



**RusHydro**

APPROVED  
By Annual General Meeting  
of Shareholders decision  
Minutes of 27 July 2017 No.16

PRELIMINARY APPROVED  
By the decision of the Board of Directors  
Minutes of 23 May 2017 No. 253

**ANNUAL REPORT**

**PUBLIC JOINT-STOCK COMPANY**  
**«FEDERAL HYDROGENERATING**  
**COMPANY - RUSHYDRO»**  
**2016**

Chairman of the Management Board - CEO

N.G. Shulginov

Location: Krasnoyarsk, Krasnoyarsk  
INN 2460066195 OGRN 1042401810494  
The Company is registered on December 26, 2004  
Inspectorate of the Ministry of the Russian Federation for Taxes and Levies for Zheleznodorozhny District  
Krasnoyarsk of the Krasnoyarsk Territory

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# RusHydro

## COMPANY'S MISSION

- **efficient use of water resources,**
- **creating conditions for ensuring the reliability of the Unified Energy System,**
- **creating conditions for the social and economic development of the Far East regions by ensuring the availability of energy infrastructure.**

## **Responsibility Statement**

We hereby confirm that to the best of our knowledge:

(a) The consolidated financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of RusHydro, and the undertakings included in the consolidation, taken as a whole;

(b) The annual report includes a fair review of the development and performance of the business and position of the Company and the undertakings included in the consolidation, taken as a whole, together with a description of the principal risks and uncertainties that the Company faces.

Chairman of the Management Board – CEO N.G. Shulginov

Chief Accountant Yu. G. Medvedeva

## Report information

The annual report of the Federal Hydro-Generating Company – RusHydro (or “PJSC RusHydro”, “Company”) 2016 is the twelfth annual report prepared by the Company and addressed to a wide range of stakeholders.

The report reflects the analysis of the activities of RusHydro in the period from 01.01.2016 to 31.12.2016 in the field of strategic and corporate governance, the results of financial and operational activities, as well as activities in the field of sustainability.

The report is prepared on the basis of the requirements:

- The Central Bank of the Russian Federation (hereinafter – the Bank of Russia),
- Moscow Stock Exchange,
- The London Stock Exchange,
- The UK Disclosure and Transparency Rules for Listing,
- The Corporate Governance Code (recommended by the Bank of Russia),
- The Corporate Governance Code of PJSC RusHydro,
- Provisions on the information policy of PJSC RusHydro,
- International integrated reporting Framework (partly).

The following terms are used in the report:

- PJSC RusHydro, Company - PJSC RusHydro (PJSC RusHydro Executive Office and PJSC RusHydro branches);
- RusHydro Group, Group<sup>1</sup>, RusHydro, RusHydro Holding - PJSC RusHydro, and subsidiaries;
- RAO ES EAST Holding, Subgroup RAO ES EAST - RAO ES EAST, PJSC, including the controlled companies.

The report contains information about the plans and intentions of PJSC RusHydro for the medium and long term. The plans are forward-looking in nature and their feasibility depends on a number of economic, political and legal factors which are outside the influence of the Company (the global financial economic and political situation, the situation on key markets, changes in tax, customs and environmental legislation and so forth). For this reason, the actual performance indicators in future years may differ from the forward-looking statements, published in the report.

All supplements to this annual report are located in the Appendices - see <http://www.rushydro.ru/investors/reports/>.

In addition to this annual report PJSC RusHydro prepares on a voluntary basis an annual corporate social responsibility and sustainability report in accordance with the Global Reporting Initiative's Sustainability Reporting Guidelines.

Previous annual reports of PJSC RusHydro and corporate social responsibility and sustainability reports can be found on the Company's website at <http://www.rushydro.ru/investors/reports/> and [http://www.rushydro.ru/sustainable\\_development/socialotvetstvenost/kso/](http://www.rushydro.ru/sustainable_development/socialotvetstvenost/kso/).

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<sup>1</sup> The complete list and structure of RusHydro's assets can be found on the website: [www.rushydro.ru/company/structure](http://www.rushydro.ru/company/structure).

## CEO's Statement

Dear shareholders, partners and colleagues!

The year 2016 was a record-setting year for the Company. The work of hydropower plants helped the Company to achieve the all-time maximum of electricity produced – 138,810 million kW/h. We made a record revenue – 391 billion rubles and record net profit – about 40 billion rubles. Also in 2016 the Company paid its all-time maximum dividend – 15 billion rubles.

These results are not accidental. They reflect the high professional level of the staff of branches and subsidiaries, right management decisions made in 2016 and the fact that a company with a dominant public participation share can be efficient even in comparison with its private competitors.

It is an important to mention that these record figures were achieved in a challenging economic situation, against significant business optimization measures. RusHydro in the reporting year proved that it is by right one of the leaders of the national power industry and an efficient and modern company which is responsible for the infrastructure development of such an important Russian region as the Far East.

Having evaluated the results of our work in 2016 and the Company's position as one of the strategic elements for the economy of our country, the international rating agency Standard&Poor's raised the credit rating of RusHydro to the sovereign rating of Russian Federation (BB+) with a «positive» outlook.

Understanding the high level of our social responsibility, since 2009 we annually issue our sustainability report and in 2016 for the first time we conducted the public consultations about it. These and other efforts of RusHydro in the field of sustainability were noticed – in January 2017 RusHydro was included into the FTSE4GOOD Emerging Index, which associates the companies from developing markets, leading in the field of sustainability.

### *New generation*

The Company continues the construction of new generating facilities in the Far East: 3 TPPs in Yakutsk, Sovetskaya Gavan and on Sakhalin, which are being built in accordance with the President's Decree №1564 of November 22, 2012, and the construction of two hydropower plants – Nizhne-Bureyskaya and Ust-Srednekanskaya HPPs. In December 2016 was completed the second lap of the construction of the first Far Eastern next generation power plant – the second stage of Blagoveshchenskaya TPP with electric capacity of 120 MW and thermal capacity of 188 Gcal/h.

In the reporting year two new hydropower plants were also launched in the North Caucasus. Zaragizhskaya HPP with the capacity of 30 MW was built in Kabardino-Balkaria and became the third stage of the Nizhne-Cherekskiy Cascade. Zelenchukskaya HPP-PSPP has the capacity of 160 MW in the pumping mode and 140 MW in the turbine mode was built in Karachay-Cherkessia. Both power plants make a significant contribution to increasing the reliability of the unified energy system of the South.

The reporting year was a year of hard work to address the issues of the Far Eastern energy sector, primarily its debt load. The Company managed to find an efficient scheme to solve the problem of the debt burden of companies consolidated under the RAO ES EAST and to implement it in the early 2017. By issuing additional shares the Company raised 55 billion rubles which were fully directed to pay off the loans of the Far Eastern operating companies which suffer from the shortage of funds to implement their modernization and equipment repair programmes.

### *Modernization and investment*

Consistent and safe operation is possible only providing the timely modernization of the equipment. In 2016 was completed the first 5-year period of the Complex Modernization program (CMP) of RusHydro. During these 5 years 67 turbines, 57 hydro-generators, 51 power transformers and 164 high-voltage circuit breakers were replaced and reconstructed. The total growth of installed capacity following the results of the CMP in Volzhskaya, Zhigulevskaya, Kamskaya, Saratovskaya and Novosibirskaya HPP equaled 66.5 MW, taking into account that the complex modernization of the Kamskaya HPP was fully completed. In the period of the CMP realization as a result of the replacement of hydro-aggregates for more efficient ones – the total capacity of the RusHydro HPPs increased by 267 MW which can be compared to putting into operation a new HPP of the Miatlinskaya HPP caliber.

Due to the necessary corrections to the investment program for the reporting year the amount of investments into re-equipment and reconstruction of RusHydro HPPs was optimized. The smoothing of the timeline of the project financing together with preserving the high quality of the work - saved more than 7

billion rubles. Ultimately the reduction of investment in the RusHydro Group in 2016 amounted to 26 billion rubles compared to 2015. The investment programs' optimization effect in 2016-2020 will amount to 40 billion rubles.

### ***Improving the efficiency***

Substantial efforts in 2016 were put into reducing the costs and the alienation of non-core assets. Ultimately it brought 24 billion rubles to the Company, which includes the sale of dams of the Angarsk Cascade and the sale of the "Energy Retail Company of Bashkortostan" LLC. The activities aimed at the costs optimization will be continued in 2017.

The actions taken in 2016 were a preparation for the incorporation of the executive bodies of RAO ES EAST into PJSC RusHydro and the creation of the Division «Far East» as a single management structure, which already happened in 2017. The integration of the executive bodies was going in 2016 simultaneously with the activities aimed at the reduction of the debt burden and preparation of the decision about the mechanism for electricity tariff alignment. Simplifying the organizational structure, reducing the number of management levels, cancelling the duplication of functions in the Far Eastern Holding were a logical development of similar measures which were earlier conducted by RusHydro.

### ***Strategy***

The further actions of the integrated and modern management team will be aimed at the realization of goals of the Development Strategy of the RusHydro Group for the period up to 2020 with a perspective up to 2025 which was approved in June 2016. This is a strategy of an established working community that is confident about its future.

Today RusHydro incorporates hydropower and thermal power specialists, repairers and retailers, scientists and project designers and many other outstanding professionals. These people take credit for the undisputed achievements of this year, and from all my heart I would like to thank all the employees of RusHydro, its branches and subsidiaries for their work in 2016. I believe that in 2017 we will not lose momentum and continue to raise the efficiency of our generating facilities, the reliability of energy supply to our customers, ensuring the growth of value for our shareholders!

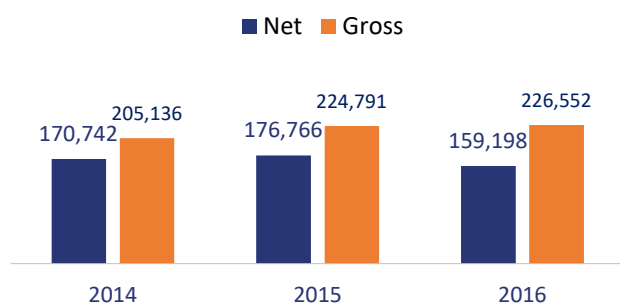
N.G. Shulginov

The Chairman of the Management Board – CEO of PJSC RusHydro

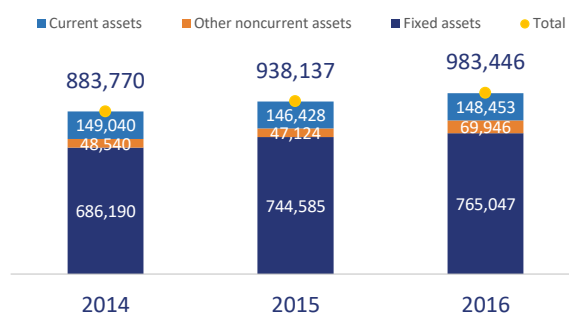
## Highlights

### Financial results in accordance with IFRS

#### Net and gross financial debt\*, million rub.

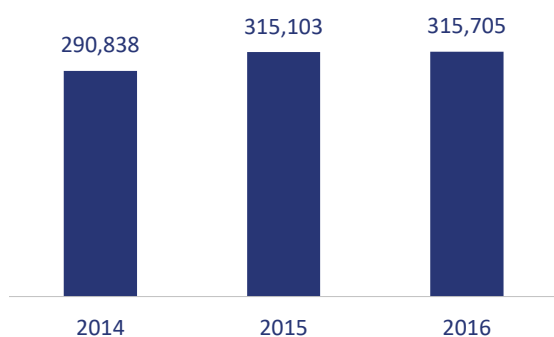


#### Assets, million rub.

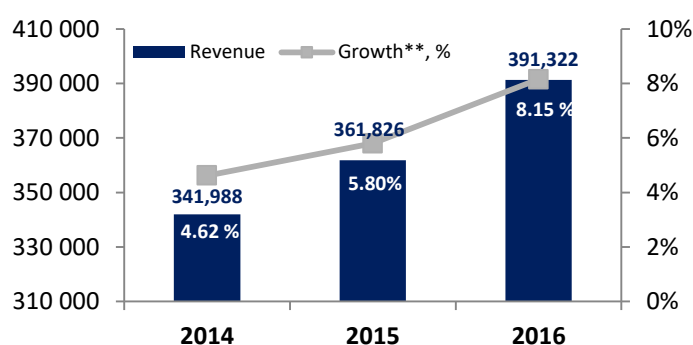


\* The figures are given taking into account the obligations under the guarantee for PJSC "Boguchanskaya HPP".

