



## API Voting Recommendations for Extraordinary General Meeting

Company: JSC Irkutskenergo (IRGZ)

Meeting date / Voting ballots accepted through: August 25, 2017

Record date: August 1, 2017

### Company Overview

The principal shareholder of JSC Irkutskenergo is Russia's largest privately-held energy company EuroSibEnergo (operating as part of En+ Group).

The installed electrical capacity of the Company's power facilities is 12.9 GW (including hydroelectric power plants with a capacity of more than 9 GW), heat capacity of 13 thousand Gcal/h.

The main electricity and heat consumers are the households of Irkutsk region, small and medium-sized businesses, agricultural producers, the social sector, major mining, industrial and processing companies of the region.

The authorized capital of the Company is 4,766,807,700 rubles. It consists of 4,766,807,700 common shares with a face value of 1 ruble.

The Company's shareholding structure is as follows:

JSC EvrosibEnergo (controlling shareholder): 50.19%;

Telmamskaya HPP LLC (a company controlled by JSC EvrosibEnergo): 40.285%;

ADR holders\*: 0.37%;

Other shareholders: 9.155%.

\*The Company's American Depositary Receipts (ADRs) are traded on the U.S. over-the-counter (OTC) market. Each ADR represents 50 shares in JSC Irkutskenergo.

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No	EGM agenda item	API recommendation
1.	<a href="#">Consent to a related party transaction: a property lease contract with Telmamskaya HPP LLC</a>	<b>AGAINST*</b>
2.	<a href="#">Consent to a related party transaction: a contract for property maintenance and upkeep services with Telmamskaya HPP LLC</a>	<b>AGAINST**</b>
3.	<a href="#">Approval of a related party transaction with JSC Bratskenergoremont</a>	<b>AGAINST***</b>
4.	<a href="#">Approval of a related party transaction with JSC IRMET</a>	<b>AGAINST***</b>

- \* The transaction can be viewed as economically imperfect for the Company and its minority shareholders, which is why we recommend voting AGAINST it.
- \*\* The transaction is inseparably linked to the property lease transaction concluded with the HPP (item 1).
- \*\*\* The materials for the shareholders meeting do not provide a proper rationale for the said transactions for lending funds to associated entities operating within the perimeter of JSC Irkutskenergo and a description of their possible effect on the Company (as recommended in sub-clause 4 of clause 10 in the 'B' section of the 2014 Corporate Governance Code).

According to clause 4 of article 83 of Federal Law 208-FZ "On Joint-Stock Companies" dated December 26, 1995, the resolution on consent to a related party transaction shall be passed at a general shareholders meeting by a majority vote of all shareholders possessing the Company's voting shares participating in voting who are not interested in the transaction. In this regard, JSC EuroSibEnergo does not participate in voting on items 1-2 of the meeting agenda as its controlled entity Telmamskaya HPP LLC is a party to the transactions subject to consent given by passing resolutions on these items. Besides, JSC EuroSibEnergo is the controlling entity of JSC Irkutskenergo. It should also be noted that Telmamskaya HPP LLC is entitled to participate in voting not being considered as a party interested in the transaction subject to article 81 clause 1 of the law referred to above.

[In-depth EGM agenda review:](#)

1.	EGM agenda item	API recommendation
	<u><a href="#">Consent to a related party transaction: a property lease contract with Telmamskaya HPP LLC</a></u>	<b>AGAINST</b>

**AGENDA ITEM 1 DETAILS:**

At their extraordinary meeting, the shareholders are asked to give consent to the conclusion of a property lease contract (hereinafter referred to as the Contract) between JSC Irkutskenergo (the Lessor) and Telmamskaya Hydroelectric Power Plant LLC (the Lessee), a transaction where the controlling shareholder of the Lessor is considered as a party in interest, seeing as this person simultaneously exercises control over the Lessee. The subject of the Contract is the lease, i.e. transfer by JSC Irkutskenergo of the right to temporarily possess and use, for a certain consideration, the movable and real property (hereinafter referred to as the Property) listed in annexes 1-6.2 to the Contract, as well as the transfer of the right to use the land plots listed in annexes 7-9 to the Contract, with a balance sheet value of 14,851,549,322 rubles, which does not exceed 25% of the carrying value of JSC Irkutskenergo's assets, according to the Company's accounting (financial) statements as of March 31, 2017.

