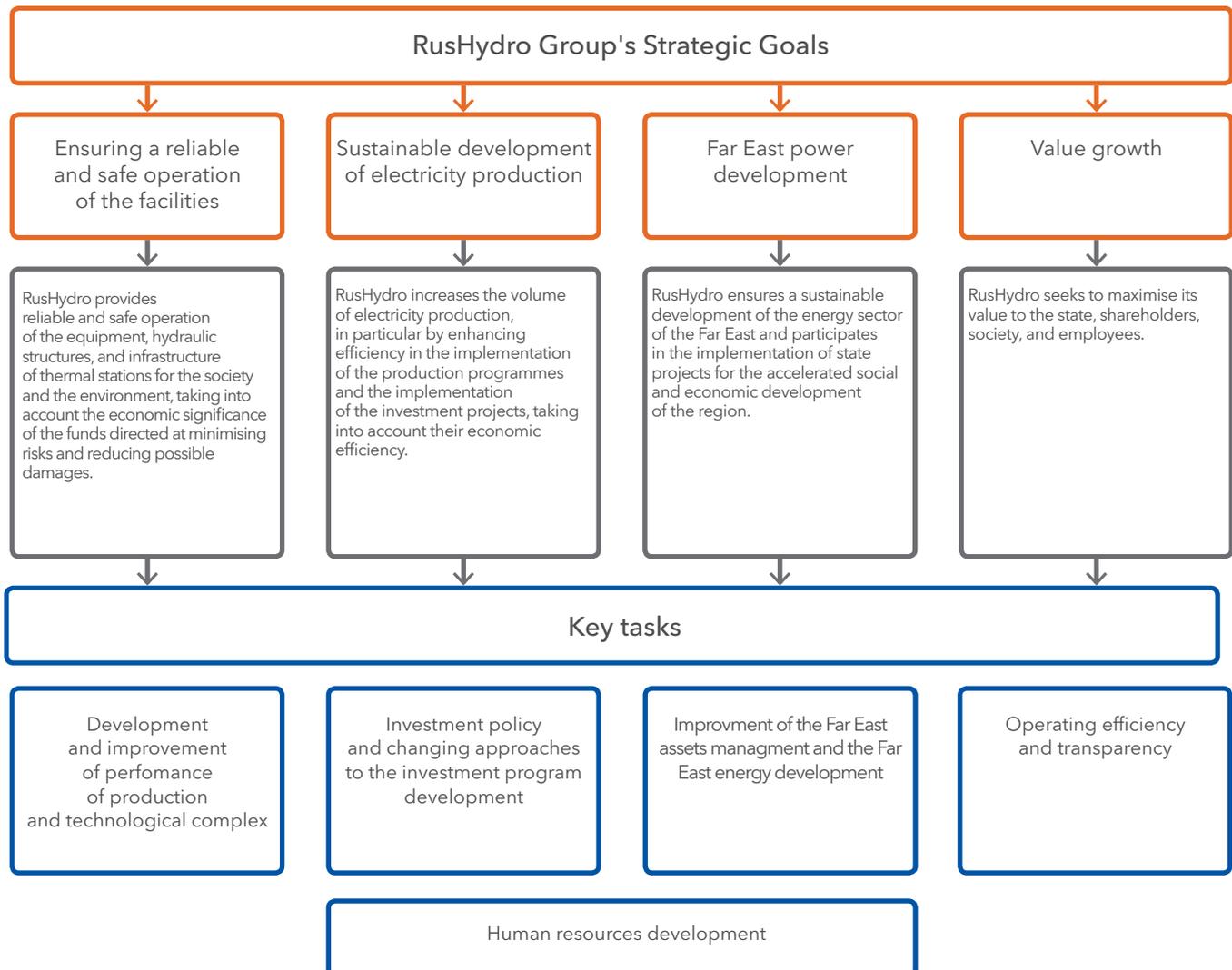


# STRATEGY AND ITS IMPLEMENTATION

## THE STRATEGY OF RUSHYDRO GROUP

In June 2016, the Board of Directors of PJSC RusHydro approved the Development Strategy of RusHydro Group for the period until 2020, with a prospect up to 2025<sup>1</sup>.



<sup>1</sup> Minutes of the Board of Directors No. 238 of June 8, 2016.

RusHydro Group developed the strategy in accordance with the following documents:

- Concept of long-term social and economic development of the Russian Federation until 2020;
- National Security Strategy of the Russian Federation;
- Long-term forecast of the development of the economy of the Russian Federation until 2030;
- Energy Strategy of the Russian Federation for the period up to 2035 (draft);
- Scheme and programme for the development of the Unified Energy System of Russia for 2015-2021;
- General layout of the location of electric power facilities until 2020;

- Regional strategies for social and economic development and energy strategies of regions;
- Sectoral strategies.