#### Operating expenses, million rub.



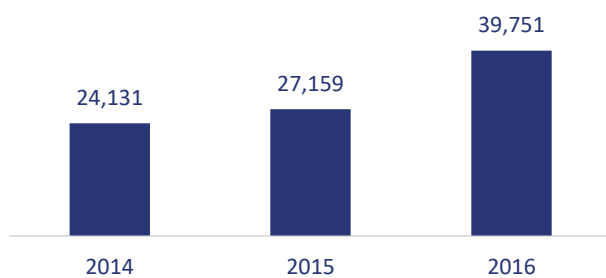
#### Revenue, million rub.



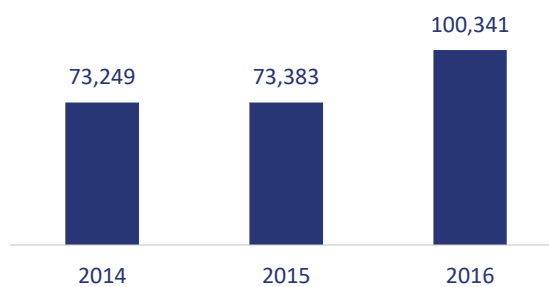
\* Including government subsidies.

\*\* Increase in revenue relative to the previous year.

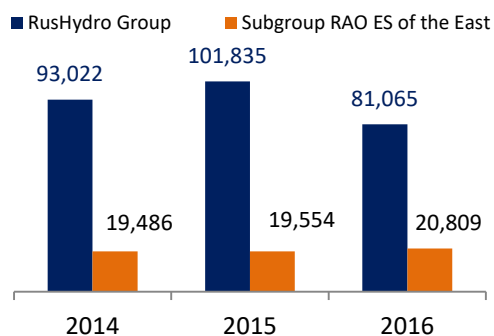
#### Net profit, million rub.



#### EBITDA, million rub.



#### CAPEX\*, million rub.

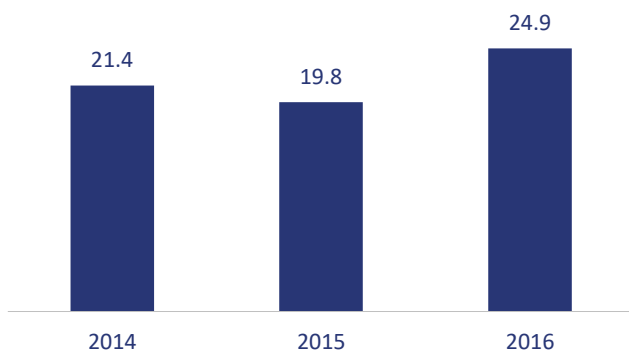


\* Figures are given without VAT.

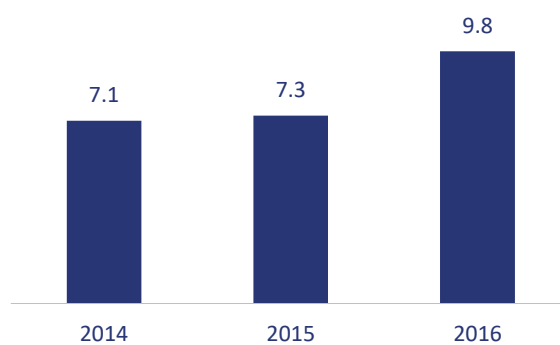


## Ratios

**EBITDA\* margin, %**

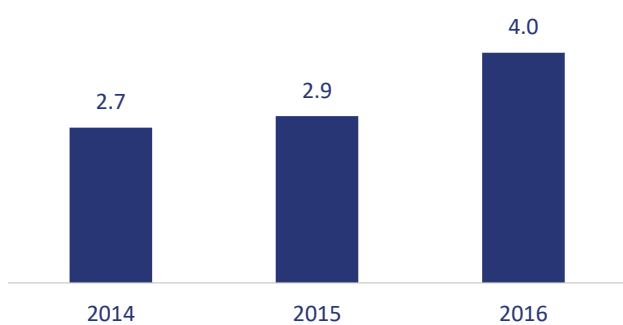


**Net profit margin\*, %**

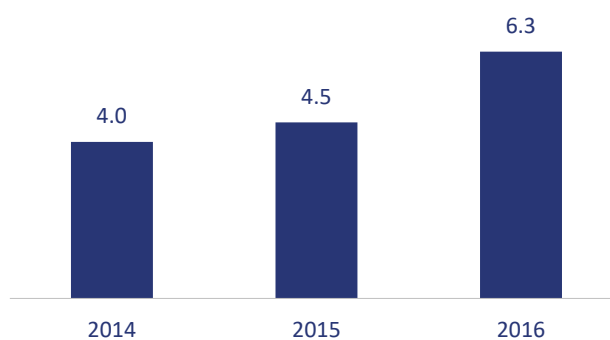


\* The indicator is calculated taking into account other operating income received by the RusHydro Group in 2015 (8.2 billion rubles) and 2016 (12.4 billion rubles) in the form of insurance compensation, income from the sale of assets and subsidiaries.

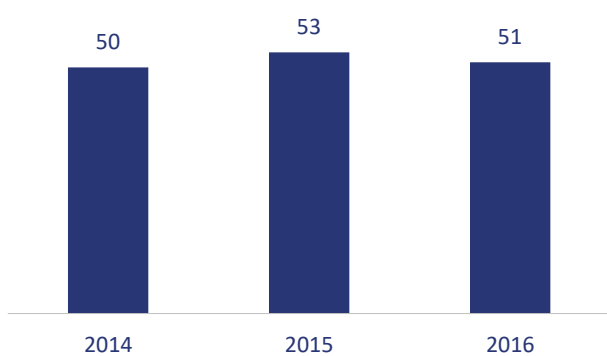
**Return on assets (ROA), %**



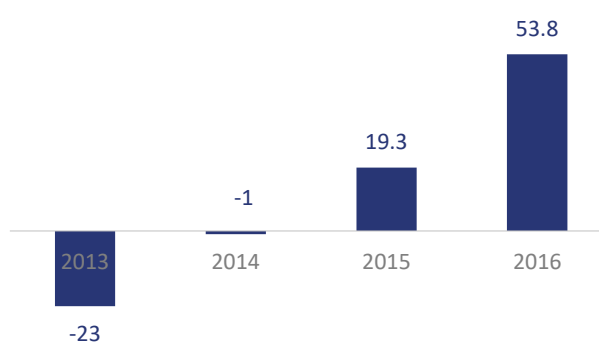
**Return on equity (ROE), %**



**Debt to equity ratio, %**



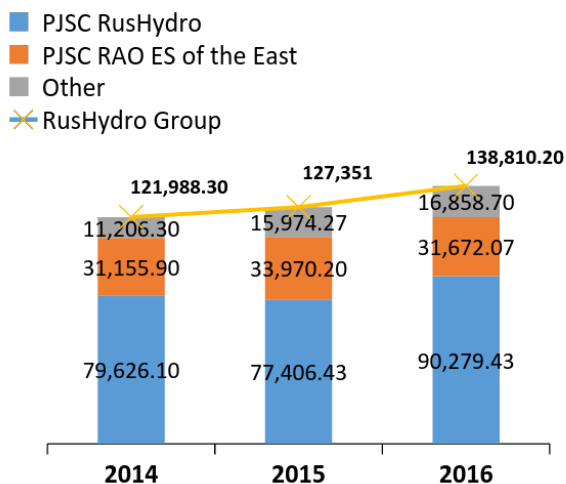
**Total Shareholder Return (TSR), %**



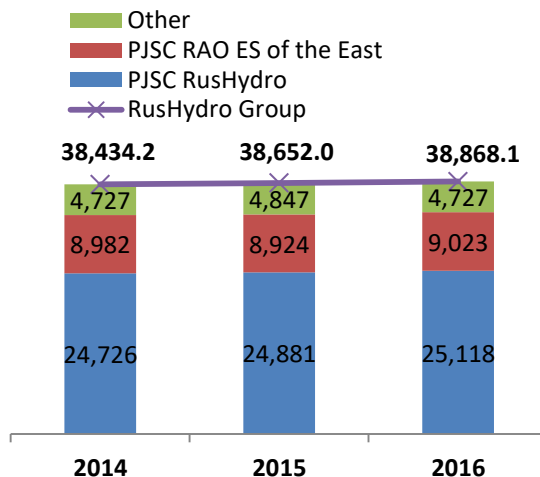
\* In 2016 the estimation methodology of this indicator was updated. Therefore the comparison with the values of the previous years can be inaccurate.

## Operating Highlights

Electricity production\*, million kWh

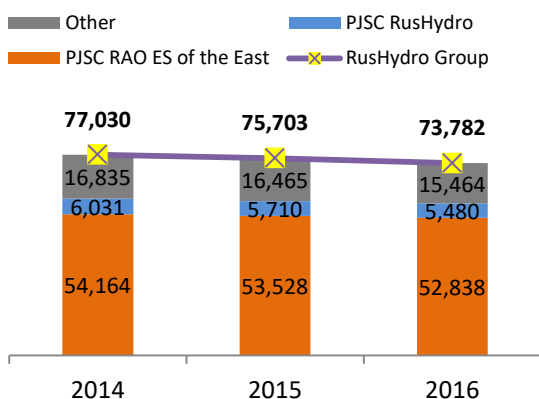


Installed capacity\*, MW



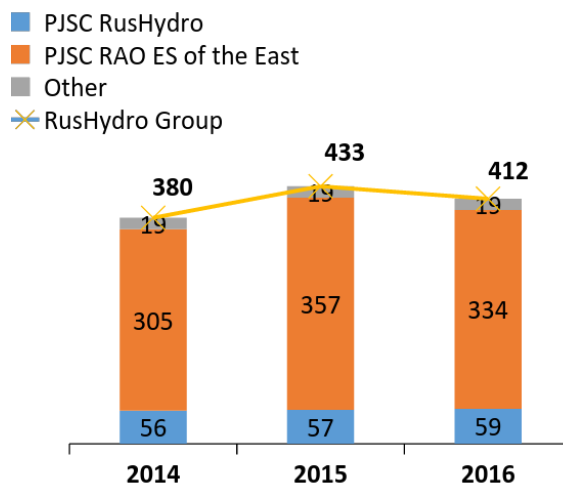
\* The figures are given with PJSC "Boguchanskaya HPP" (belongs to PJSC RusHydro and UC RUSAL), with HPP-2 PJSC "KamGEK", without HPP-1 and HPP-3 PJSC "KamGEK", which are under trust management of PJSC RusHydro.

