RESPONSIBILITY STATEMENT

We hereby confirm that to the best of our knowledge:

(a) The consolidated financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of RusHydro, and the undertakings included in the consolidation, taken as a whole;

(b) The annual report includes a fair review of the development and performance of the business and position of the Company and the undertakings included in the consolidation, taken as a whole, together with a description of the principal risks and uncertainties that the Company faces.

Chairman of the Management Board – CEO

N.G. Shulginov

Chief Accountant

Yu. G. Medvedeva

REPORT INFORMATION

The annual report of the Federal Hydro-Generating Company — RusHydro (or “PJSC RusHydro”, “Company”) 2016 is the twelfth annual report prepared by the Company and addressed to a wide range of stakeholders.

The report reflects the analysis of the activities of RusHydro in the period from 01.01.2016 to 31.12.2016 in the field of strategic and corporate governance, the results of financial and operational activities, as well as activities in the field of sustainability.

The report is prepared on the basis of the requirements:

- The Central Bank of the Russian Federation (hereinafter – the Bank of Russia),
- Moscow Stock Exchange,
- The London Stock Exchange,
- The UK Disclosure and Transparency Rules for Listing,
- The Corporate Governance Code (recommended by the Bank of Russia),
- The Corporate Governance Code of PJSC RusHydro,
- Provisions on the information policy of PJSC RusHydro,
- International integrated reporting Framework (partly).

The following terms are used in the report:

- PJSC RusHydro, Company — PJSC RusHydro (PJSC RusHydro Executive Office and PJSC RusHydro branches);
- RusHydro Group, Group1, RusHydro, RusHydro Holding — PJSC RusHydro, and subsidiaries;
- RAO ES EAST Holding, Subgroup RAO ES EAST — RAO ES EAST, PJSC, including the controlled companies.

The report contains information about the plans and intentions of PJSC RusHydro for the medium and long term. The plans are forward-looking in nature and their feasibility depends on a number of economic, political and legal factors which are outside the influence of the Company (the global financial economic and political situation, the situation on key markets, changes in tax, customs and environmental legislation and so forth). For this reason, the actual performance indicators in future years may differ from the forward-looking statements, published in the report.

All supplements to this annual report are located in the Appendices — see http://www.rushydro.ru/investors/reports/.

In addition to this annual report PJSC RusHydro prepares on a voluntary basis an annual corporate social responsibility and sustainability report in accordance with the Global Reporting Initiative’s Sustainability Reporting Guidelines.

Previous annual reports of PJSC RusHydro and corporate social responsibility and sustainability reports can be found on the Company’s website at http://www.rushydro.ru/investors/reports/ and http://www.rushydro.ru/sustainable_development/socialotvetstvenost/kso/.

1 The complete list and structure of RusHydro’s assets can be found on the website: www.rushydro.ru/company/structure.
4.4. Report on remuneration to the management and control authorities
   4.4.1. Members of the Board of Directors Remuneration
   4.4.2. Member of the Management Board Remuneration
   4.4.3. Remuneration of the Audit Committee
   4.4.4. Auditor’s remuneration

4.5. Business ethics and anti-corruption
   4.5.1. Control over Major and Interested Party Transactions
   4.5.2. Preventing the use of Insider Information
   4.5.3. Anti-corruption efforts

CHAPTER 5. SUSTAINABLE DEVELOPMENT

5.1. Sustainable development management
5.2. Interaction with Shareholders
5.3. Personnel and social policy
   5.3.1. HR policy PJSC RAO Energy Systems of the East
   5.3.2. Social policy
5.4. Safety and Environmental Protection
   5.4.1. Industrial security
   5.4.2. Environmental safety
5.5. Energy efficiency
   5.5.1. Program in the field of energy saving and enhancement of energy efficiency of the PJSC RusHydro
5.6. Charity

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Glossary
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Dear Shareholders!

June 2016 saw the approval of the new RusHydro Group’s strategy. This document determined the company’s activities in key areas for the period until 2020 with a prospect of up to 2025. The reliable and uninterrupted operation of power facilities, new facilities construction, primarily in the Far East, and increasing efficiency through production and management processes optimization were set as priorities for the companies activities in the forthcoming future.

While developing the Far Eastern Federal District power industry RusHydro takes part in creating infrastructure for the priority development territories and contributes to the investment projects implementation. The adopted law on equalizing electricity rates in the Far East to the average Russia-wide level promoted by the Company has become a landmark event for the region with mechanisms for its implementation being drawn up at the very moment.

Within 2016 Zelenchukskaya HPP-PSPP and the third stage of the Nizhne-Chereksky cascade — Zaragizhskaya HPP has been commissioned. The second stage of Blagoveschenskaya CHPP construction was completed. Nizhne-Bureyskaya HPP and Yakutskaya TPP-2 are now at their last stages of development. They are planned to be commissioned in 2017. RusHydro also constructs thermal power plants in Sakhalin and Sovetskaya Gavan’ in accordance with the Decree of the Russian Federation President.

At the end of 2016, the Company’s net profit increased by 39% and amounted to nearly 40 billion rubles, which is 12 billion more than the last year indicator. In 2016, RusHydro paid a record amount of dividends – 15 billion rubles. This means that as the key shareholder, the state received additional funds to launch its social programs.

In 2016, the number of measures were taken to improve the Company’s financial performance and optimize the system of its Far Eastern assets corporate governance. As evidenced by the balance sheet of the RusHydro Group, almost 100% of PJSC RAO ES East shares have been consolidated while a number of non-core assets have been sold.

In the 1st quarter of 2017, we managed to close the deal on refunding the loan portfolio of the RAO ES East Holding companies via equity financing raised from VTB Bank in the amount of 55 billion rubles. The funds are fully dedicated to reducing the debt load of Far Eastern energy companies.

I am confident that the Board of Directors, the Management Board and the PJSC RusHydro shareholders joint efforts will contribute to further development of the company, improving its financial performance and corporate management.
These results are not accidental. They reflect high professional work of hydropower plants enabled the Company to achieve its all-time maximum dividends – 15 billion rubles. Also in 2016 the Company paid its all-time maximum maximum dividends— 15 billion rubles.

These results are not accidental. They reflect high professional level of staff of branches and subsidiaries, correct management decisions made in 2016 and the fact that a state-controlled company can be efficient in market environment.

It is important to mention that these record figures were achieved in a challenging economic situation, on background of significant business optimization measures. RusHydro in the reporting year proved that it is one of the leaders of the national power industry and an efficient and modern company which is responsible for the infrastructure development of such an important Russian region as Far East.

New generation

The Company continues construction of new generating facilities in the Far East: three thermal power plants in Yakutsk, Sovetskaya Gavan and on Sakhalin, which are being built in accordance with the President’s Decree №1564 of November 22, 2012, and the construction of two hydropower plants – Nizhne-Bureyskaya and Ust-Srednekanskaya HPPs. In December 2016 the second lap of the construction of the first Far Eastern next generation power plant – the second stage of Blagoveschenskaya TPP with electric capacity of 120 MW and thermal capacity of 188 Gcal/h was completed.

In the reporting year two new hydropower plants were also commissioned in the North Caucasus. Zaragizhskaya HPP with the capacity of 30 MW was built in Kabardino-Balkaria and became the third stage of the Nizhne-Chereksky Cascade. Zelenchukskaya HPP-PSPP with capacity of 160 MW in the pumping mode and 140 MW in the turbine mode was built in Karachay-Cherkessia. Both power plants make significant contribution to reliability of the unified energy system of the South.

The reporting year was a year of hard work aimed at addressing issues of the Far Eastern energy sector, primarily its debt load. The Company managed to find an efficient scheme to solve the problem of the debt burden of companies consolidated under the RAO ES EAST and to implement it in the early 2017. By issuing additional shares the Company raised 55 billion rubles which were fully directed to pay off the loans of the Far Eastern operating companies which suffer from the shortage of funds to implement their modernization and repair programmes.

Modernization and investment

Consistent and safe operation is possible only providing timely modernization of equipment. First 5-year period of the Complex Modernization program (CMP) of RusHydro was completed in 2016. During these 5 years 67 turbines, 57 hydro-generators, 51 power transformers and 164 high-voltage circuit breakers were replaced and reconstructed. The total growth of installed capacity following the results of the CMP in Volzhskaya, Zhigulevskaya, Kamskaya, Saratovskaya and Novosibirskaya HPP equaled 66.5 MW, taking into account that the complex modernization of the Kamskaya HPP was fully completed. Replacement of hydro-units by more efficient ones in the course of CMP realization resulted in increase of total capacity of the RusHydro HPPs by 267 MW which can be compared to commissioning of a new HPP of Matlinskaya HPP scale.

Due to the necessary adjustment of investment program for the reporting year the amount of investments into re-equipment and reconstruction of RusHydro HPPs was optimized. The smoothing of the timeline of the project financing combined with preserving the high quality of the work saved more than 7 billion rubles. Ultimately the reduction of investment in the RusHydro Group in 2016 amounted to 26 billion rubles compared to 2015. The investment programs’ optimization effect in 2016–2020 will amount to 40 billion rubles.

Improving efficiency

Substantial efforts in 2016 were put into reducing the costs and the alienation of non-core assets. Ultimately it brought 24 billion rubles to the Company, including due to sale of dams of the Angara Cascade and the sale of the Energy Retail Company of Bashkortostan LLC. The activities aimed at the costs optimization will be continued in 2017.

The actions taken in 2016 were preparation for the integration of executive bodies of RAO ES EAST into PJSC RusHydro and the creation of the Far East Division as a single management structure, which already happened in 2017. The integration of the executive bodies was going in 2016 simultaneously with the activities aimed at the reduction of the debt burden and preparation of the decision regarding mechanism for electricity tariff alignment. Simplifying the organizational structure, reducing number of management levels, eliminating duplication of functions in the Far East Holding were a logical development of similar measures which were earlier conducted in RusHydro.

Strategy

The further actions of the integrated and modern management team will be aimed at realization of goals of the Development Strategy of the RusHydro Group for the period up to 2020 with a perspective up to 2025 which was approved in June 2016. This is a strategy of an established working community that is confident about its future.

Today RusHydro incorporates hydropower and thermal power specialists, repairers and retailers, researchers and project designers and many other outstanding professionals. These people take credit for the undisputed achievements of this year, and from all my heart I would like to thank all the employees of RusHydro, its branches and subsidiaries for their work in 2016. I believe that in 2017 we will not lose momentum and continue to raise the efficiency of our generating facilities, the reliability of energy supply to our customers, ensuring the growth of value for our shareholders!
FINANCIAL RESULTS IN ACCORDANCE WITH IFRS

1 The figures are given taking into account the obligations under the guarantee for PJSC «Boguchanskaya HPP».
2 Including government subsidies. Increase in revenue relative to the previous year.
3 Figures are given without VAT.
RATIOS

1 The indicator is calculated taking into account other operating income received by the RusHydro Group in 2015 (8.2 billion rubles) and 2016 (12.4 billion rubles) in the form of insurance compensation, income from the sale of assets and subsidiaries.

2 In 2016 the estimation methodology of this indicator was updated. Therefore the comparison with the values of the previous years can be inaccurate.
OPERATING HIGHLIGHTS

Installed capacity\(^1\), MW

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>38,542</td>
<td>38,662</td>
<td>38,948</td>
<td></td>
</tr>
<tr>
<td>4,727</td>
<td>4,847</td>
<td>4,727</td>
<td></td>
</tr>
<tr>
<td>8,982</td>
<td>8,924</td>
<td>9,023</td>
<td></td>
</tr>
<tr>
<td>24,726</td>
<td>24,881</td>
<td>25,118</td>
<td></td>
</tr>
</tbody>
</table>

Electricity production\(^1\), million kWh

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>121,988</td>
<td>127,501</td>
<td>138,810</td>
<td></td>
</tr>
<tr>
<td>31,155</td>
<td>33,970</td>
<td>31,672</td>
<td></td>
</tr>
<tr>
<td>79,578</td>
<td>77,406</td>
<td>98,279</td>
<td></td>
</tr>
</tbody>
</table>

Number of generating facilities\(^2\), units

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>590</td>
<td>433</td>
<td>433</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>19</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>305</td>
<td>357</td>
<td>234</td>
<td></td>
</tr>
<tr>
<td>56</td>
<td>57</td>
<td>59</td>
<td></td>
</tr>
</tbody>
</table>

The average number of Group personnel RusHydro\(^3\), persons

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>77,030</td>
<td>75,703</td>
<td>73,782</td>
<td></td>
</tr>
<tr>
<td>16,836</td>
<td>16,446</td>
<td>15,464</td>
<td></td>
</tr>
<tr>
<td>54,164</td>
<td>53,528</td>
<td>52,388</td>
<td></td>
</tr>
<tr>
<td>6,033</td>
<td>5,715</td>
<td>5,360</td>
<td></td>
</tr>
</tbody>
</table>

Heat supply RAO ES EAST, PJSC, thsd. Gcal

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>31,165</td>
<td>30,389</td>
<td>31,495</td>
<td></td>
</tr>
</tbody>
</table>

1 The figures are given with PJSC «Boguchanskaya HPP» (belongs to PJSC RusHydro and UC RUSAL), with HPP-2 PJSC «KamGek», without HPP-1 and HPP-3 PJSC «KamGek», which are under trust management of PJSC RusHydro.
2 Most of the generating facilities are concentrated in the perimeter of RAO ES EAST, PJSC.
3 The average number of Group personnel RusHydro decreased in 2016 by 2.5% in relation to 2015 and by 4.2% to 2014 due to the implementation of measures aimed at the enhancement of the management structure, outstaffing the personnel of non-core activities, reduction of the number of customer-subsidaries and contractor-subsidaries connected with the shrinkage of the investment programs.
### KEY EVENTS

| February | • The Russian Institute of Directors confirmed the corporate governance rating of PJSC RusHydro – Level 8 “Good Corporate Governance Practices” |
| April    | • The Board of Directors of PJSC RusHydro approved a new version of the Environmental Policy of PJSC RusHydro |
| June     | • The Board of Directors of PJSC RusHydro approved the Development Strategy of the RusHydro Group for the period up to 2020 with a perspective up to 2025 |
|          | • The heads of RusHydro and Voith Hydro laid a symbolic stone in the foundation of a new factory in the city of Balakovo |
|          | • Annual General Meeting of Shareholders of PJSC RusHydro approved a record dividend (for 2015) – 15.01 billion rubles |
|          | • RusHydro Group completed the forced redemption of RAO ES EAST shares. Now up to 100 % of the RAO ES EAST shares are on the RusHydro Group balance sheet. June |
| November | • RusHydro completes the deal to sell the dams of the Angarsk cascade to the EuroSibEnergo Group |
|          | • President of the Russian Federation V. V. Putin approved implementation of measures to refinancing of debt of the enterprises of the RAO ES EAST Holding by raising 55 billion rubles equity capital from Bank VTB (PJSC) |
|          | • RusHydro sold to “Inter RAO” Group a block of shares of the Energy Retail Company of Bashkortostan |
| December | • Zaragizhskaya HPP was commissioned in Kabardino-Balkaria |
|          | • Zelenchukskaya HPP-PSPP was launched in Karachay-Cherkessia |
|          | • The Bank of Russia completed the state registration of an additional issue of 60,429,000,000 ordinary shares of RusHydro for the purpose of refinancing the debt of the enterprises of the RAO ES EAST Holding. |

### EVENTS AFTER REPORT DATE (JANUARY – APRIL 2017)

| January  | • PJSC RusHydro was included into the new FTSE¹ sustainability index. |
| February | • After the five years of Complex Modernization program implementation the overall capacity of HPPs increased by 267 MW as a result of the installation of more efficient hydroelectric generators |
|          | • V. I. Markin was appointed as a Member of the Management Board, First Deputy CEO of PJSC RusHydro |
| March    | • VTB (PJSC) and PJSC RusHydro signed an agreement on the provision of 55 billion rubles equity finance. The raised funds were fully directed to pay off the debt load of the Far Eastern operating companies. PJSC RusHydro and VTB (PJSC) signed a non-deliverable forward contract for shares of PJSC RusHydro for a 5-year period |
| April    | • The International Rating Agency S & P Global Ratings has raised the long-term credit rating of PJSC RusHydro on the international scale to the sovereign level «BB +» (outlook «Positive») and on the national scale to the level of «ruAA +» |

¹ FTSE is a family of indices calculated by an independent index agency FTSE Russell. FTSE indices are among the most influential stock market indicators.
CHAPTER 1.
ABOUT THE COMPANY
Dear Shareholders!

The sustainable development concept, introduced in the last century, characterizes the harmonious, balanced, minimally conflicted progress of our entire civilization, countries or its groups.

To ensure sustainable development, appropriate conditions should be created for the all economy subsystems functioning, including the energy sector, which impacts on both the level of society development and the level of the aggregate anthropogenic impact on the environment significantly.

In the electric power industry, the key aspect of meeting the criteria for sustainable development is the maximum savings of primary non-renewable energy sources while meeting the energy needs of the modern economy and society, and minimizing the environmental impact on the entire energy production chain.

RusHydro Group sees its contribution to sustainable development in the economically and socially justified satisfaction of the consumers’ needs, shareholders, society, investors, partners and other stakeholder groups. Regarding that, Group is actively working to introduce the sustainable development principles into the implementing energy projects practice, which covers a wide range of issues, including economic, environmental and social aspects.

The approach to the solution of the tasks facing the RusHydro Group and implementation of activities priority areas providing for the Group’s sustainable development should be comprehensive. Therefore it makes a significant contribution to Russian population and industry providing with economically and environmentally efficient types of energy resources.

Boris Bogush
Member of the Management Board,
First Deputy CEO – Chief Engineer
1.1 PROFILE OF THE COMPANY

THE COMPANY’S MISSION is to effectively utilize hydro resources, to create the conditions required for the reliable performance of Russia’s Unified Energy System (UES) and to enhance the usage of renewable energy sources (RES) to benefit the Company’s shareholders and society as a whole.

The Group RusHydro\(^1\) is one of the largest Russian utility holding companies. The Company is a leader in energy production based on renewable sources and combines heat and power plants in the Far East.

The Company operates in hydropower industry since 2004.

The Group RusHydro produces 12.95% of electricity in Russia.


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\(^1\) – The period of activities of the Company is 12 years.
1.3 GROUP ORGANIZATIONAL STRUCTURE

(In parentheses are indicated the shares of the authorized capital in the Group’s ownership)

Generation subsidiaries
- JSC Gostern (99.65 %)
- JSC Verkhne-Mutnovskaya GeoPP (100 %)
- JSC KamISK (96.58 %)
- CJSC MX (99 %)
- JSC Pauhetkhskaya GeoPP (100 %)
- JSC Blagoveschenskaya (100 %)
- JSC “Far-Eastern Generation Company” (100 %)

Subsidiaries, combining generation, transmission and distribution of electricity
- JSK Kolymaenergo (96.76 %)
- JSC Yakutskenergo (79.16 %)
- JSC Sakhalinenergo (100 %)
- P/J SC Kamchatkenergo (96.74 %)
- P/J SC SDKH (100 %)
- P/J SC Magadanenergo (49 %)
- JSC Chukotenergo (100 %)
- JSC Sakhalinenergo (57.81 %)
- P/J SC Perekhodskiy Energos (69 %)

Other profiled companies
- JSC Lengidroproject (100 %)
- JSC NIIES (100 %)
- JSC Hydroremont VCC (100 %)
- LLC «HYDROOGK ALUMINIUM COMPANY LIMITED» (100 %)
- CJSC BoAP (100 % «BALP LIMITED» – joint ownership with PJSC «Boguchanskaya HPP» (93.69 % «BOGES LIMITED» – joint ownership with PJSC «Karachay-Cherkessia Hydrogeneration company» (100 %)
- JSC «Hydroengineering Siberia» (100 %)
- JSC «Yuzhno-Yakutsk GEK» (100 %)
- JSC SPKh (50 %)
- JSC «BALK LIMITED» (50 %)
- CJSC Customer of construction of Boguchanskaya HPP (49 %)
- CJSC Organizer of construction of Boguchanskaya aluminum plant (49 %)
- CJSC Customer of construction of Boguchanskaya aluminum plant (51 %)
- JSC Organize Boguchanskaya HPP construction (51 %)
- LLC JSC Boguchanskaya HPP (50 %)

Service other controlled and non-core companies
- JSC JEC (42.75 %)
- LLC RusHydro IT Service (100 %)
- JSC Technopark Rumyantsevo (100 %)
- LLC Energy Index – Hydro O&G (100 %)
- JSC TC Rustyano (100 %)
- JSC «SSHIP» (100 %)
- LLC HydroInvest (100 %)
- JSC Malaya Dmitrovka (100 %)
- LLC «SC SSHPP» (100 %)
- LLC «Vostok-Finans» (100 %)
- LLC «Hydroremont VCC» (100 %)
- LLC «HYDROOGK ALUMINIUM COMPANY LIMITED» (100 %)
- PJSC «HOUSING SERVICES» (100 %)
- JSC «Karachay-Cherkessia Energy» (100 %)
- LLC «Verkhne-Naryn hydroelectric power plant» (50 %)
- LLC HOUSE of -21 century (51 %)
- JSC «HRS» (100 %)
- LLC «IC «Agroenergo» (100 %)
- JSC «SC SSHPP» (100 %)

Other assets of from 1 to 50 %
- JSC ENIC (25 %)
- JSC Zhan (25 %)
- LLC Inter RA (4.91 %)
- JSC Corporation of South Yakutia development (25 %)
- JSC Corporation of development of Krasnoyarsky territory (25 %)
- LLC EXPERIMENTAL CENTRE OF GEORESOURCES (50 %)
- LLC «VERKHNEBARKANSKY SHPP» (50 %)
- LLC «Fiagdonskaya SHPP» (100 %)
- JSC «HRS» (100 %)
- LLC «HydroInvest» (100 %)

More detailed information about Group organizational structure and their branches is available at (http://www.rushydro.ru/company/structure/)
1.4 ACHIEVEMENTS

International rating agency Standard&Poor’s
The credit ratings forecast for PJSC RusHydro was revised from «Stable» to «Positive». The Company’s long-term credit rating was affirmed at ‘BB’ according to the international scale, the short-term credit rating at ‘B’ and the national scale rating at ‘ruAA’.

A member of the RusHydro staff reserve Stanislav Filipas won the contest. His project «Application of the software and hardware complex S-2000 for the training of operational personnel» became the best innovative project in the electric power industry.

Rating «The largest companies in Russia in terms of sales of products»
The agency confirmed RusHydro’s employer rating at A.hr’s level «High level of employer’s attractiveness»

The best domestic practice of career guidance, determined by the National Council of the President of the Russian Federation for Professional Qualifications
The working group of the National Council for Professional Qualifications under the President of the Russian Federation included a program of social and professional adaptation of children from the orphanage «Young Energy» of the Corporate University of Hydro Power Engineering RusHydro among the best domestic practices for career guidance.

International competition of corporate communications «MarCom Awards 2016»
Annual report RusHydro for 2015 received gold awards in two categories of the international competition «MarCom Awards 2016» — «The best annual report of the corporation» and «Best electronic annual report».

International competition Report Watch Best Annual Reports
The position of PJSC RusHydro in the Report Watch Best Annual Reports rating increased by 36 points compared to the previous year.

International competition of corporate transparency of the largest Russian companies — 2016
Positions of PJSC RusHydro in the national rating of corporate transparency of the largest Russian companies improved: 2016 — Premium level, 6th place; 2015 year — I level, 12th place.

All-Russian competition of the Russian Union of Industrialists and Entrepreneurs «Leaders of Russian business: dynamics and responsibility — 2016»
Victory in the nomination «For the high quality of sustainability reporting».

The second All-Russian competition «MediaFEC»
In the nomination «Popularization of FEC Professions» the project of information coverage of All-Russian competitions of operational personnel of the HPP recognized as the best project

«Digital Communications AWARDS – 2017»
The winning projects of RusHydro:
• «Damming of the Bureya River in the Nizhnie-Bureyskaya HPP line» in the nomination DIGITAL-MEDIA & TOOLS / LONGREAD (MATERIAL OF LARGE VOLUME)
• «Timlaps» Modernization of hydro turbines of Novosibirskaya HPP (Branch of PJSC RusHydro) by the example of hydro unit No. 5 «in the category ACADEMIC DIGITAL STUDY / BEST STUDENT WORK.

Rating «Environmental initiatives of Russian companies in the media. Fuel and energy complex and Metallurgy”
PJSC RusHydro entered the top 10 of the rating prepared by the Modern Media Research Institute together with the Living Planet TV channel.

International Forum on Energy Efficiency and Energy Conservation «ENES-2016»
The Minister of Energy of the Russian Federation presented a letter of thanks for the contribution to the development of the energy industry of the Russian Federation to the employees of the Dagestan branch of RusHydro, the Omarovs working dynasty. The Omarovs are hereditary hydropower workers. The total length of their family in the industry is 120 years.

IV National Program «The Best Social Projects of Russia»
The program of social and professional adaptation of students of orphanages «Young Energy» KorUnG was one of the winners of the IV national program «The Best Social Projects of Russia» (diploma in the nomination «Projects in Support of Socially Vulnerable Populations»).
CHAPTER 2
STRATEGIC REVIEW
Dear shareholders!

The new Development Strategy takes into account the unique nature of RusHydro — a public and an infrastructure company. One of the most important tasks is the development of energy in the Far East.

The Strategy is aimed at combining the growth of capital-raising potential and ensuring the reliable and safe energy facilities operation.

In order to implement the Strategy we focus on improving efficiency, measures aimed at increasing Company’s value. This measures’ implementation will ensure high dividend yield and return on investment to shareholders. In 2016 Company completed a number of major transactions for the sale of non-core assets (dams of the Angarsk cascade of HPPs and the Energy Retail Company of Bashkortostan). Also, a unique mechanism for refinancing debts of the RAO ES of the East Holding companies for the amount of 55 billion rubles was developed with the signing of a non-deliverable forward contract.

In 2016 RusHydro Group demonstrated high financial results. Company’s management uses a risk-based approach to making managerial decisions taking into account the risks of production, financial and regulatory nature.

The Company focuses on the priorities of scientific, technological and innovative development, ensuring the increase in the efficiency of electricity and heat production by updating all production systems, enhancing the Company’s competitiveness in the long term.

George Rizhinashvili
Member of the Management Board, First Deputy CEO
2.1. THE COMPANY’S STRATEGY

2016 events

- The Development Strategy of the RusHydro Group for the period up to 2020 with a perspective up to 2025 is approved.

2.1.1. STRATEGY

The Development Strategy of the RusHydro Group for the period until 2020, with a perspective of up to 2025, was approved by the PJSC RusHydro Board of Directors (Minutes No. 238 of 08.06.2016).

In accordance with the Strategy, the Group’s activities will be aimed at effective use of hydro resources, ensuring the reliability of the Unified Energy System of Russia, and creating conditions for the social and economic development of the Far East regions through the availability of energy infrastructure for consumers. Unlike the previous Strategy, the new Strategy defines the goals and development directions for the entire RusHydro Group, including its Far Eastern assets.

- Ensuring the reliable and safe operation of the facilities
  
  The Company provides reliable and safe operation of the equipment and hydraulic structures and infrastructure of thermal stations for the society and the environment, taking into account the economic validity of the funds directed to minimize risks and reduce possible damage.

- Sustainable development of electricity production
  
  The Company increases the volume of electricity production, in particular by the increased efficiency in the implementation of production programs and the implementation of investment projects, taking into account their economic efficiency.

- Far East power development
  
  The Company ensures the sustainable development of the energy of the Far East and participates in the implementation of state tasks for the accelerated socio-economic development of the region.

- Value growth
  
  The Company seeks to increase the fundamental value, increase investment prospects and value while ensuring the reliable and safe operation of the Company’s facilities.

1 Hereinafter in section 2.1.1. “the Company” means Group RusHydro including PJSC RusHydro (Executive office and branches) and its subsidiaries.
**RusHydro Group’s value growth key points**

- Increase of the technical re-equipment and reconstruction program efficiency
- Construction of effective capacities
- Optimization of the structure of the RusHydro Group’s financial investments
- Reduction of the debt burden on the companies of the RAO ES EAST Holding

- The RusHydro Group’s Far East assets management system enhancement and increase of its operational efficiency.

**Corporate Values**

- **Clean energy** – environmental safety and natural resources friendliness.
- **Engineering culture** – safe and reliable assets management.
- **Prosperous society** – reliability and infrastructural development, rational use of water resources, development of hydropotential and expansion of the use of renewable energy sources, which contribute to the development of the territories, economic growth, welfare and social prosperity.

**Responsible business** – social policy that supports staff and residents of the regions where the Company operates.

**Leading company** – success ensuring and striving for leadership of the Company by combining the efforts of employees, resources and business components in the pursuit of excellence in every aspect of activity.

**United team** – development opportunities and fair remuneration for employees to achieve the Group’s competitive advantages in different areas of its activities (team spirit, self-expression and personal fulfillment).

**Developing environment** – new technologies and unlimited opportunities for development.

**Young energy** – professionalization of the Russian school graduates.
2.1.2. THE RUSHYDRO GROUP’S LONG-TERM DEVELOPMENT PROGRAM

The Long-term development program of the RusHydro Group (LDP) is drawn up in accordance with the instructions of the President of the Russian Federation and the Government of the Russian Federation.

The Long-term development program of the RusHydro Group for 2016-2020 is approved by the decision of the Board of Directors of PJSC RusHydro. The program defines the main principles and directions that ensure the dynamic development of the RusHydro Group and contains proposals to improve the operational and investment activities of PJSC RusHydro, as well as the efficiency and competitiveness of the RAO ES EAST Holding, activities to improve the corporate governance system, the staffing system, the system of antiterrorist, information and economic security and development of international activities, contains risk analysis of activities implementation, key performance indicators and a methodology for calculating and evaluating KPIs of the LDP.

Key priority areas of development and goals:
- development and improvement of management efficiency of production and technological complexes,
- investment policy and change of approaches to the formation of an investment program,
- enhancement of the effectiveness of the Far East asset management system and the development of power in the Far East,
- increase operational efficiency and transparency of activities,
- development of human potential.

The program defines the main principles and directions that ensure the dynamic development of the RusHydro Group and contains proposals to improve the operational and investment activities of PJSC RusHydro, as well as the efficiency and competitiveness of the RAO ES EAST Holding, activities to improve the corporate governance system, the staffing system, the system of antiterrorist, information and economic security and development of international activities, contains risk analysis of activities implementation, key performance indicators and a methodology for calculating and evaluating KPIs of the LDP.

Mechanisms for the Strategy Implementation

The Company has a strategic management system that links the processes of strategic management with the system of motivation. The system is formed taking into account the recommendations of the Federal Property Management Agency for the development of key strategic documents and includes an audit of the implementation of the Long-Term Development Program.

The KPI and motivation system

Business plan and development programs in key areas
(Investment Program, Innovative Development Program, Production Program)
2.1.3 KEY PERFORMANCE INDICATORS

A system of key performance indicators (hereinafter — KPI) of PJSC RusHydro is aimed at enhancement of efficiency of the Company’s performance and achievement of the goals set by the shareholders. The KPI system includes the indicators approved in the RusHydro Group’s Long-term Program for 2016-2020 (approved for a five-year period) and as part of Business Plan for the year 2016.

- The list and target values of the KPI for PJSC RusHydro for 2016 were approved by the decision of the Board of Directors (Minutes of the Board of Directors of the Company No.229 of December 25, 2015, taking into account changes approved by the of the Board of Directors of the Company decision (Minutes of October, 10, 2016 No. 242).
- The list and target values of the KPIs in the Long-Term Development Program of the RusHydro Group for 2016-2020 were approved by a resolution of the Board of Directors (Minutes No. 244 of November 23, 2016).

PJSC RUSHYDRO KPI

The KPI of PJSC RusHydro includes seven annual KPIs: four financial and economic indicators, two sectoral ones (which meet the requirements of the Federal Property Management Agency) and an integrated KPI for innovation, approved by the minutes of the meeting of the Interdepartmental Working Group on Implementing Innovation Development Priorities of the Presidium of the Presidential Council for Modernization of the Economy and innovative development of Russia (Minutes No. AD-P36-247pr of 17.12.2015). Financial and economic indicators include two indicators mandatory for use in accordance to the instructions of the Federal Property Management Agency — Total shareholder return (TSR) and return on equity (ROE). The basis for the calculation of financial and economic indicators in the Company is the Group’s consolidated financial statements under IFRS. Integral KPI of innovation activity is included in the list of KPIs for 2016 in pursuance of the directive of the Government of the Russian Federation on Implementing Innovation Development Priorities of the Presidium of the Presidential Council for Modernization of the Economy and innovative development of Russia (Minutes No. 1472p-P13 of November 23, 2016). Financial and economic indicators include two indicators mandatory for use in accordance to the instructions of the Federal Property Management Agency — Total shareholder return (TSR) and return on equity (ROE). The basis for the calculation of financial and economic indicators in the Company is the Group’s consolidated financial statements under IFRS. Integral KPI of innovation activity is included in the list of KPIs for 2016 in pursuance of the directive of the Government of the Russian Federation on Implementing Innovation Development Priorities of the Presidium of the Presidential Council for Modernization of the Economy and innovative development of Russia (Minutes No. AD-P36-247pr of 17.12.2015).

- The list and target values of the KPI for PJSC RusHydro for 2016 were approved by the decision of the Board of Directors (Minutes of the Board of Directors of the Company No.229 of December 25, 2015, taking into account changes approved by the of the Board of Directors of the Company decision (Minutes of October, 10, 2016 No. 242).
- The list and target values of the KPIs in the Long-Term Development Program of the RusHydro Group for 2016-2020 were approved by a resolution of the Board of Directors (Minutes No. 244 of November 23, 2016).

In 2016 in pursuance to instructions from the Government of the Russian Federation, the Long-term Development Program has undergone a number of changes, approved by the Board of Directors (Minutes No. 242 of 10.10.2016):

- adjusted target KPI indicator «Reduction of operating costs (expenses)» (increased from 2 % to 10 % on the basis of the directive of the Government of the Russian Federation of 04.07.2016 No. 4750p-P13);
- increased weight of the KPI «Integral Innovative KPI» (from 5 % to 20 % in pursuance of the RF Government Directive No. 1422-P13 of 03.03.2016), through the redistribution of the KPI weights of LDP and the exclusion of KPI «Equity efficiency» and «Implementation of the corporate governance code and ensuring compliance with its requirements.

Also in 2016, the Company’s Board of Directors minutes (Minutes No. 244 of11.23.2016) approved a change in the methodology for calculating the Key Performance Indicators «Limit on leverage», the KPI «Implementation of the schedule for commissioning capacities of the main new construction projects», and the replacement of the KPI «Reliability criterion» for the indicator: «Prevention of occupational accidents and the maximum number of accidents by the Group» while foregrounding the assessment methodology.

1 Minutes of the Board of Directors No. 286 of 21.11.2014.
2 Minutes of the Board of Directors of the Company No.227 of 14.11.2015.
3 Order of the RF Government No. ESH-P13-2383 of 15.04.2014.
### KPIs Target and Actual Values

<table>
<thead>
<tr>
<th>№</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPI</td>
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<tr>
<td></td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>1.1</td>
</tr>
<tr>
<td>1.2</td>
</tr>
<tr>
<td>1.3</td>
</tr>
<tr>
<td>- by results of purchases among subjects of small and medium business only, %</td>
</tr>
<tr>
<td>1.4</td>
</tr>
<tr>
<td>- Not exceeding the limit for accidents;</td>
</tr>
<tr>
<td>- Fulfillment of the planned readiness factor;</td>
</tr>
<tr>
<td>1.5</td>
</tr>
<tr>
<td>1.6</td>
</tr>
<tr>
<td>1.7</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>2.1</td>
</tr>
<tr>
<td>2.2</td>
</tr>
<tr>
<td>- accident rate (compared with the previous year) (coefficient), not to exceed normative values of accident rate</td>
</tr>
<tr>
<td>- absence of fatal industrial accidents or group Company accidents, if there is a victim with severe outcome (pcs.)</td>
</tr>
<tr>
<td>- not exceeding the limit for accidents;</td>
</tr>
<tr>
<td>2.3</td>
</tr>
</tbody>
</table>

1. In 2016 the valuation is based on a comparison of the actual TSR of the Company with the dynamics of the composite index of the Moscow stock exchange — the MICEX INDEX (index code — MIEINDEX). The change in the MIEINDEX INDEX is calculated as the percentage of the change in the average value of the MIEINDEX INDEX for 22 trading days at the end of the year preceding the reporting period and the average MIEINDEX INDEX for 22 trading days at the end of the reporting year. The indicator is considered to be fulfilled if the actual value of the key indicator of the Company’s TSR efficiency exceeds the dynamics of the MIEINDEX INDEX for the reporting period by a positive amount. In 2015 the valuation was based on a comparison of its absolute number within the Company to the TSR of other companies (common shares only) included in the power industry sector index of the Moscow stock exchange (MICEX PWR) without grid companies and energy services companies and RAO ES EAST, PJSC. The KPI is considered to be fulfilled if the Company’s TSR value is within the 50th percentile (or higher) in the TSR matrix of the companies included in MICEX PWR, which is equal to 18 %.

2. According to the methodology for calculating and evaluating the key performance indicators of PJSC RusHydro (Minutes of the Board of Directors No. 208 of December 26, 2018), the indicator is considered fulfilled if the actual figure is ≥0.85 of the planned (100 %) indicator.

3. The size of own capital at the end of 2015 does not take into account the possible increase in the amount of the additional issue to ensure the refinancing of debts on loans and borrowings of the Holding of RAO ES EAST, PJSC.

4. According to the approved Methodology, the KPI «Integral KPI of Innovation Activity, %» (hereinafter referred to as a KPI%) includes the indicator «Quality of Development (Updating) of the ITRP / IRTP Implementation», which is determined on the basis of the final assessment of the quality of the development / implementation of the ITRP formed by the Interdepartmental Commission for Technological Development of the Presidium of the Council under the President of the Russian Federation for Economic Modernization and Innovative Development of Russia (hereinafter – ICC). According to the Minutes of the meeting of the ICC of 17.12.2015 No. AD-1P36-247pr, the indicator «The quality of development (actualization) of the ITRP / IDP performance, %» included in the KPI%, is calculated as follows: «Based on the results of 2014 and in years the RDP actualization will take place, using weighting factors with values of 0.5 to estimate the quality of the development (update) of the ITRP and 0.5 to assess the quality of the performance ITRP.»

As of the date of preparation of the annual report for the year 2016, the indicator «The quality of development (actualization) of the ITRP / IDP performance, %» cannot be calculated, since for its calculation it is necessary to obtain estimates for both indicators included in its composition. An assessment of the quality of the development (update) of the ITRP – received, formalized by the Minutes of the ICC of 26.12.2016 No. 23-D01. The estimate is 95.2 %, being one of the highest assessments of the quality of ITRP development among the companies of the fuel and energy complex.
### Strategic Review

The KPI of the LDP of the RusHydro Group

<table>
<thead>
<tr>
<th>№</th>
<th>KPI</th>
<th>Target</th>
<th>Actual</th>
<th>Implementation</th>
<th>Target</th>
<th>Target</th>
<th>Target</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total shareholders return (Achieving the target level TSR)</td>
<td>100 %</td>
<td>100 %</td>
<td>Fulfilled</td>
<td>100 %</td>
<td>100 %</td>
<td>100 %</td>
<td>100 %</td>
</tr>
<tr>
<td>2</td>
<td>Return on equity (ROE)</td>
<td>4.2 %</td>
<td>11.1 %</td>
<td>Fulfilled</td>
<td>5.6 %</td>
<td>7.6 %</td>
<td>9.4 %</td>
<td>9.3 %</td>
</tr>
<tr>
<td>3</td>
<td>Leverage ratio</td>
<td>≤ 1.5</td>
<td>0.5</td>
<td>Fulfilled</td>
<td>≤ 1.5</td>
<td>≤ 1.5</td>
<td>≤ 1.5</td>
<td>≤ 1.5</td>
</tr>
<tr>
<td>4</td>
<td>Limitation on the debt burden (Debt/Ebitda)</td>
<td>≤ 4.0</td>
<td>2.2</td>
<td>Fulfilled</td>
<td>≤ 4.0</td>
<td>≤ 4.0</td>
<td>≤ 3.5</td>
<td>≤ 3.5</td>
</tr>
<tr>
<td>5</td>
<td>Prevention of accidents at work and the maximum number of accidents in the RusHydro Group</td>
<td>0</td>
<td>0</td>
<td>Fulfilled</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>- Number of accidents at work, (pcs.)</td>
<td>0</td>
<td>0</td>
<td>Fulfilled</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>- Number of accidents, pcs.</td>
<td>0</td>
<td>0</td>
<td>Fulfilled</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>6</td>
<td>Compliance with the capacity commissioning schedule for core new construction facilities</td>
<td>333.48 MBr</td>
<td>140 MBr</td>
<td>Not fulfilled</td>
<td>560 MBr</td>
<td>484.5 MBr</td>
<td>860 MBr</td>
<td>...</td>
</tr>
<tr>
<td>7</td>
<td>Share of buying from small- and medium-sized business entities*</td>
<td>≥ 18 %</td>
<td>≥ 18 %</td>
<td>Fulfilled</td>
<td>≥ 18 %</td>
<td>≥ 18 %</td>
<td>≥ 18 %</td>
<td>≥ 18 %</td>
</tr>
<tr>
<td>8</td>
<td>Labor efficiency (Receipts, thousand RUB/person- hours)*</td>
<td>10.24</td>
<td>12.33</td>
<td>Fulfilled</td>
<td>11.69</td>
<td>13.7</td>
<td>16.11</td>
<td>16.35</td>
</tr>
<tr>
<td>9</td>
<td>Integral innovative KPI</td>
<td>85 %</td>
<td>89.4 %</td>
<td>Fulfilled</td>
<td>90 %</td>
<td>90 %</td>
<td>95 %</td>
<td>95 %</td>
</tr>
<tr>
<td>10</td>
<td>Reducing operating costs (costs)*</td>
<td>≥ 10 %</td>
<td>11 %</td>
<td>Fulfilled</td>
<td>≥ 2 %</td>
<td>≥ 2 %</td>
<td>≥ 2 %</td>
<td>≥ 2 %</td>
</tr>
</tbody>
</table>

B) assessment of the quality of the RTP implementation is not received, since it can only be obtained after consideration of the RTP implementation report for 2016 by the authorized federal executive bodies of Russia and the release of the relevant minutes by the Interdepartmental Commission for Technological Development of the Presidium of the Presidential Council for Modernization of Economy and Innovative development of Russia. Thus, as of the date of preparation of the report, the performance of the KPI for 2016 is not calculated. The results of the implementation will be additionally submitted to the Board of Directors for consideration after receiving an assessment of the quality of the RTP implementation for 2016.

