



raonordic

**FINANCIAL
STATEMENTS
2016**

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Report of the Board of Directors

1. Development of operations during the year 2016

The main parts of RAO Nordic's business operations in 2016 have been electricity imports from Russia and selling it to Nordic electricity market in Finland and in Norway.

In 2016 RAO Nordic has delivered to Nordic market in total 5,7 TWh of physical electricity (3,8 TWh in 2015). The electricity delivery to Russian electricity market was 0 TWh (0,02 TWh in 2015). The gross sales figure was EUR 171 million (EUR 133 million in 2015) and the operating profit was EUR 1,2 million (EUR 0,02 million in 2015).

2. Major events after the balance sheet date

There have been no events after the 31 December 2016 that may influence or have any material impact on the activities of RAO Nordic or its financial position.

3. Estimate of the future development

The business strategy of RAO Nordic Oy has not been changed during 2016. The focus of the company is on cross-border trading and business activities related to power interchange across the border connections between Russia and Nordic countries.

4. Estimation of major risks

RAO Nordic's business risks can be summarized as follows:

1. Operating risk: Operating risk refers to the inherent or general business risk of a company such as country risk, political risk and economic risk. General business risk refers to risks related to general business concerns of regime stability, turmoil, corruption, financial transfer, loan default, direct investment and export markets. Due to the nature of the business i.e. trading electricity which is mainly purchased from Russia, RAO Nordic's operating risk can be seen higher than moderate.

2. Market risk: Market risk is the risk that is incurred due to uncertainties in the market. Uncertainties may include fluctuations in raw material and production costs, demand, and pricing. Market risk is a standard risk borne by any firm involved in market driven transactions. Due to the fact that RAO Nordic trades electricity which is rather volatile commodity, RAO Nordics market risk can be seen high.

3. Product liability/Warranty risk: Product liability risk arises from the sale of defective products. Warranty risk refers to the risk that companies face when customers make claims against them if products and/or services are not offered according to the agreed upon terms and conditions. Due to the nature of the product and the fact that the electricity is always available, RAO Nordic's product liability / warranty risk can be seen rather low.

4. Bad debt risk: Bad debt risk is the risk that a supplier will not receive payment from a customer. When trading via Nord Pool Spot AS and NASDAQ OMX exchanges is concerned, the bad debt risk is regarded low. As RAO Nordic's clients are well established businesses, the bad debt risk can be seen as moderate.

5. Foreign exchange risk: Foreign exchange risk arises from fluctuations in currencies where a company bears costs in one currency and receives revenue in a different currency. Due to the fact that the physical electricity is almost purely purchased and sold in euro and financial trading is carried out in euro, RAO Nordic's foreign exchange risk can be seen as rather low.

5. Development and research activities

RAO Nordic does not have major development and research activities due to the nature of its business.

6. Valuation of financial instruments

The financial instruments are recognized at fair value according to the Accounting Act 5:2a §.

Commodity risk hedging

Commodity risk hedging has been applied since the financial year 2010. The Company has partly applied hedge accounting in accordance with IAS 39 as so-called cash flow hedge. A change in the fair value of electricity derivative hedge contract proven effective is entered directly in shareholders' equity in fair value reserve, and only after the realization of the forecast electricity purchases it is entered in the income statement as an adjustment of the hedged purchases or sales.

As at 31.12.2016 there were no open commodity hedging due to the market reasons.

7. Key figures of the parent company RAO Nordic Oy business and its financial position. Personnel key figures of the parent company RAO Nordic Oy.

	2016 in thousands of EUR	2015 in thousands of EUR	2014 in thousands of EUR
Net turnover	170 701	132 547	135 682
Operating profit	1 161	22	-6 378
Net profit	9 449	4 894	-5 780
Operating profit %	0,7	0,0	-4,7
Return on equity %	25,5	17,7	-25,5
Equity to assets ratio %	87,2	61,3	31,6

	2016 in thousands of EUR	2015 in thousands of EUR	2014 in thousands of EUR
Staff cost	2 131	1 989	3 020
Average number of employees	11	11	14

8. RAO Nordic Group

There were no changes in the Group structure in 2016.