The average number of Group personnel RusHydro\*, persons.



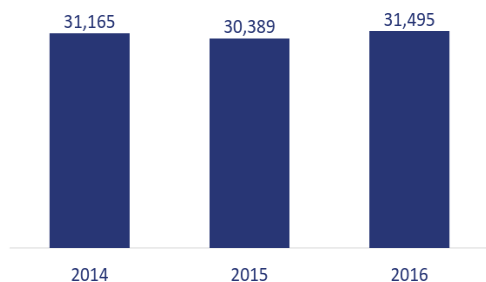
\* The average number of Group personnel RusHydro decreased in 2016 by 2.5 % in relation to 2015 and by 4.2 % to 2014 due to the implementation of measures aimed at the enhancement of the management structure, outstaffing the personell of non-core activities, reduction of the number of customer-subsidiaries and contractor-subsidiaries connected with the shrinkage of the investment programs.

Number of generating facilities\*, units



\* Most of the generating facilities are concentrated in the perimeter of RAO ES EAST, PJSC.

Heat supply RAO ES EAST, PJSC, thsd. Gcal



## Key events

<b>February</b>	The Russian Institute of Directors confirmed the corporate governance rating of PJSC RusHydro - Level 8 "Good Corporate Governance Practices"
<b>April</b>	The Board of Directors of PJSC RusHydro approved a new version of the Environmental Policy of PJSC RusHydro Builders of Nizhne-Bureyskaya HPP dammed the river Bureya
<b>June</b>	The Board of Directors of PJSC RusHydro approved the Development Strategy of the RusHydro Group for the period up to 2020 with a perspective up to 2025 The heads of RusHydro and Voith Hydro laid a symbolic stone in the foundation of a new factory in the city of Balakovo Annual General Meeting of Shareholders of PJSC RusHydro approved a record dividend (for 2015) - 15.01 billion rubles RusHydro Group completed the forced redemption of RAO ES EAST shares. Now up to 100 % of the RAO ES EAST shares are on the RusHydro Group balance sheet.
<b>November</b>	RusHydro completes the deal to sell the dams of the Angarsk cascade to the EuroSibEnergo Group President of the Russian Federation V. V. Putin approved implementation of measures to refinancing of debt of the enterprises of the RAO ES EAST Holding by raising 55 billion rubles equity capital from Bank VTB (PJSC) RusHydro sold to "Inter RAO" Group a block of shares of the Energy Retail Company of Bashkortostan
<b>December</b>	Zaragizhskaya HPP was commissioned in Kabardino-Balkaria Zelenchukskaya HPP-PSPP was launched in Karachay-Cherkessia The Bank of Russia completed the state registration of an additional issue of 40,429,000,000 ordinary shares of RusHydro for the purpose of refinancing the debt of the enterprises of the RAO ES EAST Holding.

In 2016, a number of important state decisions were adopted aimed at further development of the Far Eastern energy sector. In particular, the mechanism for refinancing debts of the enterprises of RAO ES Vostok Holding was approved.

### Events after report date (January – March 2017)

<b>January</b>	PJSC RusHydro was included into the new FTSE <sup>2</sup> sustainability index.
<b>February</b>	After the five years of Complex Modernization program implementation the overall capacity of HPPs increased by 267 MW as a result of the installation of more efficient hydroelectric generators V. I. Markin was appointed as a Member of the Management Board, First Deputy General Director of PJSC RusHydro
<b>March</b>	VTB (PJSC) and PJSC RusHydro signed an agreement on the provision of 55 billion rubles equity finance. The raised funds were fully directed to pay off the debt load of the Far Eastern operating companies. PJSC RusHydro and VTB (PJSC) signed a non-deliverable forward contract for shares of PJSC RusHydro for a 5-year period

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<sup>2</sup> FTSE is a family of indices calculated by an independent index agency FTSE Russell. FTSE indices are among the most influential stock market indicators.

# Chapter 1. About the Company

## 1.1 Profile of the Company

**THE COMPANY'S MISSION** is to effectively utilize hydro resources, to create the conditions required for the reliable performance of Russia's Unified Energy System (UES) and to enhance the usage of renewable energy sources (RES) to benefit the Company's shareholders and society as a whole.

The Group RusHydro<sup>3</sup> is one of the largest Russian utility holding companies. The Company is a leader in energy production based on renewable sources and combines heat and power plants in the Far East.

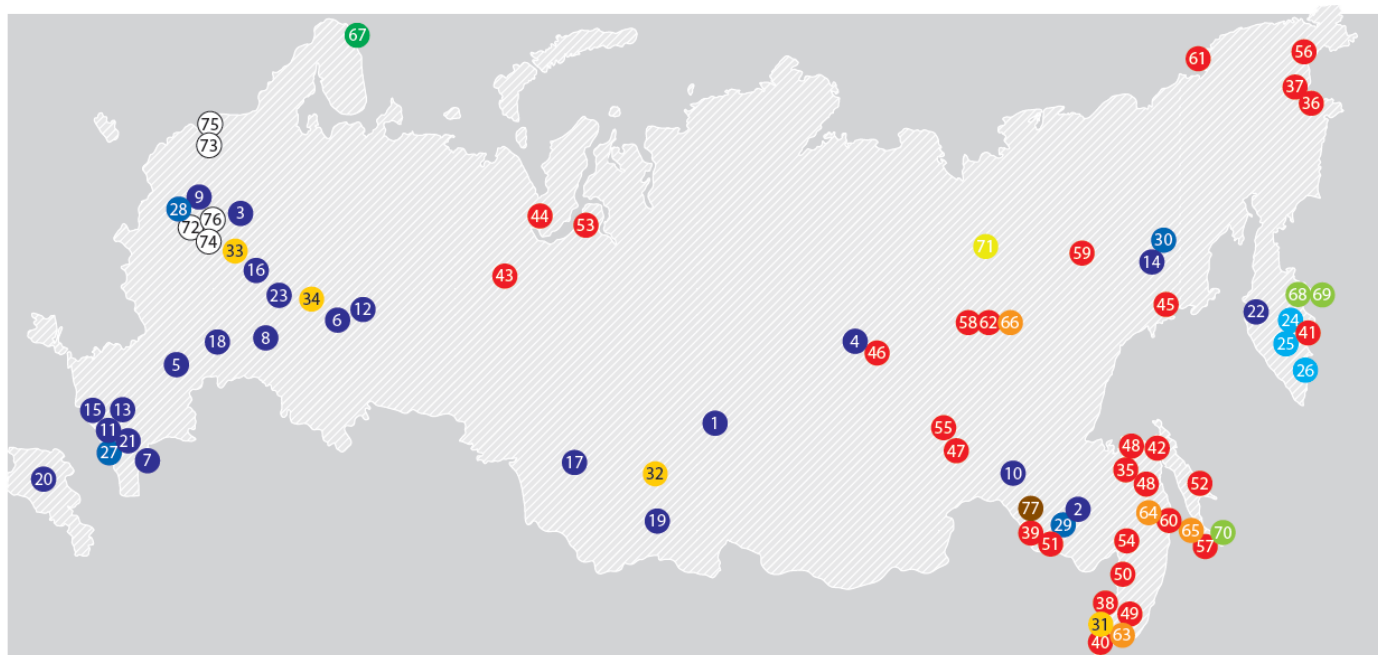
The Group RusHydro produces 12.95 % of electricity in Russia.

The Company operates in hydropower industry since 2004.

More detailed information about the history of company is available at (<http://www.rushydro.ru/company/history/>).



## 1.2 Geography of activities



● <b>Operating PPs</b> .....	<b>MW</b>	● <b>Saratovskaya HPP</b> .....	1 397	● <b>Ryazan retail energy company</b>		● <b>Primorskaya TPP</b> .....	1 467	● <b>Tidal PP</b> .....	<b>MW</b>
● Boguchanskaya HPP .....	2 997	● Sayano-Shushensky Branch .....	6 721	● Chuvash retail energy company		● Raychikhinskaya TPP .....	102	● Kislogubskaya Tidal PP .....	1.7
● Byreyskaya HPP .....	2 010	● Sevan-Razdan Cascade .....	561,41	● <b>Thermal PPs</b> .....	<b>MW</b>	● Sakhalinskaya TPP .....	84	● <b>Wind PPs</b> .....	<b>MBT</b>
● Cascade of Verkhnevolzhskie HPPs .....	476,6	● HPPs of the Northern Ossetian Branch .....	94,52	● Amurskaya CHPP .....	285	● Urengoy (Mobile PP) .....	72	● WPP in Ust-Kamchatsk .....	1.1
● Cascade of Viluyisky HPPs .....	680	● Tolmachyovskiy HPPs .....	45,2	● Anadryskaya Gas Engine CHPP .....	28,65	● Khabarovskiy CHPPs .....	1 155	● Nikolskoe sett. WDS .....	0.55
● Volzhskaya HPP .....	2 660,5	● Cheboksarskaya HPP .....	1 370	● Anadryskaya CHPP .....	56	● Chulimanskaya CHPP .....	48	● Novikovo sett. WDS .....	0.55
● Votkinskaya HPP .....	1 020	● <b>Geo PPs</b> .....	<b>MW</b>	● Artyomovskaya CHPP .....	400	● Egveninotskaya TPP .....	34	● <b>Solar PP</b> .....	<b>MBT</b>
● Dagestan branch .....	1 885,53	● Verkhne-Mutnovskaya GeoPP .....	12	● Blagoveshenskaya CHPP .....	400	● Yuzhno-Sakhalinskaya CHPP .....	455	● Batagai solar PP .....	1
● Zhigulevskaya HPP .....	2 404	● Mutnovskaya GeoPP .....	50	● Vladivostok CHPP .....	497	● Yakutskaya TPP .....	368	○ <b>Research and design organizations</b>	
● Zagorskaya PSHPP .....	1 200	● Pautzhetskaya GeoPP .....	12+2,5	● Kamchatskiye CHPPs .....	392,2	● Arkagalinskaya TPP .....	224	○ Mosoblhydroproject	
● Zeyskaya HPP .....	1 330	● <b>HPPs under construction</b> .....	<b>MW</b>	● Komsomolskiye CHPPs .....	582,5	● Maya TPP .....	78,2	○ Vedenev VNIIG	
● Kabardino-Balkarian Branch .....	188,1	● Zaramagskiye HPPs .....	342	● Kyzym (Mobile PP) .....	72	● Chaunskaya CHPP .....	34,5	○ Hydroproject institute	
● Kamskaya HPP .....	552	● Zagorskaya PSPP-2 .....	840	● Labytnangi (Mobile PP) .....	66,25	● Yakutskaya TPP .....	12	○ Lenhydroproject	
● Zelenchukskaya PSHPP .....	300	● Nizhne-Bureyskaya HPP .....	320	● Magadanskaya CHPP .....	96	● <b>Thermal PPs under construction</b> .....	<b>MW</b>	○ NIIES	
● Kolymskaya HPP .....	900	● Ust-Srednekanskaya HPP .....	570	● Mirninskaya TPP .....	24	● Vostochnaya TPP .....	139,5	● <b>Electric grid companies</b>	
● Cascade of Kubanskiye HPPs .....	476,5	● <b>Retail companies</b>		● Nerunginskaya TPP .....	570	● Sovgavanskaya CHPP .....	120	● Far Eastern Distribution Company	
● Nizhegorodskaya HPP .....	520	● Far-Eastern Energy Company		● Nikolaevskaya CHPP .....	130,6	● Sakhalinskaya TPP-2 .....	120		
● Novosibirskaya HPP .....	470	● Krasnoyarskenergosbyt		● Partizanskaya TPP .....	203	● Yakutskaya TPP-2 .....	193		

<sup>3</sup> - The period of activities of the Company is 12 years.

