

CEO'S STATEMENT



Dear shareholders, colleagues and partners!

The year of 2017 was successful for us. We saw some good progress with all of our priority tasks such as completing key projects and commissioning new generation capacities. We set a new record in power generation proving that not only are we able to achieve meaningful results and sustain them but also to strive and go further raising the bar.

We continue our journey forward through introducing innovative technologies, upgrading our existing facilities, and improving our operating results.

Development of the infrastructure in Russia's Far East, as well as search for sources of investment to modernise our existing heat generation facilities in the region are still among our main goals. In 2017, we completed the integration of PJSC RusHydro's and JSC RAO ES East's executive offices and created a single management office with unified standards.

The company pays special attention to operational efficiency, opex optimisation, enhancing procurement practices and personnel policy to ensure its stable and long-term development.

The Group's electricity generation, including Boguchanskaya HPP, set an all-time record of 140.3 bn kWh, more than 1 bn kWh up year over year.

The record became possible through effective planning of energy and water regimes at the Volga-Kama Cascade HPPs, launch of new and upgrade of the existing stations. Strong operational performance of thermal power plants of the RAO ES East Subgroup, which produced 32.82 bn kWh in 2017, also contributed to the record of power generation. Heat supply by thermal plants of RAO ES East Subgroup amounted to 30.1 mn Gcal.

The installed capacity of RusHydro's power plants, including Boguchanskaya HPP, reached 39.04 GW in 2017, while the installed heat capacity across the Group increased to 18.5 thousand Gcal/h.

The Group spent RUB 92 bn on its investment programme in 2017. The preliminary consolidated investment programme for 2018-2023 is forecast at RUB 443.6 bn. A total of 1.5 GW of electric capacity and 1 thousand Gcal/h of thermal capacity are planned for commissioning.

The active construction phase of Far Eastern facilities such as Sakhalinskaya GRES-2 and a CHPP in Sovetskaya Gavan, carried out in accordance with the Presidential Decree, is under way. The second stage of Blagoveshchenskaya CHPP and the first phase of Yakutskaya GRES-2 were already commissioned in 2016 and 2017, respectively. Three major projects in the Far East electric grid system were launched: the construction of two 110 kV overhead lines Pevek-Bilibino in Chukotka, the modernisation of Magadanenergo substations to connect a new 220 kV overhead line, and the construction of approach lines to the 220 kV Maya substation in Yakutia. The construction of the gas turbine CHPP in Vladivostok is approaching the final straight, while the construction of Ust-Srednekanskaya HPP is progressing in line with the schedule as hydroelectric unit No. 3 is set for commission in 2018. We successfully completed the gasification project at Anadyrskaya CHPP.

RusHydro is poised to commission over 250 MW of capacity by 2023 following the upgrade and revamp of our power plants. We are striving to increase the efficiency of the upgrade and revamp programmes by reducing the

implementation time and unit cost of work, employing new technologies and advanced approaches in project management.

Boosting the technology has become one of the key goals of the Group's Innovation Development Programme until 2025. In 2017, the Interdepartmental Working Group on Implementing Innovation Development Priorities under the Presidium of the Presidential Council for Economic Modernisation and Innovative Development of Russia recognised the quality of our R&D as we received one of the highest ratings among the fuel and energy companies.

The cost optimisation process continued as well. Over RUB 6.5 bn was saved by streamlining the organisational structure, eliminating duplicate administrative and management functions, decreasing unit costs for maintenance, repair and fuel, and reducing transportation costs in 2017 alone. With the actual annual inflation of 3.68%, the Group's controllable operating expenses increased by less than 2%. Activities aimed at reducing costs and increasing productivity are under way.

We have completed the centralisation of our procurement practices within a designated controlled entity, which brought close to RUB 30 bn in savings over two years. A total of RUB 20.8 bn was saved by RusHydro Group's procurement function in 2017.

In 2017, RusHydro Group demonstrated sound operational and financial results. The consolidated revenue for the year amounted to RUB 380.9 bn, consolidated EBITDA increased by 3.7% and reached a record-high RUB 104 bn. The IFRS net profit amounted to RUB 22.4 bn.

Following the successful completion of a transaction with VTB Bank (PJSC) to raise equity, PJSC RusHydro received RUB 55 bn to repay loans of the Group's companies in the Far East. Savings in interest expenses of RAO ES East Subgroup were used to improve the reliability of its facilities.

The Group's strong operational performance and decreasing leverage helped reduce the Net Financial Debt / EBITDA ratio which characterises the company's financial stability from 1.6 at the end of 2016 to 1.4 by the end of 2017. In the current year, the downstream guarantee of PJSC RusHydro to Vnesheconombank under the loan agreement of PJSC Boguchanskaya HPP was excluded from the Group's leverage. As a result, RusHydro's financial debt decreased by another RUB 26 bn.

S&P and Moody's upgraded PJSC RusHydro's credit ratings to the sovereign level in 2017. Analysts rated a high level of government support to the company and ongoing improvement of RusHydro's financial and economic performance. This year, S&P upgraded PJSC RusHydro's long-term credit rating to an investment level of BBB- with a "stable" outlook.

In 2017, PJSC RusHydro became one of the first Russian companies partially owned by the government and the first company in the power sector to receive a top credit rating of "AAA (Ru)" from the Russian Analytical Credit Rating Agency (ACRA).

Successful placements of loan participation notes on the global exchange market in 2017 and 2018 confirm RusHydro's status as a reliable borrower. Investor demand for RusHydro's securities significantly exceeded the offer. The first issue was considered to be the best rouble deal on the international market according to Cbonds, while the second issue hit a historic low in the yield of rouble Eurobond issues among Russian corporate issuers.

Not only do we strive to improve our operational and financial results but also demonstrate maximum transparency of our activities. The leading rating agencies, business associations and public organisations recognised our progress in this direction in 2017 as well. By the end of the year, PJSC RusHydro was among the leaders of the Responsibility and Transparency Index of the Russian Union of Industrialists and Entrepreneurs and ranked among Top 3 most transparent companies in the electric power industry according to Transparency International.

Our activities aimed at sustainable development received a positive assessment internationally as well. In the reporting year, RusHydro ranked high in the RobecoSAM ranking used for the Dow Jones sustainability indices.

RusHydro Group employs thousands of hydro and thermal power engineers, service technicians and distributors, scientists, designers and other professionals across the country ranging from the Far East to St. Petersburg, from the south of Russia to Arctic regions. All of them work for the benefit of the company. I would like to thank all our employees for their hard work in supplying energy to consumers and ensuring the Group's sustainable development. We will keep doing our best to achieve RusHydro's strategic goals.

Nikolay Shulginov

Chairman of the Management Board –
CEO of PJSC RusHydro [102-14]