The key terms of the Contract, including the lease term and estimated market price, are set forth in the meeting materials.

It should be noted that the lease market price assessment was based on the asset revaluation to its fair value by determining the total cash flow (discounted at the Company's WACC rate) equal to the projected change in the recoverable asset value assessed as depreciated replacement cost.

To determine the specific lease price (which would enable the Company to earn profit), the following circumstances should be taken into consideration: 1) the Lessee and the Lessor are controlled by one person; 2) given the uniqueness of the leased assets, it is extremely unlikely that the Lessee can create or acquire the right to own an asset similar in price, function, risk profile and projected earnings for which the Lessee possesses adequate business conduct competencies; 3) the Lessor will continue to bear considerable expenses related to the Property, namely, all the required investments not attributable to overhauls and current repairs; 4) the risks of a major shortfall in the Lessee's income from the operation of the hydropower plants compared with the forecast, subject to the conditions and assumptions provided in the valuation report, can be currently viewed as relatively low; 5) as regards the organization of business processes, the lease of the HPP property is actually the transfer of the right to manage the

Company's branch as a standalone enterprise (the HPP electricity producer status is transferred to the Lessee, the staff re-employment is also unproblematic), while the major HPP operation-related expenses the Lessee may incur are already reflected in the financial valuation model.

In view of the above, it is economically reasonable, considering the Lessor's interests, to assess the optimal lease price proceeding from the need to ensure fair distribution of the projected net operating profit between the Lessor and the Lessee, taking into account the general assessment of the risks borne by the parties to the transaction (but at least equal to the level determined in accordance with the valuer's asset value delta replacement-based approach), including the comparison with the generally accepted level of remuneration paid to a good-faith manager (e.g., the entity acting as the sole executive body) in addition to the reimbursement of reasonable management expenses.

Proceeding from the terms and conditions specified in the valuation report (adjusted for VAT refund and the equivalent profit tax allocation, unadjusted for changes in the working capital), the Company would earn approximately 113 billion rubles, the Lessee about 260 billion rubles in projected net operating profit from lease for the period of lease (based on current prices).

The Company's net operating margin for the period of lease is projected at 61% with, 66% without the lease.

The net operating profit earned by the Lessee (based on the valuation report, using the financial model involving the VAT-adjusted revenue, equivalent profit tax net of expenses not related to the HPP, excluding the working capital maintenance and changes) will be approximately 46% of the revenue, substantially above the level of variable remuneration paid to the manager of financially sound enterprises with strong gross earnings generally accepted in business practices.

It should also be noted that the analysis of the Company's reports for the 6-month period of 2017 confirms the gradual recovery of electricity generation to normal levels and a notable increase in its net profit compared with 2015-2016 earnings, which increases confidence in the medium-term HPP electricity generation and sale forecast the valuation report proceeds from. Therefore, the Lessee's risks of earning significantly less gross operating profit from the transaction than expected under the Contract can be viewed as relatively low.

In our view, taking into account the above, the transaction considered in this agenda item should be recognized as economically imperfect for the Company. Therefore, we recommend voting AGAINST on this agenda item.

#### DRAFT RESOLUTION ON AGENDA ITEM 1:

Give consent to the conclusion by JSC Irkutskenergo of a property lease contract with Telmamskaya HPP LLC (hereinafter referred to as the Contract, the subject of which is the lease, i.e. transfer by JSC Irkutskenergo of the right to temporarily possess and use, for a certain consideration, the movable and real property (hereinafter referred to as the Property) listed in annexes 1-6.2 to the Contract, as well as the transfer of the right to use the land plots listed in annexes 7-9 to the Contract (the lists of assets specified in annexes 1-9\* to the Contract meet the lists of Property included in report no. 1564/06/17/TS "Determining the annual market value of the lease of movable and real property of Bratsk HPP, Ust-Ilimsk HPP and Irkutsk HPP owned by JSC Irkutskenergo" as of June 29, 2017 delivered by 000 PricewaterhouseCoopers Advisory engaged as an independent valuer, and are an integral part of this resolution), with a balance sheet value of 14,851,549,322 rubles, which does not exceed 25% of the carrying value of JSC Irkutskenergo's assets, according to the accounting (financial) statements of JSC Irkutskenergo as of March 31, 2017, qualifying as a related party transaction, on the following terms:

##### Parties to the Contract:

Lessor: Irkutsk Public Joint Stock Company of Energetics and Electrification (JSC Irkutskenergo).

Lessee: Telmamskaya HPP Limited Liability Company (Telmamskaya HPP LLC).

##### Subject of the Contract:

The Lessor undertakes to lease (i.e. transfer the right to temporarily possess and use, for a certain consideration) the movable and real property listed in annexes 1-6.2 to the Contract to the Lessee, while the Lessee undertakes to accept such property and to pay lease payments in the procedure, amount and within the timeframe stipulated by the Contract.

The transfer and return of the Property shall be performed by signing transfer and acceptance certificates, including

the lists of the to-be-transferred Property.

The dates of signing the asset transfer and acceptance certificates mark, respectively, the first and last date of the period for which lease payments are charged.

The Property shall be leased to the Lessee for use as hydroelectric power plants with the aim of generating electricity (capacity).

The Property leased to the Lessee under the Contract shall be used by means of its safe operation in accordance with the objectives, functions and technical capabilities of the Property.

The Lessee shall not transfer the right to temporarily possess and/or use the Property in whole or in part to any third party without written consent of the Lessor.

The Lessee shall not dismantle and/or move the Property from its location (at the time of its transfer to the Lessee) without prior written consent of the Lessor.

Alongside with the Property, the right to use the land plots listed in annexes to the Contract to the extent they belong to the Lessor shall be transferred to the Lessee.

The products made and income earned by the Lessee as a result of using the Property leased to it under the terms of the Contract shall be the property of the Lessee.

The risk of accidental loss or accidental damage (destruction) of the Property being the subject of lease under the Contract shall pass over to the Lessee from the moment the asset transfer and acceptance certificate is signed.

Lease payment and payment procedure:

The lease payment shall be effected by the Lessee monthly until the fifth day of the month following the reporting month, by money transfer to the settlement account of the Lessor using the payment details specified in the Contract.

The lease payment for the use of the Property determined in reliance on the independent valuer's report amounts to 14,919,019,681 (fourteen billion nine hundred and nineteen million nineteen thousand six hundred and eighty one) rubles, plus VAT (18%) in the amount of 2,685,423,542 (two billion six hundred and eighty five million four hundred and twenty three thousand five hundred and forty two) rubles 58 kopecks per year; the monthly lease payment is 1,243,251,640 (one billion two hundred and forty three million two hundred and fifty one thousand six hundred and forty) rubles 8 kopecks, plus VAT (18%) in the amount of 223,785,295 (two hundred and twenty three million seven hundred and eighty five thousand two hundred and ninety five) rubles 22 kopecks, including:

- the monthly payment of 180,905,247.25 rubles, plus VAT (18%) in the amount of 32,562,944.51 rubles for the use of the Property on the books of the Irkutsk HPP branch;
- the monthly payment of 743,287,375.33 rubles, plus VAT (18%) in the amount of 133,791,727.56 rubles for the use of the Property on the books of the Bratsk HPP branch;
- the monthly payment of 319,059,017.50 rubles, plus VAT (18%) in the amount of 57,430,623.15 rubles for the use of the Property on the books of the Ust-Ilimsk HPP branch.

The lease payment may be adjusted by the consumer price index determined by the Ministry of Economic Development of the Russian Federation in the conservative social and economic development forecast (hereinafter CPI) effective at the date of adjustment. Such adjustment may be unilaterally made by the Lessor upon written notice to the Lessee no more than once a year and at least 12 (twelve) months from the Contract date until October 30 of the current year.