## 1.3 Group organizational structure

(In parentheses are indicated the shares of the authorized capital in the Group's ownership)

### Executive Office: Chairman of the Board - General Director Members of the Management Board and Deputy Directors General Subdivisions of the executive apparatus

#### Branches

##### Industrial:

PJSC RusHydro's branch Bureyskaya HPP  
PJSC RusHydro's branch Votkinskaya HPP  
PJSC RusHydro's branch Volzhskaya HPP  
PJSC RusHydro's branch Dagestan branch  
PJSC RusHydro's branch Zhigulevskaya HPP  
PJSC RusHydro's branch Zagorskaya PSP  
PJSC RusHydro's branch Zeyskaya HPP  
PJSC RusHydro's branch Kabardino-Balkarian branch  
PJSC RusHydro's branch Kamskaya HPP  
PJSC RusHydro's branch Karachay-Cherkessia branch  
PJSC RusHydro's branch Cascade of Verkhnevolzhskiy HPPs  
PJSC RusHydro's branch Cascade of Kubanskiye HPP  
PJSC RusHydro's branch Nizhegorodskaya HPP  
PJSC RusHydro's branch Novosibirskaya HPP  
PJSC RusHydro's branch Saratovskaya HPP  
PJSC RusHydro's branch Sayano-Shushenskaya HPP named after P.S. Neporozhniy  
PJSC RusHydro's branch North Ossetian branch  
PJSC RusHydro's branch Cheboksarskaya HPP

##### Non-industrial:

PJSC RusHydro's branch CorUnH

#### Subsidiary – management company

JSC MC HydroMC (100 %)  
PJSC RAO Energy Systems of the East (99.98 %)  
JSC ESC RusHydro (100 %)

#### Generation subsidiaries

JSC Geoterm (99.65 %)  
JSC Verkhne-Mutnovskaya GeoPP (100 %)  
JSC KamHEK (96.58 %)  
CJSC MEK (90 %)  
JSC Pauzhetskaya GeoPP (100 %)  
JSC Blagoveschenskaya (100 %)  
JSC «Far-Eastern Generation Company» (100 %)

#### Subsidiaries, combining generation, transmission and distribution of electricity

JSK Kolymaenergo (98.76 %)  
PJSC Yakutskenergo (79.16 %)  
JSC Sakhaenergo (100 %)  
PJSC Kamchatskenergo (98.74 %)  
JSC SENK (100 %)  
PJSC Magadanenergo (49 %)  
JSC Chukotenergo (100 %)  
JSC Sakhalinenergo (57.81 %)  
PJSC Peredvizhnaya Energetika (49 %)

#### Other profiled companies

JSC LCM (100 %)  
JSC FEGC (100 %)  
JSC Teploenergoservis (100 %)  
JSC Magadanelectroset (45.91 %)

#### Supply subsidiaries

JSC Krasnoyarskenergosbyt (65.81 %)  
JSC RESK (90.52 %)  
JSC Chuvashskaya Power Suooly Company (100 %)  
PJSC Far-Eastern Energy Company (FEEC) (52.17 %)

#### Subsidiaries under construction

JSC TPP in Sovetskaya Gavan (100 %)  
JSC Yakutskaya TPP-2 (100 %)  
JSC Sakhalin TPP-2 (100 %)  
JSC Nizhne-Bureiskaya HPP (100 %)  
JSC Leningrad PSP (100 %)  
JSC Zagorskaya PSP-2 (100 %)  
JSC SHPP KBR (95.28 %)  
LLC ayaSHPP Stavropol and KChR (100 %)  
LLC Verhnebakansky SHPP (100 %)

#### Construction, repair and maintenance subsidiaries

JSC Hydroremont VCC (100 %)  
JSC ChirkeiHPPstroy (100 %)  
LLC Montazhenergo (100 %)  
JSC "Ust-Srednekan HPPstroy (100 %)  
JSC KhPRC (100 %)  
JSC KhRAC (100 %)  
JSC Neryungrienergoremont (100 %)  
JSC KhETC (100 %)  
JSC VOSTEC (100 %)  
JSC FAR-EASTERN ENERGY COMPANY (100 %)  
JSC YaERC (100 %)  
JSC Energotransnab (100 %)  
JSC Magadanenergoremont (100 %)  
JSC Magadanelektrosetremont (100 %)  
LLC "HYDROPROJECT-SERVIS" (51 %)

#### Subsidiary companies – institutions

JSC Vedeneyev VNIIG (100 %)  
JSC NIIES (100 %)  
JSC Lengidroproject (100 %)  
JSC MOSOBLHYDROPROJECT (62.62 %)  
JSC Hydroproject Institute (100 %)  
LLP VNIIG (100 %)

#### Controlled companies combining generation and construction

JSC "Zaramag HPP" (99.75 %)  
JSC "Sulak Hidrokaskad" (100 %)  
JSC "Ust-Srednekanskaya HPP. A. F. Dyakov" (100 %)

#### BEMA's structure companies

JSC "Boguchanskaya HPP" (93.69 % "BOGES LIMITED" - joint ownership with RUSAL; 2.9 % direct ownership)  
CJSC BoAP (100 % "BALP LIMITED"- joint ownership with RUSAL)  
JSC Holding company Boguchanskaya HPP (100 %)  
«HYDROGK ALUMINIUM COMPANY LIMITED» (100 %)  
«HYDROGK POWER COMPANY LIMITED»(100 %)  
«BOGES LIMITED» (50 %)  
«BALP LIMITED" (50 %)  
CJSC Customer of construction of Boguchanskaya HPP (49 %)  
CJSC Organizer of construction of Boguchansky aluminum plant (49 %)  
JSC Customer of construction of Boguchansky aluminum plant (51 %)  
JSC Organizer Boguchanskaya HPP construction (51 %)  
LLC JHC Boguchanskaya HPP (50 %)

**Other service controlled and non-core companies**

JSC RHS (100 %)  
LLC RusHydro IT Service (100 %)  
JSC Technopark Rumyantsevo (100 %)  
LLC Energy Index – Hydro OGK (100 %)  
JSC TC RusHydro (100 %)  
JSC «SC SSHPP» (100 %)  
JSC Hydroinvest (100 %)  
JSC Malaya Dmitrovka (100 %)  
RUSHYDRO INTERNATIONAL B.V. (100 %)  
JSC Engineering center of renewable energy (100 %)  
JSC Nizhne-Zeyskaya HPP (100 %)  
JSC Small HPPs of Altai (100 %)  
RUSHYDRO INTERNATIONAL A.G. (100 %)  
RusHydro International India Private Limited (51 %)  
JSC "Sibenergosbyt" (100 %)  
LLC "Vostok-Finans" (100 %)  
JSC Motor transport enterprise LuTEK (100 %)  
JSC Avtotransportnogo (100 %)  
JSC "IC "Agroenergo" (100 %)  
JSC "HOUSING SERVICES" (100 %)  
JSC "NDEC" (100 %)  
LLC "Duz" (100 %)

**Controlled by companies which do not conduct significant activities or are in the process of liquidation/training to eliminate**

LLC EZOP (100 %)  
Alstom RusHydro Holding B.V. (50 %+1 share)  
LLC AlstomRusHydroEnergy (100 %)  
LLC ENEKS (100 %)  
LLC SRERH (100 %)  
JSC ESCO UES 100 %  
JSC RHBE (50,98 %)  
JSC "Far East WES" (100 %)  
JSC "GVTs of Energy" (100 %)  
JSC "Karachay-Cherkessia Hydrogeneration company" (100 %)  
JSC "Hydroengineering Siberia" (100 %)  
JSC "Yuzhno-Yakutsk GEK" (100 %)  
JSC SHPP of Dagestan (100 %)  
LLC "Fiagdonskaya SHPP" (100 %)  
LLC "Verhne-Naryn hydroelectric power plant" (50 %)  
LLC HOUSE of -21 centure (51 %)  
JSC "HRS" (100 %)  
JSC HC the Amur pearl (100 %)  
LLC Energokomfort (100 %)  
LLC "NGOS MRC" (99.98 %)

**Other assets of from 1 to 50 %**

JSC IENC (42.75 %)  
JSC Zharki (25 %+1 share)  
PJSC Inter RAO (4.91 %)  
JSC Corporation of South Yakutia development (25 %+1 share)  
JSC Corporation of development of Krasnoyarsk territory (25 %)  
LLC INTERNATIONAL INSTITUTE OF GEOMECHANICS AND HYDRAULIC STRUCTURES (27.3 %)  
JSC Coal mine (10 %)  
JSC SPUC (24.87 %)  
JSC SOC (36.1 %)  
JSC Okhinskaya TPP (2.86 %)  
JSC NGES (22.35 %)  
JSC "ENIN" (30.42 %)  
JSC Experimental TPP (9.86 %)  
LLC "VolgaHydro" (40 %)  
LLC "Corporation of development of Transbaikalia" (50 %)

*[More detailed information about Group organizational structure and their branches is available at \(http://www.rushydro.ru/company/structure/\)](http://www.rushydro.ru/company/structure/)*