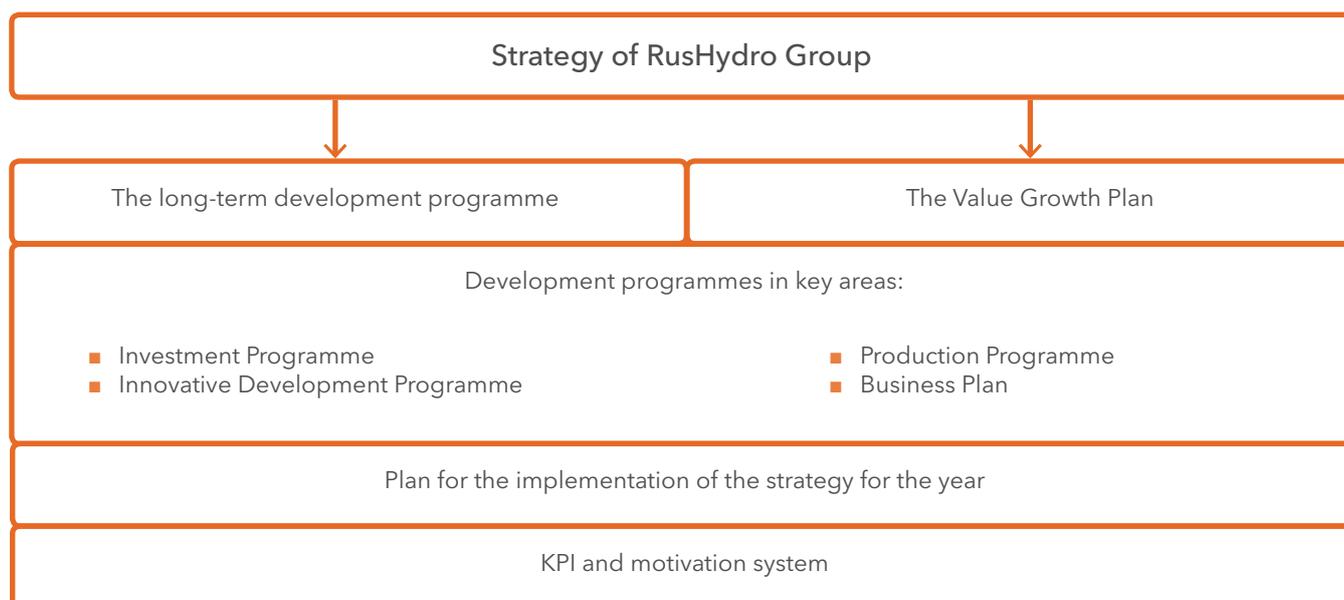
The strategy of RusHydro Group is based on the Energy Strategy of the Russian Federation for the period until 2035, in the development of which PJSC RusHydro actively participates. The central element of the sectoral strategy is the transition from resource-based to innovative development of the fuel and energy complex, with a special emphasis on the need for in-depth and comprehensive modernisation of the fuel and energy sector in Russia. Strategic objectives of RusHydro Group lie in implementing the tasks outlined in the Energy Strategy of the Russian Federation for the period up to 2035 (draft).

To achieve the strategic goals, specific tasks have been set for the main areas of activity.

## Mechanisms for implementing the Strategy

The Company has introduced a strategic management system that links the processes of strategic management with motivation system. The system was created taking into account the recommendations of the Federal Property Management Agency<sup>1</sup> for the development of key strategic documents.

The main tools for the implementation of the Strategy are the Long-term Development Programme of RusHydro Group and the Strategy Implementation Plan, which contain the Company's development priorities, as well as tasks and indicators aimed at achieving its strategic goals. Since 2017, RusHydro Group's Value Growth Plan has been included in the strategic documents system.



<sup>1</sup> Recommendations of the Federal Property Management Agency of RusHydro Group No. OD-11/18576 of April 29, 2014.

## RusHydro Group value growth plan

RusHydro Group's Value Growth Plan (hereinafter - VGP) for the period up to 2021 is designed to maximise the value of the Company and reinforce its attractiveness for shareholders and investors. The plan was approved by the decision of the Board of Directors of PJSC RusHydro dated October 27, 2017<sup>1</sup>.

The plan aims to increase the fundamental and market value of RusHydro. At the same time, the increase in fundamental value is a key factor for market capitalisation growth, which is especially important given significant current discount to the market price of the Company's shares, as well as other companies in the Russian electric power industry, compared to major foreign counterparts.

For the effective implementation of VGP activities, Company's management plans to implement a cost approach, ensuring focus on management processes, systems and solutions for maximising costs at the same time ensuring the safety of the operation of generating capacities.

VGP includes tasks and activities to improve efficiency of operational and investment activities, both controlled by the management, and dependent on external factors. In particular, VGP includes activities implemented as a result of the Group's expenses audit in 2016, additional measures aimed at improving efficiency and streamlining of the Company's operations, including reduction of losses in networks, receivables, and sale of non-core assets.

One of the key focuses of the VGP is interaction with federal executive bodies, including the development of normative acts aimed at creating investment-attractive conditions in the energy sector of the Far Eastern Federal District, improving mechanisms for guaranteed return on investment for new construction and modernisation projects. [103-2], [103-3]

In addition, VGP is used to improve the efficiency of the forward transaction and create conditions for the fulfillment of obligations of PJSC RusHydro to VTB Bank (PJSC).