5 Actual values and degree of achievement of target values of the quarterly KPIs are given for the 4th quarter of 2015 and the fourth quarter of 2016, respectively.

6 The KPIs are calculated in accordance with the Methodology for calculating and evaluating the key indicators of the Long-term Development Program of the RusHydro Group approved by the minutes of the Board of Directors (Minutes No. 244 of 23.11.2016), including changes previously approved in 2016 (Minutes No. 242 of 10.10.2016).

7 * In accordance with the draft Investment Program of PJSC RusHydro and the project of the Investment Program of the RAO ES EAST Holding for 2016-2020. The commissioning of major new construction projects in 2020 is not planned.

8 According to PJSC RusHydro.

9 The indicator was evaluated as part of an independent audit of the Long-Term Development Program as of 30.03.2017.
The Board of Directors of PJSC RusHydro approved the Development Strategy of the RusHydro Group for the period up to 2020 with a perspective up to 2025
### THE KEY PERFORMANCE INDICATORS OF RAO ES EAST, PJSC

**The KPI of RAO ES EAST, PJSC for 2016**

<table>
<thead>
<tr>
<th>№</th>
<th>KPI</th>
<th>Target</th>
<th>Actual</th>
<th>Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>KPI «Debt/EBITDA»</td>
<td>≤ 100%</td>
<td>78%</td>
<td>Fulfilled</td>
</tr>
<tr>
<td>2</td>
<td>Implementation by subordinated Subsidiaries and managed companies transferred under Trust Deed of December 23, 2013, No. OG-175-169-2013, annual KPIs established for them and bonus conditions, %</td>
<td>100%</td>
<td>82%</td>
<td>Fulfilled</td>
</tr>
<tr>
<td>3</td>
<td>Implementation of the annual investment program of RAO ES EAST, PJSC, %</td>
<td>100%</td>
<td>12.4%</td>
<td>Not fulfilled</td>
</tr>
<tr>
<td>4</td>
<td>Integral KPI of innovation activity, %</td>
<td>85%</td>
<td>92.2%</td>
<td>Fulfilled</td>
</tr>
</tbody>
</table>

**Quarterly KPIs**

<table>
<thead>
<tr>
<th>№</th>
<th>KPI</th>
<th>Target</th>
<th>Actual</th>
<th>Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>No excess of the level of the financial debt taking into account factoring by the companies of the Holding of RAO ES EAST, PJSC, %</td>
<td>≤ 100%</td>
<td>96%</td>
<td>Fulfilled</td>
</tr>
<tr>
<td>5</td>
<td>Implementation by subordinated Subsidiaries and managed companies transferred under Trust Deed of December 23, 2013, No. OG-175-169-2013, annual KPIs established for them and bonus conditions, %</td>
<td>100%</td>
<td>75%</td>
<td>Fulfilled</td>
</tr>
<tr>
<td>6</td>
<td>Implementation of the investment program of RAO ES EAST, PJSC, %</td>
<td>100%</td>
<td>58.5%</td>
<td>Not fulfilled</td>
</tr>
</tbody>
</table>

### THE KEY PERFORMANCE INDICATOR (KPI) SYSTEM OF PJSC RUSHYDRO FOR 2017

In 2016, based on the recommendations of an independent consultant, the key performance indicators for the long-term motivation first cycle program of JSC RusHydro’s for 2017-2019 were developed, as well as the list and target values of the annual key performance indicators of the members of the Management Board of PJSC RusHydro for 2017, allowing to motivate the Company’s management to implement strategic tasks, and thereby unite the interests of management and shareholders of the Company (Minutes of the Board of Directors No. 245 of December 26, 2016).

The Key performance indicators of PJSC RusHydro were developed taking into account item 4 of the list of instructions of the President of the Russian Federation of July 5, 2013, No. Pr-1474, of the Government of the Russian Federation of March 27, 2014, No. ISH-P13-2843 and directives of the methodology of the payment system for the members of the Management Board were approved by the Board of Directors of the Company (Minutes No. 261 of September 23, 2016).

The KPI of innovation activity, %

According to the guidelines, the indicator is considered fulfilled if its actual value for the reporting period is greater than or equal to 75%.

1. Independent consultant recommendations (Ernst & Young (CIS) BV) on the methodology of the payment system for the members of the Management Board were approved by the Board of Directors of the Company (Minutes No. 261 of September 23, 2016).

### The KPI Long-Term Incentive Program of PJSC RusHydro The first cycle for 2017-2019.

<table>
<thead>
<tr>
<th>№</th>
<th>KPI of program</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total shareholders return (TSR), %</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>Integral innovative KPI, %</td>
<td>85</td>
</tr>
<tr>
<td>3</td>
<td>Free cash flow (FCF), million rub</td>
<td></td>
</tr>
</tbody>
</table>

### The list and target values of the annual key performance indicators of the members of the Management Board for 2017

<table>
<thead>
<tr>
<th>№</th>
<th>Annual KPI</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Return on equity (ROE), %</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Income before interest, taxes and depreciation (EBITDA), million rub</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Proportion of purchases from small and medium-sized enterprises, %</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>- Including, by results of purchases only among subjects of SMEs</td>
<td>10</td>
</tr>
<tr>
<td>4</td>
<td>Labor productivity, thousand rubles / person-hours</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Reducing operating costs (costs), %</td>
<td>2</td>
</tr>
<tr>
<td>6</td>
<td>Non-acceptability of more than the maximum number of accidents (pcs)</td>
<td>≤ average for 5 years 0</td>
</tr>
<tr>
<td></td>
<td>- Number of accidents at work, pcs. (N-reporting year)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Number of major accidents, pcs.</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Implementation of capacity schedules and financing and development plans, %</td>
<td>85</td>
</tr>
</tbody>
</table>
2.2. RISK MANAGEMENT

2016 events

- A methodology for evaluating the maturity level of the corporate system of internal control and risk management of PJSC RusHydro (hereinafter CSIC and RM) is developed and approved.
- The audit environment of PJSC RusHydro was assessed using a model formed in accordance with the CSIC RM maturity assessment methodology and taking into account the audit result of the business processes of PJSC RusHydro conducted in 2015 and 2016.
- The Register of strategic risks and strategic risk management plan of PJSC RusHydro for 2016-2017 is updated.
- Scenarios and key indicators of the probable implementation of strategic risks of the RusHydro Group are developed.
- In PJSC RusHydro key subsidiaries (design and research institutes, construction organizers and contractors, repair and service companies, marketing companies), risk management plans for 2016-2017 have been approved.

For more details on risk management, see the Company's website.

The activity of PJSC RusHydro is associated with some risks which, under certain circumstances, may have negative influence on the production and financial results of the RusHydro, as well as the social and natural environment of the Company. The Company has developed a risk management system in order to minimize the negative influence of possible risks and implementation of favourable opportunities. The system is developed in order to ensure the execution of the Company’s strategy.

For risk management processes structuring, the Risk Control and Risk Management Department (hereinafter – CDandRM) was established within the Internal Control and Risk Management Unit.

CDandRM in its activity framework does the following key tasks:
- organization of an effective CSIC and RM,
- ensuring effective operational control in the RusHydro Group,
- interaction with external control bodies.
INDEPENDENT EVALUATION OF THE RISK MANAGEMENT SYSTEM

The external evaluation of the CSICandRM effectiveness is carried out regularly during the audit of the performance of the Long-Term Development Program of the RusHydro Group, external audit of financial statements, survey of RusHydro’s facilities, compulsory due diligence as part of Mergers & Acquisitions risk assessment, and Conducting complex assessments of the effectiveness of the internal control system and risk management of the Company by invited independent experts.

The quality of the risk management system of PJSC RusHydro is regularly confirmed by an independent jury of international competitions (RusHydro’s victory in risk management in the contest «Best Risk Management-2015» in the category «Production Organizations», wins in the categories «The Best Integrated Risk Management Program», «The Best Risk Manager of Russia», conducted by the Russian Risk Management Society RusRisk – the Russian National Association of Risk Managers, member of the Federation of European Risk Management Associations FERMA, etc.).

For more information about the risk management policy, see the [Company’s website](#).

RISK MANAGEMENT METHODS AND APPROACH

The list of methods and approaches to risk management is defined by the Internal Control and Risk Management Policy (approved by the Board of Directors of PJSC RusHydro, Minutes No. 227 of 16.11.2015). The Company uses the following set of methods and approaches to risk management:

- risk management is an integral part of all organizational processes; risk management is not separate from the main activities and processes of the organization;
- risk management is part of the decision-making process. Risk management helps decision-makers make informed choices, prioritize actions and identify the most effective actions among alternative options;
- risk management contributes to the continuous improvement of the organization. To increase the level of maturity of risk management, the Company develops and improves the CSICandRM;
- the company seeks to create a risk-oriented corporate culture;
- the top management of the Company ensures the priority of risk management, dissemination of risk management knowledge and skills in the Company and the RusHydro Group, facilitates training in the basics of risk management and the adoption of a corporate culture of «risk management»;
- training of the Company’s employees is carried out on an ongoing basis to transfer knowledge and experience to new employees, monitor trends in global risk management practices, update the knowledge of employees and managers of all structural units in the field of risk management;
- the Company’s management ensures the possibility of effective information exchange and the introduction of communicative norms within the framework of corporate risk management.

According to the PJSC RusHydro strategic management provision, the Company compiles the Register of strategic risks on an annual basis. This document is subject to approval by the Board of Directors. The Board approves the plan of strategic risk management for dealing with the critical and significant risks. The plan stipulates the terms of actions, persons responsible for them, and their expected results. The efficiency of the execution of risk management actions and the KPIs is taken into consideration in the distribution of bonuses to employees. The monitoring and control of the plan’s execution is carried out by the risk managers of the Company.

The risk managers interact with the members of the Audit Committee of the Board of Directors for the purpose of controlling the functioning of the risk management system of PJSC RusHydro, which corresponds to the guidelines on the audit of the Boards of Directors of companies with the involvement of the Russian government (stipulated by decree no. 86 of the RF Federal Property Management Agency of 20.03.2014)

According to the Company’s Corporate Governance Code, the Board of Directors (Audit Committee) carries out an analysis and assessment of the risk management and internal control system performance at least once a year. The results of this analysis and assessment are reviewed at a meeting of the Board of Directors (Audit Committee).

In 2016, the Audit Committee conducted an evaluation of the risk management system, which includes:

- assessment of sufficiency and maturity of elements of the risk management system,
- analysis of completeness of detection and correctness of risk assessment,
- analysis of the effectiveness of the Company’s risk management activities,
- analysis of information about the realized risks.

In June 2017, the Board of Directors will review the report on the functioning of the corporate internal control and risk management system.

For more details on the stages and methods of risk management go to the [Company’s website](#).

Stages of strategic risk management

1. Strategic risks register approval and an action plan for managing strategic risks for critical and material risks
2. Implementation of activities for managing strategic risks
3. Report on the actual implementation of the strategic risk management plan

<table>
<thead>
<tr>
<th>Stages</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Strategic risks register approval and an action plan for managing strategic risks for critical and material risks</td>
</tr>
<tr>
<td>2</td>
<td>Implementation of activities for managing strategic risks</td>
</tr>
<tr>
<td>3</td>
<td>Report on the actual implementation of the strategic risk management plan</td>
</tr>
</tbody>
</table>
Hydraulic tests of waste heat recovery boilers of Yakutsk TPP-2 were carried out.
Companies currently focus on the improvement of the CSIC and RM system in the following areas of activity:

- carrying out regular assessments of the effectiveness of risk management measures, automating management procedures to collect information on risks, activities and risk indicators for the Group;
- regulation of risk management processes in the Group’s Subsidiaries based on approaches implemented in PJSC RusHydro;
- integration of risk management systems into planning and decision-making processes in the Group’s companies;
- development of an end-to-end system for collecting reports on the risk management of Group’s companies and aggregating information on risk management at the parent company level using the automated risk management system of PJSC RusHydro;

In 2016, in order to improve the risk management system, the following key actions were implemented:

**Corporate level**

- The Strategic Risk Management Plan is updated and approved by the Management Board of PJSC RusHydro for 2016 – 2017.
- Based on the scenario approach, a system of indicators for the implementation of strategic risks of PJSC RusHydro and the RusHydro Group was developed and approved as part of the approval of the Strategic Risk Management Plan for 2016-2017.
- The methodology for assessing the CSIC and RM maturity level of PJSC RusHydro, its branches and subsidiaries was developed and approved (CSIC and RM assessment of the maturity includes: assessment of the compliance of CSIC and RM with regulatory requirements and evaluation of the effectiveness of risk management).
- Branches and Subsidiaries are assessed and prioritized according to the level of risk and the status of implementation of risk management procedures in order to form a risk-oriented internal audit plan for PJSC RusHydro for 2017–2018.
- In the key subsidiaries of PJSC RusHydro (design and research institutes, construction organizers and contractors, repair and service companies, retail companies), risk management plans for 2016–2017 have been approved.
- As part of the risk management activities of the RAO ES EAST Holding, the measures envisaged by the Strategic Management Plan for the Holding Company RAO ES EAST for 2015–2016, developed for the strategic risks of RAO ES EAST, PJSC, as well as strategic risks Subsidiaries of RAO ES EAST, PJSC: JSC «FEDG», JSC «FEED», PJSC «FEEC» and PJSC «Yakutskenergo».

**Operational risks**

- The directive on the process of the formation of production programs
- The recommendations of the Analysis Centre (as a part of the annual report of the Analysis Centre)
- The directive on the system of retrofitting and upgrading project management
- Methodical Recommendations for the efficiency evaluation of the TP & R projects of generating branches and subsidiaries of PJSC RusHydro branches and subsidiaries (methodological recommendations take into account the risks of production disruptions and environmental risks)
- The set of standards concerning the production activity of the Company in terms of the management of the risks of certain stages of production asset lifecycle.

**Investment risks**

- The directive on the management of investments in the form of capital investments
- Methodological guidelines on risk assessment on the RORAC basis
- Quarterly reports on project risk management filed by investment subjects to the Board of Directors
- The standard list of risks connected with the execution of investment projects as a part of the Directive on the management of investments in the form of capital investments
- Risk registers, risk management action plans, and monthly reports on the execution of the plan of risk management events.

**Market (sales) risks**

- The Directive on the policy of PJSC RusHydro in the field of the sales of active power generation units within the pricing areas of the wholesale power joint market
- Methodological guidelines of the identification of the minimal (maximum) electrical energy indices for the wholesale power joint market
- Methodological guidelines for the assessment of the internal ratings of the contractors of the Company operating in the wholesale power joint market based on the criteria of Moody’s with a limitation of the credit rating of the contract portfolio.

**MSA risks**

- The directive on the planning, pre-approval, support, and the execution of strategically important other significant transactions.
- Registers and risk management plans concerning the considered strategically important transactions as parts of the certificates of strategically important transactions.
The implementation of the system of scenarios/indicators of realization of strategic risks of PJSC RusHydro and RusHydro Group will allow to:

- provide a factor analysis of risks of not achieving strategic goals (strategic risks) and establish a relationship "goals (KPIs) – risks" through objective scenarios of risk realization;
- monitor trends in risk management;
- make timely and reasonable decisions about exclusion of irrelevant risks from the vision of management for the next planning period, or about need of development of corrective measures to strengthen control under realized risks, if a negative trend of risk indicators shows insufficient efficiency of existing control procedures and risk response measures;
- analyze statuses of risks based on values of the indicators and exclude ineffective measures from the plan of governance of strategic risks, replacing them with more specific and relevant control procedures;
- conduct a risk-based internal audit based on assessments of values of the risk indicators and allocation of "weak points" of the business processes of PJSC RusHydro and RusHydro Group.

**Business and operational level:**

- The adequacy and effectiveness of control procedures (testing of the design of control procedures) of business processes «Materials and technical equipment (ME) Procurement and Services Management», «Management of sales of electricity and capacity» and «Management of Research work and Research and Development work» were assessed as sufficient and effective.
- Operational effectiveness evaluation (assessment of implementation and actual execution) of the audit procedures for the business process «Materials and equipment (ME) Procurement and Services Management» was conducted.
- Within the framework of self-assessment of the internal control system of PJSC RusHydro, an assessment of the control environment of PJSC RusHydro was made using a model formed in accordance with the methodology for the CSICandRM = maturity assessment and with due regard to the audit result of the business operations of PJSC RusHydro, held in 2015 and 2016.
- Within the framework of coordination and methodological support for the implementation of the internal control system management process in PJSC RusHydro:
  - administrators of the internal control and risk management system were appointed for key business processes of PJSC RusHydro,
  - matrices of control procedures for key business processes of PJSC RusHydro are formed,
  - Corporate training on the topic «Construction and management of the internal control system in PJSC RusHydro» was organized.

For more information on improving the risk management system, see the [Company’s website](#).
2.2.2. RUSHYDRO GROUP RISK REGISTER

RISKS CAUSED BY ACTIVITY OF THE COMPANY

The current register of strategic risks associated with the Company’s operations was formed on the basis of the register of the previous period and analysis of external information and approved by the Company’s Board in November 2016.

For more details on the formation of the risk register go to the Company’s website.

The strategic risk register, taking into account their ranking according to the likelihood of implementation and impact on the Company’s and Group’s business, is presented at the Risk Radar. The Radar reflects the Company’s risk profile in 2016-2017. The risk ranking presented in the Radar reflects the priorities of the management to ensure the Company’s readiness for possible negative scenarios for the development of the overall risk environment.

PJSC RusHydro Risk Radar for 2016-2017

- Inefficient integration of companies acquired via M&A
- Inability to enter international markets
- Lack of key personnel in all areas of the Company
- Growth in accounts receivable for the delivery of electricity and power
- The risk of incorrect water content and output forecasting
- The risk of the low efficiency of innovation activity
- The risk of misconduct or legislation violation of employees
- Damage caused by natural disasters and man-made accidents outside the Company’s facilities
- The risk of cooperation with stakeholders
- The risk of delays and errors in management system improvement
- Capital construction project risks
- The risk of the reduction of electric power and capacity sales income compared to the business plan
- The risk of man-made accidents
- The risk of fund shortage including the shortage of external funds for planned investments
- The risk of the shortage of resources for the implementation of working programmes
- The risk of failure to achieve target values by engineering companies
- The risk of failure to achieve target values by retail companies
- Terrorism risk

SIGNIFICANT RISKS

LESS PRIORITY RISKS
### PJSC RusHydro strategic risks register

<table>
<thead>
<tr>
<th>Risk name</th>
<th>Risk factors</th>
<th>Status</th>
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</thead>
<tbody>
<tr>
<td><strong>Capital construction project risks</strong></td>
<td>The risk is related to a wide range of investment programs for the next few years, and the complex management and financing structure of a range of products. Risk factors: At the initiation and design stage: • great uncertainty in the projects’ feasibility studies, • non-compliance of the quality of design documents with the requirements set, • considerable dependence of the projects’ economic parameters on the external factors (the availability of grid infrastructure and markets by the date of commissioning of the facility constructed). • At the implementation stage: • problems with the preparation of flood zones, • increase of the cost of equipment and materials during the construction, • supply chain interruptions due to various reasons. Other: • interaction with shareholders of JSC RusHydro.</td>
<td>The arrangement of data on the designed projects: • development of the corporate project management system aimed at arranging data on the existing and designed projects. The development of the internal expert review of design and detailed design documents: • improvement of the efficiency of design institutes, optimization of purchasing activities intended to reinforce the role of the Company’s own design institutes in performing the internal assessment of design and tender documents; • regulation of the internal expert assessment of design documents.</td>
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</table>
### Critical Risks

<table>
<thead>
<tr>
<th>Risk name</th>
<th>Risk factors</th>
<th>Status</th>
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</thead>
<tbody>
<tr>
<td><strong>The risk of man-made accidents</strong></td>
<td>The risk is mitigated within the red zone due to the implementation of the</td>
<td>• Repair work in full and the implementation of the re-equipment and reconstruction programme;</td>
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<td>comprehensive modernization programme and the respective equipment reliability</td>
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<td></td>
<td>and safety growth. However, taking into consideration the potential consequences</td>
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<td>of risk occurrence, which may threat human life and health and lead to the</td>
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<td>disruption of production and further reduction of the Company’s revenue, the</td>
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<td>risk remains in the focus of attention of the managers of the Group. The</td>
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<td>negative effect on the risk probability of severance of managerial ties is</td>
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<td>possible in case of Company privatisation and/or restructuring of the</td>
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<td>management system by cash-generating units and projects under construction.</td>
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<td></td>
<td>Here the risk factors result from design faults manifesting at the</td>
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<td>operation stage, equipment deterioration, t violation of operating conditions,</td>
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<td></td>
<td>untimely repairs, re-equipment and reconstruction, low-quality repair,</td>
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<td></td>
<td>low-quality of construction and installation works connected with re-</td>
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<td></td>
<td>equipment and reconstruction, human factor and environmental factors. The</td>
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<td></td>
<td>above risk factors may lead to the breakdown of major equipment and</td>
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<td></td>
<td>deterioration of hydrotechnic structures. As estimated by the Company, the</td>
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<td></td>
<td>probability of the breakdown of equipment and structures remains with the</td>
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<td></td>
<td>industry-average level. All main production facilities of PJSC RusHydro are</td>
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<td></td>
<td>insured.</td>
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<tr>
<td><strong>The risk of fund shortage including the shortage of</strong></td>
<td>Against ongoing stagflation and international sanctions the risk may be</td>
<td>• Maintenance of the availability of money and financial resources in in sufficient amounts by ensuring adequate loan facilities;</td>
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<tr>
<td><strong>external funds for planned investments</strong></td>
<td>slightly mitigated due to the reconsideration of investment priorities. At</td>
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<td>that, given that international sanctions continue, the risk of the</td>
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<tr>
<td></td>
<td>unavailability of borrowed funds on terms favourable for the Company is</td>
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<td></td>
<td>growing due to the existing covenants set forth in the Group’s loan</td>
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<td>agreements. Most of the affecting risk factors are represented by the</td>
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<td></td>
<td>country and external factors of the Group. The risk of external fund</td>
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<td></td>
<td>shortage is critical for the Company. It is closely bound with the</td>
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<td></td>
<td>implementation of capital construction projects. The full or partial</td>
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<td></td>
<td>reduction of financing sources within the framework of the investment</td>
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<td></td>
<td>programme may cause the late completion of ongoing projects or the</td>
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<td></td>
<td>Company’s being forced to suspend construction or even suspend the</td>
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<td>construction of a number of facilities. Taking into account high cost of</td>
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<td></td>
<td>preservation of facilities under construction, which in some cases is</td>
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<td>comparable with the cost of proceeding with the construction, this fact</td>
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<td></td>
<td>will affect the economic efficiency of the Company’s investment projects, as</td>
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<td></td>
<td>well as its financial and performance results.</td>
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</tbody>
</table>
### Significant Risks

<table>
<thead>
<tr>
<th>Risk name</th>
<th>Risk factors</th>
<th>Status</th>
</tr>
</thead>
</table>
| The risk of the shortage of resources for the implementation of working programs | This risk correlates with the risk of a shortage of funds for investment. There are possible disruptions of competitions, equipment supplies, rendering of services by foreign counteragents, reviews of bank guarantees issued by foreign banks. | - Prompt performance of claims work in response to low quality of repairs, inadequate quality of equipment, violation of delivery time;  
- using the recommendations of the Analytical Center when making production programs;  
- monitoring of financial information about the suppliers and contractors to prevent the risk of the counterparty’s bankruptcy;  
- refinement of the process of contract negotiation, amending local regulations of the Company on contractual activity;  
- monitoring of technical re-equipment and reconstruction projects implementation in accordance with the standards of the organization. |
| The risk of failure to achieve target values by engineering companies      | In the crisis, the key development opportunity is quality growth and cost reduction at all stages of the life cycle of the Group’s assets, largely due to reduced risks of engineering activities. At the same time, it is possible to restrict access of engineering companies to credit facilities in the event of long-term international sanctions and difficulties in obtaining funds in freely convertible currency. The company considers this risk to be significant because of the significant importance of the engineering business within the life cycle of production assets. | - Development of a unified design complex of PJSC Rushydro by restructuring the engineering subsidiaries and affiliates;  
- implementation of the development programs for engineering subsidiaries;  
- introduction of international experience sharing programs to repair and engineering subsidiaries and affiliates;  
- personnel development and scientific personnel training programs;  
- development of standard bills of work for repair of equipment and hydrotechnic structures;  
- creation and operation of the database of advanced innovations;  
- minimization of the risks of the inefficient management of non-core operations by their consolidation at specialised maintenance subsidiaries. |
| Terrorism risk                                                            | This risk is caused by general political and social tensions, the activity of armed groups in the North Caucasus and their attempts to expand their activities to other regions of the Russian Federation, the high probability of local and regional armed conflicts in areas bordering the Russian Federation, the growing threat of international terrorism and political instability in a number of developing countries caused by the economic crisis, as well as the activity of extremist organisations, and growing commercial terrorism. Lack of coordination with international antiterrorist services in the event of tougher international sanctions. The upcoming events (World Cup in 2018, etc.), a large proportion of foreign-made ASIS. Another risk factor is the growth of cyberterrorism threats (according to the Kaspersky Lab’s research, Russia belongs to the leaders in the rating of susceptibility to cyber threats). | - Provision of armed security of facilities by forces of the private guard of Rosgvardia, FSUE «Okrana» of Rosgvardia and FSUE «Departmental security» of the Ministry of Energy of the Russian Federation;  
- development and maintenance of up-to-date plans for interaction with law enforcement agencies to protect the Company’s facilities when committed or threatened to commit a terrorism act;  
- maintenance of security pass regime for the Company’s facilities;  
- application of measures to identify, prevent and suppress acts of unlawful interference in the activities of the Company’s facilities jointly with law enforcement agencies;  
- assessments of the most likely threats and develop plans for mitigation, together with the territorial bodies of EMERCOM of Russia in the constituent entities of the Russian Federation at the location of the Company’s facilities;  
- equipment of the facilities of the Company with engineering and technical means of protection;  
- organization and control over the access to information on the composition and condition of engineering and technical means of protection;  
- property insurance of the Company for the risk of «Terrorism and Diversion»;  
- increased number of equipment certified by FSTEC of Russia, and equipment of domestic production.  
- audits of information and technical security;  
- organization and control over the mode of access to software and hardware of control systems and information systems. |
| The risk of failure to achieve target values by retail companies            | The risk declines, still remaining significant for the Company. The risk may depend on slumping demand for electric power and capacity due to decline in production, intense competition with independent power supply companies and the development of energy-saving technologies, as well as consumers’ financial insolvency caused by stagflation and the development of energy-saving technologies. The risk factors include a high level of competition, a threat of losing the last resort supplier status in retail regions and the possibility for construction of alternative electric supply facilities by large consumers. | - Monitoring of the Company’s compliance as a guaranteeing supplier with financial stability criteria in accordance with retail market rules;  
- active cooperation with consumers to establish a mutually beneficial relationship, including through JSC ESK RusHydro. A program to retain customers has been approved;  
- introduction of a corporate risk management system for PJSC Rushydro in its subsidiary sales companies; |

**Abbreviations**

- ASIS: Access Systems and Security Information Systems
- FSUE: Federal State Unitary Enterprise
- EMERCOM: Emergency Situations Committee of Russia
- FSTEC: Federal Service for Technical and Export Control
- PJSC: Public Joint-Stock Company
- RSUE: Russian State Unitary Enterprise
- Rosgvardia: Federal Guard Service of the Russian Federation

**Glossary**

- **Terrorism and Diversion**: The risk of terrorism and diversion activities, which may include acts of sabotage, kidnapping, illegal exports, and other criminal activities.
- **Security Pass**: A document granting access to restricted areas or facilities, often with a unique set of permissions and restrictions.
- **Information and Technical Security**: Measures and procedures aimed at protecting information, systems, and networks from unauthorized access, modification, or destruction.
### Significan Risks

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<thead>
<tr>
<th>Risk name</th>
<th>Risk factors</th>
<th>Status</th>
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</thead>
<tbody>
<tr>
<td>The risk of delays and errors in management system improvement</td>
<td>• Changing structure of the Holding Company; • conflict of interests between shareholders and the Company’s management, conflicts of interest between employees; • delayed approvals by the stakeholders of the Company; • imperfection of the Company’s business processes; • slow rate of making approvals and management decision-making; • rejection of documents on formal grounds/artificial delays in business processes.</td>
<td>Investigated</td>
</tr>
<tr>
<td>The risk of cooperation with stakeholders</td>
<td>• Incorrect interpretation of information by representatives of the target audience, including environmental (ecological) organizations, which can damage the Company’s reputation and/or cause its shares to fall; • dissemination of false and black information about the Company in the media and social networks, including projects; • delayed response to the information in the media.</td>
<td>Investigated</td>
</tr>
<tr>
<td>The risk of damage caused by natural disasters and man-made accidents outside the Company’s facilities</td>
<td>Risk aggravation is connected with the uncertainty of consequences and difficulties in forecasting such risks. This is one of the most significant risks for fuel and energy companies, according to insurance companies. Protection procedures are being improved, but there may be the risk of force-majeure events including incidents similar to the flood of 2013. There is the probability of systemic accidents and damages caused by natural disasters.</td>
<td>Investigated</td>
</tr>
<tr>
<td>The risk of the misconduct or legislation violation of employees</td>
<td>This is the growing risk; such incidents are possible due to the conflict of interests in case of restructuring (including privatisation), though the efficiency of risk management is constantly improving. The growing probability of such risks is detected all over the world, according to the findings of international consulting companies.</td>
<td>Investigated</td>
</tr>
<tr>
<td>The risk of the low efficiency of innovation activity</td>
<td>The risk growth against stagflation and the toughening of international sanctions is caused by the adoption of new requirements for the elaboration and implementation of innovation development programs by regulatory authorities, the growing gap between the currently used technologies and the best international practices, as well as the lack of financing for design and survey work due to the risk of fund shortage. However, there arise new opportunities for innovation development, which may increase competitiveness in case of decline in the exchange rate of the Russian national currency.</td>
<td>Investigated</td>
</tr>
<tr>
<td></td>
<td>• Improved activity regulation and the business process management system; • refinement of the procurement schedule; • improved cooperation with stakeholders. • The internal control department of PJSC RusHydro analyses key business processes in order to improve the Company’s control system and enhance its process efficiency. Civil responsibility of the Company’s officers to any third parties is insured. PJSC RusHydro introduces corporate governance standards in reacquired or established subsidiaries and affiliates, as well as the systems of corporate project management, staff grading (grading means the establishment of a job hierarchy based on the job evaluation, strategy, and corporate culture of the Company), manager certification and implementation of individual personnel development plans.</td>
<td>Investigated</td>
</tr>
<tr>
<td></td>
<td>• Modernization in accordance with modern requirements of the centralized system emergency control system; • research and development of methods for remote monitoring of the state of facilities and operating modes of HPPs; • compliance with the RF legislation in the field of industrial safety and the use of a production control system operating on its basis; • property insurance of the Company.</td>
<td>Investigated</td>
</tr>
<tr>
<td></td>
<td>• Introduction of the integrated automated control system for the purposes of the distribution of information containing commercial secret; • monitoring of the observance of the Regulation on Insider Information by the employees. • restriction of the right of access to the insider information for the Company’s employees; • organization of mandatory notification by insiders about transactions they enter into with the Company’s securities.</td>
<td>Investigated</td>
</tr>
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<td></td>
<td>• Alteration/elaboration of work methods and infrastructure in order to ensure the implementation of the innovation programme; • update of the innovative development programme; • regular benchmarking of currently used technologies.</td>
<td>Investigated</td>
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### Strategic Review

#### Significant Risks

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<thead>
<tr>
<th>Risk name</th>
<th>Risk factors</th>
<th>Status</th>
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<tbody>
<tr>
<td>The risk of incorrect water-content and output forecasting</td>
<td>• The risk is mitigated, since it is largely the factor of the risks described above, and its occurrence does not directly lead to damages, but may contribute to the possibility of the risks listed above. This risk includes the failure to accurately forecast power output in the medium- and long-term perspectives.</td>
<td>Refinement of the water resource usage of RusHydro's Energy Saving Program; development of an industry hydro-meteorological observation system and protecting the interests of the HPPs in inter-agency operational groups under the Federal Agency for Water Resources (Rosvodresurs); integration of the medium-term water-content forecasting model executed by the Dispatching Centre Information System and the Commercial Dispatching Information System.</td>
</tr>
<tr>
<td>The risk of growth of accounts receivable for the supply of power and capacity</td>
<td>• Decreased solvency of counterparties in unfavorable macroeconomic environment,</td>
<td>Arrangements for management of accounts receivable of the Company and marketing subsidiaries, including initiation of claims and lawsuits, settlements outside the authorized credit institution on the Wholesale Electricity and Capacity Market (WECM) in accordance with the terms of Contract of connection to the WECM trade system.</td>
</tr>
</tbody>
</table>
Sakhalinskaya TPP-2 main building Frame was built
2.2.3. EXTERNAL ENVIRONMENT AND COMPANY’S RISKS

COUNTRY RISKS

- The Russian economy is not protected against market decline and global economic recessions. The decline in the volume of foreign investment in the Russian economy, as well as the vulnerability of the Russian economy to changes in world energy prices, can lead to a significant restriction of the Company’s access to capital and adversely affect the purchasing power of consumers of products and services.

- Moreover, under the economy stagnation, there is a risk of reduced demand for electricity, which can result in decreased sales and corporate revenues, as well as the risk of growth in accounts receivable due to non-payment by electricity consumers.

- Vulnerability to a country risk with some allowances can be accounted for political risks for the business. According to the international rating agency Standard & Poor’s, the long-term credit rating of the Russian Federation on foreign currency obligations remains at the level of «BB +». At the same time, within the framework of the ongoing reform of the electric power industry, there is constant changes of norms for market liberalization, setting price rates for electricity, functioning of the capacity market and the system of relations between electricity producers and consumers.

FINANCIAL RISKS

The impact of financial risks (risk of growth rates on bank loans, currency risk, inflation risk, liquidity risk) on the Company’s activities is estimated as insignificant.

Financial metrics, liquidity, financing sources and RusHydro’s performance are not very responsive to changes in the exchange rate and interest rates, because the Company sells energy on the domestic market, as well as settles accounts with resource suppliers, and accrues and receives payments from consumers mainly in the national currency — Russian rouble.

Due to the aggravation of the international situation, economic sanctions and other force majeure circumstances, the risks of access to the funds of foreign counterparts is increased well as the debt cost of PJSC RusHydro and the losses due to the growth of the exchange rate of foreign currencies and interest rates. Control over these risks consists in reducing the limits for counterparty banks with a lowered rating, stress testing of possible losses due to the currency appreciation and interest rates in the framework of the methodology of currency and interest risks managing and legal support of the contractual base, approved by JSC RusHydro.

The credit portfolio of PJSC RusHydro mainly consists of the loans with fixed interest rate. Some of the loans of PJSC RusHydro have been taken at variable interest rates of MosPrime and Euribor. In order to minimize interest risk, PJSC RusHydro concluded a swap contract to fix a floating interest rate for the loan of PJSC Sberbank (~ 836 million rubles as of December 31, 2016).

The rate of inflation directly depends on the political and economic situation in the country. The inflation rate is associated with the overall dynamics of interest rates.

The negative impact of inflation on the financial and economic activities of the Company manifests in the growth of the following risks:
- the risk of damages connected with the reduction of the actual value of receivables with a significant deferral of or delay in payment;
- the risk of increasing the value of the Company’s liabilities;
- the risk of increasing the unit cost of goods, products, works, services due to the increase of energy prices, transportation costs, and salaries;
- the risk of the decrease of the actual value of funds raised to finance the investment program;

The significant impact of inflation on the financial performance of PJSC RusHydro is worth mentioning. The increase in inflation may lead to an increase in the costs of PJSC RusHydro and, as a consequence, to a fall in the profit and profitability of the activities of PJSC RusHydro. In addition, the growth of inflation is associated with an increase in the cost of borrowed funds for PJSC RusHydro, which is characterized by a risk of shortage of current assets of the company.

According to Rosstat, annual inflation in the Russian Federation (CPI) in 2016 reached its minimum since 1991 – 5.4 % compared to 12.9 % in 2015. In accordance with the forecast of social and economic development of the Russian Federation for 2017 and for the planned period 2018–2019, published by the Ministry of Economic Development of the Russian Federation, the annual inflation rate in 2017 is estimated to be no higher than 4.5 % for all variants of the forecast.

In case of inflation growth, PJSC RusHydro plans to increase the turnover of current assets due to changes in contractual relations with consumers.

INDUSTRY RISKS

The Company is specifically exposed to industry risks due to possible changes in the electric power industry.

On the one hand, one should note the decrease in the uncertainty of the work of PJSC RusHydro in the wholesale capacity market associated with the transition in 2015 to a long-term competitive power take–off model, which stipulated in the Wholesale Electricity and Capacity Market Rules (approved by RF Government Decree No. 1172 of 27.12.2010). Based on the results of competitive capacity sampling conducted before 2017, prices for capacity for the period up to 2020 (inclusive) were determined. An increase in the price forecast for future periods reduces the level of industry risk.

At the same time, within the framework of the ongoing reform of the electric power industry, there is constant changes of norms of regulating the Russian electricity market, including norms for market liberalization, setting price rates for electricity, functioning of the capacity market and the system of relations between electricity producers and consumers.

Within the framework of industry risks management the necessary measures have been taken to create a favorable for PJSC RusHydro Legal framework for the functioning of the electricity and capacity market. To fulfill this task, PJSC RusHydro participates as an expert in the development of legal acts in the field of electric power industry at the sites of the Ministry of Energy of the Russian Federation, the Association NP Market Council and the Federal Antimonopoly Service.
In addition to the existing risks inherent in the Russian electricity and capacity market, a large number of operational, commercial, technical, managerial, regulatory and other risks can arise which are currently difficult or impossible to foresee and which are beyond the control of JSC RusHydro. These changes and the uncertainty associated with them can have a significant adverse impact on the economic activities of PJSC RusHydro, its revenues and the results of its operations.

The energy retail companies of the RusHydro Group are at risk of increasing competition when working in the retail market due to the intensification of the work of energy retail companies seeking to attract large consumers to their services. To manage this risk, energy retail companies of the RusHydro Group are directed to work with the client base. The measures to neutralize the risk associated with the loss of consumers include:

- building of individual relations with large consumers;
- promotion of the energy retail companies of the RusHydro Group in the main consumer markets;
- establishment of new relationships between the energy retail companies of the RusHydro Group and the subscribers: improving the quality of service, taking into account the needs and expectations of consumers, strict observance of obligations;
- keeping the status energy retail companies of the RusHydro Group as a guaranteeing supplier to concentrate the customer base and reduce unit costs per unit of energy.

2.2.4. INFORMATION ABOUT POSSIBLE CIRCUMSTANCES THAT OBJECTIVELY HAMPER THE COMPANY’S ACTIVITY

Risks associated with the region’s geographical features include the risk of losses (for example, the risk related to the decommissioning of fixed assets) due to seismic activity, avalanches and mudslides, possible landslides and rainfall related floods and other adverse weather conditions (hurricanes, heavy snowfalls and frosts).

Most of the regions the Company operates in have a developed transportation infrastructure and are not exposed to the risks associated with the disruption of the transportation link. However, some generating assets are located in remote areas with harsh climates, including in the Krasnoyarsk Region and in the areas of the Far Eastern Federal District. The Company is constantly working to upgrade the technologies of access and work in harsh climatic conditions in these areas. However, one cannot guarantee that no additional costs will be required to overcome technical difficulties associated with the climate and the accessibility of these locations, which may negatively impact overall revenues, financial conditions, and the Company’s performance and prospects. Thus, these risks are estimated as insignificant within the foreseeable future.

