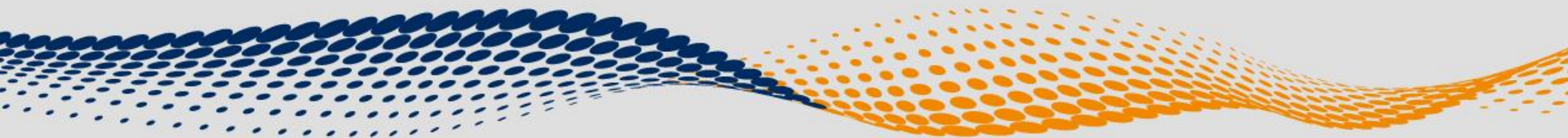




Financial Risk Management

30 June 2017 year



The General Principles of Inter RAO's Financial Risk Management

Up to date methods of financial risks assessment are applied on the basis on VAR, EaR, Shortfall, etc.

The level of risk exposure of the companies of the Group and Group as a whole is measured on the basis of consolidated management records

Financial risk management is realized in consideration with consolidated risks assessment of the Group

Implementation of Internal Credit Ratings System

- **Internal Credit Ratings system (ICR) has been launched since 2013 for the maintenance of the stable financial position of the Group:**
 - ICR allows to duly recognize and eliminate negative trends thus enhancing sustainability of the Group. The ability to generate free cash from operating activities, debt burden, liquidity of companies of the Group are the key factors of ICR;
 - Credit ratings application for KPI purposes is approved by Inter RAO.

Credit Risks

- Allocation of funds and deposits is made within established limits depending on the estimation of business and financial risks of the banks.
- In 2016 Group introduced the system of total limits for the amount of accepted bank guaranties and placed deposits within a specific bank. This approach provides additional control over the Group's funds.
- The Group is developing standard payment conditions to include in the contracts with counterparties in order to further mitigate credit risks.
- The Group regularly assesses financial position of counterparties (suppliers, debtors, contractors). Advanced payments, letters of credit, guarantees are used for risk minimization.
- To increase transparency and minimize credit risks, methodology for estimation of financial stability of the purchasing procedures participants and selection of winners is applied.

Market Risks

- The balancing of foreign exchange positions and optimization of the loan portfolio is a major instrument used to manage market risks.
- Currency revenue from trading activity acted like a natural hedge to provide the company diversification against its credit portfolio. Currency component of the company credit portfolio is low and well balanced with currency cash reserves.
- The Group employs custom software to calculate and assess foreign currencies and interest rates risks. In 2016 significant modifications to this software were implemented in order to improve its functionality, efficiency and increase automation.



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