

Evaluation of the quality of corporate governance

External evaluation of both individual aspects and corporate governance in 2017 was carried out by the Working Group on the Establishment of an International Financial Centre in the Russian Federation and the Expert Council under the Government of the Russian Federation, the Russian Union of Industrialists and Entrepreneurs and the Russian Institute of Directors.

In November 2017, the Working Group on the Establishment of the International Financial Center in Russia in conjunction with the Expert Council under the Government of the Russian Federation published the results of a study of the practice of introducing companies' priority recommendations of the Code and the quality of corporate governance. PJSC RusHydro took the 4th place in this study alongside PJSC Rosneft Oil Company.

Following the results of 2017, the Company became one of the leaders in the the Russian Union of Industrialists

and Entrepreneurs (RSPP) index of sustainable development - 'Responsibility and Openness'. The Responsibility and Openness index reflects the quality and breadth of disclosure of corporate information on sustainable development and corporate responsibility.

In May 2017, the Russian Institute of Directors, engaged by which the Company on an ongoing basis, conducted an annual assessment of the corporate management practices of PJSC RusHydro in accordance with the updated methodology of the National Corporate Governance Rating (NCGR). As a result of the assessment, PJSC RusHydro was assigned a corporate governance rating of 7 ++ Advanced Corporate Governance Practices on the NCGR scale.

This assessment confirms that the Company complies with the requirements of the Russian legislation in the field of corporate governance and follows a significant number of recommendations of the Russian Corporate Governance Code.



CORPORATE GOVERNANCE DEVELOPMENT

In 2017, the Company continued to implement Code standards aimed at improving the level of corporate governance by bringing internal documents in line with it, as well as the application of standards in everyday practice.

In 2017, the following key events were conducted:

- PJSC RusHydro shares held by controlled entities did not participate in voting during the reporting period. In 2017, a significant portion of quasi-treasury shares were sold to VTB Bank (PJSC). At the moment, the companies of RusHydro Group held 0.9% of the Company's voting shares;
- The PJSC RusHydro Board of Directors assessed the effectiveness of the Company's risk management and internal control system, and also discussed the corporate governance practice in the Company;
- Senior Independent Director was elected;
- The Board of Directors approved the Regulation on the Information Policy of the Company in a new version, and at the end of 2017 reviewed the report on its implementation;

Corporate Governance

- The Nominations and Remuneration Committee made an assessment of the independence of nominees to the Board of Directors for the purpose of providing information to the Company's shareholders before the annual General Meeting of shareholders;
- the list of materials provided to the shareholders of the Company for the annual General Meeting of Shareholders has been expanded.

The main directions of improving the Company's corporate governance system for 2018:

- update and inclusion in the internal documents of the Company of norms aimed at:
 - forming an introductory course programme for the members of the Board of Directors elected for the first time,
 - preventing and resolving conflicts of interest of members of the Board of Directors,

- creating an opportunity for the Board of Directors to attract external independent experts (consultants) to study issues that are the subject of its consideration,
- creating an opportunity to increase the efficiency of the work of the members of the Board of Directors through training and improving their skills,
- providing members of the Board of Directors with access to documents of entities controlled by the Company;

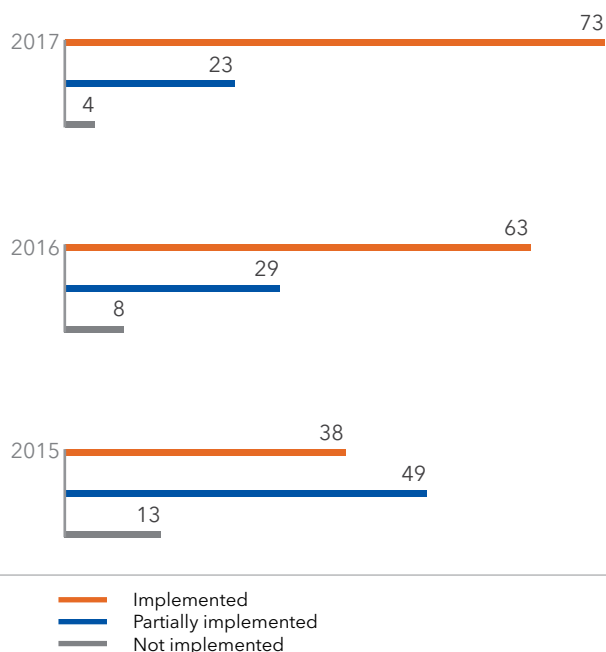
- depending on the actual circumstances and requirements – increase in the number of full-time meetings of the Board of Directors of the Company;
- Improving the quality and detail of information disclosure in the Annual Report and on the Company's website.

Compliance with the principles of the Corporate Governance Code¹

The status of the implementation of the norms and principles of the Code	Year	Shareholder rights and equality of conditions for shareholders in exercising their rights	Board of Directors of the Company	Corporate Secretary of the Company	The remuneration system for members of the Board of Directors, executive bodies, and other key management personnel of the Company	Risk management and internal control system of the Company	Disclosure of information about the Company, information policy of the Company	Significant corporate actions
Implemented	2015	9	12	-	3	5	1	-
	2016	10	20	2	10	5	3	-
	2017	11	23	2	10	6	6	-
Partially implemented	2015	3	17	2	6	1	6	4
	2016	2	12	-	-	1	4	4
	2017	2	10	-	-	-	1	5
Not performed	2015	1	7	-	1	-	-	1
	2016	1	4	-	-	-	-	1
	2017	-	3	-	-	-	-	-
Total 2017		13	36	2	10	6	7	5

¹ The assessment of compliance with the principles of corporate governance enshrined in the Code of Corporate Governance was carried out according to the methodology developed by the Bank of Russia, taking into account recommendations on compiling a report on compliance with the principles and recommendations of the Corporate Governance Code (annex to Bank of Russia Letter No. IN-06-52 / 8 of February 17, 2016). For a full report on the Company's compliance with the principles and recommendations of the Corporate Governance Code and the explanation of deviations from the criteria for assessing compliance with corporate governance principles, see Appendix No. 1 to the annual report.

Implementation of the Code of Corporate Governance, %



As a result of the gradual introduction of the Code, the share of principles fully observed in PJSC RusHydro increased: 38% in 2015, 63% in 2016 and 73% in 2017.

MANAGEMENT OF CONTROLLED COMPANIES

PJSC RusHydro (including indirectly through controlled companies) participates in the authorised capital of companies that are engaged in production and sales of electricity and heat, design, construction, maintenance, technical rehabilitation and modernisation of power facilities, as well as other activities.

The Company's interaction with the subsidiaries helps implement the strategy, ensuring stable economic development and investment attractiveness, as well as protecting the rights and interests of shareholders of both the Company itself and its controlled companies.

The Company manages controlled companies through its representatives at general meetings of shareholders / participants, on boards of directors and in controlled companies control bodies in accordance with the Charter and the Regulations on the formation of instructions to rep-

resentatives of PJSC RusHydro on issues on the agenda of meetings of management bodies of PJSC RusHydro controlled companies.

Determination of the position of the Company (its representatives in the management bodies of subsidiaries) on the most significant issues related to the activities of its subsidiaries (reorganisation, liquidation, change of the authorised capital, approval of major transactions, and participation of subsidiaries in other organisations) falls within the competence of the Board of Directors. Determination of the position on other significant issues related to the activities of subsidiaries (on the approval (adjustment) of KPIs, on transactions with shares (shares), etc.), and decisions on the competence of the supreme management bodies of subsidiaries, 100% of the authorised capital of which belongs to the Company to the competence of the Management Board.