TERRORIST ACTS

With a view to the tense political and social situation, the revitalisation of armed groups in the North Caucasus and attempts to move their activities on other Russian Federation regions, the high probability of local and regional armed conflicts in the Russia bordering territories, the increasing threat of international terrorism and political instability in a number of developing countries caused by the economic crisis, the activity of extremist organisations, and developing commercial terrorism, PJSC RusHydro is concerned about possible risks associated with terrorist attacks, in particular at its North-Caucasian facilities. Security is maintained constantly to reduce such risks. The comprehensive program aimed at ensuring safety and protection of the PJSC RusHydro facilities from terrorism is being implemented. The regular inspections of the antiterrorist security of the Company’s facilities and personnel training, in particular by anti-terrorism drills and trainings, are being carried out.

The plan for strengthening the security of the Company’s facilities is being implemented. The plan amends the existing security program applied to the power plants including sites under construction. The factors affecting the security of facilities are being monitored. Information security audit is being conducted. The armed security of facilities is being provided by units of private security of Rosgvardia, FSUE «Okhrana» of Rosgvardia and FSTEC Departmental Security Service of the Russian Federation Energy Ministry. Plans for cooperation with law enforcement authorities are being developed to ensure the protection of facilities in case of a terrorist attack or the threat thereof. Access and internal security control has been introduced within the Company’s facilities. Unlawful interference acts in the Company’s facilities activities prevention work is being carried out in cooperation with law enforcement agencies. The most relevant threats are being evaluated and consequence management plans are being elaborated in cooperation with the local EMERCOM of the Russian Federation regions (at generating facilities). The main equipment of the company is insured, in particular against terror attacks.

At the same time, international experts do not currently attribute the risk of terrorist attacks to the key risks of the Russian business community — according to the global risks report of the annual Global Economic Forum in Davos (Global risks 2017), the risk of terrorist attacks was ranked 17th in the ranking on the significance of risks to the Business in the Russian Federation.

EARTHQUAKE-PRONE AREAS

Most of the Company’s facilities are located in seismically quiet regions. However, such facilities as the Pauzhetskaya GeoPP and the Verkhne-Mutnovskaya GeoPP are located in seismic zones, with possible earthquake intensity up to 9 points on the Richter scale. The Company is currently working to create the seismological network of the Dagestan Branch. In 2014, B.E. Vedeneev VNIG performed seismic monitoring of the Bureyskaya HPP facilities. The Company has developed an emergency plan in case of earthquakes and is constantly monitoring the situation. There are seismic monitoring stations at the Company’s facilities. Issues relating to the transportation link are refined in good time with a focus on the above-mentioned risk. Cargo and people transportation schemes are optimized. All corporate facilities comply with earthquake resistance standards.

SEASONAL FLOOD AREAS

The risk of seasonal floods plays an important role in corporate activities and is regularly included in the list of critical risks. To manage this risk, the Company has implemented a water regime management, i.e.: forecasting and monitoring hydrological regimes within the facilities, reservoir regulation, spillway construction and operation and other measures.

The Company has also established flood commissions in order to prepare for the spring-summer flood discharge at the Company’s branches. They implement numerous measures aimed at ensuring a trouble-free flood season. In particular, they were making a survey of ice conditions in the area of the dam location, inspecting permanent supports to make sure they are ready for work, to conduct readiness checks of back-up power supply units, releasing the gates of the service spillway from icing and ice fringe so that they could be maneuvered, and to perform inspections of hydropower structures, the drainage system of the dam, the power house and the installation site, visual inspection of the dam body abutment to the shores from the upper pool and lower pool.
Company’s facilities operate in accordance with the instructions of the interdepartmental working group of the Federal Water Resources Agency. The control of production assets was strengthened. No accidents at the Company’s facilities have been recorded in 2016.

2.2.5. INSURANCE PROTECTION

For more details on the insurance protection go to the Company’s website.

RusHydro’s insurance protection is built based on the normalization principles of the insurance protection system, the optimization of insurance coverage, the unity of approaches to insurance organization, and insurance continuity.

INSURANCE COMPANY SELECTION

The Company annually seeks for an insurer to enter into an insurance on the basis of regulated procurement procedures. To ensure insurance coverage, PJSC RusHydro conducted an open one-stage tender without preliminary qualifying selection for the right to conclude insurance contracts in 2016. Requirements for insurance coverage are formed on the basis of an analysis of the current risk situation of the Company, analysis of the insurance market’s options, social policy and legal requirements.

TYPES OF INSURANCE COVERAGE

In 2016, the insurance coverage of PJSC RusHydro and its subsidiaries was provided for the following types of insurance:

- Property insurance
- Insurance of construction and erection risks
- Insurance of civil liability for causing damage due to deficiencies in work that affect the safety of capital construction facilities
- Voluntary health insurance
- Insurance against accidents and diseases
- Obligatory insurance of a civil liability of the owner of a dangerous object for causing harm as a result of an accident at a hazardous facility
- Insurance of civil liability of the organization for damage caused as a result of terrorism act or diversion
- Obligatory insurance of civil liability of owners of vehicles
- Voluntary insurance of civil liability of owners of vehicles (OSAGO)
- Motor Vehicle Insurance
- Voluntary insurance of shipowner’s civil liability
- Insurance of means of water transport
- Compulsory insurance of civil liability of the carrier for causing damage to life, health, property of passengers
- Insurance of civil liability of members of management and officials of the Company before third parties and the Company
- All-risk coverage.

RusHydro imposes strict requirements with regard to insuring its assets (property insurance against all risks and insurance against construction and installation risks), and due to the limited resources of the Russian insurance market also puts forward additional demands and effects control over risk re-insurance. The Company is implementing a policy of openness to foreign insurance community representatives. Each year, the Company organizes insurance engineering surveys for its facilities, and holds road shows, negotiations and follows reinsurers’ recommendations.
The Sayano-Shushenskaya HPP recorded a historic maximum of daily output.
2.3 THE FINANCIAL PERFORMANCE

2016 events

- Financial results for the year 2016 are due to an increase in the output of hydropower plants by 16.6 % (comparing with 2015) and a significant optimization of operating costs
- Revenue growth 8.2 % in 2016
- EBITDA for 2016 — 100,341 million rubles (+36.7 %)
- Operating expenses for 2016 grew significantly below inflation — by only 0.2 % as a result of the program to reduce transaction costs
- Net profit for 2016 — 39,751 million rubles (+46.4 %). Adjusted for non-monetary items net profit — 66,114 million rubles (+39.6 %)
- Weighted average earnings per share for 2016 — 0.1095 rubles (+26.6 %)

As a result of 2016, the RusHydro Group demonstrated high financial results. They reflected not only the record level of hydropower generation — almost 17 % higher than 2015, but also the consistent management efforts aimed at optimizing all managed operating costs of the Group and selling large assets that do not affect the Group’s core business.

2.3.1 PROFITABILITY INDICATORS

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA, million RUB</td>
<td>73,249</td>
<td>73,383</td>
<td>100,341</td>
<td>26,958</td>
</tr>
<tr>
<td>EBITDA margin, %</td>
<td>21.4</td>
<td>19.8</td>
<td>24.9</td>
<td>5.1</td>
</tr>
<tr>
<td>Net profit (loss), million RUB</td>
<td>24,131</td>
<td>27,159</td>
<td>39,751</td>
<td>12,592</td>
</tr>
<tr>
<td>Net margin, %</td>
<td>7.1</td>
<td>7.3</td>
<td>9.8</td>
<td>2.5</td>
</tr>
<tr>
<td>Net profit (loss) per one share, million RUB</td>
<td>0.0689</td>
<td>0.0865</td>
<td>0.1095</td>
<td>0.0230</td>
</tr>
<tr>
<td>Return on assets (ROA), %</td>
<td>4.0</td>
<td>2.9</td>
<td>4.0</td>
<td>1.1</td>
</tr>
<tr>
<td>Return on equity (ROE), %</td>
<td>4.0</td>
<td>4.5</td>
<td>6.3</td>
<td>1.8</td>
</tr>
</tbody>
</table>

1 This section of the report is prepared on the basis of the consolidated financial statements of the RusHydro Group for the year 2016 in accordance with International Financial Reporting Standards.
2 Calculation of indicators was made taking into account other income.
3 The indicator was calculated in accordance with the methodology for calculating and evaluating key indicators of PJSC RusHydro approved by the Board of Directors (Minutes of 25.12.2015 No. 229).
Factors, which influenced the Group’s net profit increase in 2016 were finance income and state subsidies.

The Group’s net profit for the year 2016 increased by 46.4 % and amounted to 39,751 million rubles, compared with 27,159 million rubles in 2015. The Group’s profitability margin increased to 9.8 %.

EBITDA in the reporting period increased by 36.7 % and amounted to 100,341 million rubles, compared with 73,383 million rubles in 2015. The Group’s EBITDA margin also increased, amounting to 24.9 % as of the end of the year.

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1 The indicator is calculated taking into account other operating income received by the RusHydro Group in 2015 (8.2 billion rubles) and 2016 (12.4 billion rubles) in the form of insurance compensation, income from the sale of assets and subsidiaries.

2 In 2016 the distribution of the Company’s profit following the results of 2015 was approved at the Annual General Meeting of shareholders of 2016, June 27 (Minutes of 29.06.2015, No.15). The dividend amounted to 50 % of the financial result of PJSC RusHydro determined in the accounting statements according to Russian Accounting Standards and based on the Russian Government decree No.705-р, of 18.04.2016.
2.3.2 Revenue and Expenses

Revenue and Operational expense dynamics, million RUB

Revenue structure for group companies (without taking into account intra-group transactions), million RUB

1 In this subsection of the Report, total revenue is based on government grants, operating expenses are presented net of any impairment losses.
As for the reporting period the operating expenses of the Group increased by 0.2 % and amounted to 315,705 million rubles, compared to 315,103 million rubles in 2015.

The main factors of operating expenses change:
- reduction of employee compensation costs by 1.5 % due to the continued optimization of the number of personnel and incentive systems for employees and senior management;
- reduction of the cost of purchased electricity and capacity, associated mainly with the output of large consumers serviced by ESKB LLC, to the wholesale electricity market;
- Reduction of expenses for purchased electricity by PJSC «Yakutskenergo» in connection with the granting of the status of a guaranteeing supplier of JSC «Vilyuiskaya HPP-3» (PJSC «AK ALROSA»); A decrease in the cost of purchased electricity by PJSC RusHydro;
- decrease in other expenses due to a decrease in the loss on fixed assets disposal, a decrease in travel expenses, as well as in social costs;
- lower cost of third-party services, mainly due to lower costs for subcontractors, consulting, legal and information services, repairs and maintenance;
- increase in electricity distribution costs due to an increase in the prices for electricity transmission services, as well as increased volumes of productive power supply to consumers;
- growth in depreciation of fixed assets and intangible assets due to commissioning of new fixed assets in PJSC RusHydro, Blagoveschenskaya TPP, JSC and Sulaksky HydroCascade JSC.
The total revenue of the Group for 2016 increased by 8.2% compared with 2015 from 361,826 million rubles to 391,322 million rubles.

The main factors of revenue change:

- significant increase in electricity generation by HPP of JSC RusHydro against the background of increased water inflow into a number of large reservoirs;
- increase in free electricity prices in the «one day ahead» market in the first price zone;
- indexation of regulated tariffs for electricity and capacity for HPPs of PJSC RusHydro;
- increase in the price for the sale of capacity at the CCA for HPPs of the second price zone due to the completion of the liberalization of the capacity market of HPP – with the increase in the share of HPP capacity sold at CCA prices from 80 to 100% from 01.05.2016;
- increase in revenue from electricity sales in the «Subgroup» RAO ES EAST «segment due to the growth of the average tariff rate»;
- an increase in government subsidies by 20.5% to RUB 17,250 million due to compensation in the fourth quarter of 2016 of JSC DGC’s expenses for the purchase of natural gas from the Sakhalin-1 consortium in the amount of 2,080 million rubles;
- increase in revenue from the sale of electricity through the segment «Subgroup» ESC RusHydro «due to the planned increase in prices for electricity, the growth of electricity consumption in the operations regions and regions involving a search for new customers»;
- increase in revenue from the sale of heat, due to the growth of the average tariff rate and increase in thermal power supply from collectors.
### 2.3.3 Assets, Equity and Liabilities

**Asset structure and dynamics, million RUB**

**Liabilities structure and dynamics, million RUB**

The Group’s liabilities as at 31.12.2016 increased by 8.29% million rubles to 332,514 million rubles, compared to the same indicator as of December 31, 2015. The main factors of asset change are:

- increase in the Group’s fixed assets due to the implementation of the investment program;
- increase in the value of cash equivalents while decreasing the value of deposits in current assets;
- increase in the value of financial assets available for sale due to the growth of quotations;
- decrease in the value of non-current assets due to the completion of the transaction for the sale of the dams of the Bratsk, Ust-Ilim and Irkutsk hydroelectric power plants.

As of December 31, 2013, the Group’s assets increased by 45,309 million rub to 983,446 million rub, compared to the same indicator as of December 31, 2015. The main factors of asset change are:

- increase in the Group’s fixed assets due to the implementation of the investment program;
- increase in the value of cash equivalents while decreasing the value of deposits in current assets;
- increase in the value of financial assets available for sale due to the growth of quotations;
- decrease in the value of non-current assets due to the completion of the transaction for the sale of the dams of the Bratsk, Ust-Ilim and Irkutsk hydroelectric power plants.

### Strategic Deals of 2016

**Sale of dams of the HPP of the Angarsk cascade**

Pursuant to the decision of the Board of Directors of PJSC RusHydro (Minutes No. 242 of 10.10.2016), on 17.10.2016, a contract for the sale of dams of the HPP of the Angarsk cascade was concluded between PJSC RusHydro and LLC «Telmamskaya HPP» (100% subsidiary of EuroSibEnergo JSC). The state registration of the transfer of ownership of dams to LLC «Telmamskaya HPP» was carried out on 15.11.2016. The selling price of the dams was 10,950,400,000 rubles, including VAT.

The transaction was effected by PJSC RusHydro in order to:

- get a significant source of cash,
- improve the balance and financial results of PJSC RusHydro in order to implement the priority tasks and fulfill the orders of the Government of the Russian Federation to increase the rate of dividend yield,
- maximize the RusHydro Group’s business value from dam management in comparison with the lease of dams.
forward contract for RusHydro shares with VTB Bank (PJSC).
The total amount of funds for refinancing debts on loans and
borrowings of companies of RAO ES EAST Holding Company
received from the sale of shares of PJSC RusHydro amounted
to 55 billion rubles.
The Bank of Russia carried out the state registration of the
additional issue of shares of PJSC RusHydro on 07.12.2016.
On March 7, 2017 legally-binding documentation on the deal
with VTB Bank (PJSC) was signed. The funds raised from the
sale of PJSC RusHydro shares to Bank VTB (PJSC) amounting
to 55 billion rubles were received and fully directed to pay off
the debt burden of the operating companies of RAO ES EAST.

**Analysis of the structure and changes in debt. Credit Ratings**

The debt of the RusHydro Group for borrowed funds increased
insignificantly for 2016: by 2,410 million rubles (1.2 %), while
the share of short-term part of borrowed funds decreased
to 20.9 % as of December 31, 2016 (and amounted to 61,757
million rubles). The volume of net debt of the Group (the
difference between the total amount of debt on short- and
long-term borrowed funds and the total amount of cash and
equivalents) as of December 31, 2016 amounted to 132,449
million rubles (a decrease for 2016 amounted to 16,919 million
rubles). Taking into account the significant growth in the
Group’s operating profit for 2016, the level of the debt burden
of the RusHydro Group (including the amount of the guarantee
of PJSC RusHydro for the obligations of PJSC Boguchanskaya
HPP) decreased: the indicator «Financial debt / EBITDA» fell
to 2.3 as of December 31, 2016 against 3.1 as of December 31,
2015, which confirms the strengthening of the Group’s stable
financial position.

More than 90 % of RusHydro’s consolidated financial debt
(including guarantees for obligations of Boguchanskaya HPP
under the loan of Vnesheconombank) was denominated in
Russian rubles as of December 31, 2016, which makes the
Group’s currency risk non-significant regarding the financial
debt. At the same time, more than 32 % of the total volume
of loan debts are liabilities to large Russian banks with state
participation.

As of 31.12.2016, the available balance of the sample under the
current loan agreements of the Group of companies amounted
to more than 97,353 million rubles, which is much higher
than the demand for short-term refinancing of the debt and
significantly reduces financial risks.

Taking into account the insignificant increase in the financial
debt following the results of 2016, the interest on borrowed
funds paid by the Group increased by 773 million rubles (+4
%), amounting to 20,271 million rubles.

The Group’s short-term debt as of December 31, 2016
amounted to 61,757 million rubles. Reduction of short-term
debt by 20,457 million RUB is mainly due to refinancing of
short-term borrowings through the attraction of long-term
loans with a more comfortable repayment schedule. As a
result, the short-term portion of long-term loans accounts for
61.7 % of the short-term debt of the RusHydro Group, including
placed bonds of PJSC RusHydro (series 09) in the amount of 10
billion rubles, 34.8 % form short-term loans and 3.5 % – other
short-term loans.

The Group’s long-term debt for 2016 increased by 22,867
million RUB (16.9 %) to 158,046 million RUB, mainly due to
the procurement of long-term borrowings to finance the
Group’s investment activities and the refinancing of debt due
for redemption. As of December 31, 2016, 67.1 % of the long-
term debt accounted for credits and loans, 31.8 % for the
ruble-denominated bonds placed by the Group and 1.1 % for
other long-term borrowed sources of financing.

**Credit ratings (at the end of 2016)**

<table>
<thead>
<tr>
<th>Rating Agency</th>
<th>Fitch Ratings</th>
<th>Standard &amp; Poor’s</th>
<th>Moody’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>The credit rating on the National scale</td>
<td>A(rus)³</td>
<td>ruAA</td>
<td>- ³</td>
</tr>
<tr>
<td>The credit rating on the International scale (in foreign currency)</td>
<td>BB+</td>
<td>BB</td>
<td>Ba2</td>
</tr>
<tr>
<td>Outlook on the credit rating</td>
<td>Positive</td>
<td>Negative</td>
<td>Stable</td>
</tr>
</tbody>
</table>

1 The Fitch Ratings have been refused on 06.02.2017 according to the results of the system solution.
2 The Moody’s ratings have been refused on 18.03.2016 according to the results of the system solution.
2.3.4 CASH FLOW

Net cash flow from the Group’s operating activities in 2016 increased by 1,573 million rubles (2 %) amounting to 71,373 million rubles.

The net funds outflow to finance investment activities, on the contrary, decreased by 23,463 million rubles (48 %), amounting to 24,918 million rubles. During 2016, the Group worked to implement a major investment program, increasing financing of capital expenditures by 8,813 million rubles (10 %) to 101,835 million rubles.

For financial activities, the Group recorded a net outflow of cash in the reporting period of 26,837 million rubles against the backdrop of an increase in the amount of repaid borrowings compared to the previous year and an increase in the amount of dividends paid to shareholders of PJSC RusHydro.

Despite worsening macroeconomic conditions, in 2016 the Group avoided significant exchange rate losses due to a significant share of ruble loans in the overall debt structure. At the same time, the negative exchange rate differences on the Group’s cash balances in 2016 amounted to 289 million rubles, against the positive exchange rate differences of the previous year in the amount of 796 million rubles.

Against this backdrop, the Group increased its cash balances to 67,354 million rubles by the end of the year, which is 19,329 million rubles (40 %) higher than at the beginning of the year.
2.4 INVESTMENT

2016 events

• The investment program financing budget amounted to 78.25 billion rubles1: 56.86 billion rubles accounted for the investment projects of PJSC RusHydro and 21.39 billion rubles for projects of RAO ES EAST, PJSC Holding

• The Company introduced new power generation — 240.89 MW, heat — 6.0 Gcal/h, the grid — 876.3 km, Transformer capacity — 436.33 MVA

2.4.1 INVESTMENT POLICY PRINCIPLES

The Company’s investment activity is guided by the Regulations on the Investment Management Process in the Form of Capital Investments.

Approval of the Company’s Investment Program is the responsibility of the Company’s Board of Directors. The investment programs, before being approved by JSC RusHydro’s Board of Directors, are agreed upon with executive authorities and approved by the Russian Ministry of Energy. Prior to the approval by the authorities, the draft investment programs are preliminarily approved by the Boards of Directors of the respective subsidiaries.
2.4.2 2016 INVESTMENT PROGRAM

As part of the Business plan of PJSC RusHydro for 2016–2020 (Minutes of the Board of Directors of 25.12.2015 No. 229) the Business plan of PJSC RusHydro for 2016 has been approved, including investment program for 2016, and the Business plan of PJSC RusHydro for years 2017–2020, including investment program for 2017–2020, has been taken into account.

In the future, in order to optimize expenses for investment activities, the RusHydro Group’s investment program was updated, including the reduction of annual amounts of financing for the projects of technical re-equipment and reconstruction of HPPs of PJSC RusHydro by smoothing the schedule for financing the projects of the Program of the comprehensive modernization of hydroelectric power plants and reducing their unit cost, including through increase the effectiveness of procurement procedures with preserving the quality of work performance and the pledged initially target parameters of reliability and safety of hydropower plants.

Based on the results of the optimization, the Management Board of PJSC RusHydro approved the Consolidated Investment Program of the RusHydro Group for 2016 (adjustment) (Minutes No. 968pr of March 21, 2013), was noted by the Board of Directors of PJSC RusHydro on 04.07.2016 (Minutes of 08.04.2016 No. 235).

The planned volumes of financing the RusHydro Group’s investment program amounted to 112.76 billion rubles (84.43 billion rubles accounted for investment projects of PJSC RusHydro and 28.33 billion rubles for projects of the RAO ES EAST Holding).
Zelenchukskaya HPP–PSPP was commissioned
EXECUTION OF INVESTMENT PROGRAMS OF PJSC RUSHYDRO AND RAO ES EAST HOLDING IN 2016

With regard to investment projects implemented by PJSC RusHydro and its subsidiaries, the deviation in terms of financing in the amount of 27.57 billion rubles has taken shape for the following reasons:

1. Optimization of the volume of financing of the projects of technical re-equipment and reconstruction of HPPs of PJSC RusHydro by smoothing the schedule of project financing, reducing their unit cost, improving the efficiency of procurement procedures while maintaining the quality of work performance and the initial target parameters of reliability and safety of HPPs, 47 billion rubles.

According to the Investment Program of PJSC RusHydro for 2016 (adjustment), approved by Order No. 1458 of the Ministry of Energy of Russia of December 30, 2016, it is envisaged to reduce the annual planned financing amounts by 10.53 % of the volumes included in the RusHydro Group Consolidated Investment Program 2016 (adjustment), approved by the Management Board of PJSC RusHydro on March 21, 2016.

2. In terms of priority projects implemented in the Far East in pursuance of the Presidential Decree No. 1564 of 22.11.2012 (1st stage of Yakutskaya TPP-2, CHP in the city of Sovetskaya Gavan, the 1st stage of Sakhalinskaya TPP-2, the second stage of the 2 nd stage of Blagoveschenskaya TPP), the decrease in the volume of financing from the planned volumes amounted to 17.17 billion rubles. The change in financing schedules was made due to the postponement of the completion of the «right» project implementation, namely:
   • Yakutskaya TPP-2 (1st stage) from 2017 to 2018,
   • Sakhalinskaya TPP-2 (1st stage) from 2017 to 2018,
   • CHP in Sovetskaya Gavan from 2017 to 2019,
   • Blagoveschenskaya TPP from 2016 to 2017.

According to the investment program of PJSC RusHydro for 2016 (adjustment), approved by the order of the Ministry of Energy of the Russian Federation No. 1458 of December 30, in the priority projects of the Far East, the reduction in the annual planned volumes of financing by 14.58 % of the volumes included in the RusHydro Group Consolidated Investment Program for 2016 (adjustment) approved by the Management Board of PJSC RusHydro on March 21, 2016.

3. Deviation from financing schedule of new construction facilities was primarily caused by a decrease in the amount of financing for actual needs related to fixing the end-of-work volumes and transferring payment of guaranteed deferred payments to the beginning of 2017 in connection with the implementation of activities for the structuring of funding with the allocation of a complex of works and the costs necessary for financing and ensuring the safety and security of construction-in-process facilities. In addition, the main deviations were formed due to a delay in summing up the results of the tender for selecting a general contractor and the duration of procurement procedures.

In terms of investment projects implemented by the RAO ES EAST Holding the deviation in terms of financing in the amount of 8.64 billion rubles was due to the following reasons:

1. According to the infrastructure objects of the four priority projects implemented in the Far East (access roads and railways, schemes for the issuance of electrical and heat capacity, water disposal and water supply systems, ash and slag removal systems, etc.), due to the shift in the construction of the main facilities, the transfer of the terms «to the right» and, as a result, the financing schedule was changed and the volume of financing for 2016 was reduced by 2.42 billion rubles.

2. The postponement of the deadline for completion of works and the procedure for payment for the implementation of technological connection caused a decrease in the revenues of the subsidiaries of the RAO ES EAST Holding by 3.51 billion rubles.

3. As a result of the optimization work, exclusion of a number of projects from the investment programs of the RAO ES EAST Holding, reduction of the unit cost of project implementation, revision of funding schedules with a shift to the right, reduction of expenses related to technical re-equipment and reconstruction of facilities maintaining the operations’ quality and keeping up with the initial target parameters of reliability and safety.

4. For the construction of the GTU-CHPP in Vladivostok on the site of the Central Steam-Water Boiler, the design of documentation has been adjusted to change the total cost of construction, and the project implementation period has been postponed from 2016 to 2018.
Strategic Review

Structure of funding sources used in 2016

The main directions of investments of the PJSC RusHydro in 2015, billion RUB

Main areas of investment, JSC RAO ES EAST in 2015, billion RUB

Financing of the investment program in 2016, billion RUB

Capacity commissioning PJSC RusHydro and its subsidiaries

Capacity commissioning RAO ES EAST Holding

Capacity commissioning RAO ES EAST Holding

1 TURP - Technical Upgrading and Reconstruction Program
2 4 FE - priority projects implemented in the Far East
3 NC - new construction
4 TU - Technical Upgrading
5 The figures are given with VAT.
### Key Investment Projects (under construction)\(^1\)

<table>
<thead>
<tr>
<th>Projects</th>
<th>Design Capacity, MW</th>
<th>Start Construction</th>
<th>Completion Construction</th>
<th>Capacity Commissioning 2016, MW</th>
<th>Capacity Commissioning 2017 (plan), MW</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Priority Projects in the Far East</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2nd stage of the Blagoveschenskaya TPP</td>
<td>120</td>
<td>2011</td>
<td>2017</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>The aim of construction is to liquidate the existing capacity deficit and meet future heat consumption growth, improve energy supply reliability as well as to cover the irregular part of the load schedules of the UES of the East.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st stage of the Sakhalinskaya TPP-2</td>
<td>120</td>
<td>2011</td>
<td>2018</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>The new TPP will replace the decommissioned capacity of the Sakhalinskaya TPP; as well as increase the efficiency of Sakhalin energy system performance.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The TPP in Sovetskaya Gavan</td>
<td>120</td>
<td>2010</td>
<td>2019</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>The TPP is constructed to substitute the decommissioned capacity of the Mayskaya TPP and to ensure compliance with the growing energy needs of the special economic zone in the Sovetskaya Gavan port.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st stage of the Yakutskaya TPP-2</td>
<td>193.48</td>
<td>2011</td>
<td>2018</td>
<td>-</td>
<td>193.48</td>
</tr>
<tr>
<td>The project is designed to replace the decommissioned capacity of the Yakutskaya TPP and meet consumption growth for energy as well as to enhance energy supply reliability.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>193.48</td>
<td>-</td>
</tr>
<tr>
<td>The Gotsatinskaya HPP</td>
<td>100</td>
<td>2007</td>
<td>2017</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>The aim of the project is to supply electricity and capacity to consumers of the deficient UES of the North Caucasus, which will have a beneficial impact on the overall socio-political situation while improving the social status of the Republic of Dagestan.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Zelenchukskaya HPP-PSPP</td>
<td>140</td>
<td>2009</td>
<td>2017</td>
<td>140</td>
<td>-</td>
</tr>
<tr>
<td>The aim of the project is to enhance the reliability of the energy supply to the North Caucasus energy system and to even out the daily schedule of the Kuban River.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Nizhne-Bureyskaya HPP</td>
<td>320</td>
<td>2010</td>
<td>2018</td>
<td>-</td>
<td>320</td>
</tr>
<tr>
<td>This HPP will be a compensating reservoir of the Bureyskaya HPP, levelling daily water fluctuations in the river resulting from the work of the hydropower plant. This will remove the restrictions on the modes of operation of the Bureyskaya HPP and prevent winter floods in several villages located downstream.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Zagorskaya PSPP-2</td>
<td>840</td>
<td>2006</td>
<td>2020(^*)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>The second stage of the Zagorskaya PSPP is to partially solve the problem of maneuverable regulation power deficit in the Central Region of Russia, as well as to prevent accidents in Moscow and the Moscow Region.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>140</td>
<td>320</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

\(^1\) Parameters are indicated in accordance with the Consolidated Investment Program of the RusHydro Group for 2018-2022. 
\(^2\) And for 2017 (adjustment) approved by the Management Board of PJSC RusHydro on March 6, 2017. 
\(^*\) The decision to complete the completion of this report is not accepted.
2.4.3 PLANS IN THE FIELD OF INVESTMENT ACTIVITIES

The investment program of the RusHydro Group provides the commissioning capacity in 2017 at the following sites:

- Nizhne-Bureyskaya HPP (320 MW) in the Amur Region: the introduction of HPPs allows solving a number of energy, economic, nature protection and social tasks on the territory of the Amur Region, included ensuring the long-term consumers of the Far Eastern region with economically efficient electricity (capacity) by removing restrictions on the power output of Bureyskaya HPP and replacing more expensive thermal generation.

- Implementation of the priority projects in the Far East: the first stage of the Yakutskaya TPP-2 in the amount of 193.48 MW and 469.6 Gcal / h, as well as the associated infrastructure thereto — main heating networks, water disposal and water supply systems, electric power transmission networks, access road, Off-site infrastructure in the Sakhalinskaya TPP-2 part — electric power delivery scheme, ash and slag removal system, access roads, and railway access roads to the TPP in Sovetskaya Gavan.

- MGES Zelenchuk (North-Caucasian Federal District) in the amount of 1.26 MW. The commissioning of the capacity will enable us to surely guarantee the sufficient electricity supply to consumers of the energy-deficient UES of the South and reduce the electricity deficit in the Karachay-Cherkess Republic.

- Input of the capacity in the framework of technical re-equipment projects and reconstruction (including through the implementation of the Program for the comprehensive modernization of HPPs of PJSC RusHydro) will be 42.5 MW, 136.30 MVA, 189.35 km of electric networks, and 2.47 km in and in order to modernize the energy infrastructure of the Far East the heating networks of 1.0 MW, 1.08 Gcal / h will be introduced.

- The capacity input for the implementation of technological connection projects in the Far East territory will be 554.44 MVA, 781.20 km of electric networks, 8.37 km of heating systems.

2.4.4. HPP COMPLEX MODERNISATION PROGRAM

Since 2012, PJSC RusHydro has been implementing the Complex Modernization Program (CMP) — a unique project designed to upgrade production assets in the energy sector. In the framework of the CMP, until 2025, more than half of the main equipment is planned to be replaced at the HPP.

The program is implemented using innovative and energy-efficient solutions (fiber optic technologies, optical transformers, nanostructured materials spraying, control systems based on microprocessors, vibration monitoring systems, etc.)

The Program's key performance results in 2016:

- Kamskaya HPP was the first to complete planned modernization of the hydroelectric units;
- at the Volzhskaya HPP: hydro-unit No. 5 is replaced, hydro unit No. 6 was modernized, its hydro generator and a hydroturbine are replaced;
- at the Saratovskaya HPP: modernization of hydroelectric unit No. 8 is completed with replacement of hydro-generator and hydro-turbine. The hydro-turbine No. 4 is replaced;
- at the Zhigulevskaya HPP: replacement of hydro-turbines and modernization of hydro-generators is completed at hydro units Nos. 7, 13 and 16;
- at the Novosibirskaya HPP: replacement of the hydro turbine No. 4 is completed;
- at the Rybinskaya HPP from the Upper Volga HPP Cascade: reconstruction of a 220 kV outdoor switchgear and replacement of modular power transformers at Rybinskaya HPP is completed.

**Investment plans for 2017**

<table>
<thead>
<tr>
<th>PJSC RusHydro</th>
<th>RAO ES EAST Holding</th>
</tr>
</thead>
<tbody>
<tr>
<td>The volume of investments, million rubles</td>
<td>78,560.37</td>
</tr>
<tr>
<td>Input power:</td>
<td></td>
</tr>
<tr>
<td>Generation, MW</td>
<td>557.24</td>
</tr>
<tr>
<td>Heat, Gcal/h</td>
<td>469.6</td>
</tr>
<tr>
<td>Grids, km</td>
<td>1,112.66</td>
</tr>
<tr>
<td>Transformer capacity, MVA</td>
<td>710.74</td>
</tr>
</tbody>
</table>

**Increase in installed capacity, MW**

<table>
<thead>
<tr>
<th>HPP</th>
<th>2016 (actual)</th>
<th>2017 (forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volzhskaya HPP</td>
<td>10.5</td>
<td>10.5</td>
</tr>
<tr>
<td>Zhigulevskaya HPP</td>
<td>42.0</td>
<td>21</td>
</tr>
<tr>
<td>Kamskaya HPP</td>
<td>3.0</td>
<td>0</td>
</tr>
<tr>
<td>Saratovskaya HPP</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Novosibirskaya HPP</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Total of PJSC RusHydro</td>
<td>66.5</td>
<td>42.5</td>
</tr>
</tbody>
</table>
2.5 INNOVATION DEVELOPMENT

2.5.1 INNOVATION DEVELOPMENT PROGRAM

The Innovation Development Program of the RusHydro Group for 2016-2020 with a prospect until 2025 is approved by the Board of Directors (Minutes No. 244 of November 23, 2016). Prior to approval, the draft program was approved by the Interdepartmental Commission for Technological Development of the Presidential Council for Modernization of the Economy and Innovative Development of Russia (hereinafter — IDC).

In terms of quality the RusHydro Group Program development in accordance with the IDC Minutes No. 23-001 of December 26, 2016 was assessed as 95.2 %.

PRIORITY DIRECTIONS FOR INNOVATION DEVELOPMENT

Priority directions for innovative development of the RusHydro Group in the field of “hydropower” are:

- ecology and environmental protection,
- hydropotential utilization schemes,
- technologies of design, construction, reconstruction and repair,
- energy efficiency and water resources management,
- monitoring and operation of equipment and facilities,
- design solutions for HPP, PSP, RES.

The program provides for participation in innovative activities:

- RAO ES EAST Holding
- JSC NIES
- JSC “NIIG named after B.E. Vedeneev
- JSC Institute Hydroproject
- JSC “Leningrdropproject
- JSC Mosoblgidroproekt

In 2016:

- The RusHydro Group Innovation Development Program was developed and approved by the Board of Directors of PJSC RusHydro for 2016-2020 with a prospect up to 2025
- An evaluation of the quality of development of the RusHydro Group Innovative Development Program for 2016-2020 has been received with a prospect up to 2025 — 95.2 %
- Expenses for the Innovative development program implementation in 2016 amounted to 463.6 million rubles, including VAT, expenses of RAO ES EAST Holding — 1,182.2 million rubles

2.5.2 RESULTS OF THE IMPLEMENTATION OF THE INNOVATIVE DEVELOPMENT PROGRAM IN 2016

- There are 49 considered applications for the implementation of research and development works (further — R & D), including 24 applications received through the «One Window» system. For further implementation 20 applications have been selected.
- Purchase of innovative, high-tech products for the amount of 258.5 million rubles.
- The results of 10 previously launched works were received.
- Two contracts for R & D were concluded:
  - Research and development of methods for remote monitoring of the state of facilities and operating modes of hydroelectric power plants. The development of a method for assessing the state of hydrotechnical structures and hydroelectric power plants of HPPs based on the results of monitoring the amplitude-frequency characteristics of their oscillations, together with the ground base, yielded results for 10 works that were previously launched.
  - Investigation of the possibilities and development of recommendations for improving the energy efficiency of the main technological cycle of HPPs in order to increase power generation.
- Coordination work of the Technology Platform «Perspective Technologies of Renewable Energy» is continued. The results of 10 previously launched works were received.

The most significant projects of R & D implemented in 2016 by PJSC RusHydro

<table>
<thead>
<tr>
<th>Project</th>
<th>Main results 2016</th>
<th>Implementation period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development of an automated system for signaling faults in water conduits and measuring turbine costs</td>
<td>A system for signaling faults in water lines and measuring turbine costs at Sengileevskaya HPP was developed and installed. The system was transferred to trial operation. This system helps to increase the safe operation of pressure water conduits of derivational and dam stations.</td>
<td>2013-2017</td>
</tr>
<tr>
<td>Development and testing of monitoring technology for piezometric pressure in structural elements of hydraulic structures in the event of failure of embedded piezometers of non-rectilinear shape</td>
<td>The work was carried out in order to determine the most effective ways of restoring the possibility of monitoring one of the basic parameters characterizing the safety of operation of the GTS — the level of filtration pressure in the ground base of concrete structures. Within the framework of this development, a new technique for restoring control over responsible zones of hydraulic structures has been introduced by increasing the sensitivity of piezometers of non-rectilinear shape. Approbation was carried out at the experimental Khaidrovskaya HPP. Experimental operation was carried out at Novosibirskaya HPP. The development and testing of this technology made it possible to reduce the cost of constructing new piezometers by increasing the sensitivity of existing piezometers of non-rectilinear shape.</td>
<td>2014-2016</td>
</tr>
</tbody>
</table>

2.5.3 PLANS FOR 2017

The main tasks in the field of innovative development for 2017:
- completion of the innovation management systems integration of PJSC RusHydro and RAO ES EAST Holding companies;
- improvement of the innovation development management system, its regulations and methodological support;
- search and selection of innovative ideas aimed at achieving the target of the RusHydro Group, launching the most effective innovative development projects;
- expansion of the community of experts (including external), providing expertise of innovative projects;
- expansion of cooperation in the field of innovations with development institutions, scientific organizations, companies and public authorities.
2.6 THE COMPANY ON THE SECURITIES MARKET

2.6.1 AUTHORIZED SHARE CAPITAL

In November 2016, the Board of Directors of the Company decided to increase the authorized capital of the Company by 40,429 million rubles by placing additional shares through open subscription. The decision on the additional issue of shares was registered by the Bank of Russia on December 7, 2016, the issue was assigned registration number 1-01-55038-E-042D as of December 31, 2016, all additional shares were on the issuing account of the Company (they were not placed).

After the reporting date (in January–March 2017), 40,033,348,661 additional shares were placed, including 40 billion additional shares in favor of VTB Bank (PJSC). Since the report on the results of the issue and the relevant amendments to the Company’s Articles of Association were not registered at the reporting date, the shares in this report are presented in relation to the Authorized Capital without taking into account the additional issue of shares.

2.6.2 SHAREHOLDERS

The Company’s shareholders are more than 340 thousand domestic and foreign investors. The Russian Federation owns a controlling stake in 66.84%. As of December 31, 2016, the Group had 18,852,353,167 shares or 4.88% of the Authorized Capital of RusHydro from which 3.55% were owned by JSC Hydrolinvost. There are no own shares at the Company’s disposal.

In 2016, the RusHydro Group completed the consolidation of shares in RAO ES EAST, PJSC. During the acquisition of shares in RAO ES EAST, PJSC from minority shareholders, they were offered to exchange shares of RAO ES EAST, PJSC for shares in PJSC RusHydro. The number of shares of the Company owned by entities controlled by legal entities decreased as compared to December 31, 2015 by 2,934,258,766 shares.

30.12.2015 — The Company received a notice from “Gazprombank” (Joint Stock Company) (Moscow, INN 7744001497, OGRN 1027700167110) on the right to dispose of a certain number of votes of the Issuer. In accordance with this notice, the Issuer disclosed that on 24.12.2015 “Gazprombank” (Joint Stock Company) was entitled to dispose of 6.367% of the votes attributable to the voting shares of the Company.

Authorized share capital of PJSC RusHydro as of December 31, 2016

<table>
<thead>
<tr>
<th>Nominal value, rubles</th>
<th>386,295,464,890</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of ordinary shares¹ pc.</td>
<td>386,295,464,890</td>
</tr>
<tr>
<td>Nominal value of 1 share</td>
<td>1 rub</td>
</tr>
<tr>
<td>Number of authorized ordinary shares, pc.</td>
<td>54,047,237,489</td>
</tr>
<tr>
<td>State registration number of the issue</td>
<td>1-01-55038-E</td>
</tr>
</tbody>
</table>

¹ The Company issued no preference shares.
In accordance with the list of persons entitled to participate in the annual General Meeting of Shareholders, compiled on May 23, 2016, “Gazprombank” (Joint Stock Company) was a shareholder owning 6.367% of the voting shares of the Company. On April 4, 2017 the share of “Gazprombank” (JSC) voting shares decreased to 4.96%.