9. Environmental issues

In the past the environmental issues have had no material impact on the business as RAO Nordic and its subsidiaries have been mainly involved in the energy trading business. But being engaged in purely trading business RAO Nordic has continuously looked for potential investment projects in EU countries. Nowadays the development strategy of the Group emphasizes the green power project development, technologies that provide the highest environmental benefit.

10. Shares

The share capital is split as follows:

	2016	2015
The Company has one series of shares (1 vote/share)	1305 shares	1305 shares

All shares are equally entitled to distribution of dividend

11. The proposal of the Board of Directors of the profit distribution.

The profit for the year 2016 amounted to 9,449 thousand EUR. The Board of Directors proposes not to pay any dividends for the year 2016.

12. Board of Directors, Managing Directors and Auditors

The following persons included to the Board of the company during 2016.

Karina Tsurkan, Head of Trading Department PJSC "Inter RAO"
Alexander Boris, Deputy Chairman of the Board of PJSC "Inter RAO"
Evgeny Miroshnichenko, Chief Financial Officer PJSC "Inter RAO"
Ilnar Mirsiyapov, Head of Strategy and Investment PJSC "Inter RAO"
Oleg Zakataev, Managing Director of RAO Nordic Oy
Anton Badenkov (retired)
Dmitriy Palunin (retired)

Auditor has been Ernst & Young Oy and Mikko Rytlahti as a chief auditor.

Income statement

Currency EUR	Note	1.1.2016- 31.12.2016	1.1.2015- 31.12.2015
NET TURNOVER	3.1	170 701 107,38	132 546 989,36
Raw materials and services			
Raw materials and consumables			
Purchases during the financial year		-166 094 668,74	-128 731 836,15
		-166 094 668,74	-128 731 836,15
Staff expenses	3.2		
Wages and salaries		-2 131 326,33	-1 989 361,83
Social security expenses			
Pension expenses		-401 218,91	-347 266,87
Other social security expenses		-79 601,05	-30 217,50
		-2 612 146,29	-2 366 846,20
Depreciation and reduction in value	3.3		
Depreciation according to plan		-20 791,36	-27 721,78
		-20 791,36	-27 721,78
Other operating charges	3.4	-812 761,17	-1 399 045,96

Currency EUR	Note	1.1.2016- 31.12.2016	1.1.2015- 31.12.2015
OPERATING PROFIT (LOSS)		1 160 739,82	21 539,27
Financial income and expenses			
Income from group undertakings	3.5	8 211 000,00	5 712 000,00
Other interest and financial income			
From group companies	3.5	56 446,81	71 249,45
From others		468 023,59	321 327,25
Interest and other financial expenses			
For group companies	3.5	-407 166,03	-618 001,70
For others		-40 076,31	-614 243,69
		8 288 228,06	4 872 331,31
PROFIT (LOSS) BEFORE EXTRAORDINARY ITEMS		9 448 967,88	4 893 870,58
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES		9 448 967,88	4 893 870,58
PROFIT (LOSS) FOR THE FINANCIAL YEAR		9 448 967,88	4 893 870,58

Balance sheet

ASSETS

Currency EUR	Note	31.12.2016	31.12.2015
NON-CURRENT ASSETS			
Tangible assets	4.1		
Machinery and equipment		62 373,98	83 165,34
Other tangible assets		3 800,00	3 800,00
		66 173,98	86 965,34
Investments	4.2		
Holdings in group undertakings		35 131 681,12	35 131 681,12
		35 131 681,12	35 131 681,12
		35 197 855,10	35 218 646,46
CURRENT ASSETS			
Debtors			
Short-term			
Trade debtors		1 654 758,25	240 043,54
Loan receivables	4.3	797 058,55	4 005 711,33
Other debtors	4.3	3 688 002,56	2 219 081,42
Prepayments and accrued income	4.3	110 748,61	949 983,51
		6 250 567,97	7 414 819,80
Cash in hand and at banks		1 038 616,15	1 063 808,23
		7 289 184,12	8 478 628,03
ASSETS TOTAL		42 487 039,22	43 697 274,49