## 1.4 Achievements

Rating/competition	Awards/Achievement
International rating agency Standard&Poor's	The credit ratings forecast for PJSC RusHydro was revised from "Stable" to "Positive". The Company's long-term credit rating was affirmed at 'BB' according to the international scale, the short-term credit rating at 'B' and the national scale rating at 'ruAA'.
Competition of the Ministry of Energy of the Russian Federation "The New Idea"	A member of the RusHydro staff reserve Stanislav Filipas won the contest. His project "Application of the software and hardware complex S-2000 for the training of operational personnel" became the best innovative project in the electric power industry.
Rating "The largest companies in Russia in terms of sales of products"	The agency confirmed RusHydro's employer rating at A.hr's level "High level of employer's attractiveness"
The best domestic practice of career guidance, determined by the National Council of the President of the Russian Federation for Professional Qualifications	The working group of the National Council for Professional Qualifications under the President of the Russian Federation included a program of social and professional adaptation of children from the orphanage "Young Energy" of the Corporate University of Hydro Power Engineering RusHydro among the best domestic practices for career guidance.
International competition of corporate communications «MarCom Awards 2016»	Annual report RusHydro for 2015 received gold awards in two categories of the international competition "MarCom Awards 2016" - "The best annual report of the corporation" and "Best electronic annual report".
International competition Report Watch Best Annual Reports	The position of PJSC RusHydro in the Report Watch Best Annual Reports rating increased by 36 points compared to the previous year.
The Rating of annual reports of the International Rating Agency RAEX ("Expert RA")	The annual report of JSC RusHydro for 2015 was awarded the highest rating of "5 stars".
The rating of corporate transparency of the largest Russian companies - 2016	Positions of PJSC RusHydro in the national rating of corporate transparency of the largest Russian companies improved: 2016 - Premium level, 6th place; 2015 year - I level, 12th place.
All-Russian competition of the Russian Union of Industrialists and Entrepreneurs "Leaders of Russian business: dynamics and responsibility - 2016"	Victory in the nomination "For the high quality of sustainability reporting".
The second All-Russian competition "MediaFEC"	In the nomination "Popularization of FEC Professions" the project of information coverage of All-Russian competitions of operational personnel of the HPP recognized as the best project
«Digital Communications AWARDS – 2017»	The winning projects of RusHydro: <ul style="list-style-type: none"> <li>• "Damming of the Bureya River in the Nizhnie-Bureyskaya HPP line" in the nomination DIGITAL-MEDIA &amp; TOOLS / LONGREAD (MATERIAL OF LARGE VOLUME)</li> <li>• "Timlaps" Modernization of hydro turbines of Novosibirskaya HPP (Branch of PJSC RusHydro) by the example of hydro unit No. 5 "in the category ACADEMIC DIGITAL STUDY / BEST STUDENT WORK</li> </ul>
Rating "Environmental initiatives of Russian companies in the media. Fuel and energy complex and Metallurgy"	PJSC RusHydro entered the top 10 of the rating prepared by the Modern Media Research Institute together with the Living Planet TV channel.
International Forum on Energy Efficiency and Energy Conservation «ENES-2016»	The Minister of Energy of the Russian Federation presented a letter of thanks for the contribution to the development of the energy industry of the Russian Federation to the employees of the Dagestan branch of RusHydro, the Omarovs working dynasty. The Omarovs are hereditary hydropower workers. The total length of their family in the industry is 120 years.
IV National Program "The Best Social Projects of Russia"	The program of social and professional adaptation of students of orphanages "Young Energy" KorUnG was one of the winners of the IV national program "The Best Social Projects

	of Russia" (diploma in the nomination "Projects in Support of Socially Vulnerable Populations").
The best national practice of career guidance activities identified by the National Council under the President of the Russian Federation on professional qualifications	The working group of the National Council under the President of the Russian Federation on professional qualifications was included the program of social professional adaptation of children from orphanages "Young energy" of the Corporate University of hydropower RusHydro among the best domestic practices of career guidance.



## Chapter 2. Strategic review

### 2.1. The Company's Strategy

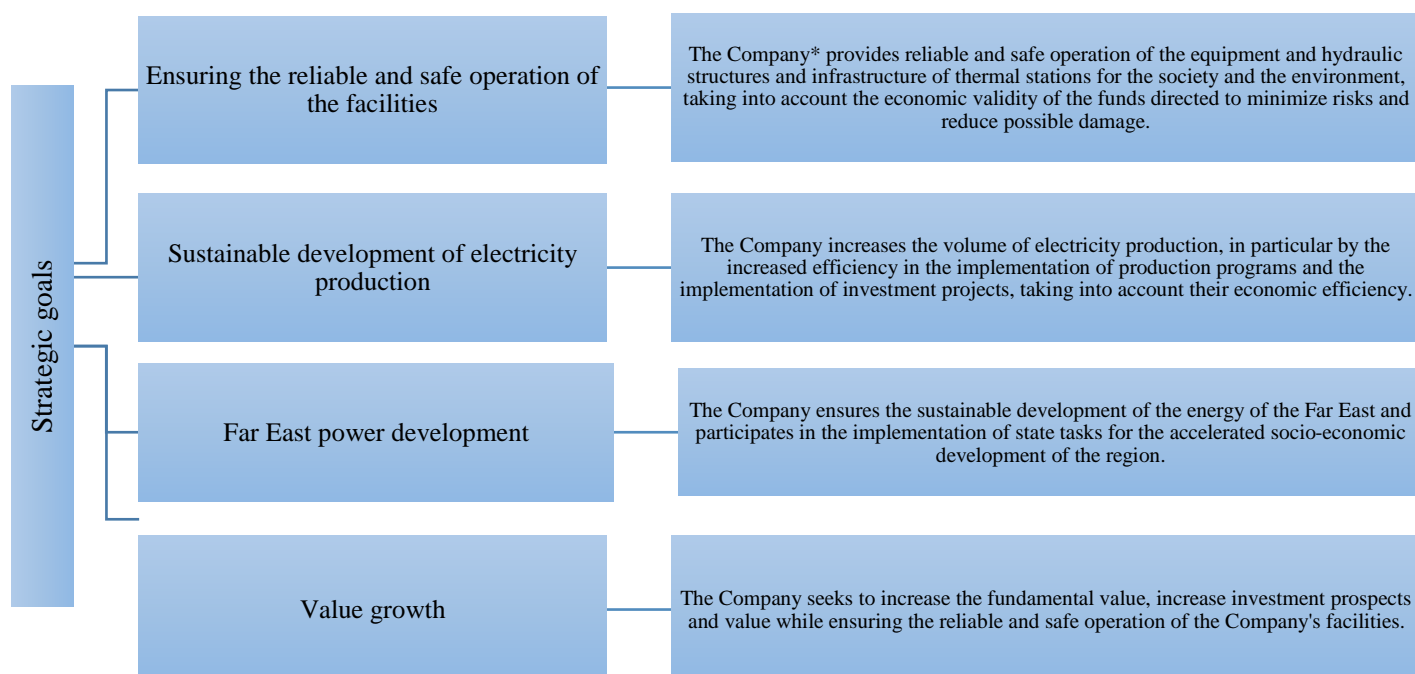
#### 2016 events

- The Development Strategy of the RusHydro Group for the period up to 2020 with a perspective up to 2025 is approved.

#### 2.1.1. Strategy

The Development Strategy of the RusHydro Group for the period until 2020, with a perspective of up to 2025, was approved by the PJSC RusHydro Board of Directors (Minutes No. 238 of 08.06.2016).

In accordance with the Strategy, the Group's activities will be aimed at effective use of hydro resources, ensuring the reliability of the Unified Energy System of Russia, and creating conditions for the social and economic development of the Far East regions through the availability of energy infrastructure for consumers. Unlike the previous Strategy, the new Strategy defines the goals and development directions for the entire RusHydro Group, including its Far Eastern assets.



\* Hereinafter in section 2.1.1. "the Company" means Group RusHydro including PJSC RusHydro (Executive office and branches) and its subsidiaries.

Strategic goals			
Ensure the reliable and safe operation of the facilities	Sustainable development of electricity production	Far East power system development	Value growth

Priority directions of activity tasks		
Development and increase of efficiency of management of industrial and technological complex	Investment policy and change approaches to the formation of the investment program	Improvement of the activity's operating efficiently and transparency
	Efficiency improvement of governance system of the Far East assets and the development of Energy (power) Systems of the Far East	
Human resources development		

### RusHydro Group's value growth key points

- Increase of the technical re-equipment and reconstruction program efficiency
- Construction of effective capacities
- Optimization of the structure of the RusHydro Group's financial investments
- Reduction of the debt burden on the companies of the RAO ES EAST Holding
- The RusHydro Group's Far East assets management system enhancement and increase of its operational efficiency

### Corporate Values

**Clean energy** - environmental safety and natural resources friendliness.

**Engineering culture** - safe and reliable assets management.

**Prosperous society** - reliability and infrastructural development, rational use of water resources, development of hydropotential and expansion of the use of renewable energy sources, which contribute to the development of the territories, economic growth, welfare and social prosperity.

**Responsible business** - social policy that supports staff and residents of the regions where the Company operates.

**Leading company** - success ensuring and striving for leadership of the Company by combining the efforts of employees, resources and business components in the pursuit of excellence in every aspect of activity.

**United team** - development opportunities and fair remuneration for employees to achieve the Group's competitive advantages in different areas of its activities (team spirit, self-expression and personal fulfillment).

**Developing environment** - new technologies and unlimited opportunities for development.

**Young energy** - professionalization of the Russian school graduates.

### Mechanisms for the Strategy implementation

The Company has a strategic management system that links the processes of strategic management with the system of motivation. The system is formed taking into account the recommendations of the Federal Property<sup>4</sup> Management Agency for the development of key strategic documents and includes an audit of the implementation of the Long-Term Development Program.



\* Considering the high priority of the reliable and safe functioning of the Company's facilities and Far East power development.

#### 2.1.2. The RusHydro Group's Long-term Development Program

The Long-term development program of the RusHydro Group (LDP) is drawn up in accordance with the instructions of the President<sup>5</sup> of the Russian Federation and the Government<sup>6</sup> of the Russian Federation.

The Long-term development program of the RusHydro Group for 2016-2020 is approved by the decision of the Board of Directors of PJSC RusHydro<sup>7</sup>. The program defines the main principles and

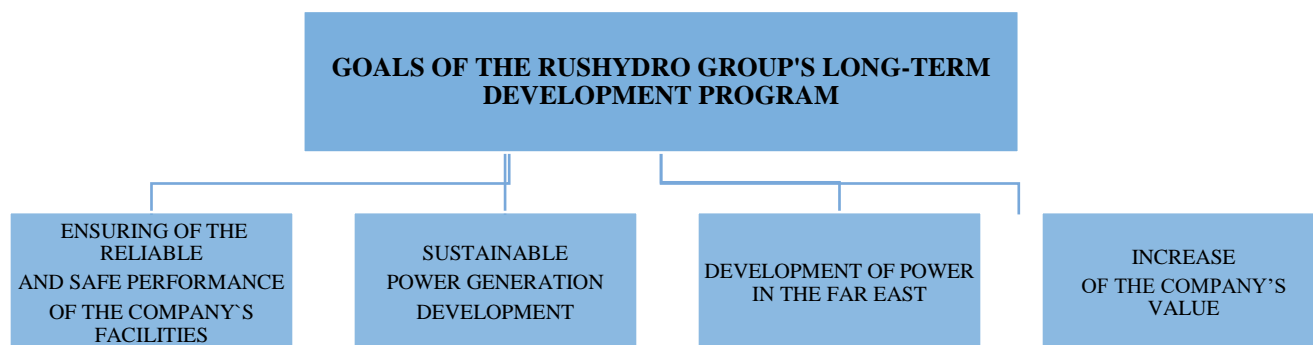
<sup>4</sup> Of 29.02.2014 No. OD-11/18576.

<sup>5</sup> Order No. Pr-3086 of December 27, 2013

<sup>6</sup> Minutes of 30.01.2014 No. 3, Directive of the Government of the Russian Federation of July 17, 2014 No. 4955 p-P13

<sup>7</sup> Minutes of the Board of Directors No. 244 of November 23, 2016

directions that ensure the efficient and dynamic development of the RusHydro Group in order to ensure the effective use of water resources, the reliable Unified Energy System of Russia, as well as to create 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.



LDP is formed on the basis the Development Strategy of the RusHydro Group for the period up to 2020 with a perspective up to 2025<sup>8</sup>, the consolidated RusHydro Group Business Plan and the program documents of the RusHydro Group (PJSC RusHydro and RAO ES EAST, PJSC): production programs, investment programs, innovative development programs.

Key priority areas of development and goals:

- development and improvement of management efficiency of production and technological complexes,
- investment policy and change of approaches to the formation of an investment program,
- enhancement of the effectiveness of the Far East asset management system and the development of power in the Far East,
- increase operational efficiency and transparency of activities,
- development of human potential.

