric diagnostics of cable power lines with the help of SABA-KMT that determines the degree of insulation aging and, accordingly, the risk of further damage. According to diagnostic results, measures are taken to prevent emergency shutdown and blackout of consumers, and switching consumers to backup power.
- Prior to laying power cables, tests are performed on criteria of all the main parameters. These tests ensure long-term operation of cable routes.
- One of the most important JSC Telasi priorities is to ensure maximum protection of consumers' interests. In 2016 the following activities were implemented to optimise business processes of energy sales activities and increase commercial services and customer service level:
 - collection of identification data of Company subscribers (over 94% of active subscribers were identified),

- services for the registration of new subscribers and accession to the distribution network were implemented; SMS messages about scheduled and emergency outages, debts for electricity, water and garbage collection, disconnection of power supply due to non-payment, hotline service.
- website www.telasi.ge allows you to get the majority of services online;
- an electronic journal has been introduced; it allows online recording of customer claims and applications, as well as information regarding the company's timely response to customer complaints.
- a standard energy supply contract with electricity consumers was developed to settle legal issues with the Company's subscribers.

The results of studies to assess the level of customer satisfaction in 2016

Date	Number of subscribers surveyed	Evaluating the quality of service		
		Good	Satisfactory	Bad
August	359	298	56	5
September	1,194	968	221	5
October	1,123	888	222	13
November	1,100	878	206	16
December	482	352	121	9
Total:	4,258	3,384	826	48

The main topics of consumer requests in 2016, the number of requests by topic

	Questions	Quantity	%
1	Emergency outage	164,156	29.9
2	Preventive outage	105,207	19.2
3	Outage because of debt	191,710	35.0
4	Late switching on	5,840	1.1
5	BC-related questions	40,108	7.3
6	Questions related to clean-out service	2,072	0.4

7	New subscribers connection	3,617	0.7
8	Company details change	5,905	1.1
9	Miscellaneous	17,401	3.2
10	Unsorted calls	12,122	2.2

Results of financial activity

Financial information for the year that ended on 31 December 2014/2015/2016.

Generation						Networks			
	UOM	2014	2015	2016	2016/2015, %	2014	2015	2016	2016/2015
Revenue	m RUB	3,158	4,693	2,662	-43%	6,126	8,704	11,549	33
Share in the Revenue of Inter RAO Group	%	0	1	0	- 1 pp	1	1	1	0 pp
Operating costs, including	m RUB								
Expenses for electricity and capacity acquisition	m RUB	(8)	(13)	(4)	-69	(3,193)	(5,277)	(7,177)	36%
Expenses for electricity transmission	m RUB	(1)	(1)	(1)	0	(554)	(826)	(1,137)	38%
Fuel expenses	m RUB	(1,930)	(3,065)	(954)	-69	-	-	-	-
EBITDA	m RUB	799	1,060	1,339	26	871	821	1,265	54%
Share in EBITDA of Inter RAO Group	%	1	1	1	0 pp	2	1	1	0 pp
Including intrasegment turnover:									
Revenue	m RUB	2,481	3,854	2,332	-	-	-	-	-
Expenses for electricity and capacity acquisition	m RUB	-	-	-	-	(2,481)	(3,854)	(2,332)	-

In the reporting period, the revenue of the subsegment increased by RUB 2,336 million due to the growth in the number of customers served, the increase in customer tariffs and the positive dynamics of electricity consumption in Georgia.

On generating assets, the decrease in sales revenue for electricity sales was 43%, the reduction in fuel costs decreased 69% due to the sale of LLC Mtkvari Energy in 2016.

Revenue from network company JSC Telasi increased by 33% due to growth in electricity sales by increasing the level of consumption and the increase of sales tariffs as of 5 September 2015. The increase in expenses for the purchase and transmission of electricity of JSC Telasi is caused by the increase in consumption volume and tariff rates for transit and traffic control from 1 January 2016.

The growth of EBITDA in the subsegment “Georgia” by RUB 723 million was caused by several reasons: JSC Telasi – due to the increase in marginal profit because of the indexation of electricity tariffs since 5 September 2015 and the growth in electricity sales because of the consumption growth of the commercial sector; LLC Mtkvari Energy – for the period before the disposal date EBITDA indicator increased due to the indexation of tariffs for electricity (starting from 1 January 2016) which exceeds the rise of costs for gas purchases.

Development prospects

In the long run the key tasks of PJSC Inter RAO asserts in Georgia are:

- raising energy and operational efficiency;
- ensuring reliable, trouble-free operation;
- guaranteed and uninterrupted electricity supply to all districts of Tbilisi as a Guarantee Supplier (for JSC Telasi).

Subsegment “Moldova”



2,520 MW
Rated capacity

RUB 4,850m
Revenue (increased by 4%
compared to 2015)

Subsegment description

The “Foreign Assets” segment, Moldavia subsegment, includes the Moldova TPP located in the South-Eastern part of the Pridnestrovian Moldavian Republic. PJSC Inter RAO owns 100% of plant shares.

The Moldova TPP is a thermal power plant with 12 generating units, with a total installed electric capacity of 2 520 MW and heat capacity of 166 Gcal/h. The company also owns open distribution devices and ultra-high voltage class power transmission lines (400 kV) with a length of 11.6 km.

The power plant is the most important moldavian power system generating asset which can fully meet the electricity needs of the Pridnestrovian Moldavian Republic. Heat energy generation was 139,000 Gcal.

Subsegment position on the market

The Electric power industry is a key sector of the Pridnestrovian Moldavian Republic economy; in 2016 it accounted for 48.1% of the industrial production of the Republic. The installed capacity of the Moldova TPP was 96.2% of the installed capacity of all Pridnestrovian Moldavian Republic's generating companies.

Electricity generated by the Moldova TPP is sold, realised 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.

Overall the development tendencies of CJSC Moldavskaya TPP correspond to industry-wide trends.

Operating results

Operating information for the year ending 31 December 2014/2015/2016.

	UOM	2014	2015	2016	2016/2015, %*
1. Rated capacity	MW	2,520	2,520	2,520	0%
2. Type of fuel (fuel balance structure)	%				
Gas		99.7	99.8	99.4	-0.4 pp
Fuel oil		0.1	0.1	0.2	0.1 pp
Coal		0.2	0.1	0.4	0.3 pp
3. Electricity production in the country	m kWh	4,387	5,078	4,921	-3.1%
4. Electricity production in the subsegment	m kWh	3,893	4,610	4,468	-3.1%
5. Share of electricity generation by national subsegment	%	88.7	90.8	90.8	0%
6. Fuel equivalent consumption per unit of electricity	goe/kWh	348.4	344.6	347.2	0.8%
7. Installed capacity utilisation rate	%	17.6	20.9	20.2	-0.7 pp
8. Release of FOE in the country	thousand Gcal	1,557	1,515	1,530	1.0%
9. Useful release of FOE across the subsegment	thousand Gcal	91	87	81	-7.0%
10. Share of FOE release by subsegment in the country	%	5.84	5.74	5.29	-0.5 pp

The installed electric capacity of Moldova TPP remained unchanged over the reporting period. The total volume of electricity generated in 2016 reduced by 3.1% as compared to the last year and made up 4,468 m kWh (90.8% from the total volume of electricity generation in the country), which is connected with reduced demand for electricity on the part of consumers on DMR internal market. The ratio of installed capacity use in the reporting period fell by 0.7 pp as compared to 2015. The specific consumption of reference fuel related to electricity release increased by 0.8% due to reduction in electricity release and repair of Main Distribution Centre with full stoppage of natural gas supply. The main kind of fuel used in 2016 was the natural gas that amounted to 99.4% (-0.4 pp) in the plant's fuel balance.

Three kinds of fuel, gas, coal and fuel oil, were used to generate electricity in 2016.

In 2016, eight repairs of power generation plants were performed at Moldova TPP CJSC, including five current repairs (at plants No. 4,5,8,9,12) and two mid-scope repairs (at plants No. 10,11). Also, capital repairs are over for the power generation plant of station No. 7, decommissioned from 12.05.2015. Actual expenses on the current repairs of energy equipment at Moldova TPP are higher than the planned ones, which is explained by the fact that expenses were made as needed in the process of repairs, depending on the actual state of energy equipment. The repair programme was completely fulfilled.

Results of financial activity

Financial information for the year that ended on 31 December 2014/2015/2016.

Indicator	UOM	2014	2015	2016	2016/2015
Revenue	m RUB	6,929	4,660	4,850	4%
Share in the Revenue of Inter RAO Group	%	1	1	1	0 pp
Operating costs, including	m RUB				
Expenses for electricity transmission	m RUB	(45)	(16)	(15)	-6%
Fuel expenses	m RUB	(4,074)	(84)	(132)	57%
EBITDA	m RUB	1,692	2,692	2,655	-1%
Share in EBITDA of Inter RAO Group	%	3	4	3	-1 pp

Increase in revenue by RUB 190 million (4%) is due to an increase in average US dollar rate to the ruble as compared to the average rate for the comparable period, with reduced electricity consumption on the internal market. Saving on expenses related to electricity transmission is mainly connected with reduced electricity release. Fuel purchase costs made up 57%, mainly due to the growing fuel component in the part of coal and fuel oil in connection with the repair carried out in 2016 at MDP (Tiraspoltransgaz OJSC) with complete disconnection of natural gas supply for 3 days (in this period, electricity was generated on the basis of coal and fuel oil). In 2015, coal consumption was used only to test the functioning of coal-pulverisation system during preparation for autumn and winter period.

Decrease in subsegment EBITDA by RUB 37 million (1%) is connected with reduced electricity production and decrease in revenue for ensuring readiness, partially neutralised by increase in average US dollar rate to the ruble as compared to the average rate for the comparable period.

Development prospects

The Group Strategy is aimed at resolution of the following tasks aimed at developing the activity of Moldova TPP in the long term:

1. Improvement of energy efficiency of the plant's functioning.
2. Reconstruction and modernisation of equipment.
3. Preservation and development of export potential.

To realise the specified strategy objectives for 2017, relevant key performance indicators have been approved for the company management.

Subsegment "Turkey"



Reorganisation of Turkish assets group:

On 29.11.2016, the procedures of merger between Inter Rao Trakya Enerji Holding Anonim Şirketi, Inter Rao Turkey Enerji Holding Anonim Şirketi, SII Enerji ve Üretim Limited Şirketi, Inter Rao Trakya Elektrik Üretim ve Ticaret Limited Şirketi Inter Rao Trakya Enerji Anonim Şirketi and Trakya Elektrik Üretim ve Ticaret Anonim Şirketi were ended.

Subsegment description

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

The plant is located in the 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 turbines Siemens V 94.2 (154 MW each) and steam turbine Siemens (170 MW). Natural gas is the main fuel of the plant, and diesel is the back-up fuel. The main fuel is natural gas, and work on the back-up diesel fuel is also possible.

The power plant works using BOT scheme “building – operation – transmission”⁷². A concession agreement provides for the initial period of activity, 20 years, which ends in June 2019 and will be extended until 2046 subject to a number of conditions. Taking into account the importance of working on the question of extending the concession agreement between TrakyaElektrik and Turkish Ministry of Energy and Natural Resources, the Group held a number of meetings and consultations, including on the level of the Intergovernmental Russian and Turkish Commission on trade and economic cooperation. A working group was created to develop optimal conditions to ensure extending the activity of TrakyaElektrik Uretim Ve Ticaret A.S. after 2019.

Contracts signed:

- on gas purchase with Turkish oil-and-gas and gas transportation company BOTAS. In September 2014, the gas agreement was successfully extended 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 realisation, and also with the rates set for the whole period. In addition, the obligations under contracts are secured with the guarantees of the Turkish government. Thus, the current system of contracts makes it possible to eliminate the risks of electricity prices volatility on the Turkish market and provides a guaranteed level of profitability on the invested capital.

Subsegment position

The total volume of electricity generated by Turkish power plants of all types in 2016 made up 273.4 TWh, which is 4.4% higher than the 2015 value. The installed capacity of power plants in the reporting period rose by 7.5%, reaching 78.6 GW by the end of 2016. The peak load is recorded in August 2016 at 44.7 GW.

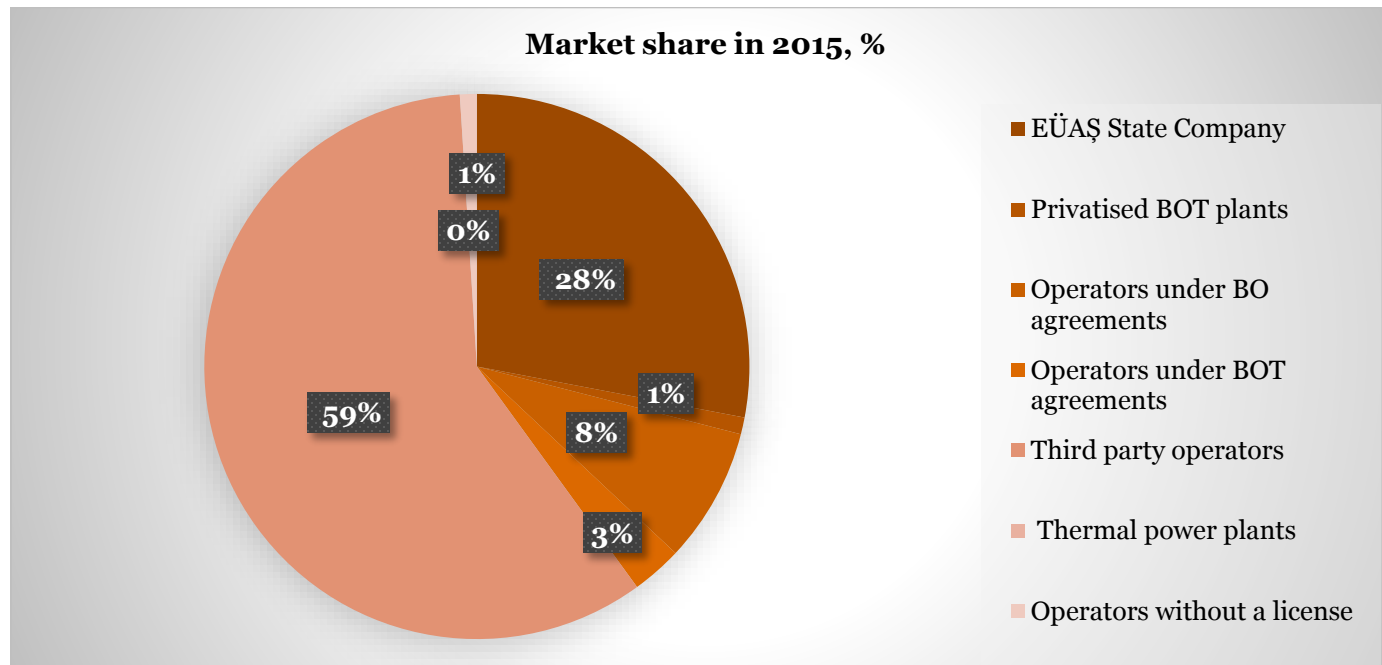
The power reserve in the united power system of Turkey makes up about 40%.

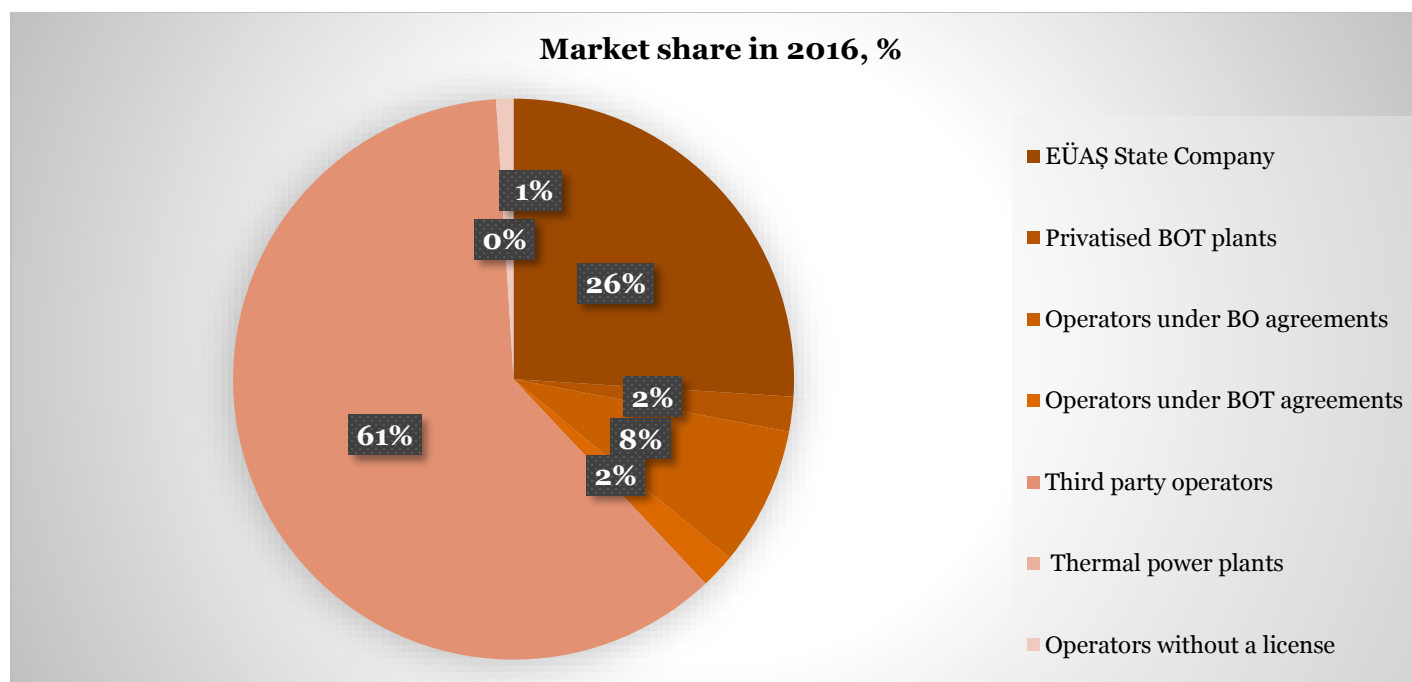
The largest player on the electricity generation market is the state-owned company EUAS, which accounts for about 26% of the market. Approximately 74% of electricity is generated by independent producers. This market segment is not consolidated and is represented by over 900 small and mid-sized power plants (75% from the total number of power plants in Turkey).

Plants operated under concession agreements of all types (BOO, BOT, TOR), including Trakya Elektrik Uretim Ve Ticaret A.S., have occupied 10% of the installed capacity market.

⁷² A form of project financing which provides for construction of an asset, its subsequent operation and transfer of the property complex to the state, which is later usually privatised.

Structure of installed capacity for Turkish power plants in 2015 – 2016





The share of the plant, in terms of volume of electricity generated during the reporting period, accounted for 1.3% of the total volume of production in the country. This indicator has not changed as compared to 2015. In subsequent years, the trend of reduction of the plant's share in both the installed capacity and electricity generation will increase due to Turkey's plans to achieve 120 GW of installed capacity by 2023. However, these circumstances do not imply risks for the plant until mid-2019, as the volumes of electricity generation and fuel mix have been set by the contract terms.

Structure of fuel provision for Turkish power plants in 2015 – 2016

Kind of fuel	2015		2016	
	Rated capacity	Market share	Rated capacity	Market share
	MW	%	MW	%
Diesel fuel, asphaltite	866.2	1.2	369	0.5

Coal produced in Turkey	9,023.4	12.3	9,842	12.5
Imported coal	6,064.2	8.3	7,474	9.5
Natural gas, liquefied gas	21,222.1	29.0	22,263	28.3
Waste	344.7	0.5	467	0.6
Liquid and solid kinds of fuel	653.0	0.9	667	0.8
Natural gas + liquid sorts of fuel	3,673.9	5.0	3,354	4.3
Geothermal PP	623.9	0.9	821	1.0
HPP with a dam	19,077.2	26.1	19,559	24.9
Run-of-river plants	6,790.6	9.3	7,123	9.1
Wind power plants	4,498.4	6.1	5,738	7.3
TPP without a license	56.5	0.1	82	0.1
WPP without a license	4.8	0.0	13	0.0
Solar PP	248.8	0.3	820	1.0
Total	73,147.6	100.0	78,592.0	100.0

The fuel balance of Turkish power plants is supported by gas (natural, liquefied), coal and diesel fuel by almost on 55%. The remaining 45% is represented by renewable energy sources (RES). Change in the fuel balance towards increase in the installed capacity of manufacturers represented by RES made up 5% as compared to 2015.

In 2016, a stable tendency was confirmed to increase the share of renewable sources in the fuel balance structure. I.e., the output of geothermal and wind power plants made up 21,246 TW/h, which is higher by 45% as compared to the previous year and reached 7.8% from the total annual output of Turkish power plants.

The trend above does not carry any risks for the plant until mid 2019 as the volumes of electricity generation, and also fuel balance structure are strictly fixed (by volume and cost parameters) under contractual conditions.

The Turkish power grid consists of two main power levels, 380 kW and 154 kW. All the transmission lines belong to the main state grid company (TEIAS).

There are no price zones on the Turkish market. The market advantage is given to the companies with the lowest sales price. In 2017, the Turkish government planned measures for further electricity market liberalisation, including privatisation of state generating assets (except for strategic assets in hydropower generation), improvement of trade operations on the spot market, expansion of the number of electricity market participants (liquidation of the “qualified customer” institute, including by reduction of the minimum trade request value on the energy sale and purchase market, which makes it possible to admit end users to the market, including small and medium businesses, as well as households).

Under the concluded agreement on electricity sale, Trakya Elektrik sales the whole volume of the generated energy to the state company Tetas (operator of electrical energy and capacity wholesale market). This agreement contains the conditions which hedges the main activity risks, the volume of energy sold and the supply rates (including compensation of permanent, varied and fuel expenses) are set for each year of this agreement. Thus, the plant is protected from commercial and fuel risks.

Operating results

In 2016, Trakya Elektrik A. S. power plant produced 3,470m kWh of energy in 2016, which is higher by 1.8% than the output in 2015. Increase in the generation volumes in the reporting period is connected with the dispatcher schedule of electrical load set by the system operator.

In the reporting period, the fuel balance of Trakya Elektrik did not undergo any considerable changes. The main kind of fuel used is natural gas (91.6%), and the rest is diesel fuel. In 2016, average cost of gas in US dollars fell by 40.4% as compared to the level of 2015, but change in price did not produce any considerable influence on the economic efficiency of the station as the fuel component is included in the cost of produced electricity in accordance with current contracts. Dynamics of change in the specific fuel consumption is defined by the plant's working hours in 2016.

Repair programme of Trakya Elektrik A.S. is implemented under long-term agreements with the consortium of Siemens Sanayive Ticaret A.Ş. and Siemens Aktiengesellschaft (Siemens) as in effect until 2020. During the reporting period, current repair of main and auxiliary equipment was performed: during the current repair of the gas turbine system, steam turbines and generators, the typical scope of work was applied.

Operating information for the year ending 31 December 2014/2015/2016.

	UOM	2014	2015	2016	2016/2015
Rated capacity	MW	478	478	478	0.0%
Type of fuel (fuel balance structure)	coal/gas/fuel oil				
Gas		96.5	94.3	91.6	-2.7%
Fuel oil		3.5	5.7	8.4	2.7%
Electricity production in the country	m kWh	254,100	261,783	273,388	4.4%
Electricity production in the subsegment	m kWh	3,084	3,410	3,470	1.8%
Share of electricity generation by national subsegment	%	1.21	1.30	1.27	0 pp
Fuel equivalent consumption per unit of electricity	goe/kWh	278.6	271.1	270.7	-0.2
Installed capacity utilisation rate	%	73.6	81.4	82.6	1.2 pp

Financial information for the year that ended on 31 December 2014/2015/2016.

	UOM	2014	2015	2016	2016/2015
Revenue	m RUB	14,708	20,306	15,356	-24%
Share in the Revenue of Inter RAO Group	%	2	3	2	-1 pp
Operating costs, including					
Fuel expenses	m RUB	(12,796)	(16,622)	(11,545)	-31%
EBITDA	m RUB	801	2.631	2.915	11%
EBITDA margin	%	5	13	19	6 pp
Share in EBITDA of EAEC Inter RAO Group	%	1	4	3	-1 pp

In 2016, characterised by an increase in electricity production by 1.8%, we could observe multidirectional dynamics of subsegment's main financial indicators: revenue reduction by RUB 4,950 million due to falling prices of technological fuel, gas. The effect was partially levelled off by the growing average dollar rate in 2016 as compared to 2015 and EBITDA increase by RUB 284million due to an increase in average US dollar rate to ruble as compared to the comparable period. EBITDA in US dollars practically did not change.

Development prospects

In accordance with the strategy of PJSC Inter RAO, the Turkish market is one of the priority areas of the Group's international development. Purchase of Trakya Elektrik Uretim Ve Ticaret A.S. plant is considered as the first step in this direction, followed by expanded presence on the Turkish energy market.

Attractiveness of the market is conditioned by a number of factors. These include, first of all, impressive pace of electricity consumption level growth. Average annual increase in electricity consumption in 2002-2007 made up 7.5% with a minor slowdown in 2007-2016 to the level of 4%. At the same time, average annual increase in the demand for electricity in 2016-2023 is expected to exceed the indicators of developed countries. The processes of generating and sales sectors liberalisation and privatisation continue in the country, which creates additional possibilities to expand market presence.

The main priorities of company development in 2017 include:

- increase in operating and financial efficiency of the company's activity
- realisation of events to extend the concession agreement with Turkish Ministry of Energy and Natural Resources
- executing the Plan of PJSC Inter RAO Strategy Realisation and key performance indicators approved by the Company's Board of Directors

- realisation of the Action Plan approved by Board of Directors to manage the critical risks of Trakya Elektrik Uretim Ve Ticaret A.S.

Subsegment “Kazakhstan”



Electricity production by EPSP-2 JSC increased by 55.0% in 2016 and made up 4,976 million kWh due to export supply of electricity to the Russian Federation from 17.03.2016.

Subsegment description

Subsegment “Kazakhstan” is represented by thermal power plant JSC Ekibastuz TPP-2 (JSC ETPP-2) situated on the eastern shore of Shandoksor Lake, 42 km of Ekibastuz. EPSP-2 JSC is a joint company of PJSC Inter RAO and Samruk-Energo JSC⁷³, and both companies have equal shares (50%) in the plant’s authorised capital.

The main activity of JSC ETPP-2 is generation of electricity and thermal energy. The installed electrical capacity is 1 000 MW (two power generating units, 500 MW each). The installed thermal capacity is 513.5 Gcal.

Subsegment position on the market

The Unified Electricity System of the Republic of Kazakhstan (UES RoK) works in parallel with UES of Russia and the unified energy system of Central Asia, and is divided into three zones, north, south and west. The main electricity sources are thermal, gas turbine and hydropower plants. Increase in electricity generation as compared to last year took place in all three zones of the Unified Electricity System. 79.4% of the electrical energy produced by energy generation enterprises of Kazakhstan in 2016 falls on thermal power plants.

The share of electricity generation by JSC ETPP-2 makes up about 12% of all the electrical energy generated in the Republic of Kazakhstan.

Besides the internal market, export of the electricity generated by Ekibastuz Plant JSC ETPP-2 to the Russian Federation started on 17 March 2016. The annual volume of export sales amounted to 1,858.5 million kWh.

⁷³ Samruk-Energo JSC is a state-owned holding company. It owns and manages energy and coal companies in the territory of the Republic of Kazakhstan.

By the order of the Minister of Energy of the Republic of Kazakhstan⁷⁴ for 2016, the marginal price of electricity sales for the 1st group of energy generation organisations is set at KZT 8.8 per kWh. According to the business plan of JSC Ekibastuzskaya Station TPP-2 for 2016, the selling price of electricity is set at KZT 6.47 per kWh (including KZT 7.58 per kWh for delivery to Kazakhstan and KZT 4.69 per kWh to the Russian Federation).

The main competitors of JSC ETPP-2 in the northern energy zone are Aksuskaya ETPP and Ekibastuz ETPP-1, large generating companies with the installed capacity of 2,450 MW and 3,500 MW, respectively. In 2017, restoration and modernisation of power generating units is planned, which will make it possible for ESDPP-1 to reach the rated capacity of 4,000 MW.

Operating results

Operating information for the year ending 31 December 2014/2015/2016.

		UOM	2014	2015	2016	2016/2015
1	Rated capacity	MW	1,000	1,000	1,000	0.0%
2	Type of fuel (fuel balance structure)					
2.1	Coal	%	99.7	99.6	99.7	0.1 pp
2.2	Fuel oil	%	0.30	0.40	0.26	−0.1 pp
3	Electricity production in the country	m kWh	93,941.6	90,796.6	94,076.5	3.6%
4	Electricity production in the subsegment	m kWh	4,755	3,211	4,976	55.0%
5	Share of electricity generation by national subsegment	%	5.1	3.5	5.3	1.8 pp
6	Fuel equivalent consumption per unit of electricity	goe/kWh	376.2	394.3	393.0	−0.3%
7	Installed capacity utilisation rate	%	54.3	36.7	56.7	20.0 pp
8	Release of FOE in the country	Thousand Gcal	80,967.7	78,746.7	80,671	2.4%
9	Useful release of FOE across the subsegment	Thousand Gcal	44	40	41	3.2%
10	Share of FOE release by subsegment in the country	%	0.054	0.051	0.051	0.0 pp
11	Specific consumption of reference fuel on FOE production	kgfe/Gcal	210.8	217.7	213.0	−2.2%

Electricity production by EPSDPP-2 JSC increased by 55.0% in 2016 and made up 4,976 million kWh due to export supply of electricity to the Russian Federation from 17.03.2016. To make it possible to export electricity, the Committee for Natural Monopolies Regulation and Competition Protection of the Ministry of National Economy of the Republic of Kazakhstan approved a temporary reduction factor in the amount of 0.7125 to the rate for the services related to electricity transmission by interregional networks of KEGOC JSC. Release of thermal energy increased by 4.0% due to the actual need of consumers.

The main kind of fuel at JSC ETPP-2 is bituminous coal with the BTU content of 4,000 ccal/kg from Bogatyr and Severny sections. Fuel oil is used during commissioning of the first and second power generating units.

⁷⁴ No. 160 dated 27.02.2015 “On approval of limit rates for electrical energy for the group of energy generation organisations” as amended by Order No. 676 dated 30.11.2015.

The specific consumption of reference fuel per power plant made up 393.0 kgfe/Gcal, decreasing by 0.4%, on thermal energy – 213.0 kgfe/Gcal with a decrease of 2.1%, which is connected with increased load on power generating units.

During the reporting period, capital repairs were carried out on power generating unit No. 1, and current repairs were completed on power generating unit No. 2, in full and within the planned terms. In the same period of 2015, current repairs of power generating unit No. 1 and capital repairs of power generating unit No. 2 were completed. Decrease in the cost of maintenance, preparation for repairs and emergency repairs of power generating units No. 1, 2 as compared to the same period of 2015 occurred due to increase in expenses on spare parts, materials and absence of contractor works related to repairs of heat engineering equipment.

Results of financial activity

Financial information for the year that ended on 31 December 2014/2015/2016.

	UOM	2014	2015	2016	2016/2015
Revenue	m RUB	109	27	-	-100%
Share in the Revenue of Inter RAO Group	%	0	0	0	0 pp
Operating costs, including	m RUB				
Expenses for electricity and capacity acquisition	m RUB	(64)	(16)	-	-100%
Expenses for electricity transmission	m RUB	(40)	(11)	-	-100%
Share in the profit/(losses) of jointly controlled companies		1.101	(3,617)	774	Not applicable
EBITDA	m RUB	1.108	(3,612)	776	Not applicable
Share in EBITDA of Inter RAO Group	%	2	-5	1	6 pp

The dynamics on Revenue indicator in the subsegment amounting to RUB (-27 million (-100%)) is connected with termination of energy supply from 1 February 2015 to end users under Inter RAO Central Asia LLP due to high cost of supplied electricity for end users. The main factor for dynamics of EBITDA indicator in the subsegment was change of share in the profit/(losses) of joint ventures: increase in expenses from participation in EPSDPP-2 JSC totalled RUB 4,391 million at the expense of the low base effect: a loss was recognised in 2015 due to rate differences during credits in US dollar revaluation.

Development prospects

Based on the Agreement concluded between the Government of the Republic of Kazakhstan and the Government of the Russian Federation on the construction and subsequent operation of the third unit of Ekibastuzskaya TPP-2, signed in Orenburg on 11 September 2009 (the “MPS”), the investment project named "Expansion and Reconstruction of ETPP-2 Power Station with the Installation of Power Unit No. 3” (the “Project”) has been launched.

In order to implement the Project:

- the design and estimate documentation of stage “P” with the use of the main equipment with increased (supercritical) parameters was developed, which received a positive conclusion of RSE “Gosexpertiza” No. 01-0999/13 dated 23 December 2013;
- the preparatory stage has been completed, including the construction of auxiliary facilities and infrastructure, roads and railways, communications, warehousing and aggregate assembly sites, warehouses, a concrete and mortar plant, and a dining hall;
- the dismantling work has been completed that is required to prepare for the scope of works related to the installation of the frame of the Main Building and the main equipment, as well as the work on the installation of a pile field for the foundation of the boiler unit;
- the main equipment is now being supplied to the construction site of Power Unit No. 3.

In June 2010, a Loan Agreement was concluded with the Eurasian Development Bank and Vnesheconombank for the purposes of financing the Project.

Starting from 2014, negative changes in the economy of Kazakhstan and the relevant general decline in electricity production and consumption caused a significant reduction in the sales of electricity by JSC ETPP-2. Along with that, the devaluation of the national currency almost doubled the amount of the principal debt due under the Loan Agreement.

Considering these factors, the Sub-commission for Cooperation in Fuel and Energy Complex of the Intergovernmental Commission on cooperation between the Russian Federation and the Republic of Kazakhstan took the decision on 11 February 2016 to prepare, approve and duly submit to Governments of the Russian Federation and the Republic of Kazakhstan of the Draft Protocol on amendments in the Intergovernmental Agreement. This version of the Protocol provides for the suspension of the implementation of the Project and contains a number of obligations of the Kazakhstan party to ensure loan servicing and return of the funds invested in the implementation of the Project.

The Draft Protocol on introducing amendments to the Intergovernmental Agreement was sent by the Ministry of Energy of the Russian Federation to the Ministry of Energy of the Republic of Kazakhstan through official diplomatic channels. Currently, domestic procedures are being implemented to harmonise the Draft Protocol.

6 Corporate governance

Address of the Chairman of the Board of Directors Igor Sechin

PJSC Inter RAO respects the principles of corporate governance to the extent indicated in the Report, and also affirms its commitment to compliance with the standards of the Corporate Governance Code recommended by the Bank of Russia. The dynamics of implementing the Code's recommendations in the activities of PJSC Inter RAO are reflected in the Report on Compliance with the Principles and Recommendations of the Corporate Governance Code.

6.1 Following the high standards of corporate governance

In the field of corporate governance, PJSC Inter RAO is guided by the requirements of laws, the Listing Rules of Moscow Exchange PJSC (Listing Rules)⁷⁵, recommendations of the Corporate Governance Code (hereinafter the Code)⁷⁶, as well as the principles and examples of the best international and Russian corporate governance practices. The Group seeks to improve the corporate governance practices by timely implementing economically justified, organisationally important and demanded changes in the corporate governance system, and also by updating internal regulating documents.

Evaluating the quality of corporate governance system

In 2016, a number of internal regulatory documents was approved. More detailed information about them is available in Appendix 10.10. The Articles of Association and other internal regulatory documents are available on website <http://www.interrao.ru/investors/corporate-governance/corporate-docs/>

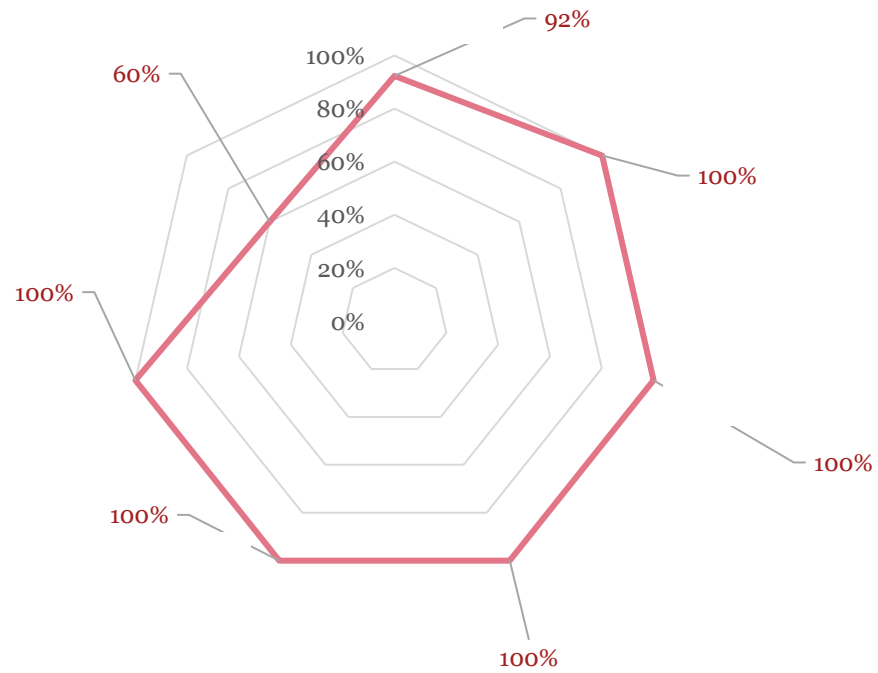
Following the Company's evaluation of the corporate governance system and practice compliance with the Code's principles and recommendations, the level of compliance reached 96.2%⁷⁷. A detailed report on the Code's principles and recommendations is presented in Appendix 12.6.

⁷⁵Listing Rules of Moscow Exchange PJSC, registered by the Bank of Russia on 21 March 2017.

⁷⁶Recommended for application by the letter of the Bank of Russia No. 06-52/2463 dated 10.04.2014 "On Corporate Governance Code."

⁷⁷ The level of compliance marks the share (in percent) of the second level corporate governance principles, available in the Code, observed by the Company in full or in part as of 31 December 2016, in the total number of the second level corporate governance principles. More detailed information on compliance with the Code's provisions is presented in Appendix 10.6 "Report on compliance with the principles and recommendations of the Corporate Governance Code."

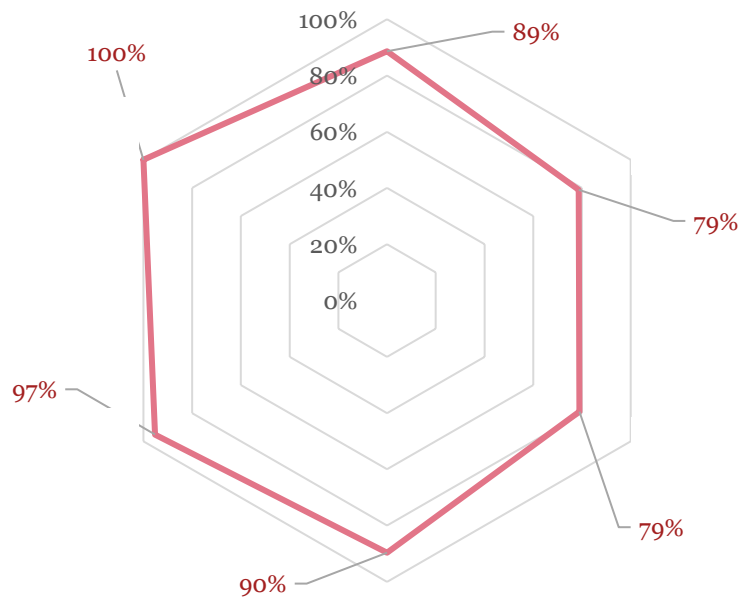
***Level of corporate governance practice compliance
with the Code's provisions***



78

⁷⁸ In accordance with the report on compliance with the Code's principles and recommendations (Appendix 12.6.)

Results of corporate governance quality self-assessment

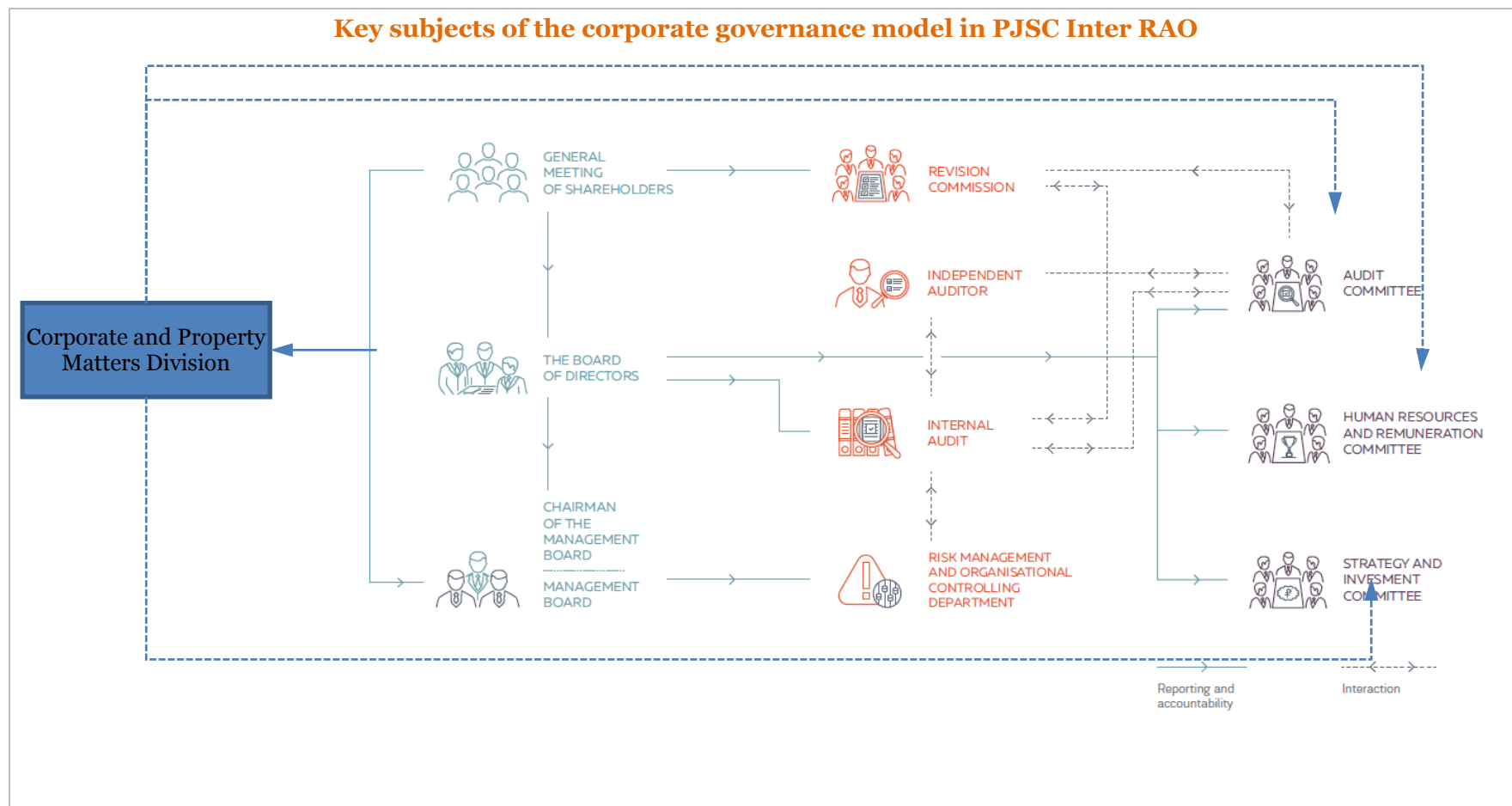


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⁷⁹ Self-assessment was carried out in accordance with the Method of corporate governance quality self-assessment in companies with state participation approved by the Federal Agency for State Property Management (Order No. 306 of 22.08.2014)

6.2 Corporate governance model

The corporate governance model in PJSC Inter RAO is focused on internationally recognised high standards of corporate governance and information disclosure and, in particular, makes it possible for the Company to fully comply with the requirements of the Russian Federation laws and Listing Rules, and also permanently improve the corporate governance practice.



* The Corporate and Property Matters Division performs the functions of the PJSC Inter RAO's Corporate Secretary.

6.3 General meeting of shareholders

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 exercising the rights by the shareholders of PJSC Inter RAO to manage the Company. 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 Provision on the General Meeting of Shareholders in PJSC Inter RAO⁸⁰.

Information on holding general Meetings of Shareholders in 2016.

Kind of meeting (annual/extraordinary)	Annual
Date of holding	10 June 2016
Form of holding	Meeting (joint presence)
Venue	Russia, Moscow, square of Europe, 2, Radisson-Slavyanskaya hotel, Conference hall.
Date of execution and number of minutes	Minutes No. 16 dated 10.06.2016

The following questions were considered at the annual General Meeting of the PJSC Inter RAO's Shareholders that took place on 10 June 2016:

- approval of the Company's annual report
- approval of the Company's annual accounting (financial) reports
- distribution of profit (including on payment (announcement) of dividends) and losses of the Company following 2015
- on payment of fee to the members of the Company's Board of Directors
- on payment of fee to the members of the Company's Audit Committee
- electing members of the Company's Board of Directors
- electing members of the Company's Audit Committee
- approval of the Company's auditor
- approval of the amended Articles of Association of the Company
- on determination of price (monetary evaluation) of the services acquired by PJSC Inter RAO under the liability insurance agreement of directors, officials and companies between PJSC Inter RAO and SOGAZ JSC
- approval of related party transactions.

⁸⁰ The amended Provision on the General Meeting of Shareholders was approved on 29.05.2015 by the annual General Meeting of Shareholders of PJSC Inter RAO (Minutes No. 15 dated 01.06.2015).

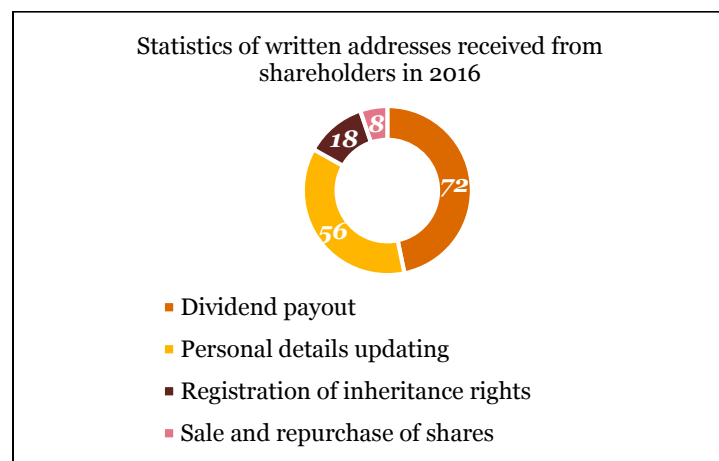
Communication with shareholders

Shareholders of PJSC Inter RAO: 354,639⁸¹

Register keeper of PJSC Inter RAO: Registrar R.O.S.T. JSC⁸²

PJSC Inter RAO is one of the largest public joint-stock companies in Russia by the number of minority shareholders, and communication with them is a special focus for the Company. To develop the system of building an efficient dialogue with the shareholders, the Company annually realises programmes of communication with minority shareholders⁸³, developed on the basis of analysing addresses received from the shareholders and surveys conducted by the Company. As part of this Programme realisation, an online forum for shareholders was created in 2016 on the questions included in the agenda of the annual General Meeting of shareholders, and an animated tutorial was developed to explain all the advantages of timely personal details updating (specifying the bank account details to pay dividend, etc.) to the shareholder.

External and internal channels of communication with shareholders



Total written addresses received from shareholders in 2016: 155

Resolved written addresses received from shareholders in 2016: 155

⁸¹ Total number of persons whose balance on the personal account, recorded in the register of shareholders of PJSC Inter RAO as of 31.12.2016, differs from zero.

⁸² License of RF FCSM No. 10-000-1-00264 dated 03.12.2002

⁸³ The Programme of communication with minority shareholders in PJSC Inter RAO for 2016 (hereinafter the Programme for 2016) was approved at the meeting of the Management Board on 10.12.2015 (Minutes No. 592).

Communication channel	Available information
Information for Shareholders section of the official website of PJSC Inter RAO http://www.interrao.ru/investors/info/	
Feedback section http://www.interrao.ru/investors/contacts/	Contact phone numbers and e-mail of the Corporate Relations Department, Corporate and Property Matters Division Consulting for shareholders, redirecting questions to the Company's specialised units.
FAQ section http://www.interrao.ru/company/FAQ/	Relevant answers to the questions on PJSC Inter RAO, dividends, shares, corporate governance and other subjects.
Information on Register Keeper section http://www.interrao.ru/investors/restrinfo/	Information about the Registrar's current license. Contact information of the Registrar, Registrator R.O.S.T. JSC, its subsidiaries and transfer agents.
Polls and Votes section http://www.interrao.ru/investors/polls/	Questions related to convenience of the PJSC Inter RAO's communication with its shareholders and quality and completeness of information disclosure with a possibility of feedback.
Registrar's call centre for the shareholders of PJSC Inter RAO Tel. +7 800 700 03 70 (toll free in Russia) E-mail: InterRAO@rrost.ru	Relevant information and consulting for shareholders.
Corporate and departmental editions	
Section for minority shareholders in the newspaper and magazine "Energy without boundaries"	<ul style="list-style-type: none"> ✓ Results of meetings held with shareholders ✓ FAQ ✓ Other information of interest for the shareholders.

6.4 Board of Directors

The Board of Directors ensures Company's strategic management, defines strategic milestones and key performance indicators of the Company's activity, determines the main principles and approaches to organisation of risks management and internal control system in the Company, controls the activity of the Company's executive authorities and implementation of decisions made by the General Meeting of Shareholders in accordance with the requirements of the Russian Federation laws, and also performs other key functions. The procedure of work and competence of the Board of Directors shall be defined by the Russian Federation laws, Articles of Association and Provision on the PJSC Inter RAO's Board of Directors⁸⁴. Provision on the Board of Directors is published on the website: <http://www.interrao.ru/upload/docs>

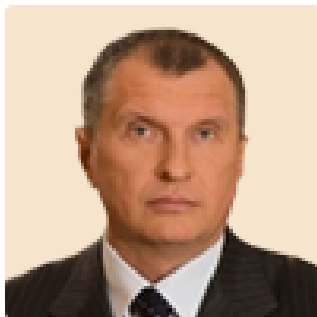
Composition of the Board of Directors

The composition of the Board of Directors of PJSC Inter RAO is defined by Art. 14.1. Of the Company's Articles of Association, and it is composed 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. According to clause 2.1. Of the Provision 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, experience for due performance of their duties by the members of the Board of Directors in the Company's interests considering the strategy of Company development. The Human Resources and Remuneration Committee evaluates all the candidates nominated to the Board of Directors in accordance with the Federal Law "On joint-stock companies" for compliance with the established criteria.

On the whole, the current composition of the Board of Directors is well-balanced in terms of overall knowledge, skills and experience of members of the Board of Directors. 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 includes five directors⁸⁵, recognised independent by the Board of Directors, that is, more than 1/3 from the total number of members of the Board of Directors, which exceeds the share recommended by the Code and the one established by the Listing Rules. In 2016, E. V. Sapozhnikova became a member of the Board of Directors, which also contributed to alignment of Company practices with advanced international practices in terms of gender composition of the Board of Directors.

⁸⁴ Minutes dated 01.06.2015 No.15

⁸⁵ By the decision of the Board of Directors dated 28.02.2017, the status of Deputy Chairman of the Board of Directors of PJSC Inter RAO, D.Shugaev, is determined as non-executive director in connection with his appointment to the position of the Director of the Federal Service for Military and Technical Cooperation by the decree of RF President No. 42 dated 31.01.2017 and, as a consequence, loss of the independent director's status by this person.



Igor SECHIN

Chairman of the Board of Directors of PJSC Inter RAO.

Non-executive Director.

First elected to the Board of Directors on 23.10.2008 and performed the powers of the member of the Board of Directors until 24.06.2011.

Newly elected to the Board of Directors on 25.06.2013.

Year of birth: 1960.

Education: in 1984 graduated from Leningrad State University.

Ph.D. in Economics.

Citizenship: Russia.

Positions occupied in the past five years:

2012 – present day: President, Chief Executive Officer, Chairman of the Management Board of PJSC Rosneft;

2013 – 2014: President of RN Management OJSC (before 2013 – OJSC TNK-BP Management) (in 2013 – Chairman of the Management Board (as a second job));

2008 – 2012 – Deputy Chairman of the Government of the Russian Federation.

Membership in boards of directors (supervisory councils) of other organisations:

- Chairman of boards of directors (supervisory councils) in SpbMTSB JSC, ROSNEFTEGAZ JSC, PHC TSSKA LLC
- Deputy Chairman of the Board of Directors of PJSC Rosneft;
- Member of the Board of Directors in Pirelli & C. S.p.A.;
- Member of the Board of Directors, Chairman of the Board of Directors in LLC National Oil Consortium.

Does not hold PJSC Inter RAO shares.



Dmitry SHUGAEV

Independent director until 28.02.2017⁸⁶.
First elected to the Board of Directors on
24.06.2011.

Year of birth: 1965.

Education: in 1987 graduated from Moscow State Institute of International Relations under USSR Ministry of Foreign Affairs. International journalist with command of a foreign language. Ph.D. in Economics.

Citizenship: Russia.

Positions occupied in the past five years:

2017 – present day: Director of the Federal Service for Military and Technical Cooperation;

2009 – 2017 – Deputy General Director, member of the Management Board of Rostech State Corporation;

2008 – 2009 – Head of the General Director's Apparatus of Rostech State Corporation;

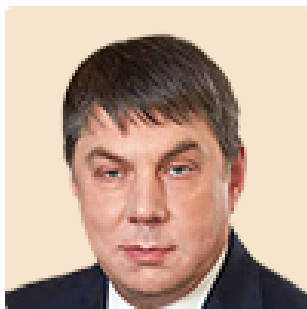
2001 – 2008 – Advisor of Deputy General Director, Assistant of First Deputy General Director, Head of the General Director's Apparatus at FSUE "Rosoboronexport".

Membership in boards of directors (supervisory councils) of other organisations:

- Chairman of the Board of Directors in JSC TVK Russia;
- Deputy Chairman of boards of directors (supervisory councils) of OJSC RAMPORT AERO, JSC Ramenskoe International Airport, National Aircraft Engineering Centre NCP;
- Member of boards of directors in LLC RT-Business Development, OJSC Rosoboronexport.

Does not hold PJSC Inter RAO shares.

⁸⁶ By the decision of the Board of Directors dated 28.02.2017, the status of Deputy Chairman of the Board of Directors of PJSC Inter RAO, D. Shugaev, is determined as non-executive director in connection with his appointment to the position of the Director of the Federal Service for Military and Technical Cooperation by the decree of RF President No. 42 dated 31.01.2017 and, as a consequence, loss of the independent director's status by this person.



Boris AYUYEV

Non-executive Director.

First elected to the Board of Directors on 10.06.2016.

Year of birth: 1957.

Education: in 1979 graduated from Ural Polytechnic Institute with a degree in Power Plants. Ph.D. in Technical Sciences.

Citizenship: Russia.

Positions occupied in the past five years:

2015 – present day: Member of Presidium of the Association “Russian National Committee of the International Council on Large High-Voltage Systems;

2004 – present day: Chairman of the Management Board of JSC SO EUS.

Membership in boards of directors (supervisory councils) of other organisations:

- Member of boards of directors in JSC SO EUS, PJSC Russian Grids.

Awards:

- 2014 – awarded the Order of Friendship by the Decree of the Russian Federation President dated 01.09.2014 No. 593 for considerable contribution to preparation and holding of the 22nd Winter Olympics and 11th Winter Paralympics – 2014 in Sochi;
- 2013 – received a commendation of the Russian Federation President by order of the Russian Federation President dated 25.12.2013 No. 484-rp for considerable contribution to liquidation of consequences of the accident at Sayano-Shushenskaya HPP named after P.S. Neporozhniy;
- 2012 – was awarded an Order of Honour by Decree of the Russian Federation President dated 30.05.2012 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 dated 08.03.2008 No. 329 for considerable contribution to development of the fuel and energy complex and many years of diligent labour.

Owns 7,306,329.79 shares of PJSC Inter RAO (0.0069984% of the Company's authorised capital).



Andrei Bugrov

Independent director.

First elected to the Board of Directors on 25.05.2014.

Year of birth: 1952.

Education: in 1974 graduated from Moscow State Institute of International Relations majoring in International Economic Relations.

Ph.D. in Economics.

Citizenship: Russia.

Positions occupied in the past five years:

2016 – present day: Senior Vice President of PJSC MMC Norilskiy Nickel;

2016 – present day: Chairman of Shares Issuers Committee, PJSC Moscow Exchange;

2016 – present day: Member of the Expert Council for Corporate Management, Bank of Russia;

2015 – 2016: Vice President of PJSC MMC Norilskiy Nickel;

2014 – present day: member of the Expert Council under Russian Federation President Administration for fighting corruption;

2013 – 2015: Deputy General Director of PJSC MMC Norilskiy Nickel;

2013 – present day: member of the Management Board of PJSC MMC Norilskiy Nickel;

2013 – present day: Vice President of CJSC Holding Company INTERROS;

2013 – present day: Vice President of the Russian Union of Industrialists and Entrepreneurs

2010 – 2013 – Deputy General Director, member of the Management Board of CJSC Holding Company INTERROS;

2006 – present day: Member of the Management Board of the Russian Union of Industrialists and Entrepreneurs

2002 – present day: member of the Non-Governmental public association “Council for foreign and defence policy.”

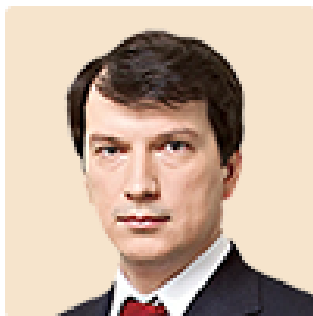
Membership in boards of directors (supervisory councils) of other organisations:

- Deputy Chairman of the Board of Directors of PJSC MMC Norilskiy Nickel;
- Member of Investments Committee of the Board of Directors, PJSC RusHydro.

Awards:

2013 – winner of the 8th National Award “Director of the Year, nomination “Independent director.”

Does not hold PJSC Inter RAO shares.