After the reporting date, on March 7, 2017, the Company, as part of the increase in the authorized capital, placed 40 billion shares in Bank VTB (PJSC), and the companies controlled by the Company sold 15 billion shares to VTB Bank (PJSC). Thus, VTB Bank (PJSC) became the second largest shareholder of the Company.

March 7, 2017 the Federal Property Management Agency and VTB Bank (PJSC) entered into a shareholder agreement.

Completion of PJSC RusHydro shares additional issue and sending a report on the results of the additional issue of the Company’s shares for state registration with the Central Bank of Russia is planned for May 2017.

**List of shareholders owning more than 2% shares (as of December 31, 2016)**

<table>
<thead>
<tr>
<th>Shareholder name</th>
<th>Type of registered entity</th>
<th>Number shares, pc.</th>
<th>Percentage of share capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Russian Federation represented by the Federal Agency for State Property Management</td>
<td>Holder</td>
<td>258,161,535,606</td>
<td>66.837</td>
</tr>
<tr>
<td>Non-bank credit organization CJSC “National Settlement Depository”</td>
<td>Nominee holder</td>
<td>115,667,789,603</td>
<td>29.9459</td>
</tr>
<tr>
<td>Limited liability company “Depository and Corporate Technologies”</td>
<td>Nominee holder</td>
<td>5,391,244,242</td>
<td>1.3958</td>
</tr>
</tbody>
</table>

**REGISTRAR**

The register of shareholders is maintained by the Registrar. In October 2016, following the results of an open tender for the provision of services to maintain the register of shareholders and related services to the Company, the Board of Directors decided to terminate the relationship with the registrar of the Company — Joint Stock Company “Registrar ROST” and approved by the Registrar Joint Stock Company VTB Registrar. The Joint-Stock Company VTB Registrar proceeded to management of the shareholders register since April 17, 2017.
The reservoir of the Zeya HPP has accumulated a record inflow.
2.6.3 COMPANY SECURITIES
ON THE RUSSIAN MARKET

Since 2008, RusHydro shares have been included in the quotation list of Tier 1 and traded on the MICEX Stock Exchange under the ticker symbol HYDR, and in March 2013, the Company’s shares were among the first on the Russian Stock Market, which were admitted to trading on the T+2 trading system with partial collateral and deferred trade execution.

The company's shares are components of major stock market indices, as the Russian, such as MICEX, RTS, MICEX the Power, RTS-Utilities, MICEX BMI, an index of companies state-owned shares (SCI) MICEX, and international: MSCI Russia, FTSE All World Emerging Europe.

<table>
<thead>
<tr>
<th>Trading results for the shares on the stock market</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
</tr>
<tr>
<td>Trading sectors</td>
</tr>
<tr>
<td>Trading currency</td>
</tr>
<tr>
<td>The highest transaction price</td>
</tr>
<tr>
<td>The lowest transaction price</td>
</tr>
<tr>
<td>The end of year transaction price</td>
</tr>
<tr>
<td>Trading volume</td>
</tr>
</tbody>
</table>

Source: http://moex.com/
For the period from 2014 to 2016 RusHydro’s share price grew by 63%, the MICEX index grew by 48%, MICEX Power sector indicator grew by 92%.

2014

In 2014, the MICEX index lost 7% and the MICEX index of Electricity decreased by 23%, RusHydro – 5%. The main negative factors for the Russian market began a sharp decline in oil prices in the second half of the year and economic sanctions of Western countries against Russia. Leading compared with the MICEX index rate of decline in the industry indicator was due to the low investment attractiveness of the company sector with restrictive tariff policy, including zero tariff indexation in 2014. Support for RusHydro shares, whose growth reached 31% during the year, had a number of factors, including the liberalization of the market power of the Siberian hydropower plant, the positive results for the company COM-2015, electricity price growth in the second price area in the second half.

2015

In 2015, the MICEX index gained 26% and the MICEX index Electric power – 18%, RusHydro shares rose by 25%. Support for the Russian market as a whole is improved attitude of global investors to assets in emerging markets against the background of conservation soft monetary policy leading central banks and expectations in the medium term, the recovery of the Russian economy. An additional positive for RusHydro became the continuation of the liberalization of the Siberian hydroelectric power sales, outcomes CCA, electricity price growth in the second price area, the Company introduced new capacities, as well as actions to improve the Company’s financial profile RAO ES EAST.

2016

In 2016, the MICEX index added 27%, the MICEX index Electric power industry – 110%, RusHydro shares increased by 36%. Support for the Russian market as a whole was provided by the expectations of the recovery of the Russian economy and strengthening of the RUB rate in the second half of the year. The growth of RusHydro’s shares was facilitated by high dividend payments, the completion of the liberalization of the sale of the capacity of Siberian hydroelectric power plants, as well as the strong operating results of the hydro-generating segment against the backdrop of rising water availability. In addition, the positive for the shares were measures to optimize operating and investment costs, making decisions on refinancing the debt of RAO ES EAST Holding by raising equity financing in the amount of 55 billion rubles from VTB Bank with the conclusion of a forward contract; consolidation RAO ES EAST block of shares due to each ownership to 100%. An additional factor of growth was the Company’s implementation of large assets.
2.6.4 COMPANY SECURITIES ON THE INTERNATIONAL SECURITIES MARKET

Development stages of the DR program

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>LAUNCH OF THE RULE 144A GDR PROGRAM</td>
<td>LAUNCH OF GDR TRADING ON THE LONDON STOCK EXCHANGE (LSE) IN THE INTERNATIONAL ORDER BOOK (IOB) SECTION</td>
<td>LAUNCH OF THE ADR LEVEL 1 PROGRAM AND THE CONVERSION OF THE GDR PROGRAM INTO THE ADR PROGRAM IN ACCORDANCE WITH REGULATION S</td>
<td>LAUNCH OF DEPOSITORY RECEIPTS TRADING ON THE OTCQX (USA) TRADING PLATFORM IN THE HIGHEST TIER OF THE UNLISTED MARKET, INTERNATIONAL PREMIER</td>
<td>DEPOSITORY RECEIPTS FOR RUSHYDRO SHARES ARE ADMITTED TO STOCK EXCHANGE’S REPO OPERATIONS TO MOSCOW STOCK EXCHANGE</td>
</tr>
</tbody>
</table>

Depository receipts programs

<table>
<thead>
<tr>
<th>Type of program</th>
<th>Program launch date</th>
<th>Depository bank</th>
<th>Ratio</th>
<th>Ticker symbol</th>
<th>CUSIP number</th>
<th>Maximum volume of the program, shares</th>
<th>Trading floor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rule 144wa GDR</td>
<td>17.06.2008</td>
<td>The Bank of New York Mellon</td>
<td>1 GDR = 100 ordinary shares</td>
<td>HYDR</td>
<td>782183503</td>
<td>832,131,000</td>
<td>London Stock Exchange (Main Market – IOB)</td>
</tr>
<tr>
<td>ADR level 1</td>
<td>07.08.2009</td>
<td>The Bank of New York Mellon</td>
<td>1 ADR = 100 ordinary shares</td>
<td>HYDR</td>
<td>782183404</td>
<td></td>
<td>OTCQX</td>
</tr>
</tbody>
</table>

Results of depositary receipts trading on the LSE

<table>
<thead>
<tr>
<th>Ticker symbol</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>HYDR</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Trading currency: USD

The highest transaction price: 2.151
The lowest transaction price: 0.736
Year-end transaction price: 0.932
Trading volume: 293 million

Trading floor: London Stock Exchange (Main Market – IOB)

Dynamics and volume of trading ADR

Source: Bloomberg

As of 30.12.2016, 208,518,957 of level 1 ADRs and 78,273 GDR according to the Rule 144A for 20,859,723,000 ordinary shares were issued, which accounts for 5.4 % of the Company’s registered capital.
2.6.5 DIVIDEND POLICY

The main purpose of the Company’s dividend policy is to ensure the RusHydro’s strategic development and increase shareholder wealth by establishing an optimal balance between dividend payments to shareholders and profit capitalization.

To ensure transparency on defining the size of dividends and their payment, RusHydro adopted a Provision on dividend policy. The Board of Directors draws up recommendations on the size of the dividend for approval by the General Meeting of shareholders, focusing on net income, determined in accordance with the consolidated financial statements of the Group for the RusHydro International Financial Reporting Standards and the Russian Accounting Standards, as well as the Company’s need to finance its investment program. The annual dividends distribution rate shall not be less than 5 % of the profit for the period determined in the consolidated financial statements under IFRS RusHydro Group (http://www.rushydro.ru/investors/dividends/).

It is important to say that according to the Development Strategy of the RusHydro Group for the period until 2020, with a perspective of up to 2025 — at least 50 % of the net profit shall be distributed as dividend. Thus the Company will aim to ensure a high dividend yield to its shareholders.

REPORT ON PAYMENT OF THE DECLARED (ACCRUED) COMPANY’S SHARE DIVIDENDS FOR 2015

By decision of the Annual General Meeting of Shareholders of 27.06.2016, 15,011,046,132.02 rubles were transferred for distribution of share dividends in 2015 (50 % of RAS net income or 55.2 % of the profit RusHydro Group in accordance with IFRS), which is about 2.5 times more than according to the results of 2014. As for 31.12.2016 the payments were made in full to all persons registered in the register of shareholders, with the exception of 45,895,273.92 rubles, which have not been paid for reasons beyond the Company: the absence of registration or incorrect address and mailing address; incorrect bank details of recipients of income referred to in the application (statement), provided by the registrar, the method of payment — «bank transfer».

The company fulfilled its obligations to transfer dividends to the federal budget in full — amounting to 10,032,931,758.26 rubles. There are no dividends payable to the federal budget.

Dividend yield of the company’s shares, %1

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.43%</td>
<td>2.54%</td>
<td>6.73%</td>
</tr>
</tbody>
</table>

Share of net profit calculated based on RAS, allocated to dividend payments

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>25%</td>
<td>25%</td>
<td>55%</td>
</tr>
</tbody>
</table>

Amount allocated for the dividend payment, billion RUB

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5.25</td>
<td>6.03</td>
<td>15.01</td>
</tr>
</tbody>
</table>

Dividend history for the previous 5 years

<table>
<thead>
<tr>
<th>Reporting period, subject to the dividend payment</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total amount of declared (accrued) dividends, thousand RUB</td>
<td>2,500,000</td>
<td>3,675,573</td>
<td>5,248,250</td>
<td>6,032,750</td>
<td>15,011,046</td>
</tr>
<tr>
<td>Declared dividends per share, RUB</td>
<td>0.00789317</td>
<td>0.00955606</td>
<td>0.01358751</td>
<td>0.01561855</td>
<td>0.038863</td>
</tr>
</tbody>
</table>

1 The dividend yield of shares is calculated on the date of making a decision on the amount of annual dividends as the ratio of annual dividends paid per share and the median value of market prices of this share for the reporting year. (Dividends – FISC Moscow stock exchange, http://moex.com).
### 2.6.6 BONDS

#### Main parameters of the bond issue

<table>
<thead>
<tr>
<th>General parameters</th>
<th>Bonds of series 01 and 02</th>
<th>Bonds of series 07 and 08</th>
<th>Bonds of series 09</th>
<th>Exchange-traded bonds of BO-P01, BO-P02, BO-P03</th>
<th>Exchange-traded bonds of BO-P04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of bond</td>
<td>Documentary non-convertible interest-bearing bearer bonds with mandatory centralized custody</td>
<td>State registration number</td>
<td>4-01-55038-E</td>
<td>4-07-55038-E</td>
<td>4-09-55038-E</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4-02-55038-E</td>
<td>4-08-55038-E</td>
<td>4В02-01-55038-E-001Р</td>
</tr>
<tr>
<td>Par value</td>
<td>1,000 rub</td>
<td>Registration date</td>
<td>23.09.2010</td>
<td>27.12.2012</td>
<td>27.12.2012</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>03.07.2015</td>
<td>01.04.2016</td>
<td>01.04.2016</td>
</tr>
<tr>
<td>Nominal amount of issue</td>
<td>Series 01 – 10 billion RUB</td>
<td>Date / Offer date / Maturity date</td>
<td>25.04.2011</td>
<td>22.04.2016</td>
<td>25.04.2015</td>
</tr>
<tr>
<td></td>
<td>Series 07, 08, 09 on 10 billion RUB each</td>
<td></td>
<td>12.04.2021</td>
<td>02.02.2023</td>
<td>12.04.2021</td>
</tr>
<tr>
<td></td>
<td>Series BO-P01, BO-P02, BO-P03 – on 5 billion RUB each</td>
<td></td>
<td>28.04.2015</td>
<td>27.10.2017</td>
<td>28.04.2015</td>
</tr>
<tr>
<td></td>
<td>Series BO-P04 – 15 billion RUB</td>
<td></td>
<td>02.02.2023</td>
<td>15.04.2025</td>
<td>02.02.2023</td>
</tr>
<tr>
<td>Placement price</td>
<td>100 %</td>
<td>Coupon rate</td>
<td>1-10 coupons – 8.0 %, 11-20 coupons – 9.5 %</td>
<td>1-10 coupons – 8.5 %, 11-20 coupons – determined by the Issuer</td>
<td>1-5 coupons – 12.75 %, 6-20 coupons – determined by the Issuer</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1-6 coupons – 11.85 %</td>
<td>1-6 coupons – determined by the Issuer</td>
<td>1-6 coupons – 10.35 %</td>
</tr>
<tr>
<td>Placement method</td>
<td>Public offering, bookbuilding</td>
<td>Yield at pricing</td>
<td>8.16 %</td>
<td>8.68 %</td>
<td>13.16 %</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>12.20 %</td>
<td>10.62 %</td>
<td>10.62 %</td>
</tr>
<tr>
<td>Coupon frequency</td>
<td>On a biannual basis</td>
<td>Yield at last transaction price, as of 30.12.2016, %</td>
<td>Series 01 – 11.29 %</td>
<td>Series 07 – 9.52 %</td>
<td>Series 09 – 9.08 %</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Series 02 – 2.15 %</td>
<td>Series 08 – 8.66 %</td>
<td>Series BO-P01 – 12.2 %</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Series BO-P02 – 12.2 %</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Series BO-P03 – 12.2 %</td>
</tr>
</tbody>
</table>

As of December 31, 2016 there are nine issues of bonds of PJSC RusHydro with a total nominal volume of 75.0 billion rubles (with 60.25 billion rubles in circulation).

### Credit Fitch Ratings on bonds of PJSC RusHydro

<table>
<thead>
<tr>
<th>Date of assignment</th>
<th>Credit rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>21.01.2015</td>
<td>Fitch Ratings affirmed the senior unsecured rating for ruble bonds of PJSC RusHydro (Series 07 and 08) at the level of «BB +»</td>
</tr>
<tr>
<td>30.04.2015</td>
<td>Fitch Ratings assigns ruble bonds of PJSC RusHydro (series 09) senior unsecured rating at «BB +» level.</td>
</tr>
<tr>
<td>09.07.2015</td>
<td>Fitch Ratings assigns ruble bonds of PJSC RusHydro (exchange-traded bonds of BO-P01, BO-P02-BW and BO-P03) senior unsecured rating at «BB +».</td>
</tr>
<tr>
<td>11.04.2016</td>
<td>Fitch Ratings assigns ruble bonds of PJSC RusHydro (exchange-traded bonds of BO-P04) senior unsecured rating at «BB +».</td>
</tr>
<tr>
<td>20.05.2016</td>
<td>Fitch Ratings affirmed the senior unsecured rating for ruble bonds of PJSC RusHydro (Series 01, 02, 07, 08, BO-P01, BO-P02, BO-P03, BO-P04) at the level of «BB +»,</td>
</tr>
</tbody>
</table>
CHAPTER 3.

BUSINESS REVIEW
Dear Shareholders!

RusHydro Group unites 400 electric power facilities, including 71 hydroelectric power stations, 35 thermal power plants, over 100,000 km of electric networks, three geothermal power plants, and sales assets. The combination of assets makes the RusHydro Group a unique global power generating company that ranks third among the world’s hydro power corporations in terms of installed capacity.

In 2016, the Russian electricity market showed moderate growth. The installed capacity of generating stations increased by 0.4%, electricity consumption by 1.7%, electricity generation by 2.1% compared to 2015. In these conditions, RusHydro Group retained one of the leading positions among Russian generating companies, showing significant growth in key financial and economic indicators (revenue + 8.2%, EBITDA +36.7%, Net profit + 46.4%).

High financial results are ensured by a record level of HPP development and consistent management efforts aimed at optimizing all managed operating costs of the Group and selling large assets that do not affect the Group’s core business. Operating expenses for the year 2016 grew significantly below inflation - only 0.2% as a result of the reduce transaction costs program.

RusHydro Group is one of the largest consumers of goods, works and services in the country. The effectiveness of procurement procedures is of special importance to us. A Central Purchasing Commission was created, which united all the companies of RusHydro Group, including RAO ES of the East. The specialized subsidiary company “RusHydro-Snabzenie” began to operate. Approaches to procurement management are unified, including work to increase the share of purchases from small and medium-sized businesses. In 2016, the optimization of procurement procedures brought savings of more than 13 billion rubles. This is 5.7% of the planned cost of the RusHydro Group’s purchases. In addition, the optimization of the previously concluded contracts value brought more than 4 billion rubles.

During 2016, RusHydro continued to cooperate with prospective energy-intensive industrial consumers, whose goal is to contract new generation and consumption facilities, as well as to implement joint investment projects, designed to create conditions for reliable energy supply to existing enterprises and prospective consumers, including in the advanced development zone.

Sergey Kirov
Member of the Management Board – First Deputy CEO
3.1 MARKETS

The RusHydro Group of companies operates with electricity and capacity in the wholesale electricity and capacity market, as well as in the retail electricity and heat markets.

3.1.1 ELECTRICITY AND CAPACITY MARKET OVERVIEW

GENERAL INSTALLED CAPACITY AND ELECTRICITY PRODUCTION IN RUSSIAN AND IN THE WORLD

As to installed capacity and production volumes, the Russian energy industry ranks numbers five and four respectively in the world.

The installed capacity of powerplants in Russia as of December 31, 2016 totaled 244.1 GW that is 0.4 % more than in 2015 (243.2 GW). The growth in the installed capacity of Russia due to commissioning of new capacity in power plants and the modernization of the existing generating equipment totaled 361.58 MW.

The commissioning of new capacity in power plants of Russia in 2016 counting the power plants of industrial companies totaled 4,293.87 MW. Inefficient and obsolete generating equipment with total capacity of 3,879.16 MW was decommissioned.

In 2016 the energy consumption in Russia increased and totaled 1,054.54 billion kWh that is higher than the energy consumption of 2015 by 1.7 % (1,036.42 billion kWh in 2015).

The structure of power generation by types of Russia power plants, %

One of the main factors that affected the change in consumption is the outside air temperature. In January 2016 the decrease in outdoor air temperature in Russia relative to the previous year by 4.6 degrees affected the increase in electricity consumption. The increase in consumption was also affected by the increase in electricity consumption by a number of industrial companies.
BUSINESS MODEL

RusHydro Group is a supplier WECM

ELECTRICITY MARKET

Day ahead market (DAM) (Competitive selection of suppliers’ price applications and buyers with delivery within the next day after the auction)

Applications

Trading results (prices, volumes)

The Balancing Market (BM)

(Competitive selection of suppliers’ applications in the context of short-term production and consumption planning and in real time)

Auction of price bids

Reserves formation

SUPPLY

Consolidated bids (CB)

Bilateral agreements (BA)

(They are entered into between the supplier and the buyer on terms determined by agreement of the parties)

Regulated contracts (RC)

(Sale at tariff by guaranteeing suppliers to population)

Capacity auction (CPT) (Competitive selection of price bids of suppliers to guarantee coverage of consumers’ need in e(e))

Bilateral agreements (BA)

(Sale at tariff by guaranteeing suppliers to population)

Regulated contracts (RC)

(Sale at tariff by guaranteeing suppliers to population)

CSA

The system for ensuring the guaranteed yield of new generating facilities and the obligations of their construction

PAYMENTS ON A FACT

Accounting data collection

Payments on a fact

CONSUMERS

Applications

Trading results (prices, volumes)

CONSUMPTION

Reserves formation

SUPPLY

Applications

Trading results (prices, volumes)

CONSUMPTION
COMPETITIVE ADVANTAGES

The RusHydro Group controls numerous Russian hydropower facilities and is active in the popularization of renewable energy sources. The Group is fully aware of the significance of the tasks it deals with, striving to continuously develop its performance and participating in Russia’s environmental and technological advances, while recognizing the Group’s high social responsibility. The Group currently controls 400 electric power facilities, including 71 hydropower plants, the Kislogubskaya power plant, the only tidal power generation facility in Russia, 3 geothermal power plants generating more than 90% of the country’s geothermal power, thermal power plants and retail companies.

The body of assets makes the RusHydro Group a unique generating company globally and the third largest company among the world’s hydropower companies (in terms of installed capacity).

The world’s major hydropower generating companies are controlled by the governments of their respective countries due to the strategic importance of the hydropower industry. Compared with the global peers, the RusHydro Group’s activities are characterized by the very complex climatic and landscape conditions and the widespread operational geography. The Group’s facilities are located all over the country ranging from Murmansk Region to the Primorie Region and from Chukotka to the Republic of Dagestan. Furthermore, the Group is engaged in international operations managing the Sevan-Hrazdan Cascade of HPPs in Armenia. The continuous, reliable and safe operation of infrastructural facilities vital for the country with facilities separated by tens of thousands kilometers poses a Herculean task for Group employees, who have successfully dealt with these challenges striving to implement the Group’s Mission and Strategic Goals.

The RusHydro Group’s key competitive advantages are:

| Environmental friendliness | The Hydro resources are a renewable and most environmentally friendly source of energy, the use of which allows to reduce emissions of thermal power plants into the atmosphere and to preserve fossil fuel reserves. |
| High flexibility | Hydropower plants are the most maneuverable and are able to increase significantly the volume of power generation promptly when required to compensate for peak loads. |
| Fuel component absence in the production cost | Independence from fuel prices and, as a consequence, the possibility of long-term price guarantees for consumers. |
| Social significance | The hydropower industry is socially significant as the HPP water bodies are used to supply water for industrial and household needs, thus encouraging the development of agricultural and transport facilities. In addition, the HPPs serve as major employment providers in the regions. |

Installed capacity of the world’s major peer group companies in 2016, GW

Sources: PJSC RusHydro and competitor data
The replacement of the Votkinskaya HPP hydraulic power equipment has been started.
THE RUSHYDRO GROUP’S MAJOR RUSSIAN COMPETITORS IN THE ELECTRIC ENERGY GENERATION SPHERE

Russian generating facilities are mostly concentrated in the several large holding companies.

The RusHydro Group’s main competitors on the power generation market include independent Russian utility companies formed as a result of RAO UES of Russia reform. The Group considers the use of renewable energy sources as one of its priorities and stably increases installed capacity by building new power plants and commissioning new power generation facilities.

Major competitors of PJSC RusHydro

<table>
<thead>
<tr>
<th>Holding Company</th>
<th>Installed capacity on type on 31.12.16, GW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gazprom Energy Holding, LLC</td>
<td>39</td>
</tr>
<tr>
<td>PJSC INTER RAO</td>
<td>28</td>
</tr>
<tr>
<td>Rosatom State Atomic Energy Corporation</td>
<td>28</td>
</tr>
<tr>
<td>SC EvroSibEnergo</td>
<td>20</td>
</tr>
<tr>
<td>PJSC T Plus</td>
<td>14</td>
</tr>
<tr>
<td>PJSC Unipro (earlier E.ON Russia)</td>
<td>11</td>
</tr>
<tr>
<td>PJSC Enel Russia</td>
<td>9</td>
</tr>
<tr>
<td>JSC Siberian Coal Energy Company</td>
<td>8</td>
</tr>
<tr>
<td>JSC Tatenergo</td>
<td>5</td>
</tr>
<tr>
<td>OJSC Fortum (TGK – 10)</td>
<td>4</td>
</tr>
<tr>
<td>PJSC Lukoil</td>
<td>4</td>
</tr>
<tr>
<td>SC SIBEXO, JSC Biyskenergo (RU-COM)</td>
<td>3</td>
</tr>
<tr>
<td>JSC TGK – 2 (Sintez Group)</td>
<td>2</td>
</tr>
<tr>
<td>PJSC Quadra (Onexim Group)</td>
<td>3</td>
</tr>
<tr>
<td>JSC TGK – 16 (JSC TAIF)</td>
<td>1</td>
</tr>
<tr>
<td>PJSC TGK – 14 (JSC Russian Railways)</td>
<td>1</td>
</tr>
</tbody>
</table>

* Sources: The information was prepared on the basis of summary data on the group of PJSC RusHydro and the annual report of the Ministry of Energy of the Russian Federation http://minenergo.gov.ru/node/1161

COMPETITORS AT THE ARMENIAN ELECTRIC ENERGY GENERATION MARKET

In 2011 PJSC RusHydro acquired 90 % of the Sevan-Hrazdan Cascade of HPPs shares with total capacity of 562 MW in Armenia. Thus the Group took the significant share of Armenian electric energy generation market.

<table>
<thead>
<tr>
<th>Holding Company</th>
<th>Installed capacity of the Armenian market players, MW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sevan-Hrazdan HPP; 562</td>
<td>Armenian NPP; 440</td>
</tr>
<tr>
<td>Vorotan Cascade of HPPs; 404</td>
<td>Dzoraget HPP; 25</td>
</tr>
<tr>
<td>Hrazdan TPP; 1110</td>
<td>Yerevan TPP; 271</td>
</tr>
<tr>
<td>Minor HPP, 66</td>
<td></td>
</tr>
</tbody>
</table>

Market share of Group

| Installed capacity on power generation in Russia, %* |
|---------------------------------|---------------------------------|
| 2014                             | 2015                             | 2016                             |
| 11.65%                          | 12.13%                          | 12.95%                          |

| Installed capacity on rated capacity in Russia, %* |
|---------------------------------|---------------------------------|
| 2014                             | 2015                             | 2016                             |
| 15.99%                          | 15.89%                          | 15.92%                          |
The wholesale electricity and capacity market within the territory of Russian Federation is divided into the wholesale electricity and capacity market (WECM) and retail markets (REM). According to the requirements of the legislation, all stations with installed capacity over 25 MW perform electricity sales on the WECM. Stations whose capacity is 5-25 MW can choose to operate either on WECM or on REM.

The wholesale electricity and capacity market participants are: generating companies, electricity export/import operators, electricity sales organizations, electric grid companies (in terms of acquiring electricity to cover transmission losses), big consumers. The wholesale electricity and capacity market functions in price and non-price zones. The first price zone includes the territories of the European part of Russia and the Urals, while the second price zone includes Siberia. The WECM's non-price zones include: the Arkhangelsk and Kaliningrad Regions, the Komi Republic and the territories of the Far East), where the capacity wholesale is realized on special terms. In the country territories not united in price and non-price zones only the rules of the retail electricity market operate.

In the wholesale electricity and capacity market there are several sectors that differ in terms of transaction and delivery terms:
- regulated contracts (RC),
- quadripartite agreements (4-sided),
- day-ahead market (DAM),
- balancing market (BM),
- Non-regulated electricity and / or capacity sale and purchase contracts (NRECC, NRCC),
- free bilateral contracts for electricity sale (FDC),
- competitive power take-off (CCA),
- contracts for the purchase and sale of capacity of new NPPs and HPPs including PSHPP (CSA),
- bilateral agreements in non-price zones (BA in NPZ).

The change in the price on the DAM in general on the wholesale market of electricity and capacity

2016, 1 quarter

In January the average prices of the DAM, compared with the same period in 2015 increased. The price rise is explained by a significant reduction in the price-taking offer of NPP and by the increase in price parameters in suppliers' bids. In February-March average DAM prices compared with the same periods in 2015 decreased slightly. The decrease in prices is explained by the decrease in demand, taking into account the interflow between price zones against the backdrop of an increase in the supply including the price taking.

2016, 2 quarter

In April there was the decline in prices of the DAM in comparison with the same period in 2015. The decrease in prices is explained by the more significant, in comparison with the same month of the previous year, excess in the rate of decline in demand over the rate of decline in the price-accepting offer and offer at prices up to 1100 rub/MWh against the background of an increase in the average daily temperature and a relative increase in the flow to the first price zone from the second price zone. In May-June of 2016 there was the increase in the prices of the DAM compared to the same periods in 2015. The price rise is explained by changes in the structure of the offer, as well as by systemic constraints that significantly influenced the formation of the DAM price in May and the delay in the rate of supply growth at prices below 1200 rub/MWh (the level of the DAM index in June 2015) from the rate of increase in aggregate demand taking into account the interflow between price zones with the result that the more expensive supplier bids in June had become price forming.
2016, 3 quarter

In July—September there was the increase in the prices of the DAM in comparison with the similar periods in 2015. The increase of the DAM index is due to the change in the structure of the offer, which is taking place against the backdrop of the growing demand, the significant reduction in the volume of the price-taking offer due to the decrease in the water availability of the planned HPP production (decrease in inflows to the Volga and Kama rivers), the decrease due to the planned repairs of power units of NPP development. In addition, the increase in demand led to the fact that a more expensive supply of TPPs had relevance.

2016, 4 quarter

In October there was the decline in prices of the DAM in relation to October 2015, which was mainly due to the growth in the supply of NPP, which exceeded the reduction in the price levels of HPPs and TPPs. In November there was the increase in the prices of the DAM in relation to November 2015 mainly due to the fact that the increase of the price offers up to 1,200 rub/MWh did not fully compensate for the growth in demand. The additional factor that influenced the growth of prices of the DAM was the repair of lines that provide electrical communications to the UES of the Center, UES of the Volga and UES of the South. In December there was the increase in the prices of the DAM in relation to December 2015, which was due to the increase in prices in the UES of the South, which took place against the background of the excess of demand growth taking into account the interflow between price zones relative to the growth in supply. The increase in prices in the UES of the South by 26 % was caused, among other things, by the decrease in the average air temperature by 5.7° C and, as a result, the demand increased.

The second price zone

2016, 1 quarter

The price rise of the DAM in January—February was mainly due to the increase in price parameters in the suppliers' bids. The decline in the prices of the DAM in March 2016 was due to a reduction in demand with the increase in supply and almost all the volume of supply growth fell on the «cheap» electricity of the HPP.

2016, 2 quarter

The decline in the prices of the DAM in April was due to the increase in the price-taking offer and offer at prices below 800 rub/MWh with almost unchanged demand. The applications of more «cheap» generators became price forming due to the temporary reduction in the maximum admissible flow between the eastern and western parts of Siberia, as well as due to the increase in the supply of HPPs and the decrease in the supply of TPPs. The growth of prices of the DAM in May 2016 was due to the excess of the growth rate of demand over the rate of supply growth, as well as to the reduction of the maximum permissible cross-over over section 100152 Ekibastuz-Ural (to the Urals). The decline of the DAM prices in June compared to June 2015 was due to the excess of the supply growth rate over the growth rate of demand while the growth price offers up to 700 rub/MWh was commensurate with the increase in demand taking into account the interflow between price zones.

2016, 3 quarter

The decline of the DAM prices in July relative to July 2015 is due to the excess of the supply growth rate at prices of up to 700 rub/MWh over the rate of growth of the flow from the price zone with constant demand. In July 2016 there were periods when zero or close to zero prices were formed in a number of regions which is mainly due to repairs. The decline of the DAM prices in August compared to August 2015 is due to the significant increase in the aggregate supply in the price zone outstripping the growth of the flow from the price zone with a practically unchanged volume of the demand. The water flow to the dams of the Sayano-Shushenskaya and Krasnoyarskaya HPPs, which increased by 18 % compared to the hydrological norm, and the commissioning of the 500 kV HV line Sayano-Shushenskaya HPP-Novokuznetskaya in 2015 linking the power systems of Khakassia and Kuzbass led to a significant increase in supply HPP and, as a result, the growth of the aggregate supply in August 2016. The fall in the prices of the DAM in September relative to September 2015 except for the increase in the number of hours to reach the maximum permissible overflow in the system-forming sections within the price zone of Siberia was due to the decrease in demand taking into account the interflow between price zones and the growth of the aggregate supply in the price zone.

2016, 4 quarter

In October the decline of the DAM prices for electricity compared to October 2015 is due to the significant excess of supply growth including price taking in comparison with the growth in demand. In addition, an important factor contributing to the decline of the DAM index in Siberia was the expansion of the repairing campaign and the deterioration of the capacity compared to October of the previous year, both in cross sections between price zones and within the zone of Siberia. In November the growth in prices of the DAM for electricity compared to November 2015 was due to the change in the price structure of the offer. The overall improvement in the throughput capacity of Siberia's backbone networks contributed to a leveling of prices which led to the increase in the price of the DAM on the average in the price zone. In December relative to December 2015 the growth in prices of the DAM for electricity was due to the reduction in the volume of the price-taking offer and, consequently, the reduction in supply at prices of up to 700 rub/MWh, the rate of decline of which exceeded the rate of demand reduction taking into account the interflow between price zones.
ELECTRICITY AND CAPACITY SALES TARIFFS IN 2016

WECM’s average weighted tariff dynamics

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>Growth 2016–2015</th>
<th>Rate of growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NGP</td>
<td>NGP</td>
<td>HBB</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>RUB/ thousand kW·h</td>
<td>thousand RUB</td>
<td>RUB/ thousand kW·h</td>
<td>yrs. RUB</td>
</tr>
<tr>
<td>Wholesale market</td>
<td>344.51</td>
<td>25,550,701</td>
<td>385.07</td>
<td>27,599,273</td>
</tr>
<tr>
<td>RC</td>
<td>303.47</td>
<td>19,858,742</td>
<td>342.91</td>
<td>21,499,283</td>
</tr>
<tr>
<td>Center</td>
<td>407.02</td>
<td>16,350,774</td>
<td>443.61</td>
<td>17,813,595</td>
</tr>
<tr>
<td>Siberia</td>
<td>122.14</td>
<td>3,018,173</td>
<td>148.60</td>
<td>3,275,236</td>
</tr>
<tr>
<td>Caucasus¹</td>
<td>881.70</td>
<td>489,795</td>
<td>873.01</td>
<td>410,452</td>
</tr>
<tr>
<td>NPZ</td>
<td>652.29</td>
<td>5,691,960</td>
<td>679.49</td>
<td>6,099,990</td>
</tr>
<tr>
<td>FarEast</td>
<td>652.29</td>
<td>5,691,960</td>
<td>679.49</td>
<td>6,099,990</td>
</tr>
<tr>
<td>Isolated zones of the Retail market</td>
<td>3,332,611</td>
<td>3,493,185</td>
<td>340,574</td>
<td>110.82</td>
</tr>
<tr>
<td>Total</td>
<td>28,883,312</td>
<td>28,883,312</td>
<td>2,489,146</td>
<td>105.34</td>
</tr>
</tbody>
</table>

Tariffs for stations-subjects of the WECM were established by the Federal Anti-Monopoly Service of Russia (hereinafter — FAS Russia), in accordance with the developed methods of the Federal Tariff Service (hereinafter — FTS of Russia) (abolished in 2015, the assignee is the FAS Russia).

The main methodology for calculating tariffs in stations was the Indexing methodology approved by the Order of the Federal Tariff Service of Russia from 28.08.2014 No. 210-e/1 «About the Approval of the Formulas for indexation of regulated prices (tariffs) for electricity (capacity) used in contracts for the sale and purchase of electricity (capacity), the order of application, and also the procedure of setting planned and actual indicators used in these formulas». The base, calculated in 2007, is indexed annually using the index of changes in conditions fixed expenses, defined by the Ministry of Economic Development of Russia. The index-deflator in the tariff of 2016 was 7.4 % — at the level of the CPI (including without fuel and energy products; FECM). The method is also applied to new stations, starting from the second year of operation of the plant, for CSA-objects it is used only in the part of electricity.

Major legislative changes

Amendments were made to clause 62 of RF Government Decree No. 1172 of 27.12.2010, according to which binding on RC is not carried out at stations below 25 MW, as well as in pumped storage power plants, which enables hydroelectric power plants Sengileevskaya HPP, Svistukhinskaya HPP, Egorytlyskaya HPP-2, Zaramagskaya HPP — Head Hydropower Plant of the Ardonsky Cascade, Dzaudzhiksauska HPP, Gizeldonskaya HPP, as well as PSPs to operate fully in the free electricity (capacity) market.

For CSA-objects the price for capacity is calculated by the FAS Russia in accordance with the methodology approved by the Order of the FTS from 13.10.2010 No. 486-e «About the Procedure for defining the price for the capacity of new nuclear and hydroelectric power plants (including pumped storage power plants)».

Reasons for WECM tariffs growth:

• increased in 2016 tariffs of infrastructure organizations, indexation of tariffs: the deflator index in the rate of 2016 was 7.4 % — at the level of the CPI without fuel and energy products; consolidated performance forecast balance of electricity and capacity; increase in tax rates for the use of water objects without water intake for hydropower purposes (in accordance with the tax code of the Russian Federation for 2016 tax rates apply with the factor of 1.32); rise in prices of the CSA (capacity supply agreements) in 2016 of previously introduced hydroelectric power plants — the CSA facilities.

THE WORK ON RETAIL ELECTRICITY MARKETS

The work on REM in price zones is carried out under free bilateral contracts with consumers (stations less than 5 MW on a mandatory basis, stations from 5 to 25 MW at will). There is no regulation of tariffs in this market sector. The energy is sold according to contract prices.

The work in isolated areas of the REM is carried out by the generating companies of PJSC RusHydro subsidiaries. For them 100 % regulation operates due to the lack of a free electricity (capacity) market.

The tariffs for stations-entities of isolated REM zones are set by regional authorities in the field of tariff regulation (hereinafter referred to as the Regulator), in accordance with the developed methods of the FTS of Russia:

• Federal Tariff Service order No. 20-e / 2 of 06.08.2004 «On approval of methodological guidelines for calculation of regulated tariffs and prices for electric (thermal) energy in the retail (consumer) market» (method of economically justified costs);
• Federal Tariff Service order No. 275-e / 4 of 05.07.2005 «On approval of Methodological Guidelines for Indexation of Marginal (Minimum and or Maximum) Tariff Levels and Tariffs for Products (Services) of Organizations Performing Regulated Activities» (indexation method).

¹ Decrease in NGP and average tariff for RC (Caucasus) is caused by the exclusion from RC for 2016 of Gizeldonskaya and Dzaudzhiksauska HPPs (installed capacity is less than 25 MW), the whole volume of electricity is sold at higher free-of-control (unregulated) prices.
The choice of the method of regulation is proposed to the regulated organization but always remains at the discretion of the Regulator.

In 2016 tariff campaign the growth of tariffs above the deflator index was achieved for the subjects of the REM, which produce power at HPPs and GPPs and are regulated by the method of economically justified costs.

**RUSHYDRO’S DAM AND CCA PRICE DYNAMICS**

In 2016 for PJSC RusHydro HPPs located in the second price zone the selling price of the DAM zone increased due to a combination of various factors, including due to the general increase in prices of DAM in the second and third quarters due to the decrease in the price-taking offer of the HPP (due to the decrease in the water availability of planned HPP production), due to the decrease in production of NPP (due to scheduled repairs of power units) and due to the increase in the volumes of more expensive TPP supply.

For PJSC RusHydro HPPs located in the second price zone, the selling price in the DAM decreased as a whole. The main reasons were the increased influx of Siberian rivers, the expansion of the repairing campaign and the deterioration of the network capacity, both in cross sections between price zones and within the zone of Siberia.

The increase in the price for the capacity sales at the CCA for HPPs of the second price zone is due to the «liberalization» of the capacity market for HPPs from 01.05.2016.

**PLANS FOR 2017**

In accordance with the plans of the Ministry of Energy of the Russian Federation, the Scheme and the program for the development of the Unified Energy System of Russia for 2016–2022 approved by the Order of the Ministry of Energy of the Russian Federation No. 147 of 01.03.2016, based on the analysis of the Investment Program and the business plan of PJSC RusHydro it is expected that:

- The share of generation of generating facilities belonging to the RusHydro Group in the overall output of the Russian Federation in 2017 will decrease from 12.95 % in 2016 to ~ 12.72 % in 2017 while the output of the Company will be about 2 %;

- The share of the installed capacity of power plants of the RusHydro Group in the installed capacity of the Russian power plants will decrease from 15.92 % in 2016 to 15.49 % in 2017 while the Company’s installed capacity growth will be about 1.5 %.

1 Decree of the Government of the Russian Federation of 30.04.2016 No. 379 lifted restrictions on the sale of the entire capacity of hydroelectric power plants located in the 2nd price zone at free-of-control (unregulated) prices. Thus, the entire amount of capacity of HPPs located in the 2nd price zone minus the volumes supplied by RC was supplied at the price of CCA. Early liberalization was introduced on the condition that the maximum increase in the unit cost of electricity and capacity purchase for consumers in the Republic of Buryatia, determined by the Government of the Russian Federation will not exceed 7.5 % from May to December 2016. If this level of price increase is exceeded then 100 % liberalization will be canceled and HPPs will return to the previous liberalization level of 81 %.