The parties have agreed that the annual lease payment shall be considered as the sum of lease payments for 12 (twelve) months payable in the period starting from the Contract date. In all other cases, the lease payment can only be adjusted by mutual consent of the parties by concluding a related additional agreement.

The lease payment may be revised during the term of the Contract subject to an agreement between the parties in the following cases:

- a substantial decline in the Lessor's earnings from leasing the Property and the Lessee's earnings from economic operations involving the leased Property in relation to anticipated levels implied by the conditions existing as of the Contract date;
- a 2.5% or higher excess (on average) of the actual annual CPI over the projected level.

The obligation of the Lessee to effect the lease payment shall be considered as fulfilled at the moment the money is credited to the settlement account of the Lessor.

The contractual settlements may involve offsetting of the parties' counter claims on the legal grounds and in the manner provided for by the legislation in effect.

The payment for the use of the land plots specified in the annexes to the Contract is included in the lease payment under the Contract.

Term of the Contract:

The contract is concluded for a period of 10 (ten) years and shall be deemed as effective:

- from its signing by the authorized representatives of the parties, in respect of movable property,
- from its state registration by the body authorized to carry out the state registration of real property titles and transactions until the parties fulfill their obligations, in respect of real property;

The lease term shall be determined after the signing of transfer and acceptance certificates.

The term of the Contract shall be deemed to be extended for the same period if neither of the parties notifies the other party of its intention to terminate the Contract 60 (sixty) days prior to the Contract expiration date.

Miscellaneous:

Contract termination conditions: the early termination of the Contract is possible by mutual consent of the parties.

Procedure for the assignment of rights or transfer of obligations: neither of the parties to the Contract shall assign its rights or obligations under the Contract to a third party without prior written consent of the other party to the Contract.

Related party: JSC EuroSibEnergo. The related party interest is recognized on the following grounds:

- Telmamskaya HPP LLC, a company controlled by JSC EuroSibEnergo, is a party to the transaction;
- JSC EuroSibEnergo is the controlling entity of JSC Irkutskenergo.

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\* *the lists of movable and real property leased (transferred for temporary possession and use) and the land plots transferred for temporary use constitute an integral part of the resolution dated July 21, 2017 made by the Board of Directors of JSC Irkutskenergo and published on the official website of JSC Irkutskenergo at [www.irkutskenergo.ru](http://www.irkutskenergo.ru) as part of the information (materials) made available to the shareholders in preparing for the Extraordinary General Meeting of JSC Irkutskenergo scheduled for August 25, 2017 and will be made an integral part of the annex to the Minutes of the Extraordinary General Meeting of JSC Irkutskenergo as of August 25, 2017.*

2.	EGM agenda item	API recommendation
	<a href="#">Consent to a related party transaction: a contract for property maintenance and upkeep services with Telmamskaya HPP LLC</a>	<b>AGAINST</b>

**AGENDA ITEM 2 DETAILS:**

At their extraordinary meeting, the shareholders are asked to make a decision on the conclusion by JSC Irkutskenergo of a contract for property maintenance and upkeep services with Telmamskaya HPP LLC (hereinafter referred to as the Contract), qualifying as a related party transaction.

JSC Irkutskenergo acting as the Contractor undertakes to provide maintenance and upkeep of the equipment, grounds, buildings and facilities of Irkutsk HPP, Bratsk HPP, Ust-Ilimsk HPP (hereinafter referred to as the Property) listed in an annex to the Contract to the extent and on the terms set forth in the Contract and the Terms of Reference (an annex to the Contract) within the term stipulated by the Contract, while Telmamskaya HPP LLC acting as the Customer undertakes to ensure the necessary conditions for the Contractor to provide the services and to pay the agreed price.

Seeing as the transaction is inseparably linked to the HPP lease transaction (item 1 of the meeting agenda) and has no sense in isolation from that transaction, we recommend voting AGAINST on this agenda item.