Anatoly GAVRILENKO

Independent director till 05.05.2017⁸⁷.
First elected to the Board of Directors on
29.05.2015.

Year of birth: 1972.

Education: in 1995 graduated from Lomonosov Moscow State University majoring in Economic Cybernetics, Economist-Mathematician.

In 2001, he graduated from Lomonosov Moscow State University majoring in Jurisprudence with a major in Law.

Citizenship: Russia.

Positions occupied in the past five years:

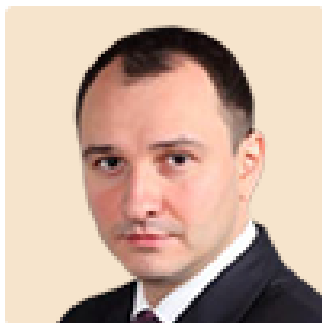
2004 – present day: General Director of CJSC Leader.

Membership in boards of directors (supervisory councils) of other organisations:

- Member of boards of directors in CJSC Leader , OJSC NPF GAZFOND pension accumulations, PJSC Mosenergo, OJSC GAZ-Tek, PJSC S.P. Korolev Rocket and Space Corporation “Energia”, OJSC Glavnaya Doroga, OJSC GAZ-Service, OJSC GAZKON, JSC Bank GPB, PJSC Moscow United Energy Company.

Does not hold PJSC Inter RAO shares.

⁸⁷ By resolution of the Board of Directors made on 05.05.2017 status of the Member of the Board of Directors Anatoly Gavrilenko was defined as non-executive director.



Boris KOVALCHUK

Chairman of the Management Board of PJSC Inter RAO.

Executive Director.

First elected to the Board of Directors on 25.06.2009.

Year of birth: 1977.

Education: in 1999 graduated from St. Petersburg State University with a degree in Jurisprudence, Lawyer's qualification.

Citizenship: Russia.

Positions occupied in the past five years:

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

2009 – 2010 – Acting Chairman of the Management Board, Chairman of the Management Board of PJSC Inter RAO.

Membership in boards of directors (supervisory councils) and management bodies of other organisations:

- Chairman of the Board of Directors in JSC Inter RAO Capital;
- Chairman of boards of directors (supervisory councils) in LLC PHC TSSKA, JSC Russian Regional Development Bank, RIG Research Pte. Ltd.;
- Member of the Management Board of the Russian National Association of Employers Russian Union of Industrialists and Entrepreneurs and the Russian National Public Organisation Russian Union of Industrialists and Entrepreneurs;
- 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:

- 2014 – awarded a memorable 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;
- 2012 – received the Order of Honour;
- 2011 – assigned the title "Honorary Energy Worker".

Owens 2,429,000 shares of PJSC Inter RAO (0.00233% of the Company's authorised capital).



Alexander LOKSHIN

Independent director.

First elected to the Board of Directors on 23.10.2008 and performed the powers of the member of the Board of Directors until 25.06.2009.

Newly elected to the Board of Directors on 25.06.2010.

Year of birth: 1957.

Education: in 1980 graduated from Kalinin Leningrad Polytechnic Institute (currently St. Petersburg State Polytechnical University) majoring in Thermal Physics.

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

Citizenship: Russia.

Positions occupied in the past five years:

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

2011 – 2012: First Deputy General Director – Director of the Directorate on nuclear energy complex of Rosatom State Corporation;

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

Membership in boards of directors (supervisory councils) of other organisations:

- Chairman of the Board of Directors in JSC Atomredmetzoloto, JSC TVEL, JSC Rosenergoatom Concern;
- Member of the Board of Directors of LLC New Composite Materials.

Awards:

assigned the title “Honorary Energy Worker of the Russian Federation”.

Does not hold PJSC Inter RAO shares.



Andrei MUROV

Non-executive Director.

First elected to the Board of Directors on 25.05.2014.

Year of birth: 1970.

Education: in 1993 graduated from St. Petersburg State University majoring in Jurisprudence. In 1998, he took a retraining course in the programme “Financial Management” in the Interdisciplinary Institution of Advanced Training and Retraining of Executive Staff. In 2009, he graduated from State University of Civil Aviation majoring in Organisation of transportation and management of transport (air transport).”
Ph.D. in Economics.

Citizenship: Russia.

Positions occupied in the past five years:

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

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

2013 – present day: Chairman of the Management Board of PJSC Federal Grid System of Unified Energy System;

2012 – present day: Member of the Management Board of PJSC Federal Grid System of Unified Energy System;

2012 – 2013: Deputy General Director, Acting General Director, Executive Director of Holding OJSC MRSK;

2012 – 2013 – First Deputy Chairman of the Management Board, Acting Chairman of the Management Board of PJSC Federal Grid System of Unified Energy System;

2007 – 2012 – General Director of OJSC Pulkovo Airport.

Membership in boards of directors (supervisory councils) of other organisations:

- Member of boards of directors in PJSC Federal Grid System of Unified Energy System, JSC SO EUS, PJSC Russian Grids.

Awards:

- received a second-class medal of the Order of Merit for the Motherland, has certificates and commendations from the Governor and administration of St. Petersburg, as well as a lapel badge “Honorary Worker of Russian Transport”;
- received the title of Honoured Energy Worker.

Does not hold PJSC Inter RAO shares.



Ronald POLLETT

Independent director.

First elected to the Board of Directors on
25.06.2013.

Year of birth: 1969.

Education: in 1991 graduated from Colgate University (New York state) majoring in Russian studies.

Citizenship: USA.

Positions occupied in the past five years:

2015 – present day: Vice President of General Electric Company, President and Chief Executive Officer of General Electric Company in Russia and CIS;

2011 – present day: member of Advisory Board of the International Business Leaders Forum;

2009 – 2015 – General Director of LLC GI Rus Infra;

2008 – present day: President and Chief Executive Officer of General Electric Company in Russia and CIS;

2008 – present day: Head of subsidiary of the Corporation General Electric International Inc. (USA) in Moscow;

2003 – present day: General Director of LLC GI Rus Infra.

Membership in boards of directors (supervisory councils) of other organisations:

- 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.

Does not hold PJSC Inter RAO shares.



Elena SAPOZHNIKOVA

Independent director.

First elected to the Board of Directors on 10.06.2016.

Year of birth: 1978.

Education: in 2000 graduated from Lomonosov Moscow State University.

Citizenship: Russia.

Positions occupied in the past five years:

2013 – present day: Partner of UCP Group of Companies, LLC United Capitals Partners Advisory;

07.2013 – 10.2013 – Lawyer at the subsidiary 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.

Membership in boards of directors (supervisory councils) of other organisations:

- Member of boards of directors in Tendril Ventures Pte Ltd., Tendril Ventures 2 Pte Ltd., Tendril Ventures 3 B.V.

Does not hold PJSC Inter RAO shares.



Denis FEDOROV

Non-executive Director.

First elected to the Board of Directors on 24.06.2011.

Year of birth: 1978.

Education: in 2001 graduated from Bauman Moscow State Technical University qualified as an 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.

Ph.D. in Economics.

Citizenship: Russia.

Positions occupied in the past five years:

2009 – present day: General Director of LLC Gazprom Energoholding;

2010 – 2013 – Chairman of the Management Board of CJSC Kauno Electrine;

2009 – 2013 – Chairman of the Management Board of CJSC Fortis Energy;

2007 – present day: Head of the Administration PJSC Gazprom.

Membership in boards of directors (supervisory councils) of other organisations:

- Chairman of boards of directors of PJSC OGK-2, JSC Tyumenskaya Energy Sales Company, PJSC Moscow United Energy Company, LLC GEH Engineering;
- Chairman of the Supervisory Board of NCP “Energy Manufacturers Council”
- Member of the Supervisory Board of NCP “Centre for Innovative and Energy Technologies
- Member of boards of directors in PJSC Tsentrenergoholding, LLC Teplovaya Sbytovaya Company, PJSC Mosenergo, PJSC TKG-1.

Does not hold PJSC Inter RAO shares.

Changes in the composition of the Board of Directors in 2016

On 10 June 2016, the General Meeting of Shareholders of PJSC Inter RAO took place, where the new Board of Directors was elected. The following members of the Board of Directors were not re-elected from the previous composition to the new one:

1. Nikolai Rogalev
2. Pavel Snikkars.

The newly elected members of the Board of Directors were:

1. Boris Ayuyev
2. Elena Sapozhnikova.

In 2016, the Board of Directors of PJSC Inter RAO continued the practice of evaluating independent members of the Board of Directors for compliance with independence criteria set by the Code⁸⁸. By the decision of the Board of Directors dated

⁸⁸ Minutes dated 10.06.2016 No. 172 (the meeting was held in the form of joint presence).

10.06.2016,⁸⁹ in accordance with the recommendation of the Human Resources and Remuneration Committee, the status of Andrei Bugrov, Anatoly Gavrilenko, Alexander Lokshin, Ronald Pollett and Dmitry Shugaev⁹⁰ was defined as independent directors. By the decision dated 24.11.2016,⁹¹ the Board of Directors confirmed compliance of the specified directors with the independence criteria defined in the Listing Rules of Moscow Exchange PJSC, and also defined the status of the Executive Director of UCP group of Companies, Elena Sapozhnikova, as an independent director in connection with the Company's shares sale by UCP SEA RESOURCES LTD.

Introductory programme for the newly elected members of the Board of Directors

The members of the Board of Directors elected for the first time take an Introductory programme which includes holding a meeting (or a number of meetings) with the executive management and the Company's key employees, in the course of which the members of the Board of Directors listen to the reports of the management of PJSC Inter RAO and other relevant materials on key questions of the Company's activity. In the reporting year, this meeting took place on 24.06.2016 for the directors first elected to the Board of Directors: Boris Ayuyev and Elena Sapozhnikova.

Evaluation of the Board of Directors' activity

An important instrument of improving efficiency of the Board of Directors, which ensures transparent activity of the Board of Directors for interested parties, is evaluation of the Board of Directors' activity.

In accordance with cl. 7.1 of the Provision on evaluation of the Board of Directors' activity⁹², the Company's Board of Directors strives to ensure independent evaluation of its activity, as well as the activity of committees of the Board of Directors and individual members of the Board of Directors, by engaging an external consultant with the periodicity of at least once in three (3) years. Such an independent evaluation of the Board of Directors' activity was first carried out in 2016⁹³.

As part of evaluating the activity of the Board of Directors, the combination of subjective and objective evaluations was used:

- Subjective evaluation was carried out by filling a questionnaire by each member of the Board of Directors, and also by holding interview meetings with separate members of the Board of Directors⁹⁴.

⁸⁹ Minutes dated 10.06.2016 No. 172.

⁹⁰ In connection with D. Shugaev's appointment to the position of the Director of the Federal Service for Military and Technical Cooperation by the decree of RF President dated 31.01.2017 No. 42, the specified member of the Board of Directors lost the independent director's status (decision of the Board of Directors dated 28.02.2017, Minutes dated 28.02.2017 No. 191).

⁹¹ Minutes dated 28.11.2016 No. 185.

⁹² Approved by the decision of the Company's Board of Directors on 21.02.2014 (Minutes No. 108 dated 24.02.2014).

⁹³ On 24.03.2016, the Company's Board of Directors made a decision (Minutes No. 164 dated 28.03.2016) to carry out an independent evaluation of efficiency of the Board of Directors' activity in PJSC Inter RAO for 2015/2016 corporate year. Report on the results of evaluation was executed as of 23 May 2016.

⁹⁴ The meetings were carried out with A. Bugrov, D. Shugaev and Ronald J. Pollett.

- Objective evaluation was based on the analysis of the Company's internal documents, including work plans and minutes of meetings of the Board of Directors and Committees of the Board of Directors.

Main conclusions following evaluation of the Board of Directors' activity

At the meeting in presentia held on 27.06.2016, the PJSC Inter RAO Board of Directors considered the results of independent evaluation of the Board of Directors' activity⁹⁵. Below are the main conclusions following evaluation:

- The existing number of members of the PJSC Inter RAO Board of Directors is optimal as it makes it possible to ensure representation of different shareholders, discuss in a fruitful and constructive way, make quick and weighted decisions, organise efficient work of the committees of the Board of Directors.
- The composition of the PJSC Inter RAO Board of Directors is quite balanced in terms of knowledge, experience and competencies of the members of the Board of Directors.
- In the composition of the PJSC Inter RAO Board of Directors, over 1/3 of directors are recognised independent⁹⁶ by the Board of Directors, which exceeds the share recommended by the Code and the one established by the Listing Rules.
- No senior independent director has been elected in the Company, though the Company created all legal prerequisites to practically implement this institution (the rights and responsibilities of the senior independent director are defined by the Provision on the Board of Directors). However, experts do not insist on compliance with the relevant Code recommendation as they do not think that implementing the institution of the senior independent director will influence the efficiency of the Board of Directors' activity with the existing balance of shareholders representation in the Board of Directors. At the meeting of the Board of Directors, a unanimous decision was made⁹⁷ on inappropriateness of electing a senior independent director. At the same time, the Board of Directors does not exclude election of the senior independent director in the future if necessary.
- The PJSC Inter RAO Board of Directors' activity is evaluated highly and complies with the Code's key recommendations in the following issues:
 - ✓ formation and control of the PJSC Inter RAO development strategy realisation;
 - ✓ ensuring creation and control over the efficiency of risk management and internal control system in the Company;
 - ✓ control over the activity of executive authorities, including the questions of forming a system of motivation for the members of executive authorities.
- The PJSC Inter RAO Board of Directors seeks to preserve the strategic framework of decision-making and refrain from considering the questions of operating nature. Analysis of the functionality assigned and realised by the Board of Directors testifies to the fact that the Company possesses a really functioning strategic management authority.

⁹⁵ Minutes No. 172 dated 28.06.2016

⁹⁶ By the decision of the Board of Directors dated 28.02.2017, the status of Deputy Chairman of the Board of Directors of PJSC Inter RAO, D. Shugaev, is determined as non-executive director in connection with his appointment to the position of the Director of the Federal Service for Military and Technical Cooperation by the decree of RF President No. 42 dated 31.01.2017 and, as a consequence, loss of the independent director's status by this person.

⁹⁷ Minutes of the Board of Directors No. 172 dated 28.06.2016

- The Board of Directors is also actively involved in making decisions on such key issues of the Company's activity as ensuring preservation of the PJSC Inter RAO assets, corporate governance, information policy, protection of shareholders' rights, interaction with stakeholders.

Following an independent evaluation of the Board of Directors' activity in 2016, the Human Resources and Remuneration Committee developed recommendations to improve the activity of the Board of Directors, which will be taken into account during development of the Board of Directors' work plan for the corporate year 2017/2018.

Insurance of directors' activity

With reliance on the best practices and recommendations of the Code, PJSC Inter RAO uses its expenses to insure liability of the members of the Board of Directors, so that the losses done to the Company or third persons by the actions of the members of the Board of Directors could be reimbursed. At the annual General Meeting of Shareholders on 10 June 2016, the insurance amount under the liability insurance agreement of directors, officials and companies was approved: USD 200,000,000 (two hundred million) for the period from 15.07.2016 to 14.07.2017, as well as the insurance premium amount - USD 255,000.

Ownership of and transactions with PJSC Inter RAO's shares by the members of the Board of Directors

The information on the number of ordinary registered uncertified shares, owned by the members of the Company's Board of Directors as of 31.12.2016, is presented above in the section of this 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.

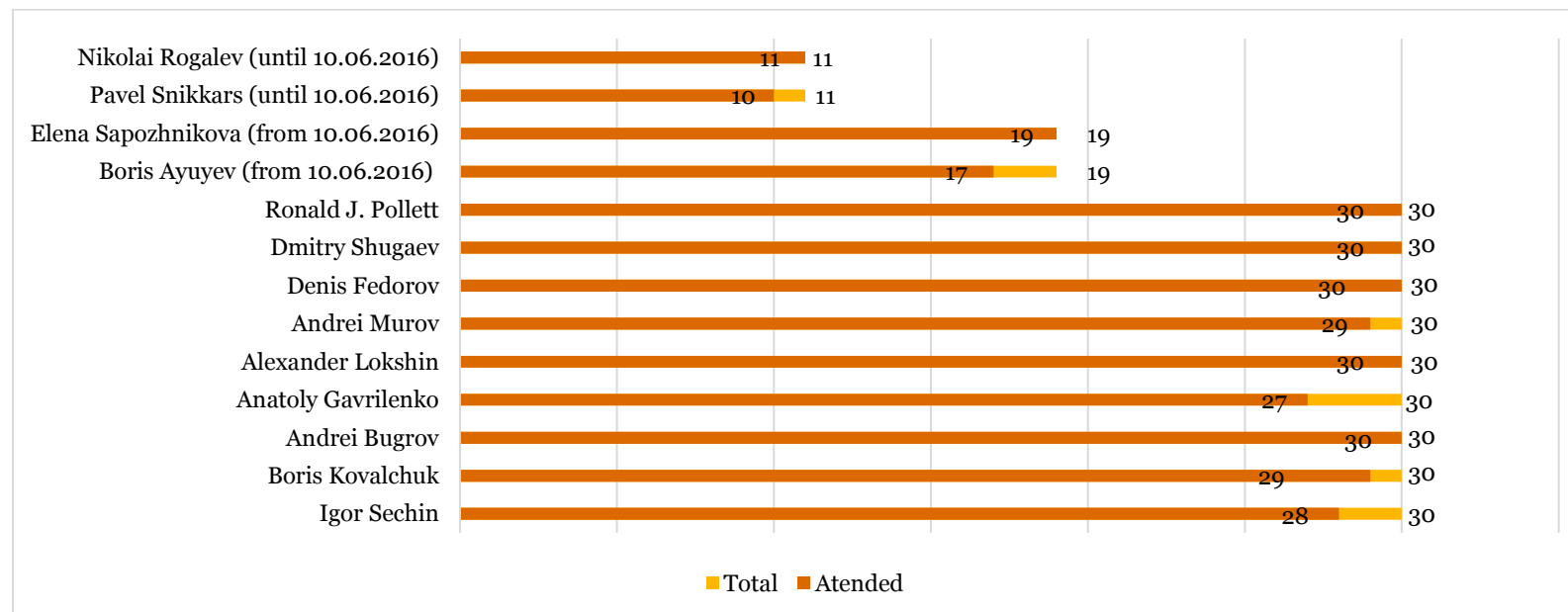
Information on the loans (credits) issued by the Company and its dependent organisations to the members of the Board of Directors

In the reporting year, the Company and its dependent companies did not issue any loans (credits) to members of the Board of Directors.

Report on the Board of Directors' performance

In 2016, 30 meetings of the Board of Directors were held, 4 of them in presentia and 26 of them in absentia.

Participation of members of the Board of Directors in meetings held in 2016⁹⁸:



The minutes of meetings of the Board of Directors are available on the website <http://www.interrao.ru/investors/corporate-governance/management/minutes/2016.php>

127 questions were considered at the meetings held, including 7 directive ones.

In the reporting year, main attention at the meetings of the Board of Directors was paid to the questions of strategy, corporate governance, approval of transactions, regulation of the Company's financial and economic activity, and also the questions of controlled organisations' performance.

Report on the Board of Directors' performance in priority areas

While planning its work and performing its activities, the Board of Directors focuses on the priority areas which are the most important for successful development of PJSC Inter RAO in the short term, mid term and especially long term.

⁹⁸ Total number of meetings in which a member of the Board of Directors could participate in the reporting year (or all meetings held since the election of a member of the Board of Directors to the Board of Directors before the end of the reporting period).

Strategy and control of its realisation

As part of realising the Strategy of PJSC Inter RAO until 2020, the Board of Directors made a number of decisions over the year aimed at maximisation of the Group's market share in all business segments and increasing capitalisation. In the reporting year, the strategic priorities of Inter RAO Group for 2017 were considered and approved within the competence of the Board of Directors. **Detailed information about the Group's strategy is presented in Chapter 2 of this Report.**

Corporate governance improvement

The system of corporate governance in PJSC Inter RAO is being constantly improved, with the Board of Directors playing an active part in it, and as of 31 December 2016, it complies with the advanced Russian and international practices in all key aspects. Thus, out of 79 principles of the Code, the Company fully complies with 65 of them, 11 principles are complied with in part, and only 3 principles is not complied with. Thus, the Company complies to this or that extent with over 96.2% principles and recommendations of the Code. **More detailed information on compliance with the Code's provisions is presented in Appendix 10.6.** In addition, as part of the corporate governance system improvement, amended Articles of Association and other internal regulatory documents were approved in the reporting year, **details of which are presented on page 99 of this Report, and also on the website <http://www.interrao.ru/investors/corporate-governance/corporate-docs>.**

In 2016, the key task was to form an Audit Committee, as well as a Human Resources and Remuneration Committee of independent directors, and also implementing the institute of a corporate secretary, and these tasks have been completed. **Detailed information on the unit that performs the corporate secretary's functions is presented on page 133 of this Report, and also on the website <http://www.interrao.ru/investors/corporate-governance/management/>.**

Performance evaluation and control over adopted plans and budgets execution

At the meetings of the Board of Directors held in 2016, questions were considered related to approval of the report on executing the business plan of PJSC Inter RAO in 2016, on approval of the business plan for 2017, on approval of the report on annual key performance indicators (KPI) and control indicators (CI) fulfilment in PJSC Inter RAO following 2015, and also on approval of target values of KPI and CI for the Chairman and members of the Company's Management Board for 2017.

Risk management and internal control

In accordance with the Policy on Corporate Risks Management approved by the Board of Directors of PJSC Inter RAO⁹⁹, Inter RAO Group adopted the approaches in the sphere of risks management in accordance with which the main role in the risks management processes belongs to the Company's management authorities, in particular:

- The Board of Directors defines the principles of and approaches to the risk management system.
- The Board of Directors seeks to achieve the optimal balance between the risks and profitability of the Group on the whole, considering the requirements of laws, provisions of internal documents and the Company's Articles of Association.
- In concluding transactions and deals connected with high risk of capital and investments loss, the Board of Directors relies on the reasonable degree of risk and conformity of the level of accepted risk to the highest levels set in the Group.

Detailed information about the Group's main risks is presented in Chapter 9 of this Report.

Remuneration and motivation of management

In 2016, the Board of Directors approved a long-term programme of management motivation (option programme)¹⁰⁰. The management regularly reports to the Board of Directors on the results of motivation programme fulfilment. In addition, such reporting is considered in advance by the Human Resources and Remuneration Committee and Strategy and Investment Committee of the Board of Directors. **Detailed information on the management remuneration is presented on page 171 of this Report.**

Qualification improvement and development of key competences of the Board of Directors

Since 2014, a Training and Development Programme for the members of the Board of Directors has been updated on an annual basis as part of the Succession Plan considering the results of evaluating the efficiency of the Board of Directors. In 2016, PJSC Inter RAO organised a seminar for the Human Resources and Remuneration Committee members on the topic: "Succession Plan for the Board of Directors and Senior Management".

Succession Plan 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 considering the need for periodical rotation of independent directors, the Human Resources and Remuneration Committee regularly updates the Succession Plan of the Board of Directors first approved by the Board of Directors by proposal

⁹⁹ Minutes No. 155 dated 31.10.2015

¹⁰⁰ Minutes No. 161 dated 18.02.2017

of the Human Resources and Remuneration Committee in 2014¹⁰¹. The effective Succession Plan for the members of the Board of Directors and members of the Management Board was developed for the period from 2016 to 2017, inclusive.

Committees of the Board of Directors

The Board of Directors formed the Audit Committee, the Human Resources and Remuneration Committee and the Strategy and Investment Committee for preliminary consideration of key issues of the Company's activity.

Committee	Key functions of the Committee ¹⁰²
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 preparation of improvement proposals; • ensuring independence and objectivity of the internal audit function; • development of recommendations (reports) to the Board of Directors on the Company's audit and reporting activities.
Human Resources and Remuneration Committee	<ul style="list-style-type: none"> • developing principles and criteria for the determination of remuneration payable to the Board of Directors' and Management Board's members and the person discharging the functions of the Sole Executive Body; • developing proposals for the determination of any material terms and conditions of the contracts with the Board of Directors' and Management Board's members and the person discharging the functions of the Company's Sole Executive Body; • defining criteria for selecting candidates to the Board of Directors, Management Board, and the Sole Executive Body as well as preliminary assessment of the said candidates; • approving the targets (adjusted values) for the Company's key performance indicators and preliminary consideration of implementation reports.
Strategy and Investment Committee	<ul style="list-style-type: none"> • defining the Company's priority areas and strategic goals for the Board of Directors; • development of recommendations to the Board of Directors on making investment decisions.

Audit Committee

¹⁰¹ Minutes No. 115 dated 26.05.2017

¹⁰² 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: <https://www.interrao.ru/investors/corporate-governance/corporate-docs/>.

Address of the Chairman of the Audit Committee Andrei Bugrov

The priority of the Audit Committee in 2016 was the supervision of the proper and efficient functioning of risk management systems, internal control, and corporate governance in the Company.

In the reporting year, the Committee continued work on maintaining control over the independence and objectivity of internal and external audits conducted by PJSC Inter RAO. Special attention was paid to the procedure for preparing the Company's financial statements, and in-person meetings of the Committee were held with the participation of an external auditor.

In February 2017, in order for the Company to comply with the Listing Rules of Moscow Exchange PJSC, the Board of Directors re-elected the members of the Audit Committee and thus ensured the entry of only independent directors to this Committee.

The activity of the Company's Board of Directors Audit Committee is regulated by the Regulations on the Audit Committee of the Board of Directors of PJSC Inter RAO¹⁰³.

The Audit Committee can include from three to seven members, and its composition is determined by the decision of the Board of Directors. Pursuant to the Regulations, the Audit Committee shall include independent directors only and if it is not possible due to objective reasons, most of 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. The Committee may be chaired by an independent director only.

In 2016, there were two compositions of the Audit Committee¹⁰⁴:

Composition of the Audit Committee before 10.06.2016	Composition of the Audit Committee after 10.06.2016
Dmitry Shugaev (Chairman of the Committee, independent director)	Dmitry Shugaev (Chairman of the Committee, independent director) ¹⁰⁵
Nikolai Rogalev (independent director)	Aleksander Lokshin (independent director)
Ronald James Pollett (independent director)	Ronald James Pollett (independent director)

¹⁰³Approved by the decision of the Board of Directors on 21.08.2015 (Minutes No. 152 dated 24.08.2015).

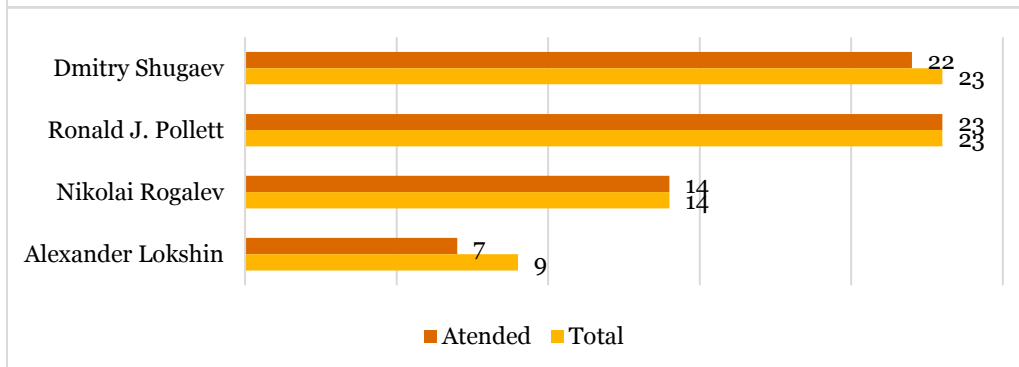
¹⁰⁴ The current composition of the Audit Committee is presented on the website <http://www.interrao.ru/investors/corporate-governance/management/> – approved by the decision of the Board of Directors on 28.02.2017 (Minutes No. 191 dated 28.02.2017)

¹⁰⁵ To ensure compliance of the Company's corporate governance with the requirement of the Listing Rules of Moscow Exchange PJSC in the part of composition of the Audit Committee, the powers of D.E. Shugaev as a member of the Audit Board were terminated from 28.02.2017 due to losing the status of an independent director. On 28.02.2017, A. Bugrov was elected member of the said Committee.

In accordance with the Report of the Audit Committee, considered at the meeting of the Board of Directors on 05.05.2017 (minutes dated 05.05.2017 No. 198), the Committee held 19 meetings in absentia and 4 meetings in presentia in 2016. The most important items considered by the Committee in 2016 included:

- recommendations to the Board of Directors on the items involving approval of the Annual Report and annual statutory financial statements of the Company for 2015;
- Report on assessment of risk management performance in the Company in 2015;
- On consideration of PJSC Inter RAO Group 2015 Internal Audit System Report;
- On approval of the Internal Audit Policy of PJSC Inter RAO;
- On consideration of consolidated financial statements for 2015 prepared in accordance with International Financial Reporting Statements (IFRS), results of the audit of the IFRS consolidated financial statements for 2015.
- On approval of the 2015 Internal Audit Unit Activities Report;
- On evaluation of auditors reports and quality of audits performance.

Participation of the Audit Committee members in the meetings of the Committee¹⁰⁶:



Human Resources and Remuneration Committee

Address of the Chairman of Human Resources and Remuneration Committee Andrei Bugrov

¹⁰⁶ N. Rogalev was a member of the Audit Committee from 01.01.2016 to 10.06.2016.
A. Lokshin was a member of the Audit Committee from 10.06.2016 to 31.12.2016.

In 2016, the Human Resources and Remuneration Committee continued its work to implement the provisions of the Corporate Governance Code recommended by the Bank of Russia into the activities of PJSC Inter RAO. In particular, in the reporting year, on the recommendation of our Committee, the Board of Directors for the first time approved methodology for an independent evaluation of the performance of the Board of Directors of PJSC Inter RAO, and an independent consultant performed this evaluation.

Based on the Report on the independent evaluation, the Committee developed recommendations for the Board of Directors regarding improvement of the activity of the Board and its Committees.

According to the existing practice of annual review of the Succession Plan for the members of the Board of Directors and members of the Management Board, the Committee updated the Plan for 2016-2017 in accordance with recommendation 186 of the Corporate Governance Code

and considered it during an in-person meeting in September 2016.

In addition, in the reporting year, the Committee for the first time considered the Report on practical realisation of the remuneration policy principles and practice of its implementation.

In 2016, the Committee continued to analyse the compliance of candidates for the Board of Directors and members of the Board with the independence criteria. Based on the results of the interim analysis and according to the recommendation of our Committee, E. V. Sapozhnikova was designated by the Board of Directors as an independent director in November 2016.

The activity of the Human Resources and Remuneration Committee of the Company's Board of Directors is regulated by the Regulations on the Human Resources and Remuneration Committee of the Board of Directors of PJSC Inter RAO¹⁰⁷.

The number of Committee members is determined by the Resolution of the Company's Board of Directors as at least three, however, no more than seven people. Pursuant to the Regulations on the Human Resources and Remuneration Committee, Committee members can only include independent directors in accordance with the Code requirement or Board of Directors' member recognised as independent directors by the Board of Directors' resolution and if it is not possible due to objective reasons, most of 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 2016, there were two compositions of the Human Resources and Remuneration Committee¹⁰⁸:

The composition of the Human Resources and Remuneration Committee before 10.06.2016:	The composition of the Human Resources and Remuneration Committee after 10.06.2016:
Dmitry Shugaev (Chairman of the Committee, independent	Andrei Bugrov

¹⁰⁷Approved by the decision of the Board of Directors on 14.09.2015 (Minutes No. 153 dated 17.09.2015).

¹⁰⁸ The current composition of the Human Resources and Remuneration Committee is presented on the website <http://www.interrao.ru/investors/corporate-governance/management/> – approved by the decision of the Board of Directors on 28.02.2017 (Minutes No. 191 dated 28.02.2017)

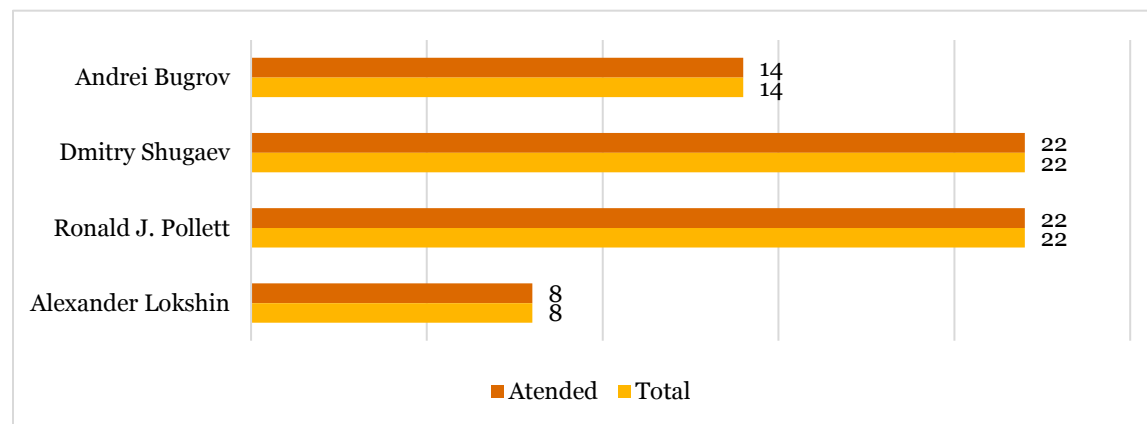
director)	(Chairman of the Committee, independent director)
Alexander Lokshin (independent director)	Dmitry Shugaev (independent director) ¹⁰⁹
Ronald James Pollett (independent director)	Ronald James Pollett (independent director)

In accordance with the Report of the Human Resources and Remuneration Committee, considered at the meeting of the Board of Directors on 05.05.2017 (minutes dated 05.05.2017 No. 198), the Committee held 21 meetings in absentia and 1 meeting in presentia in 2016. The most important items considered by the Committee in 2016 included:

- Preliminary evaluation of candidates to the Board of Directors of PJSC Inter RAO to meet the independence criteria;
- Results of the annual self-assessment of the Board of Directors of PJSC Inter RAO;
- On consideration of financial incentives, approval of KPIs, and status reports;
- On recommendations to the Board of Directors regarding the extension of authority of the Management Board's members;
- On recommendations to the Board of Directors regarding improvement of the activity of the Board of Directors and its Committees on the basis of the Report following independent performance evaluation of PJSC Inter RAO Board of Directors;
- On preliminary approval of the main provisions of PJSC Inter RAO option programme;
- On the Succession Plan for the members of the Board of Directors and members of the Management Board of PJSC Inter RAO.
- Consideration of Report on practical realisation of the remuneration policy principles and practice of its implementation, incl. consideration of application of an efficient correlation between the fixed and variable parts of remuneration.
- Consideration of the question regarding disclosure of information on the remuneration policy and practice, as well as ownership of the Company's shares.

¹⁰⁹ To ensure compliance of the Company's corporate governance with the requirement of the Listing Rules of Moscow Exchange PJSC in the part of composition of the Human Resources and Remuneration Committee, the powers of D.E. Shugaev as a member of the Human Resources and Remuneration Committee were terminated from 28.02.2017 due to losing the status of an independent director. On 28.02.2017, E.V. Sapozhnikova was elected member of the said Committee.

Participation of the Human Resources and Remuneration Committee members in the meetings of the Committee¹¹⁰:



Strategy and Investment Committee

Address of the Chairman of the Strategy and Investment Committee Elena Bezdenezhnykh

Dear colleagues,

The work of the Strategy and Investment Committee is aimed at reviewing key issues and determining the priority areas for the Company's operating activities.

In the reporting year, such strategic matters as the Report on the Implementation of the Company's Strategic Development Priorities for 2015 and their approval for 2017 and the Report on Cooperation with Investors for 2015 were reviewed, and the main provisions of the Company's Option Programme were amended.

It should be noted that according to the annual practice of the Committee, issues of the financial and economic activities of the Company, namely the issues of approval of the Business Plan and Key Performance Indicators for 2017, reports on the implementation of the Business Plan for the corresponding quarter were considered at in-person meetings of the Committee due to their importance to the Company's activities.

¹¹⁰ A. Bugrov was a member of the Human Resources and Remuneration Committee from 10.06.2016 to 31.12.2016.
A. Lokshin was a member of the Human Resources and Remuneration Committee from 01.01.2016 to 10.06.2016.

In addition, in the reporting year, the Committee paid special attention to issues related to innovative activities, which, in accordance with the recommendations of Rosimushchestvo, were also considered at in-person meetings of the Committee with the participation of an invited expert.

Also, in performing its function, the Committee considered a number of issues on the implementation of directives off Rosimushchestvo and the Government of the Russian Federation and matters subject to the decisions of the Board of Directors regarding recommendations to improve performance of the Board of Directors and its Committees.

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 RAO¹¹¹.

The composition of Committee is determined by the Resolution of the Company's Board of Directors as at least three, however, no more than eleven people.

In 2016, there were two teams of the Strategy and Investment Committee:

Composition of the Strategy and Investment Committee before 10.06.2016¹¹²:	Composition of the Strategy and Investment Committee after 10.06.2016¹¹³:
Elena Bezdenezhnykh (Chairman of the Committee)	Elena Bezdenezhnykh (Chairman of the Committee)
Anatoly Gavrilenko (Independent director)	Anatoly Gavrilenko (Independent director till 05.05.2017 ¹¹⁴)
Egor Grinkevich	Andrei Marchenko
Ilnar Mirsiyapov	Ilnar Mirsiyapov
Aleksey Molsky	Aleksey Molsky
Larisa Kalanda	Vasily Nikonov
Riccardo Puliti	Fedor Opadchy
Charlotte Philipps	Charlotte Philipps
	Pavel Snikkars

¹¹¹ Approved by the Board of Directors on 29.09.2016 (Minutes No. 180 dated 03.10.2016).

¹¹² Formed based on the Board of Directors' Resolution on 29.05.2015 and revised on 14.09.2015.

¹¹³ Formed based on the Board of Directors' Resolution on 10.06.2016 and revised on 29.07.2016 and 14.10.2016.

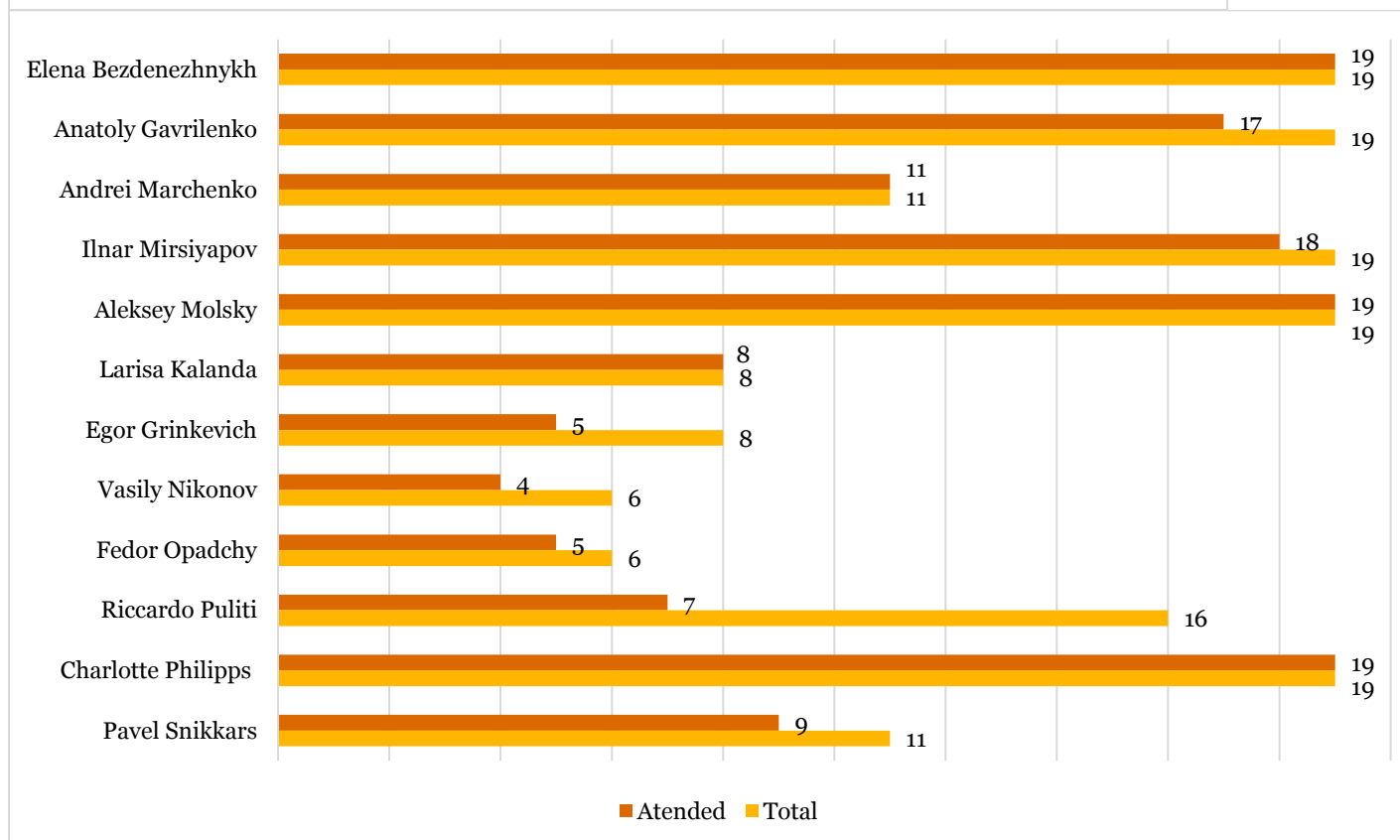
¹¹⁴ By resolution of the Board of Directors made on 05.05.2017 status of the Member of the Board of Directors Anatoly Gavrilenko was defined as non-executive director.

In accordance with the Report of the Strategy and Investment Committee, considered at the meeting of the Board of Directors on 05.05.2017 (minutes dated 05.05.2017 No. 198), the Committee held 13 meetings in absentia and 7 meetings in presentia in 2016. The most important items considered by the Committee in 2016 included:

- On approval of the main provisions of PJSC Inter RAO option programme;
- On approval of the Innovation Development Programme of PJSC Inter RAO until 2020, and a perspective until 2025;
- On approval of the Report on implementation of the Innovation Development Programme of PJSC Inter RAO until 2017, and a perspective until 2021, for 2015;
- On consideration of the Report on communication with investors for 2015 and the course of programme realisation in 2016;
- On approval of the Report on the implementation of PJSC Inter RAO Business Plan for 2015;
- On consideration of PJSC Inter RAO 2015 strategic development priorities;
- On consideration of PJSC Inter RAO 2017 strategic development priorities;
- On approval of PJSC Inter RAO's and Inter RAO Group's Business Plans for 2017 and approval of the list and values of key performance indicators and control indicators for the Company for 2017;
- items involving participation of the Company in other organisations.

In addition, the Committee considered the questions to realise the decisions of the Board of Directors as part of recommendations to improve performance of the Board of Directors and its Committees.

Participation of the Strategy and Investment Committee members in the meetings of the Committee¹¹⁵:



¹¹⁵ P. Snikkars was a member of the Strategy and Investment Committee from 10.06.2016 to 31.12.2016.
A. Marchenko was a member of the Strategy and Investment Committee from 10.06.2016 to 31.12.2016.
E. Grinkevich was a member of the Strategy and Investment Committee from 01.01.2016 to 31.12.2016.
L. Kalanda was a member of the Strategy and Investment Committee from 01.01.2016 to 31.12.2016.
R. Puliti was a member of the Strategy and Investment Committee from 01.01.2016 to 14.10.2016.
V. Nikonov was a member of the Strategy and Investment Committee from 29.07.2016 to 31.12.2016.
F. Opadchy was a member of the Strategy and Investment Committee from 29.07.2016 to 31.12.2016.

Division that performs functions of the corporate secretary

The Corporate and Property Matters Division is the Company's structural division that performs the functions of the Corporate Secretary. Information on the division that performs the corporate secretary's functions is presented on the website http://www.interrao.ru/upload/docs/Prilozhenie_3_Polozhenie.pdf.

Tamara Merebashvili - Head of Corporate and Property Matters Division



**Tamara
MEREBASHVILI**
Head of Corporate and
Property Matters Division,
PJSC Inter RAO

Year of birth: 1977.

Education: graduated from St. Petersburg State University, Candidate of Legal Sciences.

Citizenship: Russia.

Positions occupied:

2016 – present day: Head of Corporate and Property Matters Division, PJSC Inter RAO;

2016 – present day: General Director of LLC Inter RAO-IT;

2016 – Deputy Head of the Assets Management Block in Central Asia and Transcaucasian, external secondary job, PJSC Inter RAO;

2015-2016 – Deputy Head of the Assets Management Block in Central Asia and Transcaucasian, PJSC Inter RAO;

2011 – 2015 – Deputy General Director for Prospective Development, Deputy General Director on Commercial Issues, Deputy General Director – Commercial Director, LLC Inter RAO UES Energy Efficiency Centre;

2010 – 2011 – Deputy Head of the Block for Internal Audit, Controlling and Risks Management, PJSC Inter RAO.

Does not hold PJSC Inter RAO shares.

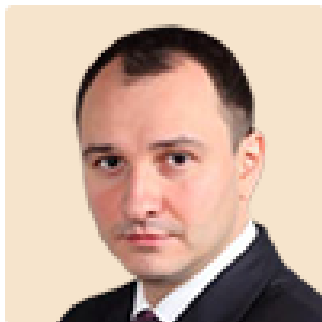
6.5 Management Board

The 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 Board¹¹⁶.

The 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 Directors, 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. 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 Chairman of the Management Board.

Management Board and Chairman of the Management Board reports to the Company's General Meeting of Shareholders and Board of Directors.

¹¹⁶ Approved by the annual General Meeting of the Company's Shareholders on 29.05.2015 (Minutes No. 15 dated 01.06.2015)



Boris KOVALCHUK
Chairman of the Management Board
of PJSC Inter RAO

Year of birth: 1977.

Education: in 1999 graduated from St. Petersburg State University with a degree in Jurisprudence, Lawyer's qualification.

Citizenship: Russia.

Positions occupied in the past five years:

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

2009 – 2010 – Acting Chairman of the Management Board, Chairman of the Management Board of PJSC Inter RAO.

Membership in boards of directors (supervisory councils) and management bodies of other organisations:

- Chairman of the Board of Directors in JSC Inter RAO Capital;
- Chairman of boards of directors (supervisory councils) in LLC PHC TSSKA, JSC Russian Regional Development Bank, RIG Research Pte. Ltd.;
- Member of the Management Board of the Russian National Association of Employers Russian Union of Industrialists and Entrepreneurs and the Russian National Public Organisation Russian Union of Industrialists and Entrepreneurs;
- 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:

- 2014 – awarded a memorable 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;
- 2012 – received the Order of Honour;
- 2011 – assigned the title "Honorary Energy Worker".

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



Alexander BORIS

Deputy Chairman of the Management Board of PJSC Inter RAO

Year of birth: 1959.

Education: in 1985 graduated from the Leningrad Institute of Refrigeration Technologies as a Mechanical Engineer.

In 2005, he graduated from the North-West Academy of Public Administration with a degree in State and Municipal Administration.

Citizenship: Russia.

Positions occupied:

2016 – present day: Deputy Chairman of the Management Board of PJSC Inter RAO;

2010 – 2016 – member of the Management Board of PJSC Inter RAO;

2009 – 2010 – Councillor to the Chairman of the Management Board of PJSC Inter RAO;

2009 – 2010 – Director of the Development Centre of State Atomic Energy Corporation Rosatom;

2006 – 2009 – worked in the Office of the Government of the Russian Federation;

2004 – 2006 – held management positions in the Federal Tax Service.

Awards:

- received a second-class medal of the Order of Merit for the Motherland and the Order of Honour;
- he holds the rank of 3rd class Active State Advisor.

Owns 971,600 shares of PJSC Inter RAO (0.00093% of the Company's authorised capital)



Mikhail KONSTANTINOV

Member of the Management Board –
Head of the Legal Affairs Division
of PJSC Inter RAO

Year of birth: 1968.

Education: in 2003 graduated from Tver Institute of Ecology and Law majoring in Jurisprudence. Ph. D. in Law.

Citizenship: Russia.

Positions occupied:

2016 – present day: Member of the Management Board – Head of the Legal Affairs Division, PJSC Inter RAO;

2012 – 2016: Head of Corporate and Property Matters Division, PJSC Inter RAO;

2010 – 2012: Head of the Legal Directorate of OJSC Sobinbank;

2007 – 2012: occupied managerial positions in OJSC Sobinbank, Federal Bailiff Service, OJSC Atomenergoprom.

Awards:

- received a Medal of Merit (Federal Bailiff Service), honorary certificate of the Ministry of Justice of the Russian Federation.

Does not hold PJSC Inter RAO shares.



**Evgeniy
MIROSHNICHENKO**

Member of the Management Board –
Chief Financial Officer of PJSC
Inter RAO

Year of birth: 1980.

Education: in 2003 graduated from State Management University with a degree in Management.

Citizenship: Russia.

Positions occupied:

2016 – present day: Member of the Management Board – Chief Financial Officer, PJSC Inter RAO;
2010 – 2016 – Director for Strategic Development, Deputy Head of the Block – Head of the Strategy Department, Strategy and Investments Block.

Awards:

- has a Letter of Gratitude from the Ministry of Energy of the Russian Federation;
- has a Honorary Certificate from the Ministry of Energy of the Russian Federation.

Owns 36,435 shares of PJSC Inter RAO (0.00003% from the Company's authorised capital)

Year of birth: 1982.

Education: in 2005 graduated from the Moscow State Institute of International Relations with a degree in Management with Knowledge of Foreign Languages. In 2007, 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 the Kutafin Moscow State Law Academy with a degree in Law.

Has PhD in Economics and Social Science.

Citizenship: Russia.

Positions occupied:

2010 – present day: Member of the Management Board – Head of the Strategy and Investment Division, PJSC Inter RAO (term of power as per his employment agreement till 20.08.2020);
2006 – 2009: occupied managerial positions in State Atomic Energy Corporation Rosatom.

Awards:

- Ilmar Mirsiyapov was 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;
- assigned the title “Honorary Energy Worker”.

Owns 971,600 shares of PJSC Inter RAO (0.00093% of the Company's authorised capital)



Ilmar MIRSIYAPOV

Member of the Management Board –
Head of Strategy and Investment
Division of PJSC Inter RAO



Valery MURGULETS

Member of the Management Board –
Head of the Innovation, Investment
and Costs Management Division
of PJSC Inter RAO



Pavel OKLEY

Member of the Management Board –
Head of the Operations Division
of PJSC Inter RAO

Year of birth: 1977.

Education: in 1999 graduated from St. Petersburg State University majoring in Jurisprudence. Graduated from the Stockholm School of Economics in 2006.

Citizenship: Russia.

Positions occupied:

2012 – present day: Member of the Management Board – Head of the Innovation, Investment and Costs Management Division, PJSC Inter RAO;

2010 – 2012: Head of the Investment Programmes Department, PJSC Inter RAO;

2007 – 2010 – Head of the Financial Department of LLC Konstantinovsky Congress Centre.

Awards:

- awarded a “22nd Winter Olympics and 11th Winter Paralympics – 2014 in Sochi” commemorative medal.

Owns 36,435 shares of PJSC Inter RAO (0.00003% from the Company’s authorised capital)

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. Ph.D. in Economics.

Citizenship: Russia.

Positions occupied:

2010 – present day: Member of the Management Board – Head of the Operations Division, PJSC Inter RAO;

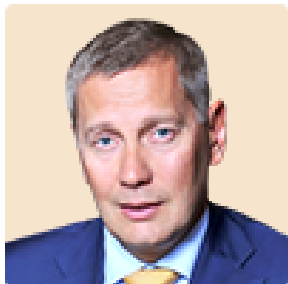
2008 – 2010: Deputy General Director of OJSC Holding MRSK;

2005 – 2008: occupied managerial positions in JSC FGS UES.

Awards:

- has the title “Honorary Energy Worker.”
- awarded the Certificate of Merit by JSC RAO UES of Russia, the title of Honoured Worker of Unified Energy System of Russia, the Certificate of Merit of the Ministry of Energy of the Russian Federation, and a Badge of Honour 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.

Does not hold PJSC Inter RAO shares.



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 Marshal Ustinov Leningrad Institute of Mechanics with a degree in Pulsed Thermal Engines.

Citizenship: Russia.

Positions occupied:

2016 – present day: Member of the Management Board – Head of PJSC Inter RAO Procurement Division;

2012 – present day: General Director of LLC Inter RAO – Procurement Management Centre;

2012 – Vice President for activity coordination and business development in North-Western Federal District of OJSC SOGAZ;

2009 – 2011 – Territorial Director of St. Petersburg subsidiary of OJSC SOGAZ.

Does not hold PJSC Inter RAO shares.



Karina TSURCAN

Member of the Management Board –
Head of the Trading Division of PJSC
Inter RAO

Year of birth: 1974.

Education: in 1999 graduated from the International Independent University of Moldova majoring in Economic Law. In 2004 received an MBA from the University Consortium of Spain (IUP).

Citizenship: Russia.

Positions occupied:

2012 – present day: Member of the Management Board – Head of the Trading Division, PJSC Inter RAO;

2011 – 2012: Head of the Europe Geographical Division, PJSC Inter RAO;

2010 – 2011: Head of the Moldova, Ukraine, Romania Geographical Division, PJSC Inter RAO;

Awards:

- has a Letter of Gratitude from the Ministry of Energy of the Russian Federation
- has a Honorary Certificate from the Ministry of Energy of the Russian Federation
- holds the honorary title of Honorary Power Engineer.
- awarded with a commemorative medal “22nd Winter Olympics and 11th Winter Paralympics – 2014 in Sochi.”

Owns 2,462 877.36 shares of PJSC Inter RAO (0.00236% from the Company’s authorised capital)



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 the Moscow Energy Institute (Technical University) with a degree in Power System Cybernetics as an Electrical Engineer. In 1998 graduated from the Plekhanov Russian Academy of Economics with a degree in Finance and Credit. Finished Moscow International Higher Business School MIRBIS (MBA).

Has PhD in Science, is a professor.

Citizenship: Russia.

Positions occupied:

2012 – present day: Member of the Management Board – Head of the Engineering Unit, PJSC Inter RAO;

2010 – 2012 – Deputy Chairman of the Management Board – Head of the Engineering Unit, PJSC Inter RAO;

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, and another one from JSC RAO UES of Russia;
- awarded a “22nd Winter Olympics and 11th Winter Paralympics – 2014 in Sochi” commemorative medal.

Owns 971,600 shares of PJSC Inter RAO (0.00093% of the Company’s authorised capital)

Changes in the composition of the Management Board in 2016

In 2016, the following changes took place in the composition of members of the Management Board:

By resolution of the Board of Directors made on 28.10.2016¹¹⁷:

- the powers of the member of the Management Board – Head of PJSC Inter RAO Financial and Economic Centre, Dmitry Palunin, were terminated on 28.10.2016.
- Evgeniy Miroshnichenko was elected member of the Management Board – Head of PJSC Inter RAO Financial and Economic Centre for a five-year term, starting from 29.10.2016.

By resolution of the Board of Directors made on 03.11.2016¹¹⁸:

- the composition of the Management Board of PJSC Inter RAO was determined, 10 persons in total.
- a Member of the Company's Management Board, Alexander Boris, was elected Deputy Chairman of the Management Board of PJSC Inter RAO from 04.11.2016.
- Dmitry Filatov was elected member of the Management Board – Head of PJSC Inter RAO Procurement Division for a five-year term, starting from 04.11.2016.
- the powers of the member of the Management Board – Head of the Legal Unit, Alexander Pakhomov, were terminated early, on 03.11.2016.
- Mikhail Konstantinov was elected member of the Management Board – Head of PJSC Inter RAO Legal Unit for a five-year term, starting from 04.11.2016.

Ownership of and transactions with PJSC Inter RAO's shares by the members of the Management Board The information on the number of ordinary registered uncertified shares, owned by the members of the Company's Management Board as of 31.12.2016, is presented above in this section of the present Report, as part of the data on the Management Board members. In the reporting year, no Company shares were acquired or alienated by the members of the Management Board¹¹⁹.

¹¹⁷ Minutes No. 183 dated 31.10.2016

¹¹⁸ Minutes No. 184 dated 07.11.2016

¹¹⁹ 03.29.2017 Member of the Management Board – Head of the Engineering Unit, PJSC Inter RAO Yury Sharov has reduced its share in the authorized capital to 0% by alienating the entire package of his shares.

Number of ordinary registered uncertified shares owned by the members of the Management Board whose powers were terminated early.

	Full name of member of the Management Board	Quantity shares, pc.	Share in authorised capital, %
1.	Dmitry Palunin	2,948 677.36	0.00282
2.	Alexander Pakhomov	3,607 703.15	0.00346

Information on the loans (credits) issued by the Company and its dependent organisations to the Chairman and members of the Management Board

In the reporting year, the Company and its dependent companies did not issue any loans (credits) to Chairman or members of the Management Board.

Report on the Management Board's performance

In 2016, 66 meetings of the Management Board were carried out, 12 of them in presentia and 54 in absentia.

Participation of members of the Management Board in meetings in 2016:

Full name of member of the Management Board	Participation in meetings (total)	Participation in meetings in presentia	Participation in meetings in absentia
	Total meetings: 66 (01.01.2016 – 31.12.2016)	Total meetings in presentia: 12	Total meetings in absentia: 54
Boris Kovalchuk	64	12	52
Alexander Boris	59	11	48
Ilnar Mirsiyapov	51	9	42
Valery Murgulets	60	11	49
Pavel Okley	61	11	50
Karina Tsurcan	52	8	44

Yury Sharov	58	10	49
	Total meetings: 51 (01.01.2016 – 28.10.2016)	Total meetings in presentia: 7	Total meetings in absentia: 44
Dmitry Palunin	45	6	39
	Total meetings: 52 (01.01.2016 – 03.11.2016)	Total meetings in presentia: 7	Total meetings in absentia: 45
Alexander Pakhomov	41	6	35
	Total meetings: 15 (29.10.2016 – 31.12.2016)	Total meetings in presentia: 5	Total meetings in absentia: 10
Evgeniy Miroshnichenko	14	5	9
	Total meetings: 14 (04.11.2016 – 31.12.2016)	Total meetings in presentia: 5	Total meetings in absentia: 9
Mikhail Konstantinov	13	5	8
Dmitry Filatov	13	5	8

Remuneration to the members of the Board of Directors and members of the Management Board

Remuneration to the members of the Board of Directors and members of Committees of the Board of Directors

The Company continues to improve its information transparency in the part of policy on remuneration payable to the members of the Board of Directors and executive management. In 2016, following consideration of the practice of information disclosure by the Company in the Annual Report and on the corporate website on the policy and practice of remuneration and on ownership of the Company's shares by the members of the Board of Directors and members of the Company's Management Board, PJSC Inter RAO Human Resources and Remuneration Committee of the Board of Director confirms compliance of the said policy and practice with the Code's provisions, as well as requirements of the Regulation on the Company's information policy.