2 Weighted average price of DAM / COM.

3 Weighted average DAM price.

4 Weighted average CCA price.
FAR EAST ELECTRIC POWER INDUSTRY FEATURES

Electricity market model in the non-price zone of the Far East

The development of the Far East is one of the highest priorities of the state. For its solution the Federal Target Program for the Development of the Region has been developed and the Ministry for the Development of the Russian Far East has been created.

In the energy sector of the region the situation is complicated by the presence of state regulation of tariffs for heat and electricity. The retiring capacities need to be replaced. The construction of new stations is necessary to improve the reliability of the region’s energy supply and to contain growth of tariffs. The management of energy companies operating in the regions of the Far Eastern Federal District in all sectors of the electric power industry – the production of electric and heat, their transfer and sale is carried out by RAO ES EAST, PJSC that is part of the RusHydro Group.

Investment projects aimed at developing the energy infrastructure of the Far East are priority for the RusHydro Group.

Share of WEM sales

- DEK 77%
- Others 5%
- Rusenergosbyt 6%
- Inter RAO 3%
- FSK EES 4%
- Yakutskenergo 2%
- Transneftegaz 3%

In the non-price zone of the Far East, tariff regulation is carried out: sales of balance electricity volumes and capacity at the WECM is carried out under quadripartite contracts at supplier tariffs. Overbalance volumes of production and consumption can be realized under bilateral agreements.

Short-term are only on e/e on the volume of overbalance output, as well as between the new gene. objects and consumers (since 2008) at a price not higher than the maximum of the limit level and the supplier’s double tariff.

Long-term (from 10 years) are on e/e and power between the new gene. objects and consumers (since 2011) at a price not exceeding the maximum level of regional prices (tariff).

The possibility of concluding bilateral agreements:

- Export
- Inter RAO
- Glavenergosbyt
- Enginering
- Mechelenergo
- FSK EES
- Transneftegaz
- System
- Yakutskenergo
- NKK-energo
- RusEnergoRe
- Cement factory
- South Yakut energy district consumers
- Khabarovsk Refinery
- Primorsky Vodokanal
- Own consumers of PJSC «FEGC» as GP are in Amur Region, Primorsky Krai, Khabarovsk Territory, Jewish Autonomus Region
**TARIFF REGULATION**

RAO ES EAST, PJSC operates in the territory of non-price zones and isolated energy systems of the Far Eastern Federal District in accordance with the tariff decisions approved by the state federal executive bodies (FTS of Russia – up to 21.07.2015, after 21.07.2015 – FAS Russia) and by the executive government bodies of the constituent entity of the Russian Federation in the field of state regulation of tariffs (hereinafter – the regional authorities) in accordance with the principles of pricing and rules of state regulation of tariffs for electric and heat in Russia.

The companies of the RAO ES EAST Holding carry out the following types of regulated activities:

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of electricity to end users</td>
<td>In non-price zones: Until 01.07.2016 – the tariffs are set by the regional regulators within the limits set by the FAS Russia in 2016 in accordance with the methodological guidelines for calculation of regulated tariffs and prices for electric (thermal) energy in the retail (consumer) market. From 01.07.2016 – the actual prices for end consumers excluding the population calculated by the guaranteeing supplier on the basis of the rules for price transfer from WECM to REM provided for in the Main Provisions for the Operation of the Retail Electricity Markets approved by the Decree of the Government of RF of 04.03.2012 No. 442. In isolated PP: The tariff are set by regional regulators within the limits approved in 2016 by FAS Russia in accordance with the methodological guidelines for calculation of regulated tariffs and prices for electric (thermal) energy in the retail (consumer) market.</td>
</tr>
<tr>
<td>Generation of electricity and capacity for sale in the non-price zone of the WECM</td>
<td>The tariffs for electricity (capacity) for entities in the non-price zone of the WECM (Far East) in 2016 were established by FAS Russia in accordance with the Price (tariff) indexing formulas approved by the order of FAS Russia No. 1177/15 of 27.11.2015.</td>
</tr>
<tr>
<td>Transmission of electricity in the non-price zone of the WECM</td>
<td>The tariffs for services on transmission of electric energy in the territory of the non-price zone of the Far Eastern Federal District (except for the Republic of Sakha (Yakutia)) through the networks of JSC “FEDC” was approved by the regional regulators by the method of ensuring the return on invested capital (RAB). The end term of the next long-term regulatory period is 2017. In all territories of the zone of operation of JSC “FEDC” within the limits approved by the Federal Antimonopoly Service in 2016 the boiler tariffs for electricity transmission services have been established.</td>
</tr>
<tr>
<td>Generation of heat in combined generation mode</td>
<td>The tariffs are set by regional regulators by indexing the established tariffs within the approved in 2016 by FAS Russia maximum tariff levels for heat generated in the combined generation mode of electric and heat by heat sources with an installed generating capacity of electric power production of 25 MW or more.</td>
</tr>
<tr>
<td>Sale of heat to end users</td>
<td>The tariffs are approved by the PTR by indexing for the long-term period of 2016-2018. Starting from 2016 the tariff growth is limited not by the maximum level of tariff growth (FAS Russia is not established) but by the index of the change in the amount of utility payments paid by citizens for the constituent entities of the Russian Federation established by the Decree of the Government of RF No. 2182-r of 28.10.2015.</td>
</tr>
</tbody>
</table>

**Statutory tariff regulation**

- Federal Law No. 35-FZ of 26.03.2003 «On Electric Power Industry» establishes the main principles and methods of state regulation in the electric power industry, the powers of regulatory bodies. The main principles, methods for regulating prices (tariffs) in the electric power industry and the procedure for setting tariffs are defined by the Decree of the Government of RF No. 1178 of 29.12.2011 «On pricing in the field of regulated prices (tariffs) in the electric power industry».
- Federal Law No. 190-FZ «On Heat Supply» of 27.10.2010 establishes the main principles for regulating prices (tariffs) in the field of heat supply and the authorities of regulating bodies in the field of price (tariffs) regulation in the heat supply field. The main principles, methods of regulation, as well as the procedure for calculating and approving tariffs for heat are defined by the Decree of the Government of RF No. 1075 of 22.10.2012 «On Pricing in the Field of Heat Supply.»
- In order to implement the provisions of the above-mentioned law currently federal executive bodies in cooperation with PJSC RusHydro are developing by-laws that regulate the mechanisms for obtaining premium to the price of capacity in the price zones of the wholesale market and its distribution in the territories of the Far Eastern Federal District. The expected entry into force of the mechanisms is from 01.07.2017.
3.1.2 HEAT MARKET

The RusHydro Group presents in the heat generation market through the activities of RAO ES EAST Holding. The subsidiary companies of the Holding are participants of retail heat markets.

Business model

HEAT GENERATION

OF BOILER–HOUSES

<table>
<thead>
<tr>
<th>Total capacity</th>
<th>Installed capacity</th>
<th>Change, Gcal/h</th>
</tr>
</thead>
<tbody>
<tr>
<td>18,133.131 Gcal/h</td>
<td>18,133.131 Gcal/h</td>
<td>0</td>
</tr>
<tr>
<td>JSC &quot;FEGC&quot;</td>
<td>12,585.1 Gcal/h</td>
<td>228.32 Gcal/h</td>
</tr>
<tr>
<td>PJSC &quot;Yakutskenergo&quot;</td>
<td>1,188.02 Gcal/h</td>
<td>(17.01) Gcal/h</td>
</tr>
<tr>
<td>JSC &quot;Sakhaenergo&quot;</td>
<td>92.4 Gcal/h</td>
<td>0 Gcal/h</td>
</tr>
<tr>
<td>PJSC &quot;Magadanenergo&quot;</td>
<td>773.26 Gcal/h</td>
<td>0 Gcal/h</td>
</tr>
<tr>
<td>JSC &quot;Teploenergoservis&quot;</td>
<td>763.122 Gcal/h</td>
<td>(7.026) Gcal/h</td>
</tr>
<tr>
<td>JSC &quot;Chukotenergo&quot;</td>
<td>404.44 Gcal/h</td>
<td>0 Gcal/h</td>
</tr>
<tr>
<td>PJSC &quot;Kamchatskenergo&quot;</td>
<td>1,336.867 Gcal/h</td>
<td>(44.997) Gcal/h</td>
</tr>
<tr>
<td>JSC &quot;SENK&quot;</td>
<td>42.916 Gcal/h</td>
<td>1.334 Gcal/h</td>
</tr>
<tr>
<td>PJSC &quot;Sakhalinenergo&quot;</td>
<td>756.15 Gcal/h</td>
<td>0 Gcal/h</td>
</tr>
<tr>
<td>Total</td>
<td>17,942.89 Gcal/h</td>
<td>160.621 Gcal/h</td>
</tr>
</tbody>
</table>

HEAT TRANSMISSION

SALES OF HEAT TO THE POPULATION

SALES OF HEAT TO THE INDUSTRIAL CONSUMERS

in their territories. The sale of heat according to the legislation of the Russian Federation is a fully regulated activity.

The installed thermal capacity of RAO ES EAST power plants subsidiaries as of 31.12.2016 amounted to 18,133.131 Gcal/h and increased by 160.6 Gcal/h in 2016. The main influence on the change in thermal power was provided by the following factors:

- change in capacity of JSC «FEGC» with the commissioning of the second stage of Blagoveshchenskaya TPP – 188.6 Gcal/h, commissioning of boiler-houses «Nekrasovka» – 30.18 Gcal/h and «Volochevskoe town» – 9.54 Gcal/h;
- change in capacity of JSC «Yakutskenergo», output – 17.01 Gcal/h;
- change in capacity of the boiler-houses of the enterprise Communal power engineering of JSC «Kamchatskenergo», output – 65.0 Gcal/h;
- change in capacity of boiler-houses of JSC «Teploenergoservis», output – 7.0 Gcal/h;
- change of thermal capacity of JSC «SENK», input – 1.3 Gcal/h.

PRODUCTION AND TRANSMISSION OF HEAT

The heat output of power plants and boiler-houses of power companies of RAO ES EAST, PJSC Group in the Far Eastern Federal District in 2016 amounted to 31,494.2 thousand Gcal which is 3.6 % more than in 2015. The increase in heat supply in the Republic of Sakha (Yakutia), the Amur and Sakhalin regions, the Khabarovsk, Primorsky and Kamchatka regions is associated with a lower outdoor air temperature in the first and fourth quarters of 2016 than in 2015.

Installed capacity of power plants in 2014–2016, Gcal/h.

<table>
<thead>
<tr>
<th>RAO ES EAST subsidiaries</th>
<th>The installed capacity</th>
<th>Change, 2016–2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
<td>2015</td>
</tr>
<tr>
<td>JSC &quot;FEGC&quot;</td>
<td>12,585.1</td>
<td>12,585.1</td>
</tr>
<tr>
<td>PJSC &quot;Yakutskenergo&quot;</td>
<td>1,188.02</td>
<td>1,175.7</td>
</tr>
<tr>
<td>JSC &quot;Sakhaenergo&quot;</td>
<td>92.425</td>
<td>92.425</td>
</tr>
<tr>
<td>PJSC &quot;Magadanenergo&quot;</td>
<td>773.26</td>
<td>773.26</td>
</tr>
<tr>
<td>JSC &quot;Teploenergoservis&quot;</td>
<td>763.122</td>
<td>761.152</td>
</tr>
<tr>
<td>JSC &quot;Chukotenergo&quot;</td>
<td>404.44</td>
<td>404.44</td>
</tr>
<tr>
<td>PJSC &quot;Kamchatskenergo&quot;</td>
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<td>1,336.867</td>
</tr>
<tr>
<td>JSC &quot;SENK&quot;</td>
<td>42.916</td>
<td>42.916</td>
</tr>
<tr>
<td>PJSC &quot;Sakhalinenergo&quot;</td>
<td>756.15</td>
<td>800.65</td>
</tr>
<tr>
<td>Total</td>
<td>17,942.89</td>
<td>17,972.51</td>
</tr>
</tbody>
</table>

Heat output by power plants and boiler–houses in 2014–2016, thousand Gcal

<table>
<thead>
<tr>
<th>Index</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>JSC &quot;FEGC&quot;</td>
<td>21,744.1</td>
<td>21,206.0</td>
<td>22,144.0</td>
</tr>
<tr>
<td>PJSC &quot;Yakutskenergo&quot;</td>
<td>2,518.4</td>
<td>2,437.68</td>
<td>2,496.8</td>
</tr>
<tr>
<td>JSC &quot;Sakhaenergo&quot;</td>
<td>94.2</td>
<td>99.55</td>
<td>87.7</td>
</tr>
<tr>
<td>PJSC &quot;Teploenergoservis&quot;</td>
<td>1,049.4</td>
<td>1,359.2</td>
<td>1,333.5</td>
</tr>
<tr>
<td>PJSC &quot;Kamchatskenergo&quot;</td>
<td>1,251.8</td>
<td>1,252.6</td>
<td>1,232.0</td>
</tr>
<tr>
<td>Including Thermal stations</td>
<td>1,059.3</td>
<td>1,065.5</td>
<td>1,072.9</td>
</tr>
<tr>
<td>JSC &quot;Chukotenergo&quot;</td>
<td>461.9</td>
<td>478.4</td>
<td>442.6</td>
</tr>
<tr>
<td>PJSC &quot;Sakhalinenergo&quot;</td>
<td>1,508</td>
<td>1,485.7</td>
<td>1,558.1</td>
</tr>
<tr>
<td>JSC &quot;SENK&quot;</td>
<td>70</td>
<td>76.4</td>
<td>79.7</td>
</tr>
<tr>
<td>Total</td>
<td>31,165.0</td>
<td>30,388.9</td>
<td>31,494.2</td>
</tr>
</tbody>
</table>
The amount of heat losses in heat networks in 2016 amounted to 7,614.9 thousand Gcal (23.9 % in relation to the release of heat to the grid). Relative losses at the level of previous years: the increase of 0.3 % compared to 2015 and compliance with the level of losses in 2014.

**HEAT SALES MARKET**

In 2016 the actual productive heat supply in total for the RAO ES EAST, PJSC Group subsidiaries amounted to 23,442.0 thousand Gcal which is higher than the index of 2015 by 670.1 thousand Gcal. Revenues amounted to 46,248.8 million rubles and exceeded the index of 2015 by 4,299.2 million rubles.

The receipt of cash for the implemented heat in 2016 amounted to 44,183.2 million rubles which is higher than in 2015 by 4,305.6 million rubles. The level of payments to revenue in 2016 was 95.5 %.

The main share in the structure of productive supply is accounted for by the population, HOAs, HBCs, managing companies and accounts for 59.1 % of total consumption.

As of 31.12.2011 the debt of consumers for heat was 15,948.9 million rubles. The main share in the structure of accounts receivable is occupied by the population with HOAs, HBCs and Managing companies – 77.7 % of the total debt.

The following factors influenced the growth of the productive heat supply by 670.1 thousand Gcal in comparison with the year 2015: the decrease in the outdoor air temperature relative to the fact of the previous year, the increase in the duration of the heating season 2015-2016, and the earlier start of the heating season 2016-2017.

The cash inflow for heat released in 2016 amounted to 44,183.2 million rubles which is 4,305.6 million rubles higher than in 2015. The payment to revenue ratio in 2016 was 95.5 % which is higher than in 2015 by 0, 4 %.

### Dynamics of average tariffs, NGP, thousand rubles

<table>
<thead>
<tr>
<th>Name</th>
<th>2015</th>
<th>2016</th>
<th>Growth 2016-2015</th>
<th>Growth rate, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heat</td>
<td>45,198,287.14</td>
<td>48,405,780.36</td>
<td>3,207,493.33</td>
<td>107.1</td>
</tr>
</tbody>
</table>

### Dynamics of tariffs for heat for end consumers, rub/ Gcal

<table>
<thead>
<tr>
<th>Name</th>
<th>2015</th>
<th>2016</th>
<th>Variation, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>JSC “FEGC”, including</td>
<td>1,299.09</td>
<td>1,366.11</td>
<td>1,378.44</td>
</tr>
<tr>
<td>Amur region</td>
<td>767.7</td>
<td>794.3</td>
<td>806.86</td>
</tr>
<tr>
<td>Primorsky region</td>
<td>1,533.40</td>
<td>1,663.30</td>
<td>1,699.95</td>
</tr>
<tr>
<td>Primorsky region (LuTEK)</td>
<td>1,167.80</td>
<td>1,246.70</td>
<td>1,268.54</td>
</tr>
<tr>
<td>Khabarovsk region</td>
<td>2,121.60</td>
<td>2,126.30</td>
<td>2,127.44</td>
</tr>
<tr>
<td>Volochaevskaya boiler-house</td>
<td>1,471.20</td>
<td>x</td>
<td>1,471.20</td>
</tr>
<tr>
<td>Jewish Autonomous Region</td>
<td>1,825.30</td>
<td>1,897.20</td>
<td>1,899.45</td>
</tr>
<tr>
<td>“Neryunginskaya TPP” (Yakutia)</td>
<td>1,674.20</td>
<td>1,772.10</td>
<td>1,772.08</td>
</tr>
<tr>
<td>PJSC “Yakutskenergo”</td>
<td>1,325.50</td>
<td>1,376.60</td>
<td>1,376.32</td>
</tr>
<tr>
<td>PJSC “Kamchatskenergo”</td>
<td>4,409.60</td>
<td>4,742.40</td>
<td>5,029.23</td>
</tr>
<tr>
<td>PJSC “Magadanenergo”</td>
<td>3,692.20</td>
<td>3,978.80</td>
<td>4,029.84</td>
</tr>
</tbody>
</table>

### Heat sales in 2014-2016

<table>
<thead>
<tr>
<th>Index</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Productive heat supply, thousand Gcal</td>
<td>23,260.0</td>
<td>22,771.9</td>
<td>23,442.0</td>
</tr>
<tr>
<td>Revenue for heat, million rubles</td>
<td>40,590.6</td>
<td>41,949.6</td>
<td>46,248.8</td>
</tr>
<tr>
<td>Cash inflow for heat, million rubles</td>
<td>38,967.8</td>
<td>39,877.6</td>
<td>44,183.2</td>
</tr>
</tbody>
</table>
### 3.1.3 OPERATIONAL RESULTS

2016 events

- In 2016 actual electricity generation of RusHydro Group is 16.6% that is higher than in 2015
- Zaragizhskaya HPP (30.6 MW) and Zelenchukskaya HPP-HPSP (140 MW) were put into operation
- The construction of the Blagoveshchenskaya TPP second stage was completed

#### Generating facilities of RusHydro Group

<table>
<thead>
<tr>
<th>Name</th>
<th>Generation (million kWh)</th>
<th>Output (million kWh)</th>
<th>Installed capacity (MW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Bureyskaya HPP</td>
<td>6,665.9</td>
<td>5,830.3</td>
<td>7,052.70</td>
</tr>
<tr>
<td>The Zeya HPP</td>
<td>4,227.8</td>
<td>4,200.7</td>
<td>6,407.52</td>
</tr>
<tr>
<td>The Novosibirskaya HPP</td>
<td>2,117.9</td>
<td>2,092.5</td>
<td>2,497.74</td>
</tr>
<tr>
<td>The Sayano-Shushenskaya HPP</td>
<td>20,374.6</td>
<td>20,626.0</td>
<td>26,958.12</td>
</tr>
<tr>
<td>The Kamskaya HPP</td>
<td>1,998.4</td>
<td>2,463.8</td>
<td>1,926.54</td>
</tr>
<tr>
<td>The Votkinskaya HPP</td>
<td>2,792.5</td>
<td>3,210.9</td>
<td>2,873.17</td>
</tr>
<tr>
<td>The Upper Volga Cascade of HPPs</td>
<td>863.3</td>
<td>723.3</td>
<td>1,191.36</td>
</tr>
<tr>
<td>The Nizhegorodskaya HPP</td>
<td>1,281.2</td>
<td>1,168.7</td>
<td>1,491.62</td>
</tr>
<tr>
<td>The Cheboksarskaya HPP</td>
<td>1,998.4</td>
<td>2,463.8</td>
<td>1,926.54</td>
</tr>
<tr>
<td>The Zhigulevskaya HPP</td>
<td>10,484.1</td>
<td>10,398.3</td>
<td>10,670.87</td>
</tr>
<tr>
<td>The Volgzagorskaya HPP</td>
<td>1,889.7</td>
<td>1,841.5</td>
<td>1,875.35</td>
</tr>
<tr>
<td>The Kubanskaya Cascade HPPs</td>
<td>1,998.4</td>
<td>2,463.8</td>
<td>1,926.54</td>
</tr>
<tr>
<td>The North Ossetia branch</td>
<td>293.4</td>
<td>267.4</td>
<td>174.87</td>
</tr>
<tr>
<td>The Dagestan branch</td>
<td>4,014.1</td>
<td>4,196.8</td>
<td>4,107.71</td>
</tr>
<tr>
<td>Total</td>
<td>79,578.1</td>
<td>77,406.4</td>
<td>90,279.4</td>
</tr>
<tr>
<td>The Kolymskaya HPP</td>
<td>1,558.4</td>
<td>1,672.8</td>
<td>1,663.48</td>
</tr>
<tr>
<td>JSC The Ust-Srednekanskaya HPP</td>
<td>372.9</td>
<td>337.4</td>
<td>360.6</td>
</tr>
<tr>
<td>JSC Geo-Energy Power Plant</td>
<td>485.5</td>
<td>409.7</td>
<td>400.20</td>
</tr>
<tr>
<td>JSC The Fazulkevskaya GeoPP</td>
<td>42.3</td>
<td>42.3</td>
<td>43.11</td>
</tr>
<tr>
<td>CJSC IEC</td>
<td>474.7</td>
<td>453.4</td>
<td>405.66</td>
</tr>
<tr>
<td>PJSC The Kamchatka GEC</td>
<td>38.8</td>
<td>39.0</td>
<td>39.4</td>
</tr>
<tr>
<td>PJSC The Boguchanskaya HPP</td>
<td>38.8</td>
<td>39.0</td>
<td>39.4</td>
</tr>
<tr>
<td>PJSC The Blagoveshchenskaya TPP</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>PJSC RAO Energy Systems of the East</td>
<td>31,155.9</td>
<td>33,970.2</td>
<td>31,672.07</td>
</tr>
<tr>
<td>Total</td>
<td>121,988.3</td>
<td>127,350.9</td>
<td>138,810.2</td>
</tr>
</tbody>
</table>

1 The Blagoveshchenskaya TPP (second stage) is included into the power supply of the RAO ES EAST Holding.
**INSTALLED CAPACITY**

As for 01.01.2016 the installed capacity for the PJSC RusHydro Group was 38,652 MW. During 2016 the total installed capacity increased by 216.1 MW and as for 31.12.2016 it was 38,868.1 MW. The growth of installed capacity in PJSC RusHydro branches (comparing with previous year) happened due to equipment remarking: Novosibirskaya HPP – by 5.0 MW; Kamyskaya HPP – by 3.0 MW; Zhigulevskaya HPP – by 42.0 MW; Volzhskaya HPP – by 10.5 MW; Saratovskaya HPP – by 6.0 MW.

Besides, due to the commissioning of new hydroelectric power plants at the Zelenchukskaya HPP-PSPP of the branch of PJSC RusHydro – Karachay-Cherkessia Branch (140.0 MW) and Zaragizhskaya HPP transferred under the lease agreement to the branch of PJSC RusHydro – Kabardin-Balkaria Branch (30.6 MW).

**ELECTRICITY PRODUCTION**

In 2016 the electricity output of RusHydro Group amounted to 138.8 billion kWh which is 16.6 % higher than in 2015 and 11.6 % higher than planned. The increase in production is due to the actual hydrological conditions that developed during the reporting period and caused by high inflow to the reservoirs of Siberia and of the Far East. According to the Hydrometeorological Center of Russia the increase in inflow from the mean annual values was 12 and 57 % respectively.

The RusHydro Group was always first in the rating of installed capacity among Russian power suppliers. The implemented investment program gives grounds to expect it to maintain its leading position.

**ELECTRICITY AND CAPACITY SALES**

For 2016 net sales of electricity and capacity by branches of PJSC RusHydro which takes into account the purchase of electricity and capacity costs amounted to 107,227.3 million rubles.

The main factors that influenced the increase in revenue from the sale of electricity and capacity:

- the increase in electricity generation by 16.6 %,
- the increase in the price for the capacity sales at the CCA for HPPs of the second price zone due to the «liberalization» of the capacity market for HPPs from 01.05.2016,
- the growth of capacity purchase price at the CCA in the first price zone,
- the indexation of capacity purchase price at the CCA in the first price zone,
- the decrease of the amount and cost of purchasing electricity.

### PJSC RusHydro net revenue changes, million RUB

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>Change</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (revenue)</td>
<td>105,923.0</td>
<td>114,250.8</td>
<td>8,327.8</td>
<td>7.9</td>
</tr>
<tr>
<td>- Revenue from electric</td>
<td>73,262.4</td>
<td>77,338.1</td>
<td>4,075.7</td>
<td>5.6</td>
</tr>
<tr>
<td>- Revenue from capacity</td>
<td>32,562.6</td>
<td>36,932.7</td>
<td>4,370.1</td>
<td>13.0</td>
</tr>
<tr>
<td>- Services of Regional Distribution Grid Company</td>
<td>77.9</td>
<td>79.9</td>
<td>2.0</td>
<td>2.6</td>
</tr>
<tr>
<td>Purchasing expenses</td>
<td>13,970.2</td>
<td>7,023.5</td>
<td>-6,946.7</td>
<td>-49.7</td>
</tr>
<tr>
<td>- Cost of electricity purchased</td>
<td>13,957.3</td>
<td>7,005.5</td>
<td>-6,951.8</td>
<td>-49.8</td>
</tr>
<tr>
<td>- Cost of capacity purchased</td>
<td>12.9</td>
<td>18.0</td>
<td>5.1</td>
<td>39.5</td>
</tr>
<tr>
<td>Net revenue</td>
<td>91,952.8</td>
<td>107,227.3</td>
<td>15,274.5</td>
<td>16.6</td>
</tr>
</tbody>
</table>

1 The data are given taking into account the PJSC «Boguchanskaya HPP» (owned by PJSC RusHydro and UC RUSAL), taking into account the HPP-2 of PJSC KamGEC, excluding HPP-1 and HPP-3 of PJSC KamGEC, which are under trust management of PJSC RusHydro.


ELECTRICITY SALES

Revenues in the DAM occupy the first position in the structure of the electricity sales revenues of the branches of PJSC RusHydro. Thereby, its share grew from 81.9 % to 91.4 % ( + 17.7 %) in 2016 against the decrease of sales as per free bilateral contracts (FBC) by 99 % and the slight increase in sales volume of electricity in the balancing market (BM) by 1.8 %.

CAPACITY SALES

The main part of revenue from sales of capacity by the branches of PJSC RusHydro is formed by contracts signed within the CCA. Following the results 2016 the share of such contracts decreased from 55.2 to 51.4 % ( + 5.0 % in value terms) against the backdrop of growth in sales under free capacity sale and purchase contracts (FCSPC) from 4.3 % to 9.35 %. The conclusion of the FCSPA is due to the need to improve the payment discipline at the WECM. As a result of these agreements the share of defaulters is reduced for the capacity sold within the CPA, thereby increasing the overall level of payment for the delivered capacity. Also sales of new NPPs and HPPs under capacity sales and purchase contracts increased by 57.8 % due to the beginning of work at the WECM of Gotsatinskaya HPP since October 2015.
3.2 OPERATIONS AND PROCUREMENT MANAGEMENT

3.2.1 OPTIMIZATION AND INCREASE OF OPERATING ACTIVITIES EFFICIENCY

A significant contribution to the positive results of the RusHydro Group in 2016 was made by consistent management efforts aimed at optimizing all manageable operating expenses of the Group and selling large assets that do not affect the Group’s core business.

In the reporting year a five-year program to optimize the operating expenses of the RusHydro Group was adopted with special attention paid to maintaining a high level of reliability and safety. The optimization of capital expenditures for 2016–2019 is almost 60 billion rubles.

The target value of the indicator «Decrease in operating costs (expenses)» is at least 2 % annually for the period 2015-2019, while in accordance with the directive of the Government of the Russian Federation from 04.07.2016 No. 4750p-P13, the target value of the KPI «Decrease in operating costs (expenses)>> for 2016 is not less than 10 %. The KPI in the reporting year was fulfilled by 11 percent: the actual effect of PJSC RusHydro of the implementation of measures to reduce operating expenses in 2016 amounted to 3.7 billion rubles (-15.4 % of the level of 2015 taking into account inflation 5.4 % according to data Rosstat).

For the Group’s operating expenses and the factors that affected the change see Section 2.3 Financial Results.

In pursuance of the Action Plan of the Government of the Russian Federation aimed at ensuring the stable social and economic development of Russia in 2016 approved by the Government of the Russian Federation on 01.03.2016, the Directive of the Government of the Russian Federation No. 379p-P13 of 01.06.2016 and the decisions of the Board of Directors of PJSC RusHydro (Minutes of 23.06.2016 No. 239) according to the technical assignment approved by the Ministry of Economic Development of the Russian Federation for auditing the costs of the RusHydro Group and developing the action plan for their optimization, an audit of costs was carried out.

The audit was conducted in the areas with the greatest potential to reduce costs: • operating expenses, • management model and the reduction in administrative and management costs, • investment activities.

The plan of measures to optimize costs based on the results of an external independent audit of the Company’s costs taking into account the subsidiaries is approved by the decision of the Board of Directors (Minutes No. 244 of 23.11.2016).

3.2.2 PROCUREMENT MANAGEMENT

REGULATION OF THE PROCUREMENTS

PJSC RusHydro in the conduct of purchases of goods, works and services is guided by the requirements of the legislation of the Russian Federation in particular by the requirements of the Federal Law of 18.07.2011 No. 223-FL «About procurements of goods, works, services by Individual Types of Legal Entities» and also by the procurement policy for the needs of PJSC RusHydro (approved in a revised version by the decision of the Board of Directors of PJSC RusHydro of 23.06.2006 No. 239, as amended). The Policy have been developed with a view to timely and qualitatively providing the Company with goods, works, services and economical expenditure of funds of the Customer based on the principles of transparency and competition in full compliance with Russian law.

For monitoring and coordination of procurement activities the Company has established a collegial permanent body – the Central Procurement Commission (CPC). The functional of the CPC includessolving of disputes and complaints during the implementation of regulated purchases, monitoring compliance with the requirements of the legislation of the Russian Federation, normative documents of PJSC RusHydro in conducting regulated purchases.

For direct organization and conduct of procurement procedures the CPC appoints permanent procurement commission. The procurement commissions according to powers are allocated to commissions of the 1st and 2nd level, as well as specially created procurement commissions.

The procurement function is structured in the following way: in the staff of the Executive body of PJSC RusHydro the procurement is carried out by the Purchasing, Marketing and Pricing Department, and in the staff of branches – by the offices for procurement.

PJSC RusHydro publishes information about planned purchases of goods, works and services of the Company, places current official procurement publications containing the name of the purchase (subject of procurement), significant conditions for competitive procurements and other information on procurement on the official website of the Russian Federation www.zakupki.gov.ru, as well as on the electronic trading platforms www.b2b-energo.ru and https://rushydro.roseltorg.ru. According to the results of the procurement there is published information on the results of the procurement with an indication of the bid winner and the price of the winner’s bid of the competitive procedure.

In 2016 1,034 competitive procurement in electronic form were held in the amount of 21, 672.18 thousand rubles which is 88.45 % at a cost of conducted competitive procurement procedures.
In accordance with Order No. 180 of 21.03.2016 «On the centralization of procurement activities and the system of supply of goods, work, services of enterprises of the RusHydro Group» by the Chairman of the Management Board – CEO N. Shulginov and for the purpose of centralization and raising the efficiency of procurement practices and supplying the Group with goods and services a special entity of JSC RusHydroSnabzheniye (JSC RHS) was created. Its activities were started by the Chairman of the Management Board – CEO N. Shulginov on 2016, August 9.

Current goals of JSC RHS:
• ensuring the transparency of procurement practices,
• ensuring the optimal quality of the purchased goods and services,
• increasing the speed of procurement and supplies.

Current functions of JSC RHS:
• development of the procurement and supply function of the Group,
• support of the procurement planning process and the work of the CPC,
• approval of the documents necessary for the start of the procurement procedures,
• market analysis,
• organization and realization of the procurement procedures,
• analysis of the pricing documents,
• approval of contracts and additional contracts,
• inspections of the economic safety,
• other support functions for the procurement management of the Group’s companies.

On the website of the Unified Information System in the field of procurement (http://zakupki.gov.ru/epz/gws/quicksearch/search.html) and on the website of PJSC RusHydro there is a list of goods, works, services, purchases of which are carried out by small and medium-sized businesses.

As a result of 2016, the share of purchases from small and medium-sized businesses amounted to 73.78 %, including purchases from small and medium-sized businesses based on the results of bids, in which small and medium-sized business entities are participants the only in procurement (56.8 %).

In 2017, PJSC RusHydro plans to purchase from small and medium-sized businesses in the amount of not less than 18 % of the total volume of purchases, including at least 10 % of purchases conducted with the participation of small and medium-sized businesses only.
3.3 INTERNATIONAL ACTIVITIES

PJSC RusHydro International Cooperation

**USA**
Cooperation with General Electric in the field of power engineering

**Spain**
Cooperation with Abeinsa Business Development S.A. (ABENGOA) in the field of hydropower

**Austria**
Cooperation with Voith Hydro in hydropower

**Tajikistan**
Rogunskaya HPP design

**Japan**
Cooperation with Mitsui, KOMAIHALTEC, Kawasaki Heavy Industries and Sojitz in the field of HPP, HPPP, heat, wind and geothermal power projects, as well as production of liquefied hydrogen

**Vietnam**
Designing hydropower complex Lai Chau (JSC Hydroelectric Institute)

**India**
Cooperation with NEPCO in the design of HPP Upper Siang-2

**Cuba**
Cooperation with Union Electrica in the field of hydropower

**Armenia**
Operation of the Sevan-Hrazdan cascade

**China**
Cooperation with Power China in the field of hydropower and renewable energy and Zhefu in the field of equipment supplies
3.3.1 TARGETS AND GOALS OF INTERNATIONAL ACTIVITIES

The attraction of investments, innovative technologies, and equipment to RusHydro projects and the expansion of the Group’s presence in foreign markets based on its long-term experience in engineering, building, and operating energy facilities are the main objectives of the Company within its international activity.

The RusHydro focuses on long-term and mutually advantageous cooperation with foreign partners, which corresponds to the geopolitical interests of the Russian Federation.

The main directions of international activities are:

- the representation of interests of the RusHydro and of the Russian power industry in political, industry and business areas;
- bilateral cooperation with foreign energy companies and energy equipment producers, including the development of joint ventures and the localization of production within the territory of Russia;
- the cooperation with intergovernmental organizations and sectoral and business associations;
- the promotion of the attraction of foreign investments to the RusHydro projects;
- cooperation in experience exchange, innovations, and new technologies in hydropower, thermal power, RES, and heat supply;
- the monitoring of processes in the global energy industry.

3.3.2 INTERNATIONAL PARTNERSHIP

The largest world generating and engineering companies and the power equipment producers including Mitsui, KOMAIHALTEC, Kawasaki Heavy Industries and Sojitz, Voith Hydro, GE, PowerChina and ZHEFU are the main partners of RusHydro.

Together with Japanese companies Mitsui, KOMAIHALTEC, Kawasaki Heavy Industries and Sojitz, the possibilities of joint implementation of projects in the field of development of HPPs, PSPs, wind and geothermal power facilities, as well as production of liquefied hydrogen are being explored. The cooperation with Voith Hydro on the project of localization of production and on the modernization of the equipment of the hydroelectric power plants of RusHydro is continuing. As a part of the comprehensive modernization of the assets of PJSC RusHydro in the field of thermal generation in the Far East of Russia the cooperation with energy companies and power equipment manufacturers of Japan, China, the United States and other countries is carried out.

As a part of advancing the competencies of the RusHydro scientific and project complex in the field of hydropower and

<table>
<thead>
<tr>
<th>Agreement</th>
<th>Area of cooperation</th>
<th>Advantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agreement on technological cooperation between PJSC RusHydro and Mitsui &amp; Co., Ltd</td>
<td>Cooperation in the field of joint development of strategic cooperation for the implementation of new projects using technologies and expertise of the Japanese side.</td>
<td>The possibilities of attraction of investments and modern international technologies.</td>
</tr>
<tr>
<td>Memorandum of Understanding on the implementation of cooperation projects between PJSC RusHydro and Mitsui &amp; Co., Ltd</td>
<td>Cooperation and joint implementation of potential projects mainly in the field of thermal, hydro, wind, geosheat and production of liquefied hydrogen.</td>
<td>The possibilities of the attraction of investments and modern international technologies.</td>
</tr>
<tr>
<td>Memorandum of Understanding on Acquisition of Treasury stocks of PJSC RusHydro between PJSC RusHydro, Mitsubishi &amp; Japan Bank for International Cooperation (UBIC) (02.09.2016)</td>
<td>The implementation of the acquisition of treasury stocks of PJSC RusHydro, Mitsubishi conducted a comprehensive audit of the main assets of PJSC RusHydro.</td>
<td>Fund raising for the implementation of projects within the territory of the Russian Federation.</td>
</tr>
<tr>
<td>Memorandum of Intent between PJSC RusHydro, Mitsui and KOMAIHALTEC Ink (16.12.2016)</td>
<td>The implementation of potential joint wind energy projects (within the framework of the RES Development Program). For this purpose, the Parties intend to reduce the cost RES projects due to the production of wind power plant or an element (elements) of wind power plants within the territory of the Russian Federation.</td>
<td>Attraction of investments and modern international technologies.</td>
</tr>
<tr>
<td>The agreement between PJSC RusHydro, Kawasaki Heavy Industries, Ltd and Sojitz Corporation on cooperation to expand the use of GTUs in the implementation of projects in the Far Eastern Federal District (16.12.2016)</td>
<td>Cooperation to expand the use of GTUs in the implementation of projects on the territory of the Far Eastern Federal District. According to the agreement, Kawasaki undertakes to certify the GTUs manufactured equipment in accordance with Russian standards, and together with Sojitz to open a service company in the Far Eastern Federal District in 2017 to maintain this equipment.</td>
<td>Attraction of modern international technologies and equipment.</td>
</tr>
<tr>
<td>Declaration of intent for the purpose of cooperation in the field of RES development between PJSC RusHydro, the Republic of Sakha (Yakutia) and the New Energy and Industrial Technology Development Organization of Japan (NEIDO) (16.12.2016)</td>
<td>Cooperation in the implementation of mutually beneficial Russian-Japanese projects in isolated energy areas of the Russian Federation.</td>
<td>The possibilities of attraction of modern international technologies.</td>
</tr>
</tbody>
</table>
RES to foreign markets, in 2016, the RusHydro’s engineering organizations successfully completed contracts for the provision of engineering services at facilities in Turkey and Vietnam. In 2016, a number of contracts and contracts for the provision of engineering services were concluded within the framework of energy projects, including in Tajikistan and India.

The Company concluded a number of agreements on cooperation and the implementation of joint projects with the largest foreign power corporations within the reporting year.

The RusHydro participates in the meetings of intergovernmental commissions on trade and economic and scientific and technical cooperation between Russia and foreign countries. Those events result in the establishment of working contacts with foreign business partners.

### 3.3.3 Cooperation with International Organizations

The PJSC RusHydro pays considerable attention to participation in the activity of international power organizations. The RusHydro representatives participate in committees and working groups of a number of non-profit partnerships and international organizations being the members of such organizations as:

- World Energy Council
- The Global Sustainable Electricity Partnership (GSEP),
- The International Hydropower Association (IHA),
- The International Commission on Large Dams (ICOLD),

The Company develops cooperation within international government organizations and integration associations including the Eurasian Economic Union (EEU) as a part of activities with the Eurasian Economic Commission (EEC), the CIS Electric Power Council (CIS EPC), the Asia Pacific Economic Cooperation (APEC), the Shanghai Cooperation Organization (SCO), BRICS, etc.

The Company is an active participant of large international forums, exhibitions, and conferences on thermal power, hydropower, RES, and heat supply. In 2016 the RusHydro Group sponsored and actively participated in the East Economic Forum which was an efficient platform for the establishment and strengthening of relations with foreign partners, especially with Asia-Pacific countries, and attracting investors to Far East energy infrastructure development projects. Also the traditional international platform for RusHydro’s presence is the St. Petersburg International Economic Forum.
CHAPTER 4.
CORPORATE GOVERNANCE
Dear Shareholders!

2016 became not only successful in all key operational indicators for the RusHydro Group, but also laid the fundamentals for transformations aimed at Company’s sustainable growth.

Approval of the Strategy, fund raising to refinance the RAO ES of the East Subgroup debt, launch of a large cost optimization program, RAO ES of the East consolidation – these and other important events demanded a tense, coordinated work of the governing bodies. They would not have been possible without a strategic initiative, a clear vision and the will to achieve results. All these qualities were fully demonstrated by the Board of Directors, its Committees and management.

The work carried out in 2016 to introduce the Corporate Governance Code into practice showed a good dynamics of the Company’s compliance with the principles of corporate governance. The work on the corporate governance development will be continued in 2017 and in the future. For us, transparent and effective corporate governance was and will be the key to the successful and sustainable development of RusHydro Group.

