

RISKS AND OPPORTUNITIES

RISK MANAGEMENT SYSTEM AND RISK REGISTERING

The activities of PJSC RusHydro are associated with a number of risks, which in certain circumstances may adversely affect the Company's production and financial results, social and natural environment.

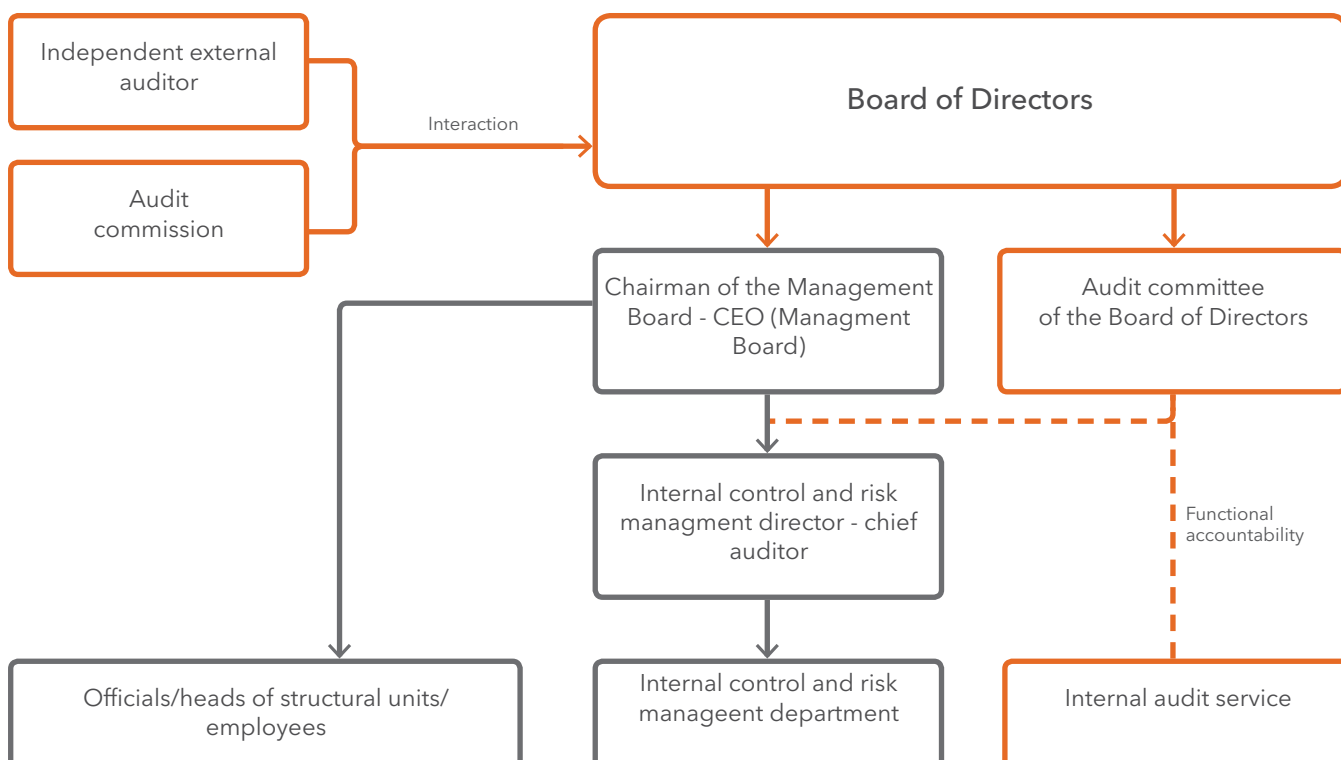
To reduce the negative impact of potential hazards and realise favourable opportunities, the Company has established a risk management system aimed at implementing the RusHydro Group Development Strategy for the period until 2020, with a prospect up to 2025.