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 Compensations to PJSC Inter RAO Board of

Directors' Members published on the website¹²⁰: <https://www.interrao.ru/investors/corporate-governance/corporate-docs/>, and, on the whole, it complies with advanced practices of corporate governance.

The Regulations determine a basic annual remuneration and the formula for calculation of the amount of actual payouts which are reduced if Board of Directors' members miss Board of Directors' meetings (in presentia or in absentia) and increased in case Board of Directors' members combine jobs in Board of Directors' Committees. The amount of basic fixed remuneration payable to a member of the Board of Directors makes up RUB 3 million per corporate year¹²¹, with remuneration payable to Chairman of the Board of Directors higher by 30%, to chairmen of Committees of the Board of Directors – by 15%, to members of Committees – by 10%. The specified perks are summed up¹²². 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 its powers are terminated) of meetings (in absentia and as joint attendance) held. No additional payouts are stipulated for Board of Directors' members in case of their early termination of authority due to transfer of control over the Company or other circumstances.

The 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 travelling 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.

Information on payment of remuneration to the members of the Company's Board of Directors in 2016

In 2016, the members of PJSC Inter RAO Board of Directors were charged remuneration for participation in the work of the Board in the total amount of RUB 32,692,778.

Full name of the member of the Board of Directors	Amount, RUB
Igor Sechin	7,305,278 ¹²³
Boris Kovalchuk	not paid ¹²⁴
Ronald Pollett	3,330,000

¹²⁰ Approved by the annual General Meeting of Shareholders on 25.06.2012 (Minutes No. 12 dated 27.06.2012)

¹²¹ Clause 2.2 of the Regulations on the Payout of Remuneration and Compensations to Board of Directors' Members

¹²² Clause 2.3 of the Regulations on the Payout of Remuneration and Compensations to Board of Directors' Members

¹²³ The remuneration paid in 2016 to Chairman of the Board of Directors, Igor Sechin, in the amount of RUB 7,305,278, includes the remuneration charged to I. Sechin in 2015 in the amount of RUB 3,405,278 (this information was specified in the Annual Report of PJSC Inter RAO for 2015 in section "Remuneration to members of the Board of Directors", Chapter "Corporate Governance") and transferred for charity in 2016 and the remuneration for 2016 charged in the amount of RUB 3,900,000 and subject to donation to charity in 2017.

¹²⁴ In accordance with the Regulations on the Payout of Remuneration and Compensations to PJSC Inter RAO Board of Directors' Members, it does not cover the members of the Company's Board of Directors that are members of the Company's collegiate executive authority.

Dmitry Shugaev	3,900,000
Denis Fedorov	3,000,000
Andrei Murov	3,000,000
Alexander Lokshin	3,300,000
Andrei Bugrov	3,000,000
Nikolai Rogalev	2,970,000
Anatoly Gavrilenko	2,887,500

Information on payment of remuneration to the members of the Board of Directors of PJSC Inter RAO includes remuneration for work in committees.

According to the Regulation on the Strategy and Investment Committee of PJSC Inter RAO, there are a number of restrictions on receiving remuneration by members of the committee, in particular:

- membership in the Board of Directors;
- existence of a statutory bar;
- existence of a labour contract with the Company.

Considering the above limitations, the following members of the Strategy and Investment Committee of PJSC Inter RAO received remuneration¹²⁵:

- Elena Bezdenezhnykh - 900,000 roubles;
- Larisa Kalanda - 900,000 roubles;
- Aleksey Molsky - 850,000 roubles;
- Charlotte Philipps - 900,000 roubles.

Member of the Strategy and Investment Committee, Riccardo Puliti, refused remuneration.

According to the statement of member of the Strategy and Investment Committee Elena Bezdenezhnykh, the remuneration was directed to the non-profit organisation Jubilee Norilsk City Fund.

Remuneration to Chairman of the Management Board and members of the Management Board

The incentive system for the members of the Management Board of PJSC Inter RAO is aimed at ensuring their financial interest in achieving strategic goals and enhancing the business performance of management. The procedure for determination and payout of remuneration to the members of the Management Board is outlined in the Regulations on Financial Incentives for the

¹²⁵ Pre-tax data are presented.

Chairman and members of the Management Board of PJSC Inter RAO. As part of improving information transparency, the Human Resources and Remuneration Committee made 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 website¹²⁶.

The system of financial incentives for the Chairman and members of the Management Board includes:

- base salary;
- bonus based on the achievement of the KPIs by the Company;
- one-time bonus to managers for their contribution to Company development or in relation of any corporate or industrial awards;
- special bonus to managers based on the achievement of the annual performance indicators by the Company by net profit.

The resolution of the Board of Directors¹²⁷ additionally determined the principles for formation and amount of pension savings under the Programme of Non-Governmental Pension Support for Company employees approved by the Resolution of the Company's Management Board on 12 April 2012¹²⁸, which extends to the Chairman and members of the Company's Management Board.

Also, the Board of Directors' resolutions adopted the following benefits and compensations for the Chairman and members of the Management Board:

- insurance payments under voluntary medical insurance plans and professional indemnity plans;
- compensation for death or accident other than an insurance event in an amount of six average monthly salaries;
- additional pay under temporary disability benefit to the average salary in case of temporary disability;
- immediate compensations in the amount of three average monthly salaries in case of termination (early termination) of an employment contract;
- benefits and compensations stipulated by the Labour Code of the Russian Federation, federal laws, statutory regulations of the Russian Federation, and Company's internal regulations (payment (compensation) of entertainment and travelling expenses, transport services).

The financial interest of the Management Board members' in the achievement of the Company's strategic goals is secured by short- and long-term incentives programmes.

Short-term incentives are based on the existing KPI system which determines bonuses for the members of the Management Board¹²⁹.

¹²⁶ Minutes No. 55 dated 27.12.2016

¹²⁷ Minutes No. 80 dated 01.10.2012

¹²⁸ Minutes No. 360 dated 12.04.2012

¹²⁹ More detailed information on KPI system is available in section 4.3 "Key Performance Indicators."

KPIs are set by the Company's Board of Directors as the basis for bonus payment to managers based on the following criteria:

- KPI relation to the Company's Business Plan;
- KPI measure ability and verifiability (KPIs must be easy to verify);
- KPIs must motivate managers to achieve the Company's targets;
- KPIs must be objective metrics of the Management Board's performance as the Company's collegial executive body.

An annual bonus to a manager is calculated based on actually achieved KPIs based on the Company's performance. The Company's KPI system is related to the Business Plan, including the Company's Investment Programme, 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 key long-term incentives tool is the Long-Term Incentives Plan for the members of executive bodies and other key managers with Company shares (options or other derivative financial instruments with Company shares as a basic asset).

The option plan amounts to 2% of PJSC Inter RAO's authorised capital. It entitles the key managers contributing to the implementation of the Group's strategy and long-term growth of the Company's value to acquire Company shares at a market price. The Plan is valid over two years after the relevant resolution of the Board of Directors.

Information on remuneration payout to Chairman and members of the Management Board in 2016

In 2016, the Company charged remunerations in the total amount of RUB 944,059,074 (considering base salary, bonuses and compensation of expenses) to members of the Management Board, including Chairman of the Management Board.

Remuneration charged in 2016 to members of the Management Board by kinds of payments:

Indicator	Amount of payouts in 2016, RUB
Base salary	280,836,744
Bonuses	655,955,415
Reimbursement of expenses	3,564,000
Other kinds of remuneration	3,702,915
Total	944,059,074

Remuneration charged in 2016 to Chairman of the Management Board by kinds of payments:

Indicator	Amount of payouts in 2016, RUB
Base salary	58,233,403
Bonuses	120,213,006
Reimbursement of expenses	0
Other kinds of remuneration	0
Total	178,446,409

Decision on remuneration payout in 2016 by the Board of Directors to the Chairman and members of the Management Board

	Name of member of the Management Board	Date and number of minutes
1	Boris Kovalchuk	No. 145 dated 29.06.2015, No. 168 dated 05.05.2016, No. 189 dated 30.12.2016
2	Alexander Boris	No. 168 dated 05.05.2016, No. 186 dated 07.11.2016, No. 189 dated 30.12.2016
3	Ilnar Mirsiyapov	No. 151 dated 20.08.2015, No. 168 dated 05.05.2016, No. 174 dated 21.07.2016, No. 189 dated 30.12.2016
4	Valery Murgulets	No. 79 dated 26.09.2012, No. 168 dated 05.05.2016, No. 189

		dated 30.12.2016
5	Pavel Okley	No. 155 dated 30.10.2015, No. 168 dated 05.05.2016, No. 189 dated 30.12.2016
6	Evgeniy Miroshnichenko	No. 183 dated 31.10.2016, No. 189 dated 30.12.2016
7	Mikhail Konstantinov	No. 186 dated 07.11.2016, No. 189 dated 30.12.2016
8	Karina Tsurcan	No. 59 dated 16.02.2012, No. 168 dated 05.05.2016, No. 189 dated 30.12.2016
9	Yury Sharov	No. 92 dated 16.05.2013, No. 168 dated 05.05.2016, No. 189 dated 30.12.2016
10	Dmitry Filatov	No. 186 dated 07.11.2016, No. 189 dated 30.12.2016
11	Dmitry Palunin	No. 133 dated 05.02.2015, No. 168 dated 05.05.2016
12	Alexander Pakhomov	No. 175 dated 01.08.2016, No. 168 dated 05.05.2016

The amount of remuneration is disclosed on the company's official website www.interrao.ru as part of the Company's Annual Report.

6.6 Corporate control and risk management

Internal control system (ICS) and corporate risk management system (CRMS) have been implemented and are being constantly improved in PJSC Inter RAO to improve operational efficiency, asset security, compliance with the laws of the Russian Federation and conformity to the Articles of Association and internal regulatory documents¹³⁰ of the Company.

Internal control

The main purpose of ICS is to provide reasonable stability of the Board of Directors, executive and control bodies of the Company in the following:

- achieving strategic and operational targets related to ensuring the performance and efficiency of financial and economic activities and safeguarding of assets;
- compliance with legislation and internal regulatory documents;
- accurate reporting and reliability of its preparation.

To achieve the set targets, Inter RAO Group shall perform continuous monitoring of ICS performance, and implement measures for its development and timely adaptation to changes in external and internal environment.

¹³⁰ In accordance with the recommendations of the Corporate Governance Code, requirements of Russian legislation and international best practices

Responsibility for the establishment and effective performance of the ICS is vested in the executive bodies of the Company.

Inter RAO Group 2016 Internal Control System Report

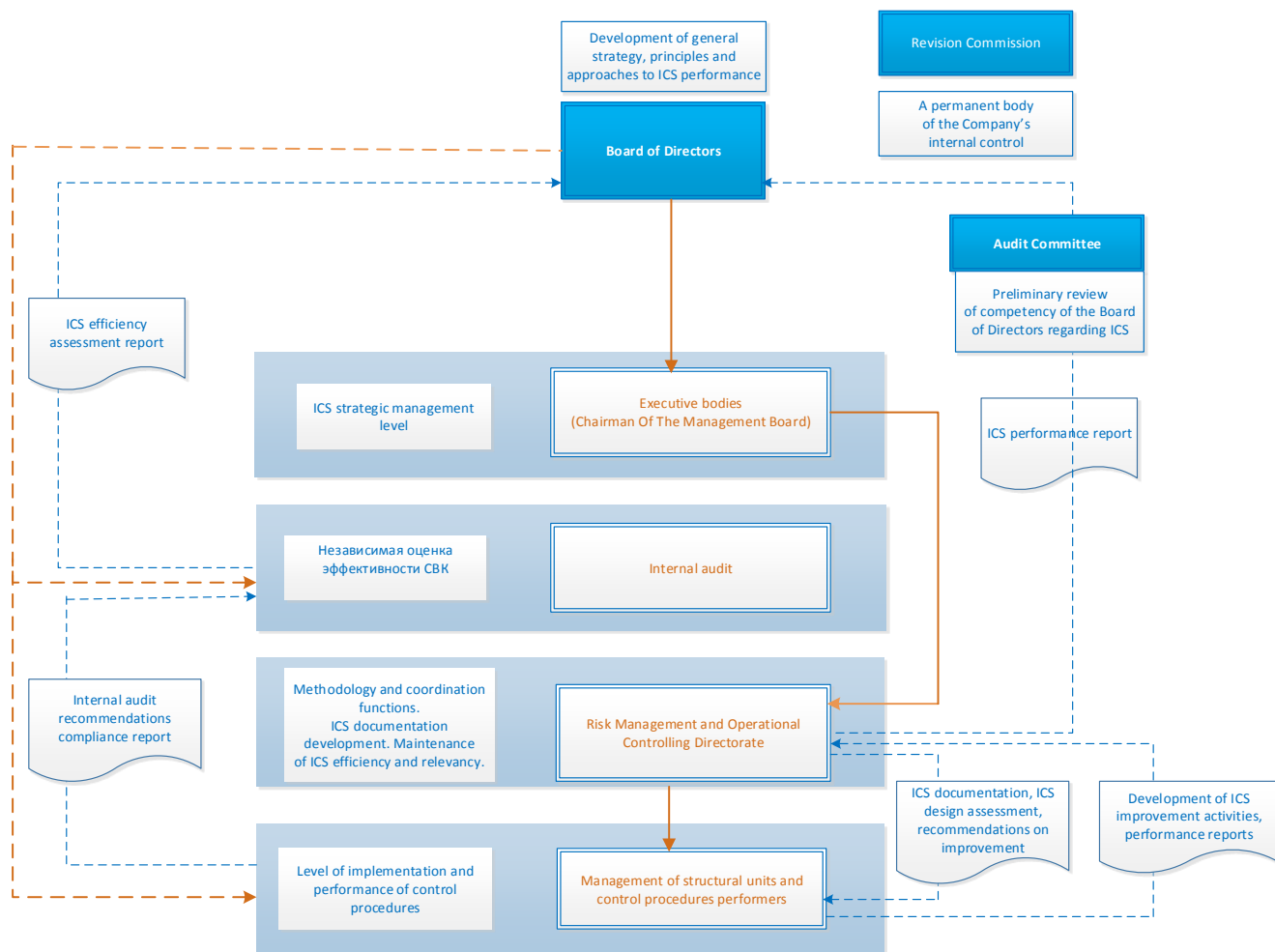
The Company management shall on an annual basis prepare and submit to the Board of Directors the Inter RAO Group Internal Control System Report. According to the 2016 Internal Control System Report, approved by the Board of Directors (Minutes dated 05.05.2017 No. 198) internal control activities are integrated into the strategic and operational management at all levels and cover all units and employees in the exercise of their functions within business processes.

During the reporting period, the Board of Directors also approved the Internal Audit Unit (IAU) Report on assessment of Inter RAO Group's ICS performance for 2016 (Minutes dated 05.05.2017 No. 198). Following an independent assessment of ICS performance, internal auditors concluded that ICS provided a reasonable stability in achieving the set targets defined by PJSC Inter RAO Board of Directors in the Internal Control Policy.¹³¹ The internal auditors also provided recommendations on further improvement of ICS.

In 2016 following the ICS performance assessment, the Board of Directors updated and approved the Internal Control Policy, which defines targets, key principles and approaches to organisation of Company's ICS, as well as roles and responsibility of ICS subjects. The responsibility of the heads of units directly subordinated to the Chairman of the Management Board for the establishment and maintenance of ICS effective performance within headed functional areas and business areas is also set in the Regulation on delineation of authority approved in the reporting period.

¹³¹ http://www.interrao.ru/upload/doc/Politika_po_vnutrennemu_kontrolyu.pdf

The chart of responsibility and accountability of PJSC Inter RAO ICS subjects



Explanations to graphical chart of PJSC Inter RAO ICS subjects interaction

Body	Function
Revision Commission	A permanent body of the Company's internal control. Carries out regular control over financial and economic activities of the Company, its separate units, the Company's management bodies and structural units of the Company's executive apparatus for compliance with Russian legislation, the Company's Articles of Association and internal documents. Annually elected by the General Meeting of Shareholders and consists of five members. The activity is regulated by the Company's Articles of Association and the Regulation on the Auditing Committee. The Revision Commission reports to the General Meeting of Shareholders.
Board of Directors	Determines the general strategy, principles and approaches to organisation of ICS, considers the results of assessment of ICS performance and recommendations on their improvement. On an annual basis, approves a report on ICS performance.
Audit Committee	Carries out control over reliability and performance of ICS.
Executive bodies	Responsible for the implementation of principles and approaches to ICS performance approved by the Board of Directors. Ensure creation and sustaining performance of effective risk management system and internal control in the company.
Internal audit	<ul style="list-style-type: none"> • Provides an independent assessment of ICS performance; • organises and conducts independent verification of the main areas of financial and economic activities; • on a regular basis, provides the Board of Directors with reports on ICS assessment results; • develops recommendations and monitors the elimination of violations and implementation of proposals to improve ICS; • other functions in accordance with the Regulation on Internal Audit Unit and Internal Audit Policy of PJSC Inter RAO.
Risk Management and Operational Controlling Directorate (Internal Control Unit)	<ul style="list-style-type: none"> • Ensures coordination of the Company's activities in establishment and maintenance of effective ICS; • carries out planning, documentation, design assessment, conclusions and approval of action plans following ICS design assessment, control procedures in the Company's significant business processes and monitoring of their execution; • provides methodological support to the owners of the processes and control performers on development and support of ICS effective performance; • on a regular basis, provides the Board of Directors with reports on establishment and performance of an effective ICS; • provides training and informing of the Company's employees in the area of internal control.
Heads and employees of structural units	<ul style="list-style-type: none"> • Develop and implement control procedures and ensure their implementation together with Internal Control Unit; • agree and execute recommendations following periodic assessment of the performance and design of control procedures; • inform the Internal Control Unit of significant changes in business processes.

Policy on internal control is applied¹³² to significant controlled entities in order to ensure harmonisation of processes for development, implementation, execution, updating and monitoring of control procedures at the Group level. For more details about Policy, go to http://www.interrao.ru/upload/doc/Politika_po_vnutrennemu_kontrolyu.pdf.

Following the ICS performance assessment conducted by the Internal Audit Unit in 2016, there was approved a Roadmap of Inter RAO Group ICS development for the period of 2017 – 2019, which sets out the following priorities for ICS development:

- improvement of standard methodological base of PJSC Inter RAO concerning internal control and applying the methodology to the Group companies;
- integration of internal control into the Group control system;
- alignment of the vertically integrated functions of internal control in the Group;
- creation of a unified information space of ICS;
- promotion of internal control processes within the Group.

Revision Commission

The Revision Commission's activity is regulated by the Regulation on the Revision Commission: <http://www.interrao.ru/upload/docs/Положение%20о%20ПК.pdf>

Members of the Revision Commission

Izumrud Alimuradova

Year of birth: 1971

Education: University degree, Dagestan State University

Position at the moment of election: Internal Audit Director – Head of the PJSC FGC UES Internal Audit Department

Gennadiy Bukaev

Year of birth: 1947

Education: University degree, Ufa State Petroleum Technological University, Ph.D. in Economics

Position at the moment of election: Chairman of the PJSC Rosneft Oil Company Internal Audit Service

Tatyana Fisenko

Year of birth: 1961

Education: University degree, the Crimea Agricultural Institute named after Kalinin, Russian Academy of Public Administration under the

¹³² Order No. IRAO/498 dated 17.11.2016

President of the Russian Federation

Position at the moment of election: Director of the Budget Planning and Accounts Department of the Ministry of Energy of the Russian Federation

Dmitry Shishkin

Year of birth: 1967

Education: University degree, Dzerzhinsky USSR Higher School of KGB

Position at the moment of election: Director for Internal Control of PJSC FGC UES

Yury Scherbakov

Year of birth: 1977

Education: University degree, Finance Academy under the Government of the Russian Federation

Position at the moment of election: Head of the Treasury Department of PJSC Inter RAO Financial and Economic Centre

The performance and remuneration of the Revision Commission

In 2016 the Revision Commission held five meetings, one was in the form of joint attendance. There were considered 16 agenda items, including items involving the review of the Commission's performance and organisational matters pertaining to the Commission's activity.

The Company's Regulation on the Revision Commission outlines the procedure for payment of remuneration to the Revision Commission's members for each inspection of the Company's business. The remuneration amounts to RUB 120,000 for each member of the Revision Commission and RUB 180,000 for the Chairman.

Remuneration to the members of the Revision Commission paid in 2016¹³³

Member of the Commission:	Izumrud Alimuradova	Svetlana Rai	Ekaterina Kheimits	Dmitry Shishkin	Yury Scherbakov	Total
Remuneration	120,000	0¹³⁴	120,000	120,000	120,000	480,000
Base salary	-	-	-	-	5,609 070	5,609,070
Bonuses	-	-	-	-	2,464,452	2,464,452
Total	120,000	0	120,000	120,000	8,193,522	8,553,522

¹³³ The table shows information on remuneration paid to the members of the Revision Commission by decision of the Annual General Meeting of Shareholders at year-end 2015 (Minutes No. 16 dated 10.06.2016)

¹³⁴ Svetlana Rai refused of remuneration

Risk management

The Group has a corporate risk management system (“CRMS”) covering the main assets, key business processes, businesses and management levels of the Group. CRMS Methodology is applied to the main controlled entities to ensure unification of risk identification, analysis, management and reporting processing at the Group level.

The CRMS is an essential element in the concept of corporate management adopted by the Group, which enables unbiased assessment of the current risk situation and forecasting of its development. The System assesses the continuity of the accepted risks and creates a basis for the adoption of informed decisions in order to minimise the impact of risks on the Group’s activity.

There is a base of internal regulations for corporate risk management, which includes the Corporate Risk Management Policy, the Regulation on corporate risk management business process and Methodologies governing specific risk management procedures and documents on risk management in functional areas.

Objectives, basic principles and approaches to risk management in PJSC Inter RAO, and the participants of the risk management process are set in the Corporate Risk Management Policy¹³⁵, which is available on the website http://www.interrao.ru/upload/docs/Politika_korporativnogo_upravlenija_riskami.pdf.

The Group aims to integrate risk management into all key business processes and ensure efficient interaction of CRMS with ICS and internal audit function. CRMS Methodology is applied to the main controlled entities to ensure unification of risk identification, analysis, management and reporting processing at the Group level.

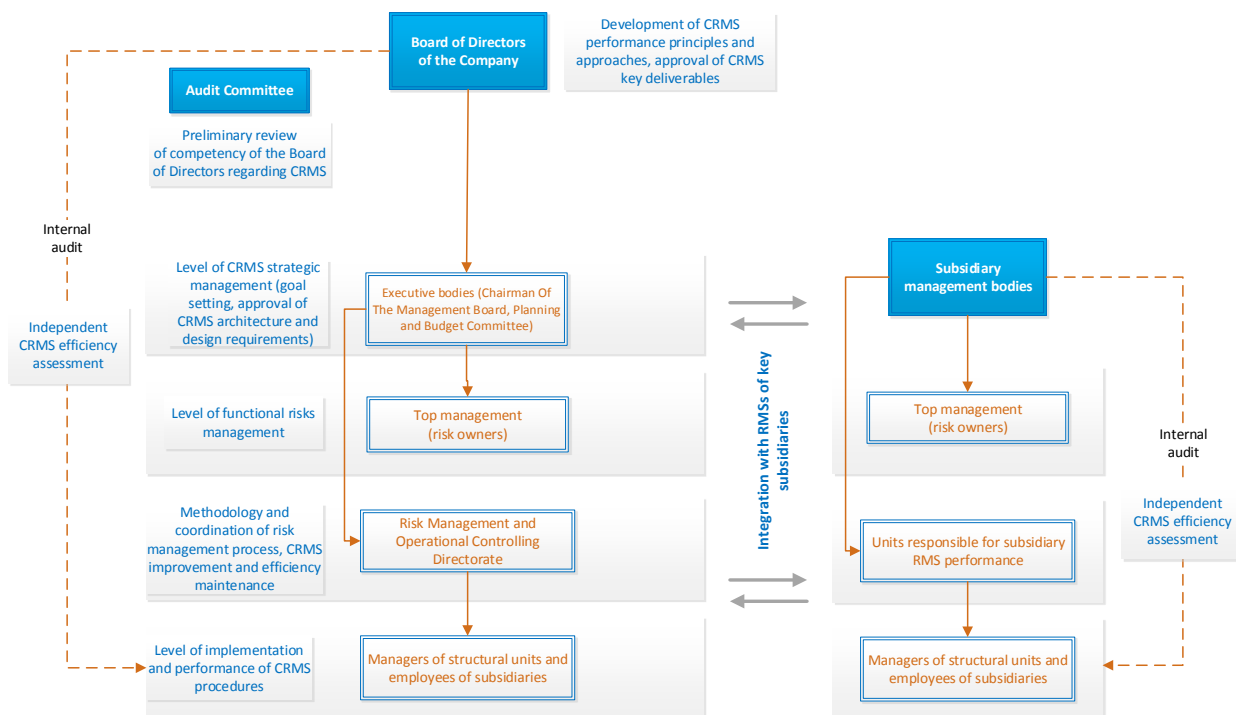
When building CRMS the Group shall adhere to the principle of the fundamental role of the Company’s management bodies with the participation of all management levels of the Company and controlled entities.

To coordinate activities in the field of risk management, the Company and the Group have a Risk Management and Operational Controlling Directorate. The head of the Risk Management and Operational Controlling Directorate is reporting to the Chairman of the Management Board, ensuring independence of the unit’s activities from other units engaged in risk management as part of operating activities, and excluding the possibility of a conflict of interests.

¹³⁵ Corporate Risk Management Policy approved by the Company’s Board of Directors (Minutes No. 155 dated 30.10.2015) is the top-level document 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, Corporate Governance Code, Methodology guidelines of Federal Agency for State Property Management (Rosimushchestvo), best practices in risk management and corporate governance, listing rules of Russian and international stock exchanges.

¹³⁶ Minutes of the Board of Directors of PJSC Inter RAO No. 167 dated 28.04.2016

The chart of responsibility and accountability of Inter RAO Group CRMS subjects



Explanations to the Chart of responsibility of Inter RAO Group CRMS subjects	
CRMS subject	Key functions and objectives
Board of Directors	<ul style="list-style-type: none"> Defines the principles of and approaches to the risk management system; annually approves the risk appetite for the target period (year) and such key CRMS documents as: Critical Risk Roadmap, Critical Risk Management Plan, and a Risk Management System Report;
Executive bodies (Chairman of the	<ul style="list-style-type: none"> distributes authority, responsibilities, and liability between executives and managers of units, as well as at controlled entities for specific risk management procedures;

Management Board, Planning and Budget Committee)	<ul style="list-style-type: none"> • sets risk management goals by year by approving CRMS Targets; • determines requirements for the risk management structure and contents by approving internal risk management documents; • ensures preliminary review of key cycle documents.
Top management (Risk Owners in the Group)	<ul style="list-style-type: none"> • Responsibility for managing functional risk groups, including CRMS documentation, implementation, monitoring, and development in the areas they are responsible for; • ensures efficient development of risk management business process deliverables within the scope of authority of coordinated areas and implementation of risk management actions;
Sole management bodies in controlled entities	<ul style="list-style-type: none"> • Accountability for risk management actions, compliance with the established risk limits and submission of risk management deliverables to collegial review by PJSC Inter RAO's Planning and Budget Committee.
Unit responsible for CRMS (Risk Management Directorate at the Risk Management and Operational Controlling Directorate)	<ul style="list-style-type: none"> • Ensures development of a common methodology and internal regulations pertaining to corporate risk management; • provides coordination of systemic operations and methodology support within the annual CRMS cycle (including risk identification and assessment, development of risk management actions, monitoring, and reporting); • responsible for disclosure of information on risk management and communications with CRMS at all Group management levels.
Internal audit	<ul style="list-style-type: none"> • Contributes to the improvement of risk management processes through independent expert examination of the risk management system at least once a year by the Internal Audit Unit.
Managers of structural units and employees	<ul style="list-style-type: none"> • Ensure implementation of risk management and/or control procedures • take risks into account in accordance with their job descriptions and internal document requirements and inform their line managers in a timely manner of any changes in a risky situation.

The design of CRMS, the level of system implementation in the Company and substantial controlled entities, correctness of the methodology of corporate risk management and conformity with the goals and objectives of CRMS, the quality of implementation of risk management procedures and the accuracy of the annual CRMS results shall be evaluated regularly by the management of PJSC Inter RAO. For continuous improvement of CRMS in Inter RAO Group, we organise monitoring of the system performance, complex of measures on further development, priorities and areas of work for the next plan period (year). The reliability and sufficiency of the CRMS elements are regularly reviewed and approved during the annual audit of the system maturity level by the Internal Audit Unit and periodic external independent evaluations.

Group 2016 Corporate Risk Management System Report

The Company management shall on an annual basis prepare and submit to the Board of Directors the CRMS Report. According to the 2016 CRMS Report approved by the Board of Directors (Minutes dated 02.05.2017, №197), the CRMS is built in accordance with best practices and recognised standards, meets the principles and approaches to its performance defined by the Board of Directors, and integrated in the strategic and operational management at all levels.

During the reporting period, the Board of Directors also approved the IAU Report on assessment of Group's CRMS performance for 2016 (Minutes dated 02.05.2017, №197). In general, internal auditors confirmed the CRMS assessment made by the management, and provided recommendations for further improvement of the system.

The main results of the corporate risk management system performance in 2016:

1. In the performance of the CRMS in 2016, there was provided execution of the business process of corporate risk management through the implementation of the CRMS annual cycle procedures in the Company and controlled entities within CRMS scope and there were created CRMS key cycle results:
 - 2015 Inter RAO Group CRMS Report was prepared and approved by the Board of Directors¹³⁶;
 - Targets for risk management purposes of the Inter RAO Group for 2017 were developed and approved, including a list of controlled entities and key business processes for risk management purposes, a list of typical risks, the indicators of results of risks impact quantitative assessment and the size of risk appetite for the target period (year);
 - The Board of Directors approved the size of the Group's Risk Appetite for 2017¹³⁷;
 - The Board of Directors approved the Group's Critical Risks Map for 2017¹³⁸;
 - The Board of Directors approved the Group's Plan of measures on critical risks management for 2017¹³⁹;

Detailed information about the CRMS cycle and key risks in the Group's activities is presented in Chapter 7 "Principal risks of the Inter RAO Group" hereof.

2. Continuous integration of CRMS procedures and results into the Group's key activities and business processes:
 - as part of the CRMS integration into the business planning system there was developed a unified (for all controlled entities of the Group) reporting format on risk management as part of periodic reporting materials on the execution of Business Plans of controlled entities/Group. The Group's business plan for 2017 was already supplemented by the relevant section on risk assessment¹⁴⁰;
 - As part of coordination of motivation system and CRMS, KPI thresholds EBITDA in 2017 on material assets of the Group are established with regard to the critical risks indicators for 2017.

¹³⁶Minutes of the Board of Directors of PJSC Inter RAO No. 167 dated 28.04.2016

¹³⁷Minutes of the Board of Directors of PJSC Inter RAO No. 189 dated 29.12.2016

¹³⁸Minutes of the Board of Directors of PJSC Inter RAO No. 189 dated 29.12.2016¹³⁹Minutes of the Board of Directors of PJSC Inter RAO No. 189 dated 29.12.2016

¹³⁹Minutes of the Board of Directors of PJSC Inter RAO No. 189 dated 29.12.2016

¹⁴⁰ Minutes of the Board of Directors No. 188 dated 23.12.2016

3. As part of works on improvement and provision of applicability of CRMS standard methodological base:

- CRMS methodological base is updated in terms of improving approaches to the formation of Critical Risks Maps for controlled entities/Group, including processes of goal setting, identification, evaluation, and consolidation of risks¹⁴¹;
- responsibility in terms of risk management is fixed at the level of Regulations on units/Job Descriptions for employees of controlled entities within CRMS scope¹⁴²;
- approach to the assessment and analysis of corruption risks¹⁴³ is developed in accordance with the Methodology Guidelines for organisation of risk management and internal control processes in combating and preventing corruption¹⁴⁴ and the Rosimushchestvo Directive No. OD-02/13028 dated 04.04.2016.

Risk management and internal control in combating and preventing corruption

In connection with the development by the Federal Agency for State Property Management (Rosimushchestvo) of Methodology Guidelines for organisation of risk management and internal control processes in combating and preventing corruption¹⁴⁵ and the Rosimushchestvo Directive No. OD-02/13028 dated 04.04.2016, one of the activities on development of CRMS methodology in 2016 was the formation of approaches to the corruption risks assessment and there was developed the Methodology to identify and assess corruption risks, defining methodological approaches to identification and systematisation of the causes and conditions of corruption risks, their assessment and analysis, which enables to create a list of threatened corruption functions and a List of positions related to corruption risks.

4. As part of solution of a priority task to improve the risk assessment quality and pass on to a predominantly quantitative modelling methods that provide high accuracy and reliability of the risk parameters assessment, approaches to the assessment of the following risk types have been developed/updated:

- The risk of decrease in productive supply of heat energy;
- The risk of tariff regulation in the field of heat supply;
- Credit risk of other external counteragents (debt receivable of heat energy buyers);
- Credit risk of debtors (debt receivable of buyers on the Wholesale Market of Electric Power and Capacity);
- The risk of recognition of the Company's/Group's activity in terms of tax regulation as non-conforming to legislation;
- The risk of performance of a judicial act that does not meet the interests of the Company/Group;
- The risk of recognition of the Company's/Group's activity in terms of antimonopoly regulation as non-conforming to Russian legislation;

¹⁴¹ Order No. IRAO/599 dated 27.12.2016

¹⁴² Order No. IRAO/515 dated 24.11.2016

¹⁴³ Order No. IRAO/618 dated 29.12.2016 "On introduction of MT-168-1 Methodology 'Identification and assessment (analysis) of corruption risks'"

¹⁴⁴ Order of the Federal Agency for State Property Management (Rosimushchestvo) No. 80 dated 02.03.2016

¹⁴⁵ Order of the Federal Agency for State Property Management (Rosimushchestvo) No. 80 dated 02.03.2016¹⁴⁶ Internal Audit Policy is approved by the PJSC Inter RAO Board of Directors dated 21.08.2015 (Minutes No. 152 dated 24.08.2015).

Risk management priorities for 2017

PJSC Inter RAO sets the following risk management priorities for 2017:

- coverage of the Group's assets within CRMS scope of over 90%;
- consistently high quality of risk and actual risk-related damage assessment;
- improvement of CRMS regulations including in terms of the development, coordination and execution of measures on critical risks management;
- further improvement of approaches to the establishment of KPI thresholds of the Company's activity taking into account critical risks indicators;
- improvement of the competency level and skills of CRMS members at the level of controlled entities.

Internal Audit Unit

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 Board¹⁴⁶.

The goals and objectives of the Internal Audit Unit are defined in the Internal Audit Policy published on the website on http://www.interrao.ru/upload/docs/politica_po_vnutrennemu_auditu.pdf, and IAU regulations¹⁴⁷.

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 head of IAU functionally coordinates internal audits at LLC Inter RAO – Management of Electric Power Plants and PJSC Mosenergosbyt (Moscow Power Supply Company).

Structure of Internal Audit Unit

PJSC Inter RAO	Retail Assets Audit and Trading Department
	Engineering Audit Department
LLC Inter RAO – Management of Electric Power Plants	Technical Activities Audit Control
	Economic Activities Audit Department

¹⁴⁶Internal Audit Policy is approved by the PJSC Inter RAO Board of Directors dated 21.08.2015 (Minutes No. 152 dated 24.08.2015).

¹⁴⁷The Regulations on the Internal Audit Unit is approved by the PJSC Inter RAO Board of Directors dated 28 October 2015 (Minutes No. 155 dated 30.10.2015).

	Procurement Activities Audit Department
PJSC Mosenergosbyt	Internal Audit Control

In addition, the Company's internal auditors are members of revision commissions of PJSC Inter RAO's controlled entities and thus, are directly involved in the audits of financial and economic activities of the latter.

The IAU activity shall be in accordance with the work plan approved by the PJSC Inter RAO's Board of Directors. The work plan for 2016 is fulfilled in a timely manner and in full.

The Audit Committee previously approved the 2016 Internal Audit Unit Activities Report, and a conclusion is made about the achievement of planned performance indicators¹⁴⁸.

The performance of the Internal Audit Unit in 2016

Quantity of audits conducted	Number of audit reports ¹⁴⁹	Number of corrective measures according to audit results
42	77	487

In 2016, the Internal Audit Unit for the first time conducted inspection and assessment of the efficiency of the risk management and internal control process in preventing and combating corruption, issued guidelines for improving the efficiency of the process, both at the organisational and operational level.

Information security

For Inter RAO Group being an energy holding the information security issues are of great importance. Representatives of PJSC Inter RAO participate in activities of the relevant committee of the State Duma of the Federal Assembly of Russian Federation on issues of information security in fuel and energy complex and legislative aspects of ensuring security in information systems of the fuel and energy complex.

Development, updating and monitoring of compliance with Information Security Policy of Inter RAO Group companies, as well as the organisation and control of corporate services and works on security of information resources used to provide IT services to the Group, shall be responsibility of PJSC Inter RAO's Information Technologies Unit.

¹⁴⁸ Audit Committee Minutes No. 94 dated 24.04.2017.

¹⁴⁹ According to the audit results of financial and economic activities of PJSC Inter RAO's controlled entities.

Works on information security in Inter RAO Group are performed by internal outsourcing company, Limited Liability Company Inter RAO – Information technologies (LLC Inter RAO – IT) licensed by the FSTEC of Russia for activities on information technical protection and by Federal Security Service of Russia for work with cryptographic tools.

The key segments of LLC Inter RAO – IT information systems are certified to meet the information security requirements¹⁵⁰. LLC Inter RAO – IT conducts continuous monitoring of the enterprise data network and search for vulnerabilities in the Group's information systems. The safety of operation of the Group's information infrastructure facilities, steps to prevent foreign control over the operation of such facilities, integrity, performance stability and security of the enterprise data network and security of the information transmitted, including by means of cryptographic protection (encryption) are provided in accordance with the provisions of the Russian Information Security Doctrine.

In accordance with the Information Security Policy at Inter RAO Group, LLC Inter RAO – IT has the following functions:

- information security – actions aimed at organisational 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 responsibility.

Results of information security activity for 2016

Authorised units of LLC Inter RAO – IT performed the analysis of information security threats and, relying also on FSTEC's bank of such information security threats, developed a threat model of the Inter RAO Group's Corporate Centre. The threat of disclosure of protected information, and the threat of malicious infrastructure impacts, leading to reputational and financial damage due to both intentional and unintentional actions, pre-arranged attacks on IT infrastructure of Inter RAO Group are recognised as relevant. A number of measures for control of facilities security, including off-site ones are performed both by own efforts and with the assistance of specialised organisations.

To manage the identified information security risks the Group deployed a company-wide system for protection from malicious software (virus protection), a number of pilot projects on introduction of modern means of information security, effectively neutralising current threats (advanced firewalls, information protection system, etc.). The plan of organisational and technical measures for ensuring information security of Inter RAO Group includes:

- updating corporate standards and internal regulatory documents;

¹⁵⁰ In accordance with the Regulation on computer systems certification according to information security requirements adopted by the Federal Service for Technology and Export Control (FSTEC of Russia) dated 25 November 1994¹⁵¹ "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 and internal corporate standards and organisational and administrative documents, resolutions of the Group companies' management bodies.

- increasing user awareness about information security issues;
- introduction of modern means of information protection from targeted cyber attacks and current threats, included in the unified register of Russian programs for electronic computers and databases;
- implementation of measures for process management systems protection from external and internal harmful influences.

The effectiveness of the protection measures and compliance with mandatory requirements of Russian legislation are confirmed by the successfully completed planned audits of information security and compliance with the requirements of Russian legislation in the field of information security and personal data protection in Inter RAO Group's companies by the authorised body in the field of information security – the Federal Service for Technology and Export Control (FSTEC of Russia), and by the authorised federal executive body for protection of the rights of subjects of personal data – the Federal Service for Supervision of Communications, Information Technology and Mass Media (Roskomnadzor).

Compliance, combating fraud and corruption

Goals, objectives, principles¹⁵¹ and key processes of Compliance are identified in the Group's Compliance Policy: http://www.interrao.ru/upload/docs/Komplaens_politika.pdf.

Central place in the Group's Compliance system is devoted to issues on combating fraud and corruption.

In 2016 there was adopted a new version of PJSC Inter RAO's Policy on combating fraud and corruption, approved by resolution of the Board of Directors dated 29.09.2016 (Minutes No. 180 dated 03.10.2016), the detailed information is provided on the website http://www.interrao.ru/upload/doc/Politika_antikorrupcija.pdf. By decisions of the Boards of Directors (Supervisory Boards) the Policy is applied to all Group companies.

The new version of the Policy on combating fraud and corruption reflects the provisions of the Methodological recommendations on risk management and internal control in preventing and combating corruption in joint-stock companies with participation of the Russian Federation, approved by order of Rosimushchestvo No. 80 dated 02.03.2016:

- revision of goals, objectives, principles of and approaches to combating corruption in Inter RAO Group;
- establishment of compulsion and frequency of internal evaluation of performance of the Anti-Fraud and Corruption System by Internal Audit Unit and external independent assessment, as well as the frequency of submission by the Company management to the Board of Directors of reports on the implementation, execution and operational effectiveness of procedures on organisation of Risk Management and Internal Control Systems in combating and prevention of corruption.

The policy was also supplemented with new provisions in terms of interaction with state regulatory and law enforcement bodies in preventing and combating corruption, planning of measures to combat fraud and corruption and relevant reports, control and evaluation of performance of the Anti-Fraud and Corruption System, etc.

¹⁵¹ "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 and internal corporate standards and organisational and administrative documents, resolutions of the Group companies' management bodies.

In the reporting period there was conducted an organisational structure optimisation of Inter RAO Group's Anti-Fraud and Corruption System: coordination and monitoring functions for activities of all Anti-Fraud and Corruption System subjects, and decision-making on conclusion of deals with high corruption risk are vested in the Conflict of Interest Management Committee¹⁵²; the main part of the anti-corruption compliance functions is assigned to the Security Unit.

Training of employees on combating corruption.

All employees of the Company and Group companies have read and understood the new version of the Policy on combating fraud and corruption. After reading the Policy, employees make a relevant entry in an automatic management document flow system. The Policy is included in the List of mandatory regulations for all new hires.

The Company and Group companies organised training for employees to familiarise themselves with the legislation requirements for combating corruption and measures taken by the Company and the Group in order to prevent and combat corruption. Training of employees regarding combating corruption measures of the Company and Group companies is included in the Training Plans for the year. In 2016, PJSC Inter RAO's employees were trained in order to maintain their knowledge and skills in the field of combating corruption with participation of trainer from Profi-Cariera Business Development Centre. Upon completion of the classes there was a test for acquired knowledge.

The Anti-Corruption Hotline has been available at Inter RAO Group since 2012, detailed information is available on the website: <http://www.interrao.ru/company/corrupt/>.

Any Group employee or other stakeholder who became aware of the incident or impending violations with signs of corruption made by other employees, counteragents of the 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.

In addition, the obligation of the Group employee to immediately inform the head of the Personnel Management and Organisational Development Unit and/or the head of the Security Unit about incidents or impending violations of law and the internal regulatory documents requirements in the field of combating corruption, is provided for in the PJSC Inter RAO's Corporate Ethics Code: https://www.interrao.ru/upload/doc/Kodeks_korp_etiki.pdf

In 2016, the Group has no confirmed incidents of corruption or fraud.

External control

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 contract concluded with them.

¹⁵² New edition of the Regulation on the Conflict of Interest Management Committee, approved by the order No. IRAO/420 dated 29.09.2016¹⁵³ Approved by the decision of the Company's Board of Directors on 31.07.2015 (Minutes No. 149 dated 03.08.2015).

The Company's Auditor shall be approved by the General Meeting of Shareholders. Criteria and procedure for selection of Auditor, and the rules for audit heads rotation shall be governed by PJSC Inter RAO's External Auditor Rotation Policy¹⁵³: http://www.interrao.ru/upload/docs/Politika_rotacii_vneshnego_auditora_PAO_Inter_RAO_0610.pdf

Private competitive negotiations were held in August 2015 in order to select the only auditor for 2016, 2017, and 2018. Based on the outcome of these private competitive negotiations,¹⁵⁴ the winning bidder was Ernst & Young Limited Liability Company.

On 07.04.2016¹⁵⁵ the Board of Directors proposed to approve Ernst & Young as the Company's auditor at the Annual General Meeting of Shareholders of PJSC Inter RAO and determined the following prices for services:

Services	Price
The audit of Inter RAO Group's consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS) for 2016	RUB 20,000,000 (twenty million), excluding VAT
Review of Inter RAO Group's interim condensed consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS) for 3 months ended on 31 March 2016	RUB 4,500,000 (four million five hundred thousand), excluding VAT
Review of Inter RAO Group's interim condensed consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS) for 6 months ended on 30 June 2016	RUB 4,200,000 (four million two hundred thousand), excluding VAT
Review of Inter RAO Group's interim condensed consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS) for 9 months ended on 30 September 2016	RUB 4,200,000 (four million two hundred thousand), excluding VAT
The audit of Inter RAO Group's annual accounting statements for 2016 prepared in accordance with Russian accounting standards (RAS) and provision of audit reports to PJSC Inter RAO's annual accounting statements for 2016 prepared in accordance with Russian accounting standards (RAS)	RUB 900,000 (nine hundred thousand), excluding VAT

The General Meeting of Shareholders of PJSC Inter RAO, which took place on 10 June 2016¹⁵⁶, approved the candidate proposed by the Board of Directors as the Company's Auditor for 2016.

In order to increase efficiency in both external and internal audit, the external auditors actively interact with IAU and use separate internal audit results as part of external audit procedures. Such interaction is also conducted as part of:

¹⁵³ Approved by the decision of the Company's Board of Directors on 31.07.2015 (Minutes No. 149 dated 03.08.2015).

¹⁵⁴ Minutes of the Procurement Commission meeting No. 7133/ZKP-PVP dated 01.09.2015.¹⁵⁵ Minutes No. 165 dated 07.04.2016.

¹⁵⁵ Minutes No. 165 dated 07.04.2016.

¹⁵⁶ Minutes No. 16 dated 10.06.2016.

- information exchange on the results of the Company's ICS performance assessment;
- discussion of external auditor's activity plans to minimise work performed twice;
- analysis of implementation of corrective measures aimed at elimination of the Company's ICS shortcomings¹⁵⁷.

31.03.2017 the Audit Committee has considered the issue on evaluation of auditors reports and quality of audits performance, the process of the external audit is recognised as efficient¹⁵⁸.

6.7 Information Disclosure and External Communications

PJSC Inter RAO adheres to the transparency principle in its operations by ensuring timely disclosure of reliable information on all material facts, including the details of its financial position, performance, ownership and management structure, and social and environmental metrics, etc. The Company's information disclosure is guided by Russian statutory requirements and global best corporate governance practices.

Key information disclosure principles on the Company's business, procedure and timeframe for its submission, including the list of information and documents to be disclosed, are determined by the Regulation on Information Policy¹⁵⁹, a new version of which is developed in 2016.

The key amendments against the previous version of the Regulation on Information Policy:

- the mandatory disclosures include annual consolidated financial statements and the interim condensed consolidated financial statements for the first half of the reporting year prepared in accordance with International Financial Reporting Standards (IFRS);
- the mandatory disclosures include the interim condensed consolidated financial statements for the reporting period, consisting of three and nine months of the current year, prepared in accordance with International Financial Reporting Standards (IFRS);
- it is determined that information about the decisions taken by the Board of Directors that is not confidential or otherwise protected by law, shall be disclosed by the Company in the information resource updated in real time and provided by the authorised information agency (news feed), not later than 10:00 a.m. of the next business day after the date of the decision by the Board of Directors.

In addition to the mandatory disclosure of information in accordance with federal laws and other regulatory acts, as well as with the requirements of the trade organisers in the securities market, the Group shall disclose additional information in order to ensure maximum transparency.

¹⁵⁷ In accordance with PJSC Inter RAO's Internal Audit Policy, approved by the Board of Directors on 21.08.2015 (Minutes No. 152 dated 24.08.2015)

¹⁵⁸ Minutes No. 93 dated 31.04.2017

¹⁵⁹ Approved by the decision of PJSC Inter RAO's Board of Directors on 29.12.2016 (Minutes No. 189 dated 30.12.2016).

Principles and areas of Group's interaction with external audiences, including information disclosure, is described in the 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 for the investment community.

The Company and Inter RAO Group are committed to maintaining a continuous dialogue with their stakeholders. The list of Inter RAO Group's stakeholders is outlined in the Corporate Ethics Code of PJSC Inter RAO¹⁶⁰ and the Group's Communication Strategy. This list takes into account the economic, social, and environmental impact of the Group companies operations on different categories of stakeholders and, on the other part, impact of different categories of stakeholders on the Group's operations.

The Group has common approaches to ensure optimal and regular communication with every stakeholder group based on individual forms and methods, taking into account their interests and demands.

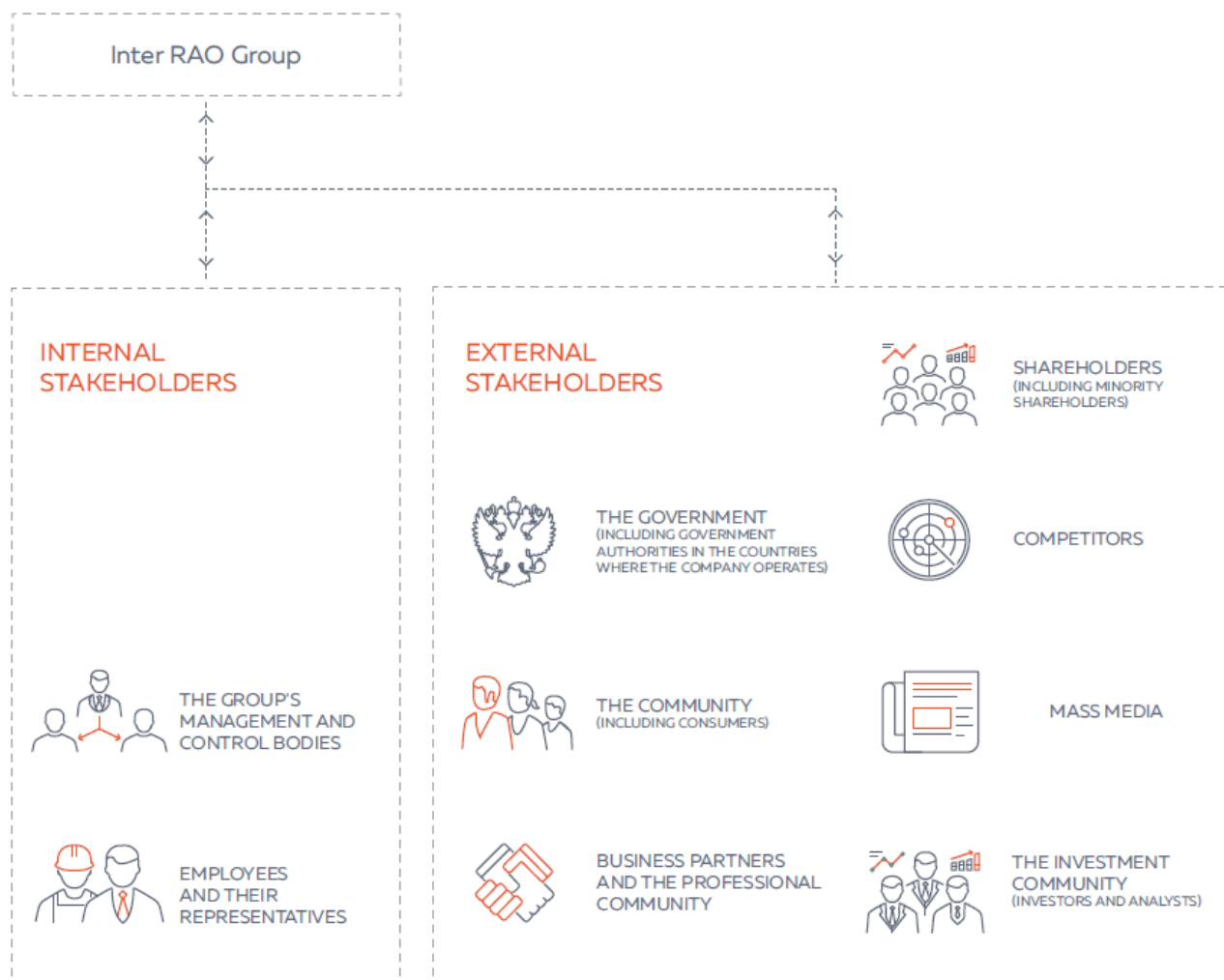
Material disclosures and press releases at PJSC Inter RAO in 2016 by month:

Month	Material fact	Press release	The message on access to insider information
January	4	1	1
February	4	2	3
March	10	2	-
April	10	2	2
May	13	3	2

¹⁶⁰Approved by the decision of PJSC Inter RAO's Board of Directors on 18.10.2011 (Minutes No. 50 dated 21.10.2011).

June	14	4	1
July	9	2	2
August	6	3	2
September	7	3	-
October	12	2	2
November	10	2	1
December	12	3	-
Total:	111	29	16
Total for the year:	156		

Inter RAO Group's stakeholders



Communication channels and key subjects for contact with stakeholders

	Stakeholders	Communication channels	Key subjects in 2016
Internal stakeholders	Management and control bodies	Meetings and appointments within the scope of authority to benefit the Group and its shareholders.	<ul style="list-style-type: none"> • Financial and operations performance. • Key performance indicators. • Production process. • Strategy and areas of development. • Approval of related party and major transactions. • Business plans and investment programmes. • The amount of remuneration (including the auditor's remuneration). • Market performance.
	Employees and their representatives	<p>Labour meetings.</p> <p>The Chairman of the Management Board of PJSC Inter RAO's message to Group employees via corporate press and video-messages.</p> <p>Regular face-to-face meetings between employees of PJSC Inter RAO and the head of the HR and Organisation Development Unit.</p> <p>Satisfaction survey.</p> <p>Corporate publications.</p> <p>Internet portal.</p> <p>Meetings with trade union representatives.</p>	<ul style="list-style-type: none"> • Prospects of employment in Group companies. • The rights and obligations of Group employees. • Provision of jobs. • Workplace conditions. • Occupational health and industrial safety. • Social guarantees and benefits. • Satisfaction with work, an incentives system, and the social and psychological climate in the workplace.
External stakeholders	Shareholders	<p>General Meeting of Shareholders, meetings with minority shareholders.</p> <p>PJSC Inter RAO's Shareholder Hotline.</p> <p>JSC R.O.S.T. Registrar Hotline.</p> <p>Shareholder Information Card.</p> <p>Official correspondence.</p> <p>Publications in LLC Interfax – TsRKI.</p> <p>Corporate publications.</p>	<p>Development strategy and priority areas of the Company's activity.</p> <p>Financial and operations performance.</p> <p>Key performance indicators.</p> <p>Dividend payout.</p> <p>Election of management bodies.</p> <p>Restructuring: acquisition/liquidation of companies.</p> <p>Approval of the Company's auditor.</p> <p>Approval of major and related party transactions.</p>

			Approval of annual and quarterly business plans.
	Investors and analysts	<p>Meetings and presentations for investors and analysts.</p> <p>Investor Days and Analyst Days.</p> <p>Meetings with investors during road shows and conferences.</p> <p>Conference calls and video calls.</p> <p>Webcasts.</p> <p>Visits to industrial sites.</p> <p>Official correspondence and telephone negotiations.</p> <p>The Group's websites.</p> <p>Specialised materials for the investment community (Analyst's Guidelines etc.).</p>	<p>Financial and operations performance of the Group.</p> <p>PJSC Inter RAO's Dividend Policy.</p> <p>The Group's development strategy and its implementation in each business area.</p> <p>Investment programme implementation.</p> <p>Equity structure.</p> <p>Information on material facts and changes.</p> <p>Major events the Group is involved in/initiates.</p> <p>Regulated industries.</p> <p>Operations performance improvement and cost optimisation programmes.</p> <p>Feedback from investors and analysts for management to improve operations performance and the investment potential of the Group.</p>
	The Government (including government authorities in the countries where the Company operates)	<p>Involvement in the development of regulations and strategy of the energy industry's development in task force teams, boards, and committees.</p> <p>Involvement in intergovernmental commissions.</p> <p>The submission of government reporting.</p>	<p>Implementation of the government's strategy goals.</p> <p>Enforcement of instructions and decrees by government authorities.</p> <p>Tariff regulation.</p> <p>Involvement in strategic national and international projects.</p> <p>Sustainable use of natural resources.</p> <p>Contribution to the development of the regions of the Group's operation.</p> <p>Energy security.</p> <p>Disclosure of information and reporting.</p> <p>Regional social and economic development.</p> <p>Creation of jobs.</p>
	The Community (including consumers)	<p>Public hearings.</p> <p>Conferences.</p> <p>Charity projects, regional social and economic development projects.</p> <p>The Group companies' websites and webpages in</p>	<p>Energy security.</p> <p>Reliable and uninterrupted power supply.</p> <p>Quality monitoring of supplied energy.</p> <p>Supply chain and procurement.</p> <p>Environmental footprint.</p>

		social media. Consumer Hotlines.	Regional social and economic development. Improvement of product and consumer services quality. Price policy. Debt receivable.
	Business partners and the professional community	Contractual relations and cooperation agreements. Participation in the Russian Union of Industrialists and Entrepreneurs. Project activities. Procurement procedures. Trading in WEM and REM. The publication of the industry-wide magazine “Energy Beyond Borders”.	Fulfilment of the Group’s commitments. Improvement of the 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.
	Competitors.	Contractual commitments. Involvement in the development of WEM and REM rules.	Open, honest, and faithful competition. Compliance with the financial discipline and undertakings. The settlement of differences regarding consumer servicing by Group companies.
	Mass media	Press conferences. Press tours. Press lunches. The Group’s website. Corporate media.	Open, honest, and faithful competition. Compliance with the financial discipline and undertakings. The settlement of differences regarding consumer servicing by Group companies. Financial and operations performance of the Group. Group development strategy. Information on material facts and changes. Major events the Group is involved in/initiates. Regulated industries. Customer support. Promotion of goods and services. Improvement of operations performance. Charity.