Andrew Kazachenkov
Member of the Management Board – First Deputy CEO
4.1 CORPORATE GOVERNANCE SYSTEM

4.1.1 CORPORATE GOVERNANCE STRUCTURE

The highest governance body in the Company is the General Meeting of Shareholders, which annually elects the Board of Directors, the Audit Commission and the auditor. The Board of Directors forms the Committees of the Board of Directors and the Management Board, appoints the Chairman of the Management Board – CEO, the Corporate Secretary and approves the appointment of the Head of the Internal Audit Service. In 2016, there were no significant changes in the Corporate Governance System.
4.1.2 COMPLIANCE WITH THE PRINCIPLES OF THE CORPORATE GOVERNANCE CODE

The key document determining corporate governance in the Company is the Corporate Governance Code of the Company. The Corporate Governance Code was approved by the Board of Directors of the Company on June 19, 2015. By the decision of the Board of Directors of June 23, 2016 a number of amendments were made to the Code. In 2016, the Company introduced the provisions of the Code by bringing internal documents in line with it, as well as applying the provisions in daily practice.

4.1.3 SUBSIDIARIES MANAGEMENT

PJSC RusHydro participates in the authorized capitals of companies engaged in design, construction, maintenance and repair, technical re-equipment and reconstruction of power facilities, and production and sale of electricity.

The interaction between the Company and its subsidiaries is aimed at implementing the Company strategy, ensuring stable economic development and investment attractiveness, protecting the rights and interests of shareholders, both the Company itself and the subsidiaries.

The subsidiary companies are managed through their representatives by the General Meetings of Shareholders, the boards of directors and in the control bodies of subsidiaries in accordance with the Articles of Association and the Regulations governing the operations of the representatives of PJSC RusHydro in the management bodies of the companies it participates in.

The adoption of decisions on the management of subsidiaries, whose authorized capital fully belongs to the Company, is within the competence of the Board of Directors. Determination of the Company’s position on strategic issues related to the activities of its subsidiaries (reorganization, liquidation, change of the

<table>
<thead>
<tr>
<th>Status of the implementation of the Code provisions and principles</th>
<th>Principles, the Company that are fully observed</th>
<th>Principles, the Company that are partially observed</th>
<th>Principles, the Company that are not observed</th>
<th>Not applicable</th>
<th>In total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholder rights and equality of shareholders in the exercise of their rights</td>
<td>9</td>
<td>10</td>
<td>3</td>
<td>2</td>
<td>1</td>
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<tr>
<td>Board of Directors</td>
<td>12</td>
<td>20</td>
<td>17</td>
<td>12</td>
<td>7</td>
</tr>
<tr>
<td>Corporate Secretary</td>
<td>—</td>
<td>2</td>
<td>2</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>System of remuneration of members of the Board of Directors, executive bodies and other key management employees of the Company</td>
<td>3</td>
<td>10</td>
<td>6</td>
<td>—</td>
<td>1</td>
</tr>
<tr>
<td>Risk management and internal control system</td>
<td>5</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>—</td>
</tr>
<tr>
<td>Information Disclosure on the Company, the Company’s information policy</td>
<td>1</td>
<td>3</td>
<td>6</td>
<td>4</td>
<td>—</td>
</tr>
<tr>
<td>Significant Corporate Actions</td>
<td>—</td>
<td>—</td>
<td>4</td>
<td>4</td>
<td>1</td>
</tr>
</tbody>
</table>

1 Extract from the report on compliance by the Company with the principles and recommendations of the Corporate Governance Code, drawn up using Letter No. 06-02/8 of the Central Bank of the Russian Federation of February 17, 2016. For a full report on the Company’s compliance with the principles and recommendations of the Corporate Governance Code and explaining deviations from the criteria for assessing compliance with the corporate governance principle, as well as information on compliance with the UK Corporate Governance Code, see the Appendix 1 to the PJSC RusHydro annual report.

In 2016, the Company purchased shares of RAO ES EAST, PJSC, the largest holding company of the Company, from minority shareholders on the basis of a public offer. In 2017, PJSC RusHydro will manage the operations of RAO ES EAST, PJSC as well as those of its controlled companies.
4.2 GOVERNING BODIES

4.2.1 GENERAL MEETING OF SHAREHOLDERS

On 27.06.2016 the Company held its Annual General Meeting of Shareholders in Moscow where it approved the annual report, annual accounting (financial) statements, profit distribution at the end of 2015, declared dividends, elected new Board of Directors and the Audit Committee, approved by the auditor of the Company. The Company has also decided to pay remuneration to members of the Board of Directors, approved amendments to the Articles of Association, the Regulations on the Procedure for Convening and Holding Meetings of the Board of Directors of PJSC RusHydro, approved by the General Meeting of Shareholders on June 27, 2016.

The Company has also decided to pay remuneration to members of the Board of Directors, approved amendments to the Articles of Association, the Regulations on the Procedure for Convening and Holding Meetings of the Board of Directors of PJSC RusHydro, approved by the General Meeting of Shareholders on June 27, 2016.

(Minutes of the meeting, including the Minutes to: http://www.rushydro.ru/corporate/general-meeting/overpast/2016/godovoe-obshchee-sobranie-aktsionerov-pao-rugidro-27-iunya-2016-goda/)

4.2.2 THE BOARD OF DIRECTORS

The Board of Directors consists of 13 directors. The Board of Directors acts on the basis of the Regulations on the Procedure for Convening and Holding Meetings of the Board of Directors of PJSC RusHydro, approved by the General Meeting of Shareholders on June 27, 2016.

In 2016, there were two members of the Board of Directors – the board elected by the annual General Meeting of Shareholders on June 26, 2015 and the board elected on June 27, 2016. Out of 13 members of the Board of Directors, 8 members of the Board of Directors acted in each of these boards, 5 members of the Board of Directors were elected in 2016.

The liability of the Board of Directors’ members is insured annually.

Yury Trutnev – Chairman of the Board of Directors
Birth year: 1956. Education: Perm Polytechnic Institute (mining engineer)
Experience over the past 5 years:
2004-2012 – Minister of Natural Resources and Environment
2012-2013 – Assistant to the President of the Russian Federation
Member of the Supervisory Board of the State Corporation «Rosatom»
Nominated by (2016): Russian Federation
Status: Representative of the Russian Federation, voting on directives. Membership in the Board of Directors: since 2015
Committees: Committee for the Development of Energy in the Far East

Artem Avetisyan – Member of the Board of Directors during 2016
Experience over the past 5 years:
2011 – the director of the direction of the «New Business» ANO «Agency of strategic projects for the promotion of new initiatives»
2014-2016 – Vice-President of «NEO Centre»
2015-2016 – President of «Commercial Bank» Uniastrum
Nominated by (2016): Russian Federation
Status: Representative of the Russian Federation, voting on directives. Membership in the Board of Directors: since 2015
Committees: Investments Committee

BOARD OF DIRECTORS COMPOSITION ON 31.12.16

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yury Trutnev</td>
<td>Chairman of the Board of Directors</td>
</tr>
<tr>
<td>Artem Avetisyan</td>
<td>Member of the Board of Directors during 2016</td>
</tr>
</tbody>
</table>

1. Approved on June 27, 2016 by the annual General Meeting of Shareholders of PJSC RusHydro (Minutes of the annual General Meeting of Shareholders of PJSC RusHydro No.15 of June 29, 2016) http://www.rushydro.ru/upload/iblock/0ab/Prilozhenie--5-k-protokolu-godovogo-sobraniya-aktsionerov-pao-rusgidro-goda-2016-goda.pdf
Maxim Bystrov –
Member of the Board of Directors during 2016

Birth year: 1964. Education: Moscow Civil Engineering Institute. VV Kuibyshev (hydraulic engineering structures and river hydro power plants) All-Russian Academy of Foreign Trade, (the world economy)

Experience over the past 5 years:
2010-2013 – Deputy Plenipotentiary Representative of RF President in the North Caucasian Federal District
Since 2013 – Chairman of the Board of JSC «ATS»,
Since 2014 – Chairman of the Board and Member of the Supervisory Board of the Association «NP Market Council»
He is a member of the BoD JSC Resorts of the North Caucasus, JSC UES; Chairman of the Board of Management Company Airport Mineralnye Vody
Nominated by (2016): Russian Federation
Status: Recognized by the Board of Directors as an independent director. Membership in the Board of Directors: since 2013
Committees: Audit Committee, Personnel and Remuneration Committee, Investment Committee

Pavel Grachev –
Member of the Board of Directors since 27.06.2016

Birth year: 1973. Education: St. Petersburg State University, jurisprudence, lawyer; University of Trieste, jurisprudence, Doctor of law.

Experience over the past 5 years:
2011-2013 – Head of Representative Office ALPINA KAPITAL E.I.S.E.L. LIMITED «(Republic of Cyprus), Moscow
2013 – CEO of JSC «Fund for Development of the Far East and Baikal Region»
2013-2016 – member, Board of Directors, Polyus Gold International Limited
2013-2014 – Acting CEO Polyus Gold International Limited
2014 – Chairman of the Board of Managing Directors Representative offices of NGO Nafta Moscow (Cyprus) Limited (Republic of Cyprus) Moscow
2014-2016 – President of JSC Polyus
Since 2016 – CEO, member of the Board of Directors of LLC «MC Polus»
Since 2014 – Chief Executive Officer of Polyus Gold International Limited
Nominated by (2016): Russian Federation
Status: Independent Director. Membership in the Board of Directors: since 2015
Committees: Audit Committee, Personnel and Remuneration Committee, Committee on Reliability, Energy Efficiency and Innovation

Sergey Ivanov –
Chairman of the Board of Directors Deputy during 2016

Birth year: 1961. Education: Moscow Engineering Physics Institute (theoretical nuclear physics)

Doctor of Economic Sciences, Professor, Corresponding Member of the Russian Academy of Sciences

Experience over the past 5 years:
2012-2015 – CEO of LLC Lenset
2015-2016 – CEO of JSC Corporation Nechemozemagpromstroj
2011 – 2016 – CEO of JSC «Erka»
Since 2016 – CEO, member of the BoD of the LLC RT Kapital
Nominated by (2016): Russian Federation
Status: Recognized by the Board of Directors as the Independent Director. Membership in the Board of Directors: since 2015
Committees: The Strategy Committee, the Committee for the Development of Energy in the Far East

Vyacheslav Kravchenko –
Member of the Board of Directors during 2016

Birth year: 1967. Education: Moscow State University. University (jurisprudence)

Experience over the past 5 years:
2010-2012 – CEO JSC United Energy Company
2012-2013 – Chairman of the Management Board of ATS OJSC
2012-2013 – Chairman of the Management Board of NP Market Council
From 2013 – Deputy Minister of Energy of the Russian Federation
Chairman of the Board of Directors of JSC SD UES
Member of the Board of Directors of PJSC MOESK, PJSC IDGC of Siberia, PJSC Rosseti
Member of the Supervisory Board of NP Market Council
Member of the Board of Trustees of NIU MPEI
Nominated by (2016): Russian Federation
Status: Representative of the Russian Federation, voting on directives. Membership in the Board of Directors: since 2014
Committees: Committee on Reliability, Energy Efficiency and Innovation, Committee for the Development of Energy in the Far East
Vyacheslav Pivovarov —
Member of the Board of Directors during 2016
Experience over the past 5 years:
Since 2011 — President of Altera Capital LLC
Member of the Board of Directors of GeoProMining Investment Ltd (Cyprus)
Nominated by (2016): Russian Federation
Status: Independent Director. Membership in the Board of Directors: since 2013
Committees: Audit Committee, Personnel and Remuneration Committee, Investment Committee

Nikolay Podguzov —
Member of the Board of Directors since 27.06.2016
Birth year: 1974. Education: St. Petersburg State Technical University; Moscow State Institute of International Relations (University) of the Ministry of Foreign Affairs of Russia
Experience over the past 5 years:
2010–2012 head of department, head of the management of CJSC VTB Capital.
Since 2013 he is Deputy Minister of Economic Development of the Russian Federation.
Member of the Board of Directors of GC ASV, JSC Russian Railways, PJSC Rosseti and Member of the Supervisory Board of JSC AHML
Nominated by (2016): Russian Federation
Status: Representative of the Russian Federation, voting on directives. Membership in the Board of Directors: since 2013
Committees: The Strategy Committee

Nikolai Rogalev —
Member of the Board of Directors since 27.06.2016
Birth year: 1962. Education: Moscow Power Engineering Institute (Thermal Power Plants)
Experience over the past 5 years:
2012 — deputy of Manager of the Energy without Borders Foundation,
2013 — Acting Rector of FGBOU IN «NIU MPEI»
Since 2013 — the Rector of the State Educational Establishment of Higher Professional Education in the NIU MPEI
2001–2013 Head of Department Department (part-time) FGBOU IN NIU MPEI
Since 2016 — President of the NP «Scientific and Technical Council of the Unified Energy System»
Member of the Board of Directors of PJSC Rosseti
Nominated by (2016): Russian Federation
Status: Representative of the Russian Federation, voting on directives. Membership in the Board of Directors: since 2016
Committees: Committee on Reliability, Energy Efficiency and Innovation, Strategy Committee, Committee on Investments

Alexey Chekunkov —
Member of the Board of Directors since 27.06.2016
Birth year: 1980. Education: Moscow State Institute of International Relations, (economist)
Experience over the past 5 years:
2011–2013 Director of LLC «UK» RFPI
2013–2014 First Deputy CEO of OOO Kada-Neftegaz
Since 2014 — CEO of JSC «Fund for the Development of the Far East and Baikal Region»
He is a Member of the Supervisory Board of ALROSA (PJSC),
AND Agency for the Development of Human Capital in the Far East, AND Agency of the Far East on attraction of investments and export support, Member of the Board of Directors of the JSC Corporation for the Development of the Far East
Nominated by (2016): Russian Federation
Status: Member of the Board of Directors. Membership in the Board of Directors: since 2016
Committees: Committee on Energy Development of the Far East, Committee on Reliability, Energy Efficiency and Innovation, Committee on Investments
Andrey Shishkin —
Member of the Board of Directors during 2016

Birth year: 1959. Education: Moscow Institute of Petrochemical and Gas Industry. THEM. Gubkin (promteploenergetik-engineer)

Experience over the past 5 years:
2010 — 2012 — Deputy Minister of Energy of the Russian Federation
Since 2012 — vice-president, since 2015 — also a member of the Management Board of PJSC NK Rosneft
Since 2015 — General Director of LLC RN-Active
Since 2016 — President, Chairman of the Management Board, Deputy Chairman of the Board of Directors of PJSC ANC Bashneft
Member of the Board of Directors of OJSC Tyumen Energy Retail Company, RN-CIR LLC, United Shipbuilding Company JSC, National Oil Consortium LLC, RIG Research Pte. Ltd, Saras S.p.A., Chairman of the Board of Directors of JSC DCCS, JSC TsKB Lazurit

Nominated by (2016): Hydroinvest JSC

Status: Member of the Board of Directors. Membership in the Board of Directors: since 2011
Committees: The Strategy Committee

Nikolay Shulginov —
Member of the Board of Directors since 27.06.2016

Birth year: 1951. Education: Novocherkassk Order of the Red Banner of Labor Polytechnic Institute named after Sergo Ordzhonikidze (electricity supply of industrial companies and cities); Candidate of Technical Sciences

Experience over the past 5 years:
2004-2015 — Deputy Chairman, First Deputy Chairman of the Management Board of JSC System Operator of the Unified Energy System
Since 2015 — Member of the Board of Trustees of the Higher Education Federal State Educational Institution of Higher Education National Research University MEI, Member of the Management Board of the Russian Union of Industrialists and Entrepreneurs, Member of the Board of Trustees of the Federal State Autonomous Educational Institution of Higher Education «Siberian Federal University» (SFU), Chairman of the Board of Directors of RAO Energy Systems of the East, Member of the Board of Directors of PJSC Rosseti, Member of the Supervisory Board of NP «Hydropower of Russia» and Association NP «Council of the market for the organization of an effective system of wholesale and retail trade in electrical energy and capacity»

Nominated by (2016): Russian Federation

Status: Representative of the Russian Federation, voting on directives. Chairman of the Management Board — CEO. Membership in the Board of Directors: since 2016
Committees: The Strategy Committee
MEMBERS OF THE BOARD OF DIRECTORS FUNCTIONED UNTIL JUNE 27, 2016

Evgeny Dod – Representative of the Russian Federation, voting on directives
1973 year of birth. Education: Moscow Aviation Institute – State Technical University (economics and management at the enterprises of mechanical engineering). Candidate of Economic Sciences
Membership in the Board of Directors: Since 2010

Victor Zimin – Representative of the Russian Federation, voting on directives
1962 year of birth. Education: Tomsk State University of Architecture and Civil Engineering (cars and motor-car economics).
Membership in the Board of Directors: Since 2010

Larisa Calanda – Member of the Board of Directors
Membership in the Board of Directors: Since 2014

Denis Morozov – Representative of the Russian Federation, voting on directives
1973 year of birth. Education: Moscow State University. University (economics, law); The Swiss Banking School; Harvard Business School (Management); School of International Relations and Public Management at Columbia University (public administration, management of economic policy). Candidate of Economic Sciences.
Membership in the Board of Directors: Since 2013

Alexander Osipov – Representative of the Russian Federation, voting on directives
1969 year of birth. Education: Rostov-on-Don Institute of National Economy (Economic informatics and automation); Stavropol State University (jurisprudence); Academy of National Economy under the Government of the Russian Federation (financial management organisation).
Membership in the Board of Directors: Since 2015

EVALUATION OF THE BOARD OF DIRECTORS

In 2016, a remote evaluation (self-assessment) of the Board of Directors elected in 2015 was conducted. The evaluation was conducted with the involvement of the Association of Independent Corporate Directors «AICD» – an organization not affiliated with the Company.

The average self-assessment of the work of the Board of Directors in nine areas is defined as 4.1 points on a five-point system, which, according to the methodology of the NCSA, is characterized as a «Mature Level».

During the evaluation, an action plan for 2016-2017 corporate year was drawn up and implementation of the action plan for improving the activities of the Board of Directors was noted in the following areas:

- increase in the number of informal meetings of members of the Board of Directors and meetings of the Board of Directors (held on a full-time basis);
- consideration of strategic directions of activity by the Board of Directors (at meetings of the Board of Directors held on a full-time basis);
- consideration by the Board of Directors of issues related to the risk management system.
- consideration of the possibility of inclusion of the following issues into the agenda of the Board of Directors:
  - outcomes of the external evaluation of the Board of Directors,
  - a report on the implementation of this plan of measures to improve the effectiveness of the work of the Board of Directors and committees;
- consideration of the possibility of inclusion of the following issues into the agenda:
  - consideration of the Company’s reports on the implementation of the directives of the Government of the Russian Federation on optimization of the Company’s operational and capital expenditures (in particular, directive No. 4750-P13 of July 4, 2016).

The results of the evaluation and the plan of measures to improve the work of the Board of Directors were considered by the Board of Directors of the Company on June 23, 2016.
### CONFLICT OF INTEREST

In accordance with the Code of Corporate Ethics of PJSC RusHydro approved by the Board of Directors on 21.05.2012 (Minutes No. 152) and the Code of Corporate Ethics of PJSC RusHydro approved by the Board of Directors on April 7, 2016 (Minutes No. 235), members of the Board of Directors must refrain from actions that will lead or are potentially capable of leading to a conflict of interest, and in the event of a conflict of interest, a member of the Board of Directors must notify the Company thereof. The obligation to notify on a fact of a conflict of interest (from June 27, 2016) is also contained in the Regulations on the Procedure for Convening and Holding Meetings of the Board of Directors.

In 2016, one notification from a member of the Board of Directors, Alexander Osipov, was received on the fact of a conflict of interest in the voting on the issue of «Preliminary approval of the projects of investment programs of PJSC RusHydro for 2016 (adjustment) and for 2017 – 2019 in order to disclose information on the projects of investment programs of PJSC RusHydro in accordance with the Resolution of the Government of the Russian Federation of January 21, 2004 No. 24 «. According to Alexander Osipov, a member of the Board of Directors, the conflict of interests was expressed in the fact that he held a position in the Ministry of the Russian Federation for the Development of the Far East, which, in accordance with the normative legal acts of the Russian Federation, considers the investment programs of the electric power industry subjects (including JSC RusHydro) so that he abstained from the voting on this issue.

In 2016, there were no other notifications from members of the Board of Directors on their conflict of interest.

### REPORT ON PERFORMANCE OF THE BOARD OF DIRECTORS

The Board of Directors of PJSC RusHydro is a collegial body whose main task is strategic management. In addition to the strategy, the Board of Directors implements corporate governance, investment and business planning, performance management, innovation development, risk management, audit and control, ensures sustainable development, including social policy, charity and environmental aspects. The Board of Directors is also involved in some of the most important operational issues requiring regular supervision, such as reliable operation of the Company’s facilities, approval of individual transactions, management of subsidiaries, and others.

In 2016 the Board of Directors held full-time meetings 6 times, also held 10 absentee voting. 177 issues were considered.

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</thead>
<tbody>
<tr>
<td>Averisyan A. D.</td>
<td>6/7</td>
<td>V</td>
<td>V</td>
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<tr>
<td>Bystrov M. S.</td>
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<tr>
<td>Grachev P.S.</td>
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<tr>
<td>Ivanov S. N.</td>
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<tr>
<td>Kravchenko V. M.</td>
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<tr>
<td>Pivivarov V. V.</td>
<td>7/7</td>
<td>V</td>
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<tr>
<td>Podguzov N.R.</td>
<td>6/7</td>
<td>V</td>
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<tr>
<td>Rogalev N.D.</td>
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<tr>
<td>Trutnev Y. P.</td>
<td>7/7</td>
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<tr>
<td>Chekunkov A.O.</td>
<td>7/7</td>
<td>V</td>
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<tr>
<td>Shishin S.V.</td>
<td>7/7</td>
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<td>Shishkin A.N.</td>
<td>6/7</td>
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<td>Averisyan A. D.</td>
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<td>Bystrov M. S.</td>
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<td>Dod E. V.</td>
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<td>Zimin V.M.</td>
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<td>Ivanov S. N.</td>
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<td>Calanda L. V.</td>
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<td>Kravchenko V. M.</td>
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<td>Morozov D. S.</td>
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<td>Osipov A. M.</td>
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<td>Pivivarov V. V.</td>
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<td>Shulginov N.G.</td>
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</table>
### Attendance and participation of the Board members in the activities of the committees

<table>
<thead>
<tr>
<th>Attendance</th>
<th>Participation in committees</th>
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<tbody>
<tr>
<td></td>
<td>The Strategy Committee</td>
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<tr>
<td></td>
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<td></td>
<td>Trutnev Y. P.</td>
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<td>Avetisyan A. D.</td>
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<td>Bystrov M. S.</td>
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<td>Grachev P.S.*</td>
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<td>Ivanov S. N.</td>
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<td>Kravchenko V. M.</td>
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<td>Pivivarov V. V.</td>
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<td>Podguzov N.R.*</td>
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<td>Rogalev N.D.*</td>
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<td>Chekunkov A.O.*</td>
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<td>Shishin S. V.</td>
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<td>Shishkin A. N.</td>
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<td>Shulginov N.G.*</td>
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</tbody>
</table>

* Elected to the Board of Directors in 2016

### Agenda of the Board of Directors meetings on the most significant issues (Quarterly)

#### 1 Quarter
- Election of a member of the Management Board
- Preliminary approval of the investment program
- Environmental policy
- Questions of the Committees
- Charity program and report
- Changes to the standard Collective Agreement of the branches
- Transactions and priority projects

#### 2 Quarter
- Approval of the Strategy
- Report on the implementation of the Strategic Plan
- Business plan – report for 2015 and 1 quarter of 2016
- Investment program – report for 2015 and 1 quarter of 2016
- KPI – report for 2015 and 1 quarter of 2016
- Preparation of the financial report
- Questions of the Committees
- Board Report
- Amendment of the Corporate Governance Code
- Initiate cost audits
- Evaluation (self-assessment) of the Council’s activities
- The price of the auditor’s services
- Transactions and Priority Projects

#### 3 Quarter
- Election of a Chairman and work plan
- Questions of the Committees
- Consolidated business plan of the Group
- Business plan – report for the 2nd quarter of 2016
- Investment program – a report for the 2nd quarter of 2016
- KPI – a report for 2nd quarter of 2016
- Initiation of the development of an innovative development program
- Transactions and Priority Projects

#### 4 Quarter
- And the report for the first half of 2016
- Business plan for 2017
- Business plan – report for the 3rd quarter of 2016
- Investment program of 2017
- Investment Program – Report for the 3rd quarter of 2016
- KPI 2017
- KPI – Report for the 2nd quarter of 2016
- KPI – Report for the 3rd quarter of 2016
- Plan of measures to optimize costs
- Innovative Development Program and Report
- Placement of shares and «Non-Deliverable Forward»
- Transactions and Priority Projects

### Board members, whose membership was terminated at 27.06.2016

<table>
<thead>
<tr>
<th>Attendance</th>
<th>Participation in committees</th>
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<tr>
<td></td>
<td>The Strategy Committee</td>
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<td>Morozov D. S.</td>
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<td>Osipov A. M.</td>
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</tbody>
</table>
The issues considered by the Board of Directors

The Board of Directors devoted 6 meetings to the Company’s strategy and strategic transactions

In course of its meeting on 06.06.2016 the Board of Directors approved the Development strategy of the RusHydro Group for the period until 2020, with a perspective of up to 2025. At the meeting, the report on the implementation of the Strategic Plan of PJSC RusHydro for the period up to 2015 and the prospect until 2020 was reviewed. The Board of Directors was held in the form of a joint presence.

In accordance with the Directives of the Government of the Russian Federation, the Long-term Development Program of the RusHydro Group was amended at the meeting on October 7, 2016.

The Board of Directors at its meeting on 22.11.2016 approved the updated Long-term development program of the RusHydro Group for the period 2016-2020. At the meeting, the report on the implementation of the Long-term Development Program for the first half of 2016 was reviewed.

At its meeting on December 23, 2016, the Board of Directors of the Company approved target values and methodology for calculating key performance indicators of the Long-Term Incentive Program of PJSC RusHydro for the first cycle for 2017-2019.

The Board of Directors decided to increase Authorized Capital by an additional issue of 40.629 billion rubles, and approved a strategic deal for the non-deliverable forward for shares of PJSC RusHydro aimed at attracting financing for refinancing debts of the subsidiaries of RAD “ES of the East” Holding. These issues were considered at the meetings on 22.11.2016, 26.12.2016 and 27.02.2017.

The strategic deals – the sale of the dams of the hydropower plant of the Angarsk cascade and the sale of a significant controlled company ESKB LLC, the Board of Directors approved at meetings on October 7, 2016 and 11.11.2016, respectively.

The sessions of 06.06.2016, 22.11.2016 and 23.12.2016 were held in the form of a joint presence. Information on the Strategy is presented in section 2.1. Strategy of the RusHydro Group.

The Board of Directors devoted 9 meetings to the business planning and investments

The Business Plan and the Investment Program of the Company for 2017 are approved at the meeting on December 23, 2016. At the meeting, the Business Plan of the Company, including the Company’s Investment Program for 2018-2021, as well as planned data on investment objects of PJSC RusHydro and new construction sites of subsidiaries, taken into account for calculating the performance of the members of the Management Board of PJSC RusHydro «Implementation of capacity schedules and a plan for financing and development, %» were considered for the year of 2017.

The Consolidated Business Plan, including the Consolidated Investment Program of the RusHydro Group for 2016-2020 was considered and taken into account at the meeting on September 20, 2016.

The meetings were held in the form of a joint presence.

The Board of Directors preliminary approved the project of the Company’s Investment Program for 2016 (adjusted) and for 2017-2019, and reviewed the project of the Investment Program of the RusHydro Group for 2016 (adjusted) and for 2017-2019 at the meetings on April 7, 2016 and March 30, 2016, respectively.

The report on the implementation of the Business Plan and the Investment Program of the Company in 2015 was considered at a meeting on 06.06.2016 in the form of a joint presence.

The reports on the execution of the Business Plan and the Investment Program of the Company in the 1st quarter, half-year and the third quarter of 2016 were considered respectively on May 31, 2016, September 20, 2016 and December 26, 2016.

The Board of Directors quarterly reviewed the issue of the construction of 4 facilities in the Far East (Yakutskaya TPP-2 (1st stage), stage 2 of Blagoveschenskaya TPP, TPP in Sovetskaya Gavan, Sakhalinskaya TPP-2 (Phase 1), approved a change in the management model for the construction of these facilities, approved changes to the agreement on the provision of budgetary investments, which previously attracted state budget funding for these facilities.

In addition, the Board of Directors in 2016 approved the Regulation on the business planning system of PJSC RusHydro, the Regulation on the accounting of investment projects included in the list of investment projects of the RusHydro Group, approved a report on the implementation of a public technological and price audit for 2015 of projects, being implemented and planned for implementation under the Investment Program of PJSC RusHydro, and a list of investment projects, being implemented and planned for implementation under the Investment Program of PJSC RusHydro, for conducting a public technological and price audit in 2016-2017, considered the implementation of certain investment projects of the Company.

Information on performance and investments is presented in sections 2.3 Financial results and 2.4 Investments.
THE BOARD OF DIRECTORS DEVOTED 8 MEETINGS TO THE MANAGEMENT OF EFFICIENCY, INNOVATIONS AND KEY INDICATORS.

By virtue of the decision of the Board of Directors as of 23.06.2016, an independent audit of the Company’s costs was initiated and a cost optimization plan was developed for subsidiaries.

The costs optimization strategy based on the results of an external independent audit of the Company’s costs taking into account the subsidiaries was approved at the meeting on 22.11.2016 in the form of a joint presence. The strategy was taken into account when forming the Business Plan, which includes the Investment Program for 2017.

The KPIs, including the target values and methodology for calculating and evaluating the annual key performance indicators of the members of the Management Board of PJSC RusHydro, the target values and methodology for calculating and evaluating the KPI for the Long-Term Incentive Program of PJSC RusHydro were approved at the meeting on December 26, 2016.

At its meeting on October 7, 2016 the Board of Directors adjusted the previously approved key performance indicators for 2016.

The Board of Directors considered the report on the implementation of the KPI of the Company in 2015 at the meeting on 06.06.2016.

Reports on the performance of key indicators of the Company in the 4th quarter of 2015, 1 – 3 quarters of 2016 were considered respectively on 06.06.2016, 31.05.2016, 07.10.2016 and 26.12.2016.

In 2016, the Board of Directors launched a new innovative development program of the RusHydro Group for 2016-2020 with perspective prospect of up to 2025 and approved it at the meeting on November 22, 2016 after approval of the report on the implementation of the Innovative Development Program of PJSC RusHydro for 2011-2015 with a prospect of up to 2015.

The Board of Directors approved the Regulations on the procurement of products for the needs of PJSC RusHydro on June 23, 2016, approved by the Board of Directors of PJSC RusHydro and amended during 2016. The Board of Directors also delivered a number of orders to the management aimed at improving the efficiency of procurement activities.

The annual comprehensive procurement program of PJSC RusHydro for 2017 was approved at the meeting on December 26, 2016.

The reports on the implementation of the Annual comprehensive procurement program of PJSC RusHydro for 2016 were considered simultaneously with the approval of reports on the implementation of the Company’s Business Plan.

Information on measures to improve operational efficiency is presented in Section 2.3 Financial Results.

Information on procurement is provided in section 3.2.2 Procurement management.

Information about innovations is presented in section 2.5 Innovative development.

THE BOARD OF DIRECTORS DEVOTED 11 MEETINGS TO THE CORPORATE GOVERNANCE

In addition to the standard annual issues, related to the preparation of the Annual General Meeting of Shareholders, formation of Committees and consideration of reports on their activities, election of the Chairman and Vice-Chairman, planning of their work, consideration of the Board’s report, the Board of Directors in 2016 considered the issue of recognizing two directors as independent, reviewed the results of the evaluation (self-evaluation) of the Board of Directors, elected to the Board Kazachenkov A.V., considered the new organizational structure of the Company, approved the amendments to the Corporate Governance Code and the new edition of the Regulations on the Committees, the Regulation on the Corporate Secretary, decided to terminate the relationship with the former registrar and approved JSC VTB Registrar as a new registrar.

After the reporting date, at the meeting of 01.18.2017 the Management Board of Directors has increased the number of members of the Board by up to 6 people and has elected Markin V. I. to be a board Management Board member since 15.02.2017.

Apart from the foregoing, the Board of Directors considered audit issues in 2016, including the selection and recommendation of the auditor’s candidacy to the General Meeting of Shareholders, approved the remuneration of the auditor, approved the new version of the Internal Audit Policy, the Code of Ethics, the Anti-Corruption Policy, the Conflict of Interest Policy, the Environmental policy. It also considered the Charity and Sponsorship Program and the report on its implementation, approved the transactions of the Company and its subsidiaries, approved the Regulation of remuneration and compensation for the RusHydro Management Board members and the new edition of the Regulation of long-term motivation of PJSC RusHydro.

The list of issues considered by the Board of Directors other than those recognized as confidential is provided in the form of the texts of the Minutes in Appendix No. 7.
4.2.3 THE COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors of PJSC RusHydro has six committees: the Strategy Committee, the Audit Committee, the Investment Committee, the Personnel and Remuneration Committee, the Reliability, the Energy Efficiency and Innovation Committee and the Far Eastern Energy Development Committee.

The Audit Committee shall assist the Board of Directors in monitoring of the financial and business activities of the Company. The key function of the Committee is to monitor financial reporting, functioning of the internal control system, risk management, corporate governance, system of notification of dishonest actions, as well as to ensure the independence and fairness of internal audit and external audit.

Information on internal audit is given in section 4.3 Audit and control.

The list of issues considered by the Audit Committee in 2016, in addition to those recognized as confidential, is given in Appendix No. 8.

### 1st half of 2016

<table>
<thead>
<tr>
<th>Composition</th>
<th>Key issues</th>
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</thead>
</table>
| Independent members of the Board of Directors: Ivanov S.N., Bystrov M.S., Pivovarov V.V. | • Compliance with insider information requirements  
• Annual report  
• Auditor’s reports for the year 2015  
• Auditor’s candidacy for 2016  
• Auditor’s opinion on the implementation of the Long-term Development Program in 2015  
• Opinion of the Audit Commission |
|  | • Report on the implementation of the schedule of control activities  
• Report of the Audit Committee  
• Results of the procurement activities in 2015, corruption risks analysis  
• Evaluation of the effectiveness of the risk management system  
• Report of the RAS auditor, 9 months. |

### 2nd half of 2016

<table>
<thead>
<tr>
<th>Composition</th>
<th>Key issues</th>
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| Independent members of the Board of Directors: Ivanov S.N.*, Bystrov M.S., Pivovarov V.V. | • Analysis of corruption risks in capital construction projects  
• Proposals to improve the effectiveness of the Long-term Development Program  
• Compliance with insider information requirements  
• Plan of the audit schedule for 2017  
• Report on the execution of the plan of the audit schedule. |
|  | • Auditor’s plans for 2016  
• Auditor’s report for 6 months, 2016  
• Strategic risk management plan in 2016-2017  
• Internal Audit Policy  
• Registrar of the Company  
• Non-financial report |

### 1st half of 2016

<table>
<thead>
<tr>
<th>Composition</th>
<th>Key issues</th>
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</table>
| Independent members of the Board of Directors: Pivovarov V.V., Bystrov M.S.*, Ivanov S.N. | • Election of Board Member  
• Additional agreement (typical) to the collective agreement of the Company’s branch for 2014-2016  
• Report on the results of the committee  
• Payment of remuneration to members of the Board |
|  | • Regulation on remuneration and compensation of the Board of Directors in a new edition  
• Short-term and long-term motivation system of the Management Board and Chairman of the Management Board; the relationship between motivation and the Company’s Strategy (together with the Strategy Committee) |

### 2nd half of 2016

<table>
<thead>
<tr>
<th>Composition</th>
<th>Key issues</th>
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</table>
| Independent members of the Board of Directors: Pivovarov V.V., Bystrov M.S.*, Ivanov S.N. | • Regulations on the Corporate Secretary  
• Election of the Corporate Secretary  
• Organizational structure  
• KPI of members of the Management Board for 2017  
• Typical collective agreement of the branch for 2017-2019 |
|  | • Interested party transactions  
• Short-term and long-term motivation system of the Management Board and Chairman of the Management Board  
• Report of the Committee |

* Chairman of the Committee.
**Corporate Governance**

The Strategy Committee functions to ensure effective work of the Board of Directors on the issues of strategic development of the Company.

Detailed information about the Strategy is given in section 2.1. Strategy of the RusHydro Group. Information on the members of the Strategy Committee and the list of issues considered by the Committee in 2016, in addition to those recognized as confidential, are given in Appendix No. 8.

### 1st half of 2016

<table>
<thead>
<tr>
<th>Composition</th>
<th>Key issues</th>
</tr>
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<tbody>
<tr>
<td>Members of the Board of Directors: Avetisyans A.D., Osipov A.M., Shishin S.V., Shishkin A.N.</td>
<td>Implementation of the Strategic Plan for the period up to 2015 and for the future until 2020; Approval of the Group’s development strategy for the period until 2020, with a perspective up to 2025; System of motivation of the Company's management; (Together with the Committee for Personnel and Remuneration) Report of the Committee</td>
</tr>
<tr>
<td>Members of the Executive Bodies: Shulginov N.G., Rizhinashvili D.I.</td>
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<tr>
<td>Committee members: Auzan A.A.2, Zadvornov I.A., Mamin V.V., Nikonov V.V., Rusakov M.V., Olkhovich E.A., Snikkars P.N.</td>
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### 2nd half of 2016

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<th>Composition</th>
<th>Key issues</th>
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<tbody>
<tr>
<td>Members of the Board of Directors: Grachev P.S., Podguzov N.R.1, Rogalev N.D., Shishin S.V., Shishkin A.N., Shulginov N.G.</td>
<td>Implementation of the Long-term development program of the RusHydro Group in the first half of 2016; Cost optimization strategy; The Group’s long-term development program for 2016-2020; Alienation of ESKB LLC – a significant subsidiary; Refinancing of RAO ES EAST, PJSC – a significant subsidiary; The additional issue of shares of the Company and the Transaction «Non-Deliverable forwards»; Transactions in the process of de-fogging the project of the Boguchansky Energometallurgical Association; Sale of dams of the HPP of the Angarsk cascade; Report of the Committee</td>
</tr>
<tr>
<td>Members of the Executive Bodies: Rizhinashvili D.I.</td>
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<tr>
<td>Committee members: Auzan A.A.2, Zadvornov I.A.2, Mamin V.V., Nikonov V.V., Olkhovich E.A., Rusakov M.V., Snikkars P.N</td>
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**The Investments Committee** was established for consideration of new investment projects and investment programs, as well as improvement and development of the Company’s investment policy.

Detailed information on investments is given in section 2.4. Information on the members of the Committee on Investments and the list of issues considered by the Committee in 2016 are given in Appendix No. 8.

### 1st half of 2016

<table>
<thead>
<tr>
<th>Composition</th>
<th>Key issues</th>
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<tbody>
<tr>
<td>Independent members of the Board of Directors: Bystrov M.S.3, Pivovarov V.V.</td>
<td>Progress in the implementation of priority projects; Regulation on the business planning system; Public technological and price audit; Regulation on the procedure for recording investment projects included in the investment program; Procurement Regulations; Adjustment of the investment program for 2016; Report on the implementation of the Business Plan and Investment Program; Report on the KPIs; Consolidated Business Plan for 2016–2020; Consideration of transactions of the Company and controlled entities; Report of the Committee</td>
</tr>
<tr>
<td>Members of the Board of Directors: Avetisyans A.D., Zimin V.M., Kalanda L.V., Osipov A.M.</td>
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<tr>
<td>Members of the Executive Bodies: Kirov S.A., Rizhinashvili D.I.</td>
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<tr>
<td>Committee members: Dr. Berndt K.A., Bugrov A.E., Mantrov M.A., Milyutin D.V., Podgorny A.Y., Snikkars P.N.</td>
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### 2nd half of 2016

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<th>Composition</th>
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<tbody>
<tr>
<td>Independent members of the Board of Directors: Bystrov M.S.3, Pivovarov V.V.</td>
<td>Progress in the implementation of priority projects; Business plan for 2017-2021; Purchasing Program 2017; Report on the implementation of the Business Plan and Investment Program; Report on the KPIs; Model of construction management in the Far East; Annual comprehensive procurement program; Consideration of transactions of the Company and controlled entities; Report of the Committee</td>
</tr>
<tr>
<td>Members of the Board of Directors: Avetisyans A.D., Chukunov A.O., Rogalev N.D.</td>
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<tr>
<td>Members of the Executive Bodies: Kirov S.A., Rizhinashvili D.I.</td>
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<tr>
<td>Committee members: Domichev V.A., Zhuravlev S.I., Milyutin D.V., Podgorny A.Y., Skulkin V.S., Tikhomonova M.G.</td>
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1 Member of the Committee as of 10.10.2016
2 Chairman of the Committee until 11.11.2016
3 The Chairman of the Committee from 11.11.2016
4 The deal of the sale of 100 % shares of ESKB LLC was completed in November 2016. The buyers are Russian companies which are aligned with PJSC “Inter RAO”. The deal value is 4,1 million RUB All the transactions regarding this deal were completed in the 1st quarter of 2017.
5 Chairman of the Committee
The Committee for Reliability, Energy Efficiency and Innovation functions to ensure the effective work of the Board of Directors in matters of the Company’s technical policy, reliable and safe operation of the Company’s hydraulic facilities, energy conservation policies, innovation policy, environmental policy and other issues within the competence of the Committee.