LIABILITIES

Currency EUR	Note	31.12.2016	31.12.2015
CAPITAL AND RESERVES			
Subscribed capital	5.1		
Subscribed capital		1 305 000,00	1 305 000,00
		1 305 000,00	1 305 000,00
Legal reserve		396,63	396,63
Retained earnings (loss)		26 284 147,69	21 390 277,11
Profit (loss) for the financial year		9 448 967,88	4 893 870,58
		37 038 512,20	27 589 544,32
CREDITORS			
Long-term			
Loans from credit institutions		29 150,42	39 893,54
		29 150,42	39 893,54
Short-term			
Advances received		0,00	746 200,80
Trade creditors		4 370 257,03	1 294 638,78
Amounts owed to group undertakings	5.2	434 798,27	12 015 016,71
Other creditors	5.3	311 227,53	136 175,19
Accruals and deferred income	5.3	303 093,77	1 875 805,15
		5 419 376,60	16 067 836,63
		5 448 527,02	16 107 730,17
LIABILITIES TOTAL		42 487 039,22	43 697 274,49

Cash flow statement

Currency EUR	1.1.2016- 31.12.2016	1.1.2015- 31.12.2015
Profit before tax	9 449	4 894
Depreciation	21	28
Financial items	-8 288	-4 872
	1 182	50
Decrease in receivable	1 156	28 583
Increase in payable	1 345	-35 832
	3 683	-7 199
Interest paid	-425	-669
Interest received	94	119
Dividends received	8 211	5 712
Income tax paid	0	0
Net cash from operating	11 563	-2 037
Disposal of other assets	425	
Net cash from investments	425	0
Long-term borrowings	0	12 000
Long-term borrowings repaid	0	-2 022
Short-term borrowings	0	2 000
Loan repaid	-12 011	-9 551
Net cash from financial	-12 011	2 427
Net increase in cash	-23	390
Balance 31.12.2015	1 062	672
Balance 31.12.2016	1 039	1 062

Notes to the financial statements of 31.12.2016

Notes to the preparation of the financial statements:

Valuation and periodization principles and methods:

The non-current assets that have been stated at cost and inventories are stated at the lower of cost and realisable value by following the fifo principle and the lowest value principle of the 5 paragraph 6 § 1 moment.

The acquisition cost of the non-current property will be depreciated according to plan. The depreciation plan is determined by experience. The remainder of the acquisition cost and residual value will be depreciated during the estimated useful life.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The fair value of electricity derivatives is based on quoted electricity market prices at the closing date. Fair values of options are determined by using option valuation models. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

Cash flow hedge

The effective portion of changes in the fair value of electricity derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Derivatives that are not accounted for under hedge accounting

Fair value changes of these electricity derivative instruments are recognized in the income statement.

Commodity risk hedging

Commodity risk hedging has been applied during the financial year 2010. The company has partly applied hedge accounting in accordance with IAS 39 as so-called cash flow hedge.

Derivatives

RAO Nordic trades derivatives for the hedging of selling prices of physical import from Russia. Due to the low market price there were hedging only in December 2016.

Notes to the company which is member of the Group:

Mother company:

PJSC "INTER RAO UES" Bolshaya Pirokovskaya str., 27/3, 119435 Moscow, Russia is the Mother Company of RAO Nordic Oy.

The copy of the Group Financial Statement of the Mother Company is available at the above mentioned address.

RAO Nordic Oy has not prepared the Group Financial Statement due to the accounting law (changed 30.12.2015) chapter 6 § 1.5.

Notes to the financial statements

3.1 Notes to the revenue:

Revenues by segment of business:	31.12.2016	31.12.2015
Electricity trading	166 603 350,10	107 269 491,86
Profit from financial trading	4 097 757,28	25 277 497,50
	170 701 107,38	132 546 989,36

Revenues by geographical market:	31.12.2016	31.12.2015
Finland	137 898,47	3 171 058,01
Nord Pool (Norway)	166 459 484,62	101 965 098,34
Sweden	4 097 757,28	27 009 717,83
Russia	5 967,01	401 115,18
	170 701 107,38	132 546 989,36

3.2 Notes to the personnel:

Number of employees:	31.12.2016	31.12.2015
Number of persons the company has employed during the financial year on the average.	11	11

Staff costs:	31.12.2016	31.12.2015
Wages and salaries	2 131 326,33	1 989 361,83
Pension costs	401 218,91	347 266,87
Other social security costs	79 601,05	30 217,50
	2 612 146,29	2 366 846,20

3.3 The basis of the depreciation according to plan and changes:

Item:	Depreciation percentage	Depreciation method
Machinery and equip.	25%	residual value depr.