Stakeholder relations at PJSC Inter RAO in figures

Area	2014	2015	2016
Company's management and control bodies			
- Board of Directors' meetings	27	27	30
- Management Board meetings	61	58	66
Shareholders			
- Annual General Meeting of Shareholders	1	1	1
- field meetings with minority shareholders	2	0	0
- written requests by public notaries	105	67	
- written replies to shareholders	71	85	155

Report on the Compliance with Information Policy

The report on the Company's compliance to its Information Policy is developed in accordance with the Corporate Governance Code, Information Policy Regulation of PJSC Inter RAO, and Letter of the Bank of Russia No. IN-06-52/8, dated 17.02.2016.

In order to maintain control over compliance, Report on the Compliance with Information Policy is annually submitted for consideration by the Board of Directors.

Main conclusions of the 2016 Report on the Compliance with Information Policy approved by the PJSC Inter RAO's Board of Directors

- The Company complies with the procedure and timeframe for the mandatory disclosure of information by issuers of securities, which has been established by law;
- The Company volunteers the disclosure of the information specified in PJSC Inter RAO Information Policy.

In 2016, PJSC Inter RAO disclosed 185 facts as part of mandatory information disclosure and 59 facts as part of voluntary information disclosure.

Information about events or actions affecting the Company's operations, disclosed as material facts:

Material fact message	111
Press releases on the resolutions passed by management bodies	29
Message on access to insider information	16
Information on material risks	5
RAS financial statements	4
IFRS financial statements	4
Information on AGSM convocation, agenda, and resolutions	4
Lists of affiliates	4
Quarterly reports	4
Articles of Association	1
Annual Report	1
Messages on information adjustment	1
Information on the value of hard copies	1

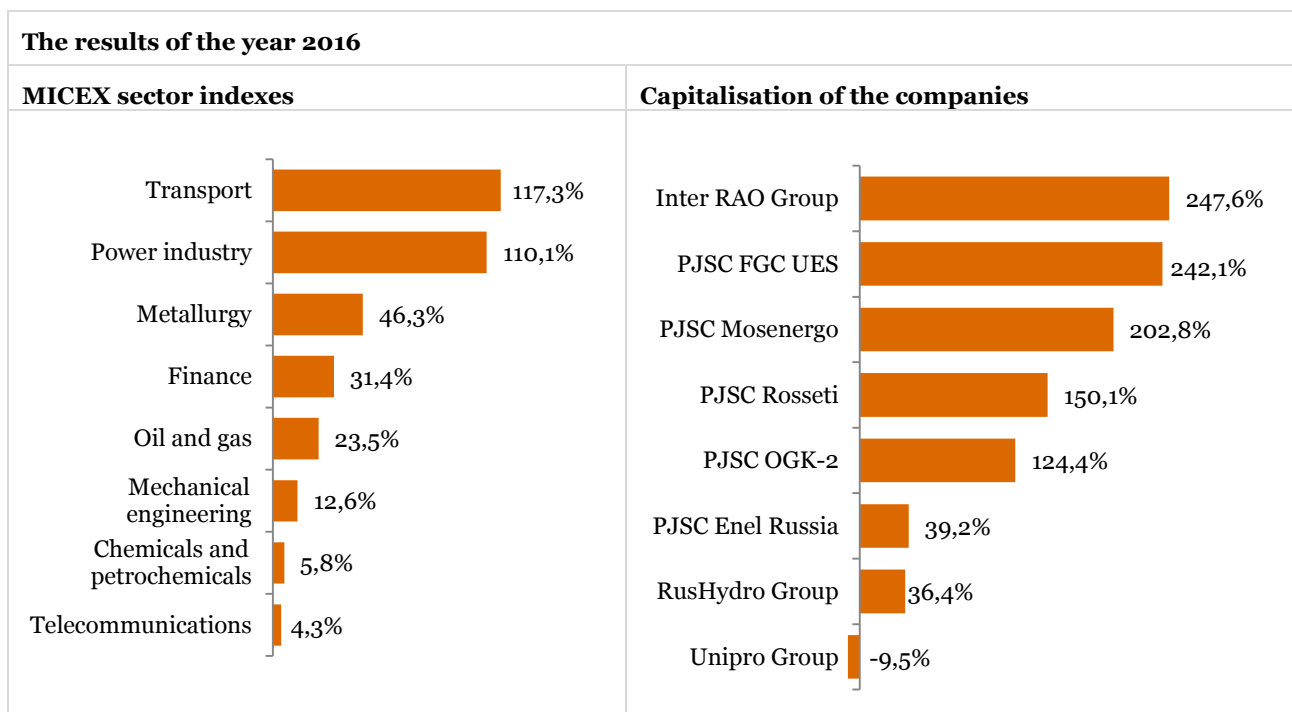
Information on events/activities as part of mandatory information disclosure:

Information on decisions taken by the Board of Directors in form of press releases	29
Press releases, webcasts, and presentations on IFRS financial statements	10
Information on controlled legal entities within the Company	6
Quarterly performance	4

Board of Directors' committee members	3
Information on policies approved by the Board of Directors	2
Information on the mission, strategy, and key business areas	1
General corporate governance principles	1
Board of Directors' members	1
Executive bodies	1
Social and environmental responsibility	1

7 Company on the capital markets and investor relations

As for the end of 2016, the growth in Group capitalisation amounted to 248%, which is higher than indicators of other major energy companies



In 2016, the management continued to enhance the attractiveness of investing in shares of Inter RAO Group. The results of the management activity were reported on a regular basis to the investment community as part of IR activities.

During the period under review the dynamics of Inter RAO Group's shares was positively impacted by the following events:

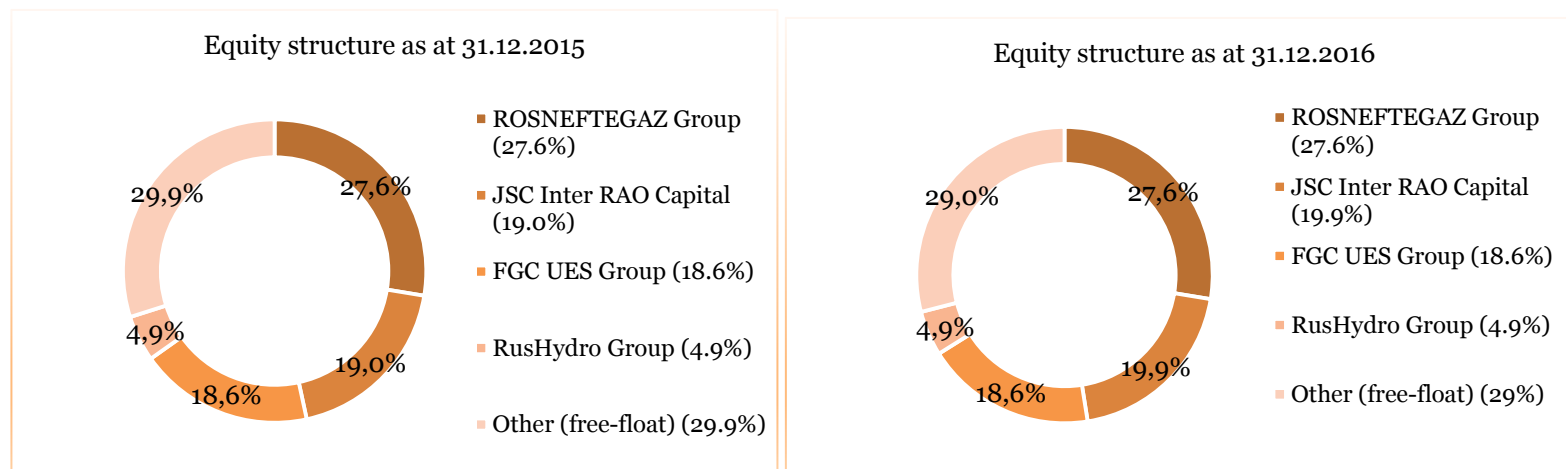
- the management's achievement of strong operating and financial performance of the Inter RAO Group and the possibility of a favourable positioning of the company (202 meetings were held with investors as part of NDR, Capital Markets Day, Site visit, Investor Day);
- expectation of high dividend yield related to the increased free cash flow due to the sale of Irkutskenergo shares;

- expectation and incorporation of Inter RAO shares into the estimated index basis MSCI Russia Standard, index Market Vectors – Large Cap, increasing the share in other key indices (MICEX, FTSE, Stoxx and S&P) as a result of recalculation of the amount of shares in free circulation and growth of capitalisation;
- improving the level and quality of communication with the active investment funds, which led to the increase in the average daily trading volumes of stocks of 5 times (from 1 to USD 5,5 m dollars per day).

The authorised 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 at CJSC MICEX Stock Exchange, which is the top stock exchange level. During the reporting period, UCP SEA RESOURCES LTD, a member of the United Capital Partners (UCP) group, sold its holding of shares (9,064,860,696 shares, or 8.6828% of the authorised capital) to an unnamed consortium of investors on 10 November 2016. As at 31 December 2016, JSC Inter RAO had no preferred shares.

The Russian Federation represented by the Federal Agency for State Property Management (Rosimushchestvo) owns 0,09 of ordinary shares (0,0000000001% of the share capital).

Changes in the shareholder structure during 2016



Shareholders recorded in the register of shareholders of PJSC Inter RAO with at least 5% of voting shares of the company as at 31.12.2015 (excluding nominee shareholders)

Item No.	Full name or company	Location	Number of shares	
			Total, pcs.	% of authorised capital
1	JSC ROSNEFTEGAZ	Sofiyskaya Nab. 26/1, Moscow 115035	27 526 226 998,90	26,3661
2	CJSC Inter RAO Capita	Ul. Bolshaya Pirogovskaya 27, Moscow 119435	5 530 606 427,78	5,2975
3	Non-Banking Credit Organisation Closed Joint-Stock Company National Settlement Depository (nominee shareholder)	Ul. Spartakovskaya 12, Moscow 105066	27 766 732 675,59	26,5965
4	LLC Depository and Corporate Technologies (nominee shareholder)	107014, Moscow, Ul. Stromynka d.4, korp. (str.) 1	41 736 666 045,07	39,9776
TOTAL per list: (accounts: 4)			102 560 191 159,34	98,2277

Shareholders recorded in the register of shareholders of PJSC Inter RAO with at least 5% of voting shares of the company as at 31.12.2016 (excluding nominee shareholders)

Item No.	Full name or company	Location	Number of shares	
			Total, pcs.	% of authorised capital
1	JSC ROSNEFTEGAZ	Sofiyskaya Nab. 26/1, Moscow 115035	27 526 226 998,90	26,3661
2	CJSC Inter RAO Capita	Ul. Bolshaya Pirogovskaya 27, Moscow 119435	5 530 565 439,78	5,2975
3	Non-Banking Credit Organisation Closed Joint-Stock Company National Settlement Depository (nominee shareholder)	Ul. Spartakovskaya 12, Moscow 105066	41 784 154 695,15	40,0231

4	LLC Depository and Corporate Technologies (nominee shareholder)	107014, Moscow, Ul. Stromynka d.4, korp. (str.) 1	27 766 732 675,59	26,5965
TOTAL per list: (accounts: 4)			102 670 513 524,13	98,3434

Information on end beneficiaries of the Company as at 31.12.2016.

Item No.	Full name or company	End beneficiary	Number of shares	
			Total, pcs.	% of authorised capital
1	The Russian Federation represented by the Federal Agency for State Property Management	Russian Federation	0,09	0,00000000001
2	JSC ROSNEFTEGAZ (including direct and indirect ownership)		28 844 020 032,02	27,63
3	JSC Federal Grid Company of the Unified Energy System (including direct and indirect ownership)		19 386 053 950,04	18,57
4	JSC Federal Hydrogenerating Company – RusHydro (including direct and indirect ownership)		5 131 656 433.76	4,92
Shareholders of the Company belonging to Inter RAO Group			20 859 483 939,06	19,98
Other shareholders (free floating shares)			30 178 785 645,03	28,91
TOTAL			104 400 000 000	100,00

Information about availability or purchase by certain shareholders of a control degree disproportionate to their equity holding, including on the basis of shareholder agreements or due to the presence of ordinary and preferred shares with different nominal value

The Company has no information about availability or purchase by certain shareholders of a control degree disproportionate to their equity holding, including on the basis of shareholder agreements.

Shareholders agreements during the reporting year were not concluded.

State registration dates and state registration share issue numbers

State registration issue date	State registration issue number	Placement Report date	Date of cancellation of an additional issue individual number (code)
23.12.2014	1-04-33498-E	31.12.2014	—

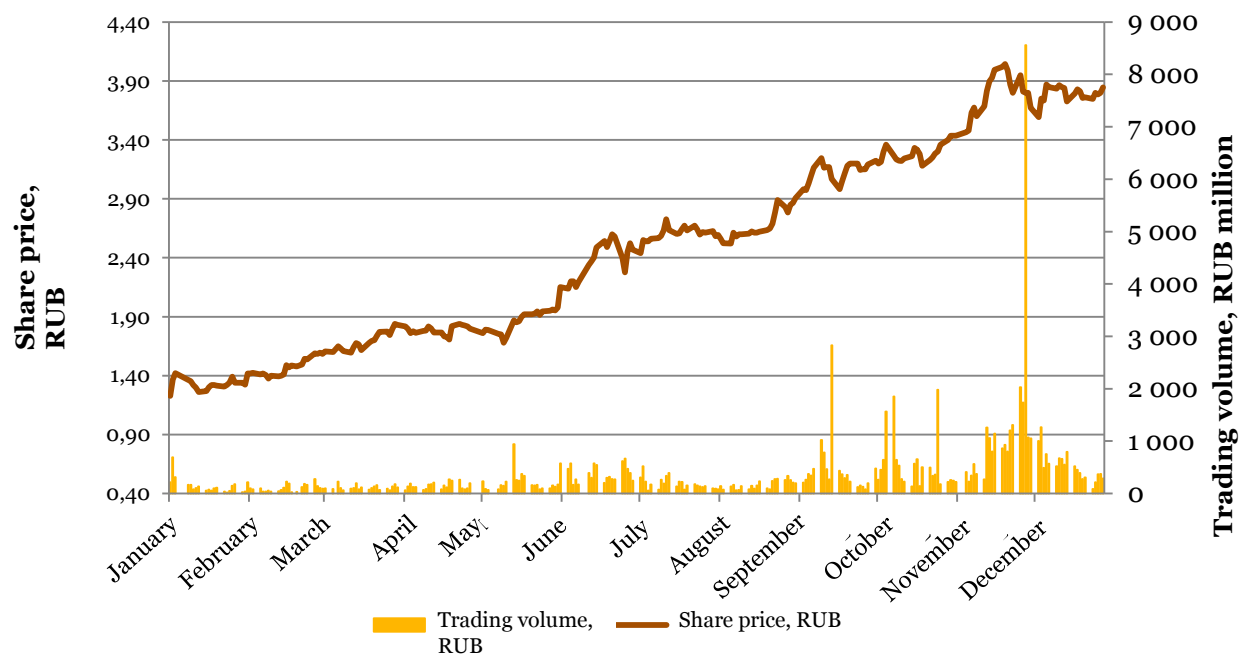
Ordinary shares of PJSC Inter RAO included in the index calculation bases as at 31.12.2016

Index	Ticker	Weight of Inter RAO securities in index 31.12.2015, %	Weight of Inter RAO securities in index 31.12.2016, %
MICEX Index (composite index)	MICEXINDEXCF	0.25%	1.11%
MICEX Power Industry (industry index)	MICEXPWR	14.13%	14.81%
FTSE Emerging	FTAGO1	0.013%	0.089%
FTSE Russia	WIRUS	0.29%	0.82%
FTSE All-World	AWORLDS	0.002%	0.004%
FTSE4Good Emerging	F4GEM	— ¹⁶¹	0.083%

¹⁶¹ “—” means “not included in the index”

MSCI Russia	MXRU	-	1.10%
MSCI Emerging Markets	MXEM	-	0.05%
MSCI ACWI Index	ACWI	-	0.01%
S&P Russia BMI	SRUU	0.18%	1.02%
Dow Jones Russia	DJRUSGD	0.18%	1.04%
Nasdaq Russia	NQRU	0.30%	1.04%
Nasdaq AlphaDEX Emerging Markets	NQDXEM	-	1.36%
Market Vectors Russia Index(Van Eck)	MVRSX	-	1.63%
STOXX Russia Total Market	TCRUP	0.306%	1.16%
STOXX Optimised Russia	EEORGT	-	1.71%

Dynamics of stock prices of PJSC Inter RAO on MICEX in 2016



Results of shares trading for 2016

Minimum closing price, RUB	Maximum closing price, RUB	Average daily volume of trading, RUB	Closing price, RUB		Capitalisation as of the end of the year 2016, m RUB	Market capitalisation growth
			31.12.2015	31.12.2016		
1.2295	4.0435	356,136,069	1.106	3.844	401,314	+248%

Depository receipts

Since 28 November 2011, shares of PJSC Inter RAO have been listed as global depository receipts at London Stock Exchange (LSE) in the IOB segment (International Order Book) as admitted for trading. The date of change in the ratio of the number of shares represented by global depository receipts issued for the Company's shares varies from 1:10,000 to 1:100 on 29 December 2014. FX trading in foreign securities (global depository receipts each of which proves ownership of one hundred (100) uncertified registered ordinary shares of PJSC Inter RAO) starts on 20 January 2015. Trading of global depository receipts issued for PJSC Inter RAO shares at London Stock Exchange was discontinued on 29 July 2016¹⁶² in order to maximise the liquidity of shares on the Moscow Exchange. PJSC Inter RAO retained a disclosure of information to foreign investors in full via RNS. For more details, go to <http://www.interrao.ru/investors/securities-information/>

Investment community relations in 2016

The Group applies a wide range of shareholder and investor relations channels. The Group's Management is committed to improvement of quality of the voluntary information disclosure. To improve the information transparency, it has been the third year that the Group's management within the framework of webcasts disclosures both financial performance statements and financial forecasts and plans, provide the quarterly report on activities to improve the operations efficiency for the main businesses, publish information about key and essential market trends, and answer the questions of investors and analysts.

Proceeding from results of the year, analytical support of PJSC Inter RAO business was provided by seven specialists from leading Russian and international banks. All investment institutions updated the financial models, most of them increased the target prices and recommendations on PJSC Inter RAO shares.

Analysts' recommendations on shares of PJSC Inter RAO as at 31.12.2016

Broker	Recommendations on shares	Target price, RUB	Growth potential, %	Publication date
Renaissance Capital	Hold	4,20	9	25.11.2016
ATON	Hold	4,50	17	24.11.2016
BCS	Buy	4,70	22	17.11.2016
Sberbank CIB	Buy	4,36	13	20.10.2016

¹⁶²By the decision of the Board of Directors dated 29.06.2016 Minutes No. 173 dated 04.07.2016.

Gazprombank	Buy	3,70	-4	30.08.2016
Raiffeisen Bank	Buy	4,13	7	18.05.2016
Merrill Lynch*	Buy	2,00	-	10.01.2016
Veles Capital**	Revision	-	-	-
	Consensus forecast	4,27	11	



■ Hold ■ Buy ■ Revision

* coverage discontinued in 2016

** the analyst is updating the financial model for Inter RAO Group

Relevant assessments of investment analysts are posted on the website <http://www.interrao.ru/investors/analyst-coverage/analysts/>

Analysts from the investment banks highly evaluate the potential of the company's development and consider the company to be undervalued compared to other power industry companies:

Renaissance
Capital

We assess the prospects of Inter RAO in 2017, and see the lack of potential growth and capital expenditure at a level higher than expected. Despite this the company still remains the cheapest and most attractive in the sector of the Russian electric power industry with significant growth prospects in the coming years. We believe that the rapid increase in cost of the Company's securities needs the support of either the high dividend payments, or M&A transactions that can create value.

 **Raiffeisen**
CENTROBANK

We will continue perceiving Inter RAO as one of the best securities in the sector, we believe that the company's financial performance together with optimistic forecasts of the



management support our expectations related to growth of the amount of dividend payout. The key issue is the use of significant cash flow. In the absence of M&A transactions creating value and low dividend payout with a strong cash position there is an issue of unrealised growth potential of the company.

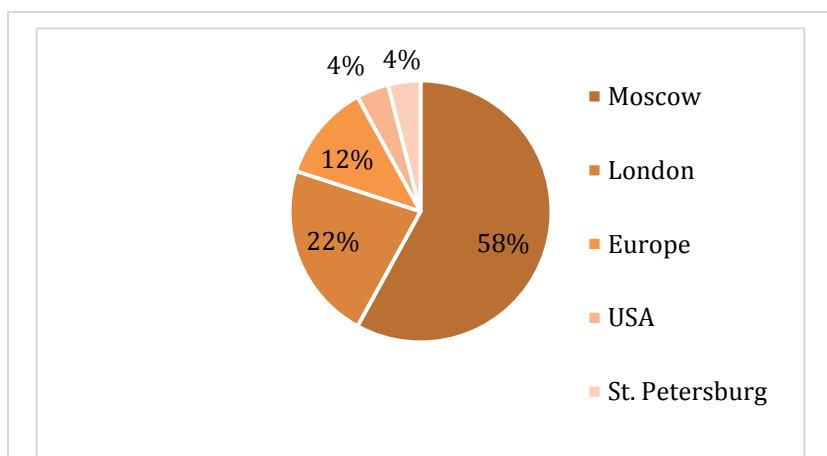
The decrease in capital expenditures, increased payments for capacity and the funds received from the sale of Irkutskenergo shall be transferred to a strong cash flow. The question is, whether the company will share it with minority shareholders. A key factor for the investment attractiveness of Inter RAO will be the dividend payout ratio. The Company states that it is configured to pay 25% of IFRS net income, but in the last 2 years it paid far less.



Strong financial performance, completion of the investment cycle and generation of free cash flow look like a good scenario for the payment of attractive dividends. The Company is undervalued compared to its competitors in the industry.

During the year, there were 202 meetings with Russian and foreign investors. They included Capital Markets Day, non-deal road-show, Investor Day, webcast, conference calls with the largest global European and Russian investment foundations, such as Blackrock (> 4.3 trillion USD), JP Morgan Asset Management (> 1.5 trillion USD), Abu Dhabi Investment Authority (> 770 billion USD), T Rowe Price (> 765 billion USD), Schroders (> 462 billion USD), Pictet & CIE (> 437 billion USD), Fidelity International (> 244 billion USD), etc.

Major part of meetings with Russian and foreign foundations were held during the road shows and conferences in Moscow and in London



The largest group meetings were held during the conferences organised in Moscow by investment houses such as Renaissance Capital, ATON, and VTB Capital.

A significant number of representatives of the investment community visited Capital Markets Day event held in London by Inter RAO Group, as well as site visit to the North-West Thermal Power Plant, which is located in St. Petersburg, with the participation of senior management.

During these events, the following topics were discussed: “Strategic Development of Inter RAO Group”, a detailed review of segments “Power generation”, “Heat generation”, “Sales”, “Trading”, “Long-term business forecast till 2035”, “Long-term prospects for development of the electricity and capacity market”, “Results of Competitive Capacity Auction for 2020”, etc.

The Group’s management is continuously improving the quality of investor community relations. Following the annual study of Russian and international investments made by Extel and IR magazine Russia & CIS 2016, Inter RAO Group once again heads the list of all Russian electric power companies.

In 2016, the Group’s capitalisation increased significantly (by over 248%) resulting from efficient operation of the Group’s management for development and promotion of the investment background, implementation of the Group’s Development Strategy, improvement of quality of investment community relations.

IR Calendar for 2017 is available¹ on the website <http://www.interrao.ru/investors/calendar/>

Report on payment of declared and accrued dividends

Dividends are declared and paid by PJSC Inter RAO in accordance with the Federal Law On Joint Stock Companies and the Dividend Policy Regulation (as amended).

The Dividend Policy of PJSC Inter RAO is aimed to benefit its shareholders through setting an optimal ratio of the capitalised net profit and net profit allocated to dividends. According to the Regulation, the Dividend Policy is designed to meet the following challenges:

- optimising net profit distribution;
- increasing investment appeal;
- observing the rights and legitimate interests of shareholders.

The source of dividend payout is the Company's consolidated profit after taxation (net profit) determined by the results of the financial year based on consolidated financial statements prepared in accordance with IFRS. The Dividend Policy Regulation establishes a target level of dividend payouts equal to 25% of the Company's consolidated profit. When determining the net profit share to be used for dividend payout, the following factors shall be taken into account:

- 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.

The dividend amount may be an amount less than 25% of the consolidated net profit, and the Board of Directors undertakes to inform the General Meeting of Shareholders about the reasons for such reduction.

In accordance with paragraph 3 of Article 42 of the Federal Law On Joint Stock Companies, the resolution on dividend payout (declaration), including resolutions on dividend amount and form of payment for shares of each category (class), is adopted by the General Meeting of Shareholders of PJSC Inter RAO based on the recommendation of the Board of Directors.

Dividend payout volume of previous years

Date	Dividend Payout Period				
	2011	2012	2013	2014	2015
Date of the Board of Directors' recommendations on dividend amount	16.05.2012	16.05.2013	07.04.2014	07.04.2015	07.04.2016
Date of compiling the list of persons entitled to receive dividends	-	-	-	09.06.2015	21.06.2016
Date of the decision of the Annual	25.06.2012	25.06.2013	25.05.2014	29.05.2015	10.06.2016

General Meeting of Shareholders on dividend payout					
Dividend per share, RUB	-	-	-	0.001039679119	0.0178230516552
Total dividends declared, RUB thousand	-	-	-	108,542.5	1,860,727
Total dividends paid, RUB thousand ¹⁶³	-	-	-	107,719	1,860,156
RAS dividend amount/net profit, %	-	-	-	25	50
Dividend amount/base as per dividend policy, %	-	-	-	1.5	7.73

In accordance with paragraph 2 of Article 42 of the Federal Law On Joint Stock Companies and paragraphs 3.1 and 3.3 of the Dividend Policy Regulation of PJSC Inter RAO (as amended) approved by the Board of Directors of PJSC Inter RAO¹⁶⁴:

- The Company's Board of Directors aims at gradual growth of dividend payments to shareholders and bringing the amount of dividends to the level of 25% of the Company's consolidated profits, as determined by the results of the reporting year on the basis of the Company's consolidated financial statements prepared in accordance with IFRS.
- If in accordance with Russian legislation the amount of Company's profit that can be used for dividends payout is limited to the Company's net profit determined in accordance with the accounting (financial) statements of the Company or in other similar cases, the Board of Directors shall take a decision about recommendations on dividend payout in the amount corresponding to the Russian legislation.
- The retained profit of past years may also be used for dividend payout on the recommendation of the Board of Directors.

With a reference to the foregoing, as well as to the profit received by PJSC Inter RAO in the fiscal year of 2015, the Annual General Meeting of Shareholders held on 10.06.2016 adopted the resolution to pay out dividends on the ordinary shares of PJSC Inter RAO at year-end of 2015 in the amount of RUB 1,860,156,000.

186,073,000 roubles were directed to the Company's reserve fund. (5% of net profits). In the reporting period, the Company did not transfer dividends to the federal budget, there is no debt on payment of dividends to the federal budget.

¹⁶³ The information is given as at the dividend due date according to Article 42 of the Federal Law on Joint Stock Companies

¹⁶⁴ Minutes of the Board of Directors of PJSC Inter RAO No. 166 dated 14.04.2016 ¹⁶⁵ Information is disclosed in accordance with the Directive of the Russian Government No. 5024p-P13 dated 31.07.2015 (description of areas and sizes of sponsorship support and charity contributions made by the Company, its subsidiaries and affiliates during the reporting period; providing the Report on the use of funds for sponsorship and charity activities of the Company and its subsidiaries and affiliates).

8 Corporate social responsibility

8.1 Approach to sustainable development

Inter RAO Group operates taking into account agreed business standards, one of which is compliance with the principles of sustainable development. The purpose of following these principles is meeting the needs of all stakeholders in 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 the economic efficiency in the interests of shareholders;
- ensuring quality, reliability and operational safety;
- meeting public demand when creating a business development strategy;
- promoting sustainable economical and social performance in the regions where the company is present;
- promoting the development and expansion of efficient, environmentally friendly and resource-saving technologies;
- protecting life, health, labour 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. In the course of its business, the Group cares not only about the interaction with the external auditors, but also about the welfare of their employees and contributes to raising the standard of living in the regions where the Company is present through implementation of social programs.

8.2 Contribution to the development of the regions of the Group's operation

Reliable and uninterrupted power supply

The main objectives of Inter RAO Group in development of the regions where the Company is present are traditionally reliable and uninterrupted supply of energy and power, the implementation of projects aimed at the modernisation of the energy infrastructure and social and economic development of the regions, decommissioning of outdated equipment and optimisation of unprofitable capacity.

In 2016, the most significant projects were:

- **Construction of a TPP in Kaliningrad Region.** In 2016, as part of the implementation of one of the main strategic tasks set for the Group at the state level – the design and construction of four power stations on the territory of Kaliningrad region power system – the implementation of the Roadmap was performed. Design of power plants was performed taking into account the requirements of the Group's Technical Policy.
- **Modernisation of power unit No. 2 of Irikliinskaya TPP.** Modernisation of power unit No. 2 at Irikliinskaya TPP was performed as part of the Group's investment programme. The transition to reaction blading and four-valve steam turbine regulating system was for the first time performed at supercritical-pressure units of the Inter RAO Group.
- **Decommissioning of the outdated inefficient generation equipment.** In 2016, 835 MW of outdated low-performing capacities were decommissioned. In particular, 376 MW at the Verkhnetagilskaya TPP, 420 MW at the Cherepetskaya TPP, 35 MW at the Yuzhnouralskaya TPP, and 4 MW at power plants in the Republic of Bashkortostan. Also in 2016 decommissioning of power units No. 1, 2 of Kashirskaya TTP was prepared (decommissioning is planned for 2018).

Authority and public relations

Inter RAO Group is working closely with the authorities of the regions where its companies are presented 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;
- implementation of measures on saving energy and increasing energy efficiency of enterprises, public institutions and enterprises of housing and communal services;
- social and economic interaction in order to optimise the combination of economic, labour and social interests of the parties, enabling the sustainable growth of production and economic activity indicators and maintaining social stability of the regions where the Company operates;
- issues of determining tariffs and reduction of receivables;
- increasing tax revenues to the budget system of the regions;

- organising and conducting practical lessons on energy saving for students, as well as workshops on energy saving at companies' sites.

Combating receivables and close collaboration in this field with the executive authorities of the regions where the Company operates is an integral part of payment discipline stabilisation. This not only leads to increased operational efficiency of Group companies, but also increases tax revenues to the budgets of the regions. The Group is constantly working on improvement of mechanisms aimed at more accurate fulfilment by consumers of their payment obligations for the services received. In each of the Group's sales company 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, material and technical base of regions, and the creation of jobs at the Group sites and in supply chains. The activity of the Group covers one of the priority areas of economic development of the Russian Federation – import substitution. Replacement of imported equipment for Russian substitutes has become the key area of PJSC Inter RAO Strategy for the period up to 2020, stimulating the development of scientific and technical areas within the Group.

Description of charity and sponsorship activities and amounts

In 2016, the main objective of the Group's charity was to improve efficiency of the implemented projects along with the increase of the amounts provided, and applying the best practices for the Group's companies in order to solve social problems in the specific region.

In 2016, the charity efforts of Inter RAO Group were accumulated in seven key areas:

- support of vulnerable social groups;
- assistance to artists;
- support for cultural events;
- support for industry veterans, combat veterans and the disabled;
- support of environmental organisations and environmental reserves;
- support of educational institutions and healthcare facilities, mass and youth sports;
- financing of objects of historical and cultural value.

In 2016, the projects aimed at supporting the mass and youth sport, and supporting of disabled athletes were of high priority. In addition, serious attention was paid to the support of environmental projects and assistance to vulnerable social groups¹⁶⁵.

¹⁶⁵ Information is disclosed in accordance with the Directive of the Russian Government No. 5024p-P13 dated 31.07.2015 (description of areas and sizes of sponsorship support and charity contributions made by the Company, its subsidiaries and affiliates during the reporting period; providing the Report on the use of funds for sponsorship and charity activities of the Company and its subsidiaries and affiliates).

The crisis phenomena in the world and the countries where the Group companies operate have not affected the formation of budgets for sponsor and charity activities. In this regard, in 2016, the Group companies partly managed to increase the number of projects fulfilled. During the reporting period, Group companies fulfilled 376 charity and sponsorship projects, in 2015 the number of such projects amounted to 344.

When implementing the projects, the basic principle of the Group's Charity Concept was targeted allocation of money and other forms of support to an individual or legal entity for the specific needs.

The implementation of charity and sponsorship programmes

Methods and criteria for determining priorities in this area take into account the relevance of issues for which sponsorship and charity support shall be implemented. To ensure the achievement of synergetic effect, areas of sponsorship and charity are associated with the major activities of the Group, the Group's objectives, specified in the Strategy¹⁶⁶. The basic principles for the selection of Inter RAO Group's charity and sponsorship projects are:

- targeting;
- effectiveness;
- fairness;
- efficiency;
- territoriality;
- perspective;
- availability and transparency.

A selection 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 programmes.

Improvement of control mechanisms over the charity projects at the stage of their selection helped to 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, visit of site events, interaction with beneficiaries, collection of information from third parties, monitoring of information field and the media.

The main Group's objective in the field of charity and sponsorship activities for 2017 is to increase the efficiency of all social projects of the Group and distribution of best practices in the Group companies, in order to solve social problems in a specific region, and to develop voluntary activities.

¹⁶⁶ The Strategy/Long-term Development Programme was approved without change by the Governmental Commission on Energy Development (Minutes No. 18 dated 27.12.2014).¹⁶⁷ 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 2015 and 2016 data on social and HR indicators are aligned with the perimeter of this report and may differ from those disclosed in other reports of Inter RAO Group for the previous reporting periods and from the data in accordance with the perimeter of the consolidated financial statements of the Group.

Group companies implement network and non-network sponsorship and charity projects in all regions where they operate. Most of such projects are implemented in Russia.

RUSSIAN FEDERATION

Network projects of the Group

In 2016, network projects were proactively continued and were pursued by almost all Group's companies, adapted to the specific needs of the regions.

“Energy of Memory and the Welfare”. The objective of this project is to support veterans of the Great Patriotic War, survivors of siege, workers of labour fronts, prisoners of concentration camps. In 2016, the project was widely practised and was implemented by many companies of the Group. The employees of the Group conducted large-scale activities and special events dedicated to the Victory Day and the International Day for the Elderly. The monuments and memorials of the Great Patriotic War were repaired and ameliorated. Veterans of the Great Patriotic War received targeted support, the home appliances and food were procured.

“Light and Heat for Children”. The objective of the project is to support disabled children, orphans and children without parental care, by purchasing basic necessities, medicines, medical and sports equipment, as well as organising sports and creative events for children.

“The Brightest New Year Tree”. A good tradition for the Group's employees is holding the charity event for orphans and children in difficult life situations. On the New Year's eve, the employees of the Group companies held more than 30 entertainment events in 23 orphanages, residential facilities and special medial 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. In 2016, the project was implemented in 16 regions and caused wide public interest, gathering over 1,500 people on its sites. The project is to support talented young performers of classical music, organise concerts in adult and children's hospitals, orphan asylums and nursing homes. For example, Kostromskaya TPP and Ivanovskiye CCGT helped to organise a range of charity concerts in Kostroma, Volgorechensk, Komsomolsk and Komsomolsk region for socially vulnerable groups of people with the participation of the Kostroma Gubernski Symphony Orchestra headed by Pavel Gershtein.

“Your Choice is Energy Specialist”. To promote the professions of the power industry among the youth, the Group conducts on a regular basis the special Olympiads and competitions, makes lectures and lessons for students, supports the educational institutions in buying the office appliances, PCs and buying up-to-date equipment for laboratories. Research and development activities related to power supply and energy efficiency improvement are made in tight cooperation with educational institutions, based on results of this R&D work, winners in different nominations are selected.

“Energy of sports”. The project aims to promote the culture of sports and 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 conditions for sports and organise sports tournaments with the participation of residents of the regions where Group companies operate. Thus, employees of Ivanovskiye CCGT organised a volleyball tournament with the participation of residents of Komsomolsky district of Ivanovo region, dedicated to the 86th anniversary of Ivanovskaya TPP, and the IV Mini-Football Tournament among youth teams dedicated to the Power Engineers’ Day.

The Group also provides targeted support to Paralympians, aimed at creating favourable conditions for training and providing athletes with necessary equipment and facilities.

LITHUANIA

AB INTER RAO Lietuva supports projects aimed at 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 healthy lifestyle and sports. In 2016, the company supported the International Festival of Classical Music in Pažaislis, the project for development of hobby groups for cultural activity and sport for students of Vilnius, projects for the promotion of sports and culture in Lithuania, including presentation of theatre performances and tours of the Lithuanian national theatre of opera and ballet.

GEORGIA

For ten years, Telasi Joint Stock Company has been a proud sponsor of the International Music Festival “From Easter to Ascension” aimed at promoting the support of young Georgian artists and the advancement of the community interest in classical music. The festival programme is traditionally attended by international celebrities and Georgian musicians successfully performing in the country and abroad.

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 charities of Georgia, offsetting the cost of the electricity they consume.

MOLDOVA

CJSC Moldova TPP is the largest enterprise in the region. The company attracts a large number of local suppliers and contractors for execution of works, rendering of services that cannot be done in an economic way and purchases materials, spare

parts and other resources from local producers and private entrepreneurs. This has a positive effect on the development of the region as a whole.

The company provides financial support to educational institutions in Dnestrovsc, and helps public organisations to cover the cost of the energy consumed. In the reporting year CJSC Moldova TPP participated 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 sport events.

Volunteer projects

Besides implementation of charity and sponsorship projects, PJSC Inter RAO in coordination with the Young Active Members of the Group proactively implement various volunteer initiatives, and their number increases every year. This indicates the improvement of awareness among employees about social problems and their desire to make their own contribution. In 2016, 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 organised a number of urgent charitable social events to raise funds for the people in need. The total donations of employees exceeded RUB 500 000. The quality and quantity of volunteer projects of Inter RAO Group continues to grow, indicating the increased awareness of employees about social problems and their responsible attitude to people in difficult life situations.

In 2016, many of Group companies had traditional donor days, when employees donate their blood and make donations to support children in need of treatment. Thus, during four years of this event in PJSC Inter RAO, 250 employees donated nearly 100 litres of blood to support the charity foundation Gift of Life, whose patients are being treated in Federal research centre of paediatric haematology, oncology and immunology named after Dima Rogachev. In addition, in 2016, employees of Permskaya TPP took part in the event “Donation of mind”, by donating blood in order to be included in the national register of potential bone marrow donors.

The employees of the Group in cooperation with the Young active members within the initiatives devoted to the Victory Day “We remember” and “Gift to a veteran”, “Flag of Memory”, “St. George Ribbon” etc. made large-scale litter pickup weekends to clean, ameliorate and partially recover the burial places of soldiers, memorial monuments and neighbouring areas, and delivered gifts to veterans of the Great Patriotic War. Many employees also supported the All-Russian initiative “The Immortal Regiment”.

In 2014, Kostromskaya TPP and the administration of Volgorechensk jointly opened a special group of disabled children in the kindergarten No. 1 “Semitsvetik” in Volgorechensk. Since then, employees of the company organise holiday activities and monitor the progress of the children. Today 42 children with special needs live in Volgorechensk. All such children of the under-school age aged over three years may attend the new group with perfect environment and conditions for their development and rehabilitation.

The employees of the Company are more and more committed to responsible attitude to resources consumption and separate collection of waste. The employees of the Group participate on a regular basis in litter pickup weekends and tree planting in order to ameliorate the regions where the companies operate.

As part of the environmental educational project, youth activists held the energy conservation lessons for students in Omsk and Ufa. Such initiatives contribute to the development of conscious approach to the use of resources among young people.

8.3 HR management

HR policy and staff report

As in previous years, Inter RAO Group's priority areas of operations are staff management and professional development of employees, ensuring high level of productivity, staff motivation and corporate culture.

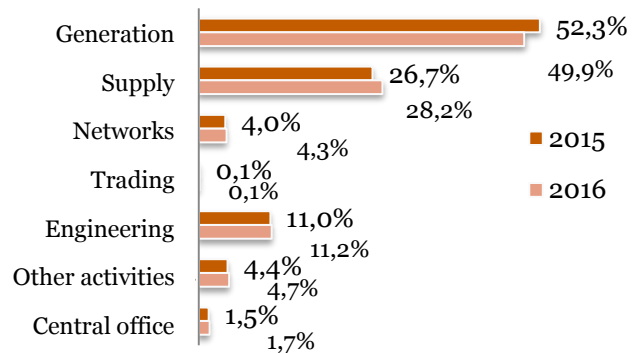
In 2016, Inter RAO Group's HR development activities were as follows:

- increase of labour productivity;
- targeted development of the Group's managers;
- improvement of efficiency of the staff training system;
- improvement and regulation of business processes in the field of personnel management.

The headcount of the Group at the end of the reporting period amounted to 47,930 employees. About 82% of the Group staff are the employees of generation, marketing and network segments¹⁶⁷.

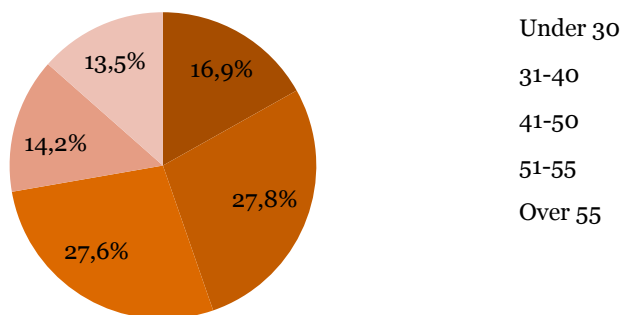
¹⁶⁷ In accordance with the GRI guidelines, while calculating HR and social indicators, the statements shall include the Group businesses, including associated companies, which have a significant impact in terms of HR management. The 2015 and 2016 data on social and HR indicators are aligned with the perimeter of this report and may differ from those disclosed in other reports of Inter RAO Group for the previous reporting periods and from the data in accordance with the perimeter of the consolidated financial statements of the Group.

Personnel structure by segment

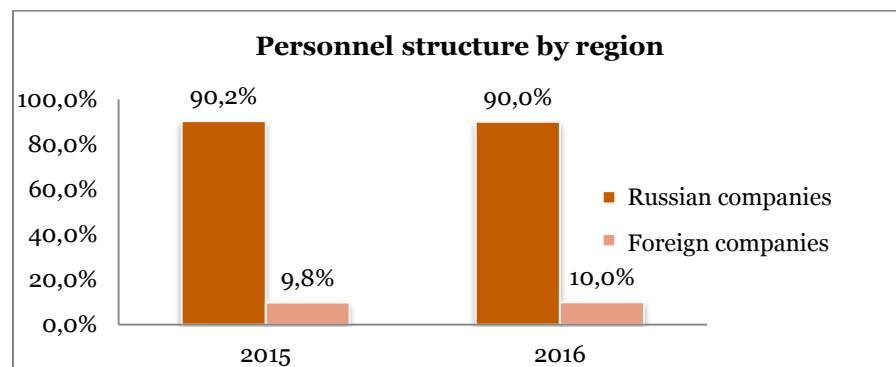


The average age of the Group's employees compared to 2015 decreased to 41 years old (in 2015 – 42 years old). 72% of Group staff are younger than 50 years old.

Group personnel structure by age as at 31.12.2016

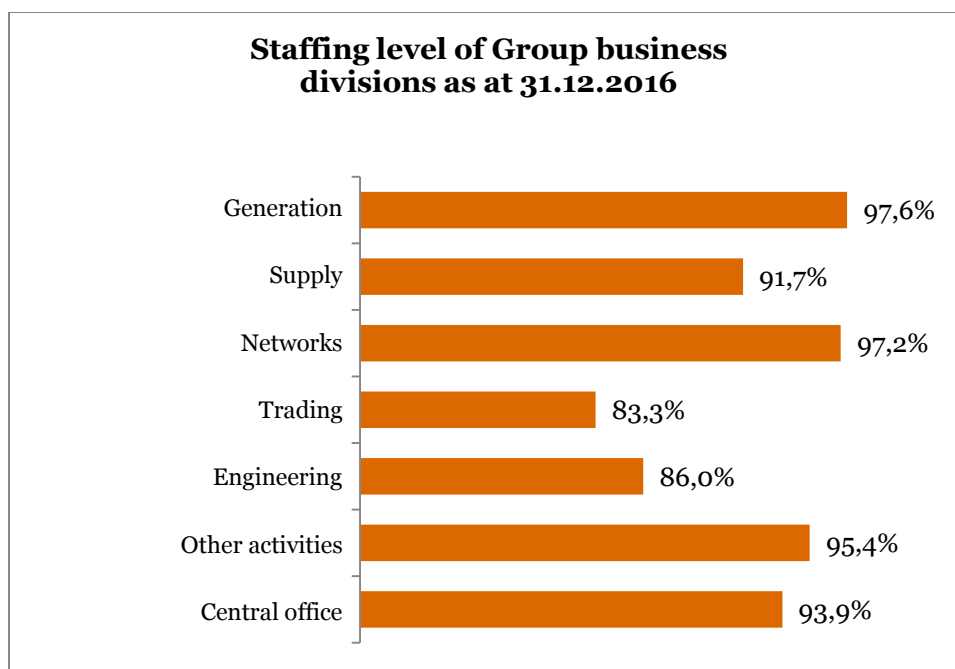


The structure of the personnel working in the Group's Russian and foreign companies did not undergo any considerable changes compared to 2015.

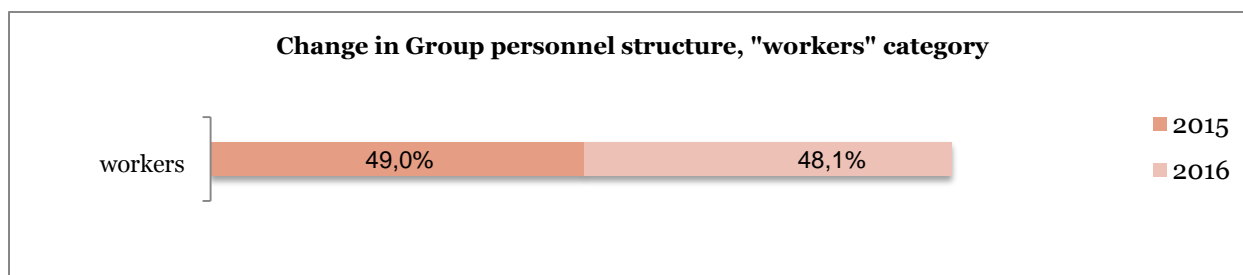
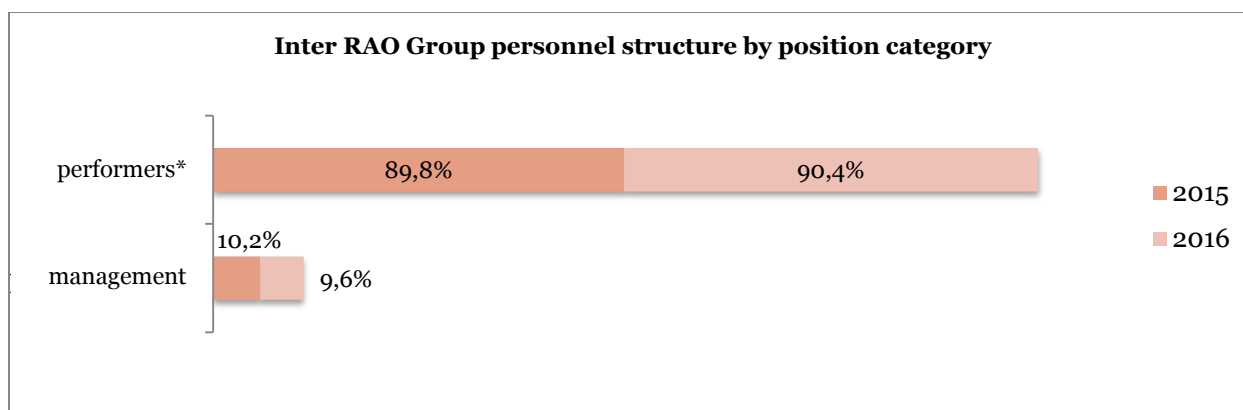


In 2016, the Group's staffing level amounted to 94.2%, which together with the employee turnover rate equal to 9.17%¹⁶⁸, demonstrates the efficiency of the HR policy and staff recruitment methods that the Group uses.

¹⁶⁸ This rate reflects the natural employee turnover of the Group according to the following articles of Russian Labour Code: by agreement of the parties, at the initiative of the employee, on other grounds of the Labour Code, under circumstances beyond the control of the parties.



As a result of successful measures taken to improve the Group's organisational structure and increase of the span of control, the percentage of managers in the Group's personnel structure decreased by 0.6 p.p., whereas the percentage of performers increased by 0.6 p.p.



In the reporting period there was created a work group to implement professional standards of the Group in order to ensure compliance of employees' skills to the requirements of these standards. Members of the work group conducted an analysis of functional responsibilities and identified the skill levels of employees according to their positions. It is planned that the work group activity would be completed in the second quarter of 2017, when titles of positions would be checked, skills of employees would be analysed to meet the qualifications for the positions and a plan to transfer to professional standards would be created.

Labour productivity

In 2016, the growth of labour productivity was 20%. This indicator was achieved due to the successful implementation of several projects to optimise staffing, improve operational efficiency of the Group companies, develop existing technologies and raise the level of employee engagement.

The main works on optimisation of headcount were carried out in order to increase the share of qualified employees and improve labour productivity. The works shall be completed in 2017. In this process, the norm of manageability was adjusted and the number of management levels were optimised, followed by standardisation of headcount. The Group companies involved in the projects to optimise the headcount in 2016 introduced headcount drivers and requirements for qualification levels. The only exception was the repair units, where standardisation shall start in 2017. As a result of the projects on standardisation of headcount the management company and its assets received an overall framework for analysis of the headcount standards.

In particular, as part of the project on optimisation of headcount, in 2016, on the basis of JSC Tomsk Generation and JSC Inter RAO – Electric Power Plants, the project on optimisation of maintenance activities and the formation of an effective equipment maintenance system, including with the use of outsourcing technologies, was initiated. In accordance with this project, the analysis of headcount for employees involved in the maintenance and repair of equipment was conducted. Its goal was to increase labour productivity and quality of repair through improvement of the existing organisational structure. The project shall be completed in 2017. In addition, the project on centralisation of procurement functions at JSC Tomsk Generation, JSC TomskRTS, JSC TGK-11 and JSC Omsk RTS, which started in 2016, was aimed at the growth of labour productivity. As part of the project, more than 50 staff members were transferred to a specialised procurement Group company LLC Inter RAO – Procurement Management Centre. According to the Group's estimates, the discounted savings over three years as the result of project implementation will amount to RUB 18.4 million.

In addition to headcount optimisation, the growth of labour productivity was affected by the growth of yield per person as a result of implementation of long-term incentive programmes. This programme is designed for a three-year period (since 2016), and the payment term is 2019. The programme is designed for key Group companies and based on production performance. Its aim is to solve the following tasks: 1) implementation of long-term goals and sustainable business development; 2) the retention of key employees, focus on strategic indicators.

In the reporting period, two pilot projects for the development and improvement of existing technologies, and for improvement of employee engagement, "ROST" and "Livelihood Development Programme" respectively, were developed to improve labour productivity. "ROST – Development and Improvement of Existing Technologies" was developed on the basis of the pilot company of PJSC Saratovenergo to improve key end-to-end business processes of the company by the transfer of effective practices and their implementation in other power supply companies of Inter RAO Group.

According to the results of the project, trained employees of various power supply companies and the holding company developed projects to improve current business processes in different categories.

In total, there were 83 projects, 75 of which were implemented in 2016, and 8 would be implemented in 2017.

The effect of the implemented projects in 2016 amounted to RUB 9.4 million. On the implementation of the remaining projects, the expected effect is RUB 88 million. Total cumulative effect of the project for 2016 and 2017 will amount to RUB 97.2 million. Another project aimed at increasing labour productivity is “Livelihood Development Programme”. This project was developed on the basis of JSC St. Petersburg Power Supply Company to improve the efficiency of current activities of the selected branches for power supply of JSC St. Petersburg Power Supply Company using training tools and transfer of effective practices in the field of personnel management. The project was implemented in two stages: 1) technology transfer and development of an action plan for the achievement of agreed KPIs by power supply branches; 2) implementation of the action plan for the achievement of agreed KPIs by selected power supply branches of JSC St. Petersburg Power Supply Company.

As a result of project implementation, the plan to reduce the overdue receivables exceeded target by 5-10% and the planned income from the sale of additional paid services – by 3-5% taking into account plans raised by 20% within the project.

The project helped participants to reach a common understanding of the company’s goals, to demonstrate high level of leadership and team work, and influence the result of the company’s work in terms of specific situations.

As a result of implemented pilot projects, the growth of profitability under the paid services agreement and decrease of accounts receivable were reached, which also led to the growth of labour productivity.

An updated methodology for regulating business processes, including the procedure and technologies for development of internal regulatory documents (policies, methodologies, instructions, provisions on committees and commissions, provision on the delineation of authority between the Chairman of the Management Board and immediate supervisors and competence centres) was approved and introduced with subsequent implementation in the Group’s subsidiaries.

Remuneration and motivation

Optimisation of remuneration and motivation system traditionally takes pride of place in the personnel management task list of the Group. In 2016, this work was continued and supplemented by a number of projects with proven high efficiency.

In 2016, implementation of a pilot project to introduce flexible schedule on the basis of LLC BGC continued as part of the incentive programme. Thus, changes were introduced in Internal Code of Labour Conduct and labour agreements of employees. The project aims to incentive employees included in talent pool and a highly qualified staff. The project shall be implemented in 2017.

An advanced benefits system based on the “cafeteria” principle was introduced in two units of LLC BGC (Executive Branch and Ufimskaya TPP-3). About 500 employees switched to this system, representing 14.4% of LLC BGC headcount. The goal of the project is effective use of budget for social payments, the fair provision of benefits to all staff categories and provision of priority

benefits selection for employees. At the end of 2016, the level of employee satisfaction with the new system was 88% (compared to 70% in June 2016).

In addition, to improve the effectiveness of the career development system, the pilot project “Staff movement control” was developed and launched in four branches of JSC Inter RAO – Electric Power Plants. The goal of the project is involvement of the heads of structural units and the branch into workforce planning, formalisation of staff movement plans (identification of promotion route for a particular employee in a particular unit), creation of a real talent pool for all management levels. The analysis of the pilot project results will be made in the first quarter of 2017. Distribution of the project to all branches is planned as well.

In 2016, the Corporate Support Methodology for employees of JSC Inter RAO – Electric Power Plants branches, aimed at improving their housing conditions, was approved for the purpose of retaining promising qualified employees, on-fire professionals and young specialists of JSC Inter RAO – Electric Power Plants. This Methodology provides two forms of corporate support for employees of the branches:

- as part of the recruitment process – the compensation of all costs for housing rent or compensation of part of the costs for housing rent;
- as part of the retention process – the compensation of 70-90% of costs for redemption of interest for mortgage loans, costs for housing rent or compensation of part of the costs for housing rent; This Methodology is an effective tool for improvement of motivation of high qualified specialists and personnel turnover management.

Personnel training

Due to the implementation of advanced training programmes, the Group manages to provide a high level of employees qualification, work safety and compliance with the requirements and regulations of the wholesale electricity market.

In 2016, the number of employees that had completed mandatory training increased by 1.4% in the Group average.

The proportion of employees that completed mandatory training, by segments			
	2015	2016	2016/2015
Generation	43.3%	46.5%	3.2%

Supply	13.5%	13.4%	−0.1%
Networks	55.4%	58.0%	2.6%
Trading	7.3%	1.5%	−5.8%
Engineering	63.3%	64.5%	4.1%
Other activities	32.0%	34.2%	2.2%
Central office	7.5%	6.6%	−0.9%

Goals and objectives of the Group's staff training in 2016 were conditional on the strategic goals and objectives to improve labour productivity and production performance, and ensure accident-free and safe operation.

In 2016, the Group's staff training and development were implemented in the following areas:

- mandatory staff training as part of implementation of supervisory authorities requirements;
- additional vocational training under training and retraining programmes, aimed at increasing and maintaining employees' professional competencies;
- simulator training of operational staff in order to create, maintain and improve specific skills for reliable and safe operation, prevention of accidents, failures and incidents using various types of simulators;
- training under talent pool training programmes in order to develop management skills of talent pool members.

Training of staff is carried out in a variety of forms, including intramural and extramural training, internship and job training, and distance learning using advanced technologies.

In 2016, in order to develop managerial competences of senior staff, the Group companies carried out a comprehensive training under "START" programme on the following topics: "Effective presentation", "Time management", "Effective meetings", "Effective communication". The programme included on-site trainings and a series of video courses on the above topics. The programme lasted for three months and covered 4,600 persons, of which 600 persons from 20 Group companies were trained on-site and over 4,000 persons (87%) from 46 companies studied remotely.

In 2015, a talent development programme entitled "Cascade" was introduced for the executives included in the candidate pool of PJSC Inter RAO following the 360 Degrees assessment. The programme is intended for the executives to form a stable skill of developing their subordinates in order to enhance their performance and to increase their own qualification in the areas essential for the company's competitiveness.

540 executives from 17 Group companies underwent training in Cascade 2016. As a result, the trainees learned about the world's best practices concerning the management competences developed, analysed the example of a training course for personnel development, authored three own training courses and conducted training for over 1,200 subordinate employees. Among the

key benefits of such programme are maximum involvement of line managers in the development of their subordinates and propagation of the best management practices among the executives of various levels. For the introduction and development of Cascade in 2016 PJSC Inter RAO won the prize “Corporate Training”¹⁶⁹ in the prestigious “Knowledge Management Project of the Year” nomination.

In 2016, to increase performance by keeping and replicating valuable management experience, Inter RAO Group held an international contest “Energy of Experience”. The purpose of the contest was to create a training course based on the obtained knowledge and best management practices. Over 100 executives from 36 Group companies took part in the contest and received appropriate training to systematise their successful experience.