Detailed information on innovations is presented in Section 2.5 Innovative Development.

Information on the members of the Committee on Reliability, Energy Efficiency and Innovation and a list of issues considered by the Committee in 2016 are given in Appendix No. 8.

The Committee for the Development of the Energy of the Far East is functioning with the aim of effective work of the Board of Directors on the development of the power industry of the Far Eastern Federal District in terms of the responsibility of the Company and its subsidiaries.

Information on the members of the Committee for the Development of Energy in the Far East and the list of issues considered by the Committee in 2016 are listed in Appendix No. 8.

### 2016 year

#### Composition in the first half of 2016

| Independent members of the Board of Directors: | Members of the Board of Directors: |
| Ivanov S.N. | Rogalev N.D.¹, Chekunkov A.O. |
| Members of the Board of Directors: | Shishkin A.N., Kravchenko V.M. |
| Kravchenko V.M. | Members of the Executive Bodies: |
| | Bogush B.B., Rizhinashvili D.I. |
| Committee members: | Committee members: |
| Bolgov MV, Vishnevsky Yu.M.¹ | Vikhansky A.E., Tolstoguzov S.N. |
| Kudryavy V.V. | Karpukhin N.I., Fedorov M.P. |
| Mlersky E.D., Tolstoguzov S.N., Frolov K.E.¹ | Gromov R.E. |
| Shkatov V.A. | |

#### Composition in the second half of 2016

| Members of the Board of Directors: | Members of the Executive Bodies: |
| Shulginov N.G., Kazachenkov A.V. | Bogush B.B., Rizhinashvili D.I. |
| | Committee members: |
| | Vikhansky A.E., Tolstoguzov S.N. |
| | Vishnevsky Yu.M., Frolov K.E. |
| | Karpukhin N.I., Fedorov M.P. |
| | Gromov R.E. |

#### Key issues

- Key issues
- Approval of the Environmental Policy
- Program for implementing the Environmental Policy
- Measures to improve the Reliability and Efficiency of the Electric Power Industry of the Far East
- Report on the implementation in 2015 of the program of innovative development for 2011-2015 with a prospect of up to 2021
- The program of innovative development of the RusHydro Group for 2016-2020 with a prospect of up to 2025
- Method for calculating and evaluating the performance of the KPI «Accident rate»
- Report of the Committee

### 2016 year

#### Composition in the first half of 2016

| Members of the Board of Directors: | Members of the Executive Bodies: |
| Trutnev Yu.P.¹, Osipov A.M. | Shulginov N.G., Kazachenkov A.V. |
| Chekunkov A.O., Kravchenko V.M. | Members of the Executive Bodies: |
| Shulginov N.G., Kazachenkov A.V. | |
| Committee members: | |
| Zadornov I.A., Korniychev A.V. | |
| Molasy A.V., Nikonov V.V., Pilenyks D.V., Tolstoguzov S.N., Tupikin V.V. | |

#### Composition in the second half of 2016

| Members of the Board of Directors: | Members of the Executive Bodies: |
| Trutnev Yu.P.¹, Chekunkov A.O., Grachev P.S., Kravchenko V.M. | |
| Committee members: | |
| Zadornov I.A., Kachaev S.V., Molasy A.V., Nikonov V.V., Olkhovich E.A., Pilenyks D.V., Tolstoguzov S.N., Tupikin V.V. | |

#### Key issues

- Key issues
- Results of the Eastern Economic Forum — 2016
- Energy supply status for the territories of advanced development and infrastructure facilities of the gas transmission system «The Power of Siberia»
- Progress in the implementation of priority projects in the Far East
- Debt financing of RAO ES EAST, PJSC

---

¹ Elected to the Committee on 30.03.2016 instead of VA Pekhtin, VA Tokarev, And Khaziahmetova RM
² Chairman of the Committee in the first half of the year
³ Chairman of the Committee in the second half of the year
⁴ Chairman of the Committee
4.2.4 MEMBERS OF THE MANAGEMENT BOARD – CORPORATE GOVERNANCE AND CHAIRMAN OF THE MANAGEMENT BOARD – CEO

Nicholay Shulginov

Born in 1951. Education: Novocherkassk Red Banner of Labour Polytechnic Institute. Sergo Ordzhonikidze (Power supply of industrial enterprises and municipalities)& PhD in Technical Sciences

Experience over the past 5 years and participated in the management bodies of other organizations as of 31.12.2016:
2004-2015 – Deputy Chairman, First Deputy Chairman of the Management Board of JSC System Operator of the Unified Energy System
2008-2012 – Member of the Board of Directors of PJSC «Mosenergo»
Since 2008 – Member of the Supervisory Board of NP «Scientific and Technical Council of the Unified Energy System»
Since 2015 – Member of the Board of Trustees of the Higher Education Federal State Educational Institution of Higher Education National Research University MEI, Member of the Management Board of the Russian Union of Industrialists and Entrepreneurs, Member of the Board of Trustees of the Federal State Autonomous Educational Institution of Higher Education «Siberian Federal University» (SFU), Chairman of the Board of Directors of RAO Energy Systems of the East, Member of the Board of Directors of PJSC Rosseti, Member of the Supervisory Board of NP «Hydropower of Russia» and Association NP «Council of the market for the organization of an effective system of wholesale and retail trade in electrical energy and capacity».

Boris Bogush

Born in 1952. Education: Saratov Polytechnic Institute (Mechanical Engineer), Academy of National Economy under the Government of the Russian Federation (the company’s management development).

Experience over the past 5 years and participated in the management bodies of other organizations as of 31.12.2016:
Since 2007 – Managing Director, Head of Business Unit «Production», First Deputy CEO of PJSC Rushydro – Chief Engineer. He is a member of the BoD of «VolgaGidro», a member of the Board of Trustees, Foundation «Awareness», a member of the Supervisory Board of NP «Hydropower of Russia».

Membership on the Management Board since 2010.

Shareholding: Share of the Issuer’s ordinary shares owned – 0.004241 %.

Did not purchase or sell company shares in the reporting period.

Availability of loans from the Company and the Group companies: No.

Membership in committees in BD: Reliability Committee, Energy Efficiency and Innovation

Membership on the Management Board since 2015.

Shareholding: Does not own company shares. Did not purchase or sell company shares in the reporting period.

Availability of loans from the Company and the Group companies: No.

Membership in committees in BD: Strategy Committee.

1 In the reporting year, there were no decisions on early termination of the powers of persons who are members of the Management Board of the Company.
Andrey Kazachenkov

Born in 1980. Education: St. Petersburg State University of Engineering and Economics (economics and management at engineering enterprises, «Management»); University of Wisconsin, Madison, USA (MBA degree).

Experience over the past 5 years and participated in the management bodies of other organizations as of 31.12.2016:
From 2009 to 2015, the adviser to the Chairman of the Board; Deputy Chairman of the Management Board, First Deputy Chairman of the Management Board of PJSC «FSC UES»
Managing Director, Head of Business Unit «Production», First Deputy CEO.
Member of the Board of Directors of RAO ES EAST, PJSC.
Membership on the Management Board: Since 2016

Shareholding: Does not own company shares
Did not purchase or sell company shares in the reporting period
Availability of loans from the Company and the Group companies: No
Membership in committees in BD: Committee for the Development of Energy in the Far East

Sergey Kirov

Born in 1976. Education: Perm State Agricultural Academy. DN Pryanishnikova (economics and management of agricultural production)
Regional interdisciplinary retraining center at Perm Technical University (Economics and Management).

Experience over the past 5 years and participated in the management bodies of other organizations as of 31.12.2016:
2010-2014 – CEO of «RusHydro IT service»
Since 2010 – Director for Economy, Deputy CEO for Economy, Investment and procurement activities, First Deputy CEO of PJSC RusHydro
2010 – 2014 – Member of the BoD of «RusHydro IT service».
Membership on the Management Board: Since 2016

Shareholding: Does not own company shares
Did not purchase or sell company shares in the reporting period
Availability of loans from the Company and the Group companies: No
Membership in committees in BD: Investment Committee

1 Membership on the Management Board since 25.02.2016.
**George Rizhinashvili**

Born in 1981. Education: Lomonosov Moscow State University, MV University (economics) Ph.D.

Experience over the past 5 years and participated in the management bodies of other organizations as of 31.12.2016:
Since 2009 – Member of the Board, First Deputy CEO of PJSC RusHydro
2010-2014 – Member of the Supervisory Board of NP «Corporate research and training center of UES»
He is a member of the Board of Trustees Foundation «Awareness».
Membership on the Management Board: Since 2009
Shareholding: Share of the Issuer’s ordinary shares owned – 0.014193 %

**Availability of loans from the Company and the Group companies:** No

**Membership in committees in BD:** Reliability Committee, Energy Efficiency and Innovation, Strategy Committee, Investment Committee

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**REPORT ON THE ACTIVITIES OF THE BOARD**

In 2016, 64 meetings of the Board were held (12 of them were held in preasentia), on which more than 455 issues related to the Company’s current activities were considered. In addition, all issues, submitted for consideration by the Board of Directors, were preliminarily discussed.

Attendance of meetings by the members of the Management Board exceeds 80 %. The Chairman of the Management Board – CEO took part in all meetings.

The results of the activities of the Management Board are reflected in this Annual Report.
4.3 AUDIT AND CONTROL

PJSC RusHydro has a system for monitoring financial and business activities, which consists of local regulatory documents, current practices, procedures and methodology, and key stakeholders:

- Audit committee
- External Auditor
- Audit Committee under the Board of Directors
- Internal Audit Service

The main principles, goals, tasks, methods and processes of the control system are defined in the documents approved by the General Meeting of Shareholders and the Board of Directors of PJSC RusHydro:

- Regulations on the Audit Commission
- Code of Corporate Governance
- Internal Control and Risk Management Policy
- Internal Audit Policy
- Regulations on the Audit Committee under the Board of Directors
- Code of Corporate Ethics
- Anticorruption policy

The Audit Commission of the Company is accountable to the General Meeting of Shareholders. The conclusion of the Audit Commission is the subject of consideration of the Audit Committee. The opinion of the Audit Commission on the results of the audit of the Annual Report is a mandatory document provided to the General Meeting of Shareholders.

4.3.1 INTERNAL AUDIT COMMITTEE

The number of members of the Audit Committee is five.

In 2016, the Audit Committee conducted an audit of the financial and economic activities of PJSC RusHydro based on the results of its activities for the year 2015. Conclusions of the Committee on the results of the audit were submitted to the annual General Meeting of Shareholders on June 27, 2016. The audit confirmed that the data contained in the Company’s reports and financial documents are reliable, accounting and financial reporting are carried out in compliance with the requirements of the current legislation and internal regulations, financial and economic activities are conducted in compliance with the interests of the Company and its shareholders.

<table>
<thead>
<tr>
<th>Members of the Audit Commission</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Igor Repin</strong> – Chairman of the Audit Committee for the period of 2016</td>
</tr>
<tr>
<td><strong>Natalia Annikova</strong> – member of the Audit Committee for the period of 2016</td>
</tr>
<tr>
<td><strong>Alexander Bogachev</strong> – member of the Audit Committee for the period of 2016</td>
</tr>
<tr>
<td><strong>Mandal Denis Kant</strong> – member of the Audit Committee for the period of 2016</td>
</tr>
<tr>
<td><strong>Vladimir Khorov</strong> – member of the Audit Committee for the period of 2016</td>
</tr>
<tr>
<td><strong>Andrey Kharin</strong> – member of the Audit Committee until June 27, 2013</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Main position held</td>
<td>Deputy Executive Director of the Non-Profit Organization Investor Protection Association</td>
<td>First Deputy CEO of JSC “Construction Management No. 308”</td>
<td>Acting Director of the Department of the Ministry of Energy of the Russian Federation</td>
<td>Member of the Committee on Budget of the Board of Directors of OJSC ANK Bashneft</td>
<td>Leading expert of the Ministry of Economic Development of the Russian Federation</td>
<td>(By the time of termination of powers) Deputy Director of the Department of the Ministry of Energy of the Russian Federation</td>
</tr>
<tr>
<td>Ownership of the Company’s shares</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
</tbody>
</table>

1 Report of the audit Commission of PJSC RusHydro on the results of financial and economic activity for 2016 is in the Appendix No. 20 to this annual report.
4.3.2 EXTERNAL AUDITOR

PJSC RusHydro annually conducts an independent external audit of financial (accounting) reports in accordance with the Russian and international standards. Selection of an external auditor who independently reviews the accounting (financial) statements of PJSC RusHydro under RAS and IFRS for 2015-2017 was conducted in the manner of an open tender. The organization and procedure for the procurement were determined in accordance with the Regulation on the procedure for regulated purchases of goods, works and services approved by the decision of the Board of Directors of the Company based on the decision of the Central Purchasing Committee of PJSC RusHydro of 04.12.2014 No. 470.

As a result of the procurement procedure, the Pricewaterhouse-Coopers Audit JSC (PK Audit JSC) was recognized as the winner of the tender and approved by the annual General Meeting of Shareholders on June 26, 2015 and the annual General Meeting of Shareholders on June 27, 2016 by the auditor of the financial (accounting) statements for 2015 and 2016.

In 2016, PwC Audit JSC conducted an independent audit of the Company’s accounting (financial) statements for the year 2015, compiled in accordance with the Russian Accounting Standards and the Consolidated Financial Statements for the year 2015, drawn up in accordance with International Financial Reporting Standards. In addition, PwC Audit JSC conducted a review of the consolidated interim financial statements of the issuer for the six months ending June 30, 2015.

4.3.3 INTERNAL AUDIT SERVICE

The main objective of the internal audit activity of PJSC RusHydro is to assist the Board of Directors and the executive bodies of the RusHydro Group in improving the management of the Group and improving its operations, including through a systematic and consistent approach to the analysis and evaluation of the risk management system, internal control and corporate governance.

The Internal Audit Service is a separate structural unit of PJSC RusHydro, which is subordinate to the Board of Directors in the person of the Audit and Administrative Subordination Committee to the Chairman of the Management Board – CEO of PJSC RusHydro. The head of the Internal Audit Service was approved by the decision of the Board of Directors of PJSC RusHydro.

The tasks and functions of the Internal Audit Service include:

- Organization and holding of internal audits of the Company and its subsidiaries, processes and activities;
- Assessment of the effectiveness of the internal control system, risk management system, corporate governance of the Company and subsidiaries;
- Organization of methodological support and control over the activities of the Company’s representatives in the audit commissions of subsidiaries;
- Interaction with the Audit Committee under the Company’s Board of Directors.

The priorities of the Company’s internal audit in accordance with the objectives of the RusHydro Group, taking into account the available resources, as well as the risk-oriented approach to planning control activities, are determined by the Control Schedule, which is approved annually by the Audit Committee.

During the year of 2016, 16 scheduled monitoring activities were carried out and 10 unscheduled inspections and official investigations were conducted / participated in the course of which audit evidences were collected and analyzed in order to assess the effectiveness of the internal control, risk management and corporate governance system, including:

- inspections of branches and subsidiaries engaged in the construction, operation, repair of generation facilities;
- thematic audits aimed at identifying opportunities to improve the business processes of the Company and activities of key subsidiaries;
- assessment of the Company’s critical risks management performance.

Based on the results of the control activities, the Company’s and subsidiaries’ management develops and implements corrective actions aimed at adjustment of the identified remarks, increase of the effectiveness of the internal control system, prevention of the further violations, application of disciplinary measures to persons who committed violations. Internal auditors carry out the follow-up control over the corrective actions.

The Audit Committee quarterly reviews the report of the Head of the Internal Audit Service on the implementation of the Audit Control Schedule, which contains a brief description of the identified material violations, comments and deficiencies in the Company’s operations and its Subsidiaries, including information on significant risks, control and corporate governance problems, and as well as recommendations for their elimination, improving the effectiveness of the internal control system.

Based on the results of the evaluation (feedback) of the audit, in 2016, the internal audit performance was highly efficient in terms of identification of shortcomings, that would reduce / exclude the impact of negative factors on the efficiency of the Company and its subsidiaries if eliminated.

The general principles and approaches to the Company’s internal audit system are fixed in the Internal Audit Policy approved by the Board of Directors of PJSC RusHydro. The policy takes into account the requirements of the Corporate Governance Code of PJSC RusHydro, the Methodological Recommendations and the instructions of the Federal Property Management Agency, and it is aimed, among other things, at increasing the compliance of the Internal Audit Service of PJSC RusHydro with the International Professional Standards of Internal Audit.

During 2016, the Internal Audit Service was working to update local regulations governing the activities of the Internal Audit Service and the Audit Committee.

The main directions of the current development of the internal audit function are:

- implementation of the Program of guarantees and improvement of the internal audit quality;
- actualization of local normative acts that determine the principles for building the general group functioning as an internal audit of RusHydro Group;
- implementation of programs and methodologies for annual independent evaluation of corporate governance, evaluation of the internal control and risk management system effectiveness.

Evaluation of the internal audit process effectiveness by the Audit Committee

The Audit Committee reviews and evaluates / approves, the reports of the Internal Audit Service on the monitoring activities carried out and their results on a quarterly basis.
4.4 REPORT ON REMUNERATION TO THE MANAGEMENT AND CONTROL AUTHORITIES

4.4.1 MEMBERS OF THE BOARD OF DIRECTORS REMUNERATION

In 2016, the remuneration was paid to the Board of Directors elected on June 26, 2015 appointed for the period from June 26, 2015 to June 27, 2016.

The amount of the remuneration was calculated in accordance with the Regulation on the payment of remuneration and compensation to the members of the Board of Directors of PJSC RusHydro approved by the annual General Meeting of Shareholders on June 26, 2015 (date of approval – June 26, 2015, Minutes of June 26, 2015 No.13).

Basic calculation parameters:
- the basic part of the remuneration of each member of the Board of Directors is 900,000 rubles;
- the amount of remuneration depends on the number of meetings attended by a member of the Board of Directors;
- the amount of remuneration increases if the member of the Board is:
  - a Chairman of the Board of Directors (by 30 %),
  - a Chairman of the Committee (by 20 %),
  - a member of the Committee of the Board of Directors (by 10 %);
- the total amount of remuneration, taking into account the allowances established by the Regulations, may not exceed 1,000,000 rubles;
- remuneration shall not be paid to members of the Board of Directors who are or have been members of the executive bodies of the Company.

The decision on payment of remuneration to members of the Board of Directors was adopted by the Annual General Meeting of Shareholders on June 27, 2016. The decision on payment of remuneration to members of the Board of Directors was previously reviewed and recommended by the Personnel and Remuneration Committee (Minutes No. 50 of April 27, 2016).

The new version of the Regulation on the payment of remuneration and compensation to members of the Board of Directors of PJSC RusHydro was approved by the Annual General Meeting of Shareholders on June 27, 2016 (date of approval 27 June, 2016, Minutes of June 29, 2016 No. 15).

The new edition of the Regulation abolished the maximum remuneration limit of 1,000,000 rubles, though set a premium on the remuneration of the senior Independent Director (15 %), presented details regarding the compensation paid to the members of the Board of Directors, and lowered the threshold of missed meetings, which reduced remuneration from 50 to 25 %.

The Company does not pay compensation other than related to travel and accommodation for participation in the meeting, in particular, the Company does not pay remuneration to members of the Board of Directors in connection with the change in control or early termination of powers.

In May 2017, the Board of Directors recommended the Annual General Meeting of Shareholders decide to approve the Regulations on the Payment of Remunerations and Compensations to the members of the PJSC RusHydro Board of Directors in a new version providing for increasing the remuneration base part to 3,510,000 rubles. This proposal is aimed at increasing the motivation of the members of the Board of Directors and formulated on the independent consultant Ernst and Young (CIS) B.B. recommendations based on its members of the Boards of Directors remuneration practice study of large public companies.

Remuneration of the Board of Directors in 2016, RUB

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Remuneration for participation in the work of the management body</td>
<td>7,442,307.68</td>
<td>7,861,990.94</td>
<td>5,561,538.45</td>
</tr>
<tr>
<td>Salary</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Variable component (premium)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Commission (remuneration)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Compensation for expenses</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other types of remuneration</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTAL:</strong></td>
<td><strong>7,442,307.68</strong></td>
<td><strong>7,861,990.94</strong></td>
<td><strong>5,561,538.45</strong></td>
</tr>
<tr>
<td>Costs associated with the performance of the functions of a management member, reimbursed by the Company</td>
<td>0</td>
<td>336,214.43</td>
<td>52,510.00</td>
</tr>
</tbody>
</table>
4.4.2 MEMBER OF THE MANAGEMENT BOARD REMUNERATION

The remuneration of the Management Board members, RUB

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Remuneration for participation in the work of</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>the management body</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary</td>
<td>127,367,216.24</td>
<td>97,827,886.72</td>
<td>71,655,251.40</td>
</tr>
<tr>
<td>Variable component (premium)</td>
<td>755,549,861.00</td>
<td>625,844,823.00</td>
<td>153,917,203.00</td>
</tr>
<tr>
<td>Commission (remuneration)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Compensation for expenses</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other types of remuneration</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTAL:</strong></td>
<td><strong>882,917,077.24</strong></td>
<td><strong>723,672,708.72</strong></td>
<td>225,572,454.40</td>
</tr>
</tbody>
</table>

Costs associated with the performance of the functions of a management member, reimbursed by the Company

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs associated with the performance of the</td>
<td>26,024,539.35</td>
<td>7,788,019.40</td>
<td>6,993,854.30</td>
</tr>
<tr>
<td>functions of a management member, reimbursed</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>by the Company</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Remunerations to members of the Management Board, including the Chairman of the Management Board – CEO, were paid in 2016 in accordance with the terms of employment contracts and the Regulations on the procedure for payment of remuneration and compensation to members of the Management Board of PJSC RusHydro, approved by the decision of the Board of Directors on 16.11.2010 (date of approval — 16.11.2010, Minutes of 19.11.2010 No.111).

In 2016, the Board of Directors, with the direct participation of the Personnel and Remuneration Committee (nominations) and with the involvement of the Strategy Committee, conducted a detailed analysis of the current system of remuneration of the Management Board and introduced a new system of remuneration for the executive bodies of the Company from 2017 (date of approval — 11.11.2016, Minutes of 14.11.2016 No. 243).

The new remuneration model is fully interrelated with the implementation of short-term and long-term key performance indicators of the Company, approved by the Board of Directors of the Company upon the recommendation of the Personnel and Remuneration Committee (nominations) under the Company’s Board of Directors. The new system of motivation is based on the following principles: transparency, balance (observing the balance of interests of the shareholders of the Company and the interest of management in achieving the Company’s long-term and short-term objectives ), fairness (the amount of remuneration directly depends on the results of the Company’s activities and the implementation of significant projects).

The new remuneration model provides for the Long-Term Incentive Program of the Management Board with reference to the growth of the value of shares and the fulfillment of key performance indicators of the Program established by the Board of Directors of the Company. The Program is designed to more closely link the interests of the management and shareholders of the Company in the steady growth of the Company’s capitalization and business development. The main objectives and principles of the Program: motivation of the Company’s management for the implementation of strategic tasks and openness to shareholders, remuneration is determined taking into account the level of achievement of the Program KPI, a unified mechanism for calculating remuneration and equal conditions for obtaining remuneration.

The amount and terms of remuneration to the members of the Management Board payable due to the early termination of the contract are determined by a document approved by the Board of Directors regulating the payment of remuneration and compensation to the members of the Management Board of PJSC RusHydro. No change-in-control benefits are applicable. The maximum amount of remuneration paid in case of early dismissal of a member of the Management Board is limited in accordance with the legislation of the Russian Federation by a three-fold average monthly salary of a member of the Management Board.
4.4.3 REMUNERATION OF THE AUDIT COMMITTEE

Remuneration of the Audit Committee, RUB

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remuneration for participation in the work of the body supervising the financial and economic activities of the issuer</td>
<td>497,000</td>
<td>342,200</td>
<td>629,475</td>
</tr>
<tr>
<td>Total</td>
<td>497,000</td>
<td>342,200</td>
<td>629,475</td>
</tr>
<tr>
<td>Expenses related to the performance of the functions of members of the bodies controlling the issuer’s financial and business operations, reimbursed by the Company</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Payment of remuneration to members of the Audit Committee in 2016 was carried out in accordance with the Regulation on the payment of remuneration and compensation to the members of the Audit Committee of PJSC RusHydro (Minutes No. 13 of 26.06.2015), according to which the remuneration fee of the member of the Audit Committee is set at 25 minimum monthly rates of the worker of the first category established by the branch rates agreement in an electric power complex of the Russian Federation. The remuneration of the Chairman of the Audit Commission is increased by 50%.

The new version of the Regulation on remuneration and compensation to members of the Audit Commission of PJSC RusHydro was approved by the Annual General Meeting of Shareholders on June 27, 2016 (date of approval – 27.06.2016, Minutes of 29.06.2016 No. 15).

The new version of the Regulations provides for 15% of the average annual remuneration of a member of the Board of Directors as a basic remuneration to a member of the Audit Committee. The basic remuneration is adjusted to the personal participation ratio of the member of the Audit Committee in meetings and the ratio taking into account the work as a Chairman and a Secretary of the Audit Commission. The new version of the Regulations also refines the reimbursement of travel and accommodation expenses necessary for the performance of their functions by the members of the Audit Committee, and provides for more details on the restrictions in payment of remuneration.

4.4.4 AUDITOR’S REMUNERATION

Auditor’s remuneration*, RUB

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit of annual accounting (financial) reporting under RAS and Consolidated IFRS reporting, including a review of the consolidated financial statements for 6 months.</td>
<td>72,303,750*</td>
<td>121,577,600</td>
<td>120,000,690</td>
</tr>
<tr>
<td>Remuneration for non-audit services</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
</tbody>
</table>

Remuneration of the auditor is determined by the decision of the Board of Directors of the Company taking into account the results of the competitive procedures and after preliminary consideration by the Audit Committee.

* Excluding the review of the consolidated financial statements for 6 months.
4.5 BUSINESS ETHICS AND ANTI-CORRUPTION

4.5.1 CONTROL OVER MAJOR AND INTERESTED PARTY TRANSACTIONS

PJSC RusHydro operates a system of internal control over transactions. The adopted Regulations stipulate the unified procedure for approving, signing and executing of contracts concluded on behalf of PJSC RusHydro. The draft contracts pass a corporate examination in order to comply with the legislation and to reduce the risk of disputing contracts by counterparties and shareholders of PJSC RusHydro.

In 2016, PJSC RusHydro concluded interested-party transactions, the list of which, including the subject of transactions, stakeholders and information on their approval, is given in Appendix No. 2 to the Annual Report. The Board of Directors or the General Meeting of Shareholders approved all transactions, thus, there was no conflict of interest in the performance of these transactions.

4.5.2 PREVENTING THE USE OF INSIDER INFORMATION

A new version of the Insider Information Policy was approved in September 2014. The Policy regulates the Company practices of observing the Russian law pertaining to the prevention of illegal use of insider information and market manipulation. The Policy has been developed taking into account the international practices of corporate governance, including the requirements of the Disclosure and Transparency Rules of the UK Financial Conduct Authority.

The Regulation establishes the categories of persons that PJSC RusHydro includes in the list of insiders, the access procedure and the rules for protecting the confidentiality of insider information, as well as restrictions on the use of information by insiders to conduct transactions with the Company’s financial instruments and to transfer information about it to other persons.

The Controller of PJSC RusHydro is in charge of monitoring compliance with the requirements of legislation on insider information. Upon the results of each quarter, the Controller provides a report to the Audit Committee. The Audit Committee includes in its annual report information on the Company’s performance of these requirements.

4.5.3 ANTI-CORRUPTION EFFORTS

The Company carries out regular work on prevention and detection of the corruption offence in the PJSC RusHydro, activities aimed at the elimination (minimization) of the reasons and conditions which may allow corruption to occur.

Its work is based on the Anti-corruption Policy, Code of conduct, Conflict of interests Management Policy, Integrated Program of Anti-corruption efforts and a number of other local regulatory documents forming the elements of corporate culture, rules and procedures to ensure prevention of corruption in the PJSC RusHydro.

As per the provisions of the Anti-corruption Policy, all the Company employees and members of the Board of Directors must observe the terms of the Russian legislation and international law in the field of anti-corruption efforts. The obligations are assigned to the employees and members of the Board of Directors by the Code of Conduct to act in the interests of the Company and to avoid the conflict of interests. The members of the Board of Directors must notify the Company about occurrence or the risk of occurrence of the conflict of interests (as well as of its affiliation).

PJSC RusHydro is a participant of the Anti-corruption Charter of the Russian business accepted by business community in 2012 for implementation of the National Anti-Corruption Plan.

Anti-corruption activities in the Company are conducted in four areas:
- improvement of the local regulatory documents (acts) basis,
- prevention and combating corruption,
- verification of reports of possible facts of corruption (unlawful actions, conflicts of interest, etc.)
- improving the internal control system.

In 2016, the Board approved a new version of the Program, which is synchronized with the National Anti-Corruption Plan for 2016-2017.

The Company declares the non-acceptability of corruption manifestations, in this regard, the main direction of anti-corruption activities is activities aimed at the prevention of corruption, such as identifying and preventing conflicts of interest, assessing the probability of corruption risks.

List of insider information is published on the corporate website of PJSC RusHydro.
For the implementation of the Comprehensive Program, the Chairman of the Management Board – CEO of PJSC RusHydro, approves the annual plan of actions, which fixes the annual target results, as well as the personal responsibility of the officials for obtaining the specified results.

The Company’s website regularly features thematic press releases, official statements and information messages on the issues of combating corruption, preventing illegal actions and conflicts of interest, and reports on the implementation of the Comprehensive Anti-Corruption Program.

**HELPLINE**

*Consideration of applications to the “Helpline”, units.*

In 2016, the Company’s Helpline received 196 appeals (from launching the «Helpline» in 2011, 719 appeals were received). Compared to 2015, the number of applications received for consideration decreased by 9%. The main reasons for refusal to consider were:

- non-compliance with the criteria for consideration of applications submitted to the «Line of Trust»;
- lack of information for feedback (letters without return address).

In 2017, more than 4,910 declarations of the top managers of the RusHydro Group and its subsidiaries, as well as their relatives (2,226 people) were verified as part of the audit of income data for 2016 (declaration campaign) for participation in the activities of commercial organizations and the existence of a conflict of interest. As a result of the inspection, disciplinary measures were applied to the employees.

**Method of evaluation of goodwill and financial conditions of procurement procedures participants**

**FEDERAL LEGISLATION IN THE FIELD OF ANTI-CORRUPTION EFFORTS**

**CORPORATE GOVERNANCE CODE**

- Anti-corruption Policy
- Conflict of interests Management Policy
- Code of conduct
- SDC/ quasi subsidiaries
- Regulation on insider information

**Integrated Programme of Anti-corruption efforts**

- «Helpline» operation rules
- Regulations on procedure of acceptance, consideration and preparation of answers for the applications delivered to «Helpline»
- Regulation on procedure of submission and check of details of income, property and liability
- Regulation on the conflict of interest settlement and Regulation on notification of the employer about the received presents
- Regulation on carrying out of the internal investigation for the facts of non-process incidents
- Regulation on procedure of informing the law enforcement agencies about the facts of violations of the Russian legislation and submission of the application

**Methods of evaluation of the goodwill and financial condition of the procurement procedures participants**

- Annually, measures are taken to promote (popularize) the «Helpline» among employees of PJSC RusHydro:
  - information on the «Helpline» on the official website and the internal portal is systematically updated.
The additional criteria for consideration of applications submitted to the «Helpline» and new revisions to the Rules of Work and the Rules for Consideration of Appeals were placed in 2016;
- since 2016, once every six months, information on the
As part of the measures to implement the Comprehensive Anti-Corruption Program in 2016, the Company management has examined the knowledge of employees of RusHydro branches and subsidiaries (326 employees participated in the testing), who held positions on the list of posts susceptible to corruption risks on an anti-corruption legislation of the Russian Federation.

Based on the information received by the «Helpline» in the reporting period, 5 service checks were initiated, which were completed (5 times more than in 2015).

• RusHydro posted information posters and mailboxes «Helpline» in the halls of its offices.

COMPLIANCE WITH THE CODE OF CORPORATE ETHICS

The Company has the Code of Corporate Ethics of PJSC RusHydro (the first version of the Code was approved by the Board of Directors, Minutes No. 152 of May 21, 2012, the new version of the Code of Corporate Ethics was approved by the Board of Directors, Minutes No. 235 of 08.04.2016). It takes into account the current recommendations of the Corporate Governance Code approved by the Bank of Russia, as well as other requirements and recommendations issued by the regulatory bodies to date.

In accordance with the Code of Corporate Ethics, the Company’s employees shall:

not give preference to any counterparties of the Company, organizations, be independent of their influence;

exclude actions related to the influence of any personal, property / financial and other interests that interfere with the conscientious performance of their employment duties;

observe an impartiality that excludes the possibility of influencing the work of their decisions by political parties and public associations;

not use the official position to influence the activities of state bodies, local governments, organizations, officials, state (municipal) employees and citizens in solving personal issues;

not take unlawful actions.

In the part of preventing conflicts of interest the Code states that the Company’s employees shall:

take measures to prevent the emergence of a conflict of interest and the resolution of the emergent cases of conflict of interest;

refrain from part-time employment at enterprises / organizations outside the RusHydro Group, except for teaching, creative and scientific activities, if this does not lead to a conflict of interest;

not directly or indirectly apply to any personal loan or service from any individual or legal entity that has a business relationship with the Company or who aspires to such a relationship. This does not apply to organizations that offer similar loans or services as part of their normal business activities;

state the existence or threat of personal interest, which affects or may affect the proper performance of official duties.

The Code of Corporate Ethics also specifies that employees shall not:

give gifts in connection with the performance of official duties to state and municipal employees;

accept remuneration (loans, monetary and other remuneration, services, entertainment, recreation, transport expenses) and gifts from individuals and legal entities.

PREVENTION OF CONFLICTS OF INTERESTS OF EMPLOYEES

In order to identify and prevent conflicts of interest, the Company has established requirements for annual declarations of income, property and title obligations by the top managers of the RusHydro Group towards themselves and their close relatives. The Company operates the procedure for disclosing the chain of beneficiaries by counterparties, and the Human Resources Commission also operates.

Annually, within a specified time period, a declaration campaign is conducted, under which the declarations of the Company’s managers are checked for conflicts of interest. The report on the results of the inspection is submitted to the Ministry of Energy of the Russian Federation.

In PJSC RusHydro, the process of verifying declarations has been automated. For this purpose, the «Client of Affiliated Persons» system is used. As part of the development of the program module for the identification and control of affiliated persons, the processes for collecting information and conducting complex inspections to identify conflicts of interest have been automated.

Since 2014, all declarations of employees and their relatives have been submitted, processed and analyzed using this program. The introduction of this software significantly reduced the labor costs for conducting authentication of the information provided and allowed to minimize the risks associated with the human factor in its implementation.

As part of the declaration campaign (verification of income for 2016) to participate in the activities of commercial organizations and the fact of a conflict of interest, more than 490 executives of the Company and its subsidiaries, as well as their relatives (2,226 people) have been verified in 2017. Based on the results of the audit, disciplinary measures were applied to the employees of the RusHydro Group.

In order to provide additional transparency when interacting with suppliers and contractors, special requirements are set for counterparties. In particular, when entering into contracts, an indispensable condition is the provision of information and supporting documents regarding the entire chain of counterparty owners, including the ultimate beneficiaries, as well as the signing of a letter of guarantee for the non-involvement of «one-day firms» in fulfilling obligations under contracts.

In 2016, the Economic Security Department of PJSC RusHydro checked 547 counterparties in the framework of procurement procedures and contracting procedures. Facts and features of conflicts of interest between the leaders (founders) of these organizations and the Company’s employees have not been revealed.
CHAPTER 5.
SUSTAINABLE DEVELOPMENT
Dear Shareholders!

The past year of 2016 can be called a turning point in the recent history of RusHydro. The catching up the backlogs practice was replaced by a confident dynamic of planned development. The Company’s past year activities performance confirm the effectiveness of the applied strategy and the correctness of the chosen priorities.

RusHydro is a Company that performs the most important state tasks and operates in many Russian regions, where implements not only economic but also social projects. The country’s leadership has instructed us to develop a strategic direction — the electric power industry of the Far East. Here we are building new energy facilities and together with the regional authorities we are creating an infrastructure for advanced development territories. An important platform for cooperation was the Eastern Economic Forum 2016, where significant agreements with the Kamchatka Region for the regional energy development were signed, with the Khabarovsk Territory and the Agency for Human Capital Development in the Far East to involve qualified personnel to the electric power industry by building affordable housing.

The Company’s activity is conditioned by the long-term development interests of the country and regions, but at the same time it shows economic efficiency in the «here and now» mode. This fact was noted by the international agency S & P, which revised in 2016 the outlook on RusHydro’s credit ratings from «Stable» to «Positive». Also in 2016 our positions were strengthened in the national rating of corporate transparency of the largest Russian companies. The RusHydro reward of human resources development sphere was also a confirmation of the staff high qualification. At the Ministry of Energy of the Russian Federation contest «New Idea» the project of the RusHydro personnel participant was recognized as the best innovative project in the electric power industry.

Accepting the challenges of the time, RusHydro is becoming more and more transparent company. One of our most important priorities is transparency of activities, so important today for the state, shareholders and the public. The company looks to the future with confidence, working to ensure the country’s energy security.

Vladimir Markin
Member of the Management Board — First Deputy CEO
The Company is aware of its responsibility (economic, social and ecological) as a producer of electrical power necessary for society. Sustainable business development is an important value that is reflected in the mission and strategic goals of the RusHydro Group.

The RusHydro Group primarily aims at ensuring environment and society-friendly operation of its facilities, taking into account the economic feasibility of the funds allocated for minimization of risks and reduction of possible damages. The Company uses its best endeavors in order to increase the share of the renewable resources of energy in power balance of the country. This goal is achieved due to commissioning of new generating capacities and an increase in the «clean» energy generation, produced at the available capacities of the Company under simultaneous enhancement of energy efficiency.

PJSC RusHydro is also seeking for maximization of its value for the state, shareholders, society and employees.

Implementation of the activities focused on sustainable development is performed by the Special Units in the area of their functional responsibility:

- social responsibility – the Personnel Management Unit;
- interaction with public authorities in the presence regions and creation of the favourable social climate for the effective development of the Company – the Unit of interaction with public authorities, civil society, administrative support and international cooperation;
- economic responsibility – the Unit of economic planning and investments, the Unit of production activities, the Unit of capital construction and engineering activities, the Unit of financial and corporate and legal administration;
- generation of electric power, enhancement of energy efficiency and ecological responsibility – the Unit of production activities.

The issues related to the sustainable development are systematically put on the agenda of the meetings of committees at the Board of Directors.

PJSC RusHydro annually prepares a Sustainable Development Report, reflecting the management approaches and the most significant outcomes of the Company’s activities in the economic, ecological and social areas since 2007.

For more information on managing sustainable development, see the Corporate Social Responsibility and Sustainability Report for 2016.

**5.1 SUSTAINABLE DEVELOPMENT MANAGEMENT**

Areas of activities in the field of the sustainable development

- ensuring energy security of the Russian Federation
- development of the electric power industry and enhancement of energy efficiency
- positive economic and social impact on the presence regions
- minimisation of the environmental impact, including the impact on the planet climate
- responsible personnel management practice
- enhancement of transparency and accountabilities
- structural interaction with the interested parties
5.2 INTERACTION WITH STAKEHOLDERS

Traditional concept of the sustainable development provides that this is development that meets the needs of the present without compromising the ability of future generations to meet their own needs (The UN International Commission for Environment and Development, 1987). This approach may be implemented only taking into account the interests of the key shareholders (interested parties) upon structural interaction with them and integration of this practice into all business processes of the Company.

By virtue of scale and specific character of the activities the RusHydro Group has a wide range of the interested parties. The focused work with the shareholders is aimed first of all at achieving the Company’s strategic goals.

Due to existence of several areas of the core activities (electrical power generation, sales, development of innovative technologies, etc.) each area has its interested parties, and the Company builds systematic and planned interaction with them. At the same time, the Company organizes interaction with a wide range of the interested parties through public accounting, corporate websites, contacts with journalists, exhibitions and forums, etc.

For more information on managing sustainable development, see the Corporate Social Responsibility Sustainability Report for 2016.