For the organisation of risk management processes, the Risk Control and Risk Management Department (hereinafter - RCRMD) was established as part of the internal control and risk management unit.

The staff number of RCRMD as of December 31, 2017 is 22 people. RCRMD solves the following tasks:

- organisation of an effective corporate system of internal control and risk management in the RusHydro Group (hereinafter - CS ICRM);
- ensuring effective operational control in the RusHydro Group;
- interaction with external control bodies.

Structure of control over financial and economic activities and risk management of PJSC RusHydro



Independent assessment of the risk management system

The external evaluation of the effectiveness of CS ICRM is carried out regularly during the audit of the implementation of the Long-term development programme of the RusHydro Group, external audit of financial statements, surveys of RusHydro's facilities, mandatory due diligence in M & A risk assessment, audit and the Audit Commission of the Company.

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 "Best Risk Management" competition in the category Production Organisations, wins in the nominations Best Comprehensive Management Programme risks, The best risk-manager of Russia, conducted by the Russian Risk Management Society Rus-Risk - the Russian National Association of Risk Managers, member of the Federation of European Risk Management Associations FERMA and others).



More information on the risk management policy is available at the Company's website: <http://www.eng.rushydro.ru>

Risk Management Methods and Approaches

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 decision, Minutes No. 227 of November 16, 2015). The Company uses the following set of methods and approaches to risk management:

- Risk management is an integral part of all organisational processes: risk management is not separate from the main activities and processes of the organisation;
- Risk management is part of the decision-making process. Risk management helps decision-makers to take informed choices, prioritise actions and identify optimal actions among alternative options;
- Risk management contributes to the continuous improvement of the organisation. In order to increase the level of maturity of risk management, the Company develops and improves the CS ICRM;

- The Company seeks to create a risk-oriented corporate culture;
- The top management of the Company ensures the priority of risk management, the dissemination of knowledge and skills in the field of risk management in the Company and RusHydro Group, promotes training in the basics of risk management and the adoption of a corporate culture of risk management;
- The Company's management ensures the possibility of effective information exchange and the introduction of communicative norms in the framework of corporate risk management.

According to the Regulations on the strategic management of PJSC RusHydro, the Company annually draws up the Registry of strategic risks with the definition of risk owners, which is approved by the Management Board of the Company. For risks classified as critical and significant, the Management Board approves an action plan for managing strategic risks, in which the terms, the responsible individuals and the expected results are determined. The execution of measures for managing strategic risks and KPIs is taken into account when bonuses are paid to employees. Monitoring of the execution of the plan and monitoring of its implementation is carried out by the company's risk managers.

Stages of strategic risk management



Risk managers regularly interact with the Audit Committee under the Board of Directors of PJSC RusHydro in the framework of exercising control over the functioning of the risk management system of PJSC RusHydro, which corresponds to the Methodological Recommendations for the organisation of the work of the audit committees of the Boards of Directors of joint-stock companies with a stake in authorised capital of the Russian Federation (approved by decree of the Federal Property Management Agency No. 86 of March 20, 2014).

Evaluation of the system of risk management and internal control

In 2017, the Board of Directors of PJSC RusHydro assessed the risk management system and internal control.

The valuation was carried out on the basis of a methodology previously agreed by the Audit Committee under the Board of Directors of PJSC RusHydro, which provides for determining the compliance of the current status of the elements of the internal control system and the risk management system with the criteria for the target state, as established by the methodology¹.

Based on the results of the evaluation, a report was prepared on the functioning of the corporate internal control and risk management system approved by the Board of Directors on July 21, 2017. The Board of Directors noted the positive dynamics of the development of the internal control and risk management system relative to the level at the beginning of 2016 and also concluded that the internal control system and the risk management system are characterised by a moderate level of development - the state of the elements of both systems as a whole corresponds to the target state established by the methodology assessment of the effectiveness of the internal control and risk management system agreed by the Audit Committee of the Company.