As a result, training courses were developed of which 34 best courses were selected on a competitive basis. These courses were released as a corporate publication – a book on the management experience of Inter RAO Group “Energy of Experience”. Each chapter provides the principles of effective work covering the key aspects of management activity. The book contains real operating situations where the stated principles can and must be applied. This approach makes it possible to proceed from theory to practical implementation of the obtained knowledge immediately after studying the material.

An important step in enhancing the management competences of executives in 2016 was the programme of training and rehabilitation sessions for the executives of Inter RAO Group launched in 2015. For the reporting period, 46 executives of the Group companies took part in the programme based in the Crimea and St. Petersburg sanatoria. The project’s key objectives were to raise the qualification of executives simultaneously with their short-term rehabilitation and health recovery for medical indications.

In 2016, the Group’s management faced an important task of forming a candidate pool for the positions of chief engineers of branches. To that end, a project entitled “Chief Engineer School” was launched at the end of 2016 on the basis of JSC Inter RAO – Electric Power Plants. The project is intended to form an operating and strategic reserve for the positions of chief engineers by creating a system of organisational and training measures that would enable the identification of prospective candidates for the position from among the company’s employees, to ensure their professional development and preparedness for taking up the position of chief engineer.

The project’s key objective is to provide the employees with relevant knowledge conforming to the level of technology used at the plants, which includes, among other things, teaching of personnel, teams, and projects management skills that are key for the position. The Chief Engineer School project is expected to be implemented in 2017 and further on.

¹⁶⁹ The prize organiser is the Corporate Universities magazine

To ensure successful adaptation of new employees, to involve them into the working process and to share professional knowledge and experience with them, the mentorship programme 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, and observe standards and rules of work.

For further improvement of the mentorship programme, PJSC Mosenergosbyt has approved an automated business process for personnel adaptation. The following processes now function online:

- assignment of a mentor for a new employee;
- task setting and control during the probation period;
- reporting on successful completion of the probation period;

Such improvement of the mentorship programme will make it possible to reduce the number of employees who fail the probation period, and to decrease the overall staff turnover. The work for the automation of personnel adaptation of business processes started in the second half of 2016 and will continue in 2017.

One of the effective tools for training and professional development of the Group's employees is their participation in international internship programs and scientific and technical conferences to share experience and to learn about advanced production processes. In 2016, the following international trips were made:

- two groups of specialists from Verkhnetagilskaya TPP were briefed on operating gas-turbine power plant equipment at Siemens Training Centre in Erlangen (Germany);
- the chief engineer of Kaliningradskaya TPP-2 attended the event conducted by Dongturbo Electric Company Ltd. in Shenyang (People's Republic of China) to share experience with Chinese colleagues.

Moreover, workmanship competitions are held annually for the Group's specialists with the key purpose to:

- increase and assess the professional qualification of the operating personnel;
- share the best practices in organising and carrying out the operating control of equipment, improving the forms and methods of work aimed at ensuring the quality and safety of equipment maintenance;
- develop and improve the training software and hardware;
- strengthen traditional professional ties between energy workers.

The Group's personnel training plans for 2017 are intended to further develop:

- management competences;
- professional competences;
- candidate pool;

- knowledge of the regulatory framework in the power sector;
- the quality of claim-related work;
- the quality of customer services;
- the skills of selling additional paid services;
- the skills of working with software products.

Personnel performance assessment

Inter RAO Group conducts an annual assessment of its personnel with the key objectives to:

- monitor the personnel performance;
- determine the needs for professional training and personal development of personnel;
- obtain comprehensive information to make decisions on career development and inclusion into the candidate pool;
- identify efficient and highly effective employees, revise, as appropriate, the salaries of employees within the scope of the approved budget.

Apart from the personnel assessment approach “360 Degrees” that has been annually conducted for all executives of the Group companies since 2015, an innovative personnel assessment system “Business Sociometry AZIMUT 2.0” was introduced. 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. Such assessment was performed in 13 Group companies and based on its results plans for developing the management teams were made and organisational decisions were taken.

The Group management determined the following personnel management goals and objectives for 2017:

- fulfil the business plan for the optimisation of the companies’ payrolls;
- increase the overall personnel satisfaction with the company up to 80%;
- enhance labour performance by increasing personnel involvement;
- develop the skills of effective team work;
- develop the system of internal communications.

Social partnership

Social benefits and guarantees are an essential tool in the HR policy of Inter RAO Group that are crucial both for non-financial motivation of personnel and for maintaining the Group’s image as an attractive employer. In 2016, the costs on the implementation of social programs for personnel amounted to RUB 5.20 billion.

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 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 companies.

The Group companies provide extensive support to their employees in various circumstances, pay serious attention to treatment and recovery of their personnel and provide them with free medical aid and health resort treatment. The Group 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 centres and participation in festivities and sports events are available to the employees' children.

The procedures for providing benefits and social guarantees to the employees are being constantly improved. One of the examples of such efforts in 2016 was the project for the automation of the business process of controlling the health of employees, identifying professional diseases in a timely manner and organising medical examinations on the basis of LLC BGC. As a result of the project, a unified personnel medical examination base was developed, a software product for information processing was created and its pilot operation was conducted. The software complex is ready for replication for all BGC branches in 2017. This tool will make it possible to increase the rate of preparation and processing of information, to create a unified information base to ensure data transparency, to make sure that the employees have timely medical examinations, and to coordinate the HR and labour safety services.

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.

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 sports events are held. Unique by its scale is the Annual Sports Contest among the Group's employees, as well as the programme for hockey popularisation where everyone can be a member of a hockey team and take part in the corporate hockey competitions together with the executives of the subsidiaries and PJSC Inter RAO. In 2016 the German Volgin amateur ice hockey tournament was held in Moscow with the participation of 16 teams consisting of the Group's employees from various regions of the country. Moreover, the 10th Inter RAO International Futsal Cup took place in 2016. Over 400 sportsmen representing 26 teams from three countries – Russia, Georgia and Moldova, took part in the anniversary tournament in Moscow.

One of the key areas in the Group's social policy is the cooperation between the trade unions and the management in pursuing a consistent labour relations policy based on the principles of social partnership. In particular, an active dialogue is being maintained with trade union organisations aimed at protecting the rights and interests of employees. Trade union representatives take part in addressing all significant social and labour issues: from structural transformations to changes in labour remuneration, working hours, and Group structure.

8.4 Occupational Health and Industrial Safety

Raising the occupational health and safety efficiency

Increasing the health and labour safety of employees is traditionally a strategic priority for Inter RAO Group. Constant improvement of processes ensuring accident-free work is immediately related to the adaptation of the best world practices concerning occupational safety. A priority area in occupational health and safety is the reduction of industrial injury and accident rate.

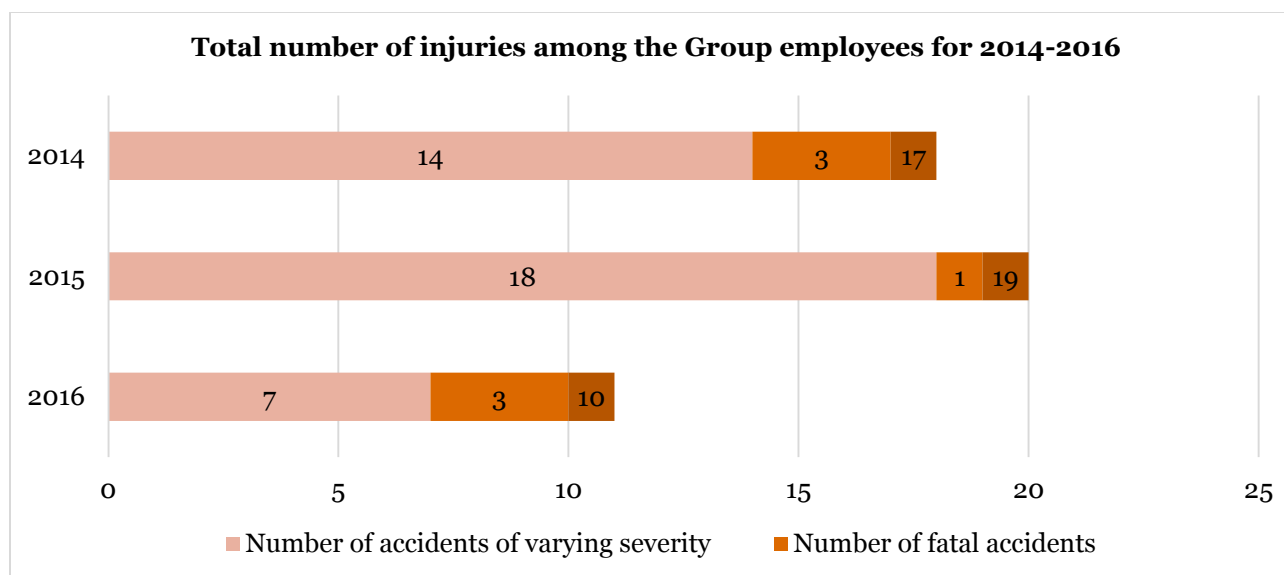
For continuous improvement of the internal regulatory framework in the area of occupational health and safety, a number of corporate standards have been updated: "Methods of Prompt Incident Reporting" and "Methods of Issuing Personal Protection Equipment to Employees", which regulate the process of prompt transfer of information about occupational incidents and establish requirements on the provision of personal protective equipment to employees in the course of their work. To improve the system approach to organisation of internal control of industrial safety, the Work Safety Audit Regulations were updated.

For 2017, the 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 Fulfilment of Inter RAO Group's Strategy Implementation Plan. The indicator value set for 2017 is – 0.358.

Industrial injury

The long-term goals of Inter RAO Group regarding occupational health and safety up to 2020 include reduction of injury frequency rate and complete absence of accidents at hazardous production facilities.

In 2016, the Group companies demonstrated positive dynamics in reducing the total number of production-related injuries from 19 in 2015 to 10 in 2016. And 6 out of 10 accidents in 2016 were through no fault of the Group companies' employees.



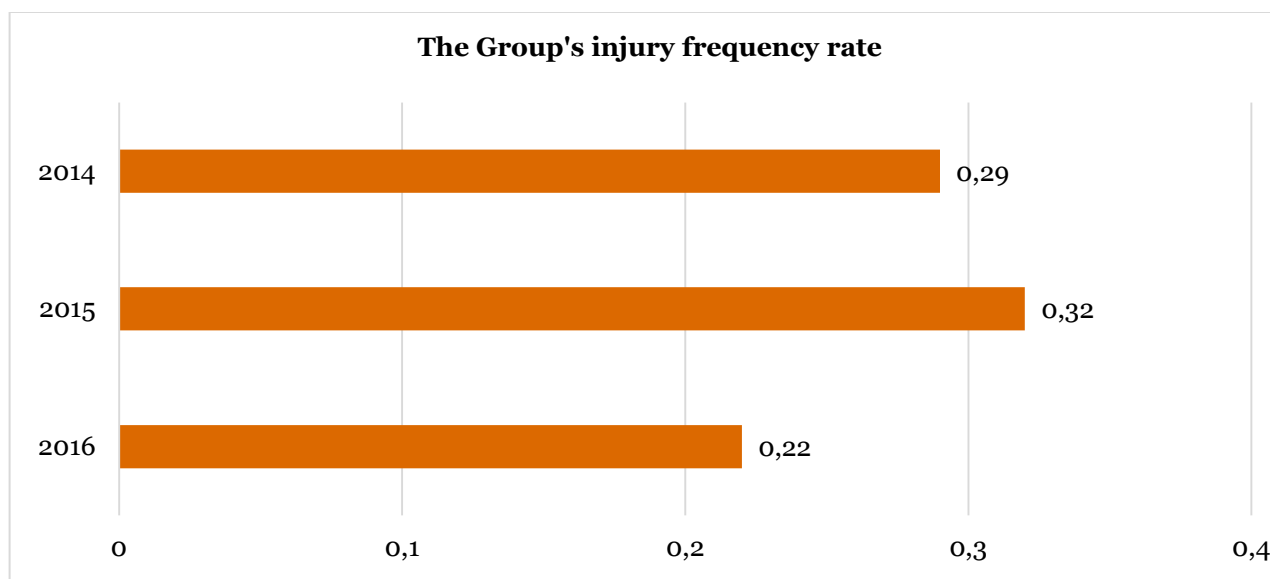
The total number of persons injured in accidents also reduced as compared to 2015: 11 in 2016 versus 21 in 2015. As of the end of 2016, 6 professional diseases were recorded versus 1 disease in 2015.

Total number of persons injured in accidents

Indicators	Year	
	2015	2016
Total number of persons injured in accidents per year, persons	21	11

The analysis of industrial injury in 2016 showed that a significant number of accidents were due to poor organisation of the performance of work, as well as the unlawful actions of others. In 2016, two out of three fatal accidents were through no fault of the Group employees.

In 2016, the injury frequency rate among the Group employees did not exceed its target value ($\leq 0,360$) and amounted to 0,22.



To minimise injury, the Group's specialists take a complex of control and preventive measures:

- limited-scope, complex, extraordinary audits of work safety, as well as regular internal inspections of compliance with workplace safety rules;
- assessment of the efficiency of measures for the prevention of accidents;
- corrective and preventive measures, including measures aimed at raising the qualification level of personnel.

Assessing the compliance of facilities with regulatory requirements

Annually, in accordance with the approved plan, the specialists of the Production Control and Technical Audit Department of PJSC Inter RAO's Production Unit with involvement of specialists from the Technical Policy Department perform corporate audits of work safety in Inter RAO Group.

In 2016, 25 facilities of the Group were audited (21 scheduled and 4 extraordinary audits). The audits were intended to assess the level of safe operation and technical condition of the production facilities, to identify the risks, and to develop recommendations to prevent any negative developments in the production activities of the Group companies. Based on the analysis of the identified breaches, the subsidiaries developed and approved plans of measures for their elimination with assigning of responsible persons and deadlines.

Enhancing work safety

In 2016, the special assessment of labour conditions (SALC) was continued as per Federal Law No. 426-FZ. As of the end of the reporting period, PJSC Inter RAO and its subsidiaries assessed 9,880 workplaces, which exceeded the target value by 2,055 workplaces. Based on the assessment results in the Group, most workplaces were referred to Classes 2 (admissible), 3.1 and 3.2 (harmful). For the short-term (2017-2018), a series of works are planned to continue SALC. In 2017, SALC is scheduled for 4,820 workplaces.

Personal protection equipment (PPE) is provided to the Group's employees as per the requirements of the Russian laws and regulations. A clear list was made naming personal protection equipment items for each profession and position. PPE is provided in accordance with the Methods of Providing Personal Protection Equipment developed by Inter RAO Group. In this regard, additional requirements are raised toward PPE suppliers and manufacturers for continuous and constant improvement of products supplied and use of new technologies.

To maintain a high level of health and work safety, the Group constantly increases the volume of its investments into the improvement of work and health safety. In 2017, the Group plans to increase investments by 6% up to RUB 1.3 billion. In 2016, the investments in these areas grew 9% compared to 2015 and totalled RUB 25,030 per employee.

To combine joint efforts of the management and employees in improving the methods of safe work organisation and work safety inspections, the Group has established Work and Health Safety Committees that consist of 430 employees, including representatives of trade union organisations.

Simulation training

In accordance with prospective programs and goals for the period up to 2020, the Group continued equipping its facilities with training simulators for its operating personnel. To ensure the functioning of the simulation training system, instructors were taught and centralised distance simulation training was arranged for the personnel of LLC BGC, JSC TKG-11, and JSC Tomsk Generation based on the Ufa Corporate Training Centre.

Workmanship competitions

To disseminate the best practices in creating a safe working environment, preventing industrial injury and professional diseases, and reducing the number of accidents related to wrong or erroneous actions of Inter RAO Group employees, a number of corporate workmanship competitions are held annually. In 2016, the most significant events were:

- *The third workmanship competitions for the operating personnel of cross-connection thermal power plants of Inter RAO Group.* Thirteen teams from LLC Bashkir Generation Company, JSC TKG-11, and JSC Tomsk Generation and one invited team from LLC Novo-Salavatskaya CHPP took part in the competitions.
- *The seventh corporate open competitions between combined operating personnel teams of Inter RAO Group for combined-cycle and steam-turbine power plants.* Seven companies of JSC Inter RAO – Electric Power Plants took part in the competitions for combined-cycle power plants, with the team from Severo-Zapadnaya TPP taking the first place, the team from Sochinskaya TPP being the second, and the team from Urengoyskaya TPP taking the third place. The competitions for

the steam-turbine power plants were held with the participation of 12 teams, of which 9 teams were from JSC Inter RAO – Electric Power Plants.

- *The third all-Russian workmanship competition “Best Work Safety Worker in Power Companies – 2016”*. The key objectives of the competition were to improve the work conditions and labour safety at power facilities and to form socially responsible management of power companies.
- *The second all-Russian workmanship competition “Best TPP Duty Electrician – 2016”*. The representatives of major Russian generation companies took part in the competition. The competition stages were arranged in accordance with the professional activities of duty workers. The goal of the competition was to improve the measures for enhancing the reliability of power supply to consumers and increasing the safety of power production.
- *Open all-Russian competitions for the operating personnel of block TPPs – 2016*. The Group companies together with the representatives of major Russian generation companies took part in the competition. The key goals of the competitions were to raise the level of professional qualification of the TPP operating personnel in carrying out their work, to improve the methods of safe equipment maintenance, and to introduce advanced production culture.

Emergency rate reduction

The emergencies that occurred in 2016 at the Group’s power facilities were investigated by the commissions with drawing up investigation reports and their registration in the automated information system “Power Industry Emergency Rate Base” of the System Operator. For each of the emergency shutdowns, corrective and preventive measures have been developed and are carried out in accordance with the established and approved schedules.

Emergency rate reduction measures:

- timely and quality fulfilment of schedules and programs of repair, reconstruction, and modernisation of equipment and technical devices;
- strengthening the control over the quality of work performed by the maintenance organisations when carrying out capital and current repairs;
- preventing the violation of rules for the repair and maintenance of equipment and its acceptance for operation;
- enhancing the control over the quality of micro-processing and measurement equipment supplied by the manufacturing plants and software;
- technical certification and expert review of the industrial safety of technical devices, buildings and structures at hazardous production facilities in accordance with the federal industrial safety norms and rules and technical regulatory documents.
- increasing the automation of process flows on the primary and ancillary equipment of power plants;
- increasing the quality of personnel training and emergency response drills with regard to the circumstances of the emergencies.
- conducting simulation training and workmanship competitions for the operating personnel;
- improving the quality of investigations of emergencies and taking measures scheduled based on the results of such investigations;
- using the analysis data of the reasons for the occurrence of emergencies to form production programs;

- utilising the best industrial practices of equipment operation;
- including the heads and specialists of services and units of the executive apparatus of the Group and PJSC Inter RAO into the commissions for the investigation of emergencies that happened because of erroneous actions of personnel;
- imposing administrative sanctions and conducting a mandatory extraordinary examination of the personnel, whose erroneous actions led to process violations, for their knowledge of the rules and norms (including in the commissions of superior organisations);
- conducting a psychophysiological examination of the personnel who committed the process violation.

Emergency and fire trainings of personnel were conducted as per the developed schedules and programs. The training programs were amended and modified subject to the investigation of the emergencies that occurred at the power facilities. Fire trainings were conducted with involving the efforts and resources of fire departments responsible for the fire safety of the power facilities. The results of the emergency and fire trainings were analysed and assessed by the technical managers of the power facilities at the meetings with the personnel taking part in training.

Number of emergency shutdowns in 2014-2016

In 2016, the total number of emergencies at the Group's generation facilities reduced by 9.4% as compared to 2015, while in 2014-2015 the decrease in emergencies was 14.4%.

Total number of emergencies at the Group's generation facilities

Company name	Number of accidents		
	2014	2015	2016
JSC Inter RAO – Electric Power Plants	334	317	277
CJSC Nizhnevartovskaya TPP	12	14	10
JSC TGK-11	131	95	90
LLC BGC	119	87	87
JSC Tomsk Generation	14	9	9
Total:	610	522	473

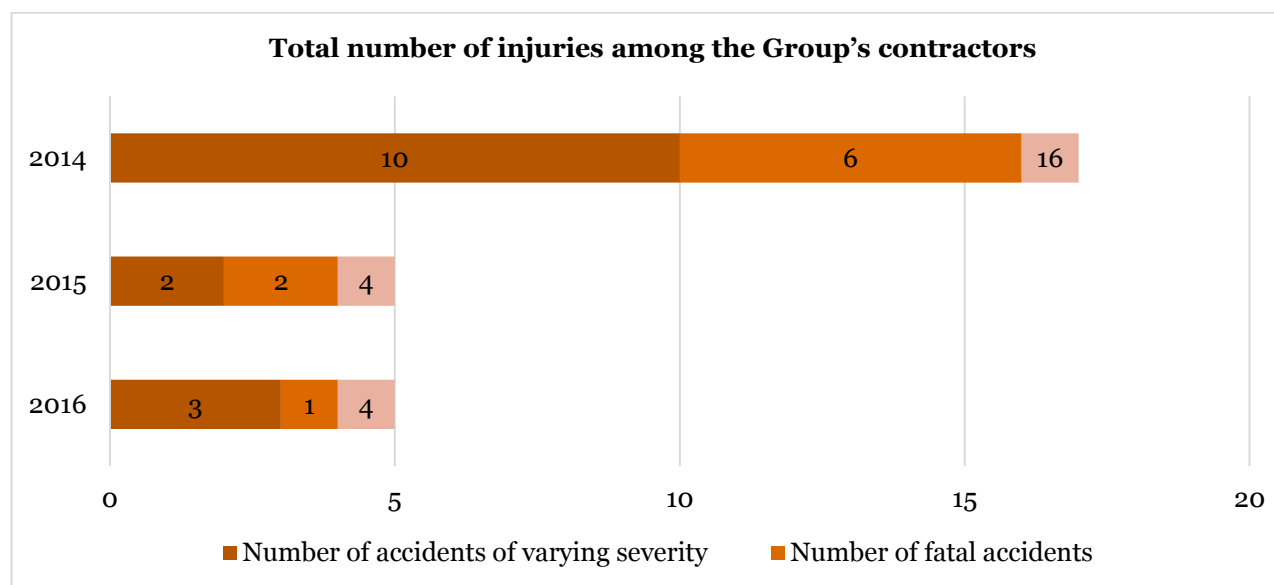
Occupational safety research

The key to enhancing the production safety culture is personnel training on occupational health and safety, which is also one of the key constituent elements of safe operation of the Group's assets.

Traditionally, emergency and fire trainings for the operating personnel that are conducted in accordance with the developed schedules and programs are mandatory trainings for the Group. Annually, the training programs are updated with regard to the investigations of the emergencies that took place at the power facilities. Fire trainings were conducted with the efforts and resources of fire departments responsible for the fire safety of the power facilities. The results of the emergency and fire trainings were analysed and assessed by the technical managers of the power facilities.

Interaction with contractors regarding labour safety

Inter RAO Group also takes 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 a proven method of imposing penal sanctions on contractor organisations. As of the end of 2016, 752 letters and 357 claims were sent to contractors for the amount of over RUB 1.5 million.

8.5 Environmental policy

Implementation of measures in the area of environmental protection is one of the priority activities of Inter RAO Group.

The key organisational tool used to regulate the nature management processes and to minimise the negative environmental impact is the Target Ecological Program of Inter RAO Group for the period to 2020 with a prospect to 2030¹⁷⁰. The programme is intended to attain the following strategic goals of the Group:

Goals	Target indicators by 2030
Goal 1. Making the production activities of the Group's power companies compliant with the regulatory requirements and obligations	
The share of pollutant emissions (solid particles, sulphur and nitrogen oxides) into the environment in excess of the established norms in the total emission of these substances throughout the year	0 %
The share of insufficiently purified and polluted non-purified effluents in the total effluents (exclusive of standard clean non-purified effluents) discharged into natural water bodies throughout the year	5 %
For water intakes from natural water bodies equipped to prevent damage to hydrobiological resources in accordance with national standards as of the end of the reporting year	100 %
Goal 2. Consistently reducing the environmental impact of power companies to the minimum technically and economically feasible level	
The share of installed capacity of the coal-dust boiler plants with incoming heat capacity of over 300 MW and specific emissions of solid particles of up to 100 mg/nm ³ at year end.	54 %
The share of installed capacity of the boiler plants, gas-turbine plants and gas-compressor units with incoming heat capacity of over 50 MW and specific emissions of nitrogen oxides as per the target indicators at the year end.	62 %
The share of installed capacity of boiler plants and gas-turbine plants with incoming heat capacity of over 300 MW equipped with measurement devices for permanent emission control	87 %
Goal 3. Consistently reducing the economic costs and risks related to the environmental aspects of production activities, and trying to solve ecological problems with economically efficient methods	
The mass of useful (used for TPP own needs or by third party organisations) bottom-ash materials throughout the year	1,637,000 tonnes/year

¹⁷⁰Order No. IRAO/604 dated 27.11.2014 On the Approval of the Target Environmental Program for the period to 2020 with prospect to 2030.

Annual average consumption of fresh water for production needs per produced MW*h of electricity	111 m ³ /MW*h
The mass of oil products discharged into and inflicting damage on the environment as a result of emergencies throughout the year.	0 tonnes
The mass of oil products discharged into and inflicting damage on the environment as a result of emergencies through the fault of subsidiary personnel throughout the year (for subsidiaries operating TPPs, HPPs and grid companies)	0 tonnes/year
Goal 4. Reaching a consensus between stakeholders	
Availability of an environmental management system certified by an independent organisation as of the end of 2020 and 2030 for all production subsidiaries	100%

Inter RAO Group continuously monitors the changes in the Russian environmental laws and updates its internal regulatory documents to ensure their compliance with the regulatory framework. In 2016, the Group's investment programs were updated with making amendments to the Target Environmental Program of Inter RAO Group. The Group also updated its internal corporate documents, such as:

- business procedure for the review, approval and monitoring of production programs;
- business procedure for the production safety audit.

The key mechanism of addressing the Group's environmental tasks is stage-by-stage implementation of its Target Environmental Programme.

Mechanisms of environmental impact reduction

Environmental management system

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 2016, the inspection audit conducted by DQS confirmed the efficiency of the environmental management system run by PJSC Inter RAO. In the reporting year, two acquired assets (JSC OmskRTS and JSC Tomsk RTS) joined the standard. EMS is successfully used by all foreign generation assets (Moldova TPP, Khrami HPP-1, Khrami HPP-2, Sangtudinskaya HPP-1, Ekibastuz TPP-2) and all Russian generation assets (BGC, TGK-11, and all branches of JSC Inter RAO – Electric Power Plants). The environmental management system is implemented at JSC Nizhnevartovskaya TPP and is planned to be certified in 2017.

Environment protection costs

In 2016, the total environmental costs amounted to RUB 2,426 million. The investments in traditional environmental areas, including water and air protection measures, totalled RUB 1,037 million.

The costs on the capital repairs of environmental support assets grew substantially as compared to 2014 and 2015 by RUB 232 million and RUB 237 million respectively.

Indicator	Year		
	2014	2015	2016
current costs, RUB million	982	991	961
including for water protection	622	520	499
air protection	191	159	314
environment protection from waste	152	277	145
land reclamation	17	34	2
costs on the capital repairs of environmental support assets, RUB million	196	191	428
investment costs, RUB million:	1,801	1,898	1,037
including for water protection	268	497	390
air protection	254	270	491
protection and rational use of lands	655	0	10
protection of fish reserves	0	64	49
waste utilisation plants	624	1,067	97

Apart from the investment areas listed in the table, a number environment protection measures were taken in 2016 to:

- reduce noise emission at Omsk CHPP-5 and Tomsk TPP-2 (total investments amounted to RUB 11.15m);

- replace the oil-filled equipment, in particular oil breaks for vacuum or sulphur hexafluoride circuit breakers at Gusinozerskaya TPP, Yuzhnouralskaya TPP-2, Pechorskaya TPP, Irikhinskaya TPP, Severo-Zapadnaya TPP, Karmanovskaya TPP, Ufinskaya CHPP-2 and Sterlitamakskaya CHPP (total investments – RUB 123.41m);

- withdrawal of non-effective equipment at Cherepetskaya and Verkhnetagilskaya TPPs (total investments – RUB 58.32m).
Implementation of modern high-performance equipment to minimise environmental impacts as much as possible.

The current costs on environmental measures remained practically unchanged and totalled RUB 961 million.

Adverse environmental impact fee

The efficiency of the environmental protection system is the key to rational use of natural resources and maximum possible elimination of the consequences that the operations of the Group's facilities. The fee for adverse environmental impacts and the penal sanctions imposed to a large extent depend on the natural and climatic characteristics of the region where the facilities are located, the atmospheric and seasonal phenomena (frequent adverse meteorological conditions, high water, etc.)

In the reporting period, the number of scheduled and unscheduled inspections by supervision authorities totalled 34. The total number of penal sanctions for 2016 is 11. The administrative penal sanctions amounted to RUB 396,244, of which the most significant are:

- a fine of RUB 100 000 for non-compliance of waste accumulation locations of Omsk CHPP-5, JSC TGK-11, with established requirements;
- the fine of RUB 100 000 for non-compliance of own waste disposal site of Omsk CHPP-4, JSC TGK-11, with established requirements

However, no adverse environmental impact was recorded by the supervision authority. Both violations were eliminated in the year of their identification.

Key areas of the Group's environmental activities

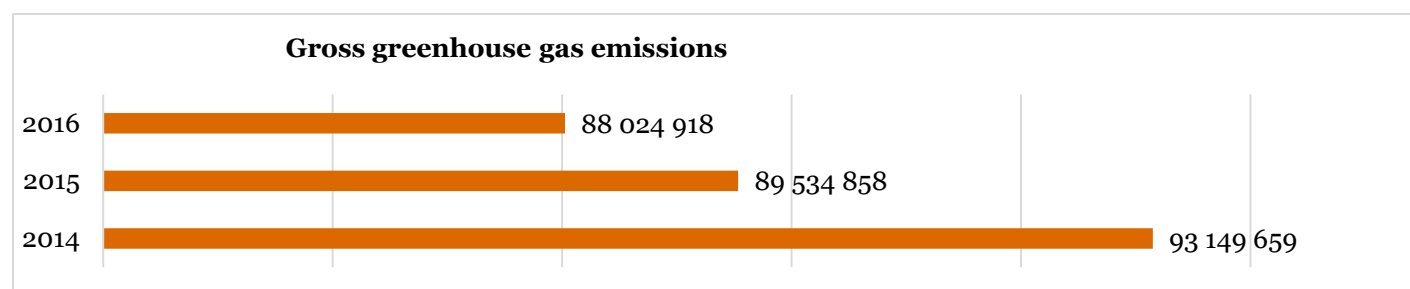
Inter RAO Group operates in strict compliance with the Russian environmental laws. In the area of air protection, to reduce air emissions a number of measures are taken to improve the combustion gas purification technologies and to ensure continuous environmental monitoring and control. The use of advanced technologies makes it possible not to exceed the norms of admissible air emissions of harmful substances.

Another important area of environmental efforts is minimising the polluted waste water discharges and increasing the share of recycle water. In terms of optimising waste management at the Group's facilities, separate waste collection is practiced with mandatory utilisation of hazardous waste. Part of 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.

Greenhouse gas emissions

The recording of greenhouse gas emissions into the atmosphere is an essential part of the environmental control system and is made on an annual basis. The emissions of greenhouse gases by the Group is 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 dated 30.06.2015.

As part of the energy efficiency programme, measures are taken to reduce harmful emissions. In 2016, the Group's total volume of greenhouse gas emissions decreased by 2% from 89.5 million tonnes to 88.0 million tonnes. The specific emissions of greenhouse gas per unit of produced energy remained at the previous level, amounting to 0.49 t CO₂/thousand kWh.



Air protection

Due to a number of environmental measures taken to ensure compliance with the environmental laws, the gross harmful air emissions reduced versus 2014 and 2015 by 23% and 13% respectively. There is also a stable decrease in the emissions of solid particles as compared to 2014 and 2015 by 49% and 29% respectively.

Gross air emissions of NO_x, SO_x and other significant pollutants with indication of their type and mass, the analysis of dynamics and reasons for reduction/growth in 2014-2016

Indicators	Year		
	2014	2015	2016
Gross air emissions of harmful substances, tonnes:	486.7	430.6	375.1
gaseous and liquid substances	352.1	333.0	306.6
including CO (carbonic oxide)	14.0	15.2	23.9
NO _x	161.8	150.1	147.9
SO _x	175.9	167.2	157.4

solid particles	134.6	97.1	68.6
persistent organic pollutants (benzo(a) pyrene)	0.159	0.125	0.09

The specific emissions of harmful substances per unit of produced energy reduced insignificantly versus 2015 and amounted to 2.24 kg/th^s kW*h.

Indicators	2014	2015	2016
Specific air emissions of pollutants per unit of produced energy, kg/th ^s kW*h, including:	2.50	2.25	2.24

In 2016, the dynamics in the reduction of pollutants and greenhouse gases were due to the significant rates of withdrawing the outdated non-efficient equipment of coal generation capacities. In particular, 376 MW at Verkhnetagilskaya TPP, 420 MW at Cherepetskaya TPP, 35 MW at Yuzhnouralskaya TPP were withdrawn.

Reduced solid-fuel combustion also entails a decrease in not only the solid substances, but also in the sulphur dioxide, the gross and specific emissions of greenhouse gases (for LLC BGC from 1.71% in 2015 up to 0.33% in 2016, and its ash-content from 18.13% to 13.6%).

Moreover, to reduce the air emission of pollutants, a number of measures were taken, namely:

- - completion of the reconstruction of the gas-purification equipment of Boiler Units No. 9 at Omsk CHPP-5 and No. 12 at Omsk CHPP-4;
- - beginning of reconstruction of ash collectors at Boiler Unit No. 12 at Tomsk TPP-2 and technical re-equipment of Boiler Unit BKZ-420-140 No. 12 with replacement of the electric filter at Omsk CHPP-4;
- complete installation of continuous emission control systems at the chimneys of LLC BGC (Karmanoavskaya TPP, CHPP-4, Sterlitamaskaya CHPP);
- beginning of the installation of continuous emission control systems at the chimneys of JSC TGK-11 (OCHPP-5) and JSC Inter RAO – Electric Power Plants (Irkutskaya TPP);
- beginning of the installation of low-emission burners and organisation of staged combustion at steam boilers 7 and 8 of Ufimskaya CHPP-2 (LLC BGC).

Use of water resources

In 2016, water intake reduced by 2028.1 million m³, while water intake from third party suppliers grew by 33% due to increased heat output by heat generation.

In 2016, the general tendency toward decreased water intake as compared to 2015 is due to a 5.6% decrease in electricity generation and less load of power plants with direct cooling systems.

The share of recycle and reuse water increased due to:

- technical upgrade of Cooling Tower No. 4 at Ufimskaya CHPP-4 (LLC BGC), modernisation of Cooling Tower No. 2 with replacing the sprinkler for a polymer one at Novo-Sterlitamakskaya CHPP (LLC BGC) and modernisation of Cooling Tower No. 2 at Omsk CHPP-4 (JSC TKG-11);
- modernisation of water distribution for Cooling Tower No. 1 at Kaliningradskaya CHPP-2;
- completion of modernisation of the water treatment plant preliminary purification scheme at Ufimskaya CHPP-2 with organising a scheme for reuse of the wash water from the mechanical filters;
- reuse of the wash water from the water treatment plant at Permskaya TPP, which enabled the reduction of fresh water by 44,142 m³ in 2016;
- use of the clarified water from the industrial waste disposal site at Permskaya TPP for the additional water treatment cycle in the chemical water preparation system (decrease in the effluent discharge by 47,680 m³ in 2016);
- combined water supply system with recirculating water from the outlet channel to the inlet channel at Permskaya TPP, which enabled the reduction of natural water by 307,377,600 m³.

Also, there are current projects that will make it possible to enhance the efficiency of the water recycling systems and, as a result, to increase the share of recycle water:

- modernisation of Cooling Tower No. 2 at Omsk CHPP-5;
- reconstruction of Cooling Towers No. 1, 2, 3, and 4 at Tomsk CHPP-2;
- commencement of the project at Permskaya TPP for increasing the volume of recycle water due to the construction of cooling towers.

Methodical efforts are taken to reduce the discharge of effluents:

- in 2016 the works were carried out at Nizhnevartovskaya TPP for installing a dispersing water outlet on the storm sewage pipe K-2 to the Vakh river bed and arranging the bank-protection wall of the dispersing water outlet with regard to the effect of water discharges;
- the construction was completed at Verkhnetagilskaya TPP with commissioning a series of new structures for treatment of production oil effluents (its implementation resulted in the reduction of polluted effluents by 289,600 m³ for 2016).

The implementation of ball cleaning systems for turbine condensers in direct-flow and closed-circuit cooling systems reduces the need for using chemical methods of biofouling, deposit and scale formation control. In 2016, the ball cleaning systems were implemented at Units No. 1 and 2 of Severo-Zapadnaya TPP and at Turbine Unit No. 6 of Gusinozerskaya TPP.

In 2016, the share of partially clean water discharged by the Group's power facilities into natural waste water bodies and amounted to 99.7% of the total water disposal. Partially clean water is the water from direct-flow cooling systems and cooling systems with channel basins.

As all power companies (TPPs, boiler units, HPPs, electric grids) have substantial amounts of oils used in their lubrication systems for steam and gas turbines, electric generators, pumps, compressors, exhaust fans, and electric equipment (transformers, switches, etc.), there is a risk that these oils may get into the environment in case of equipment failures. In 2016, there were no oil spills through the fault of the Group personnel.

To prevent spills of oil products at the Group's facilities, the oil-filled equipment is being replaced with oil-free equipment, which also reduces fire hazards and enhances the equipment reliability. In 2016, the following projects were completed for the replacement of oil breakers for sulphur hexafluoride breakers:

- modernisation of the open switchgear-110kV at Severo-Zapadnaya TPP;
- reconstruction of two switchgear-110 cells (220 kV) with replacement of disconnectors and oil circuit breakers at Gusinozerskaya TPP;
- modernisation of the auxiliary power scheme with replacement of oil circuit breakers in the RUSN-6kV section at Sterlitamakskaya TPP;
- modernisation of Units Nos. 3 and 6 of KRU-6kV with replacement of circuit breakers at Karmanovskaya TPP.

In the reporting period, the Group managed to decrease the volume of effluents by 212.5 million m³ as a result of reduced production by the power plants with direct flow cooling systems discharging partially clean water.

The Group's water consumption in 2015-2016, million m³

Indicators	Year		
	2015	2016	2015/2016
Total water intake, million m³, including	17,011.4	14,983.3	–12%
- from surface water bodies	6,190.7	5,780.5	–7%
- from third party suppliers	71.4	95.1	+33%
- from underground water bodies	3.7	3.2	–14%
- rain water collected and preserved by the company	0.1	2.5	by 25 times
- reuse of water	451.2	409.1	–9%

Gross amount of water used in circulating water systems (reuse), million m³	10,294.3	8,699.5	– 15%
Share of circulating and recycle water in the total volume of water consumption, %	63%	61%	– 2%

The Group's water discharge in 2015-2016, million m³

Indicators	Year		
	2015	2016	2016/2015
Waste water disposal including:	5,954.3	5,741.8	–4%
Disposed to third party companies	6.8	5.7	–16%
Disposed to surface water bodies including:	5,947.5	5,736.2	–4%
- partially clean	5,926.4	5,718.1	–4%
- treated to standard quality	4.8	2.7	–44%
- insufficiently treated	7.3	6.8	–7%
- polluted untreated	9.1	8.6	–5%
The share of partially clean water in total water disposal	99.6%	99.7%	+0.1%

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 (BAW) refers to Hazard Class V, which means that it has minimum environmental impact.

In 2016, the volume of waste generated by the Group's power facilities reduced vs. 2015 by 63,600 tonnes (1.5%), and the volume of bottom ash waste reduced by 59,500 tonnes (1.4%).

As of the end of the reporting period, the volume of recycled waste grew substantially: over 5-fold vs. 2015 and amounted to 385,000 tonnes.

While Russia has no permanent developed market for bottom ash waste (materials), it is not currently possible to forecast the dynamics for the use of bottom ash waste (materials). At the same time, constant efforts are taken for searching a market. In 2016, the main contribution in utilising bottom ash waste was made by Kashirskaya TPP – 75,000 tonnes.

The equipment installed at LLC BGC enterprises for sludge drying upon mechanical treatment of natural water enabled the company to mitigate the adverse environmental impact by liquidating the slime water disposal sites. Solid fraction from mechanical treatment was processed into the ancillary product “Pochvogrunt”. In 2016, 88 tonnes were sold.

The utilisation of recycled production waste was due to:

- LLC BGC: examining the water and silt treatment waste from biological treatment plants for compliance with TU 5711-002-96214846-2014 “Soil”;
- LLC BGC: organising separate accumulation of production waste within LLC BGC and transferring the waste generated at the last stage of the life cycle (spent petroliferous oils, glass waste, waste paper, ferrous and non-ferrous metal scrap) to special-purpose organisations for utilisation in the amount of 1,392.724 tonnes.

CHANGES IN THE GROUP'S WASTE GENERATION VOLUMES IN 2015–2016, TONNES			
GRI Indicators	2015	2016	2016/2015
Generated waste, tonnes:	4,307,408	4,243,809	–1,5%
including waste of Hazard Class I	22	16	–26,8%
Hazard Class II	41	12	–70,2%
Hazard Class III	828	1,469	77,5%
Hazard Class IV	14,526	18,696	28,7%
Hazard Class V	4,291,990	4,223,615	–1,6%

THE GROUP'S WASTE GENERATION VOLUMES IN 2015–2016, TONNES			
GRI Indicators	2015	2016	2016/2015
Generated waste, tonnes:	4,307,408	4,243,809	–1,5%

Generated bottom ash waste	4,260,868	4,201,335	–1,4%
Generated waste, tonnes:	71,916	385,078	by 4 times
bottom ash waste utilised by the Group companies	70,634	320	–99,5%
Neutralised waste, tonnes:	1,044	111	–89,4%
neutralised bottom ash waste	–	–	–
Waste transferred to third parties, tonnes:	832,238	214,365	–74,2%
bottom ash waste transferred to third parties	793,933	177,559	–77,6%
Waste disposed at own sites, tonnes	4,040,873	4,090,097	–1,2%
bottom ash waste disposed at own sites	4,030,684	4,054,501	–0,6%

Biodiversity

The Group companies own and lease lands of specially protected areas.

- recreation lands of 0.293 sq. km. In accordance with their purpose these lands are used for healthcare and resort centres of the Kostromskaya TPP, Permskaya TPP, Karmanovskaya THPP, Ufinskaya CHPP-1 and LLC Recreational Centre “Energetik”. There is no production activity on these lands;
- Umaguzinskaya TPP of 0.009 sq. m, located in the national park “Bashkiria”, which is designated as a specially protected natural site of federal significance.

Lands of specially protected territories and sites:

1	Inter RAO – Electric Power Plants/Kostromskaya TPP
2	Inter RAO – Electric Power Plants/Permskaya TPP
3	LLC BGC/Ufinskaya CHPP-1
4	LLC BGC/Karmanovskaya CHPP

The most significant impact on biodiversity that power plants may have is a potential risk of hydrobionts death at TPP water intakes. To mitigate such risks, all water intakes are equipped with fish protection structures. Moreover, the water bodies

impacted by the power facilities, are subjected to bioremediation to compensate for the damage inflicted. In 2016, the following works were carried out:

- breeding of 298,854 sterlet fry and letting them out into the Kama retaining reservoir (Permskaya TPP);
- a research was done to improve the quality of reservoir water at Verkhnetagilskaya TPP using a biological method;
- 18,000 pieces of grass carp fry 50 g each, and 17,000 pieces of silver carp fry 800 g each were bought and let out into the water reservoir on the Buy river of Karmanovskaya TPP for the total amount of RUB 498,000;
- works were carried out to stock the circulating channel and stream dispenser of the Cherepetskoye reservoir;
- works for fish stoking of the Gusinoe lake at Gusinoozerskaya TPP for the amount of RUB 183,520;
- stocking of the Gusinoe lake at Kharanorskaya TPP for the amount of RUB 405,000;
- works for statistical monitoring of the efficiency of fish protection structures for the period 2013-2017 at Kostromskaya TPP;
- beginning of the construction of fish protection structures at on-shore pumping station Nos. 1 and 2 of Cherepetskaya TPP;
- inspection of the fish protection structures at Kashirskaya TPP.

Reconstruction is planned of the pumping station with building fish protection structures at Ufimskaya CHPP-2 for 2017-2018.

Noise impact reduction

To reduce noise impact on the environment and neighbouring residential districts, measures are taken at the Group's facilities to implement and reconstruct silencers. Noise impact may come from the air intakes of blast fans, chimney mouths, compressor units, or the steam discharged upon switching off or on the boiler equipment, etc. If there is a residential development in the immediate proximity to the plant, there is a risk of noise pollution.

To address the issue of increased noise impact, a number of projects are being implemented:

- reconstruction of the noise silencers and main safety valves at the boiler units of plants Nos. 5 and 7 at Tomsk CHPP-2;
- assembly of noise screens at the cooling towers of Omsk CHPP-5;
- assembly of noise silencers at the cooling units of Omsk CHPP-5;

8.6 Asset security

One of Inter RAO Group's strategic priority is the safety of its assets. The key constituent elements of this area are the anti-terrorism security of the facilities and their preparedness for actions in case of emergencies. To ensure continuous improvement of the Group's assets safety efforts, annual goals and key performance indicators are set for the Safety and Regime Unit personnel.

In 2016, there were no acts of unauthorised 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 organised trainings. The most significant anti-terrorist measures 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;
- development, reconciliation and approval of the basic project threat to each categorised power facility of the Group;
- inspections of the anti-terrorism security of all generation subsidiaries and six FEC facilities (Iriklinskaya, Pechorskaya, Verkhnetagilskaya and Karmanovskaya TPPs, Novo-Sterlitamaskaya and Priufimskaya CHPPs).

Safety of heat and energy complex facilities

In 2016, in the course of drills, training and measures for strengthening the physical protection of plants on holidays, event plans of the group of companies in establishing a certain level of terrorist danger developed and approved in 2015 were tested for each facility.

The increased level of engineering safety of branches and the organisational measures taken by the management of JSC Inter RAO – Electric Power Plants in 2016 enabled it to lay off 42 security posts and save RUB 62,7 million for the year.

The safety and anti-terrorism security of the Group's power facilities included in the fuel and energy complex (FEC) of the Russian Federation is the task of national importance. The Group companies have 47 categorised power facilities (high hazard class – 11, medium hazard class – 15, low hazard class – 21) for which anti-terrorism security is ensured as per Federal Law No. 256-FZ dated 21 July 2011 “On the Security of Heat and Energy Complex Facilities”. In 2016, due to the developed basic project threats, the changes made to the site security systems and manning tables, as well as the modernisation of security equipment complexes, safety data sheets were actualised at 11 FEC facilities.

In 2016, the security equipment complexes were further modernised within the scope of the investment programs. In accordance with the contracts signed, the works were carried out at 11 branches of JSC Inter RAO – Electric Power Plants, 12 branches of LLC BGC and 10 branches of LLC BashRTS for the total amount of RUB 786 million, two designs were developed for the security equipment complexes of CHPP-3 and Priufimskaya CHPP of LLC BGC branches.

Information and technical safety management

For the Safety and Regime Unit to organise and control the physical protection, anti-terrorism security and emergency prevention and elimination measures, a 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 – Electric Power Plants, JSC TSK-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.

Interaction with law enforcement agencies

The employees of the Group’s safety units took part in 52 events intended to arrange measures for the safety of power facilities that were held under the supervision of regional counter-terrorism commissions and emergency response teams, and made six speeches at these meetings on the anti-terrorism security of their facilities.

In 2016, according to the plans of antiterrorist measures commission investigations were conducted at each categorised FEC facility to analyse the vulnerabilities, assess the anti-terrorism security, determine the dislocation and the number of check posts required. For all the identified defects, organisational, physical and engineering compensation measures were taken.

According to the plans of the heads of regional authorities of the Ministry of Internal Affairs, the Federal Security Service, the Prosecutor’s Office of Russia and security units, to assess the efficiency of measures for the safety of FEC facilities, 145 inspections and operating experiments were conducted with the purpose to analyse their anti-terrorism security and resistance to sabotage, of which 30 inspections were carried out in the form of intrusions by simulated violators into the guarded facilities. Pursuant to Federal Law No. 8-FZ dated 03 February 2014 “On Making Amendments to Article 12 of the Federal Law ‘On Police’”, the territorial authorities of the Ministry of Internal Affairs of Russia inspected 26 FEC facilities (3 branches of JSC Inter RAO – Electric Power Plants, 13 branches of LLC BGC and 10 branches of LLC BashRTS) at the regional level of state control.

To improve the system of physical protection and to enhance the safety for a number of plants the following most significant complex trainings were held in the reporting period together with stakeholder power-wielding agencies:

- within the scope of special tactical training “Groza-2016”, the employees of Kostromskaya TPP branch of JSC Inter RAO – Electric Power Plants took part in determining the terror-alert levels under the supervision of the chairman of ATC for Kostromskaya Region;
- antiterrorist special tactical training for suppressing terrorist acts at the facilities of Irikhinskaya TPP branch of JSC Inter RAO – Electric Power Plants “Storm-Irikh-2016”. The peculiarity of this training was that it involved the forces and resources of power-wielding agencies included in the regional emergency response team.

Prevention and liquidation of emergencies

Adjustment has been carried out of all the Group's documents on the scheduled measures for the prevention and elimination of emergencies as of 1 January 2017.

In 2016, the Group conducted the following measures for the prevention and elimination of emergencies:

- on-site trainings – 194;
- special tactical training exercises – 24;
- command-and-staff training exercises – 37;
- complex training sessions – 13.

All the Group's subsidiaries took part in the all-Russia staff training on civil defence from 04 October 2016 to 06 October 2016. In the course of training, the focus was on the notification and assembly of the company's management personnel, interaction with territorial governmental authorities, rescue and other emergency works.



Fig. 1. All-Russia staff training. Setting the task to alert the protective civil defence structure at Permskaya TPP branch of JSC Inter RAO – Electric Power Plants



Fig. 2. All-Russia staff training. Show of the volunteer emergency response team and the out-of-staff civil defence team of Karmanovskaya TPP, a branch of LLC BGC



Fig. 3. All-Russia staff training. Evacuation of victims by the rescue unit of CHPP-5, JSC TGK-11

9 Key risks of Inter RAO Group

The functioning of the 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 operations.

Refer to sub-section 4.6 "Corporate control and risk management" of section 4 "Corporate Governance" of this report for detailed information about the Company's corporate risk management system.

Risk management cycle

Risk management within the scope of the corporate risk management system (CRMS) is an uninterrupted and cyclic process continuously implemented on an annual basis by the Board of Directors, its committees, executive management bodies, employees of PJSC Inter RAO and significant production companies. The formal business process of risk management is implemented in accordance with the Group's Corporate Risk Management Procedure and includes the following stages:

- goal setting;
- identification and assessment of risks;
- development of measures for critical risk management;
- risk monitoring;
- disclosure of information about CRMS.

Following the CRMS procedures, the main results of the risk management business process and system products are formed on an annual basis: - Target CRMS benchmarks (for the planned period), Critical Risk Roadmap, Critical Risk Management Plan, CRMS Annual Report

Risk appetite

The expectations of the Board of Directors and executive bodies with respect to the parameters and results of risk management in the current year are taken into account by determining the risk management goals for a year and approving the Target CRMS Benchmarks, including risk appetite.

The Group's Risk Appetite reflects the level of overall risk (preferable risk) that the Group deems acceptable while creating value, achieving its goals, fulfilling its mission or implementing its strategic vision. The risk appetite of Inter RAO Group for 2017 is approved by the Board of Directors in the amount of RUB 12 834 685.¹⁷¹

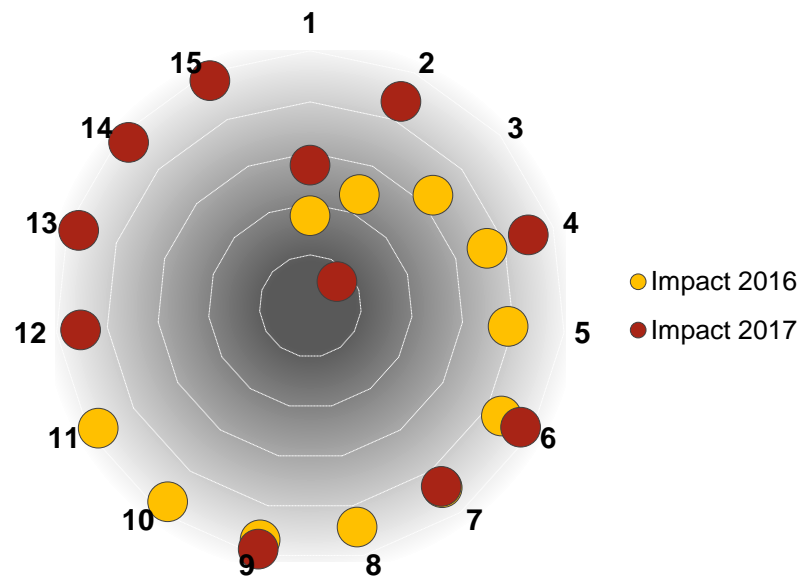
Critical risk roadmap

The Group's critical risk roadmap is formed on an annual basis within the annual CRMS cycle is a graphic representation of the critical risk quantitative assessment with a list of critical risks and their summary¹⁷². A critical risk is understood to be a risk in which more than 5% of all simulated scenarios for the occurrence of potential losses are included in the aggregate set of scenarios for the occurrence of all identified risks, the total value of losses exceeding the Group's risk appetite. The quantitative assessments of the Group's critical risks are formed by consolidating the risk assessments obtained at the level of controlled organisations, and the risks in the segments "Sales in Russia" and "Generation in Russia" are aggregated separately subject to a high probability of their occurrence for each controlled person in the above segments.

Radar of the Inter RAO Group's critical risks for 2016-2017

¹⁷¹Minutes of the Board of Directors of PJSC Inter RAO No. 189 dated 29.12.2016

¹⁷²The Group's critical risk roadmap for 2017 is formed and approved by the resolution of PJSC Inter RAO Board of Directors as of 29 December 2016 (Minutes No. 189 dated 30.12.2016)



No.	Risk	Importance fluctuations
1	Currency risk	<input type="checkbox"/>
2	Risk of changes in the wholesale electricity and capacity market and/or restrictive measures imposed by the government	<input type="checkbox"/>
3	Credit risk of counterparty banks	<input type="checkbox"/>

4	Credit risk of other external counteragents (debt receivable of electricity energy buyers / grid operators)	<input type="checkbox"/>
5	Risk of unfavourable tariff balance resolutions	<input type="checkbox"/>
6	Interest rate risk	<input type="checkbox"/>
7	DAM price risk	=
8	Price risk related to foreign economic activity	<input type="checkbox"/>
9	Risk of equipment unavailability	<input type="checkbox"/>
10	Risk of unfavourable tariff balance resolution (for heat energy)	<input type="checkbox"/>
11	Risk of decrease in productive supply of heat energy	<input type="checkbox"/>
12	Risk of recognition of the antimonopoly regulation activities of the Company as non-conforming to the Russian laws	[!]
13	Credit risk of debtors (debt receivable of buyers on the Wholesale Market of Electric Power and Capacity)	[!]
14	Credit risk of other external counteragents (debt receivable of heat energy buyers)	[!]
15	Risk of failure to meet the commissioning deadlines (failure to meet the capacity supply schedules under capacity supply agreements)	[!]
<input type="checkbox"/>	risk impact in 2017 decreased as compared to 2016	<input type="checkbox"/> risk in 2017 is not in the critical risks list



risk impact in 2017
increased as compared
to 2016

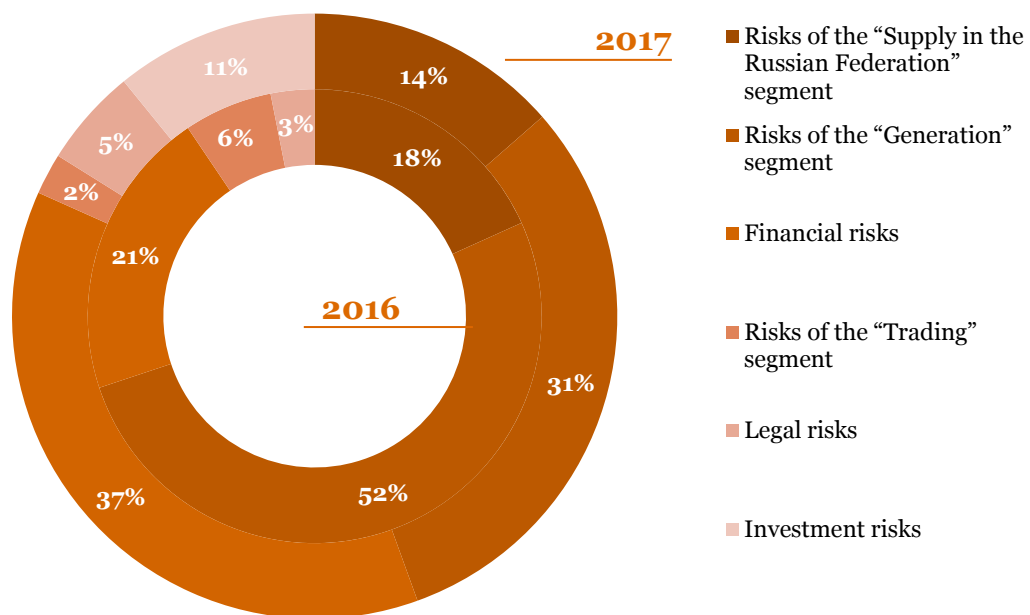


risk in 2016 is not in the
critical risks list



risk impact in 2017
remained unchanged as
compared to 2016

Risks for 2016-2017 consolidated by groups



Industry risks

The specifics of the Group's activities as a diversified energy holding determine its exposure to industry risks inherent in various segments of the power industry in Russia and abroad.