### Interaction with Stakeholders

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Stakeholders’ interests</th>
<th>Basic mechanisms of interaction</th>
</tr>
</thead>
</table>
| Federal, regional and municipal authorities | • Provision of reliable and uninterruptible power supply  
• Support of development of the regions of presence  
• Development and modernization of electrical energy  
• Development of the renewable and alternative sources of energy | • Agreements for social and economic cooperation with the RF subjects  
• Investments to development of the regions of presence  
• Holding of public hearings on the power plants construction project  
• Work in joint committees, commissions, expert groups on the issues of the fuel power complex development |
| Shareholders and investors             | • Economic effectiveness  
• Company’s business continuity  
• Transparency of business processes | • Shareholders meetings and other corporate events  
• IR-presentations and IR-events  
• Accounting publication |
| Employees                              | • Professional and career development  
• Safe working conditions  
• Decent remuneration terms | • Personnel development  
• Social support of employees  
• Informing and communication through internal channels  
• Cooperation with trade union organisations |
| Regulatory and supervisory bodies      | • Observance of requirements of the Russian and international law | • Reporting  
• Working out of proposals on legislation improvement |
| Business partners, suppliers and contractors | • Fair competition and responsible conduct in the market  
• Transparency of activities, as well as transparency of procurement activity | • Forums, exhibitions, conferences, dialogues  
• Open and competitive procurement procedures  
• Common projects |
Recognizing the need for mutually beneficial cooperation with regional and municipal authorities aimed at sustainable social and economic development of the regions and increasing the efficiency of its activities in the regions, the Company enters into cooperation agreements with territorial authorities.

As of 31.12.2016, there were agreements concluded on cooperation with the authorities of the following regions:

- Dagestan Republic,
- Khakassia Republic,
- Kamchatka Region,
- Amur region,
- Volgograd region,
- Irkutsk region,
- Moscow region,
- Sverdlovsk region.

The Company is convinced that stable contacts with territorial authorities in the implementation of regional programs of social and economic development and investment projects of PJSC RusHydro will serve as a guarantee of successful operations in the regions.

### Interaction with Stakeholders

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Stakeholders’ interests</th>
<th>Basic mechanisms of interaction</th>
</tr>
</thead>
</table>
| Customers and consumers | - Sound power supply  
- Products and services quality enhancement  
- High standards of service | - Online consultations on the websites of the sales companies  
- «Helpline»  
- Mobile service centers  
- Virtual reception area  
- Contact center  
- Personal accounts of the consumers of the guaranteed suppliers  
- Development of the client offices |
| Local communities in the regions in which the Company operates | - Improvement of quality of life in the regions of presence  
- Reduction of negative impact on the environment | - Investments to the development of the regions of presence  
- Social programs and projects, including charitable and ecological programs and projects  
- Holding of public hearings on construction facilities |
| Professional associations and non-profit organizations | - Development and modernization of the electrical energy industry  
- Transparency of activities | - Cooperation with specialised Russian and international organizations  
- Participation in professional and business associations  
- Cooperation with public organisations |
| Higher Education establishments and other educational institutions | - Target preparation of the personnel  
- Development of the sectoral science  
- Development of the innovative technologies, incl. the ones reducing negative impact on the environment | - Cooperation in the field of scientific and research activity  
- Personnel training, retraining and in-service education  
- Orders for R&D |
| Mass media | - Provision of the real time access to the information about the Company’s activities | - Arrangement of events for mass media  
- Introduction of publications in the Russian-wide, regional and local mass media  
- Updating of information on the corporate websites, official blog http://blog.rushydro.ru/ and company resources in social networks (Facebook, Live Journal, Instagram, etc.) |
5.3 PERSONNEL AND SOCIAL POLICY

2016 events

- The share of employees with higher education increased from 78.6 to 79.9 %
- 122.3 million rubles were transferred for development of human resources
- Expenses for labor protection increased by 36.95 % and amounted to 445.8 million rubles

5.3.1 HR POLICY

PERSONNEL STRUCTURE

During the last 3 years the structure of the personnel has remained stable with a tendency to an increase in share of highly skilled workers and less significant increase in employer’s average age.

Due to the improvement of the production process and the ongoing program of technical re-equipment of hydroelectric power plants, the qualification requirements for the Company’s employees are being raised. Hence the Company is implementing a policy to attract specialists with higher education who have received appropriate training, including university graduates, bound by partnership agreements with the Company. At the end of 2016, the number of employees with higher education increased. The share of low-skilled personnel decreased.

As for PJSC RusHydro (including branches), over the past few years there has been a tendency to increase the share of specialists and employees and to reduce the proportion of workers. The increase in the number of specialists and employees was influenced by processes and activities aimed at improving the efficiency of the organization of branches, strengthening security measures and increasing the reliability of power facilities, which was accompanied by the formation and improvement of relevant management structures and dismissal of non-core personnel.
**Personnel Characteristics**

The average number of personnel of RusHydro Group, persons

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>PJSC RusHydro</th>
<th>Other</th>
<th>PJSC “RAO ES of the East”</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>77,030</td>
<td>64,011</td>
<td>13,019</td>
<td>3,000</td>
</tr>
<tr>
<td>2015</td>
<td>75,703</td>
<td>63,485</td>
<td>12,218</td>
<td>2,000</td>
</tr>
<tr>
<td>2016</td>
<td>73,782</td>
<td>62,710</td>
<td>10,956</td>
<td>0</td>
</tr>
</tbody>
</table>

Average work experience and average age of employees, years

<table>
<thead>
<tr>
<th>Year</th>
<th>Average duration of work, years</th>
<th>The average age of employees, years</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>9.6</td>
<td>41.3</td>
</tr>
<tr>
<td>2015</td>
<td>9.7</td>
<td>41.3</td>
</tr>
<tr>
<td>2016</td>
<td>10.4</td>
<td>41.5</td>
</tr>
</tbody>
</table>

**Training and Development of Personnel**

Training and Development of PJSC RusHydro’s Personnel is a strategic priority for the Company. It is connected with the requirements of regulatory authorities, production needs to meet the new professional activities, professional development and training of personnel reserve.

In total in 2016 the company’s employees were trained at 14,730 courses of which 10,830 for corporate training including 1,608 for full-time education, 9,222 for distance education.

As a part of a comprehensive system of simulator training for production staff in 2016 there were conducted tests of corporate simulator switches in electrical installations, control of hydraulic turbines and hydro-mechanical equipment. Trial training using the simulator were carried out in 15 branches.

There was developed a virtual simulator for training of operating personnel in the operational conduct of the negotiations, lock commands and instructions, conducting online documentation, return (receipt) commands and permits.

In 2016 the 7th All-Russian competitions of operating personnel of the HPP were held, 25 teams took part in it including two teams representing the subsidiaries of PJSC RusHydro and fourteen teams representing the third-party energy enterprises.

In order to implement the Program for the Preservation and Enhancement of Operational Stations of Operating Personnel of the Plant in 2016 the Model Provision on the Organization of Activities for the Preservation and Enhancement of the Operating Department (Operating) Personnel in the Branches of PJSC RusHydro was approved, the pilot program of the project «Preservation and Enhancement of Operating Personnel» in the branch of PJSC RusHydro – «Kamskaya HPP» comprising the pre-shift and the after-shift diagnostics functionality of Operating Department staff and remedial activities for the branch employees.

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1 The average number of Group personnel RusHydro decreased in 2016 by 2.5 % in relation to 2015 and by 4.2 % to 2014 due to the implementation of measures aimed at the enhancement of the management structure, outsourcing the personnel of non-core activities, reduction of the number of customer-subsidiaries and contractor-subsidiaries connected with the shrinkage of the investment programs.

2 Average work experience in PJSC “RusHydro” for 2014-2016 increased from 9.6 to 10.4 years. The average age of the employees is 41.5 years.
EMPLOYEE POOL

In order to ensure timely and high-quality training to key positions in the PJSC RusHydro is actively working with employee pool based on the following principles:

- Strategically — consistency problems with the personnel reserve, development objectives of the Company and formed strategic organizational competencies;
- Reliability — use of technology assessment and training with high reliability and prognostic;
- Development — creating opportunities for professional development of employees of the Company.

In 2016 28 employees of RusHydro’s branches and subsidiaries under the age of 30 years became winners of the project «Internal source of energy-3» and entered the company’s prospective employee pool.

Competitive selection for the position of director of the branch of PJSC RusHydro was conducted. The candidates who had successfully passed the evaluation procedure were appointed to the position.

70 employees of the RusHydro group, who were the members of the staff reserve for the management positions of branches of PJSC RusHydro, completed in 2016 a corporate training program and started the defense of graduation work. Each graduation work is a detailed proposal for improving the efficiency of the organization of production activities or a unique technical solution.

PERSONNEL ASSESSMENT

The Company’s personnel are periodically certified for compliance with the position which assess the professional, business and personal qualities of employees and the results of their professional activity. Managers, specialists and employees of the Company will be certified regardless of sex once every three years.

OCCUPATIONAL HEALTH AND SAFETY

PJSC RusHydro as a responsible and socially oriented employer improves the OHS management system that conforms to the latest world trends. The company is taking measures to prevent accidents and diseases at work, to improve working conditions, to provide workers with personal protective equipment, and organizes medical examinations and a special assessment of the working conditions of staff.

The costs of health and safety in the Company in 2016 amounted to 445.8 million rubles. The cost of providing workers with personal protective equipment in 2016 amounted to 78.3 million rubles.
5.3.2 SOCIAL POLICY

The Social Policy of RusHydro was adopted in 2013 to address the problems of forming long-term human resource management as a major asset staffing new facilities, performing production programs and attracting young professionals into the industry.

Programs of voluntary medical insurance, of non-state pension provision and of improvement of living conditions of employees remain as priority.

VOLUNTARY MEDICAL INSURANCE

The Voluntary medical insurance (VMI) is a part of the benefits package of the Company employees. The Program covers 100% of the personnel except part-time employees and employees on trial. Within the VMI the services are rendered for outpatient care, emergency and planned hospital treatment, emergency medical services, insurance of the persons travelling abroad. The list of outpatient hospitals is reviewed and updated annually. Furthermore, within the program the employees shall obtain vaccinations against a number of diseases and may pass medical examination and preventive examinations.

All employees of the Company are insured against accidents and diseases. The insurance coverage is valid around the world 24 hours a day.

NON-STATE PENSION PROVISION

The non-state pension provision (NSPP) of PJSC RusHydro in 2016 included several pension plans and programs designed to finance the retirement savings of different target groups of employees.

The branches continue to implement three main programs: for employees with significant experience in the industry, for awarded by the state and industry («Supporting»), for honored former employees of the industry («Veteran») and the programs of the Parity Plan allowing the employee to participate independently in the formation of their own pension savings where the most part of the employees participate.

More than 50% of employees took part in NSPP programs in 2016.

Within the framework of NSPP the Company is still interested in ensuring both a decent standard of living for employees after retirement and an effective solution of personnel issues related to the attraction and motivation of staff.
PERSONNEL HOUSING IMPROVEMENTS

PJSC RusHydro continues implementing a program to improve housing conditions for employees. The priority right to participate in the program is provided to young professionals under the age of 30 who do not have a separate housing ownership, to specialists invited to work in the branch and moved therefore from another location, to key and highly qualified specialists, as well as to employees who are parents with many children and single parents.

The main forms of corporate support in improving of housing conditions of employees are the compensation for the costs of paying interest on mortgage loans to banks and the cost of renting housing. In exceptional cases for employees of the Production Unit of the branches who represent special value for the Company and for whose special retention mechanisms should be provided may rendered targeted interest-free loans for improving housing conditions for up to 10 years.

COLLECTIVE CONTRACTS

In 2016 in all branches of the Company the Collective Agreements concluded in 2014 and defined the Company’s obligations on provision of social benefits and guarantees continue to operate.

To support young families there are provided one-off payments in connection with the registration of marriage and the birth of a child, childcare allowance up to three years, compensation of expenses for keeping children in pre-school educational institutions.

In order to attract young qualified specialists to the industry, to promote the formation of dynasties of power engineers, to ensure the continuity of generations the Collective Agreements provide for the payment to children of workers who study at universities in energy specialties.

Also according to the Collective Agreements the employees of the HPPs are encouraged for mentoring, they receive a lump sum payment upon retirement, etc.

Besides the Collective Agreements provide for substantial benefits for those who wish to become foster parents or guardians. The workers who are adoptive parents, guardians and trustees, and who adopted the child receive monthly allowance. Also the compensation for the cost of medical services is provided for children under the age of 14 years who participate in sports sections, developing sections.

In November 2016 the Board of Directors of PJSC RusHydro approved a new version of the standard Collective Agreement of the branches of PJSC RusHydro for 2017-2019. New edition of the model Collective Agreement for 2017-2019 has been completed taking into account the changes in the labor legislation of the Russian Federation and legislation on labor protection.
5.4 SAFETY AND ENVIRONMENTAL PROTECTION

5.4.1 INDUSTRIAL SECURITY

The providing of reliable energy supply and the safe operation of equipment and hydropower engineering for the population and the environment is one of RusHydro’s key strategic objectives.

The approaches used to ensure energy supply reliability and the safety of equipment, buildings and structures are fixed in the provisions of RusHydro’s Technical Policy which came into effect in 2011. The instrument used to implement the Technical Policy is the Production Program which is developed based on the results of evaluating equipment condition, the forecasts for energy consumption in the regions and the water content of rivers, as well as industry standard requirements. The activities of the Program are planned for the medium (6 years) and long-term (15 years) outlook.

To identify and to analyze insurance risks at production assets the Company conducts independent technical review, and introduces a system of key performance indicators (KPIs) and limits (control figures) including monitoring of object protection in the event of natural disasters.

5.4.2 ENVIRONMENTAL SAFETY

The Company fulfills Russian legislative requirements in the field of environmental protection, participates in the performance of Russia’s obligations that arise from international conventions within the environmental protection sphere, as ratified by the Russian Federation, and aims to continually reduce its negative influence on the environment and to prevent environmental pollution.

The introduction of new techniques and technologies under the Comprehensive HPPs Modernization Program is carried out subject to the Company’s Environmental Policy objectives and principles which reduces the production’s environmental impact.

Environmental policy (http://www.rushydro.ru/sustainable_development/environmental/ekologicheskaya-politika/)

The Company supports the industry and international initiatives to reduce industrial load on the environment and the population, and to promote and to establish environmental responsibility standards. The Company carries out compulsory compensatory measures to reduce the environmental load in zones impacted by the Company’s facilities:

- implementation of the program of heat facilities on the use of gaseous fuel;
- fish protective equipment installations on the HPPs being under construction;
- reconstruction and repair of hydraulic structures to maintain the proper condition of water protection zones, conducting shore protection works;
- reproduction of aquatic biological resources at the expense of compensation of harm;
- voluntary action on the stocking of water bodies with fish and improvement of natural areas and protected areas;
- voluntary environmental programs aimed at promotion of careful attitude to the nature (cooperation with nature reserves, national parks and other protected natural areas, as well as educational institutions and environmental organizations).

1 Data of the diagrams of this section are given without taking into account RAO ES EAST Holding. Full data on environmental indicators will be disclosed in the Corporate Social Responsibility and Sustainable Development (CSR) report for 2016.
WATER USAGE
Total amount of water withdrawn by PJSC RusHydro branches and subsidiaries, thousand m³

The structure of water intake in 2016, thousand m³

- By PJSC RusHydro subsidiaries in 2016, thousand m³
- By PJSC RusHydro branches in 2016, thousand m³

WATER DISPOSAL
The volume of wastewater discharges of PJSC RusHydro branches and subsidiaries into water bodies, thousand m³

The total volume of wastewater discharges of PJSC RusHydro branches and subsidiaries in 2016 broken down by the receiving facility, thousand m³

Wastewater discharges structure in 2016, thousand m³

By branches of PJSC RusHydro

By subsidiaries of PJSC RusHydro

The decrease in water consumption was mainly due to reduction of water consumption for household needs.
DISCHARGES

The main cause of changes in the mass of pollutants discharge with waste (drainage) water in 2016 in comparison with the discharges in 2015 is a decrease in the water disposal volume.

HAZARDOUS AIR POLLUTANTS

The volumes of hazardous air pollutants decreased mainly due to:

- the introduction of new Emission limit values (ELV) in several branches and clarification of the emissions source;
- the reduction in the amount of repair works carried out according to the operational program;
- the reduction of the produced coolant in JSC “Geoterm” subsidiary.

WASTE

The change in production and consumption waste volumes in 2016 compared with the volumes in 2015 occurred mainly due to:

- the decrease in volume of works under the operational program at PJSC RusHydro branches and subsidiaries;
- the reduction of works to restore the Sayano-Shushenskaya HPP after the accident in 2009;
- the reduction in the scope of work on the repair and reconstruction of equipment.
The Bureya River is blocked on the Nizhne-Bureyskaya HPP construction.
5.5 ENERGY EFFICIENCY

2016 events

- An additional generation of electricity in the amount of up to 1,153,000 thousand KWh is ensured, which is equivalent to saving fuel in the amount of 397.6 thousand tons per year

- The overall effect of the energy efficiency increase measures amounted to 99,761 thousand KWh

- The share of own consumption in the annual output dropped to 1.4%

5.5.1. PROGRAM IN THE FIELD OF ENERGY SAVING AND ENHANCEMENT OF ENERGY EFFICIENCY OF THE PJSC RUSHYDRO

Hydropower is the main business segment of the Company, being at the same time one of the most energy-efficient electric power sectors. In addition, the company actively participates in the electricity generation development based on other renewable sources – tidal, geothermal and wind energy, which are environmentally friendly and have a high degree of energy efficiency. The facilities of PJSC RusHydro enable the Company to further improve energy efficiency through the modernization of the main equipment and the introduction of innovative energy-saving technologies, optimizing the use of water resources, as well as reducing the power consumption for own needs.

In 2015, the Energy Saving and Energy Efficiency Improvement Programme of PJSC RusHydro for the 2016- to 2020 period was approved. In 2017, the Program was updated according to the results of the examination conducted by the Ministry of Energy of the Russian Federation and due to change in the requirements of regulatory legal acts.

The program is in line with the Technical Policy of JSC RusHydro and contains a list of the main activities in the field of increasing the efficiency of the use of energy and water resources, as well as a number of priority energy-saving solutions. The program is based on the results of energy surveys conducted in the period 2010-2016.

Principles of the Program:

- effective and efficient use of any kind of energy resources,
- supporting and stimulating energy conservation and measures to improve energy efficiency among staff,
- realistic planning for energy saving and increasing energy efficiency by the construction of the energy resources management system,
- comprehensive and systematic implementation of activities throughout the entire control loop of PJSC RusHydro,
- control and management of the Program in simple and reliable ways by managers at all levels.

Goals of the Program:

- increase in the efficiency of energy resources,
- reduction in operation costs and production costs of electricity generation,
- increase in the energy efficiency of branches of PJSC RusHydro,
- increased growth of the economy of PJSC RusHydro through the implementation of the energy saving potential.

Objectives of the Program:

- preparation of a list of activities aimed at increasing the efficiency of energy resources, reducing their use for their own consumption;
- introduction of energy-saving technologies to reduce energy consumption for own needs;
- modernization of accounting of fuel and energy resources;
- increase in the productive supply of electricity generated by PJSC RusHydro.

THE PROGRAM IMPLEMENTATION RESULTS

Energy saving is an important task for the Company. In 2016, the value of own electricity consumption amounted to 1,301,139 thousand kWh. The share of own consumption in the annual output, which amounted to 90,279,428 thousand kWh, dropped to 1.4 %. The similar value in 2015 was 1.6 %, in 2014 – 1.5 %.

In 2016, the implementation of the Energy Saving and Energy Efficiency Program contributed to saving of 63,220 thousand kWh; The additional output from the implementation of measures was 36,541 thousand kWh.

Moreover, in 2016, due to selection of the most efficient equipment, optimization of the repairing campaign, work of the
hydroelectric power plants at the exceed values of pressure heads in relation to long-time average annual values, and decrease of escapage by redistribution of the reserves of the automatic secondary regulation to the other HPP cascade, the additional electrical generation is provided in the volume of 1,153 million kWh, that is equivalent to fuel saving in the volume of 397.6 thous. tonnes of fuel per year.

**FORECASTING POWER SYSTEM VOLUME**

At the end of 2016, PJSC RusHydro spent 762 million rubles in the area of «Enhancing Energy Saving» and 4,985 million rubles in the area of «Improving Energy Efficiency».

The ability to accurately predict the volume of electricity produced in the medium and long term is an important condition for optimizing control over the entire system. To this end, RusHydro is constantly improving its own forecasting system.

In 2016, at Sayano-Shushenskaya HPP, the equipment of two precipitation area complexes (hereinafter – PAC) was registered. The equipment was transferred to a warehouse for subsequent installation on automobile platforms. The equipment of the mobile PAC is designed for the rapid acquisition of data on the intensity and the amount of precipitation in the catchment area in real time, storm warnings on hazardous phenomena, advice on adverse meteorological phenomena. The PAC makes it possible to increase the reliability of forecasts for planning optimal water and energy systems operation modes during the completion of the reservoir operation to minimize the risks of idle water discharges (to achieve the dead storage elevation), during the filling of the reservoir to ensure the allowable filling rate (speed), taking into account the strained SSPPP dam and in the period of maximum filling of the reservoir to ensure the integrity of the pressure face of the SSPPP dam;

<table>
<thead>
<tr>
<th>Type of energy resource</th>
<th>Consumption in physical terms</th>
<th>Consumption, ths. RUB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electrical energy, ths. kWh</td>
<td>1,191,381 1,207,481 1,301,139</td>
<td>983,956</td>
</tr>
<tr>
<td>Gasoline, liter.</td>
<td>737,726 1,842 2,490</td>
<td>83</td>
</tr>
<tr>
<td>Diesel fuel, L.</td>
<td>392,129 17,955 11,391</td>
<td>377</td>
</tr>
<tr>
<td>Gas Natural, m³</td>
<td>55,417 58,716 40,241</td>
<td>266</td>
</tr>
</tbody>
</table>

**Dynamics of energy consumption and the share of consumption from the annual output of PJSC RusHydro**

The reconstruction of the Gilyui hydrometeorological post located on the Gilyui River in 104 km from the mouth has been carried out at the Zeya Hydroelectric Power Plant. A sensor has been replaced, measuring the volume and speed of the river’s water flow for a more modern, reliable one, and the way of its installation has been changed, eliminating the effect of the ice cover of the river on the structure of the installation and the efficiency of the sensor. For the winter period the equipment of the gauging station is preserved until the spring flood begins.

Within the framework of the introduction of the medium-term planning system at the HPP of the Far East and Siberia:

- development of medium-term planning modules for the HPPs of the Angara-Yenisei, Kolyma and Ust-Srednekanetskaya HPPs continues;
- development of a module for the formation of runoff in the basin of the Bureyskoye reservoir;
- operations to integrate the module for collecting, processing, storing and disseminating the actual and forecast hydrometeorological and water management data on the territory of the Bureyskoye reservoir basin using the information system for planning water and energy regimes «Dispatch Center»;
- development of a module for calculating prospective energy balances for the power district of the Bureyskoye HPP.

**COMPANY’S FACILITIES ENERGY AUDIT**

In accordance with the schedule of energy inspections of branches of PJSC RusHydro in 2016, energy audits of seven facilities of the following branches were carried out:

- Bureyskaya HPP, Zeyskaya HPP, Cascade of Verkhnevolzhskie HPPs, Nizhnevolzhskaya HPP and Novosibirskaya HPP.

For all branches audited, the Company has developed the energy certificates, as well as the energy saving and energy efficiency programs and reports with recommendations.
PJSC RusHydro carries out charitable activities, guided by the Charity and Sponsorship Policy. The Company annually develops an annual Charity and Sponsorship Program.

The Charity and Sponsorship Policy of the Company (http://www.eng.rushydro.ru/Sustainability/social-responsibility/) This Program is of purposive character and includes projects to support orphan asylums, educational and medical organizations for children, educational programs and sports for children. The Program also supports charity environmental actions and projects preserving cultural and religious heritage.

**Major Charity Projects**

<table>
<thead>
<tr>
<th>Support areas</th>
<th>Projects</th>
<th>Expenses, million RUB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support of higher education institutions</td>
<td>Financial support of educational institutions:</td>
<td>65 62 83</td>
</tr>
<tr>
<td></td>
<td>• Moscow State University of Civil Engineering,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• St. Petersburg Polytechnic University of Peter the Great,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Moscow Power Engineering Institute and its branch in Volzhsky,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Sayano-Shushensky branch of the Siberian Federal University,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Far Eastern Federal University.</td>
<td></td>
</tr>
<tr>
<td>Infrastructure development of the Cheryomushki village</td>
<td>Program for the comprehensive development of the infrastructure of the village of Cheryomushki for the renovation and modernization of the social facilities of the village.</td>
<td>140.3 12 13</td>
</tr>
<tr>
<td>Support of the Russian Geographical society</td>
<td>The Company grant funding formation</td>
<td>60 30 30</td>
</tr>
<tr>
<td>Support of the Russian sports development</td>
<td>The funds are allocated to support the Russian Whitewater Federation,</td>
<td>560 82 43</td>
</tr>
<tr>
<td></td>
<td>Russian Union of Martial Arts and other organizations.</td>
<td></td>
</tr>
</tbody>
</table>

1 The difference between the financial amounts of 2014–2015 is due to one-time actions of financial support to HC «Dynamo» (500 million rubles) and FC «Alania» (440 million rubles). This is how the Company participated in the implementation of the state program of development of hockey including the support of junior sports, education of coaches, and theory combined with methodical work.
More details about charity projects can be found in the Corporate social responsibility and sustainable development report for 2016 or on the website: (http://www.rushydro.ru/sustainable_development/socialotvetstvenost/alms/)

The Long-term Integrated Program “Clean energy”

The “Clean Energy” program to provide financial support and implementation of projects for the social rehabilitation of children left without parental care, as well as to develop the creative potential of children, covers 26 orphanages and boarding schools, 18 kindergartens, 24 general education schools, 17 creative development centers for children; 16 branches of the Company provided assistance to foundations and centers for the rehabilitation of disabled children. In all branches of the company, support is provided for the activities of veteran organizations, cultural facilities (philharmonic societies, theaters, cultural centers, libraries). Within the «Clean Energy» framework, the «Ecological Paths» project was developed to organize tourist routes along with the reserves, as well as for further improvement of recreation areas. In 13 regions of the presence, 16 ecological trails were opened, with three of them opened in the reporting year.

Other

In 2016, the company supported the «Vera» hospice relief fund, the Public Organization of the Disabled Center for Humanitarian Programs, the Directorate of Chantable Programs «Starko», and the Civil Society Development Foundation.

The company provided assistance to the Primorie Territory, which was affected by the «Linerok» typhoon.
Certification tests were carried out at Blagoveschenskaya TPP
## CONTACTS

<table>
<thead>
<tr>
<th>Full name</th>
<th>“Public Joint Stock Company Federal Hydro-Generating Company – RusHydro”</th>
</tr>
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<tbody>
<tr>
<td>Abbreviated name</td>
<td>PJSC RusHydro</td>
</tr>
<tr>
<td>OGRN</td>
<td>1042401818494</td>
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<tr>
<td>INN</td>
<td>2460066195</td>
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<tr>
<td>KPP</td>
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<td>OKVED</td>
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### Number and date of issue of the certificate of state registration as a legal entity

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### Main activity

<table>
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<tr>
<th>Main activity</th>
<th>35.11.2 Production of electricity by hydroelectric power plants</th>
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### Information about the listing of strategic enterprises and strategic joint-stock companies

<table>
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<tr>
<th>Information about the listing of strategic enterprises and strategic joint-stock companies</th>
<th>Presidential Decree of 21.05.2012 No.688 PJSC RusHydro on the list of strategic enterprises and strategic joint-stock companies, approved by Presidential Decree of August 4, 2004 N 1009 “On approval of the list of strategic enterprises and strategic joint-stock companies”</th>
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### Location

<table>
<thead>
<tr>
<th>Location</th>
<th>43 Dubrovinskogo Street, Bldg 1, Krasnoyarsk, the Krasnoyarsk Region, Russia, 660017</th>
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### Mailing address

<table>
<thead>
<tr>
<th>Mailing address</th>
<th>7 Malaya Dmitrovka Street, Moscow, Russia, 127006</th>
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</thead>
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### Telephone

<table>
<thead>
<tr>
<th>Telephone</th>
<th>+7 (800) 333-8000</th>
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</thead>
</table>

### Fax

<table>
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<tr>
<th>Fax</th>
<th>+7 (495) 225-3737</th>
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### E-mail

<table>
<thead>
<tr>
<th>E-mail</th>
<th><a href="mailto:office@rushydro.ru">office@rushydro.ru</a></th>
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</thead>
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### Internet address in Russian

<table>
<thead>
<tr>
<th>Internet address in Russian</th>
<th><a href="http://www.rushydro.ru">www.rushydro.ru</a></th>
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### Internet address in English

<table>
<thead>
<tr>
<th>Internet address in English</th>
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### Bank Details

<table>
<thead>
<tr>
<th>Current account</th>
<th>40702810700030003502</th>
</tr>
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<tbody>
<tr>
<td>Bank</td>
<td>PJSC Bank VTB, Moscow, Russia</td>
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<tr>
<td>BIC</td>
<td>044525187</td>
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### Correspondence account

<p>| Correspondence account | 30101810700000000187 |</p>
<table>
<thead>
<tr>
<th>Shareholder relations</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Hotline Telephone</td>
<td>+7 (800) 200 6112 (free for residents of all Russian regions)</td>
</tr>
<tr>
<td>E-mail</td>
<td><a href="mailto:divid@vtbreg.ru">divid@vtbreg.ru</a></td>
</tr>
<tr>
<td>Corporate Governance and Property Management Department, Corporate Secretary</td>
<td>Kovaleva Natalia Gennadievna</td>
</tr>
<tr>
<td>Telephone</td>
<td>+7 (800) 333-80-00 aof 1025</td>
</tr>
<tr>
<td>E-mail</td>
<td><a href="mailto:corpupr@rushydro.ru">corpupr@rushydro.ru</a></td>
</tr>
<tr>
<td>Registrar</td>
<td></td>
</tr>
<tr>
<td>Full name</td>
<td>Joint Stock Company VTB Registrar</td>
</tr>
<tr>
<td>Abbreviated name</td>
<td>VTB Registrar</td>
</tr>
<tr>
<td>Location</td>
<td>127015, Moscow, Pravda st., 23</td>
</tr>
<tr>
<td>Mailing address</td>
<td>127137, Moscow, PO Box 54</td>
</tr>
<tr>
<td>Telephone</td>
<td>+7 (495) 787-44-83</td>
</tr>
<tr>
<td>Fax</td>
<td>+7 (495) 787-44-83</td>
</tr>
<tr>
<td>E-mail</td>
<td><a href="mailto:info@vtbreg.ru">info@vtbreg.ru</a></td>
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<td>Internet address in Russian</td>
<td><a href="http://www.vtbreg.ru">http://www.vtbreg.ru</a></td>
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<tr>
<td>License No</td>
<td>No. 045-13970-00001 of 21.02.2008</td>
</tr>
<tr>
<td>Investor relations</td>
<td></td>
</tr>
<tr>
<td>IR Department</td>
<td>Goldin Alexander Yevgenyevich</td>
</tr>
<tr>
<td>Telephone</td>
<td>+7 (800) 333-8000 aof 1319</td>
</tr>
<tr>
<td>IR Department</td>
<td>Ahmedjanov Timur Gumyarovich</td>
</tr>
<tr>
<td>Telephone</td>
<td>+7 (800) 333-8000 aof 1607</td>
</tr>
<tr>
<td>E-mail</td>
<td><a href="mailto:ir@rushydro.ru">ir@rushydro.ru</a></td>
</tr>
<tr>
<td>Media relations</td>
<td></td>
</tr>
<tr>
<td>Member of the Management Board, First Deputy Director General</td>
<td>Markin Vladimir Ivanovich</td>
</tr>
<tr>
<td>Telephone</td>
<td>+7 (800) 333-8000, aof 4292</td>
</tr>
<tr>
<td>E-mail</td>
<td><a href="mailto:press@rushydro.ru">press@rushydro.ru</a></td>
</tr>
<tr>
<td>Depository Bank (Depositary Receipt)</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>---</td>
</tr>
<tr>
<td><strong>Full name</strong></td>
<td>The Bank of New York Mellon</td>
</tr>
<tr>
<td><strong>Olena Smirova</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Telephone</strong></td>
<td>+1 212 815 2510</td>
</tr>
<tr>
<td><strong>E-mail</strong></td>
<td><a href="mailto:olena.smirova@bnymellon.com">olena.smirova@bnymellon.com</a></td>
</tr>
<tr>
<td>Depository (bonds)</td>
<td></td>
</tr>
<tr>
<td><strong>Full name</strong></td>
<td>National Settlement Depository</td>
</tr>
<tr>
<td><strong>Abbreviated name</strong></td>
<td>NSD</td>
</tr>
<tr>
<td><strong>Location</strong></td>
<td>12 Spartakovskaya St., Moscow, Russia, 105066</td>
</tr>
<tr>
<td><strong>Telephone</strong></td>
<td>+7 (495) 234-48-27</td>
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<tr>
<td><strong>Fax</strong></td>
<td>+7 (495) 956-09-38</td>
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<tr>
<td><strong>E-mail</strong></td>
<td><a href="mailto:bonds@nsd.ru">bonds@nsd.ru</a></td>
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<tr>
<td><strong>Website</strong></td>
<td><a href="http://www.nsd.ru">www.nsd.ru</a></td>
</tr>
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<td>Auditor</td>
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</tr>
<tr>
<td><strong>Full name</strong></td>
<td>Closed Joint Stock Company PricewaterhouseCoopers Audit</td>
</tr>
<tr>
<td><strong>Abbreviated name</strong></td>
<td>CJSC PwC Audit</td>
</tr>
<tr>
<td><strong>Location</strong></td>
<td>10 Butyrsky Val Street, Moscow, Russia, 125047</td>
</tr>
<tr>
<td><strong>Telephone</strong></td>
<td>+7 (495) 967-6000</td>
</tr>
<tr>
<td><strong>Fax</strong></td>
<td>+7 (495) 967-6001</td>
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<tr>
<td><strong>E-mail</strong></td>
<td><a href="mailto:pwc.ru@ru.pwc.com">pwc.ru@ru.pwc.com</a></td>
</tr>
<tr>
<td><strong>Website</strong></td>
<td><a href="http://www.pwc.ru">www.pwc.ru</a></td>
</tr>
</tbody>
</table>
## Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company, RusHydro</td>
<td>PJSC RusHydro, including its branches and executive office</td>
</tr>
<tr>
<td>Combined heat and power plant</td>
<td>Combined heat and power plant generates electricity and useful heat at the same time</td>
</tr>
<tr>
<td>Day-Ahead Market</td>
<td>The competitive selection of price bids of suppliers and buyers conducted by JSC “ATS” a day before the actual delivery of electricity with the determination of prices and volumes of delivery for each hour of the day</td>
</tr>
<tr>
<td>Energy Efficiency</td>
<td>Effective (rational) use of energy resources. Use less energy to provide buildings or manufacturing processes in production with the same level of energy</td>
</tr>
<tr>
<td>Generating companies of the wholesale electricity market</td>
<td>Companies formed on the basis of the power plants</td>
</tr>
<tr>
<td>Gigacalorie</td>
<td>A unit of measurement for heating energy</td>
</tr>
<tr>
<td>Gigacalorie-Hour</td>
<td>A unit of measurement for heating power</td>
</tr>
<tr>
<td>Hydropower plant</td>
<td>A power plant as unified production and technological complexes, combining hydro-technical constructions and equipment that transforms mechanical energy from water into electric energy. In the text of the annual report, except when otherwise noted, tidal power plants and PS HPPs are included as HPPs</td>
</tr>
<tr>
<td>Hydro-technical constructions</td>
<td>Dams, hydropower plant constructions, spillways, drain and water-discharge constructions, tunnels, channels, pumping stations, navigation locks, boat lifts; buildings used to protect from floods and the destruction of water reservoir shores; dam constructions, protecting the liquid waste reservoirs of production and agricultural organizations; devices that protect against washing-away and other constructions designed to use water resources and to prevent any negative impact from water and liquid waste</td>
</tr>
<tr>
<td>Integrated Energy System</td>
<td>Aggregated production and other electricity property assets, connected via a unified production process (including production in the form of the combined generation of electrical and heat) and the supply of electrical energy under the conditions of a centralized operating and dispatch management.</td>
</tr>
<tr>
<td>Installed capacity</td>
<td>Total nominal active capacity of generators at electric power plants which are part of the Group’s structure</td>
</tr>
<tr>
<td><strong>JSC RAO UES of Russia</strong></td>
<td>The Russian energy company (until July 1st, 2008). Full name — Open Joint Stock Company Unified Energy System of Russia. The Company previously united almost all of Russian energy sector companies under its consolidation. JSC RAO UES of Russia ceased to exist as of June 30, 2008 as a result of a comprehensive energy sector reform.</td>
</tr>
<tr>
<td><strong>Kilowatt-Hour</strong></td>
<td>A unit of measurement for produced electricity</td>
</tr>
<tr>
<td><strong>Megawatt</strong></td>
<td>A unit of measurement for electrical capacity</td>
</tr>
<tr>
<td><strong>Pump storage hydropower plants</strong></td>
<td>Pump-storage power plants, which works by transforming electricity from other power plants into the potential energy of water; during reverse transformation, accumulated energy is contributed to the energy system primarily to cover deficits that may occur during peak load periods.</td>
</tr>
<tr>
<td><strong>Renewable energy sources</strong></td>
<td>Include: hydro, solar, wind, geo-thermal, hydraulic energy, energy from water currents, waves, tides, the temperature gradient of sea water, temperature differences between air masses and the ocean, heat from the Earth, animal bio-masses and vegetable and household waste.</td>
</tr>
<tr>
<td><strong>Subsidiaries and dependent companies</strong></td>
<td>Entities, in which another (main) economic entity due to its majority or greater participation in the charter capital or in accordance with a concluded agreement or in another way, has the opportunity to determine the decisions adopted by said entities.</td>
</tr>
<tr>
<td><strong>The RusHydro Group</strong></td>
<td>PJSC RusHydro, including its subsidiaries and dependent companies (SDCs).</td>
</tr>
<tr>
<td><strong>Thermal power plant</strong></td>
<td>Thermal power plant is a power plant in which heat is converted to electric power</td>
</tr>
<tr>
<td><strong>Useful supply of electricity</strong></td>
<td>Electricity received and paid for by consumers</td>
</tr>
<tr>
<td><strong>Wholesale electricity and capacity market</strong></td>
<td>Sphere for the turnover of electric energy and capacity within the framework of Russia’s integrated energy system within the country’s unified economic space with the participation of large electricity producers and consumers that have the status of wholesale market objects, confirmed in full accordance with the Russian Federal Law “On the electric power industry” (by the Russian Government). The criteria for including large electricity producers and consumers in the category of large producers and large consumers are also established by the Russian government.</td>
</tr>
<tr>
<td><strong>Wind electric plants</strong></td>
<td>Include two or more wind energy installations designed to convert wind energy into electric energy and its transmission to consumers</td>
</tr>
</tbody>
</table>
### Key Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>PJSC RusHydro</td>
<td>Public joint-stock company RusHydro, including its branches and executive office</td>
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<tr>
<td>JSC RAO UES of Russia</td>
<td>Joint-stock company RAO Energy Systems of the East</td>
</tr>
<tr>
<td>APAC</td>
<td>Asian-Pacific Region</td>
</tr>
<tr>
<td>AGM</td>
<td>Annual General Meeting of Shareholders</td>
</tr>
<tr>
<td>BoD</td>
<td>Board of Directors</td>
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<tr>
<td>CHPP</td>
<td>Combined heat and power plant</td>
</tr>
<tr>
<td>CCA</td>
<td>Competitive capacity auction</td>
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<tr>
<td>DAM</td>
<td>Day-Ahead Market</td>
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<tr>
<td>FEC</td>
<td>Fuel and Energy Complex</td>
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<tr>
<td>FEFD</td>
<td>Far Eastern Federal District</td>
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<tr>
<td>Gcal</td>
<td>Gigacalorie</td>
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<tr>
<td>Gcal/h</td>
<td>Gigacalorie-Hour</td>
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<tr>
<td>HPP</td>
<td>Hydropower plant</td>
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<tr>
<td>IES</td>
<td>Integrated Energy System</td>
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<tr>
<td>KPIs</td>
<td>Key performance indicators</td>
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<tr>
<td>kWh</td>
<td>Kilowatt-Hour</td>
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<tr>
<td>LDP</td>
<td>Long term Development Program</td>
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<tr>
<td>MW</td>
<td>Megawatt</td>
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<tr>
<td>PS HPP</td>
<td>Pump storage hydropower plant</td>
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<tr>
<td>R &amp; D</td>
<td>Research and development</td>
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<tr>
<td>REM</td>
<td>Retail energy market</td>
</tr>
<tr>
<td>RES</td>
<td>Renewable energy sources</td>
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<tr>
<td>SDCs</td>
<td>Subsidiaries and dependent companies</td>
</tr>
<tr>
<td>TPP</td>
<td>State District Power Plant</td>
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<tr>
<td>SPPs</td>
<td>Solar power plant</td>
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<tr>
<td>TPP</td>
<td>Thermal power plant</td>
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<tr>
<td>VNIIG</td>
<td>The B.E. Vedeneev All Russia Institute of Hydraulic Engineering</td>
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<tr>
<td>WECM</td>
<td>Wholesale electricity and capacity market</td>
</tr>
<tr>
<td>WGCs</td>
<td>Generating companies of the wholesale electricity market (WEM)</td>
</tr>
<tr>
<td>WPS</td>
<td>Wind electric plants</td>
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