

Approved
by Resolution of the Board of Directors
of PJSC “Inter RAO”
of July 31, 2015
(Minutes No. 149 dated August 3, 2015)

External Auditor Rotation Policy of Public Joint-Stock Company “Inter RAO UES”

Moscow 2015

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1. PURPOSE AND SCOPE

1.1. This External Auditor Rotation Policy of Public Joint-Stock Company “Inter RAO UES” (“Policy”) has been executed in accordance with the requirements of the Federal Law On Joint-Stock Companies No. 208-FZ dd. December 26, 1995 (“Federal Law On Joint-Stock Companies”), Federal Law On Auditing No. 307-FZ dd. December 30, 2008 (“Federal Law On Auditing”), Code of Ethics for Russian Auditors and Rules of Independence for Auditors and Auditing Organizations, approved by the Auditing Council on September 20, 2012, international regulations, Company’s Articles of Association, other local regulations, and has been approved by decision of the Board of Directors of July 31, 2015 (minutes No. 149 of August 3, 2015).

1.2. This Policy is a local regulation of the Company, which represents a set of legal, economic, and organizational approaches aimed at enhancing the transparency of the procedure for approving and rotating the Company’s auditor.

1.3. This Policy defines the organizational and legal principles providing for the approval and rotation of the Company’s auditor and lead auditors.

1.4. This Policy governs the following:

- the procedure and criteria for selecting the Company’s auditor based on the results of tender procedures;
- the procedure for approving the auditor at the Company's annual General Meeting of Shareholders;
- the rules for rotation of lead auditors.

2. PRIMARY TERMS, DEFINITIONS AND ABBREVIATIONS USED IN THIS POLICY

In this Policy, the following terms are used with the following meaning:

Company – Public Joint-Stock Company “Inter RAO UES” (PJSC “Inter RAO”).

Auditor – commercial organization, a member a self-regulating organization of auditors.

Audit – independent inspection of accounting (financial) reports of the audited entity for the purpose of expressing an opinion on the accuracy of such reports.

Observation audit – an independent audit of accounting (financial) statements of an enterprise entity in order to make an opinion/assessment on whether the information from the reporting under the observation audit contains any material distortion.

External auditor rotation – rotation of audit firms in accordance with the principles of legitimacy and expediency, generally accepted standards, and internal documents of the Company.

Lead auditor – a person duly certified to conduct auditing activities according to auditing specialization that meets the requirements of this audit assignment and who has the necessary international certificate.

Auditing companies' network – an association of audit companies that uses a single brand name and has a single system of quality control, or commonly uses considerable professional resources.

3. COMPANY'S GOALS IN THE FIELD OF EXTERNAL AUDITOR ROTATION

The company's goals in the field of external auditor rotation include the following:

3.1. Company compliance with the laws on joint-stock companies, raising the Company's level of corporate management;

3.2. Formation of an effective mechanism for the procurement of auditor services for the Companies and group of Company entities;

3.3. Enhancement of the Company's level of transparency in the field of approving an auditor, based on the results of tender procedures for conducting an audit;

3.4. Compliance of internal Company documents with corporate management and auditing standards: The Code of Ethics for Auditors and Rules of Independence for Auditors and Audit Companies, approved by the Council for Auditing Activities, Recommendations of the European Commission on the Independence of External Auditor in the European Union regarding cooperation with an external auditor of the Company.

4. KEY PRINCIPLES OF EXTERNAL AUDITOR ROTATION

The principles of the Company's external auditor rotation are as follows:

4.1. Legitimacy – approval of an auditor in accordance with the laws of the Russian Federation on joint-stock companies;

4.2. Continuity – auditing of the Company's reports by the same auditor over several years in order to maintain a high-quality audit;

4.3. Transparency – openness of tender procedures held to approve an auditor;

4.4. Consistency – engagement of one auditor to the extent allowed by law for auditing and observation auditing consolidated financial reports in accordance

with IFRS and for auditing accounting reports of the Company executed in accordance with RAS. Moreover, engagement to the extent allowed by law, of an auditor, being part of an audit organization network together with the Company Auditor in view of performing auditing and observation auditing of financial reporting according to IFRS standards and accounting reporting according to national accounting standards, as well as reporting of companies included in PJSC “Inter RAO” Group is preferable;

4.5. Independence – absence of interest from the Company management and the Auditor in entering and executing the contract (performing the audit), that could affect professional judgement of the auditor.