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 deteriorate the Group's financial performance from the sale of electricity and capacity. The constituent elements of this risk for 2017 that are revised on an annual basis depending on the initiatives of the WECM regulator include the risks of reduced volumes and/or cost of capacity sales on WECM as a result of increased penal coefficients applied to the respective deltas for the non-preparedness of generation equipment for electricity production.
Day-ahead market (DAM) price risk	The changes in the market environment related to increased competition on DAM, the volumes of production by industrial generation assets (NPPs, HPPs), as well as the dynamics of prices for fuel (gas, coal) cause the fluctuation of prices on the energy markets, which leads to deviations from the planned value of the Group's marginal profit.
Risk of unfavourable tariff balance resolution (for heat)	The restrictions on tariff growth rates imposed by federal regulatory authorities, as well as regulation of heat tariffs by competent governmental authorities, may lead to the approval of tariffs at the level that will not bring the appropriate gross proceeds.

Risk of reduced guaranteed return on investments under the capacity delivery contracts (CDC) and the share of costs of a CDC object compensated at the expense of capacity fees	<p>The dependence of the guaranteed return on investments under CDC on the average return on long-term government liabilities (LGL) determines a possible deviation from the estimated capacity price under CDCs and the proceeds from the capacity sale under CDCs with respect to the values established in the business plan.</p> <p>The necessity to specify the value of compensable costs¹⁷³ that reflects 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 CDC objects as regards the values established in the business plan.</p>
Risk of reduced productive supply of heat energy	<p>The decrease in productive heat supply due to seasonal temperature variations, cessation/reduction of consumption by major heat consumers, establishment of standard consumption rates below actual consumption, excessive consumption of utility services for communal needs may lead to adverse deviations from the target marginal profits.</p>
Risk of equipment unavailability (risks of process violations)	<p>Equipment failures at the Group's production units, high rate of fixed assets depreciation, changes in the work schedules of energy units enhance the likelihood of emergencies, which makes the equipment unavailable 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).</p>
Fuel supply risks	<p>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 the marginal profits.</p>
Risks of industrial injury	<p>Breaking the occupational safety rules, negligence while carrying out the work and the effect of harmful production factors may entail accidents/professional disease precedents among personnel.</p>
Environmental risks	<p>Fuel combustion results in the air emission of pollutants and greenhouse gases. Intensive use of coal may lead to the generation of significant volumes of bottom ash waste.</p>

¹⁷³ After the expiry of 3 and 6 years from the beginning of capacity supplies,

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 Association “NP Market Council”;
- forecast changes in the workflows and modes, optimises 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 the investigations of process violations;
- develops plans of organisational 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,
- optimises the fuel balance, uses the long-term fuel supply contracts, creates fuel reserves, and monitors the quality of fuel supplied;
- mitigates harmful and hazardous production factors, meets the mandatory fire, health, and safety requirements, and observes its local safety regulations;
- implements measures to optimise 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;
- develops measures to prevent withdrawal and/or to return previously withdrawn heat consumers, and establishes free prices for consumers of steam heat.

Risks of the Sales segment

Key risks	Description
Risk of unfavourable tariff balance resolutions made by the regulator	Unfavourable 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 to the value not allowing it to compensate for the expenses of functioning as a guaranteed supplier.
Risk of reduced electricity and capacity sales	Seasonal temperature variations, as well as the loss of clients because of their withdrawal in favour of competitive retail

(productive supply)	companies and WECM entry may lead to a decrease in the electricity and capacity output and failure to earn the expected marginal profit.
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To manage these risks, the Group:

- promptly provides the 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 the tariff and balance resolutions in compliance with the 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 organisations may lead to a decline of the Group's marginal profit.
Risk of changes in foreign trade supply volumes	The growing competition on the export/import electricity market, reduced electricity consumption in the neighbouring states, system electricity export/import restrictions by the system operator, changes in the electricity export/import laws of Russia or neighbouring 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, comprising 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, models and rules of WECM to take into account the foreign trade specifics;
- take part in international working groups of the Electric Power Council of the Commonwealth of Independent States, BRELL, KOTK, EurAsEC and 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, Black Sea region, Central Asia and 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 the foreign policy prospects.

To manage these risks, the Group:

- analyses the markets, including the regulatory legal framework;
- takes part in Russia’s support programs, the work of intergovernmental commissions and the development of intergovernment treaties;
- organises the interaction with governmental authorities and major companies in the countries of the Group’s presence;
- promotes the projects for developing intergovernmental relations in prospective areas;
- diversifies and makes a regular inventory of the Group’s investments and contracts 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.

Financial risks

In the reporting period, the Group focused on managing the following financial risks:

Financial risks

Key risks	Description
Currency risk	The nature of the Group's activities, including transborder 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 fulfil 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	A delay or failure by the Group's counterparties to fulfil their obligations, including as a result of reduced solvency or bankruptcy of power supply companies, deprivation of counterparty companies of their status of WECM subject and guaranteed supplier, and a decline of payment discipline in the key groups of electricity and heat consumers expose the Group to credit risk leading to the increase in overdue receivables and possible deviation of net profits from the value set in the business plan as a result of changes in the bad debt provision.

To manage the currency and interest rate risks, the Group:

- assesses the currency and interest rate risks using the Value-at-Risk and Earnings-at-Risk approaches, scenario modelling and stress testing;
- manages the Group's currency position, credit and deposit portfolios in accordance with the approved methodology;
- performs transactions on the market of derivative financial instruments to hedge its currency and interest rate risks.

Due to the significant credit risks of the banking sector, and taking into account that in October 2016, the Central Bank of Russia imposed a moratorium on creditor claims on one of the counterparty banks (JSCB Peresvet), the Issuer tightened control over operations on placement of funds in counterparty banks and also strengthened measures to monitor the financial condition of banks.

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; Has the overall group limits on deposit operations with counter party banks approved by the Company's executive governing body with monitoring the financial status of the counterparty banks on a monthly basis (Russian perimeter) and making a decision to revise the group limits as may be necessary; Controls the compliance with the established group limits on deposit operations with counter party banks;
- takes measures to reduce overdue receivables for the Group's retail assets¹⁷⁴. Organises the work of the committee for the management of the Group's accounts receivable;
- the counterparties are analysed 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;
- organises claim related work with counterparty non-payers;
- assesses the solvency and financial stability of the controlled entities based on their Internal Credit Rating that implies qualitative and quantitative assessment of their activities;
- takes measures to support and increase the Internal Credit Rating of the controlled entities.

Investment risks

The Group's investment activities are associated with a number of risk factors with a focus managing the risk of rescheduling of capacity supplies under the capacity supply contracts.

¹⁷⁴ In accordance with the Procedure for managing the accounts receivable by Inter RAO Group and the Plans of measures for reducing the receivables in the Group's supply companies,

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 (general contractor's insolvency, incompleteness, defects in the equipment supplied, failure by the manufacturers' to meet the delivery deadlines, etc.) leading to construction and commissioning delays, as well as organisational 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;
- organises 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 the Russian laws 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 recognition of the antimonopoly regulation activities of the Company/Group assets as non-conforming to the Russian laws	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 recognition of the tax regulation activities of the Group/Group assets as non-conforming to the law	The likelihood 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 provisions.
- 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.
- analyses 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/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 interests of the Group:

- 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 organisations regarding the interpretation, law enforcement and improvement of law norms, mandatory legal expert review of the key business processes, and extensive application of out-of-court settlements with counterparties.

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. In their activities, the Company's employees and controlled entities strictly observe the laws and keep up with the highest ethical norms, which involves intolerance of any forms of fraud or corruption.

To prevent the risks of corruption and fraud, the Group takes appropriate efforts, while the Company and the Group companies have an anti-fraud and corruption system, an approved anti-corruption policy and authorised commissions and workgroups competent to address the issues pertaining to the counteraction of fraud and corruption and the management of conflicts of interest, and 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.

Reputational risks

Being a public company, 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 the Group's adverse 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.

10 Procurement

For the Group to have all products in a timely manner as required for its operations with economically efficient expenditures, it has a centralised supply system LLC Inter RAO – Procurement Management Centre (PMC). More details about PMC are available at <http://www.interrao-zakupki.ru/>

The documents and regulations applicable to the Group's procurements are available at http://www.interrao.ru/custom/buy_acts/

Main functions of LLC Inter RAO – Procurement Management Centre	Main goals of LLC Inter RAO – Procurement Management Centre
<p>Monitoring the market of goods, works and services and creating an analytical base for managerial decisions on the supplies of Inter RAO Group.</p> <p>Checking the drafts and adjustments of annual complex procurement programs for their technical and commercial feasibility.</p> <p>Organising and holding procurement procedures.</p> <p>Organising and controlling the fulfilment of the annual complex procurement programme in terms of regulated procurement procedures.</p>	<p>Reducing the cost of goods, works and services procured subject to the requirements for the period and quality of goods and services obtained, including due to the synergy effect from the expansion and integration of the procurement activities.</p> <p>Enhancing the reliability of supplies of goods, works and services.</p> <p>Reducing the level of non-productive withdrawal of capital for reserves.</p> <p>Enhancing the promptness and transparency of procurements.</p> <p>Minimising the risks in the centralised supply system.</p>

In 2016, the largest project by the total value of procurements is the construction of the power unit CCGT-800 MW on the Permskaya TPP for the amount of 26.3 billion roubles. The project is being implemented by JSC Inter RAO – Electric Power Plants in accordance with the Group's strategy for electricity production and management of reliability and safety of the generation assets in Russia. The project is aimed at increasing the share of modern equipment in the installed capacity structure and improving the demand for, and competitiveness of, the generating assets on the wholesale electricity and capacity market.

The key deals of 2016 are the deals made within the scope of the priority project of LLC Kaliningrad Generation for the construction of power plants in the Kaliningrad region. Thus, on 11 February 2016, a contract was made with JSC Yantarenergo valued 934 million rubles for technical connection to the electric grids of Talakhovskaya TPP, on 1 August 2016 and 12 August 2016 contracts were made with LLC Inter RAO – Engineering to carry out the works and to supply the equipment for the construction of Primorskaya TPP of 195 MW in Svetlovodsk municipal district, and to carry out the works and to supply the

equipment for the construction of Pregolskaya TPP of 440 MW in Kaliningrad for the amount of 18,7 billion and 16,525 billion rubles respectively.

Strategic procurement objectives of PMC for the next 5 years (2016-2020):

- development of a centralised management system of the Group's stock reserves;
- fulfilment of the directives issued by the Russian Government to provide access for small and medium-sized business to the Group's procurement procedures;
- transition of the Unified Information Procurement System from the platform based on Oracle-e-Business Suite to an open-source platform;
- integration of the Unified Information Procurement System with 1C configurations set based on standard project solutions within the scope of the project "Development and Implementation of the Corporate Unified Accounting Methods of Inter RAO Group". The purpose of integration is to exchange data about the procurement procedures and contracts awarded, and to form various reports and statements with ensuring their transparency and comparability.

Procurement results for 2016

The main results of work for improving the procurement system include:

- Procurement centralisation by developing a structure of regional detached units of the special-purpose procurement company LLC Inter RAO – Procurement Management Centre formed as a result of optimised quantity and costs of the Group's respective units.
- In pursuance of the resolutions issued by the Russian Government to expand access for small and medium-sized business to procurement as per the Agreement of 7 June 2016 between LLC Inter RAO – Procurement Management Centre and JSC Unified Electronic Trade Platform (UETP), a Corporate Online Store (COS) service is prepared to simplify the procurement procedures of Inter RAO Group companies.
- The management of PJSC Inter RAO approved the report on the fulfilment of measures prescribed by the Action Plan for the creation of a Centralised Stock Management System (CSMS) within the scope of the Group's Stock Management Concept.
- Development of an information procurement management system across Inter RAO Group.

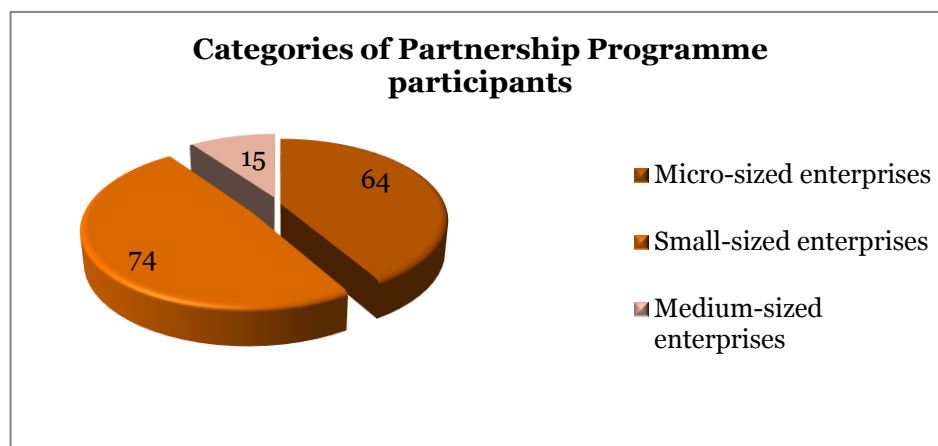
In 2016, the Group managed to reduce its costs for the annual complex procurement programme versus the target indicators:

- executive apparatus of PJSC Inter RAO – 4.3 %
- generation assets – 5.4%
- sales assets – 7%
- other assets – 3%

Cooperation with small and medium-sized business

Based on Order of the Russian Government No. 867-r dated 29.05.2013, a roadmap for the Expansion of Access for Small and Medium-Sized Business to the Procurements of Infrastructure Monopolies and State-Owned Companies (hereinafter the “Roadmap”). The management of PJSC Inter RAO took seriously the issue of creating conditions for the expansion of access for small and medium-sized business (SMB) to the procurements of Inter RAO Group. The roadmap has been fulfilled without any deviations from the established schedules and requirements and its results have been approved by the Board of Directors of PJSC Inter RAO¹⁷⁵.

In 2016, LLC Inter RAO – Procurement Management Centre proceeded with attaining the target indicators of the Strategy for Small and Medium-Sized Business Development in the Russian Federation for the Period to 2030 approved by Order of the Russian Government No. 1083-r, d/d 02.06.2016.





The SMB Corporation notes a fruitful cooperation of Inter RAO Group with SMB and the Corporation. The results of such cooperation are available on the Corporation's website at

(http://corpmsp.ru/pres_slujba/news/kompanii_gruppy_inter_rao_uvelichili_obem_zakupok_u_malogo_i_srednego_biznesa_v_sotrudnichestve_s_ko/)

(http://corpmsp.ru/pres_slujba/news/korporatsiya_msp_budet_vzaimodeystvovat_s_kompaniyami_gruppy_inter_rao_po_voprosam_obespecheniya_dos/?sphrase_id=19302);

¹⁷⁵ Minutes No. 165 dated 07.04.2016.

Volumes of procurement from small and medium-sized business for 2015 and 2016

2015		28.23%
2016		38.54% (+10.31)

Direct procurement from SMBs

2015



13.21%

2016



16.50% (+3.29)

Comparison table of procurement from small and medium-sized business for 2015 and 2016

Item No.	Group company name	Procurement from SMBs (%)			
		Total procurement from SMBs (%)		Direct procurement from SMBs	
		2015 <i>(target indicator min 9%)</i>	2016 <i>(target indicator min 18%)</i>	2015 <i>(target indicator min 5%)</i>	2016 <i>(target indicator min 10%)</i>
1	2	3	4	5	6

1	JSC Inter RAO – Electric Power Plants	21.74	33.40 (+11.66)	11.78	12.31 (+0.53)
2	PJSC Mosenergosbyt	51.26	68.78 (+17.52)	18.15	35.79 (+17.64)
3	JSC St. Petersburg Power Supply Company	92.27	85.01 (–7.26)	20.72	63.29 (+42.57)
4	JSC Altai Energosbyt	87.00	80.08 (–6.92)	32.25	43.39 (+11.14)
5	PJSC Saratovenergo	44.96	87.59 (+42.63)	21.65	57.93 (+36.28)
6	PJSC Tomskenergosbyt	64.71	74.82 (+10.11)	25.3	59.50 (+34.2)
7	JSC TGK-11	30.68	24.18 (–6.50)	5.69	12.39(+6.7)
8	LLC BGC	44.22	35.12 (–9.1)	13.79	16.84 (+3.05)
9	LLC Bashkir Heat Distribution Grids	13.22	61.27 (+48.05)	8.31	15.35 (+7.04)
10	CJSC Nizhnevartovskaya TPP	61.13	61.39 (+0.26)	43.83	47.57 (+3.74)
11	JSC TomskRTS*	—	61.75		53.44
12	JSC Omsk RTS*	–	50.01	–	31.76
13	JSC Tomsk Generation	–	33.02	–	13.68
14	JSC PETROELEKTROSBYT*	–	45.80	–	27.87
15	LLC Orel Power supply company	–	77.36	–	32.05
16	PJSC Tambov Power Supply Company	–	61.65	–	27.98
Total for Inter RAO Group **		28.23	38.54 (+10.31)	13.21	16.50 (+3.29%)

*Company the proceeds of which did not exceed RUB 2 billion in 2015 as they did not meet procurement requirements from SMB.

**The calculation is made without regard to the indicators for LLC Power Supply Company of Bashkortostan.

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 with enhancing and expanding the global technology competitiveness of Russian HEC”. This objectives may be attained by developing a national high technology market, including through import substitution.

Inter RAO Group takes active efforts to develop high technology industry, create new innovative solutions and strengthen import substitution in the Russian power industry that will provide national power companies with state-of-the-art products.

In 2016, PJSC Inter RAO acquired a share (33%) in the capital of LLC INVENT. This deal will enable Inter RAO Group to use the production platform to enlarge the production of special-purpose products for the needs of the power industry.

Anti-corruption efforts

In accordance with the Anti-Fraud and Corruption Policy of OJSC Inter RAO¹⁷⁶, the procurement activity is considered as one of its business areas exposed to this risk.

The Group's anti-fraud and corruption system is aimed at:

- information transparency;
- absence of discrimination or unreasonable competition restrictions with respect to the procurement parties;
- fair and reasonable choice of the most preferable offers with a comprehensive analysis of benefits and costs;
- intended and economically efficient disbursement of funds.

The economic security is assessed at all stages of procurement – from bidding to contract awarding. If information about violations or abuse is confirmed, prompt measures are taken to eliminate the identified violations. The information about the identified violations or abuse is brought to the knowledge of the Group's governing bodies.

The responsibility centre for economic security of the Group's procurements is the security service of LLC Inter RAO – Procurement Management Centre (PMC).

The PMC's tasks for 2016 include:

- investigation of the counterparties' business reputation, check-ups of the applicants to the Company.
- organisation and control of information disclosure about the beneficiary counterparties, making reports for the Company and Inter RAO Group for the existing contracts and supplementary agreements in pursuance of Assignment of the Russian Government No. VP-P13-9308 dated 28.12.2011.
- identification of associated real and potential economic security threats for the contracts entered into by the Company.
- organisation and holding of functional checks with respect to alleged violations demonstrating the signs of fraudulent or corruptive behaviour, including for hot line calls.

To improve the resolution system of potential conflicts of interest, the procedure of interaction between the Commission for conflict of interest management in force in PJSC Inter RAO and its subsidiaries. Further participation of LLC Inter RAO – Procurement Management Centre representative in the Commission is planned for the interaction of the Commission and the subsidiaries. The decisions of the Commission related to the corruption and fraud management, as well as the decisions related to the approved and developed IRRs that regulate the anti-corruption activity of Inter RAO Group, will be brought to the notice of subsidiary stakeholders within the methodological support and performance of service agreements concerning economic security.

Within the reporting period, the Group has registered 153 complaints. The total number of complaints included the letters of claim from procurement parties offset according to the procedure established by the procurement documentation during

¹⁷⁶Approved by the resolution of the Board of Directors as of 31.01.2014 (Minutes No. 107 dated 03.02.2014).

specific procurement procedures, including those registered on trading sites, hotline calls, etc. There are no legal cases related to corruption in procurement, in which the Group is acting as a litigant.

Information on the results of monitoring the results of implementation of PJSC Inter RAO's procurement activities (including compliance with the approved annual comprehensive procurement programme and the standard costs for certain types of goods, works and services for the needs of PJSC Inter RAO).

In pursuance of the Directive of the Federal Agency for State Property Management (Rosimushchestvo) No. DP-11/17668 dated 05.05.2016, approved pursuant to clause 2 of Assignment of the Russian Government No. DM-P9-8413 dated 12.12.2015 on the issue of regulation of procurement activities and development of appropriate standards for the procurement of goods, works and services, the Board of Directors of PJSC Inter RAO approved an Implementation Plan for regulation of procurement of goods, works and services (Appendix No. 1 to Minutes of the Board of Directors of PJSC Inter RAO No. 173 dated number 4 July 2016).

In accordance with clause 1 and clause 2 of this Plan, by order IRAO/446 dated 12.10.2016, the list of the goods, works and services with the established norms and limits for expenses to meet the needs of PJSC Inter RAO, intended for its own consumption and not subject to commercial resale, has been determined. Purchases in 2017 are made in accordance with the approved norms and established limits. In accordance with clause 4 of the Plan, monitoring of the results of procurement activities begins on 1 January 2017. Information on the results of monitoring the procurement activities of PJSC Inter RAO (including compliance with the approved annual comprehensive procurement programme and the standard costs for certain types of goods, works and services for the needs of PJSC Inter RAO) will be included in the PJSC Inter RAO Annual Report for 2017 and subsequent years.

11 Analysis of Financial Results

Financial Results

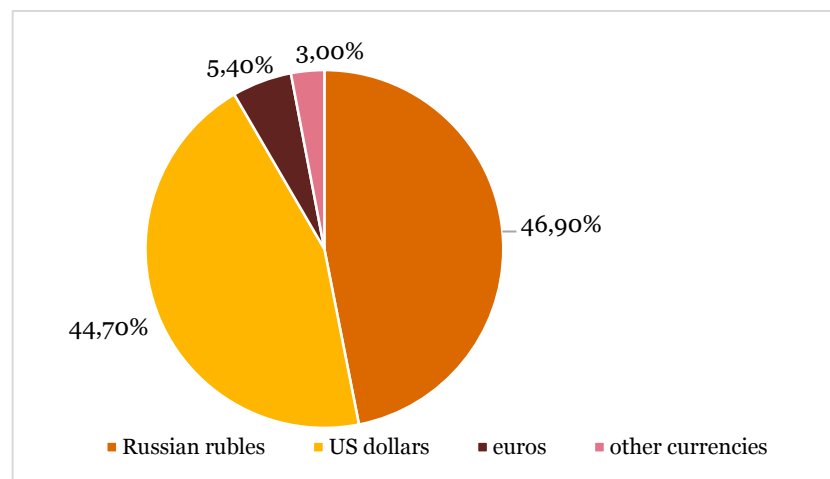
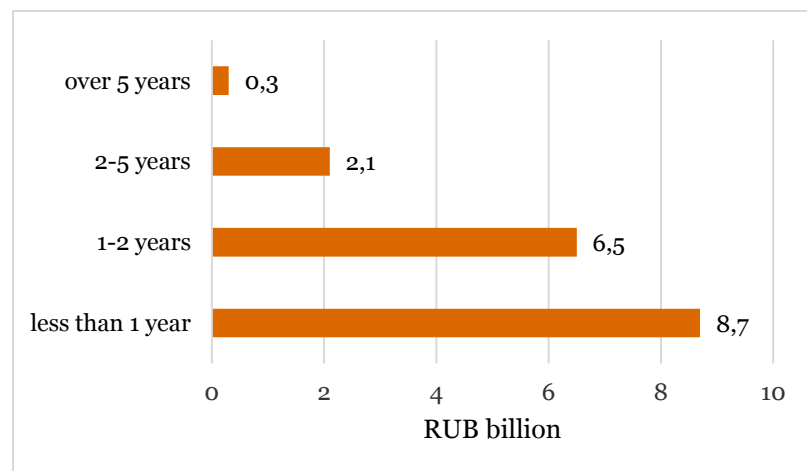
• Total debt load

The debt load including the share in the debt of joint ventures reduced by 80.7% down to RUB 17.8 billion.

The debt liabilities of the Group (not including the share in joint ventures) as compared to the beginning of 2016 reduced by **RUB 60.6 billion (77.5%)** and amounted to **RUB 17.6 billion**. The reduction of the debt load relates to the scheduled and early debt repayment of some companies of the Group and to the revaluation of the currency loans due to the change of currency rates to the Russian ruble. Also, as of the end of financial year 2016, the loan portfolio of the joint ventures decreased by RUB 13.8 billion (98.9%) due to the sale of 50% of shares in CJSC Electric Networks of Armenia in December 2016, and to the classification of the investment to JSC Ekibastuzskaya Station TPP-2 as an available-for-sale investment. As the result, the debt (including the share in the joint ventures) to EBITDA ratio as of the end of 2016 was **0.2** that shows high financial stability of the Group.

Net debt of the Group (including deposits with the maturity of 3 to 12 months) was **RUB 78.2 billion**. The ratio of long-term and short-term accounts payable as of the end of 2016 amounted to 50.4% to 49.6% respectively (as of the beginning of the reporting period this ratio was 54.5% to 45.5%).

The structure of loan portfolio (with no regard of the share in the joint ventures) of the Group



• Cash flows:

Summary cash flow statement of the Inter RAO Group in 2015-2016, RUB billion

Indicators	2016	2015
Net cash flows from operating activities	81.4	67.5
Net incoming and outgoing cash flows from investment activities	19.1	-28.3
Net outgoing cash flows from financial activities	-69.9	-50.4
Net inflow/outflow of cash and its equivalents	29.7	-10.3

Net inflow of cash and its equivalents amounting to RUB 29.7 billion in the period under consideration was due to the following diverse factors:

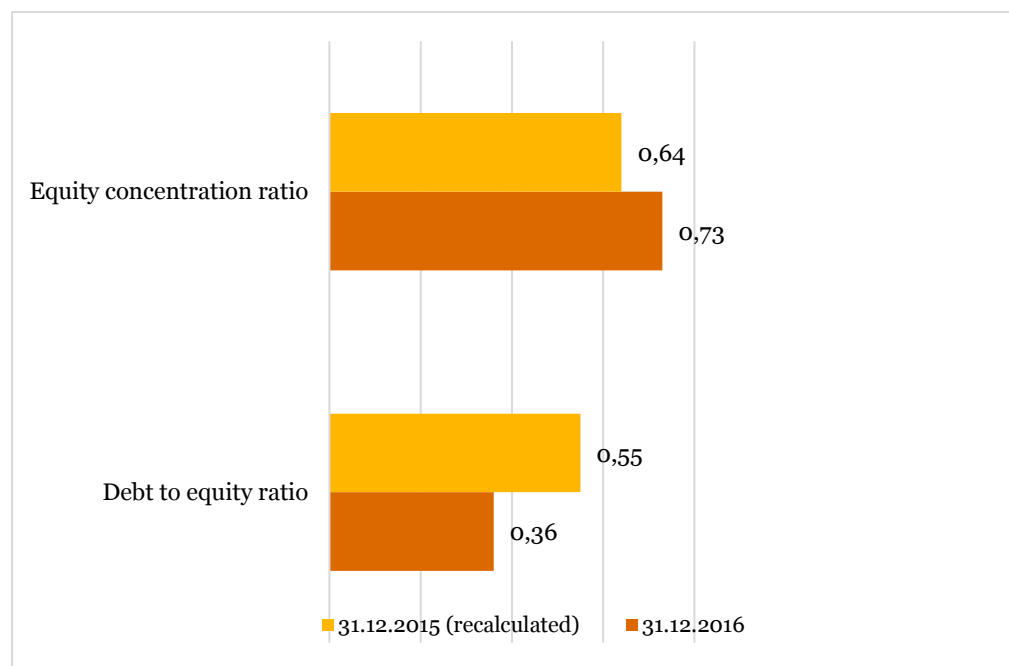
- incoming cash flows from operating activities (RUB 81.4 billion) mostly as a result of faster growth of revenues compared to operating expenses
- incoming cash flows from investment activities (RUB 19.1 billion) mostly connected with the inflow of cash from the sale of PJSC Irkutskenergo and outgoing cash flow for funding the investment programme of the Group
- outflow of cash from financial activities (RUB 69.9 billion) mostly covering the expenses on the liabilities by the companies of the Inter RAO Group

• Basic indicators of the financial and economic condition

The main factors that influence the financial results of the Group activities are:

- commissioning of the new modernised 325 MW power supply facility and requalification of the units commissioned earlier under capacity delivery agreements (CDA)
- increase of capacity fee under CDA associated with the growth of return on the long-term government bonds and the indexation of operating expenses
- growth of the price of capacities sold in the segment of the competitive capacity auction (CCA)
- growth of the average release prices on heat for the end consumers in the Russian assets of the Group
- optimisation of fuel procurement prices in the Russian assets of the Group
- growth of the average release prices for the end consumers in the marketing segment of the Group
- sales of 40,29% shares in PJSC Irkutskenergo
- step-by-step sale of CJSC Electric Networks of Armenia and JSC Hrazdan Energy Company (HrazTES) shares in Q4 2015 and in December 2016, the recognition of these companies as joint ventures since November 2015, and their disposal in December 2016

- recognition of depreciation of fixed assets that belong to the branches of JSC Inter RAO – Electric Power Plants on Irikhinskaya and Kostromskaya TPPs, as well as of JSC TomskRTS; partial reversal of previously recognised depreciation of fixed assets that belong to the branch of JSC Inter RAO – Electric Power Plants on Verkhnetagilskaya TPP
- acquisition of 100% share in BRECO, LLC with the retrospective consolidation using predecessor method. Thus, the figures of the statement of total income and the statement of financial condition of 2014-2016 were recalculated.



The **debt to equity ratio** describes the dependence of the holding company on borrowed capital. The value of this parameter at the end of the reported period was 0.36, which is an evidence of low dependence of the Group on third party investors and creditors. As compared to the same period at the end of 2015, this number reduced by 34.4%.

The **equity concentration ratio** characterises the share of the Company assets, which are covered by equity (secured by own sources of establishment). At the end of the reported period, this ratio amounted to 0.73, which is an evidence of high financial sustainability, stability, and independence on third party creditors. The ratio increased by 13.9% as compared to the same period in 2015.

The following factors influenced the change of these parameters:

- increase of equity, primarily due to the increase of retained earnings, related to the results of the Group's activities in 2016 (the profit for the shareholders of PJSC Inter RAO amounted to RUB 60.8 billion).
- reduction of liabilities, primarily due to the scheduled and early repayment of a number of loans obtained in the operating and investment activities, in order to pay off the liabilities on the option agreement with Vnesheconombank Group, as well.

Indicator	31.12.2016	31.12.2015 (recalculated)	Change, %
Absolute liquidity ratio	0.76	0.60	28.3
Quick liquidity ratio	1.59	1.21	32.1
Current liquidity ratio	1.77	1.61	9.9

The **liquidity ratios of the Group**, which are as ratios of the Group's assets (with various liquidity degrees) to its short-term liabilities, have expressed a growth tendency.

A significant increase of all the key liquidity ratios was primarily due to the change in current assets and reduction of short-term liabilities.

The size of current assets was much influenced by the sales of 40.29% shares in PJSC Irkutskenergo. The transaction provided the increase in the cash balance of the Group, the growth of accounts receivable (due to the condition of partial deferral of payment) and, at the same time, the reduction of the assets classified as held for sale.

The reduction of short-term liabilities was due to scheduled and early repayment of some of the debts by a number of the Group companies, including the use of money received from the sale of PJSC Irkutskenergo shares.

Indicator	31.12.2016	31.12.2015 (recalculated)	Change, %
Working capital, RUB bn	97.0	86.4	12.2
Return on sales, %	8.90%	3.09%	187.6
Net profit rate, %	7.06%	2.86%	146.6
Return on assets, %	10.73%	4.19%	156.2

Return on equity, %	14.63%	6.50%	124.8
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The **working capital**, which is the difference between current assets and current liabilities, on the results of 2016 amounted to RUB 97,0 bn, that is RUB 10,6 billion (12,2%) more in comparison with the same rate at the end of 2015, which is due to reduction of short-term liabilities at a pace faster than the current assets reduction rate. The main reasons of the changes in the abovementioned parameters are listed earlier.

All **return** rates as of the end of 2016 showed an increasing tendency.

The **return on sales** on the results of 2016 amounted to 8.90%, while in 2015 it was 3.09%. The change of this parameter related to the increase in profit on sales by RUB 51.5 billion (200,1%) due to the growth of revenues by RUB 36.2 billion (4.4%) and operating income/costs by RUB 15,3 billion (1,9%).

The main factor that significantly influenced the increase of other return parameters was the net profit amounted to RUB 61,3 bn as compared to RUB 23,8 bn by the end of 2015, that is mostly due to the growth of revenues by RUB 36,2 billion (4,4%).

Indicator	31.12.2016	31.12.2015 (recalculated)	Change, %
Equity turnover rate	2.21	2.32	-4.9
Accounts receivable and accounts payable turnover rate	1.01	1.14	-10.9
Accounts receivable turnover rate in days	40.09	37.83	6.0
Accounts payable turnover rate in days	42.74	43.34	-1.4

The **equity turnover rate** is the ratio of the sales to average annual equity; in 2016, it decreased by 4.9%, which is due to the growth of the average annual value of capital outpacing the rates of revenue increase in the period under consideration.

The **accounts receivable and accounts payable turnover rate** reduced by 10.9% down to 1.01 due to the increase of accounts receivable at the pace faster than the growth of accounts payable.

The **accounts receivable turnover rate** grew by 6.0% and amounted to 40.09 days that was due to the sale of PJSC Irkutskenergo shares to Telmamskaya HEP LLC. It is worth to note that with no regard of this factor the value of this parameter is

37.61 days, which is similar to the value as of 31.12.2015. The **accounts payable turnover rate** as compared to its value at the end of 2015 did not undergo much change. The accounts receivable turnover rate is less than the accounts payable turnover rate, which is a positive aspect.

• ***Dynamics of net assets***

Indicator	31.12.2016	31.12.2015 (recalculated)	Change, %
Net assets, RUB bn	419.2	366.2	14.5

The net asset value is a key parameter for any business company. At the end of 2016, the net assets amounted to RUB 419.2 billion and grew by RUB 53.0 billion (14.5%) as compared to the same parameter on the results of 2015 primarily due to the increase of retained earnings, related to the results of the Group's activities in the reporting period (the profit for the shareholders of PJSC Inter RAO amounted to RUB 60.8 billion).

12 Annexes

12.1 Associations and partnerships

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 electric power sector by forming strategic partnerships both in Russia and abroad.

Participation of Inter RAO Group in non-profit associations and partnerships in 2016

Organisation	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
Non-profit Partnership Centre of Innovative Energy Technologies (NP CIET)	PJSC Inter RAO, JSC EEC, CJSC Moldova TPP, JSC Inter RAO – Electric Power Plants
Non-profit Partnership Russian-Chinese business council (RCBC)	PJSC Inter RAO
Non-profit organisation National Committee for Economic Cooperation with Latin American Countries	PJSC Inter RAO-Export
Non-profit partnership Russian Risk Management Society	PJSC Inter RAO (partner)
Association Non-Profit partnership Market Council for organising an efficient system of trading at wholesale and retail electricity and capacity market (Association NP Market Council)	PJSC Inter RAO, JSC Tomsk Generation, JSC TKG-11, LLC BGC, JSC Inter RAO – Electric Power Plants, LLC RN – Energo, JSC Altai Energobyt, JSC Petersburg Power Supply Company, CJSC Petroelektrosbyt, LLC RT-ET, PJSC Saratovenergo, PJSC Tomskenergosbyt, JSC INTER RAO – Oryol Energy Sales Company, JSC Promyshlennaya Energetika, PJSC Tambov Power Supply Company, PJSC Mosenergosbyt (Moscow Power Supply Company), LLC BREC
Non-profit Partnership of Self-Regulatory Organisation Building Engineers' Association (NP SRO OBINZH STROY)	JSC EEC
Chamber of Commerce and Industry of Dniestrian Moldovan Republic (DMR)	CJSC Moldova TPP
Union of Industrialists, Farmers and Entrepreneurs of Pridnestrovye	CJSC Moldova TPP
Association European Federation of Energy Traders	RAO Nordic Oy
Nordic Association of Electricity Traders	RAO Nordic Oy
Helsinki Region Chamber of Commerce	RAO Nordic Oy
National Association for Energy and Environment	JSC Khrami HPP-1 (Georgia)

Private educational institution of continuing professional education Centre of professional education Energetik	JSC Recreational centre Energetik
National Association of Securities Market Participants (NAUFOR)	LLC INTER RAO Invest
Non-profit Partnership ENERGOPROEKT	JSC Tomsk Generation
Self-Regulatory organisation Non-profit Partnership Association of organisations in building, reconstruction and overhaul of power generation facilities, networks and electric power substations ENERGOSTROY	JSC Tomsk RTS
Self-Regulatory organisation Non-profit Partnership Association of organisations in front end engineering design of power generation facilities, networks and electric power substations ENERGOPROEKT	JSC Tomsk RTS
Chamber of Commerce and Industry of Omsk	JSC TGK-11, PJSC Tomskenergosbyt
Association of organisations and employees of water power engineering Hydropower Engineering of Russia	LLC BGC
Chamber of Commerce and Industry of the Republic of Bashkortostan	LLC BGC
Non-profit partnership Self-Regulatory Organisation Bashkir Architects' and Engineers' Community (NP SRO BAEC)	LLC BashRTS
Council of Power Producers and Strategic Investors in Power Engineering	JSC Inter RAO – Electric Power Plants
Union – Self-Regulatory Organisation – Interregional sectoral association of employers Association of organisations in building, reconstruction and overhaul of power generation facilities, networks and electric power substations ENERGOSTROY (UNION ENERGOSTROY)	JSC Inter RAO – Electric Power Plants, JSC Tomsk RTS
SRO Association Union of General Contractors in Construction	LLC Quartz Group, LLC Inter RAO – Engineering
SRP NP Regional association of engineering surveillance specialists, OboronStroyIzyskania	LLC Quartz Group
SRO Association Union for Town Planning and Design	LLC Quartz Group, LLC Inter RAO – Engineering
Non-profit Partnership Dynamo Sports Club (Moscow)	LLC RN – Energo
Association SRO CONSTRUCTORS' ALLIANCE	LLC RN – Energo
Association Regional sectoral association of employers Self-Regulatory Organisation Altai Builders	JSC Altai Energosbyt
Self-Regulatory Organisation Association Union of Architects and Engineers of West Siberia	JSC Altai Energosbyt
Non-profit partnership self-regulatory Organisation Guild of Energy Auditors	JSC Altai Energosbyt, JSC Petersburg Power Supply Company, PJSC Saratovenergo, JSC INTER RAO – Oryol Energy Sales Company, PJSC Tambov Power Supply Company, PJSC Mosenergosbyt
Chamber of Commerce and Industry of Altai	JSC Altai Energosbyt
Altai cluster of power plant engineering and energy-efficient technologies	JSC Altai Energosbyt
Association of employers of the Altai Territory Union of Industrialists	JSC Altai Energosbyt

Siberian agreement	JSC Altai Energosbyt
Association of last resort providers and power supply companies	JSC Petersburg Power Supply Company, PJSC Tambov Power Supply Company, PJSC Mosenergosbyt
Self-Regulatory Organisation Non-profit Partnership Expert Organisations of Power Engineering (SRO NP EOPE)	JSC Petersburg Power Supply Company, PJSC Saratovenergo, PJSC Mosenergosbyt
Union of construction industry organisations Construction Resource	JSC St. Petersburg Power Supply Company
Public organisation Union of Industrialists and Entrepreneurs of St. Petersburg	JSC St. Petersburg Power Supply Company
Joint-stock company Non-Government Pension Electricity Industry Fund	JSC St. Petersburg Power Supply Company
Non-profit partnership Interregional builders' association (SRO) (NP IBA (SRO))	PJSC Saratovenergo
Self-Regulatory Organisation Association Tomsk Builders	PJSC Tomskenergosbyt
Self-Regulatory Organisation – Association Tomsk Design Association for Improvement of Engineering Quality	PJSC Tomskenergosbyt
Self-Regulatory Organisation Non-profit Partnership for Support of Energy Conservation and Energy Efficiency in Siberia	PJSC Tomskenergosbyt
Non-governmental Non-profit organisation Union Chamber of Commerce and Industry of Tomsk	PJSC Tomskenergosbyt
Union for assistance with production, social, and legal issues, MPO of Tomsk Region Employers	PJSC Tomskenergosbyt
Regional Employers' Association Tambov Regional Association of Industrialists and Entrepreneurs	PJSC Tambov Power Supply Company
Non-profit partnership – Self-Regulatory Organisation TSENTRREGIONPROEKT	PJSC Tambov Power Supply Company
Non-profit partnership – Self-Regulatory Organisation TSENTRREGION	PJSC Tambov Power Supply Company
Self-Regulatory Organisation Non-profit partnership of construction companies Overhaul and Construction (SRO NP O&C)	PJSC Mosenergosbyt
Self-Regulatory Organisation Designers' association Engineering Alliance Monolith/NP EAM	LLC OEK, Verkhnetagilskaya TPP, LLC Omsk Power Supply Company
Self-Regulatory Organisation Constructors' association Construction Alliance Monolith/NP CAM	LLC OEK, Verkhnetagilskaya TPP, LLC Omsk Power Supply Company
Non-profit partnership – Self-Regulatory Organisation Interregional Construction Union	LLC BREC
Engineers' association Regional Alliance of Engineers	LLC BREC
Republic's committee Electropromsoyuz RB PO-NTU	LLC BGC
Regional sectoral association of employers housing and utilities companies of the Leningrad Region	JSC UICC LR
Partnership of Oracle East Central Europe Limited Network. Status – gold.	LLC Integrator IT
Russian National Association SWIFT	LLC Integrator IT
Self-Regulatory organisation based on membership of parties engaged in construction	LLC Inter RAO – Engineering
Self-Regulatory organisation based on membership of parties engaged in front end engineering design	LLC Inter RAO – Engineering

Russian-Arab business council (RABC)	LLC Inter RAO – Engineering
Russian-Moroccan business council	LLC Inter RAO – Engineering
Russian-Kuwaiti business council	LLC Inter RAO – Engineering
National Association of Engineering Companies (NAEC)	LLC Inter RAO – Engineering
Engineering and Industrial Design Council at the Ministry of Industry and Trade of the Russian Federation	LLC Inter RAO – Engineering
Working party on the implementation of smart electric systems at the Ministry of Energy of the Russian Federation	LLC Inter RAO – Engineering
Russian National Committee of the International Council on Large Electric Systems (RNC CIGRE)	LLC Inter RAO – Engineering
NC ECLAC (member)	LLC Inter RAO – Export
Agency for Strategic Initiatives (a member of the Working party Support of Access to the Foreign Markets and Export Support)	LLC Inter RAO – Export
BRICS Working party on power engineering and green economy	LLC Inter RAO – Export
Self-Regulatory Organisation Non-profit partnership Association of Energy Auditors in Construction	LLC Quartz Group
Self-Regulatory Organisation based on membership of parties engaged in engineering surveying	LLC Quartz Group
Association on defending the legitimate rights and interests of the builders	PJSC Tambov Power Supply Company
Non-profit Partnership ENERGOPROEKT	JSC Tomsk Generation
Self-Regulatory Organisation Non-profit partnership for Upgraded Construction Quality Improvement of Tomsk and Tomsk Region	PJSC Tomskenergosbyt
Tomsk regional organisation of Russian national Power Engineering Trade Union	PJSC Tomskenergosbyt
Non-profit partnership Baikal Association of Building Organisations	LLC Ugolny Razrez
Non-profit partnership for development of the trading and procurement industry, National Association of Procurement Institutions (NP NAPI)	LLC Inter RAO – Procurement Management Centre
Limited liability company INTER RAO SERVICE (LLC INTER RAO SERVICE)	LLC Inter RAO – Procurement Management Centre
Limited liability company INTER RAO INVEST (LLC INTER RAO INVEST)	LLC Inter RAO – Procurement Management Centre
Limited liability company Fish Farm (LLC Fish Farm)	LLC Inter RAO – Procurement Management Centre
Limited liability company Sports Support Centre (LLC Sports Support Centre)	LLC Inter RAO – Procurement Management Centre

12.2 Report of the revision commission

22 March 2017

Moscow

To the Meeting of Shareholders Pursuant to Articles of Association of PJSC Inter RAO (hereinafter referred of PJSC Inter RAO to as the Company), the Federal Law of the Russian Federation “On joint stock companies” dated 26.12.1995 No. 208-FZ, pursuant to Regulations on the Revision Commission of JSC Inter RAO as adopted by the annual General Meeting of Shareholders of Inter RAO on 25.05.2014 (Minutes No. 14 dated 25.05.2014) and pursuant to the resolution of the Revision Commission of PJSC Inter RAO dated 25 July 2016 (Minutes No. 2 dated 25.07.2016) the Revision Commission of the Company in the period from 21.02.2017 to 21.03.2016, consisting of:

- Chairman of the Revision Commission – Gennady Bukaev, Vice President – Chairman of the PJSC Rosneft Oil Company Internal Audit Service;

Member of the Commission:

- Dmitry Shishkin;
- Izumrud Alimuradova, Head of the Planning and Economic Department of JSC KRET;
- Tatyana Fisenko, Director of the Budget Planning and Accounts Department of the Ministry of Energy of the Russian Federation;
- Yury Shcherbakov, Head of the Treasury Department, PJSC Inter RAO,

audit of the financial and economic activity of PJSC Inter RAO was carried out for 2016.

The main aims of the audit were:

- a) ensure that the main financial indicators of the Company's activities reflected in the financial statements are reliable;
- b) provision of independent and objective guarantees regarding the financial and operational activities of the company's efficiency;
- c) ensure that during the implementation of financial and economic activities, the Company observed accounting procedures and complied with the requirements of the legal acts of the Russian Federation.

To achieve the objectives, the Revision Commission verified the presence and effectiveness of control procedures in the area of preparing account (financial) reporting, in the area of quarterly analysis of the performance of business plan indicators and reasons for their non-fulfilment, in the area of treasury operations, and the performance of the unit performing the internal audit function at PJSC Inter RAO was reviewed.

Report of the Revision Commission:

1. Accounting (Financial) reporting of PJSC Inter RAO 2016 for 2016 with all appendices and an explanatory;
2. Audit conclusion of an independent auditor (Ernst & Young LLC);
3. PJSC Inter RAO 2016 Annual Report for 2016;

4. Report on the implementation of the PJSC Inter RAO Business Plan for 2016;
5. Report on the implementation of the PJSC Inter RAO Investment Programme for 2016;
6. Consolidated report on the implementation of the PJSC Inter RAO Business Plan for 2016;
7. Consolidated report on the implementation of the PJSC Inter RAO Investment Programme for 2016;
8. Report on the Annual Comprehensive Procurement Programme for 2016;
9. Report on concluded transactions where there is a related party in their conclusion.

As of 31.12.2016, the book value of the Company's assets totalled RUB 437,922.55 million. Compared to the beginning of the year, the book value of assets increased by RUB 83,250.83 million.

At the end of 2016, the net profit of the Company totalled RUB 97,475.27 million. Compared to the previous year, net profit increased by RUB 93,753.82 million. Net profit for 2016 totalled RUB 98,589.35 million.

The PJSC Inter RAO auditor is Ernst & Young LLC, elected by the annual General Meeting of Shareholders of the Company (Minutes No. 16 of 10.06.2016), and audited the Company's financial statements for the period from 1 January to 31 December, 2016 and issued an audit conclusion w/n dated 14.02.2017.

The Revision Commission has stated the following:

1. The Company's Annual Report for 2016 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 2016 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.

The responsibility of the Revision Commission was to verify the existence and effectiveness of control procedures in the area of preparation of accounting (financial) reporting, in the area of control over the financial and business activities of the Company, in order to gain reasonable confidence in the effectiveness of the internal control system.

In the opinion of the Audit Commission, the data, information and documents obtained give sufficient grounds for the preparation of findings and conclusions. 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:

a) we did not observe cases of non-compliance with the essential requirements of local or Russian Federation normative acts;

b) 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 31.12.2016 and the financial results of the Company's operations for 2016.

Based on our audit verification, taking into account the opinion of the external auditor of the Company, the positive evaluation of the effectiveness of the internal control system in the Company in the preparation of financial (accounting) statements and a significant percentage of business processes covering checks of internal audit, the Revision Commission has sufficient grounds to confirm the reliability in all material aspects of the annual accounting (financial) statements for 2016, as well as to confirm the reliability of the data contained in the annual report of PJSC Inter RAO for 2016 and the report on transactions concluded by PJSC Inter RAO in 2016 where there is a related party.

Without changing the opinion on the reliability of the accounting (financial) statements, the Revision Commission draws attention to the fact in relation to placement of funds in a bank in which there is a moratorium on satisfaction of creditors' claims.

Members of the Revision Commission of PJSC Inter RAO:

Chairman of the Revision Commission – Vice President – Chairman
of the PJSC Rosneft Oil Company Internal Audit Service

Gennady Bukaev

Member of the Revision Commission

Dmitry Shishkin

Head of the Planning and Economic Department of JSC KRET

Izumrud Alimuradova

Director of the Budget Planning and Accounts Department of the
Ministry of Energy of the Russian Federation

Tatyana Fisenko

Head of the Treasury Department, PJSC Inter RAO

Yury Shcherbakov

We are familiar with this report:

Chairman of the Management Board of
PJSC Inter RAO

Boris Kovalchuk

Chief Accountant

Alla Vainilavichute

12.3 IFRS statements

Report of the independent auditor on the summary financial statements

Translation of the original in Russian language

To the shareholders and the Board of Directors of
PJSC Inter RAO

The accompanying summary consolidated financial statements, which consist of the consolidated statement of financial position as at 31 December 2016, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for 2016 and Appendix 1, are derived from the audited consolidated financial statements of PJSC Inter RAO and its subsidiaries for 2016. We conducted our audit of the consolidated financial statements in accordance with International Standards on Auditing enacted in the Russian Federation by the Ministry of Finance of the Russian Federation in Order No. 207n dated 9 November 2016. We expressed an unmodified audit opinion on those consolidated financial statements in our auditor's report dated 1 March 2017. Those consolidated financial statements and the summary consolidated financial statements of PJSC Inter RAO and its subsidiaries do not reflect the effect of events that occurred subsequent to the date of our auditor's report on those consolidated financial statements.

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of PJSC Inter RAO and its subsidiaries.

Management's responsibility for the summary financial statements

The management of PJSC Inter RAO is responsible for the preparation of a summary of the audited consolidated financial statements on the basis 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* enacted in the Russian Federation by the Ministry of Finance of the Russian Federation in Order No. 207n dated 9 November 2016.

Translation of the original in Russian language

Opinion

In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of PJSC Inter RAO and its subsidiaries for 2016 are consistent, in all material respects, with those consolidated financial statements on the basis described in Appendix 1.

D.E. LOBACHEV
General director
Ernst & Young LLC

2 March 2017

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 102230933630.
Address: Russia 119435, Moscow, Bolshaya Pirogovskaya street, building 27-2.

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 from the original in Russian language

PJSC Inter RAO

Summary consolidated financial statements
for 2016

Consolidated statement of financial position

(in millions of RUR)

	31 December 2016	31 December 2015 (restated)	1 January 2015 (restated)
Assets			
Non-current assets			
Property, plant and equipment	280,499	277,784	298,802
Intangible assets	9,908	13,652	13,790
Investments in associates and joint ventures	28,886	31,125	34,407
Deferred tax assets	6,527	4,412	2,236
Available-for-sale financial assets	7,810	5,965	7,260
Other non-current assets	15,430	8,752	10,135
Total non-current assets	349,060	341,590	366,630
Current assets			
Inventories	14,104	15,917	14,914
Accounts receivable and prepayments	104,105	86,093	86,364
Income tax prepaid	625	1,960	955
Cash and cash equivalents	95,988	66,280	76,627
Other current assets	4,712	19,131	9,154
	219,534	189,371	188,014
Assets classified as held-for-sale	3,000	38,048	38,057
Total current assets	222,534	227,419	226,071
Total assets	571,594	569,009	592,701
Equity and liabilities			
Equity			
Share capital	293,340	293,340	293,340
Treasury shares	(58,787)	(56,184)	(56,229)
Share premium	69,312	69,312	69,312
Hedge reserve	16	(12)	38
Actuarial reserve	(182)	(99)	(34)
Fair value reserve	2,485	865	626
Foreign currency translation reserve	2,972	7,041	8,422
Retained earnings	107,879	49,277	28,624
Total equity attributable to shareholders of the Company	417,035	363,540	344,099
Non-controlling interest	2,191	2,705	5,348
Total equity	419,226	366,245	349,447
Non-current liabilities			
Loans and borrowings	8,886	42,617	64,185
Deferred tax liabilities	10,678	12,955	15,179
Other non-current liabilities	7,260	6,203	11,580
Total non-current liabilities	26,824	61,775	90,944
Current liabilities			
Loans and borrowings	8,738	35,559	45,767
Accounts payable and accrued liabilities	105,468	97,868	99,696
Other taxes payable	9,005	6,692	5,920
Income tax payable	2,333	870	927
Total current liabilities	125,544	140,989	152,310
Total liabilities	152,368	202,764	243,254
Total equity and liabilities	571,594	569,009	592,701

Chairman of the Management Board

Kovalchuk B.Yu.

Member of the Management Board, Chief Financial Officer

Miroshnichenko E.N.

2 March 2017

The consolidated statement of financial position is to be read in conjunction with note 1 to, and forming part of, the summary financial statements.

5

PJSC Inter RAO

Consolidated statement of comprehensive income

(in millions of RUR)

	<i>For the year</i>	
	2016	2015 (restated)
Revenue	868,182	831,987
Other operating income	39,120	8,708
Operating expenses, net	(830,042)	(814,952)
Operating income	77,260	25,743
Finance income	10,121	12,121
Finance expenses	(24,311)	(10,978)
Share of profit/(loss) of associates and joint ventures, net	5,478	(125)
Income before income tax	68,548	26,761
Income tax expense	(7,236)	(2,939)
Income for the period	61,312	23,822
Other comprehensive (loss)/income		
<i>Other comprehensive (loss)/income that will be reclassified subsequently to profit or loss when specific conditions are met</i>		
Actuarial loss, net of tax	(85)	(74)
Gain on available-for-sale financial assets, net of tax	1,620	239
Net gain/(loss) on hedge instruments, net of tax	55	(48)
Exchange loss on translation to presentation currency	(4,497)	(1,249)
Other comprehensive loss, net of tax	(2,907)	(1,132)
Total comprehensive income for the period	58,405	22,690
Income attributable to:		
Shareholders of the Company	60,761	22,601
Non-controlling interest	551	1,221
	61,312	23,822
Total comprehensive income attributable to:		
Shareholders of the Company	58,257	21,344
Non-controlling interest	148	1,346
	58,405	22,690
Basic income per ordinary share for income attributable to the shareholders of the Company	RUR 0.726	RUR 0.268
Diluted income per ordinary share for income attributable to the shareholders of the Company	0.721	0.268

Chairman of the Management Board

Kovalchuk B.Yu.

Member of the Management Board, Chief Financial Officer

Miroshnichenko E.N.

2 March 2017

The consolidated statement of comprehensive income is to be read in conjunction with note 1 to, and forming part of, the summary financial statements.

6

PJSC Inter RAO

Consolidated statement of cash flows*(in millions of RUR)*

	<i>For the year</i>	
	<i>2016</i>	<i>2015 (restated)</i>
Operating activities		
Income before income tax	68,548	26,761
<i>Adjustments to reconcile income before tax to net cash flows from operating activities:</i>		
Depreciation and amortisation	22,904	23,609
Provision for impairment of accounts receivable	8,496	6,500
Other provisions charge	3,398	2,185
Impairment of available-for-sale financial assets and assets classified as held-for-sale	3,020	19
Impairment of property, plant and equipment	4,082	14,766
Share of (profit)/loss of associates and joint ventures	(5,478)	125
(Profit)/loss from electricity derivatives, net	(330)	305
Foreign exchange loss/(gain), net	3,642	(2,061)
Interest income	(9,495)	(7,486)
Other finance income	(366)	(1,425)
Interest expense	7,229	10,660
Other finance expenses	13,440	318
Dividend income	(260)	(1,149)
Income from sale of available-for-sale financial assets and assets classified as held-for-sale	(31,870)	(1,365)
Shares option plan	2,524	—
Loss from disposal of Group entities, net	2,192	951
Other non-cash operations/items	1,065	148
Operating cash flows before working capital adjustments and income tax paid	92,741	72,861
Decrease/(increase) in inventories	816	(878)
(Increase)/decrease in accounts receivable and prepayments	(12,562)	2,077
Decrease in value added tax recoverable	3,374	2,945
(Increase)/decrease in other current assets	(525)	408
Increase/(decrease) in accounts payable and accrued liabilities	4,915	(3,020)
Increase in taxes other than income tax prepaid/payable, net	1,787	705
Other working capital adjustments	(146)	282
	90,400	75,380
Income tax paid	(9,039)	(7,898)
Net cash flows from operating activities	81,361	67,482

The consolidated statement of cash flows is to be read in conjunction with note 1 to, and forming part of, the summary financial statements.

Consolidated statement of cash flows (continued)

(in millions of RUR)

	<i>For the year</i>	
	2016	2015 (restated)
Investing activities		
Proceeds from disposal of property, plant and equipment	277	187
Purchase of property, plant and equipment and intangible assets	(34,746)	(28,966)
Purchase of controlling interest	(3,600)	94
Proceeds from disposal of controlling interest, net of cash disposed	698	8
Purchase of shares in the associate	(3,000)	–
Proceeds from disposal of joint ventures and associate	1,102	70
Proceeds from disposal of available-for-sale financial assets and assets classified as held-for-sale	51,250	3,285
Proceeds from repayment of loans issued	1,003	531
Loans issued	(52)	(621)
Bank deposits placed	(19,164)	(34,300)
Bank deposits returned and proceeds from promissory notes repayment	34,805	22,614
Interest proceeds for bank deposits placed	6,148	5,942
Purchase of other non-current assets	(15,869)	–
Dividends received	403	2,117
Cash flows (used for)/from other investing activities	(191)	705
Net cash flows from/(used for) investing activities	19,064	(28,334)
Financing activities		
Proceeds from loans and borrowings	41,933	52,646
Repayment of loans and borrowings	(98,005)	(86,582)
Repayment of finance leases	(535)	(857)
Interest paid	(9,832)	(9,717)
Dividends paid	(1,953)	(517)
Purchase of non-controlling interest in subsidiaries	(76)	(5,411)
Acquisition of treasury shares	(1,667)	–
Proceeds from treasury shares sold	223	–
Net cash flows used for financing activities	(69,912)	(50,438)
Effect of exchange rate fluctuations on cash and cash equivalents	(805)	943
Net increase/(decrease) in cash and cash equivalents	29,708	(10,347)
Cash and cash equivalents at the beginning of the period	66,280	76,627
Cash and cash equivalents at the end of the period	95,988	66,280

Chairman of the Management Board

Kovalchuk B.Yu.