3.4 Other operating charges

	31.12.2016	31.12.2015
Optional social expenses	55 778,94	49 536,18
Expenses of premises	111 641,11	151 207,30
Expenses of use of software, machinery and equipment	260 991,37	337 791,22
Travel expenses	29 662,22	29 560,78
Entertainment cost	11 395,35	9 289,40
Marketing expenses	1 515,00	8 791,77
Administration expenses	341 777,18	681 745,62
Disposal of shares	0,00	0,00
Other business expenses	0,00	131 123,69
	812 761,17	1 399 045,96

3.5 Total income and costs from the investments in the group and affiliated companies:

	31.12.2016	31.12.2015
Financial income	8 211 000,00	5 712 000,00
Interest income	56 446,81	71 249,45
Interest expenses	-407 166,03	-618 001,70
	7 860 280,78	5 165 247,75

Notes to the balance sheet assets:

4.1 Intangible and tangible assets

Revenues by segment of business:

	Tangible assets Machinery and equipment
Acquisition cost 1.1.2016	588 199,78
Additions	0,00
Disposals	0,00
Acquisition cost 31.12.2016	588 199,78
Acc depr at the beginning of the fiscal year	505 034,44
Depreciations of the fiscal year	20 791,36
Depreciations of the disposed items	0,00
Acc depr at the end of the fiscal year	525 825,80
Cost at the end of the fiscal year	588 199,78
Acc depr at the end of the fiscal year	-525 825,80
Book value 31.12.2016	62 373,98
Book value 31.12.2015	83 165,34

	31.12.2016	31.12.2015
Piece of art	3 800,00	3 800,00
Expensed small acquisitions	0,00	64,44

The depreciations of the non-current assets and other tangible assets:

	31.12.2016	31.12.2015
Machinery and equipment	20 791,36	27 721,78
Other intangible assets	0,00	0,00
Depreciations total	20 791,36	27 721,78

The total residual value of the machinery and equipment:	31.12.2016	31.12.2015
Machinery and equipment in balance sheet in total,	62 373,98	83 165,34
of which the residual value is:	62 373,98	83 165,34

4.2 Investments

	Group companies	Associates
Acquisition cost 1.1.2016	35 131 681,12	35 131 681,12
Additions	0,00	0,00
Acquisition cost 31.12.2016	35 131 681,12	35 131 681,12
Reduction in value	0,00	0,00
Book value 31.12.2016	35 131 681,12	35 131 681,12

4.3 Receivables from group companies

	31.12.2016	31.12.2015
Electricity trading receivable 31.12.2016	0,00	335 898,55
Loan receivables	797 058,55	4 005 711,33
Accrued income	460,33	8 549,18
	797 518,88	4 350 159,06

Other debtors:	31.12.2016	31.12.2015
VAT receivables	856 788,23	659 387,44
Security deposits	2 831 214,33	1 559 693,98
	3 688 002,56	2 219 081,42

The material items in accrued short-term receivables:	31.12.2016	31.12.2015
Accrued interest receivables	460,33	8 549,18
Hedging assets	110 288,28	581 148,78
Prepayments	0,00	24 387,00
Other receivables	0,00	335 898,55
	110 748,61	949 983,51

Notes to the hedged financial instruments:

Electricity derivatives (1000e)	Fair value 31.12	Adjustments in Income Statement	Adjustments in fair value reserve
2016	20	-	0
2015	-1 101	-	0