**DRAFT RESOLUTION ON AGENDA ITEM 2:**

Give consent to the conclusion by JSC Irkutskenergo of a contract for property maintenance and upkeep services with Telmamskaya HPP LLC (hereinafter referred to as the Contract), qualifying as a related party transaction, on the following terms:

Parties to the Contract:

Contractor: Irkutsk Public Joint Stock Company of Energetics and Electrification (JSC Irkutskenergo).

Customer: Telmamskaya HPP Limited Liability Company (Telmamskaya HPP LLC).

Subject of the Contract:

The Contractor undertakes to provide maintenance and upkeep of the equipment, grounds, buildings and facilities of Irkutsk HPP, Bratsk HPP, Ust-Ilimsk HPP (hereinafter referred to as the Property) listed in an annex to the Contract to the extent and on the terms set forth in the Contract and the Terms of Reference (an annex to the Contract) within the term stipulated by the Contract, while the Customer undertakes to ensure the necessary conditions for the Contractor to provide the services and to pay the agreed price.

As agreed by the parties, the maintenance and upkeep of the Property means the current maintenance of the equipment, buildings and facilities with due observance of the Technical maintenance regulations for electric power stations and mains in the Russian Federation, operation manuals of equipment manufacturers and other rules and regulations effective at the time the Contract is concluded. The maintenance and upkeep should ensure that the Property is technically sound and safe to use as intended.

The scope of maintenance and upkeep of the Property includes current repairs, overhauls, diagnostics, and maintenance.

The Terms of Reference (an annex to the Contract being its integral part) specify the main types of services required to ensure proper maintenance and upkeep of the Property. The list of services is not exhaustive; the Contractor is obliged to take all necessary measures to keep the Property in good working condition and shall provide all the necessary services related to its maintenance and operation, except for the following types of services:

- purchase of electricity for in-house needs of the power plant. The following payments are also excluded:
- payments for services provided by the System Operator of the United Power System;
- charges for the use of water bodies;
- any expenses related to trading in wholesale and retail markets.

The absence in the Terms of Reference (an annex to the Contract) of direct reference to any service directly related to ensuring technical operability of the facility cannot be construed as exemption of the Contractor from the obligation to provide such service to the Customer. The cost of providing such service is considered as included in the price of the Contract (clause 2.1 of the Contract).

In order to keep the Property in good working condition and ensure the performance of works under the Contract, the Contractor shall ensure availability and operability of hazardous production facilities.

Cost of services and payment procedure:

The cost of services provided under the Contract is 231,730,000 (two hundred and thirty one million seven hundred and thirty thousand) rubles (VAT included) per month.

The cost of services determined at the time of concluding the Contract may be modified by an additional agreement to the Contract concluded by the parties in case of a change in the scope of services provided by the Contractor or in prices of resources consumed by the Contractor in the process of providing services; however, the cost of services cannot be increased during the calendar year by more than 10 percent of the level specified in clause 2.1 of the Contract, including all amendments and additions.

In case the services under the Contract cannot be provided due to the Customer's fault, payment for the services shall be effected to the Contractor in full.

In case the services under the Contract cannot be provided due to circumstances beyond control of any of the parties, the Customer shall reimburse the Contractor for the actually incurred expenses, but not above the amount specified in clause 2.1 of the Contract.

In case of:

- emergency situations duly investigated in the procedure established by effective standards and

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regulations and recognized as not related to errors or faults (or inaction) of the operating and/or dispatch office staff, employees of services (divisions), own maintenance and executive employees of the Contractor, which require remedial action (repair of damage, compensation of damage to third parties, penalties, etc.);

- orders and instructions made by supervisory authorities (Russia's Federal Environmental, Industrial and Nuclear Supervision Service, Federal Service for Supervision of Natural Resources, Fire Safety Inspection Service, etc.), where a failure to comply with such orders and instructions may entail a prohibition on the operation of the equipment in whole or in part and/or penalties during the contract validity period;

- the need to carry out design works with the aim of meeting contractual terms to the extent of clause 2.1 and in cases referred to above in this clause, including the need to ensure reliability of the Property and its readiness for contractual performance,

the related expenses shall be incurred, repairs performed, penalties paid and damage to third parties reimbursed to the extent of the cost of services under the Contract specified in clause 2.1 of the Contract.