Member of the Management Board, Chief Financial Officer

Mirosnichenko E.N.

2 March 2017

The consolidated statement of cash flows is to be read in conjunction with note 1 to, and forming part of, the summary financial statements.

Consolidated statement of changes in equity

(in millions of RUR)

	Attributable to shareholders of the Company										
	Share capital	Treasury shares	Share premium	Foreign currency translation reserve	Fair value reserve	Hedge reserve	Actuarial reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2015 (restated)	293,340	(56,229)	69,312	8,422	626	38	(34)	28,624	344,099	5,348	349,447
Total comprehensive (loss)/income for the year ended 31 December 2015	—	—	—	(1,381)	239	(50)	(65)	22,601	21,344	1,346	22,690
Dividends to shareholders	—	—	—	—	—	—	—	(290)	(290)	(429)	(719)
Undrawn dividends returned	—	—	—	—	—	—	—	109	109	5	114
Acquisition of controlling interest in subsidiary	—	—	—	—	—	—	—	—	—	50	50
Acquisition of non-controlling interest in subsidiaries	—	—	—	—	—	—	—	(1,796)	(1,796)	(3,615)	(5,411)
Sale of treasury shares	—	45	—	—	—	—	—	29	74	—	74
Balance at 31 December 2015 (restated)	293,340	(56,184)	69,312	7,041	865	(12)	(99)	49,277	363,540	2,705	366,245
Balance at 1 January 2016 (restated)	293,340	(56,184)	69,312	7,041	865	(12)	(99)	49,277	363,540	2,705	366,245
Total comprehensive (loss)/income for the year ended 31 December 2016	—	—	—	(4,069)	1,620	28	(83)	60,761	58,257	148	58,405
Dividends to shareholders	—	—	—	—	—	—	—	(1,707)	(1,707)	(621)	(2,328)
Acquisition of controlling interest in subsidiary	—	—	—	—	—	—	—	(4,100)	(4,100)	—	(4,100)
Acquisition of non-controlling interest in subsidiary	—	—	—	—	—	—	—	(43)	(43)	(33)	(76)
Disposal of controlling interest in subsidiary	—	—	—	—	—	—	—	8	8	(8)	—
Share option plan	—	—	—	—	—	—	—	2,524	2,524	—	2,524
Sale of treasury shares	—	330	—	—	—	—	—	(107)	223	—	223
Acquisition of treasury shares	—	(2,933)	—	—	—	—	—	1,266	(1,667)	—	(1,667)
Balance at 31 December 2016	293,340	(58,787)	69,312	2,972	2,485	16	(182)	107,879	417,035	2,191	419,226

Chairman of the Management Board

Kovalchuk B.Yu.

Member of the Management Board, Chief Financial Officer

Miroshnichenko E.N.

2 March 2017

The consolidated statement of changes in equity is to be read in conjunction with note 1 to, and forming part of, the summary financial statements.

Appendix 1

These summary consolidated financial statements include the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows are derived from the audited consolidated financial statements for 2016, presented in thousands of Russian rubles, and are 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.

12.4 RAS statements

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 PJSC Inter RAO

The accompanying summary financial statements, which consist of the balance sheet as at 31 December 2016, statement of income for 2016 and Appendix 1 are derived from the audited financial statements of PJSC Inter RAO for 2016. In respect of the financial statements we issued an auditor's report with an unqualified opinion dated 14 February 2017 that included an "Important facts" paragraph drawing attention to information on cash deposited in a bank, which is under a moratorium on satisfaction of the bank's creditors. Those financial statements and the summary financial statements of PJSC Inter RAO do not reflect the effect of events that occurred subsequent to the date of our auditor's report on those financial statements.

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 PJSC Inter RAO.

Management's responsibility for the summary financial statements

The management of PJSC Inter RAO is responsible for the preparation of a summary financial statements of the audited financial statements on the basis 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 federal standards on auditing effective in the Russian Federation.

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of PJSC Inter RAO for 2016 are consistent, in all material respects, with those financial statements on the basis described in Appendix 1.

Translation of the original Russian version

Other matters

The accompanying summary financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Russian Federation. Accordingly, the accompanying summary financial statements are not designed for those who are not informed about accounting principles, procedures and practices in the Russian Federation.

D.E. LOBACHEV
General director
Ernst & Young LLC

2 March 2017

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, bld. 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 6 year

Entity	<i>Public Joint-Stock Company Inter RAO UES</i>	OKUD Form	0710001
Taxpayer's identification number		Date (DDMMYY)	31 12 2016
Type of activity	<i>sales of electricity</i>	OKPO code	33741102
Legal/ownership form		TIN	2320109650
		OKVED code	35.14
			12247 49
			385
		OKOPF/OKFS code	
Measurement unit: RUB mln		OKEI code	
Location (address)	<i>119435, Moscow, ul. Bolshaya Pirogovskaya, 27, bld. 2</i>		

	Description	Code	At 31 December 2016	At 31 December 2015	At 31 December 2014
	ASSETS				
	I. NON-CURRENT ASSETS				
	Intangible assets	1110	14	32	29
	Research and development results	1120	-	-	-
	Property, plant and equipment	1150	911	1 188	848
	including construction in progress	1155	871	1 143	726
	Income-bearing investments in tangible assets	1160	3	4	9
	Financial investments	1170	346 279	306 466	281 326
	Deferred tax assets	1180	1 585	2 152	2 877
	Other non-current assets	1190	12 872	3 849	10 673
	TOTAL for Section I	1100	361 664	313 691	295 762
	II. CURRENT ASSETS				
	Inventory	1210	6	3	5
	VAT on purchased assets	1220	410	336	575
	Accounts receivable, payments on which are expected within 12 months after the reporting date	1230	24 911	16 269	23 360
	including				
	trade accounts receivable	1231	3 868	4 417	4 486
	Financial investments (other than cash equivalents)	1240	8 441	3 977	10 484
	Cash and cash equivalents	1250	41 656	20 395	23 164
	Other current assets	1260	835	1	13
	TOTAL for Section II	1200	76 259	40 981	57 601
	BALANCE SHEET	1600	437 923	354 672	353 363

	Description	Code	At 31 December 2016	At 31 December 2015	At 31 December 2014
	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	-	-	11
	Additional capital (without revaluation)	1350	195 416	195 416	195 416
	Reserve capital	1360	504	318	296
	Retained earnings (loss)	1370	(59 278)	(154 707)	(158 298)
	TOTAL for Section III	1300	429 982	334 367	330 765
	IV. LONG-TERM LIABILITIES				
	Loans and borrowings	1410	-	950	-
	Deferred tax liabilities	1420	411	41	47
	Provisions	1430	-	10 096	-
	Other liabilities	1450	-	99	12
	TOTAL for Section IV	1400	411	11 186	59
	V. SHORT-TERM LIABILITIES				
	Loans and borrowings	1510	-	1	9 178
	Accounts payable, payments on which are expected within 12 months after the reporting date	1520	5 454	7 602	12 445
	including:				
	trade accounts payable	1521	2 625	4 511	5 619
	accrued payroll	1522	69	1	-
	social insurance and social security payable	1523	30	-	-
	taxes and levies payable	1524	15	1	1
	advances received	1525	2 295	2 684	5 901
	other accounts payable	1527	420	405	924
	Provisions	1540	2 076	1 516	916
	Other liabilities	1550	-	-	-
	TOTAL for Section V	1500	7 530	9 119	22 539
	BALANCE SHEET	1700	437 923	354 672	353 363

Chief Executive Officer



B. Yu. Kovalchuk

" 2 " March 201 7 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, 2016

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) 31 12 2016
OKPO code 33741102
TIN 2320109650
OKVED code 35.14

Codes	
0710002	
31	12 2016
33741102	
2320109650	
35.14	
12247	49
385	

Public Joint-Stock Company/Other mixed Russian ownership OKOPF/OKFS code _____
Measurement unit: RUB mln OKEI code _____

	Description	Code	January - December 2016	January - December 2015
	Revenue from the sale of goods, products, works and services, net (less VAT, excise duties and similar obligatory payments), including:	2110	43 180	45 991
	export of energy	2111	30 681	32 621
	domestic sales of energy (capacity)	2112	9 689	8 847
	sales of power generation equipment	2113	2 683	4 367
	other	2114	127	156
	Cost of sales of goods, products, works and services	2120	(31 669)	(33 376)
	purchase of energy (power) from domestic market	2121	(26 130)	(28 144)
	import of energy	2123	(3 247)	(1 539)
	sales of power generation equipment	2124	(2 291)	(3 687)
	other	2125	(1)	(6)
	Gross profit	2100	11 511	12 615
	Selling expenses	2210	(3 163)	(4 085)
	Administrative expenses	2220	(5 720)	(5 590)
	Profit (loss) from operations	2200	2 628	2 940
	Income from equity participation	2310	1 037	1 691
	Interest receivable	2320	5 695	5 745
	Interest payable	2330	(188)	(545)
	Other income	2340	131 826	8 697
	Other expenses	2350	(42 409)	(12 448)
	Profit (loss) before tax	2300	98 589	6 080
	Current profit tax	2410	(158)	(1 736)
	including permanent tax liabilities (assets)	2421	(7 672)	1 290
	Deferred tax liabilities change	2430	(370)	6
	Deferred tax assets change	2450	(567)	(438)
	Other	2460	(19)	(191)
	Profit (loss) after tax	2400	97 475	3 721
	FOR REFERENCE			
	Cumulative financial result for the period	2500	97 475	3 721
	Basic earnings (loss) per share (rub.)	2900	0,9337	0,0356
	Diluted earnings (loss) per share (rub.)	2910	0,9337	0,0356

Chief Executive Officer B.Yu. Kovalchuk

" 2 " March 201 7 year

Translation of the original in Russian language

PJSC Inter RAO

Summary financial statements
for 2016

Appendix 1

These summary financial statements include the balance sheet and the statement of income derived from the audited financial statements for 2016, that were presented in thousands of Russian rubles, and were prepared in accordance with accounting principles and practices generally accepted in the Russian Federation. Audited financial statements for 2016 can be found at <http://www.interrao.ru>. 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.

12.5 Index of the standard GRI items

Aspect	Parameter No.	Parameter name	Subsection in the report	Page in the report
		Strategy and analysis		
	G4-1	Statement from the most senior decision-maker of the organisation about the relevance of sustainability to the organisation and the organisation's strategy for addressing sustainability.	To the shareholders of PJSC Inter RAO	
	G4-2	Description of key impacts, risks and opportunities	2.1. Strategy and long-term development programme	
			7. Key risks of Inter RAO Group	
		Organisation profile		
	G4-3	Organisation	1. Inter RAO Group today	
	G4-4	Primary brands, products and services	1. Inter RAO Group today	
	G4-5	Location of the organisation's headquarters	Bld. 2, 27 Bolshaya Pirogovskaya St., Moscow 119435	

	G4-6	Number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report	1. Inter RAO Group today	
	G4-7	Nature of ownership and legal form	5. Company on the capital markets and investor relations	
	G4-8	Markets served	1.6. Position and main competitive strengths of Inter RAO Group in the energy market	
	G4-9	Scale of the organisation	1. Inter RAO Group today	
	G4-10	Total number of employees	6.3. HR management	
			At the end of the reporting period, the staff of the Group was 56 913 people according to IFRS scope. About 82% of the Group staff are the employees of generation, marketing and network segments.	
	G4-11	Percentage of total employees covered by collective bargaining agreements	6.3. HR management	
	G4-12	Describe the organisation's supply chain	2.1. Strategy and long-term development programme	

	G4-13	Any significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain	1. Inter RAO Group today	
	G4-14	Whether and how the precautionary approach or principle is addressed by the organisation	The precautionary principle is one of the basic principles of PJSC Inter RAO UES Declaration of Environmental Responsibility. A strategic goal of the Group is not only achieving compliance with environmental regulatory requirements but continued reduction of impact down to technically achievable and economically feasible levels, as well as constant improvement of the environment quality in the Group's regions of presence.	
			An example of adherence to the precautionary principle is the Group's practice of replacing asbestos containing materials with alternative building materials.	
	G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses	In the reported period, the Group did not subscribe to any economic, environmental or social charters, principles, or other initiatives.	
	G4-16	Memberships of associations (such as industry associations) and(or) national or international advocacy organisations	10.1. Associations and partnerships	
	EU1	Installed capacity broken down by energy source and regions with the common regulatory regime	1.5. Key indicators of the Group for 2014–2016	

	EU2	Net energy produced broken down by energy source and regions with a common regulatory regime	1.5. Key indicators of the Group for 2014–2016	
	EU3	Number of industrial, institutional and commercial consumers, as well as customers of the utility sector	3.3. “Supply in the Russian Federation” segment	
			5.6. Segment “Foreign assets”, “Georgia” subsegment	
			5.6. Segment “Foreign assets”, “Armenia” subsegment	
	EU4	Total length of overhead and underground transmission and distribution power and heat lines	3.2 “Generation in the Russian Federation” segment	
			5.6. Segment “Foreign assets”, “Georgia” subsegment	
			5.6. Segment “Foreign assets”, “Armenia” subsegment	
			5.6. Segment “Foreign assets”, “Moldova” subsegment	

		Detected critical aspects and boundaries		
	G4-17	Entities included in the organisation's consolidated financial statements	1. Inter RAO Group today	
	G4-18	Process for defining the report content and the aspect boundaries principles of reporting while defining the report content	About the report	
	G4-19	List of all the material aspects identified in the process for defining report content	About the report	
	G4-20	Description of aspect boundary for each material Aspect within the organisation	About the report	
	G4-21	Description of aspect boundary for each material Aspect outside the organisation	6.4. Occupational health and industrial safety	
			The impact boundaries of all aspects except the workplace health and safety cover the Inter RAO Group companies only. The boundaries of the Workplace Health and Safety aspect also cover employees of the Group's contractors.	
	G4-22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements	The restatements of information provided in previous reports, and the reasons for such restatements are disclosed in the report sections.	
	G4-23	Significant changes from previous reporting periods in the scope and aspect boundaries	About the report	

		Interaction with the stakeholders		
	G4-24	List of stakeholder groups engaged by the organisation	4.7. Information Disclosure and External Communications	
	G4-25	Basis for identification and selection of stakeholders with whom to engage	About the report	
			6.1. Approach to sustainable development	
			4.7 Information Disclosure and External Communications	
	G4-26	Approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group	About the report	
			6.1. Approach to sustainable development	
	G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting	About the report	
			6.1. Approach to sustainable development	
		General information about the report		
	G4-28	Reporting period (such as fiscal or calendar year) for information provided	About the report	
	G4-29	Date of most recent previous report on sustainable development (if any)	http://www.interrao.ru/upload/docs/Inter_RAO_Annual_Report_2015_rus_21june.pdf	

	G4-30	Reporting cycle (such as annual, biennial)	About the report	
	G4-31	Contact point for questions regarding the report or its contents	11. Contact details	
	G4-32	Index of the standard items of the report	10.5. Index of the standard GRI items	
	G4-33	Policy and current practice with regard to seeking external assurance for the report	The Group has decided not to seek external assurance for the report.	
		Corporate governance		
	G4-34	Governance structure of the organisation, including committees of the highest governance body and any committees responsible for decision-making on economic, environmental and social impacts	4.1. Following the high standards of corporate governance	
			4.2. Corporate governance model	
	G4-38	Composition of the highest governance body and its committees	4.4. Board of Directors	
	G4-39	Whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organisation's management and the reasons for this arrangement)	4.4. Board of Directors	
			The Chairman of the Board of Directors of PJSC Inter RAO is not an executive officer.	

	G4-40	Nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members	4.4. Board of Directors	
	G4-41	Processes for the highest governance body to avoid and manage conflicts of interest	4.4. Board of Directors	
			4.6. Corporate control and risk management	
	G4-51	Remuneration policies for the highest governance body and senior executives	4.4. Board of Directors	
			4.5. The Board	
		Ethics and integrity		
	G4-56	Organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	4.6. Corporate control and risk management	

		Economic efficiency indicators		
Economic efficiency	G4-DMA	Disclosure on management approach	4.6. Corporate control and risk management 9. Analysis of Financial Results	
	EC1	Generated and distributed direct economic value, including revenues, operating costs, employee wages and benefits, payments to providers of capital, to government, community investments, and economic value retained		
		Direct economic value generated and distributed, RUB thousand		
		Indicator	2015	2016
				Change
		Direct economic value generated:	808,473,695	900,977,945
				11%
		Revenues, in particular:	808,473,695	900,977,945
				11%
		Net sales	805,343,796	868,181,901
				8%

		Revenue from financial investments	1,710,735	874,264	(49)%		
		Revenues from sale of assets	1,419,164	31,921,780	2 149%		
		Direct economic value distributed:	843,052,631	890,934,111	6%		
		Operating costs	741,310,173	780,150,568	5%		
		Employee wages and benefits	47,229,205	49,891,626	6%		
		Payments to providers of capital:	10,762,163	9,557,777	(11)%		

		Dividends to all shareholders	520,291	2,328,740	348%		
		Interest payments made to providers of loans	10,241,872	7,229,037	(29)%		
		Payments to government, in particular, by countries of the Group's presence	43,272,248	50,707,331	17%		
		Armenia	2,037,466	-	(100)%		
		Georgia	1,997,454	7,971,535	299%		
		Kazakhstan	11,072	5,328	(52)%		

		Latvia	206,441	119,748	(42)%		
		Lithuania	1,975,049	1,731,041	(12)%		
		Transdnierster (Moldova)	689,007	732,919	6%		
		Russia	31,966,317	36,273,128	13%		
		Turkey	4,112,166	3,431,323	(17)%		
		Finland	343,796	88,728	(74)%		

		Other	-66,520	353,581	(632)%		
		Local community investments	478,842	626,809	31%		
		Retained economic value	(34,578,936)	10,043,834	(129)%		
	EC3	Coverage of the organisation's defined pensions and benefit plan obligations				The Group companies have a Programme for Non-Government Pensions to Employees. In 2016, the number of members of the programme was 1,656 people.	
						Information on the liabilities is available in the Notes to the consolidated financial statements of PJSC Inter RAO for the year ended on 31 December 2016:	
						http://www.interrao.ru/upload/iblock/112/Otchetnost_2016_IFRS_rus.pdf	

	EC4	Financial assistance received from government	10.12. The list of government supported projects implemented by Inter RAO Group on the territory of the Russian Federation	
Market presence	G4-DMA	Disclosure on management approach	6.3. HR management	
	EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	6.3. HR management	
			In most companies of the Group, the standard salary exceeds the minimum wage in the locations of operation by 13% or more.	
	EC6	Proportion of senior management hired from the local community at significant locations of operation	The Group's main hiring criterion is the candidate's qualification and professional experience. If candidates from the region of operations do not meet the Group company's qualification requirements, labour is hired from other regions.	
			In 2016, The number of managers from the local community amounted to over 88%. (In 2015, it was about 94%). ¹⁷⁷	

¹⁷⁷ Due to improvement of the calculation method, the 2015 data were adjusted.

Indirect economic impacts	G4-DMA	Disclosure on management approach	6.3. HR management	
	EC7	Development and impact of infrastructure investments and services supported	6.2. Contribution to the development of the regions of the Group's operation	
			The Group companies assess needs and research the perception of their charity activities by the stakeholders in the locations of operation on a regular basis. The results of such activity are used to raise the efficiency of investments in regional infrastructure and social projects.	
	EC8	Significant indirect economic impacts, including the sphere of impact	6.2. Contribution to the development of the regions of the Group's operation	
			6.5. Environmental policy	

			<p>The Group's activities including those of its city-forming enterprises provide favourable conditions for local suppliers' development, development of the resource base in the locations of operation, establishment of jobs at own enterprises and supply chains, and better quality of services through employee education and high requirements to suppliers concerning products, jobs and services.</p>	
Availability and reliability	G4-DMA	Disclosure on management approach	2.3. System of key performance indicators	
			<p>The Group companies do repair, upgrade equipment and take other steps to assure short-term and long-term reliability and availability of electricity.</p>	
	EU10	Planned capacity against projected electricity demand over the long-term, broken down by energy source and regions with the common regulatory regime	3.2. "Generation in the Russian Federation" segment	

Demand regulation	G4-DMA	Disclosure on management approach	3.3. “Supply in the Russian Federation” segment	
			3.6. Segment “Foreign assets”, “Georgia” subsegment	
			3.6. Segment “Foreign assets”, “Armenia” subsegment	
R&D	G4-DMA	Disclosure on management approach	2.5. Innovative development	
System efficiency	G4-DMA	Disclosure on management approach	2.3. System of key performance indicators	
	EU11	Average utilisation rate of thermal plant installed capacities broken down by energy source and regions with a common regulatory regime	3.1. Key business results of the Group	

	EU12	Transmission and distribution losses as a percentage of total supplied energy (loss factor)	3.6. Segment “Foreign assets”, “Georgia” subsegment	
			3.6. Segment “Foreign assets”, “Armenia” subsegment	
Environmental performance indicators				
Materials	G4-DMA	Disclosure on management approach	6.5. Environmental policy	
	EN1	Materials used by weight or volume	This parameter is not material to the Group as a whole. At the Group’s production enterprises, the main raw material for heat and electricity generation is fuel, namely, gas (78.4%), coal (20.8%), mazut (0.5%) and other fuels (0.3%).	
	EN2	Percentage of materials used that are recycled input materials or reusable wastes	6.5. Environmental policy/Key areas of environmental impact of the Group/Production waste management	

Energy	G4-DMA	Disclosure on management approach			6.5. Environmental policy					
	EN3	Energy consumption within the organisation			PJSC Inter RAO is a parent managing company of a diversified energy holding; in the reported period, it did not buy energy resources for its business. The cost of energy resources (electricity, engine and other fuel) that are necessary for the Company's business are included in the cost of lease of non-residential (office) premises, car services, and aircraft operation and maintenance services in the framework of contracts with third parties. Information the on the amount of each energy resource type used by the Company's subsidiaries in the reporting period is shown in the table below.					
		Amount of each type of energy resources used by subsidiaries of the Company in 2014-2015, GJ*								
		<table><tr><td>Energy type</td><td>2015</td><td>2016</td><td>2016/2015</td></tr></table>			Energy type	2015	2016	2016/2015		
		Energy type	2015	2016	2016/2015					
		Fuel, total	1,373,456,742	1,321,509,021	96%					
		Petroleum fuel, in particular:	7,611,700	17,183,970	226%					
		Residual fuel	6,098,372	14,827,178	243%					
		Diesel fuel	1,513,329	2,356,792	156%					
	Gas turbine fuel	-	-	-						

		Other petroleum fuel	-	-	-		
		Gas, in particular:	1,078,795,623	1,032,276,696	96%		
		Natural gas	936,203,039	902,698,924	96%		
		Factory gas	23,746,123	20,125,326	85%		

		Accompanying gas	118,846,461	109,452,447	92%		
		Coal, in particular:	287,049,419	272,048,354	95%		
		Black coal	183,127,426	170,549,351	93%		
		Brown coal	103,872,964	101,315,784	98%		

		Anthracite	49,030	183,219	374%		
		<p>*Data on the annual consumption of energy resources by the Group subsidiaries were calculated by the form No. 6-TP "Data on the production of heat and electricity by generation units (power plants)". The data in this 2016 report slightly differ (1.4%) from similar data in the Annual report of PJSC Inter RAO for 2015 due to elaboration of boundaries for evaluation.</p>					
Water	G4-DMA	Disclosure on management approach				6.5. Environmental policy	
	EN8	Total water withdrawal by source				6.5. Environmental policy/Key areas of environmental impact of the Group/Usage of Water Resources	
	EN9	Water sources significantly affected by withdrawal of water				The main water reservoirs affected by the Group are the basins of Volga, Kama and Ural Rivers.	

	EN10	Percentage and total volume of water recycled and reused	6.5. Environmental policy/Key areas of environmental impact of the Group/Usage of Water Resources	
Biodiversity	G4-DMA	Disclosure on management approach	6.5. Environmental policy	
	EN11	Operational sites owned, leased, managed in or adjacent to protected areas and areas of high biodiversity value outside protected areas	The Group companies own and lease a total of 23 ha of recreation land. This land is used for healthcare and resort centres of the Kostromskaya TPP, Permskaya TPP, Ufinskaya CHPP-4 and Karmanovskaya TPP There is no production activity on this land	
	EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	The Group's production facilities, healthcare and resort centres owned by the Group companies have no material effect on the biodiversity of protected areas and areas of high biodiversity value	

	EN14	Total number of the International Union for Conservation of Nature (IUCN) Red List species and national conservation list species with habitats in areas affected by the operations of the organisation by the degree of threat to the existence of species	6.5. Environmental policy	
			Some water reservoirs where the Group's facilities are located are habitats of starlet, which is an endangered Acipenseridae species, which are included in the Red Book of Russia and the IUCN Red List.	
Emissions	G4-DMA	Disclosure on management approach	6.5. Environmental policy	
	EN15	Direct greenhouse gas emissions	6.5. Environmental policy/Key areas of environmental impact of the Group/Greenhouse Gas Emissions	
	EN19	Reduction of greenhouse gas emissions	6.5. Environmental policy/Key areas of environmental impact of the Group/Greenhouse Gas Emissions	

	EN21	NOx, SOx, and other significant air emissions	6.5. Environmental policy/Key areas of environmental impact of the Group/Greenhouse Gas Emissions	
Effluents and Waste	G4-DMA	Disclosure on management approach	6.5. Environmental policy	
	EN22	Total water discharge by quality and destination	6.5. Environmental policy/Key areas of environmental impact of the Group/Usage of Water Resources	
	EN23	Total weight of waste by type and disposal method	6.5. Environmental policy/Key areas of environmental impact of the Group/Usage of Water Resources	
	EN24	Total number and volume of significant spills	In 2016, there were no material oil spills registered at the Group	
	EN26	Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the organisation's discharges of water and runoff	The Group has no waste and no runoff to protected water reservoirs	

Compliance	G4-DMA	Disclosure on management approach	6.5. Environmental policy	
	EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	6.5. Environmental policy/Key areas of the environmental impact of the Group/Environment protection costs/Compensation for the negative environmental impact	
Overall	G4-DMA	Disclosure on management approach	6.5. Environmental policy	
	EN31	Total environmental protection expenditures and investments by type	6.5. Environmental policy/Key areas of the environmental impact of the Group/Environment protection costs	
Performance indicators in work organisation				
	G4-DMA	Disclosure on management approach	6.3. HR management	

Employment	G4-DMA	Programmes and processes for engaging and retaining qualified workforce	6.3. HR management	
			The Group companies have a social policy for engaging and retaining qualified workforce. The tools of these programmes include:	
			professional training of employees at colleges	
			development of employees on the executives talent pool	
			individual development plans based on performance evaluation	
			support and development of young professionals	
			mentorship for new employees	
			internships for college students	

	G4-DMA	Disclosure on management approach	6.4. Occupational Health and Industrial Safety	
	LA1	Total number of employees and turnover of labour by age, gender and region	6.3. HR management	
	LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	6.3. HR management	
			Social benefits, warranties, compensations, and their amounts are stated in collective agreements signed by employees of the Group.	
	EU15	Percentage of employees eligible to retire in the next 5 and 10 years broken down by job category and by region	6.3. HR management	
			In 2016, the percentage of employees eligible to retire in the next 5 and 10 years exceeded 12% and 24% respectively. In both cases, over 50% are workers, over 30% are performers, and about 10% are managers.	

	EU18	Percentage of contractor and subcontractor employees that have undergone relevant health and safety training	The Group does not train contractor employees on occupational health and safety issues. According to the Russian law, this is a responsibility of the immediate employer. Proper qualifications and training in occupational health and safety is a mandatory condition of the contracts. As a result, all contractor employees who are allowed to work at the Group's facilities have the necessary education in occupational health and safety.	
Occupational health and safety	G4-DMA	Disclosure on management approach	6.4. Occupational Health and Industrial Safety	
	LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes	<p>6.4. Occupational Health and Industrial Safety</p> <p>To combine joint efforts of the management and employees in improving the practices of safe work organisation and work safety inspections, the Group has established work and health safety committees that consist of 430 employees, including representatives of trade union organisations.</p>	

	LA6	Type of injury and rates of injury, occupational diseases, lost days and absenteeism and total number of work-related fatalities by region and by gender	6.4. Occupational Health and Industrial Safety	
			In evaluation of occupational safety activities, the Group primarily uses absolute values. Analysis of injury rate dynamics is based on the injury frequency factor. Long-term goals to reduce the injury frequency factor have been set	
	LA7	Workers with high incidence or high risk of diseases related to their occupation	High rates of injury are typical for all elevated jobs and jobs with road vehicles. The most serious risk of occupational diseases for the Group employees is related to jobs with a high noise level in the work area	
	LA8	Health and safety topics covered in formal agreements with trade unions	6.3. HR management	
			Health and safety issues are covered by social programmes of the Group. Implementation of these programmes is stipulated by collective agreements	

Training and education	G4-DMA	Disclosure on management approach			6.3. HR management	
	LA9	Average hours of training per year per employee by gender, and by employee category				
		Average hours of training per employee by employee category in 2015-2016				
		Position category	2015	2016	Change 2016/2015, %	
		Management	47.9	57.4	119.83%	
		Performers	43.7	47.2	108.01%	
		Workers	47.5	41.5	87.37%	
	LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings			6.3. HR management	
					A number of social programmes of the Group target professional skill maintenance and transfer of experience from experienced industry professionals to young specialists.	

	LA11	Percentage of employees receiving regular performance and career development reviews	6.3. HR management	
			In 2016, the number of people in the talent pool of the Group companies was 2 787. Activities with the talent pool include planning and monitoring of the candidates' careers, assessment of their performance, and setting up their development plans. In 2016, the percentage of employees receiving regular performance and career development reviews was 64,05%.	
Diversity and equal opportunity	G4-DMA	Disclosure on management approach	6.3. HR management	
	LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	6.3. HR management Due to industry specifics of the Group, most of the staff are men (59.7%). In average, the share of men among the Group managers is 75.7%. In 2016, the share of men among the Group employees as compared to 2015 reduced by 5.7 p.p., while the share of men on management positions increased by 4 p.p.	

		The average age of personnel in the «general director" category and the categories classified as nomenclature in 2016 amounted to 41 years			
		Share of personnel in the «general director» category and the categories classified as nomenclature , by age (%)			
		2015	2016	Change	
		Under 30 (and including)	3.7	3	-0.7 pp
		31-40	29.7	27.5	-2.2 pp
		41-50	39.2	42	+2.8 p.p.
		51-55	14	15.6	+1.6 p.p.
		Over 55	13.4	12	-1.4 p.p.

Equal remuneration for women and men	G4-DMA	Disclosure on management approach	6.3. HR management	
	LA13	Ratio of basic salary of women to men by employee category	6.3. HR management	
			There is no gender discrimination in the Group's salaries. The basic salaries for men and women are the same for all personnel categories of the Group companies	
Labour practices	G4-DMA	Disclosure on management approach	6.3. HR management	
Grievance mechanisms	LA16	Number of grievances about labour practices filed, addressed and resolved through formal grievance mechanisms	In 2016, the Group employees filed 55 formal complaints through formal mechanisms. 100% of the complaints were processed	

Performance indicators in the interaction with society

Local communities	G4-DMA	Disclosure on management approach	3.2. “Generation in the Russian Federation” segment	
			3.3. “Supply in the Russian Federation” segment	
			6.2. Contribution to the development of the regions of the Group’s operation	
			6.5. Environmental policy	
			The Group has developed and adopted a Charity Concept and NGO Relations Concept, which enables accounting of stakeholders opinions and a systemic approach at planning and implementation of charity activities and implementation of the Group’s Development Strategy.	
			In the reported period, no local people were physically or economically displaced	

	SO1	Percentage of operations with implemented local community engagement, impact assessments and development programmes	<p>6.2. Contribution to the development of the regions of the Group's operation</p> <p>6.5. Environmental policy</p> <p>As a major taxpayer and a responsible employer in the locations of operation, the Group has a material positive effect on the local population. The Group cooperates intensively with the stakeholders on impact control issues, also in the framework of resolving socially significant objectives, construction and upgrading of facilities.</p>	
	EU22	Number of people physically (moving to another location or loss of home) or economically (assets loss or loss of access to the assets leading to the loss of income source or other maintenance) displaced and compensation, broken down by type of project	In the reported period, no people were physically or economically displaced due to activities of the Group.	

Anti-corruption efforts	G4-DMA	Disclosure on management approach	4.6. Corporate control and risk management	
			8. Procurement	
	SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	4.6. Corporate control and risk management	
			All the persons controlled by the Group were analysed.	
	SO4	Communication and training on anti-corruption policy and procedures	4.6. Corporate control and risk management	
			8. Procurement	
	SO5	Confirmed incidents of corruption and actions taken	4.6. Corporate control and risk management	
			8. Procurement	

Anti-competitive behaviour	G4-DMA	Disclosure on management approach	In order to prevent monopolistic practices, the Group monitors the antimonopoly legislation, examines its internal regulations, drafts legal opinions on possible antimonopoly risks and provides recommendations on their elimination on a regular basis. The Group also analyses protocols and prescripts of antimonopoly authorities that are received by the Group companies and contested if they do not comply with the law	
	SO7	Total number of legal actions for anti-competitive behaviour and anti-monopoly practices and their outcomes	In 2016, territorial authorities of the Federal Antimonopoly Service (FAS) registered 17 cases of violation of antimonopoly law	
			This number is disclosed in the table “Total number of legal actions against the Group for anti-competitive behaviour”	

		Total number of legal actions against the group for anti-competitive behaviour			
		Name of the subsidiary	Number of cases		Resolutions
			2015	2016	
		PJSC Mosenergosbyt	8	11	11 orders on rectification of violations received, no fines received
		JSC St. Petersburg Power Supply Company	1	2	One warning and one order on rectification of violations received
		JSC Petroelektrosbyt	0	1	No orders or fines received

		PJSC Saratovenergo	1	1	One order on rectification of violations received		
		LLC Power Supply Company of Bashkortostan	0	2	No orders or fines received		
Compliance	G4-DMA	Disclosure on management approach				4.6. Corporate control and risk management	
	SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations				10.3. Material litigations and fines	

Grievance mechanisms for impacts on society	G4-DMA	Disclosure on management approach	Written grievances and letters can be sent via special channels including mail, fax, email, books of complaints at the customer office and the company website. There are letterforms with examples of filling in on websites of the subsidiaries.	
			Grievances, claims and letters of consumers are processed in the time specified by the applicable law of the Russian Federation.	
	SO11	Number of grievances about impacts on society filed, addressed and resolved through formal grievance mechanisms	The total number of grievances about impacts on society filed in the reported period through formal grievance mechanisms to internal structures (legal department, compliance department, procurement department and human resource department) was 18 385. The total number of grievances filed in the previous and current year and processed during the reported period was 19 254	

Disaster/emergency management plan	G4-DMA	Disclosure on management approach	6.6. Asset security	
		Performance indicators in human rights		
	HR5	Units identified in which both suppliers who have a significant risk of using child labour and actions taken to eradicate child labour	The group does not use child labour. In accordance with current legislation of the Russian Federation, the Group is not responsible for the activities of suppliers and does not carry out an appropriate assessment in relation to their child labour.	
Performance indicators in product responsibility				

Customer privacy	G4-DMA	Disclosure on management approach	In the reported period, there were no substantiated complaints regarding breaches of customer privacy and losses of customer data	
	PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	In the reported period, there were no substantiated complaints regarding breaches of customer privacy and losses of customer data	
Regulatory compliance	G4-DMA	Disclosure on management approach	4.6. Corporate control and risk management	
	PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	10.3. Material litigations and fines	
Access	G4-DMA	Disclosure on management approach	2.3 System of key performance indicators	

			2.5. Innovative development	
			6.6. Asset security	
	EU27	Number of residential disconnections for non-payment, broken by duration of disconnection and by regions with the common regulatory regime	3.3. “Supply in the Russian Federation” segment	
	EU28	Power outage frequency	3.6. Segment “Foreign assets”, “Georgia” subsegment	
			3.6. Segment “Foreign assets”, “Armenia” subsegment	
	EU29	Average power outage duration	3.6. Segment “Foreign assets”, “Georgia” subsegment	

			3.6. Segment “Foreign assets”, “Armenia” subsegment	
	EU30	Average plant availability factor by energy source and by regulatory regime	3.2. “Generation in the Russian Federation” segment	

12.6 Information on compliance with the Corporate Governance Code

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.

Of the 79 principles below,¹⁷⁸ the Company complies with 69, or 87%, seven principles are complied with in part, and only three principles (or a little less than 3.8%) are not complied with.

Therefore, one can state that the Company complies with more than 96.2% of corporate governance principles to a certain extent, and as compared to 2015, it has improved the indicator of complete compliance with the recommendations of the Corporate Governance Code for more than 10% (from 76% to 87%).

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.**

7.1.2. The Board of Directors plays a key role in decision-making and development of recommendations regarding significant corporate acts; the Board of Directors is guided by the attitude of independent Directors of the Company **as concerns the recommendation on existence of a procedure under which independent directors state their attitude on significant corporate acts before they are approved.**

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 recognised 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

¹⁷⁸Hereinafter, "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.

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).**

3.1.1. The person heading the division and performing the functions of the Corporate Secretary has the knowledge, experience, and qualifications sufficient for his/her duties, an impeccable reputation and the trust of shareholders; the biography of this person is disclosed on the Company's website **as concerns the disclosure of data on the person that holds the title of Corporate Secretary in the Annual Report 2016 of the Company.**

3.1.2. The Corporate Secretary has enough independence from Company executive bodies and has the necessary power and resources for his/her objectives **as part of the actual consideration by the Board of Directors of the issue of paying an additional fee to the corporate secretary.**

4.3.2. The Company has implemented a programme 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.**

7.1.3. In material corporate actions that affect the rights and legitimate interests of shareholders, there are equal conditions provided for all the 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. In this, the Company is guided not only by compliance with formal legal requirements but also by the corporate governance principles as stated in the Code **as concerns the approval of all major deals before they are made.**

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, 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 system, 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 6 “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, enshrined in the Code of Corporate Governance:

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 dated 17.02.2016 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 acts and planned events (expected) by the joint stock company for improving the model and practice of corporate governance with statement of the timing of such acts and events:

See the attached table.

Item	Item	Corporate governance principles	Criteria for evaluation of compliance with corporate governance principles	Status of compliance with the corporate governance principle in 2016	Explanation of the deviation from Criteria for evaluation of compliance with the corporate governance principle	Change in compliance with the principle as compared to 2015
	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 preparation for the General Meeting. That was done by the Company prior to</p>	<p><input checked="" type="checkbox"/> observed</p> <p><input type="checkbox"/> observed in part</p> <p><input type="checkbox"/> not observed</p>		Continues to be observed

			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>	<p><input checked="" type="checkbox"/> observed</p> <p><input type="checkbox"/> observed in part</p> <p><input type="checkbox"/> not observed</p>		Continues to be observed
3.	1.1.3	In the course of preparation and holding of the General Meeting of Shareholders,	1. In the reported period, the shareholders were able to ask members of executive bodies	<p><input checked="" type="checkbox"/> observed</p> <p><input type="checkbox"/> observed in part</p>		Change in compliance with the principle as compared to 2015:

		<p>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>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 authorised 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>	<p>□ not observed</p>		<p>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>
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4.	1.1.4	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 to unjustified difficulties.	<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> <p>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.</p>	<p><input checked="" type="checkbox"/> observed</p> <p><input type="checkbox"/> observed in part</p> <p><input type="checkbox"/> not observed</p>		Continues to be observed
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 provisions according to which, every participant of the General Meeting may demand a copy of their completed ballot certified by the counting commission before	<p><input checked="" type="checkbox"/> observed</p> <p><input type="checkbox"/> observed in part</p> <p><input type="checkbox"/> not observed</p>		Continues to be observed

			the end of the Meeting.			
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.	<p>1. At in presentia General Meetings of Shareholders within the reported period, there was time for reports and discussion on the agenda items.</p> <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>	<p><input checked="" type="checkbox"/> observed</p> <p><input type="checkbox"/> observed in part</p> <p><input type="checkbox"/> not observed</p>		<p>Change in compliance with the principle as compared to 2015:</p> <p>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 (Minutes No. 165 dated 07.04.2016).</p> <p>When preparing to the Annual General Meeting of Shareholders (AGMS), it was recognised that technical resources were</p>

						insufficient to enable remote access for shareholders
	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 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 provisions of the dividend policy are based on the consolidated numbers of the financial statements.</p>	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed
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	1. The Company dividend policy contains clear indications on the financial/business circumstances, in the case of which the Company	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed

		assumptions about the business of the Company even though it does not formally violate the legal restrictions.	should pay no dividends.			
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 in part <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) from the Company's account except dividends and liquidation value.	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, the Company internal documents stipulate control algorithms, which provide for timely identification and approval of deals of affiliates with material shareholders (persons authorised to dispose of votes	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed

			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 in part <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 in part <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 electric power assets in the Company according to the Decree of the President of Russia No. 1190 dated 30.09.2010 for the further asset restructuring (reorganisation).</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 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, considered</p> <p>It is planned the Board of Directors can consider the issue of the</p>	No change
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					<p>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>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 recommendation in the near future without changes in the legal regulation regarding the nomination and voting for independent directors.</p>	
	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	1. The quality and reliability of maintenance of the security holder by the Company	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part		Continues to be observed

			registrar match the needs of the Company and its shareholders.	<input type="checkbox"/> not observed		
	2.1	The Board of Directors performs the strategic management of the Company, determines the basic principles of and approaches to the organisation of risk management and the internal control system 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 the actions of Company executive bodies in accordance with the adopted development strategy and main directions of Company operations.	<p>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.</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 fulfilment of the Company strategy.</p>	<input type="checkbox"/> observed <input checked="" type="checkbox"/> observed in part <input type="checkbox"/> not observed	<p>The recommendation of clause 1 is not observed insofar as the Board of Directors is authorised to appoint and dismiss the Chairman of the Management Board.</p> <p>Pursuant to the Articles of Association of the Company, the 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</p>	Observed at the same level

					<p>practice, the Board of Directors advises the Meeting of Shareholders on each item of the agenda, expressing its opinion on a 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>By the time the current Annual Report is prepared, the corresponding amendments of the Federal Law “On joint stock companies” have not been made.</p>	
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,	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	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed

		evaluates and approves the strategy and business plans on the main types of Company business.	(including intermediate ones) of the fulfilment of Company strategy and business plans were reviewed at the Board of Directors meetings.			
16.	2.1.3	The Board of Directors determines the principles of and approaches to the organisation of the risk management and internal control system in the Company.	<p>1. The Board of Directors has determined the principles of and approaches to the organisation of the risk management and internal control systems in the Company.</p> <p>2. In the reported period, the Board of Directors has evaluated the risk management and internal control system in the Company.</p>	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		<p>Change in compliance with the principle as compared to 2015:</p> <p>The Board of Directors has determined the principles of and approaches to the organisation of the risk management and internal control systems in the Company and evaluated the risk management and internal control system in the reported period (Minutes No. 167 dated 28.04.2016).</p>
17.	2.1.4	The Board of Directors determines the Company's policy	1. A policy (policies) for remuneration and compensation of costs for	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part		Continues to be observed

		in 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 in part <input type="checkbox"/> not observed		Continues to be observed
19.	2.1.6	The Board of	1. The Board of	<input checked="" type="checkbox"/> observed		Continues to be

		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.	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 type="checkbox"/> observed in part <input type="checkbox"/> not observed		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 in part <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	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed

			Report contains information on the main results of evaluation of the work of the Board of Directors that was performed in the reported period.			
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 in part <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	1. The Company's procedure of evaluation of the efficiency of the Board of Directors includes, in particular, the evaluation of professional qualifications of the members of the Board of Directors. 2. In the reported period, the Board of Directors (or its	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed

		elected members of the Board of Directors.	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.			
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.	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 information on the candidate's compliance with the independence	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed

			criteria as per recommenddations 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 particular, 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 analysed its own needs as regards professional qualifications, experience and business skills.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <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 organisation 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	1. Within the framework of the Board of Directors evaluation procedure in the reported period, the Board of Directors reviewed the matter of conformity of the number of members of the Board of Directors and the best interest of shareholders.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed

		Directors for whom they vote.				
	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	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 in part <input type="checkbox"/> not observed		Continues to be observed

		competitor of the Company or is affiliated with state may not be regarded as 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</p>	<p><input checked="" type="checkbox"/> observed</p> <p><input type="checkbox"/> observed in part</p> <p><input type="checkbox"/> not observed</p>		Continues to be observed

			once. 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.			
29.	2.4.3	Independent Directors account for less than one third of the elected members of the Board of Directors.	1. Independent Directors account for at least one third of the elected members of the Board of Directors.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be 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 in part <input type="checkbox"/> not observed		Continues to be observed
	2.5	The Chairman of the Board of Directors contributes to the most efficient exercise of the functions that				

		are delegated 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.	<p>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.</p> <p>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.</p>	<input type="checkbox"/> observed <input checked="" type="checkbox"/> observed in part <input type="checkbox"/> not observed	<p>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.</p> <p>The internal documents of the Company (Charter, Regulations on the Board of Directors) stipulate the possibility of electing a senior independent director.</p> <p>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 Directors in 2016.</p> <p>When discussing the outcomes of external evaluation of the Board of Directors performance on the in presentia meeting of the Board of Directors on (Minutes No. 172 dated 28.06.2016), it was decided that the current structure and system of work of the Board of Directors was efficient without creating the institution of senior independent Director.</p> <p>This decision was made unanimously, including the independent Directors. 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 breakfasts for independent</p>	No change

					<p>directors organized by the corporate secretary, convened by an independent director, Chairman of the Committee on Nominations and Remunerations.</p> <p>Nevertheless, the Board of Directors does not exclude election of the senior independent director in the future if necessary, and revision of the decision adopted on 27.06.2016 is not planned in the near future.</p>	
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 in part <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 in part <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</p>	<p><input checked="" type="checkbox"/> observed</p> <p><input type="checkbox"/> observed in part</p> <p><input type="checkbox"/> not observed</p>	Continues to be observed

			of Directors to obtain professional advice on matters within its competency at the Company's expense.			
35.	2.6.2	The rights and	1. The internal Company document clearly stating the rights and duties of the Board of Directors members is adopted and published.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed
36.	2.6.3	Members of the Board of Directors have enough time to fulfil their duties.	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. 2. Pursuant to the internal documents, members of the Board of Directors must notify the Board of Directors of their intention to	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Improvement. Candidates to the Board of Directors and members of the Board of Directors in accordance with the Regulations on the Board of Directors (Appendix 1) are required to submit to the Company information about their intention to become members of the management

			become members of management bodies of other organisations (save for the ones controlled or affiliated with the Company) and of the fact of such appointment.			bodies of other organisations
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 Company and the operation of the Board of Directors as soon as possible.	<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 organisations that it controls, and the executive bodies of the Company must deliver such data and documents.</p> <p>2. The Company has a formal programme of introductory events for newly elected members of the Board of Directors.</p>	<p><input checked="" type="checkbox"/> observed</p> <p><input type="checkbox"/> observed in part</p> <p><input type="checkbox"/> not observed</p>		Continues to be observed

	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 from time to time.	1. In the reported year, the Board of Directors had at least six meetings.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <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 in part <input type="checkbox"/> not observed		Continues to be observed
40.	2.7.3	The form of a meeting of the Board of Directors is determined in view of the importance of the agenda items. The most important	1. It is stipulated by the Articles of Association or an internal document of the Company that the most important business (as per the list in	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed

		business is done at meetings in presentia.	recommendation 168 of the Code) shall be done at meetings in presentia.			
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 in part <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	<p>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>	<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</p>	<p>■ observed</p> <p>□ observed in part</p> <p>□ not observed</p>		<p>Improvement as compared to the previous year. Based on the outcomes of the external evaluation of the Board of Directors, during the meeting of the Board of Directors in presentia in June 2016, it was decided that the members of the Audit Committee possessed the necessary experience and knowledge to perform their functions, and there was no need in engaging external experts. It is worth to note that when this report was adopted the independent Director A. Bugrov was heading the Audit Committee and he had the</p>
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			quarter.			corresponding experience and knowledge in preparation, analysis, evaluation and audit of financial (accounting) statements.
43.	2.8. 2	For preliminary review of matters related to 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.	1. The Board of Directors has established a Remuneration Committee consisting solely of independent Directors. 2. The Chairman of the Remuneration Committee is an independent Director who is not the Chairman of the Board of Directors. 3. Internal Company documents define the objectives of the Remuneration Committee	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed

			including objectives as per the recommendation 180 of the Code.			
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>	<p>■ observed</p> <p>□ observed in part</p> <p>□ not observed</p>	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	1. In the reported period, the Board of	■ observed		Observed. Improvements as

		and risk, the Company Board of Directors is assured that the composition of its Committees fully matches the goals of the Company's operation. Additional Committees were either established or recognised unnecessary (Strategy Committee, Corporate Governance Committee, Ethics Committee, Risk Management Committee, Budget Committee, Health, Safety and Environment Committee, etc.).	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 recognised unnecessary.	<input type="checkbox"/> observed in part <input type="checkbox"/> not observed		compared to the previous period. In the reported year, the Board of Directors considered this issue on 19.07.2016 and recognised the structure of the committees as corresponding to the objectives of the Board of Directors and the goals of the Company's business. The establishment of additional committees was considered irrelevant.
46.	2.8.5	The composition of the committees has been determined so as to allow for comprehensive discussion of issues considered on a preliminary	1. Committees of the Board of Directors are headed by independent directors. 2. Internal documents (policies) of the	<input type="checkbox"/> observed <input checked="" type="checkbox"/> observed in part <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 a committee was not mandatory, and the requirements for its composition were and are absent in legislation and in internal documents of the Companies.	No change

		basis taking different opinions into account.	Company provide for provisions under which persons not included in the audit committee, nomination committee and remuneration committee may attend to committee meetings only by invitation of the Chairman of the respective committee.		<p>The Strategy and Investment Committee is historically headed by Elena Stepanovna 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 consider such practice possible and efficient.</p> <p>The question of the chairman of the Strategy and Investment Committee will be considered in the process of self-assessment of the Board of Directors in 2017, the results of which will be taken into account when forming the Strategy and Investment Committee for 2017-2018.</p>	
47.	2.8.6	The chairpersons of the committees regularly inform the Board of Directors and its Chairman of the	1. During the reporting period the chairpersons of the committees regularly reported on the work of the	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed

		work of their committees.	committees to the Board of Directors.			
	2.9	The Board of Directors ensures the assessment of the performance of the Board of Directors, its committees and members of the Board of Directors				
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.	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. 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.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Observed. Improvements as compared to the previous period. The results of external assessment were considered at a physical meeting of the Board of Directors.
49.	2.9.2	The work of the Board of Directors, committees and	1. At least once during the last three reporting periods, the	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part		Observed. Improvements as compared to the previous year.

		members of the Board of Directors is assessed on a regular basis at least once a year. At least once in three years, an external entity (advisor) is engaged to carry out independent assessment of the work quality of the Board of Directors.	Company engaged an external entity (advisor) to carry out an independent assessment of performance of the Board of Directors.	<input type="checkbox"/> not observed		In 2016, an external assessment of the performance of the Board of Directors was carried out.
	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</p>	<input type="checkbox"/> observed <input checked="" type="checkbox"/> observed in part <input type="checkbox"/> not observed	<p>The recommendation of clause 2 regarding the disclosure of information on the corporate secretary in the Company's Annual Report for 2015 is not observed.</p> <p>This is related to the fact that this Annual Report was previously approved by the Board of Directors on 05.05.2016, and the corporate secretary was only appointed on 31.05.2016, that is, after preparation of the Company's Annual Report and its posting on the Company's website among materials about the Shareholders' Meeting.</p> <p>The information on the Corporate Secretary (head of the unit performing the functions of the Corporate</p>	Observed in part Improvements as compared to the previous year. The Regulation on the Unit Performing the Functions of a corporate Secretary of PJSC Inter RAO was adopted.

			as that on the members of the Board of Directors and the executive management of the Company.		Secretary) is included in the Annual Report 2016, which will be passed for approval by the Annual Meeting of Shareholders in 2017. This information is disclosed at the web-site of the Company http://www.interrao.ru/upload/doc/Merebashvili.pdf .	
51.	3.1.2	The Corporate Secretary has enough independence from Company executive bodies and has the necessary power and resources for his/her objectives.	1. The Board of Directors approves appointment, dismissal and additional remuneration of the Corporate Secretary.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> observed in part <input type="checkbox"/> not observed	<p>Consideration by the Board of Directors of the issue of payment of additional remuneration to the corporate secretary is not observed. Payment of additional remuneration to the corporate secretary, in accordance with the Regulations on the division performing the functions of the corporate secretary, is performed in accordance with the bonus system in force in the Company.</p> <p>In 2016, the Board of Directors did not consider any additional remuneration of the Corporate Secretary, since the annual award was made within the terms established by the internal documents of the Company, before the appointment of the corporate secretary. Consideration of this issue is provided for under the Articles of Association and is planned for April 2017 which will be reflected in the Company's Annual Report 2017.</p>	No change

	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 above the necessary level and unjustified large gap between the remuneration levels of the said individuals and the Company's employees.	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 determines clearly the approaches to remuneration of the aforesaid individuals.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed
53.	4.1.2	The remuneration policy of the	1. During the reporting period the	<input checked="" type="checkbox"/> observed		Continues to be observed

		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.	Remuneration Committee considered the remuneration policy (policies) and its (their) implementation practice and, when necessary, provided respective recommendations to the Board of Directors.	<input type="checkbox"/> observed in part <input type="checkbox"/> not observed		
54.	4.1.3	The Company's remuneration policy includes transparent mechanisms for 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,	1. The Company's remuneration policy (policies) includes (include) transparent mechanisms for determination 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	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed

		benefits and preferences provided to those individuals.	payments, benefits and preferences provided to those individuals.			
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.	1. 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 in part <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	1. Fixed annual remuneration is the only financial remuneration for the members of the Board of Directors for their work	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed

		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.	during the reporting period.			
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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 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 programmes.	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 and disclosed which would be aimed at stimulation of long-term holding of such shares.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed
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	1. 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	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed

		control over the Company or other circumstances.	control over the Company or other circumstances.			
	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 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>1. During the reporting period, annual performance indicators approved by the 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</p>	<p><input checked="" type="checkbox"/> observed</p> <p><input type="checkbox"/> observed in part</p> <p><input type="checkbox"/> not observed</p>		Improvement. The report on practical realisation of the remuneration policy principles and practice of its implementation, incl. consideration of application of an efficient correlation between the fixed and variable parts of remuneration was considered by the Nomination and Remuneration Committee on 26.12.2016.