5.1 Notes to the liabilities:

Equity:	31.12.2016	31.12.2015
Subscribed capital		
Share capital 1.1	1 305 000,00	1 305 000,00
Share capital 31.12	1 305 000,00	1 305 000,00
Legal reserve 1.1	396,63	396,63
Legal reserve 31.12	396,63	396,63
Subscribed capital at the end of the fiscal year	1 305 396,63	1 305 396,63
Retained earnings 1.1	26 284 147,69	21 390 277,11
Profit distribution	0,00	0,00
Retained earnings 31.12	26 284 147,69	21 390 277,11
Profit/loss for the fiscal year	9 448 967,88	4 893 870,58
Retained earnings at the end of the fiscal year	35 733 115,57	26 284 147,69
Total equity	37 038 512,20	27 589 544,32
Distributable profit	31.12.2016	31.12.2015
Retained earnings	26 284 147,69	21 390 277,11
Profit /loss for the fiscal year	9 448 967,88	4 893 870,58
Total	35 733 115,57	26 284 147,69

5.2 Amounts owed to group undertakings

	31.12.2016	31.12.2015
Purchase payables	434 798,27	0,00
Accruals	0,00	15 016,71
Loans	0,00	12 000 000,00
	434 798,27	12 015 016,71

5.3 The material items in accrued payables

	31.12.2016	31.12.2015
Hedging liabilities	90 573,13	1 682 317,20
Salary accruals including social costs	212 520,64	193 487,95
Total	303 093,77	1 875 805,15
	31.12.2016	31.12.2015
VAT liability	231 464,76	58 395,41
Payroll tax liabilities	79 762,77	77 779,78
	311 227,53	136 175,19
Liabilities	31.12.2016	31.12.2015
	Rent of premises	Rent of premises
To be paid during the next fiscal year	43 598,40	43 598,40
To be paid within 2-5 years	0,00	0,00
	43 598,40	43 598,40
	Rent of machinery and it-programs	Rent of machinery and it-programs
To be paid during the next fiscal year	44 610,36	102 574,44
To be paid within 2-5 years	38 074,35	33 682,71
	82 684,71	136 257,15
Total	126 283,11	179 855,55

5.2 Amounts owed to group undertakings

Salaries and other compensation of managing director and members of the board:

	31.12.2016	31.12.2015
	716 485,83	666 670,09

The Members of the Board and the Managing Director do not have a separate pension plan. They will retire according to the pension law of Finland.

Auditors' fee:	31.12.2016	31.12.2015
Fee for annual audit, Ernst & Young Oy Chartered Accountants	24 200,00	27 450,00

List of book-keeping files and storage method:

Daily book	ADP-reports
General ledger	ADP-reports
Accounts receivable	ADP-sub accounting
Accounts payable	ADP-sub accounting
Payroll accounting	ADP-sub accounting
Financial statements	Binded book
Specifications to Financial Statements	Binded book

	Receipt code	storage
Bank receipts Nordea	11	paper receipts in folders
Sales receipts	30	paper receipts in folders
Purchase receipts	55	paper receipts in folders
Automatic VAT-postings	99	paper receipts in folders
Memorandums	90	paper receipts in folders

Financial statements must be stored not less than 10 years from the balance sheet date (PAR 2:10). The receipts of the fiscal year must be stored not less than 6 years from the end of the closing year.

Auditor's report (Translation)

To the Annual General Meeting of RAO Nordic Oy

Report on the Audit of Financial Statements

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of RAO Nordic Oy for the year ended 31 December, 2015. The financial statements comprise the company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Opinion

We have audited the financial statements of RAO Nordic Oy (business identity code 1784937-7) for the year ended 31 December, 2016. The financial statements comprise the balance sheet, income statement, cash flow statement and notes.

In our opinion, the financial statements give a true and fair view of the company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are independent of the company in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of

Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the company's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the company or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other reporting requirements

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the information included in the report of the Board of Directors and, in doing so, consider whether the information included in the report of the Board of Directors is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement in the information included in the report of the Board of Directors, we are required to report this fact. We have nothing to report in this regard.

Helsinki 14.2.2017

Ernst & Young Oy
Authorized Public Accountant Firm

Mikko Ryttilahti
Authorized Public Accountant



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