

THE CHAIRMAN'S STATEMENT



Dear shareholders, colleagues and partners!

The year of 2017 has been a fruitful year. RusHydro Group has made progress across all of its strategic areas: ensuring reliable and safe operations of its power facilities and hydroelectric units, sustainable development of electricity generation, advancing development of the Far Eastern energy sector, and growing the Company's value.

RusHydro has successful projects that matter for the Far East. The first stage of Yakutskaya GRES-2, the second one of the four power plants in the Far East, built in accordance with the Presidential Decree, was put into operation. Other projects in the region, such as Sakhalinskaya GRES-2, Vostochnaya CHPP and Nizhne-Bureyskaya HPP, are close to their completion and slated for commissioning within a year.

Following the launch of new and modernisation of existing facilities, combined with effective planning of energy and water regimes, electricity production of RusHydro Group, including Boguchanskaya HPP, reached a record high of 140.3 bn kWh in 2017, out of which 109.3 bn kWh was carbon-free production.

RusHydro continues to focus on energy efficiency. The Energy Efficiency and Improvement Programme for 2016-2020, updated in 2017, has already helped reduce electricity losses in grids in the Far East by 10%, or close to 375 mn kWh per year, equivalent to annual electricity consumption of a small city.

Infrastructure and investment projects aimed at fostering social and economic development in the Far East continued in 2017. The financial stability of RusHydro's facilities in the region improved as well. RAO ES East Subgroup's debt was refinanced in 2017. In the same year, a law came into effect to reduce electricity tariffs in the Far East to match the average tariffs in Russia, which will improve the business environment in the Company's key region of presence.

A series of measures to reduce costs and increase operational efficiency came into effect last year. The corporate governance structure of the Far Eastern assets was optimised as the headquarters of PJSC RusHydro and JSC RAO ES East were merged. RusHydro also completed the centralisation of its procurement activities, with centralisation and optimisation of certain functions in subsidiaries planned going forward.

Development of the regions of presence continues to be one of the top priorities for RusHydro Group. The Group's facilities are major employers in their regions, and projects to build new energy facilities help create additional jobs. RusHydro's contribution to communities, education, and the environment has been widely recognised and acknowledged.

According to a Decree by the President of the Russian Federation, 2017 was the year of the environment in Russia. Environmental responsibility has been of major importance for RusHydro ever since its inception. Last year, the Group confirmed its status as one of the leaders among Russia's environmentally and socially responsible businesses in the fuel and energy sector. In its operations, the Company pays particular attention to ensuring environmental safety, reducing the environmental footprint (including greenhouse gas emissions), and preserving biodiversity. Regular measures, including environmental and awareness raising activities, are in place to introduce the best available technologies in environmental protection, preservation of rare animals and plants, reproduction of valuable breeds of fish, and support of specially protected natural areas.

With its hydroelectric power stations and wind and solar energy projects, RusHydro Group boasts one of the lowest greenhouse gas emissions per kWh of electricity across Russia. The Group is also among the Russian leaders in sustainable development. The Company pays a great deal of attention to the activities of the Global Sustainable Electricity Partnership (GSEP). GSEP recognizes RusHydro's efforts in constructing new hydraulic, wind, and solar power capacities, and also in switching existing coal-powered power plants in the Far East to natural gas.

RusHydro Group ranks high among global energy companies in a variety of industry ratings. Its sustainable development efforts are in line with the strategic goal of increasing the value of the Company. In 2017, the Group was included into the UK's FTSE4Good Emerging Index, which comprises businesses committed to sustainable development. It serves as a benchmark for investors looking for companies that meet high standards in environmental protection, social responsibility, and corporate governance.

The Company was on the Top 100 of the S&P Global Platts Top 250 Global Energy Company Rankings in 2017, which helps to build recognition among the international financial community. The ongoing process to improve the Company's investment appeal is underway.

In order to maximise the Company's value and increase its value for shareholders, strategic and financial investors, the Board of Directors of RusHydro approved the Group's Value Growth Plan for the period up to 2021.

We thank our shareholders, partners, and employees for their contribution to the development of RusHydro and their trust in the Company's management bodies.

Yuri Trutnev

Chairman of the Board of Directors
PJSC RusHydro