5. EXTERNAL AUDITOR APPROVAL PROCEDURE AND CRITERIA

5.1. To comply with the continuity principle, the winner based on the results of the tender procedures for conducting an audit of accounting reports of PJSC “Inter RAO”, executed in accordance with Russian Accounting Standards (RAS), and consolidated financial reports of PJSC “Inter RAO” executed in accordance with International Financial Reporting Standards (IFRS), shall be determined not less than once every three years.

5.2. Following the consistency principle, PJSC “Inter RAO” considers it reasonable to hold tender procedures aimed at the approval of one auditor for conducting an audit of the Company’s accounting reports executed in accordance with RAS, audits and observation audits of Company’s consolidated financial reports executed in accordance with IFRS, as well as selection of an auditor from a network of audit organizations together with the Company Auditor, for the needs of the companies of PJSC “Inter RAO” Group.

5.3. The procedure for approval of the Company's external auditor:

5.3.1. The Audit Committee elaborates recommendations to the Company for selecting the candidates of external auditors of the Company in accordance with the requirements of the legislation of the Russian Federation, the qualification of external auditors, the quality of their work, and their compliance with independence requirements, not less than once every three years.

5.3.2. Company’s management:

5.3.2.1. On the grounds of Audit Committee recommendation organizes tender procedures in the order, stipulated by the laws of the Russian Federation and the Regulations on the Procedure for Conducting Regulated Procurement of Goods and Services for PJSC “Inter RAO” approved by the Board of Directors of PJSC “Inter RAO” on April 30, 2015 (Minutes No. 140, dated May 5, 2015, hereafter the Procurement Regulation) as amended and considering p. 5.1. of this Policy.

5.3.2.2. Approves the auditor selected based on the results of tender procedures, the auditing and observation audits conditions and scope of draft contract.

5.3.3. The Audit Committee decides on recommendations to the Board of Directors for determining the cost of the auditor's services with regard to tender procedures.

5.3.4. The Board of Directors will make the following decisions with due regard to the conclusion of the Audit Committee regarding the candidacy of external auditor, recommendations of the Audit Committee on determining the cost of the auditor's services, and the protocol of the procurement commission on determination of the winner:

5.3.4.1. On recommending the auditor's candidacy for approval by the General Meeting of Shareholders of PJSC "Inter RAO";

5.3.4.2. On determining the cost of the auditor's services. The cost of the auditor's services shall be disclosed in accordance with the legally established procedure.

5.3.5. The General Meeting of Shareholders of PJSC "Inter RAO" will approve the auditor of accounting and consolidated financial reports on an annual basis.

5.4. The contract for auditing services will be concluded with the winner of tender procedures after the auditor is approved by the General Meeting of Shareholders for a period determined by tender documents (which shall not exceed three years), in accordance with the recommendation of the Audit Committee and decision of the Board of Directors on determining the cost of the auditor's services.

5.5. Insofar as it concerns auditing and observation audits in the second and third year (in the event the contract with the auditor is concluded for more than one year), the contract shall contain provisions on commencement of such contract subject to the positive decision of the Audit Committee, decision of the Board of Directors on determining the price of the auditor's services, and approval of the candidacy of auditor by the General Meeting of Shareholders for the corresponding year.

5.6. In the event the tender procedures as per item 5.1 are not held (upon concluding a contract for over one year), the actions indicated in pp. 5.3.3., 5.3.4. and 5.3.5. shall be performed in accordance with the procedure specified hereunder.

5.7. The following criteria may be applied in the process of tender procedures for the procurement of external auditor services:

5.7.1. Membership in a self-regulating organization of auditors;

5.7.2. The lead auditor and the person signing the auditor's opinion shall have an auditor qualification certificate;

5.7.3. Compliance of the auditor and his/her work with the independence criteria stipulated by the Federal Law on Auditing and Independence Rules for Auditors and Audit Organizations, approved by the Council for Auditing;

5.7.4. High reputation of the audit firm;

5.7.5. Permits to conduct audits in the countries where the Group is present, as required by the laws of these countries;

5.7.6. Experience of the audit firm in auditing financial reports of power engineering sector companies;

5.7.7. Ability to provide services within established periods.

6. ROTATION OF EXTERNAL AUDITOR AND LEAD AUDITOR

6.1. Rotation of the external auditor shall take place in the following cases:

- Conflict of interest between the Company and the auditor;
- Insurmountable, in the opinion of the Company, violation of the independence principle during signing and execution of the contract (auditing);
- Approval of another auditor by the General Meeting of Shareholders.