It also identifies key areas of the Group's activities aimed at increasing transparency and openness of the Company for investors and minimising the gap between fundamental and market value by improving quality of corporate governance, ensuring consistently high and predictable dividend flow, enhancing liquidity of shares and depository receipts and increasing the weight of shares in key indices.

## Strategy implementation plan

The Strategy implementation plan is a set of annual tasks and indicators assigned to specific structural divisions and officials of the Company to achieve strategic objectives of RusHydro Group.

The strategy implementation plan includes the Development Priorities, a list of priority key tasks and activities in the current year.

### Actions to implement the Strategy implementation plan

Priority tasks	Performance
Reliability as well as modernisation of existing assets, efficiency improvement of the production facilities	The long-term production programme has been updated for Technical rehabilitation and modernisation Programme projects as a constituent of the investment program of PJSC RusHydro
Improvement of operational efficiency and transparency of operations	The Plan of measures for cost optimisation is being implemented based on the results of an external independent audit of the costs of PJSC RusHydro and subsidiaries
Competitive recovery of the project facilities	In accordance with the approved timetable, the Concept for the reorganisation of the management system of the scientific and technological resources of PJSC RusHydro is being implemented
Efficiency improvement of the Far East asset management system and the development of power in the Far East	The Plan of measures for cost optimisation, formed on the basis of the results of an external independent audit of costs, is being implemented for the respective controlled organisations of JSC RAO ES East

<sup>1</sup> Minutes of the Board of Directors of the Company No. 259 of October 30, 2017.

Priority tasks	Performance
Preparation of strategic documents of the Company	The Long-term Development Programme of RusHydro Group for the period 2016-2020 has been updated
Improvement of corporate governance system	The number of norms and principles of corporate governance outlined in the Code of Corporate Governance and introduced into the practice of corporate management of PJSC RusHydro has been grown
Development of human resources	The implementation plan for professional standards is under way, taking into account the provisions of Federal Law No. 122-FL of 02.05.2015 "On Amendments to the Labour Code of the Russian Federation and Articles 11 and 73 of the Federal Law "On Education in the Russian Federation"

## LONG-TERM DEVELOPMENT PROGRAMME

The long-term development programme of RusHydro Group (hereinafter - LDP RusHydro) was composed during the period of 2016-2020 in accordance with the instructions of the President of the Russian Federation<sup>1</sup> and the Government of the Russian Federation<sup>2</sup>.

LDP RusHydro for the period of 2016-2020 approved by the resolution of the Board of Directors of the Company of November 23, 2016 (Minutes No. 244). By the decision of the Board of Directors of the Company dated April 18, 2017 (Minutes No. 251), changes were made to the LDP in terms of the list and methodology of key performance indicators of the LDP in accordance with the KPIs approved by the members of the Management Board of PJSC RusHydro and the KPIs of the Long-Term Motivation Programme of PJSC RusHydro<sup>3</sup>.

LDP was devised for the period of 2016-2020 and defines the main principles and directions ensuring the dynamic development of RusHydro Group for the effective use of hydro resources, creating conditions for ensuring the reliability of the Unified Energy System of Russia, and creating conditions for the social and economic development of the regions of the Far East by ensuring the availability of energy infrastructure for existing and prospective consumers.

Goals of LDP RusHydro are in line with the strategic goals of RusHydro Group

LDP RusHydro was formed in accordance with the Strategy for the development of RusHydro Group for the period until 2020, with the possibility of prolonging it until 2025<sup>4</sup>, on the basis of RusHydro's consolidated business plan and approved programme documents of RusHydro Group - production programmes, investment programmes, innovative development programmes.

LDP RusHydro contains proposals to improve the operational and investment performance of RusHydro Group, measures to improve the corporate governance system, personnel management system, anti-terrorism, information and economic security and international development system, analysis of risks associated with the implementation of activities, key performance indicators and methodology calculation and evaluation of key performance indicators of the Long-Term Development Programme.

The main activities aimed at implementing the LDP in the reporting year were carried out by means of production, investment and innovation programmes. Information on their implementation is available in see in sections Financial results, Production results, Investment and innovation activities

The audit of the implementation of LDP RusHydro is carried out in accordance with the Standard approved by the Board of Directors of PJSC RusHydro<sup>5</sup> for the implementation of the Long-Term Development Programme of RusHydro Group and the Terms of Reference for conducting an audit of the implementation of the DG RusHydro<sup>6</sup>, developed while taking into account the recommendations of the Government of the Russian Federation<sup>7</sup>.

<sup>1</sup> Decree of December 27, 2013 No. Pr-3086.

<sup>2</sup> Minutes dated January 30, 2014 No. 3, directive of the Government of the Russian Federation of July 17, 2014 No. 4955p-P13.

<sup>3</sup> The goals, objectives and course of LDP development have not changed.

<sup>4</sup> Minutes of the Board of Directors No. 238 of June 8, 2016.

<sup>5</sup> Minutes of the Board of Directors No. 206 of November 21, 2014.

<sup>6</sup> Minutes of the Board of Directors No. 227 of November 16, 2015.

<sup>7</sup> Decree of the Government of the Russian Federation of April 15, 2014 No. ISH-P13-2583.