For more information on the stages and methods of risk management, see the website: <http://www.eng.rushydro.ru>

Corporate documents

The main document that defines the goals, objectives and principles of the corporate risk management system of PJSC RusHydro is the Internal Control and Risk Management Policy.



The Internal Control and Risk Management Policy is available at the Company's website: <http://www.eng.rushydro.ru>



Improvement of internal control and risk management system

Within the framework of improving the corporate system of internal control and risk management in 2017, the following activities are presented.

Corporate level

- The Board of Directors of PJSC RusHydro approved a report on the development of the internal control and risk management system and the effectiveness of strategic risk management.
- The Management Board of PJSC RusHydro approved the Strategic Risk Management Plan of RusHydro Group for 2017-2018. When approving the above-mentioned plan, the following are updated:
 - the registry of strategic risks of RusHydro Group;
 - a system of indicators for the implementation of strategic risks of RusHydro Group;
 - a list of measures to manage strategic risks of RusHydro Group.

Following the results of 2017, the Management Board approved the Report on the implementation of the Action Plan for the management of strategic risks of RusHydro Group for 2017.

¹ Recommendations of the Board of Directors of PJSC RusHydro on the improvement of the corporate system of internal control and risk management were not given.

Documents regulating the operational management of major risks

Production risks	Investment risks	Market (sales risks)	Risks of mergers and acquisitions
Regulations on the process of creating production programmes	Regulations on the process of investment management in the form of capital investments	Regulations on the policy of PJSC RusHydro in the field of sales activities with respect to operating generation facilities in the price zones of the wholesale electricity and capacity market	Regulations on the planning, preliminary coordination, support and implementation of strategic and other material transactions
Recommendations of the Analytical Centre (as part of the annual report of the Analytical Centre)	Methodology for risk assessment of projects in terms Return on Risk Adjusted Capital	The procedure for determining the minimum (maximum) indices for electric energy of WECM	Registries and risk management plans for the strategic transactions under consideration as part of the strategic transaction passports approved by the Management Board
Regulations on the management of the T&M projects	Quarterly reports to the Management Board of investment entities on risk management of projects	Methodology for evaluating the internal rating of counterparties, the ratings of the Company's counterparties on the WECM, calibrated on the Moody's scale, with a limit on the credit rating of the portfolio of contracts	
Methodology for assessing the risk of production assets and the effect of options for upgrading the equipment based on the real option method and calculating VaR, taking into account the assessment of the reputational consequences of equipment failures	A typical list of risks for the implementation of investment projects as part of the Regulations on the process of investment management in the form of capital investments		
Set of standards of the organisation's production activities in terms of risk management of individual stages of the life cycle of the production assets	Risk registries , risk management action plans and monthly reports on the implementation of the action plan for investment projects		



For more information on regulatory documents, see the website: <http://www.eng.rushydro.ru>

- RusHydro Group's risk management framework was significantly expanded: internal control and risk management policies were approved in 18 RusHydro Group companies, including 14 companies operating in the Far East.
- Risk management plans for 2017-2018 were approved in 30 key companies controlled by PJSC RusHydro, including 15 companies operating in the Far East.
- In order to synchronise the processes of strategic management and risk management, a new version of the LNA was developed and approved, which regulates the procedure for developing and approving the strategic risk management plan, as well as reporting on the implementation of this plan.

Business and operational level

- Branches and subsidiaries of PJSC RusHydro were evaluated and prioritised in terms of risk level and status of implementation of risk management procedures with the aim of forming a risk-oriented internal audit plan for PJSC RusHydro for 2018.
- A survey of the internal control system of the business process property management and the business process of interaction of JSC RGS with RusHydro Group companies within the framework of procurement activities.
- The project of a methodology for assessing the risks of information security of the Company was developed. Approbation of the methodology is planned for 2018.
- Regular monitoring of the implementation of measures to improve the internal control system of key business processes of PJSC RusHydro.