6.2. In the events of grounds arising affecting the external auditor's independence, the Audit Committee can study the issue of the need to replace the audit firm or rotate the lead auditor, and give appropriate recommendations to the Company's management.

6.3. The Company will adopt the lead auditor rotation principles set forth in the Auditor's internal documents, and will take all necessary efforts to rotate the lead auditor in the following cases:

- If a person has been performing the functions of lead auditor for over seven years;
- Upon occurrence of doubts as to the independence of the lead auditor.

7. INTERACTION WITH AN EXTERNAL AUDITOR REGARDING THE PROVISION OF OTHER SERVICES

7.1. The Audit Committee will assess the quality of the work of the Company's external auditor and his/her compliance with the principles of independence and consistency on an annual basis.

7.2. The auditor can provide other services (in the absence of violation of the principle of auditor independence), including, but not limited to, the following areas:

7.2.1. Services, related to accounting and preparing accounting/(financial) statements (regarding reflection in accounting registers facts of business);

7.2.2. Tax consulting services (including, consulting regarding the most efficient employment of taxation requirements and application of tax legislation);

7.2.3. Services, related to information systems (including development and implementation of systems, equipment or software);

7.2.4. Legal services (including, contract support, legal consulting, legal expert opinion and restructuring, services related to court proceedings);

7.2.5. Services, related to corporate finance (including corporate strategy development; determination of possible investment or acquisition objects; consulting on sales or other alienation operations; finance raising assistance; restructuring consulting);

7.2.6. Valuation services.

7.3. The Auditing Committee will provisionally consider the possibility for the Auditor and affiliated parties to provide other services and to a different amount than specified in clause 7.2. in the event of the procurement of such services using the "common source" method according to the Procurement Regulation, including reviewing the compensation provided by the Company for services provided in the event that the compensation under the service agreement exceeds 500,000 rubles excluding VAT.

7.4. The Auditing Committee shall not provisionally consider the possibility for the Auditor and affiliated parties to provide other services and to a different amount than specified in clause 7.2. in the event of procurement of such services in any way other than the "common source" method as per the Procurement Regulation.

7.5. The Auditing Committee shall annually request and analyze a report from the Company Auditor; the report shall contain a description of auditing and other services, provided by the companies in a common network of audit organizations together with the Company Auditor to all companies which are part of PJSC "Inter RAO".

7.6. When reviewing the report indicated in the clause 7.5., the Auditing Committee shall analyze the share of the price of other services in the total price of services provided by companies, in a common network of audit organizations together with the Company Auditor to all companies which are part of PJSC "Inter RAO". The share of other services in the total price shall not exceed 20 %.

7.7. Should the share exceed the amount specified in clause 7.6., or should there appear a suspicion of a lack of independence during execution of service contracts, the Auditing Committee shall analyze the causes why the share services exceeds the amount and the extent of influence on independence principle compliance, in accordance with the Rules of Auditors and Audit Organizations Independence, approved by the Auditing Committee.

7.8. The significance and impact of the excess share regarding the independence principle depends on factors including, but not limited to, the following:

- nature and terms of services provided;
- members of auditing group holding information on direct and indirect financial interest, or about relations, that led to a violation;
- if the violation pertains to a group member providing auditing services, then on that person's responsibilities;
- if the violation is caused by providing a professional service, then the extent of the impact of such a service (if any) on accounting records and financial indicators, reflected in accounting (financial statements), regarding which the audit organization intends to express an opinion;
- the presence of actual or alleged actions by the auditor and justification why said actions should properly eliminate consequences of the violation;
- the presence of measures taken or planned from the audit organization to reduce or prevent the risk of further violations.

7.9. The Auditing Committee, following the results of analysis in accordance with Clause 7.7. and 7.8., may recommend that the management of the Company:

- consider the question of replacing/rotating the audit leader from the audit group;
- in events when the violation is related to another service, affecting accounting records and financial indicators, reflected in accounting (financial statements), engage another audit organization for the assessment of results of providing the service, or repeat performance of the service to the extent required for another audit company to be able to bear responsibility for such audit;
- if no measures can be taken to properly eliminate the consequences of the violation, take the necessary steps to stop the provision of auditing services;
- if insurmountable, in the opinion of the Company, violation of the independence principle is discovered, to submit to the Board of Directors the question of recommending the General Shareholders Meeting to approve a new auditor candidate.