The program defines the main principles and directions that ensure the dynamic development of the RusHydro Group and contains proposals to improve the operational and investment activities of PJSC RusHydro, as well as the efficiency and competitiveness of the RAO ES EAST Holding, activities to improve the corporate governance system, the staffing system, the system of antiterrorist, information and economic security and development of international activities, contains risk analysis of activities implementation, key performance indicators and a methodology for calculating and evaluating KPIs of the LDP.

The Long-term development program for 2016-2020 also contains information in accordance with the Directives of the Government of the Russian Federation received in 2016 (No. 1442-P13 of 03.03.2016 "On innovative development", No. 3035p-P13 of April 29, 2013 "On the application of the indicator "Total shareholder return (TSR) of 04.07.2016 No. 4750p-P13 "On the reduction of transaction costs by 10 %", of 2016.06.28 No. 4531p-P13 "On the priority nature of the tasks of social and economic development of the Far East").

The main activities aimed at the implementation of the Long-Term Development Program in the reporting year are implemented as part of the production, investment and innovation programs. Information on their implementation is presented in Sections 2.3, 2.4, 2.5 and 3.1.3.

Verification of the implementation of the LDP is carried out in accordance with the Standard<sup>9</sup> for verification of the LDP implementation and the Technical task for conducting an audit of the implementation of the LDP<sup>10</sup>, developed on the basis of the recommendations of the Government of the Russian Federation<sup>11</sup>.

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

<sup>9</sup> Minutes of the Board of Directors No. 206 of 21.11.2014

<sup>10</sup> Minutes of the Board of Directors of the Company No.227 of 16.11.2015

<sup>11</sup> Order of the RF Government No. ISH-P13-2583 of 15.04.2014

### 2.1.3. Key performance indicators

A system of key performance indicators (hereinafter - KPI) of PJSC RusHydro is aimed at enhancement of efficiency of the Company's performance and achievement of the goals set by the shareholders. The KPI system includes the indicators approved in the RusHydro Group's Long-term Program for 2016-2020 (approved for a five-year period) and as part of Business Plan for the year 2016.

#### *PJSC RusHydro KPI*

The KPI of PJSC RusHydro includes seven annual KPIs: four financial and economic indicators, two sectoral ones (which meet the requirements of the Federal Property Management Agency) and an integrated KPI for innovation, approved by the minutes of the meeting of the Interdepartmental Working Group on Implementing Innovation Development Priorities of the Presidium of the Presidential Council for Modernization of the Economy and innovative development of Russia (Minutes No. AD-P36-247pr of 17.12.2015). Financial and economic indicators include two indicators mandatory for use in accordance to the instructions of the Federal Property Management Agency - Total shareholder return (TSR) and return on equity (ROE). The basis for the calculation of financial and economic indicators in the Company is the Group's consolidated financial statements under IFRS. Integral KPI of innovation activity is included in the list of KPIs for 2016 in pursuance of the directive of the Government of the Russian Federation of 03.03.2016 No. 1472p-P13 (Minutes of the Company Board of Directors of 10.10.2016 No. 242).

Also in 2016, the Board of Directors changed the methodology for calculating and evaluating key indicators of PJSC RusHydro (Minutes No. 242 of 10.10.2016) in pursuance of the directive of the Government of the Russian Federation (of 29.04.2016 No. 3035p-P13) on the need to change the procedure for evaluating the indicator " Profitability of investments of shareholders (TSR), % ".

#### KPIs Target and Actual Values

No.	KPI	2015				2016			
		Target value	Actual KPI values	Degree of target value achievement	Indicator weight, %	Target value	Actual KPI values	Degree of target value achievement	Indicator weight, %
1	<b>Annual KPIs:</b>								
1.1	Total shareholder return (TSR*), %	100 %	<100 %	Not fulfilled	10 %	100 %	100 %	Fulfilled	10 %
1.2	Return on equity (ROE), %	3.1 %	4.5 %	Fulfilled	20 %	3.6 %**	6.3 %	Fulfilled	20 %
1.3	Share of buying from small- and medium-sized business entities, % including: - By results of purchases among subjects of small and medium business only, %	18 %	29 %	Fulfilled	10 %	≥18 %	≥18 %	Fulfilled	5 %
		Not established	-	-		≥10 %	≥10 %	Fulfilled	
1.4	Reliability criterion – both: - Not exceeding the limit for accidents; - Fulfillment of the planned readiness factor;	-	-	Fulfilled	25 %	-	-	Fulfilled	20 %
		0	0	Fulfilled		0	0	Fulfilled	
		> 1	> 1	Fulfilled		> 1	> 1	Fulfilled	
1.5	Fulfilling capacity commissioning timetable and the finance and disbursement plan, %	100 %	99 %***	Fulfilled	25 %	100 %	57 %	Not fulfilled	20 %
1.6	Leverage ratio (coefficient)	≤ 1.5	0.2	Fulfilled	10 %	≤ 1.5	0.5	Fulfilled	5 %
1.7	Integral KPI of innovation activity, %	Not established	-	-	-	85 %	-	*****	20 %
2	<b>Quarterly KPIs *****:</b>								
2.1	Current liquidity ratio (coefficient)	≥ 1	5.6	Fulfilled	33.3 %	≥ 1	8.16	Fulfilled	33.3 %
2.2	Reliability indicator – single time - accident rate (compared with the previous year)	-	-	Fulfilled	33.3 %	-	-	Fulfilled	33.3 %
		<1	<1	Fulfilled		Not established	-	-	

- The list and target values of the KPI for PJSC RusHydro for 2016 were approved by the decision of the Board of Directors (Minutes of the Board of Directors of the Company No.229 of December 25, 2015, taking into account changes approved by the minutes of the Board of Directors of the Company of 10.10.2016 No. 242).

-The list and target values of the KPIs in the Long-Term Development Program of the RusHydro Group for 2016-2020 were approved by a resolution of the Board of Directors (Minutes No. 244 of November 23, 2016).

	(coefficient). - not to exceed normative values of accident rate - absence of fatal industrial accidents or group Company accidents, if there is a victim with severe outcome (pcs.) - receipt (availability) of a readiness passport on the Company's facilities within a prescribed period (%) (Q1 and Q4)	Not established	-	-		< 1	< 1	Fulfilled	
		0	0	Fulfilled		0	0	Fulfilled	
		100 %	100 %	Fulfilled		100 %	100 %	Fulfilled	
2.3	Fulfilling quarterly timetables to finance and implement investment program in cumulative total from the beginning of the year, %	100 %	98 %***	Fulfilled	33.3 %	100 %	68 %	Not fulfilled	33.3 %

\* In 2016 the valuation is based on a comparison of the actual TSR of the Company with the dynamics of the composite index of the Moscow stock exchange - the MICEX index (index code - MICEXINDEXCF). The change in the MICEXINDEXCF Index is calculated as the percentage of the change in the average value of the MICEXINDEXCF Index for 22 trading days at the end of the year preceding the reporting period and the average MICEXINDEXCF Index for 22 trading days at the end of the reporting year. The indicator is considered to be fulfilled (will be 100 %) if the actual value of the key indicator of the Company's TSR efficiency exceeds the dynamics of the MICEXINDEXCF Index for the reporting period by a positive amount. In 2015 the valuation was based on a comparison of its absolute number within the Company to the TSR of other companies (common shares only) included in the power industry sector index of the Moscow stock exchange (MICEX PWR) without grid companies and energy services companies and RAO ES EAST, PJSC. The KPI is considered to be fulfilled if the Company's TSR value is within the 50<sup>th</sup> percentile (or higher) in the TSR matrix of the companies included in MICEX PWR, which is equal to 10 %.

\*\* The size of own capital at the end of 2016g. Does not take into account the possible increase in the amount of the additional issue to ensure the refinancing of debts on loans and borrowings of the Holding of RAO ES EAST, PJSC.

\*\*\* According to the methodology for calculating and evaluating the key performance indicators of PJSC RusHydro (Minutes of the Board of Directors No. 208 of December 26, 2018), the indicator is considered fulfilled if the actual figure is  $\geq 0.85$  of the planned (100 %) indicator.

\*\*\*\* In accordance with the approved Methodology, the KPI "Integral KPI of Innovation Activity, %" (hereinafter referred to as "IKPI") includes the indicator "Quality of Development (Updating) of the IRTP / IRTP Implementation", which is determined on the basis of the final assessment of the quality of the development / Implementation of the IRTP, formed by the Interdepartmental Commission for Technological Development of the Presidium of the Council under the President of the Russian Federation for Economic Modernization and Innovative Development of Russia (hereinafter - IDC).

According to the Minutes of the meeting of the IDC of 17.12.2015 No. AD-P36-247pr, the indicator "The quality of development (actualization) of the IRTP / IDP performance, %" , included in the IKPE, is calculated as follows: "Based on the results of 2016 and in years the RDP actualization will take place, using weighting factors with values of 0.5 to estimate the quality of the development (update) of the IRTP and 0.5 to assess the quality of the IRTP performance. In other years, assess only the quality of the IRTP. "

As of the date of preparation of the annual report for the year 2016, the indicator "The quality of development (actualization) of the IRTP / IDP performance, %" cannot be calculated, since for its calculation it is necessary to obtain estimates for both indicators included in its composition:

A) assessment of the quality of the development (update) of the IRTP - received, formalized by the Minutes of the IDC of 26.12.2016 No. 23-DO1. The estimate is 95.2 %, being one of the highest assessments of the quality of IRTP development among the companies of the fuel and energy complex.

B) assessment of the quality of the IRTP implementation is not received, since it can only be obtained after consideration of the IRTP implementation report for 2016 by the authorized federal executive bodies of Russia and the release of the relevant minutes by the Interdepartmental Commission for Technological Development of the Presidium of the Presidential Council for Modernization of Economy and Innovative development of Russia. Thus, as of the date of preparation of the report, the performance of the IKPE for 2016 is not calculated. The results of the implementation will be additionally submitted to the Board of Directors for consideration after receiving an assessment of the quality of the IRTP implementation for 2016.

\*\*\*\*\* Actual values and degree of achievement of target values of the quarterly KPIs are given for the 4th quarter of 2015 and the fourth quarter of 2016, respectively.

## **The KPI of the LDP of the RusHydro Group**

The Long-term Development Program contains the KPI established for the 2016-2020 period.

The calculation of the target values of the KPI is made in compliance with the parameters for the 2016-2020 Business Plan, and takes into account measures provided for by the RusHydro Group's programs.

In 2016 in pursuance to instructions from the Government of the Russian Federation, the Long-term Development Program has undergone a number of changes, approved by the Board of Directors (Minutes No. 242 of 10.10.2016):

- adjusted target KPI indicator "Reduction of operating costs (expenses)" (increased from 2 % to 10 % on the basis of the directive of the Government of the Russian Federation of 04.07.2016 No. 4750p-P13);
- alteration in the methods for calculating the KPI "Integral Innovative KPI" (Directive of the Government of the Russian Federation No. 1422-P13 of 03.03.2016), the KPI " Total shareholders return (TSR)" (Directive of the Government of the Russian Federation No. 3035p-P13 of 29.04.2016) "Labor productivity" (Directive of the Government of the Russian Federation of October 31, 2014 No. 7389p-P13);
- increased weight of the KPI "Integral Innovative KPI" (from 5 % to 20 % in pursuance of the RF Government Directive No. 1422-P13 of 03.03.2016), through the redistribution of the KPI weights of LDP and the exclusion of KPI "Equity efficiency" and " Implementation of the corporate governance code and ensuring compliance with its requirements. "

Also in 2016, the Company's Board of Directors minutes (Minutes No. 244 of 11.23.2016) approved a change in the methodology for calculating the Key Performance Indicators "Limit on leverage", the KPI

"Implementation of the schedule for commissioning capacities of the main new construction projects", and the replacement of the KPI "Reliability criterion" for the indicator: "Prevention of occupational accidents and the maximum number of accidents by the Group" while foregrounding the assessment methodology.