That said, if the total expenses incurred by the Contractor for the performance of works related to the Subject of the Contract to the extent of clause 2.1. of the Contract and/or works (expenses) specified in this clause, at the stage of planning future works for the purpose of the Contract, exceed the cost of the services specified in clause 2.1. of the Contract, the source of financing, the amount of expenses and the portion of expenses attributed to each of the parties shall be formalized by signing a bilateral protocol within 10 (ten) business days after the Contractor reports such an excess to the Customer. Within 2 months after signing the protocol, the parties shall be obliged to conclude an additional agreement to the Contract, officially recognizing the decisions adopted by the parties and recorded in the protocol.

#### Term of the Contract:

The Contract shall become effective and binding on the parties from the transfer of the Property to the Customer in whole or in part in the procedure established by the Contract for lease of the movable and real property of Irkutsk HPP, Bratsk HPP and Ust-Ilimsk HPP, as well as surrounding land plots concluded between JSC Irkutskenergo and Telmamskaya HPP LLC. The Contract shall be concluded for a period of 10 (ten) years. The Contract shall be terminated in case of termination of the lease contract for any reason whatsoever.

The parties may terminate the Contract before the occurrence of the circumstances which entail its termination under clause 9.2. ("The Contract shall be concluded for a period of 10 (ten) years. The Contract shall be terminated in case of termination of the lease contract for any reason whatsoever."), in the manner and cases established by the Russian legislation and the Contract.

#### Miscellaneous:

The Contract may be amended and/or supplemented and/or terminated by the parties while it remains in effect by their mutual consent. Any agreements between the parties as regards amendment or supplement of the contractual terms and/or termination of the Contract are only valid if executed in writing, signed by the parties and bear the seals of the parties.

The rights attributed to the parties under the Contract may be assigned to third parties only with the written consent of the other party.

The Customer is entitled to repudiate the Contract provided that it reimburses the Contractor for the actually incurred expenses.

The Contractor is entitled to repudiate the Contract subject to the full compensation of losses to the Customer.

The expiration or termination of the Contract shall not exempt the parties from the liability for breaches of obligations if such breaches were committed while the Contract was in effect.

Related party: JSC EuroSibEnergo. The related party interest is recognized on the following grounds:

- Telmamskaya HPP LLC, a company controlled by JSC EuroSibEnergo, is a party to the transaction;
- JSC EuroSibEnergo is the controlling entity of JSC Irkutskenergo.

3.	EGM agenda item	API recommendation
	<a href="#">Approval of a related party transaction with JSC Bratskenergoremont</a>	<b>AGAINST</b>

**AGENDA ITEM 3 DETAILS:**

At their extraordinary meeting, the shareholders are asked to make a decision on the conclusion by JSC Irkutskenergo of additional agreement no. 1 to Loan Contract no. 45 dated March 15, 2017 with JSC Bratskenergoremont, qualifying as a related party transaction.

The materials for the shareholders meeting do not provide a proper rationale for this transaction and information on its possible effect on the Company (as recommended in sub-clause 4 of clause 10 in the 'B' section of the 2014 Corporate Governance Code). For example, there is no assessment of the borrower's need to raise working capital (including the need to borrow for the performance of contractor contracts with the Company, taking into account advance payments under such contracts), assessment of risks associated with the borrower's financial standing and indication of the Company's potential benefit from the loan (the difference between the average cost of borrowing for the Company and the interest rate payable by the Borrower under the Contract).

Our recommendation is to vote AGAINST on this agenda item.

**DRAFT RESOLUTION ON AGENDA ITEM 3:**

Approve the conclusion by JSC Irkutskenergo of additional agreement no. 1 to Loan Contract no. 45 dated March 15, 2017 with JSC Bratskenergoremont, qualifying as a related party transaction, on the following terms:

Parties to the Additional Agreement:

Lender: Irkutsk Public Joint Stock Company of Energetics and Electrification (JSC Irkutskenergo).