			<p>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 management personnel of the Company.</p>			
60.	4.3.2	<p>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>	<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</p>	<p><input type="checkbox"/> observed</p> <p><input checked="" type="checkbox"/> observed in part</p> <p><input type="checkbox"/> not observed</p>	<p>Clause 2 of the recommendations are partially not observed.</p> <p>The long-term incentives plan was approved by the Board of Directors on 29.01.2016 but it does not provide for any limitations which presented in cl. 2 of these Recommendations.</p> <p>When developing the option programme, the recommendations of the Code were not taken into account for the following reasons.</p> <p>The option plan is intended for four years, the right of shares disposal within the framework of the plan arises in two years after the start of the plan and continues for two subsequent years taking into account the Company's</p>	No change

			<p>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>		<p>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 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 programme.</p> <p>This discrepancy is limited in time by the duration of the option programme, i.e. until 2018.</p> <p>In the event of development of the next long-term motivation programme, when it is drafted, the recommendations of the Corporate Governance Code will be considered in more detail.</p>	
61.	4.3.3	<p>The compensation amount ("golden parachute") paid by the Company in the event of early termination of office of members of executive bodies or key management personnel at the</p>	<p>1. The compensation amount (golden parachute) paid by the Company in the event of early termination of office of members of executive bodies or key management personnel at the</p>	<p>■ observed</p> <p>□ observed in part</p> <p>□ not observed</p>		Continues to be observed

		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.	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.			
	5.1	The Company established an efficient risk management and internal control system 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 organisation of the risk management and internal control systems in the Company.	1. The functions of different governing bodies and units of the Company in the risk management and internal control system 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 in part <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 management and internal control	1. The executive bodies of the Company ensured allocation of functions and powers in respect of risk management and internal control to managers of	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed

		system in the company.	units and departments subordinate to them.			
64.	5.1.3	The risk management and internal control system in the Company ensures objective, fir 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.	<p>1. The Company approved a policy combating corruption.</p> <p>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, the code of conduct of the Company.</p>	<p><input checked="" type="checkbox"/> observed</p> <p><input type="checkbox"/> observed in part</p> <p><input type="checkbox"/> not observed</p>		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 systems in the Company conforms to the principles of and approaches to its organisation and is applied effectively.	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 system of the Company. Information on the basic results of such assessment was included in the Company's annual report.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed
	5.2	The Company shall arrange for internal audit for systematic independent evaluation of reliability and efficiency of the risk management and internal control system 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	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 in part <input type="checkbox"/> not observed		Continues to be observed

		Board of Directors.				
67.	5.2.2	The internal audit unit assesses the efficiency of the internal control system, the efficiency of the risk management system and the corporate management system. The Company uses common standards of activity in the field of internal audit.	1. During the reporting period, an assessment of the efficiency of the internal control and risk management system was performed as part of internal audit. 2. The Company uses common approaches to internal control and risk management.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed
	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	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed

			Company with its informational policy at least once within the reporting period.			
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69.	6.1.2	<p>The Company discloses information about the system and practices of corporate management, including detailed information on observance of the principles and recommendations of the Code.</p>	<p>1. The Company discloses information about the system of corporate management in the Company and the general principles of corporate management used in the Company, including at the Company's web-site 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</p>	<p>■ observed</p> <p>□ observed in part</p> <p>□ not observed</p>		Continues to be observed
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			the controlling person in respect of the intentions of such person regarding corporate government in the Company			
	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 disclose information in accordance with the principles of regularity, consistency and promptness as well as accessibility, fairness, completeness and comparability of disclosed information.	<p>1. The information policy of 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</p>	<p><input checked="" type="checkbox"/> observed</p> <p><input type="checkbox"/> observed in part</p> <p><input type="checkbox"/> not observed</p>		Continues to be observed

			<p>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>			
71.	6.2.2	<p>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>	<p>1. During the reporting period the Company disclosed annual and half-annual financial reporting 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</p>	<p><input checked="" type="checkbox"/> observed</p> <p><input type="checkbox"/> observed in part</p> <p><input type="checkbox"/> not observed</p>		Continues to be observed

			the capital structure of the Company in accordance with Recommendation 290 of the Code in the Annual report and at the Company's web-site in the Internet network.			
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 performance results during the year.	1. The annual report contains information on the key aspects of the Company's operation and its financial performance. 2. The Company's annual report contains information on the environmental and social aspects of the Company's activities.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed
	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	1. The informational policy of the Company determines the unhindered access by shareholders to	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed

		accordance with the principles of equal and unhindered access.	information including information on entities controlled by the Company, upon shareholders' request.			
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 impact materially its competitiveness confidential.	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 assume the obligation of keeping it confidential.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed
	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 reorganisation of	1. The Articles of Association of the Company	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part		Continues to be observed

	<p>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 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</p>	<p>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 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.</p> <p>2. The Article of Association of the Company includes at least the following as material corporate actions: reorganisation of the Company,</p>	<p><input type="checkbox"/> not observed</p>		
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		Directors 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.			
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 type="checkbox"/> observed <input type="checkbox"/> observed in part <input checked="" type="checkbox"/> not observed	<p>The recommendation regarding the position of independent directors on significant corporate actions before their approval is not observed.</p> <p>Historically, most material corporate actions (of which the list is determined by in the Articles of Association of the Company) are considered by the relevant Committees of the Board of Directors of which two consist of independent directors (the Nomination and Remuneration Committee and the Audit Committee), and one, the Strategy and Investment Committee, includes an independent director. Such approach makes it possible to optimise the workload of the independent members of the Board of Directors enabling their activities in accordance with the protocol without</p>	No change

					<p>detriment to the quality of issue consideration.</p> <p>The question of preliminary consideration of significant corporate actions by independent directors was considered by independent directors at a business breakfast on 24.03.2017, where the option of creating a Committee of independent directors on a non-permanent basis was proposed to consider the most significant corporate actions. The indicated proposal shall be submitted to the Board of Directors for consideration in the 2017-2018 corporate year.</p>	
77.	7.1.3	<p>In material corporate actions that affect the rights and legitimate interests of shareholders, there are equal conditions provided for all the shareholders of the Company and, if the legal remedies for protection of the rights and legitimate interests of shareholders are insufficient, also</p>	<p>1. The Articles of Association of the Company establishes lower minimal criteria of classifying transactions as material corporate actions then those provided by the law, taken into account the specific nature of its operations.</p> <p>2. During the reporting period, all material corporate actions underwent the approval procedure before</p>	<p><input type="checkbox"/> observed</p> <p><input checked="" type="checkbox"/> observed in part</p> <p><input type="checkbox"/> not observed</p>	<p>Clause 2 in respect of certain cases of approval of material transactions of controlled entities prior to their implementation is not observed.</p> <p>In some cases, consideration of material transactions of controlled persons took place after their performance. Taking into account the timeframe of conduct of corporate procedures and of internal approval, the risks of non-conclusion of such approved transactions in due time exceed the risks due to incompliance with the procedures.</p> <p>Such cases are individual and in each case the management provides the Board of Directors with exhaustive explanations as regards their post-approval.</p>	No change

		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.	their performance.		In addition, in the event of non-approval by the Board of Directors, the transactions already concluded should be terminated with respective legal consequences for which purpose agreements include respective terms. Such cases did not occur in practice.	
	7.2	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				
78.	7.2.1	Information about material corporate actions, is disclosed providing explanations concerning reasons for, conditions and consequences of such actions.	1. During the reporting period, the Company disclosed information on material corporate actions of the Company in a timely and detailed manner, including the grounds and timeframe of such actions.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> observed in part <input type="checkbox"/> not observed		Continues to be observed
79.	7.2.2	Rules and	1. The internal	<input type="checkbox"/> observed	The recommendations of clause 1 are	No change

		<p>procedures in relation to material corporate actions taken by the company are set out in its internal documents.</p>	<p>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 recognised to be</p>	<p>□ observed in part</p> <p>■ not observed</p>	<p>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 determination of the value of related parties transactions seems economically infeasible and increasing the cost of corporate government for shareholders. 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</p>	
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			interested in the Company's transactions.		<p>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 approved and employs a Working Procedure for Independent Appraisers and Appraiser Organisations which provides for a list of cases when engagement of an independent appraiser is obligatory including cases where the governing bodies are to consider an issue on approval of a transaction involving property alienation.</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>The recommendation of clause 3 is partially not observed, according to which internal documents establish other cases of interest.</p>	
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					<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>Compliance with these principles is not planned by the Company in the near future.</p>	
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Information of the compliance with the Corporate governance Code is also disclosed at the web-site of the Company:

http://www.interrao.ru/investors/disclosure/corporate_behavior

12.7 Major transactions and related parties transactions

In 2016, no major transactions were approved or effected by the General Meeting of Shareholders or Board of Directors.

Report on transactions concluded by PJSC Inter RAO in 2016, in which there was related interest, approved by the decision of the Board of Directors on 05.05.2017 (Minutes No. 198 of 05.05.2017) is attached to this report and is submitted on the web-site of PJSC Inter RAO at: http://www.interrao.ru/investors/disclosure/major_deals/

12.8 Information on the Non-Core Asset Alienation Programme and the Non-Core Asset Register

Up to 15.09.2016, PJSC Inter RAO had a Regulation on Disposal of Non-Core Assets of PJSC Inter RAO approved by a resolution of the Board of Directors of PJSC Inter RAO¹⁷⁹, determining the general principles and procedures for disposal of non-core assets of the Company.

Under the Regulation, the Non-Core Assets Register (NCA Register)¹⁸⁰ was approved by the resolution of the Board of Directors of PJSC Inter RAO as amended¹⁸¹, containing, without limitations, the list of planned activities and motivation of their necessity and performing also functions of a non-core asset alienation programme. Up to 15.09.2016, the NCA Register included information on for non-core assets represented as shares/equity interests (with total balance sheet value of RUB 633,473,000 with provision for impairment) in respect of which there were measures provided to preserve the participation.

The NCA Register did not provide for performance of any transactions on alienation on non-core assets in 2016. In 2016, PJSC Inter RAO did not conclude any transactions on alienation on non-core assets.

In addition, in 2016, pursuant to the instruction of Rosimushchestvo No DP-11/29516 dated 18.07.2016, the management of PJSC Inter RAO performed an analysis of the asset structure of PJSC Inter RAO taking into account the Procedural Guidance on Identification and Alienation of Non-Core Assets referred to in the respective Instructions, based on which no non-core assets were identified in the ownership of PJSC Inter RAO.

Under resolutions of the Board of Directors of PJSC Inter RAO dated 15.09.2016¹⁸² and 20.12.2016¹⁸³ the information on the absence of non-core assets in PJSC Inter RAO was taken into account, also the said resolution of the Board of Directors of PJSC Inter RAO dated 15.09.2016 invalidated the existing Regulation and the NCA Register.

¹⁷⁹ Minutes No. 74 dated 16.07.2012.

¹⁸⁰ Minutes No. 74 dated 16.07.2012.

¹⁸¹ Minutes No. 86 dated 04.02.2013; Minutes No. 101 dated 14.10.2013.

¹⁸² Minutes No. 179 dated 19.09.2016.

¹⁸³ Minutes No. 187 dated 23.12.2016.

12.9 Information on participation in other companies

	Company name:	Participation share of Inter RAO PJSC in the authorised capital of the company		Balance sheet value of shares, equity interest in the Company		Dividend amount, RUB thousand (unless specified otherwise)	Financial results in 2016		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		01.01.2017	01.01.2016	01.01.2017	01.01.2016		Revenue	Net profit		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Information on business entities in whose registered capital the interest of PJSC Inter RAO amounts to 2 to 20%										
1.	Open Joint-Stock Company Inter RAO LED-Systems	17.58%	17.58%	RUB 300,000,000	RUB 300,000,000	-	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%	RUB 161,412,000	RUB 161,412,000	-	No information	No information	Generation and delivery (sale) of electric power	No changes
Information on business entities in whose registered capital the interest of PJSC Inter RAO amounts to 20 to 50%										
3.	Public Joint-Stock Company Irkutskenergo	0%	40.007%	-	RUB 15,790,416,000	-	No information	No information	Electric power generation	In June 2016, the Group sold 40,29% of common stock of PJSC Irkutskenergo to the company Telmamskaya GES, a subsidiary of OJSC EuroSibEnergo.
4.	Limited liability company Engineering Centre Gas Turbine Technologies	52.95%	53.94%	RUB 695,086,000	RUB 695,086,000	-	-	RUB (208,000)	Production of gas turbines except for turbojet and turboprop	On 13.01.2016 the registered capital was increased
5.	Public Joint-Stock Company Tomsk Energy Retail Company	31.27%	31.27%	RUB 104,960,000	RUB 104,960,000	-	RUB 13,552,118,000	RUB 869,000	Electricity purchase and supply	No changes

6.	Limited liability company RT-Energotrading	50%	50%	RUB 9,805,000	RUB 9,805,000	-	RUB 3,482,113,000	RUB (36,574,000)	Wholesale trade in electric and heat energy (without their transmission and distribution). Wholesale trade via intermediaries (for a consideration or on a contractual basis). Intermediary activities in wholesale trade in electric and heat energy (without their generation, transmission and distribution).	No changes
7.	Limited liability company INTER RAO UES Energy Efficiency Centre	50%	50%	RUB 258,250,000	RUB 258,250,000	-	RUB 3,721,457,000	RUB (139,127,000)	Works/services in the area of energy efficiency and energy saving	No changes
8.	Limited liability company INTERENERGO-EFFECT	50%	50%	-	-	-	No information	No information	Works/services in the area of energy efficiency and energy saving	No changes
9.	Joint-Stock Company Ekibastuz GRES-2 Power Station	50%	50%	RUB 603,311,000	RUB 603,311,000	-	KZT 31,480,140,000	KZT 1,575,366,000	Generation, transmission and distribution of electric and heat energy	No changes
10.	Closed Joint-Stock Company Kombaratinsk GES-1	50%	50%	RUB 28,864,000	RUB 28,864,000	-	-	KGS 27,416,000	Generation and delivery (sale) of electric power	No changes
11.	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
12.	Open Joint-Stock Company Razdan Energy Company	-	50%	-	RUB 312,290,000	-	AMD 18,772,245,000	AMD 18,772,245,000	Electricity generation	In December 2016, the Group sold 50% of stock of CJSC RazTES

Information on subsidiaries in whose registered capital the interest of PJSC Inter RAO amounts to 50% + 1 share to 100%										
13.	Joint-Stock Company Inter RAO Capital	100%	100%	RUB 93,561,523,000	RUB 33,004,516,000	-	RUB 623,127,000	RUB 58,552,668,000	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 electric power or controlling interests in them, etc.	03.03.2016 – registration of reports on the results of additional issue of securities.
14.	RAO Nordic Oy	100%	100%	RUB 43,410,000	RUB 43,410,000	-	EUR 170,701,000	EUR 9,449,000	Electricity trade	No changes
15.	Inter RAO Holding B.V.	100%	100%	RUB 4,413,668,000	RUB 4,413,668,000	-	-	USD 6,707,000	Managing company	No changes
16.	Limited Liability Partnership INTER RAO – Central Asia	0%	100%	-	-	-	KZT 0	KZT 26,283,000	Leasing of SPTS property complex of Severny Razrez, Trudovaya and Udarnaya railway stations; acquisition aimed at selling electric energy. Development of investment projects aimed at asset acquisition in the Republic of Kazakhstan and abroad in the field of energy.	At the end of September 2016, the Group sold 100% of its interest in the subsidiary Limited Liability Partnership INTER RAO – Central Asia
17.	Open Joint Stock Company Eastern Energy Company	100%	100%	RUB 2,190,290,000	RUB 2,190,290,000	RUB 676,460,000	RUB 11,603,647,000	RUB (85,338,000)	Wholesale power trading	No changes
18.	Open Joint Stock Company Electroluch	100%	100%	RUB 2,065,573,000	RUB 2,065,573,000	-	RUB 840,719,000	RUB (23,583,000)	Rental of own non-residential real property	No changes
19.	Closed Joint Stock Company Moldova TPP	100%	100%	RUB 645,751,000	RUB 645,751,000	-	PRB 814,279,000	PRB 132,377,000	Generation and delivery (sale) of electric power	No changes
20.	RAO Intertech B.V.	100%	100%	RUB 908,860,000	RUB 891,441,000	-	-	EUR (92,000)	Project activities.	No changes

21.	Limited Liability Company Inter RAO – Management of Electric Power Plants	100%	100%	RUB 500,000	RUB 500,000	RUB 13,614,000	RUB 1,704,832,000	RUB 79,723,000	Management of financial industrial groups and holding companies.	No changes
22.	Joint Stock Company Inter RAO – Electric Power Plants	100%	100%	RUB 185,648,281,000	RUB 185,648,281,000	-	RUB 175,080,162,000	RUB 41,550,264,000	Electricity and heat generation	On 04.03.2015, the registered capital was increased
23.	Inter RAO Finance B.V.	100%	100%	RUB 82,748,000	RUB 82,748,000	-	-	EUR 50,000	Establishment, participation in one way or another, management, control, use and promotion of enterprises, organisations and companies. Financing of enterprises and companies. Provision of consulting and other services to companies with which the company forms the Group, as well as to third parties.	No changes
24.	Open Joint Stock Company Altayenergosbyt	100%	100%	RUB 330,000,000	RUB 330,000,000	RUB 939 000	RUB 12,858,684,000	RUB 3,415,000	Purchase of electric power on the electricity (capacity) wholesale and retail markets; realisation (sale) of electricity on the electricity (capacity) wholesale and retail markets to consumers (including individuals), etc	No changes

25.	Open Joint Stock Company Saratovenergo	56 .23%	56 .23%	RUB 496,283,000	RUB 458,247,000	-	RUB 18,390,270,000	RUB 3,666,000	Purchase of electric power on the electricity (capacity) wholesale and retail markets; realisation (sale) of electricity on the electricity (capacity) wholesale and retail markets to consumers (including individuals), etc.	No changes
26.	Open Joint Stock Company Tambov Power Supply Company	59 .3845%	59 .3845%	RUB 137,222,000	RUB 122,205,000	-	RUB 5,107,214,000	RUB 1,037,000	Electricity distribution	No changes
27.	Public Joint Stock Company Mosenergosbyt	50 .92%	50 .92%	RUB 5,753,700,000	RUB 5,753,700,000	-	RUB 290,785,716,000	RUB 722,697,000	Purchase of electric power on the electricity (capacity) wholesale and retail markets; realisation (sale) of electricity on the electricity (capacity) wholesale and retail markets to consumers (including individuals), etc.	No changes
28.	Open Joint Stock Company Territorial Generating Company No. 11	98 .54%	98 .54%	RUB 4,978,688,000	RUB 4,978,688,000	-	RUB 17,745,069,000	RUB 900,313,000	Electricity and heat generation	No changes
29.	Open Joint Stock Company St. Petersburg Power Supply Company	100%	100%	RUB 3,994,714,000	RUB 3,994,714,000	RUB 260,000,000	RUB 114,803,586,000	RUB 562,615,000	Purchase of electricity and thermal energy on the electricity and thermal energy (capacity) wholesale and retail markets; realisation (sale) of electric power	No changes

									on the electricity and thermal energy (capacity) wholesale and retail markets to consumers (including individuals), etc	
30.	Limited Liability Company Inter RAO – Export	100%	100%	RUB 300,000,000	RUB 300,000,000	RUB 85,743,000	RUB 2,107,209,000	RUB 6,416,000	Wholesale trading in machinery and equipment is the principal economic activity	No changes
31.	Limited Liability Company RN-Energo	100%	100%	RUB 4,995,804,000	RUB 4,995,804,000	-	RUB 67,856,036,000	RUB 2,085,655,000	Wholesale electric and heat energy trading (excluding transmission and distribution). Installation of engineering equipment in buildings and constructions. Electrical installation work.	No changes
32.	Limited Liability Company Inter RAO – Orlovsky Energosbyt	100%	100%	RUB 60,000,000	RUB 60,000,000	-	RUB 7,518,054,000	RUB 2,054,000	Purchase of electric power on the electricity (capacity) wholesale and retail markets; realisation (sale) of electricity on the electricity (capacity) wholesale and retail markets to consumers (including individuals), etc.	No changes
33.	Limited Liability Company Inter RAO – Engineering	100%	100%	RUB 775,000	RUB 775,000	-	RUB 4,380,510,000	RUB 36,776,000	Structural works in construction of thermal and other power plants; structural works in construction of buildings; installation of other engineering	No changes

34.	Limited Liability Company Inter RAO Finance	100%	100%	RUB 10,000,000	RUB 10,000,000	-	-	RUB (7,914,000)	equipment. Securities trading and investments; property investments; other financial intermediation; consulting on financial mediation, consulting in commercial activities and management	No changes
35.	Limited Liability Company Ugolny Razrez	100%	100%	RUB 243,074,000	RUB 243,074,000	-	RUB 2,499,557,000	RUB 21,657,000	Brown coal open cast mining	No changes
36.	Limited Liability Company Bashkir Generation Company	100%	100%	RUB 24,038,482,000	RUB 24,038,482,000	-	RUB 44,360,972,000	RUB 4,098,229,000	Electricity and heat generation	No changes
37.	Limited liability company Energokonnekt	100%	50%	RUB 4,206,000	RUB 715,000	-	-	BYR (19,000)	Implementation of cross-border projects in designing and installation of direct current links	Due to the resignation from membership of the second participant, the Company's interest in Energokonnekt LLC increased to 100% and the organisational form changed from JLLC to LLC.
38.	Limited Liability Company Inter RAO – Procurement Management Centre	100%	100%	RUB 122,038,000	RUB 122,038,000	-	RUB 837,995,000	RUB 6,905,000	Organisation and provision of centralised material support for Group companies	No changes
39.	Open Joint Stock Company Tomsk Energy Supply Company	98.54%	98.54%	RUB 2,929,170,000	RUB 2,929,170,000	-	RUB 6,672,661,000	RUB 322,441,000	Electric power generation by thermal power stations	No changes
Information on entities in the holding structure										
40.	Silk Road Holdings B.V.	-	-	-	-	-	-	USD 31,000	Managing company	No changes

41.	Limited liability company Sports Support Centre	-	-	-	-	-	No revenue	RUB (1,640,000)	Management of operation of non-residential property for a consideration or on a contractual basis	LLC SSC was established on 15.06.2016.
42.	Open Joint Stock Company Testing Stand of Ivanovskaya TPP	-	-	-	-	-	RUB 7,139,000	RUB (22,782,000)	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).	No changes
43.	Limited Liability Company Inter RAO Information Technologies	-	-	-	-	-	RUB 1,462,884,000	RUB 86,789,000	Development and implementation of software and consulting in this area	No changes
44.	Inter RAO Management B.V.	-	-	-	-	-	USD 167,000	USD (313,000)	Management	No changes
45.	Gardabani Holdings B.V.	-	-	-	-	-	USD 7,576,000	USD 7,576,000	Holding	No changes
46.	Closed Joint-stock Company Electric Networks of Armenia	-	-	-	-	-	No information No reporting provided	No information No reporting provided	Power distribution	In December 2016, the Group sold 50.0002% of stock of CJSC ENA
47.	Limited Liability Company Mtkvari Energy	-	-	-	-	-	No information	No information	Electricity and heat generation	In June 2016, the Group sold 100% of its interest in the subsidiary LLC Mtkvari Energy
48.	Joint Stock Company Telasi	-	-	-	-	-	GEL 395,872,000,	GEL 38,838,000	Generation and delivery (sale) of electric and thermal power	No changes
49.	Joint Stock Company Khramhesi I	-	-	-	-	-	GEL 18,323,000,	GEL 11,906,000	Electricity generation	No changes
50.	Joint Stock Company Khramhesi II	-	-	-	-	-	GEL 31,438,000,	GEL 21,547,000	Electricity generation	No changes

51.	AB Inter RAO Lietuva	-	-	-	-	-	EUR 138,932,000	EUR 10,177,000	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
52.	Inter Jet B.V.	-	-	-	-	-	USD 798,000	USD 5,000	Lease of property to third parties	The company was established on 20.01.2016
53.	Inter RAO Trust B.V.	-	-	-	-	-	-	EUR (93,000)	Holding	No changes
54.	Silverteria Holdings Limited	-	-	-	-	-	-	USD (89,942,000)	Design	The company was liquidated on 20.12.2016
55.	Limited Liability Company Inter RAO Service	-	-	-	-	-	RUB 41,112,000,	RUB 7,222,000	Exercise of customs agent and customs representative functions	No changes
56.	Orange Wings Ltd	-	-	-	-	-	-	USD (6,000)	Project activities.	No changes
57.	Limited Liability Company Interstroj	-	-	-	-	-	No data available	No data available	Construction of power facilities, civil engineering facilities; installation, adjustment and repair of power facilities, electric power equipment.	No changes
58.	Limited Liability Company Inter RAO Invest	-	-	-	-	-	RUB 1,201,163,000	RUB 143,837,000	Brokerage activities; dealer activity on the securities market; securities management activities, depository activities; investments in securities; other	Increase of registered capital on 21.11.2016

									financial intermediation	
59.	SIA Inter RAO Latvia	-	-	-	-	-	EUR 8,088,000	EUR 75,000	Electricity trade	No changes
60.	INTER RAO Eesti OU	-	-	-	-	-	EUR 12,479,000	EUR 57,000	Electricity trade	No changes
61.	NVGRES Holding Limited	-	-	-	-	-	RUB 1,328,692,000,(unaudited reporting)	RUB 1,174,544,000,(unaudited reporting)	Provision of loans to related parties, including any activity that generates interest income	No changes
62.	Open Joint Stock Company Lukomoriye Sanatorium-Dispensary	-	-	-	-	-	RUB 90,698,000	RUB 259,000	Sanatorium and health resort activities	No changes
63.	Open Joint Stock Company Technological Transport Management	-	-	-	-	-	RUB 134,228,000	RUB 4,215,000	Passenger transportation; cargo transportation; organising special transport and handling equipment; vehicle repair and maintenance services	No changes
64.	Closed Joint Stock Company Nizhnevartovskaya TPP	-	-	-	-	-	RUB 17,746,725,000	RUB 2,917,539,000	Electricity and heat generation	No changes
65.	QUARTZ Group Limited Liability Company	-	-	-	-	-	RUB 7,653,063,000	RUB (83,767,000)	Activities to ensure power plant operation	No changes
66.	Limited Liability Company Quartz – New Technologies	-	-	-	-	-	No information	No information	Investments and investment projects: construction, reconstruction, modernisation and introduction of new technologies at fuel and energy, oil and gas, petrochemical, and machine-building facilities	On 7 October 2016, the Group sold 50.10% of common stock of LLC Quartz – New Technologies

									and building complexes; organisation, participation and conduct of independent examinations, offers, bids, tenders, preparation of contracts for construction, reconstruction, modernisation and introduction of new technologies at fuel and energy, oil and gas, petrochemical and machine-building facilities and building complexes	
67.	Limited Liability Company Verkhnetagilskaya Utility Company	-	-	-	-	-	RUB 41,643,000	RUB 844,000	Maintenance and operation services	No changes
68.	Limited Liability Company Mosenergosbyt – Sergiev Posad	-	-	-	-	-	RUB 3,259,000	RUB 1,238,000	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	No changes
69.	Limited Liability Company Mosenergosbyt – Zhukovsky	-	-	-	-	-	RUB 11,837,000	RUB 108,000	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	No changes

70.	Public Joint Stock Company Mosenergosbyt – Serpukhov	-	-	-	-	-	RUB 20,856,000	RUB 0,000	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	No changes
71.	Limited Liability Company Mosenergosbyt – Chekhov	-	-	-	-	-	RUB 12,518,000	RUB (4,720,000)	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	No changes
72.	Limited Liability Company Mosenergosbyt – Shatura	-	-	-	-	-	RUB (110,000)	RUB (1,747,000)	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	The company was liquidated on 03.11.2016
73.	Limited Liability Company Mosenergosbyt – Yegoryevsk	-	-	-	-	-	RUB 201,000	RUB (2,828,000)	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	The company was liquidated on 27.12.2016
74.	Limited Liability Company Mosenergosbyt – Orekhovo-Zuevo	-	-	-	-	-	RUB 17,706,000	RUB (497,000)	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	No changes
75.	Limited Liability Company Mosenergosbyt – Elektrostal	-	-	-	-	-	RUB 16,413,000	RUB (1,827,000)	Providing services connected with supply of electric energy, including	The company was liquidated on 09.02.2017

									collection of payments for goods sold and services provided, etc.	
76.	Public Joint Stock Company Mosenergosbyt – Pushkino	-	-	-	-	-	RUB 18,000	RUB (736,000)	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	The company was liquidated on 12.01.2017
77.	Limited Liability Company Mosenergosbyt – Domodedovo	-	-	-	-	-	RUB 955,000	RUB (2,500,000)	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	The company was liquidated on 14.02.2017
78.	Public Joint Stock Company Mosenergosbyt – Podolsk	-	-	-	-	-	RUB 18,808,000	RUB (810,000)	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	No changes
79.	Limited Liability Company Mosenergosbyt – Narofominsk	-	-	-	-	-	RUB 2,841,000	RUB (6,063,000)	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	No changes
80.	Limited Liability Company Integrator IT	-	-	-	-	-	RUB 388,651,000	RUB 38,432,000	Creating secure document management and providing services including information encryption, maintenance and	No changes

									distribution of encoding (cryptographic) facilities	
81.	JSC Energy Supply Company of the Moscow Region	-	-	-	-	-	-	RUB 3,904,000	Purchase of electric power on wholesale and retail electric energy (capacity) markets; sale of electric energy to consumers (including individuals) on wholesale and retail electric energy markets	The share of the company increased to 100% on 20.02.2017
82.	Limited Liability Company Mosenergosbyt – Solnechnogorsk	-	-	-	-	-	-	RUB (10,000)	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	The company was liquidated on 10.05.2016
83.	Public Joint Stock Company Mosenergosbyt – Shchelkovo	-	-	-	-	-	RUB 1,666,000	RUB (1,504,000)	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	No changes
84.	Limited Liability Company Mosenergosbyt – Noginsk	-	-	-	-	-	RUB 15,593,000	RUB (1,816,000)	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	No changes
85.	Limited Liability Company Mosenergosbyt – Ramenskoye	-	-	-	-	-	RUB 89,000	RUB (6,533,000)	Providing services connected with supply of electric energy, including	No changes

									collection of payments for goods sold and services provided, etc.	
86.	Limited Liability Company Mosenergosbyt – Kolomna	-	-	-	-	-	RUB 68,710,000	RUB 2,402,000	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	No changes
87.	Limited liability company Moscow Regional Single Information Computing Centre	-	-	-	-	-	RUB 1,828,902,000	RUB (280,209,000)	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	No changes
88.	Limited Liability Company Mosenergosbyt – Troitsk	-	-	-	-	-	-	RUB 83,000	Providing services connected with supply of electric energy, including collection of payments for goods sold and services provided, etc.	The company was liquidated on 20.01.2017
89.	Limited liability company MES-Development	-	-	-	-	-	-	RUB 934,487,000	Wholesale trade in electric and thermal energy (without their transmission and distribution).	No changes
90.	Joint-Stock Company Korolyov Electric Grid SK	-	-	-	-	-	RUB 2,098,755,000	RUB 34,153,000	Electricity distribution	No changes
91.	Closed Joint Stock Company Petroelektrosbyt	-	-	-	-	-	RUB 4,148,971,000	RUB 191,312,000	Purchase and sales of electric and thermal power; Collection and processing of	No changes

									payments for electric power and communal services	
92.	Open Joint Stock Company Repair and Service Company of Thermal and Underground Communication Lines of Kostromskaya TPP	-	-	-	-	-	RUB 271,489,000	RUB 4,912,000	Operation and repair of heating, water supply, and sewage networks; transportation and sale of thermal energy	No changes
93.	Open Joint Stock Company Integrated Energy Repairs	-	-	-	-	-	-	RUB (28,000)	Repair of boiler inspection facilities; manufacture of non-standard equipment supervised by Rostekhnadzor; repair and adjustment of lifting facilities	No changes
94.	Open Joint Stock Company Heat Service Company	-	-	-	-	-	RUB 353,075,000	RUB (4,190,000)	Operation and ensuring the efficiency of heat networks; operation, maintenance and repair of hot water supply networks	No changes
95.	Open Joint Stock Company Kommunalnik	-	-	-	-	-	RUB 102,215,000	RUB (9,210,000)	Operation and ensuring the efficiency of heat networks	No changes
96.	Open Joint Stock Company Energy-1	-	-	-	-	-	RUB 172,267,000	RUB (4,566,000)	Operation and ensuring the efficiency of heat networks, sales and distribution of thermal energy	No changes
97.	Open Joint Stock Company Kostromskaya TPP Hotel	-	-	-	-	-	RUB 10,976,000,	RUB (2,148,000)	Hotel services	No changes

98.	Open Joint Stock Company Yuzhnouralskaya Power Supply Company	-	-	-	-	-	RUB 283,239,000	RUB 2,342,000	Operation and ensuring the efficiency of thermal networks in the city of Yuzhnouralsk; delivery of thermal energy to consumers	No changes
99.	Inter RAO Credit B.V.	-	-	-	-	-	-	EUR 189,000	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
100.	Vydmantai wind park UAB	-	-	-	-	-	EUR 4,906,000	EUR 120,000	Electric power generation and sale	No changes

101.	Inter Green Renewables and Trading AB	-	-	-	-	-	-	EUR (11,000)	Electricity trade	Reduction of registered capital on 19.01.2016
102.	IRL POLSKA spółka z ograniczoną odpowiedzialnością	-	-	-	-	-	PLN 64,677,000	PLN 57,000	Electricity generation, distribution, trade	No changes
103.	Limited Liability Company Bashenergotrans	-	-	-	-	-	RUB 709,798,000	RUB 15,855,000	Transportation by road of passengers, cargo, oversized cargo, dangerous goods	No changes
104.	Limited Liability Company Bashkir Distribution Heat Grids	-	-	-	-	-	RUB 14,510,590,000	RUB 762,319,000	Generation of thermal and electric power	No changes
105.	Limited Liability Company Mir Agricultural Enterprise	-	-	-	-	-	RUB 7,303,000	RUB 572,000	Production, processing and sale of agricultural products, including cattle breeding, plant growing, poultry farming, fish farming, bee keeping, horse breeding.	On 28 December 2016, the Group sold to third parties 99.99% of interest in the subsidiary LLC Bashkir Generation Company LLC Mir Agricultural Enterprise
106.	Limited Liability Company Energetik Health and Leisure Centre	-	-	-	-	-	RUB 282,627,000	RUB (50,765,000)	Resort treatment and prophylaxis; medical services; operation of buildings and structures; property management	Reduction of registered capital on 01.07.2016
107.	Limited Liability Company Bashkortostan Energy Supply Company	-	-	-	-	-	RUB 33,963,734,000	RUB 475,162,000	Resort treatment and prophylaxis; medical services; operation of buildings and structures; property management	In December 2016, the Group acquired 100% of interest in LLC Bashkortostan Energy Supply Company
108.	Limited liability company INVENT	-	-	-	-	-	No information	No information	Resort treatment and prophylaxis; medical services; operation of	In November 2016, the Group performed a transaction of

									buildings and structures; property management	acquiring a share in the equity capital of the Russian production holding LLC INVENT
109.	INTER RAO TURKEY ENERJİ HOLDİNG ANONİM ŞİRKETİ	-	-	-	-	-	No information	No information	Holding/operating activity.	On 29.11.2016 the company was reorganised by merger with Trakya Elektrik Üretim ve Ticaret Anonim Şirketi
110.	Inter Rao Trakya Enerji A.S.	-	-	-	-	-	No information	No information	Managing company	On 29.11.2016 the company was reorganised by merger with Trakya Elektrik Üretim ve Ticaret Anonim Şirketi
111.	Inter RAO TRAKYA ELTKTRİK Üretim ve Ticaret L.S.	-	-	-	-	-	No information	No information	Managing company	On 29.11.2016 the company was reorganised by merger with Trakya Elektrik Üretim ve Ticaret Anonim Şirketi
112.	SII Enerji ve Üretim L.S.	-	-	-	-	-	No information	No information	Operation and maintenance of CCGT (Trakya Elektrik station)	On 21.11.2016 the company was reorganised by merger with Trakya Elektrik Üretim ve Ticaret Anonim Şirketi
113.	Trakya Elektrik Üretim ve Ticaret A.S.	-	-	-	-	-	TRY 732,355,000	TRY 40,442,000	Electric power generation and sale	On 21.11.2016, the following companies were reorganised: Inter Rao Trakya Enerji Holding Anonim Şirketi Inter Rao Turkey Enerji Holding Anonim Şirketi SII Enerji ve Üretim Limited Şirketi Inter Rao Trakya

										Elektrik Üretim ve Ticaret Limited Şirketi Inter Rao Trakya Enerji Anonim Şirketi by merger with Trakya Elektrik Üretim ve Ticaret Anonim Şirketi
114.	Limited liability company Energospets servi sobsluzhivaniye	-	-	-	-	-	PRB 6,525,000	PRB 649,000	Repair of energy equipment, operation of housing grids	No changes
115.	Joint-Stock Company Tomskenergobalans	-	-	-	-	-	RUB 2,455,000	RUB 3,000	Any business not prohibited by the law	No changes
116.	Joint-Stock Company Industrial Energy	-	-	-	-	-	RUB 1,798,384,000	RUB 15,047,000	Electricity supply services	No changes
117.	Closed Joint-Stock Company Svetlana-Optoelektronika	-	-	-	-	-	No data available	No data available	Development; organisation of production and industrial application of semiconductor and optoelectronic devices, sensors and systems on their basis	No changes
118.	Open Joint-Stock Company Svetlana LED	-	-	-	-	-	No data available	No data available	Production of LEDs; production of electric lamps and lighting equipment; production of electric lamps and lighting devices	No changes
119.	Limited Liability Company Omsk Energy Supply Company	-	-	-	-	-	RUB 1,050,087,000	RUB 90,369,000	Electricity supply services	No changes
120.	Joint-Stock Company Omsk Heat Distribution Grids	-	-	-	-	-	RUB 8,528,277,000	RUB 611,000	Assets management	No changes

121.	Joint-Stock Company OmskRTS	-	-	-	-	-	RUB 4,859,535,000	RUB 10,244,000	Assets management	No changes
122.	Closed Joint-Stock Company Regional Trading System Administrator	-	-	-	-	-	No data available	No data available	Other services	No changes
123.	Joint-Stock Company United Information and Payment Centre of the Leningrad Oblast	-	-	-	-	-	RUB 226,771,000	RUB (60,061,000)	Development and use of databases and information resources, delivery of united bills for housing services, and technical support of this operation	On 18.05.2016, the share of JSC Inter RAO Capital in the company increased to 51%
124.	Joint Stock Company CASCADE	-	-	-	-	-	RUB 519,894,000	RUB 56,495,000	Design, production, and sale of electric connectors	No changes
125.	Limited Liability Company Clearing Centre	-	-	-	-	-	RUB 8,525,418 thousand	RUB 98,719,000	Electricity trade	No changes
126.	Limited Liability Company Inter RAO – Distributed Generation	-	-	-	-	-	-	RUB (240,000)	Electric power generation	No changes
127.	Limited Liability Company Inter RAO – SP	-	-	-	-	-	-	RUB (799,000)	Assets management	Increase of registered capital on 07.06.2016
128.	Limited Liability Company National Data Centres	-	-	-	-	-	No information	No information	Data processing, electric communications	Sold on 16.06.2016
129.	Limited Liability Company Kaliningrad Generation	0.00005%	0.0001%	RUB 10,000	RUB 10,000	-	-	-	Electric power generation by thermal power stations	Increase of registered capital
130.	Limited Liability Company Fish Farming	-	-	-	-	-	-	RUB (304,000)	Fish farming	On 07.02.2017 the name was modified: Limited Liability Company Inter RAO – Service Management

131.	RIG RESEARCH PTE. Ltd	-	-	-	-	-	No data available	No data available		Shareholders: – GE Pacific Private Limited (Singapore), interest 50% of placed stock; – LLC RN – Foreign Projects, interest 45% of placed stock; Increase of registered capital on 30.06.2016
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12.10 Internal Regulation Effective in the Group

Item No.	Internal regulation name	Basis provisions	Governing body that approved the document
	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 of the General Meetings of Shareholders (hereinafter referred to as GMS) of the Company, including provisions: - on procedure for convening and preparation of GMS; - information support of GMS holding; - in presentio 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 dated 29.05.2015)
	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 provisions: - on procedure for convening and holding of 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. 15 dated 29.05.2015)
	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 dated 24.02.2014)
	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. 152 dated 24.08.2015)
	Regulation on the Strategy and Investment Committee of the Board of Directors of PJSC Inter RAO (new version)		Board of Directors (Minutes No. 180 dated 03.10.2016)

Regulation on the Nominations and Remuneration Committee of the Board of Directors of PJSC Inter RAO (new version)		Board of Directors (Minutes No. 153 dated 17.09.2015)
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 presentio of the Management Board, procedure for adopting resolutions by voting in absentia, and also establishes control over execution of the Board's resolutions.	General Meeting of Shareholders (Minutes No. 15 dated 29.05.2015)
Regulation on the Revision Commission of PJSC Inter RAO	The Regulation determines the objectives of the Revision Commission, the rights and duties, covers the organisation 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 dated 29.05.2015)
External Auditor Rotation Policy 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. 149 dated 03.08.2015)
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. 12 dated 27.06.2012)
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 dated 03.10.2016)
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 organisations, professional securities market participants, governmental authorities and other stakeholders.	Board of Directors (Minutes No. 189 dated 30.12.2016)
Regulation on the Dividend Policy of PJSC	The Regulation determines the procedure for	Board of Directors

Inter RAO	determining the dividend amount, procedure for adopting resolutions on declaration (payment) of dividends, terms of payment (declaration) of dividends and restrictions to their payment (declaration).	(Minutes No. 118 dated 03.07.2014)
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 dated 02.12.2013)
The Internal Control Policy of PJSC Inter RAO	The Policy defines the objectives, key principles, and united approaches to organisation of internal control at the Company, as well as the roles and liability of internal control subjects.	The Board of Directors (Minutes No. 180 dated 03.10.2016)
The Corporate Risk Management Policy of PJSC Inter RAO	The Policy defines the objectives, key principles, and united approaches to organisation of the corporate risk management system at the Company, as well as the liability of the participants of the corporate risk management system.	Board of Directors (Minutes No. 155 dated 28.10.2015)
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. 155 dated 28.10.2015)
Regulation on the Non-Core Asset Management of PJSC Inter RAO	The Regulation determines the general principles and procedure of non-core asset management at the Company, and also establishes the principles and procedures for non-core asset sales, and specific features for taking any other action in respect of non-core assets.	Board of Directors (Minutes No. 41 dated 03.05.2011)
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 dated 17.12.2012)
Declaration of Environmental Liability of PJSC Inter RAO	The Declaration defines the Company's strategic goals in environmental protection and rational nature	Board of Directors (Minutes No. 64 dated

	management, as well as the Company's lines of business for achieving environmental goals.	02.04.2012)
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 dated 24.06.2013)
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. 111 dated 03.04.2014)
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 determine the content, sequence, and terms of procurement procedures and key functions of procurement subjects.	Board of Directors (Minutes No. 140 dated 30.04.2015)
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.	The Board of Directors (Minutes No. 180 dated 03.10.2016)
Regulation on the Quality Management System of PJSC Inter RAO	The Regulation on the Quality Management System sets the goals, objectives, and principles of the operation of the quality management 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 dated 28.10.2015)
Regulations on Provision of Information to rescue of PJSC Inter RAO	This Regulation on Provision 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 dated 26.12.1995 No. 208 FZ On Joint-Stock Companies, the Articles of Association of the Company, the Regulation on Informational Policy of PJSC Inter RAO, taking into account provisions of Federal Law dated 27 June	Board of Directors (Minutes No. 137 dated 27.03.2015)

	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 dated 22.09.2014 No. 3388-U.	
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 head as well as the terms and procedure of remuneration payment.	Board of Directors (Minutes No. 170 dated 01.06.2016)

12.11 Information on fulfilment of the orders of the President and the Government of the Russian Federation aimed at improving the business activities of PJSC Inter RAO

Item No.	Type of order	Registration details	Internal of order	Execution status	Details and content of the decisions adopted
	Order of the Government	No. 1516 dated 30.12.2015	Approval of the rules of selection of investment projects to be included in the Register of Investment Projects and maintenance of a Register of such investment projects.	Implemented	By resolution of the Board of Directors dated 05.05.2016, a Procedure for Accounting for Projects Included in the Register of Investment Projects was established in accordance with Directive IB-11/11651 dated 25.03.2016 in the event of approval of relevant investment project and the necessity to include them in the said Register.
	Order of the Government	dated 12.12.2015 No. DM-P9-8413	Regulation of procurement and development of relevant norms of procurement of goods, works and services.	Implemented	* Minutes No. 168 dated 06.05.2016 By resolution of the Board of Directors dated 29.06.2016, an implementation plan was developed for regulation of procurement of goods, works and services to satisfy the demands of PJSC Inter RAO.

Order of the Government	dated 24.06.2016 No. 4409-P13; dated 16.08.2016 No. 6020p-P13	Use of cash received from sale of shares of PJSC Irkutskenergo.	Implemented	<p>* Minutes No. 173 dated 04.07.2016</p> <p>By resolution of the Board of Directors dated 05.08.2016 on consideration of instructions of the Government of Russia, a resolution was adopted on the use of cash received from sale of shares of PJSC Irkutskenergo.</p>
Order of the Government	dated 07.07.2016 No. IS-P13-4065	Provision for development and actualisation of non-core assets alienation programmes	Implemented	<p>* Minutes No. 176 dated 08.08.2016</p> <p>By resolution of the Board of Directors dated 18.08.2016 (Minutes No. 177 dated 22.08.2016) the following decision was made:</p> <p>Instruct the Management Board of PJSC Inter RAO:</p> <p>Perform analysis of methodology guidelines on identification and alienation of non-core assets specified in Directives of Rosimushchestvo dated 18.07.2016 No. DP-11/29516 (hereafter Methodology Guidelines) as regards the specifics of the asset structure and activities of PJSC Inter RAO and the Inter RAO Group taking into account the result of earlier work on identification and management of non-core assets.</p> <p>Based on the analysis conducted under cl. 1.1. hereof, develop and implement a programme for alienation of non-core assets of PJSC Inter RAO (hereafter the Programme) taking into account the Methodological Guidelines by 19.08.2016.</p> <p>Based on the analysis conducted under cl. 1.1. hereof, develop a register of non-core assets of PJSC Inter RAO (hereafter the Register) and include all non-core assets of PJSC Inter RAO in it, taking into account the Methodological Guidelines by 19.08.2016.</p> <p>Inform Rosimushchestvo of the developed draft Programme and Register by 22.08.2016.</p> <p>Taking into account the analysis conducted</p>

				<p>under cl. 1.1. hereof, propose approval of the Programme and the Register to the Board of Directors of PJSC Inter RAO by 15.09.2016. Annually develop and approve a plan for implementation of the Programme with quarterly specification and inform Rosimushchestvo about it in accordance with an established procedure.</p> <p>Ensure placement for consideration by the Board of Directors of PJSC Inter RAO of information on implementation of the Programme in accordance with the Articles of Association of PJSC Inter RAO.</p> <p>Inform Rosimushchestvo of the implementation of the Programme taking into account provisions of the Russian Law, including as regards the procedure and extent of information provision to shareholders.</p> <p>Taking into account the analysis conducted under cl. 1.1. hereof, ensure provision of recommendations to the subsidiaries of PJSC Inter RAO on activities on development and approval of programmes for alienation of non-core assets and of registers of non-core assets taking into account the Methodological Guidelines and provisions of cls. 1.2, 1.3, 1.5, 1.6, 1.7 hereof and provisions of the Russian Law, including as regards the procedure and extent of information provision to shareholders.</p>
Order of the Government	dated 04.07.2016, No. 4750p-P13	On development (implementation) of plans (programmes) for reduction of operating expenses by 10%.	Implemented	By resolution of the Board of Directors dated 29.08.2016 on consideration of Orders of the Russian Government dated 04.07.2016, No. 4750p-P13 and Instructions of the Federal Agency for State Property Management (Rosimushchestvo) dated 13.07.2016 No. DP-11/21926 a decision was made on development (implementation) of plans (programmes) for reduction of operating expenses by 10%.

* Minutes No. 178 dated 01.09.2016				
Order of the Government	dated 01.04.2016 No. IS-P13-1872	Procurement of domestic competitive software necessary for the operation of the JSC.	Implemented	By resolution of the Board of Directors dated 29.08.2016 (Minutes No. 178 dated 01.09.2016) the following decision was made: 1. Recognise the Regulation on the procedure for scheduled procurement of goods, works and services for PJSC Inter RAO approved by the decision of the Company's Board of Directors on 29.06.2016 (Minutes No. 173 dated 04.07.2016) to have lost effect. 2. Approve the Regulation on the procedure for scheduled procurement of goods, works and services for PJSC Inter RAO as amended in accordance with Annex 2 to these Minutes. Establish that cls. 5.5, 5.6 of the Regulation on the procedure for scheduled procurement of goods, works and services for PJSC Inter RAO shall apply from 01.01.2017.
Order of the Government	dated 30.09.2015 No. DM-P16-6658	Provision for priority financing of the tasks of social and economic development of the Far East.	Implemented	By resolution of the Board of Directors dated 29.08.2016 (Minutes No. 178 dated 01.09.2016) on consideration of Orders of the Russian Government (On modifications to the Company development plans) a decision was made in accordance with Annex No. 3 to these Minutes: Take into account the information that with the existing asset structure Inter RAO Group makes a significant contribution to the social and economic development of the Far East; The management of PJSC Inter RAO shall continue implementation of the approved Strategy/Long-term Development Programme including the work on investigating opportunities for implementation of projects and events in the territory of Far East with mandatory compliance with the requirements to investment profitability; Proposals for financing projects and events in the territory of Far East should be presented in accordance with the procedures existing in the

Order of the Government	dated 05.09.2016, No. 6558p-P13	Modifications to the procurement policy of the Company as regards innovative construction materials.	Implemented	Company. By resolution of the Board of Directors dated 28.10.2016 (Minutes No. 183 dated 31.10.2016) a decision was made to entrust the Management Board of PJSC Inter RAO to develop and approve by 28.02.2017 modifications to the Company's Procurement Policy as regards prioritising procurement of Russian innovative construction materials and the possibility of concluding long-term contracts with Russian manufacturers of construction materials for guaranteed future delivery volumes of innovative construction materials as well as with manufacturers that have formalised special investment contracts for mastering the production of such products.
Order of the Government	dated 01.03.2016 No. DM-P13-1100	Expansion of factoring use in performance of agreements for procurement of goods (works, services).	Implemented	By resolution of the Board of Directors dated 24.11.2016 (Minutes No. 185 dated 28.11.2016) the following decision was made: 1. Recognise the Regulation on the procedure for scheduled procurement of goods, works and services for PJSC Inter RAO approved by the decision of the Company's Board of Directors on 29.08.2016 (Minutes No. 178 dated 01.09.2016) to have lost effect. 2. Approve the Regulation on the procedure for scheduled procurement of goods, works and services for PJSC Inter RAO as amended in accordance with Annex 2 to these Minutes.
Minutes of the Government Meeting	No. 9 dated 24.03.2016	Implementation of professional standards in operation of JSC.	Implemented	By resolution of the Board of Directors dated 29.12.2016 (Minutes No. 189 dated 30.12.2016) the following decision was made: 1. Instruct the Management Board of the Company to perform the following steps by 01.01.2017: 1.1 Ensure implementation of professional standards in the operation of the Company

taking into account provisions of Federal Law dated 02.05.2015 No. 122-FZ on Amendments to the Labour Code of the Russian Federation and Articles 11 and 73 of the Federal Law on Education in the Russian Federation based on approval and implementation of relevant plans and taking into account the work on implementation of professional standards in assessment and stimulation of management in the area of managing the Company's personnel.

12.12 List of projects implemented by Inter RAO Group in the territory of the Russian Federation that received government support

Project name	Goals and objectives of investment project	Government programme	Form of government support	Support volume	Economic effect from the government support received
Construction of CCGT 440 MW of Zatonskaya CHPP-5	Construction of two combined cycle gas turbine (CCGT) plants with combined generation of electric and thermal power on the basis of up-to-date gas-turbine equipment with high economic and environmental properties and of a set of off-site infrastructure facilities. The installed electric capacity is 440 MW (condensation regime), the installed thermal capacity is 290 Gcal/h, the design fuel is natural gas.	Programme of support of investment projects implemented in the territory of the Russian Federation on the basis of project financing as approved by Order of the Government of the Russian Federation dated 11 October 2014 No. 1044.	Provision of state guarantee support in the amount of up to 25% of the price of the project for borrowing in the form of project financing in an authorised bank at a fixed rate of 11.5%.	State guarantee in the maximum amount of RUB 2 634 million. In 2016, RUB 1 202 million were received from an authorised bank.	Implementation of this Project within the framework of the Programme will increase significantly its efficiency due to the possibility of attraction of loan resources in authorised bank against a guarantee of the Russian government under more favourable terms compared to the market ones (<i>the interest rate is 11.5%, the loan is granted for 7 year, of which the first two years are a privilege period</i>)

12.13 List of foreign projects implemented by Inter RAO Group that received government support

Project name	Goals and objectives of investment project	Form of government support	Amount of the state export loan granted to the Government of the Republic of Cuba	Events in the reporting period
The project of construction in Cuba of four new power units with single installed capacity 200 MW (1 at Maximo Gomez TPP and 3 at East Havana TPP) within the framework of the international contract with Cuban Energoimport (part of State Energy Company Union Electrica) signed on 22 October 2015.	Under the contract, Inter RAO – Export which is a subsidiary of PJSC Inter RAO, will perform organisational and managerial functions in the implementation of the project, a package of services on design, delivery and commissioning of the main and supplementary energy equipment of Russian manufacture. The price of the contract is about EUR1.2 billion, completion time is 8 years.	The state export loan granted by the Government of the Russian Federation to the Government of Cuba under the Agreement between the Government of the Russian Federation and the Government of Cuba on granting of a state export loan to the Government of Cuba to fund the construction of four power units at heat power plants in Cuba.	EUR 1.08 billion (90% of the total contract price).	Preparation and signature on 22 October 2015 of the contract for the construction of four new power generating units with a single installed capacity of 200 MW (1 at Maximo Gomez TPP, and 3 at East Havana TPP) during the meeting of co-chairpersons of the Russia-Cuba Intergovernment Commission. Pursuant to the Russian Government Order dated 17.10.2015 No. 2075, on 22 October 2015, the agreement between the Government of the Russian Federation and the Government of Cuba on the granting of a state export loan was signed, which became effective on 3 February 2016. In 2016, the project was funded from the advance payment received from the Customer. The state loan was not granted in 2016.

12.14 Material litigations and fines

Material litigations in which PJSC Inter RAO participated as a plaintiff or defendant in 2016					
Plaintiff	Defendant	Subject matter of the	Amount of the	Likelihood of a negative	Comments

		claim	claim, RUB	outcome	
GPVD Ukrinterenergo, Ukraine (is at the same time the defendant in a counterclaim)	PJSC Inter RAO (is at the same time the plaintiff in a counterclaim)	The initial claim to PJSC Inter RAO for recovery of overpayment for April 2015; counterclaim of the PJSC Inter RAO to GPVD Ukrinterenergo for recovery of debts and default interest for electricity delivered in April 2015 under the contract; the dispute is related to the Ukrainian party's refusal to take account of electricity crossflows via individual interstate power lines	41,946,549.60 (initial claim) 447,532,714.76 (counterclaim), including RUB 330,159,392.77 of principal amount, RUB 117,373,321.99 of penalty	Low	Under resolution of International Commercial Arbitration Court at the Chamber of Commerce and Industry (hereafter the ICAC) dated 23.08.2016 on case No. 142/2015, the claims of GPVD Ukrinterenergo, Kyiv, Ukraine, against PJSC Inter RAO were rejected, the claims of PJSC Inter RAO against GPVD Ukrinterenergo were satisfied in full. GPVD Ukrinterenergo submitted an application to the Moscow Arbitration Court for quashing the Resolution of ICAC, the hearing is scheduled for 09.03.2017.
PJSC Inter RAO	JSC Ivenergosbyt	Involvement in bankruptcy proceedings	RUB 152,525,891.29	Low	In December 2013, JSC Ivenergosbyt declared bankruptcy and bankruptcy proceedings were initiated. Under the determination of the arbitration court of the Ivanovo Oblast on 30.01.2014, the claim by PJSC Inter RAO of RUB 190.73 million was included on the list of claims. In May 2014, PJSC Inter RAO sold (assigned) part of the rights of claim to JSC Ivenergosbyt for RUB 38 million to LLC Garant Electricity Supply Company, the remaining debt of JSC Ivenergosbyt to PJSC Inter RAO is RUB 152.53 million. The bankruptcy proceedings were prolonged, the report of the bankruptcy supervisor is to be considered on 15.05.2017.

PJSC Inter RAO	PJSC NPO Saturn	Recovery of damages (mostly loss of opportunity) as lost profit from sale of electric power as a result of deficiencies of delivered equipment	RUB 505,907,686.41	Medium	The case is at the first instance. The proceedings are suspended due to commissioning of expert evidence on the case.
PJSC Inter RAO	The Interdistrict Inspectorate No. 4 of the Federal Tax Service of Russia for Major Taxpayers	Invalidation of the tax authority's resolution dated 14.03.2014 No. 03131/006 and demand concerning the business of JSC WGC-3	RUB 425,181,526.07	Medium	<p>The amount according to the protocol is RUB 425,181,526.07</p> <p>As a result of pretrial and trial work, RUB 87 million were lifted.</p> <p>The case hearing was completed in February 2016. An additional amount of tax (penalties) of RUB 306,245,464 was charged (the tax was paid).</p> <p>* Information on this case was reflected in the Annual Report 2015.</p>

12.15 Glossary

Abbreviations

TSA	Trading system administrator of the electric energy (capacity) wholesale market	Integrated energy system (IES)	Integrated energy systems
BM	Balancing market	CCGT	Combined cycle gas turbine plant
GS	Guarantee Supplier	RGC	Regional Generation Company
SDPP	State district power plant	RC	Regulated contracts
GTU (GTPP)	Gas turbine unit (gas-turbine power plant)	RDD	Regional dispatching directorates
HPP	Hydraulic power plant	RAS	Russian accounting standards
CDA	Capacity delivery agreement	DAM	Day-ahead market
CPT	Competitive power take-off	ECPS	Electricity and capacity purchase and sale contract
KPI	Key performance indicators	SOUPS	System Operator of Unified Power System
IDGC	Interregional distribution grid company	TS	Trading schedule
IFRS	International Financial Reporting Standards	TGK	Territorial generating company
NP	Non-profit partnership	RaM	Retooling and modernisation
OGK	Wholesale Generating Companies	TM	Technical modernisation
UDD	United Dispatching Directorates	TPP	Thermal power plant
AWP	Autumn and winter period	CHPP	Central Heating and Power Plant
WECM	Wholesale Electricity and Capacity Market	FEBR	Federal executive bodies of Russia
NP	Non-profit partnership	FGC UES	Federal Grid Company of Unified Energy System
OGK	Wholesale Generating Companies	AWP	Autumn and winter period
UDD	United Dispatching Directorates	WECM	Wholesale Electricity and Capacity Market

Measurement units

GW	gigawatt	Measurement unit of electric power	kW	kilowatt	Measurement unit of electric power
Gcal	gigacalorie	Measurement unit of heat energy	kWh	kilowatt/hour	Measurement unit of generated electric energy
Gcal/h	gigacalorie/hour	Measurement unit of heat energy	MW	megawatt	Measurement unit of electric power
Hz	Hertz	Frequency of electric current	TNF	tonne of natural fuel	Measurement unit
kV	kilovolt	Measurement unit of voltage	TOE	tonne of oil equivalent	Measurement unit
kVA	kilovolt-ampere	Measurement unit of full power	t/h	tonnes per hour	Measurement unit of steam-production capacity

Financial terms

MSCI Emerging Markets Index is a stock markets index for developing countries, calculated and published by Morgan Stanley Capital International. The index consists of 26 indices of developing markets (Russia, Argentina, Mexico, Thailand and others) and is intended to measure equity market performance in emerging market economies.

MSCI Russia Index is the index of companies in the Russian market which is included in the group of indices that constitute the MSCI Emerging Markets. The index is calculated by analytical agency Morgan Stanley Capital International, incorporating Russian mid- and large-cap companies and is the benchmark for many international investors investing in Russian assets, as well as investors following an index investment strategy.

MICEX Index is a price-weighted market capitalization (free-float) composite index of the Russian stock market, which includes the 30 most liquid equities of the largest and most dynamically developing Russian issuers, the economic activities of which relate to major sectors of the economy, and is listed as CJSC MICEX Stock Exchange.

MICEX Mid Cap Index is a price-weighted market capitalization (free-float) index of the most liquid shares of Russian companies with standard capitalization listed on the MICEX stock exchange.

MICEX Power Index is a price-weighted market capitalization (free-float) index, which includes the most liquid stocks of Russian companies in the power industry that are listed on the MICEX Stock Exchange.

RTS Index is a price-weighted market capitalization (free-float) index including shares of the 50 most highly capitalised Russian companies listed on the RTS stock exchange.

Treasury shares (treasury stock in the USA, treasury shares in the UK) are Issuer owned shares. Treasury shares do not have voting rights, are not entitled to preferential rights, and do not participate in dividend distribution or property partition in case of the Issuer's liquidation. Treasury shares are circulating, they are issued, but not yet paid. However, they may be cancelled in accordance with the procedure established by the Articles of Association and legislation, with a corresponding reduction in the authorised capital.

13 Contact Details

Full company name in the English language:

Public Joint Stock Company Inter RAO UES

Short company name in the English language:

PJSC Inter RAO

State registration details:

Primary State Registration Number (OGRN): –

1022302933630

State registration date:

1 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 Uniform State Register of Legal Entities:

Series 23 No. 002387411

Location:

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