**The KPI of the LDP of the RusHydro Group<sup>12</sup>**

No.	KPI	2016			2017	2018	2019	2020
		Target	Actual	Implementation	Target	Target	Target	Target
1	Total shareholders return (Achieving the target level TSR)	100 %	100 %	Fulfilled	100 %	100 %	100 %	100 %
2	Return on equity (ROE)	4.2 %	11.1 %	Fulfilled	5.6 %	7.6 %	9.4 %	9.3 %
3	Leverage ratio	≤ 1.5	0.5	Fulfilled	≤ 1.5	≤ 1.5	≤ 1.5	≤ 1.5
4	Limitation on the debt burden (Debt/Ebitda)	≤ 4.0	2.2	Fulfilled	≤ 4.0	≤ 4.0	≤ 3.5	≤ 3.5
5	Prevention of accidents at work and the maximum number of accidents in the RusHydro Group	0	0	Fulfilled	0	0	0	0
	<i>Number of accidents at work, (pcs.)</i>	0	0	<i>Fulfilled</i>	0	0	0	0
	<i>Number of accidents, pcs.</i>	0	0	<i>Fulfilled</i>	0	0	0	0
6	Compliance with the capacity commissioning schedule for core new construction facilities	333.48 MW	140 MW	Not fulfilled	560 MW	484.5 MW	840 MW	- *
7	Share of buying from small- and medium-sized business entities **	≥ 18 %	≥ 18 %	Fulfilled	≥ 18 %	≥ 18 %	≥ 18 %	≥ 18 %
8	Labor efficiency (Receipts, thousand rub./person-hours)**	10.24	12.33	Fulfilled	11.69	13.7	16.11	16.35
9	Integral innovative KPI	85 %	89.4 %	Fulfilled ***	90 %	90 %	95 %	95 %
10	Reducing operating costs (costs)**	≥ 10 %	11 %	Fulfilled	≥ 2 %	≥ 2 %	≥ 2 %	≥ 2 %

\* In accordance with the draft Investment Program of PJSC RusHydro and the project of the Investment Program of the RAO ES EAST Holding for 2016-2020. The commissioning of major new construction projects in 2020 is not planned.

\*\* According to PJSC RusHydro.

\*\*\* The indicator was evaluated as part of an independent audit of the Long-Term Development Program as of 30.03.2017.

<sup>12</sup> The KPIs are calculated in accordance with the Methodology for calculating and evaluating the key indicators of the Long-term Development Program of the RusHydro Group approved by the minutes of the Board of Directors (Minutes No. 244 of 23.11.2016), including changes previously approved in 2016 (Minutes No. 242 of 10.10.2016).

## The Key performance indicators of RAO ES EAST, PJSC

### The KPI of RAO ES EAST, PJSC for 2016

No.	KPI	Target	Actual	Implementation
<b>Annual KPIs</b>				
1	KPI «Debt/EBITDA»	≤ 100 %	78 %	Fulfilled
2	Implementation by subordinated Subsidiaries and managed companies transferred under Trust Deed of December 23, 2013, No. OG-175-169-2013, annual KPIs established for them and bonus conditions, %	100 %	82 %	Fulfilled
3	Implementation of the annual investment program of RAO ES EAST, PJSC, %	100 %	12.4 %	Not fulfilled
4	Integral KPI of innovation activity, %	85 %	92.2 %	Fulfilled
<b>Quarterly KPIs</b>				
4	No excess of the level of the financial debt taking into account factoring by the companies of the Holding of RAO ES EAST, PJSC, %	≤ 100 %	96 %	Fulfilled
5	Implementation by subordinated Subsidiaries and managed companies transferred under Trust Deed of December 23, 2013, No. OG-175-169-2013, annual KPIs established for them and bonus conditions, %	100 %	75 %*	Fulfilled
6	Implementation of the investment program of RAO ES EAST, PJSC, %	100 %	50.5 %	Not fulfilled

\* According to the guidelines, the indicator is considered fulfilled if its actual value for the reporting period is greater than or equal to 75 %.

### The Key Performance Indicator (KPI) System of PJSC RusHydro for 2017

In 2016, based on the recommendations of an independent consultant<sup>13</sup>, the key performance indicators for the long-term motivation first cycle program of JSC RusHydro's for 2017-2019 were developed, as well as a list and target values of the annual key performance indicators of the members of the Management Board of PJSC RusHydro for 2017, allowing to motivate the Company's management to implement strategic tasks, and thereby unite the interests of management and shareholders of the Company (Minutes of the Board of Directors No. 245 of December 26, 2016).

The Key performance indicators of PJSC RusHydro were developed taking into account item 4 of the list of instructions of the President of the Russian Federation of July 5, 2013. No. Pr-1474, instructions of the Government of the Russian Federation of March 27, 2014. No. ISH-P13-2043 and directives of the Government of the Russian Federation of April 25, 2014. No. 2579p-P13, of 12.11.2014 No. 7558p-P133 in accordance with the Methodological Guidelines of the Federal Property Management Agency.

Calculation and evaluation of the KPI of the members of the Management Board and the KPI of the Company's Long-Term Incentive Program is carried out on the basis of the methods for calculating and evaluating the annual key performance indicators of the Management Board members of JSC RusHydro and the Methodology for Calculating and Evaluating the Key Performance indicators of the Long-Term Incentive Program of PJSC RusHydro for the first cycle for 2017-2019 respectively approved by the Board of Directors of the Company (Minutes No. 245 of December 26, 2016).

### The KPI Long-Term Incentive Program of PJSC RusHydro The first cycle for 2017-2019.

No.	KPI of program	Target
1	Total shareholders return (TSR), %	100
2	Integral innovative KPI, %	85
3	Free cash flow (FCF), million rub	-22.350

### The list and target values of the annual key performance indicators of the members of the Management Board for 2017

No.	Annual KPI	Target
1	Return on equity (ROE), %	5.8

<sup>13</sup> Independent consultant recommendations (Ernst & Young (CIS) BV) on the methodology of the payment system for the members of the Management Board were approved by the Board of Directors of the Company (Minutes No. 241 of September 23, 2016).

2	Income before interest, taxes and depreciation (EBITDA), million rub	95.993
3	Proportion of purchases from small and medium-sized enterprises, % - Including, by results of purchases only among subjects of SMEs	18 10
4	Labor productivity, thousand rubles / person-hours	4.72
5	Reducing operating costs (costs), %	2
6	Non-acceptability of more than the maximum number of accidents (pcs) - Number of accidents at work, pcs. (N-reporting year) - Number of major accidents, pcs.	0 ≤ average for 5 years 0
7	Implementation of capacity schedules and financing and development plans, %	85

## 2.2. Risk management

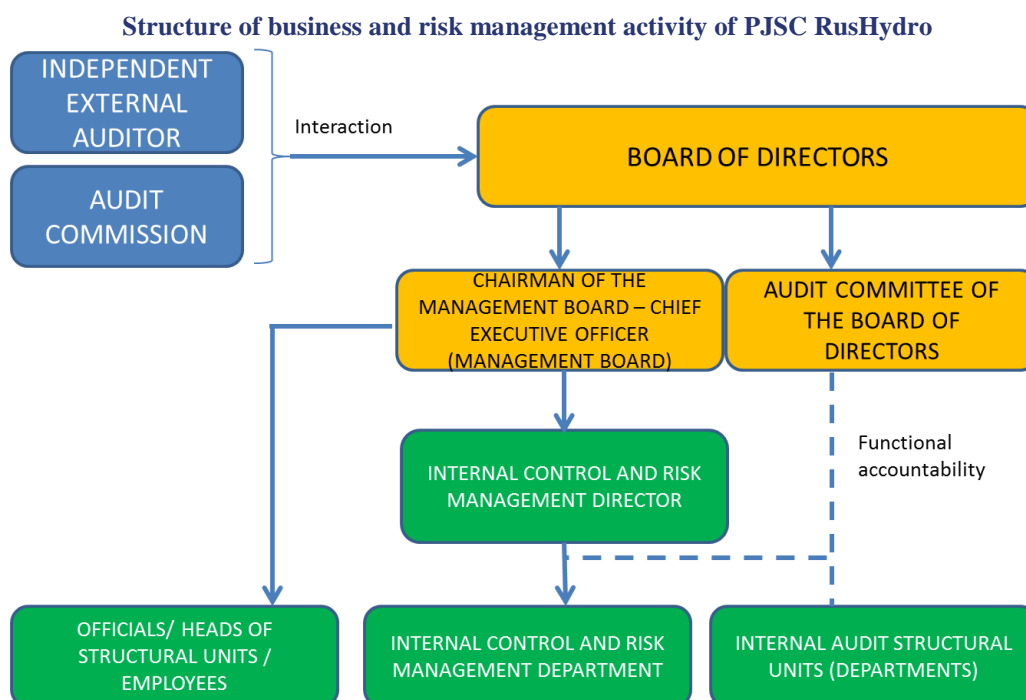
### 2016 events

- A methodology for evaluating the maturity level of the corporate system of internal control and risk management of PJSC RusHydro (hereinafter CSICandRM) is developed and approved
- The audit environment of PJSC RusHydro was assessed using a model formed in accordance with the CSIC RM maturity assessment methodology and taking into account the audit result of the business processes of PJSC RusHydro conducted in 2015 and 2016
- The Register of strategic risks and strategic risk management plan of PJSC RusHydro for 2016-2017 is updated
- Scenarios and key indicators of the probable implementation of strategic risks of the RusHydro Group are developed
- In PJSC RusHydro key subsidiaries (design and research institutes, construction organizers and contractors, repair and service companies, marketing companies), risk management plans for 2016-2017 have been approved.

For more details on risk management, see the Company's website (<http://www.eng.rushydro.ru/Sustainability/risk-management/>)

### 2.2.1. Corporate risk management system

The activity of PJSC RusHydro is associated with some risks which, under certain circumstances, may have negative influence on the production and financial results of the RusHydro, as well as the social and natural environment of the Company. The Company has developed a risk management system in order to minimize the negative influence of possible risks and implementation of favourable opportunities. The system is developed in order to ensure the execution of the Company's strategy.





For risk management processes structuring, the Risk Control and Risk Management Department (hereinafter – CDandRM) was established within the Internal Control and Risk Management Unit.

CDandRM in its activity framework does the following key tasks:

- organization of an effective CSICandRM,
- ensuring effective operational control in the RusHydro Group,
- interaction with external control bodies.

### **Independent evaluation of the risk management system**

The external evaluation of the CSICandRM effectiveness is carried out regularly during the audit of the performance of the Long-Term Development Program of the RusHydro Group, external audit of financial statements, survey of RusHydro's facilities, compulsory due diligence as part of Mergers & Acquisitions risk assessment, and Conducting complex assessments of the effectiveness of the internal control system and risk management of the Company by invited independent experts.