Borrower: Joint-Stock Company Bratskenergoremont (JSC Bratskenergoremont).

Subject of the Additional Agreement:

Clause 1.1 of the Loan Contract shall be amended as follows:

"1.1. Under this Contract, the Lender shall provide to the Borrower a cash loan with a debt limit of 1,350,000,000 (one billion three hundred and fifty million) rubles effective through December 31, 2020, on a revolving basis, subject to the payment of interest as stipulated by this Contract. The loan maturity date is no later than December "31", 2020.

The 'on a revolving basis' clause means that when the debt ceiling is reached, the disbursement of new loan tranches resumes once the debt on the previous tranches is repaid. The granting of a loan in terms of the Contract means the provision of funds to the Borrower in one or more installments (hereinafter referred as tranches) during the above-said period in accordance with the terms of the Contract."

Clause 1.2 of the Contract shall be amended as follows:

"1.2. The total loan amount is 1,350,000,000 (one billion three hundred and fifty million) rubles."

Miscellaneous:

No amendments are made to the other provisions of the Loan Contract.

The additional agreement shall take effect once signed by the parties.

4.	EGM agenda item	API recommendation
	<a href="#">Approval of a related party transaction with JSC IRMET</a>	<b>AGAINST</b>

**AGENDA ITEM 4 DETAILS:**

At their extraordinary meeting, the shareholders are asked to make a decision on the conclusion by JSC Irkutskenergo of additional agreement no. 2 to Loan Contract no. 075-306/1-15/17 dated February 16, 2017 with JSC IRMET, qualifying as a related party transaction.

The materials for the shareholders meeting do not provide a proper rationale for this transaction and information on its possible effect on the Company (as recommended in sub-clause 4 of clause 10 in the 'B' section of the 2014 Corporate Governance Code). For example, there is no assessment of the borrower's need to raise working capital (including the need to borrow for the performance of contractor contracts with the Company, taking into account advance payments under such contracts), assessment of risks associated with the borrower's financial standing and indication of the Company's potential benefit from the loan (the difference between the average cost of borrowing for the Company and the interest rate payable by the Borrower under the Contract). Our recommendation is to vote AGAINST on this agenda item.

#### DRAFT RESOLUTION ON AGENDA ITEM 4:

Approve the conclusion by JSC Irkutskenergo of additional agreement no. 2 to Loan Contract no. 075-306/I-15/17 dated February 16, 2017 with JSC IRMET, qualifying as a related party transaction, on the following terms:

Parties to the Additional Agreement:

Lender: Irkutsk Public Joint Stock Company of Energetics and Electrification (JSC Irkutskenergo).

Borrower: Joint-Stock Company IRMET (JSC IRMET).

Subject of the Additional Agreement:

Clause 1.1 of Loan Contract no. 075-306/I-15/17 dated February 16, 2017 (hereinafter referred to as the Contract) shall be amended as follows:

"1.1. Under this Contract, the Lender shall provide to the Borrower a cash loan with a debt limit of 2,550,000,000 (two billion five hundred and fifty million) rubles effective through December 31, 2020, on a revolving basis, subject to the payment of interest as stipulated by this Contract. The loan maturity date is no later than December "31", 2020.

The 'on a revolving basis' clause means that when the debt ceiling is reached, the disbursement of new loan tranches resumes once the debt on the previous tranches is repaid. The granting of a loan in terms of the Contract means the provision of funds to the Borrower in one or more installments (hereinafter referred as tranches) during the above-said period in accordance with the terms of the Contract."

Clause 1.2 of the Contract shall be amended as follows:

"1.2. The total loan amount is 2,550,000,000 (two billion five hundred and fifty million) rubles."

Miscellaneous:

No amendments are made to the other provisions of the Loan Contract.

The additional agreement shall take effect once signed by the parties.

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The EGM Voting Recommendations are based, among other things, on the Extraordinary General Meeting reference materials published on the website of JSC Irkutskenergo. For questions and/or comment, please contact us at: +7 (495) 510-5306 or via email: [polovnev@api-russia.org](mailto:polovnev@api-russia.org).