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 contest "Best Risk Management-2015" in the category "Production Organizations", wins in the categories "The Best Integrated Risk Management Program", " The Best Risk Manager of Russia", conducted by the Russian Risk Management Society RusRisk - the Russian National Association of Risk Managers, member of the Federation of European Risk Management Associations FERMA, etc.).

*For more information about the risk management policy, see the website <http://www.eng.rushydro.ru/Sustainability/risk-management/risk-management-policy/>*



### **Risk management methods and approach**

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 of PJSC RusHydro, Minutes No. 227 of 16.11.2015). The Company uses the following set of methods and approaches to risk management:

- risk management is an integral part of all organizational processes: risk management is not separate from the main activities and processes of the organization;
- risk management is part of the decision-making process. Risk management helps decision-makers make informed choices, prioritize actions and identify the most effective actions among alternative options;
- risk management contributes to the continuous improvement of the organization. To increase the level of maturity of risk management, the Company develops and improves the CSICandRM;
- the company seeks to create a risk-oriented corporate culture;
- the top management of the Company ensures the priority of risk management, dissemination of risk management knowledge and skills in the Company and the RusHydro Group, facilitates training in the basics of risk management and the adoption of a corporate culture of "risk management";
- training of the Company's employees is carried out on an ongoing basis to transfer knowledge and experience to new employees, monitor trends in global risk management practices, update the knowledge of employees and managers of all structural units in the field of risk management;
- the Company's management ensures the possibility of effective information exchange and the introduction of communicative norms within the framework of corporate risk management.

According to the PJSC RusHydro strategic management provision, the Company compiles the Register of strategic risks on an annual basis. This document is subject to approval by the Board of Directors. The Board approves the plan of strategic risk management for dealing with the critical and significant risks. The plan stipulates the terms of actions, persons responsible for them, and their expected results. The efficiency of the execution of risk management actions and the KPIs is taken into consideration in the distribution of bonuses to employees. The monitoring and control of the plan's execution is carried out by the risk managers of the Company.

### Stages of strategic risk management



The risk managers interact with the members of the Audit Committee of the Board of Directors for the purpose of controlling the functioning of the risk management system of PJSC RusHydro, which corresponds to the guidelines on the audit of the Boards of Directors of companies with the involvement of the Russian government (*stipulated by decree no. 86 of the RF Federal Property Management Agency of 20.03.2014*)

According to the Company's Corporate Governance Code, the Board of Directors (Audit Committee) carries out an analysis and assessment of the risk management and internal control system performance at least once a year. The results of this analysis and assessment are reviewed at a meeting of the Board of Directors (Audit Committee).

In 2016, the Audit Committee conducted an evaluation of the risk management system, which includes:

- assessment of sufficiency and maturity of elements of the risk management system,
- analysis of completeness of detection and correctness of risk assessment,
- analysis of the effectiveness of the Company's risk management activities,
- analysis of information about the realized risks.

In June 2017, the Board of Directors will review the report on the functioning of the corporate internal control and risk management system.

[For more details on the stages and methods of risk management go to the website of the Company \[http://www.rushydro.ru/sustainable\\\_development/riski/politika-upravleniya-riskami/osnovnye-etapy-protssesa-i-metody-upravleniya-riskami/\]\(http://www.rushydro.ru/sustainable\_development/riski/politika-upravleniya-riskami/osnovnye-etapy-protssesa-i-metody-upravleniya-riskami/\)](http://www.rushydro.ru/sustainable_development/riski/politika-upravleniya-riskami/osnovnye-etapy-protssesa-i-metody-upravleniya-riskami/)

### Corporate documents

The Internal Control and Risk Management Policy of the Company is the main document stipulating the goals, purpose, and principles of the corporate risk management control system efficiency of PJSC RusHydro.

[For more details on internal control and risk management policy go to \[http://www.rushydro.ru/upload/iblock/c9c/Politika-VKiUR-PAO-RusGidro\\\_16.11.2015\\\_utv.pdf\]\(http://www.rushydro.ru/upload/iblock/c9c/Politika-VKiUR-PAO-RusGidro\_16.11.2015\_utv.pdf\)](http://www.rushydro.ru/upload/iblock/c9c/Politika-VKiUR-PAO-RusGidro_16.11.2015_utv.pdf)

#### Documents stipulating strategic risk management

Operational risks	Investment risks	Market (sales) risks	M&A risks
<ul style="list-style-type: none"> <li>- The directive on the process of the formation of production programs</li> <li>- The recommendations of the Analysis Centre (as a part of the annual report of the Analysis Centre)</li> <li>- The directive on the system of retrofitting and upgrading project management</li> <li>- Methodical Recommendations for the efficiency evaluation of the TP &amp; R projects of generating branches and subsidiaries of PJSC RusHydro branches and subsidiaries (methodological recommendations take into account the risks of production disruptions and</li> </ul>	<ul style="list-style-type: none"> <li>- The directive on the management of investments in the form of capital investments</li> <li>- Methodological guidelines on risk assessment on the RORAC basis</li> <li>- Quarterly reports on project risk management filed by investment subjects to the Board of Directors</li> <li>- The standard list of risks connected with the execution of investment projects as a part of the Directive on the management of investments in the form of capital investments</li> <li>- Risk registers, risk management action plans, and</li> </ul>	<ul style="list-style-type: none"> <li>- The Directive on the policy of PJSC RusHydro in the field of the sales of active power generation units within the pricing areas of the wholesale power joint market.</li> <li>- Methodological guidelines of the identification of the minimal (maximum) electrical energy indices for the wholesale power joint market</li> <li>- Methodological guidelines for the assessment of the internal ratings of the contractors of the Company operating in the wholesale power joint market based on the criteria of Moody's with a limitation of the credit rating</li> </ul>	<ul style="list-style-type: none"> <li>- The directive on the planning, pre-approval, support, and the execution of strategically important other significant transactions.</li> <li>- Registers and risk management plans concerning the considered strategically important transactions as parts of the certificates of strategically important transactions.</li> </ul>

environmental risks) - The set of standards concerning the production activity of the Company in terms of the management of the risks of certain stages of production asset lifecycle.	monthly reports on the execution of the plan of risk management events.	of the contract portfolio.
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*For more details on regulatory documents go to ([http://www.rushydro.ru/sustainable\\_development/riski/politika-upravleniya-riskami/dokumenty-reglamentiruyushchie-sistemu-upravleniya-riskami/](http://www.rushydro.ru/sustainable_development/riski/politika-upravleniya-riskami/dokumenty-reglamentiruyushchie-sistemu-upravleniya-riskami/))*



### **Improvement of internal control and risk management system**

In order to improve the CSICandRM, the Company implements the program for the development of the RusHydro Group's CSICandRM by 2019 (approved by the Management Board of PJSC RusHydro on November 28, 2014), and the plan for improving the Company's internal control system for the reporting year is approved annually.

The Company currently focuses on the improvement of the CSICandRM in the following areas of activity:

- carrying out regular assessments of the effectiveness of risk management measures, automating management procedures to collect information on risks, activities and risk indicators for the Group;
- regulation of risk management processes in the Group's Subsidiaries based on approaches implemented in PJSC RusHydro;
- integration of risk management systems into planning and decision-making processes in the Group's companies;
- development of an end-to-end system for collecting reports on the risk management of Group's companies and aggregating information on risk management at the parent company level using the automated risk management system of PJSC RusHydro;
- typing of risk control procedures in all companies of the Group;
- annual reassessment of the levels of development of risk management systems in the Group companies to update the integrated assessment of systems, development of a program for the improvement of the RusHydro Group risk management system based on the assessment.

In 2016, in order to improve the risk management system, the following key actions were implemented:

#### ***Corporate level***

- The Strategic Risk Management Plan is updated and approved by the Management Board of PJSC RusHydro for 2016 - 2017.
- Based on the scenario approach, a system of indicators for the implementation of strategic risks of PJSC RusHydro and the RusHydro Group was developed and approved as part of the approval of the Strategic Risk Management Plan for 2016-2017.
- The methodology for assessing the CSICandRM maturity level of PJSC RusHydro, its branches and subsidiaries was developed and approved (CSICandRM assessment of the maturity includes: assessment of the compliance of CSICandRM with regulatory requirements and evaluation of the effectiveness of risk management).

#### **The implementation of the system of scenarios/indicators of realization of strategic risks of PJSC RusHydro and RusHydro Group will allow to:**

provide a factor analysis of risks of not achieving strategic goals (strategic risks) and establish a relationship “goals (KPIs) – risks” through objective scenarios of risk realization;  
monitor trends in risk management;  
make timely and reasonable decisions about exclusion of irrelevant risks from the vision of management for the next planning period, or about need of development of corrective measures to strengthen control under realized risks, if a negative trend of risk indicators shows insufficient efficiency of existing control procedures and risk response measures;  
analyze statuses of risks based on values of the indicators and exclude ineffective measures from the plan of governance of strategic risks, replacing them with more specific and relevant control procedures;  
conduct a risk-based internal audit based on assessments of values of the risk indicators and allocation of “weak points” of the business processes of PJSC RusHydro and RusHydro Group.

- Branches and Subsidiaries are assessed and prioritized according to the level of risk and the status of implementation of risk management procedures in order to form a risk-oriented internal audit plan for PJSC RusHydro for 2017-2018.
- In the key subsidiaries of PJSC RusHydro (design and research institutes, construction organizers and contractors, repair and service companies, retail companies), risk management plans for 2016-2017 have been approved.
- As part of the risk management activities of the RAO ES EAST Holding, the measures envisaged by the Strategic Management Plan for the Holding Company RAO ES EAST for 2015-2016, developed for the strategic risks of RAO ES EAST, PJSC, as well as strategic risks Subsidiaries of RAO ES EAST, PJSC: JSC "FEGC", JSC "FEDC", PJSC "FEEC" and PJSC "Yakutskenergo".

***Business and operational level:***

- The adequacy and effectiveness of control procedures (testing of the design of control procedures) of business processes " Materials and technical equipment (ME) Procurement and Services Management", "Management of sales of electricity and capacity" and "Management of Research work and Research and Development work" were assessed as sufficient and effective.
- Operational effectiveness evaluation (assessment of implementation and actual execution) of the audit procedures for the business process " Materials and equipment (ME) Procurement and Services Management" was conducted.
- Within the framework of self-assessment of the internal control system of PJSC RusHydro, an assessment of the control environment of PJSC RusHydro was made using a model formed in accordance with the methodology for the CSICandRM = maturity assessment and with due regard to the audit result of the business operations of PJSC RusHydro, held in 2015 and 2016.
- Within the framework of coordination and methodological support for the implementation of the internal control system management process in PJSC RusHydro:
  - administrators of the internal control and risk management system were appointed for key business processes of PJSC RusHydro,
  - matrices of control procedures for key business processes of PJSC RusHydro are formed,
  - Corporate training on the topic "Construction and management of the internal control system in PJSC RusHydro" was organized.

*For more information on improving the risk management system, see the website (<http://www.eng.rushydro.ru/Sustainability/risk-management/risk-management-policy/improvement-of-the-risk-management-system-in-2016/>).*



**2.2.2. RusHydro Group risk register**

**Risks caused by activity of the Company**

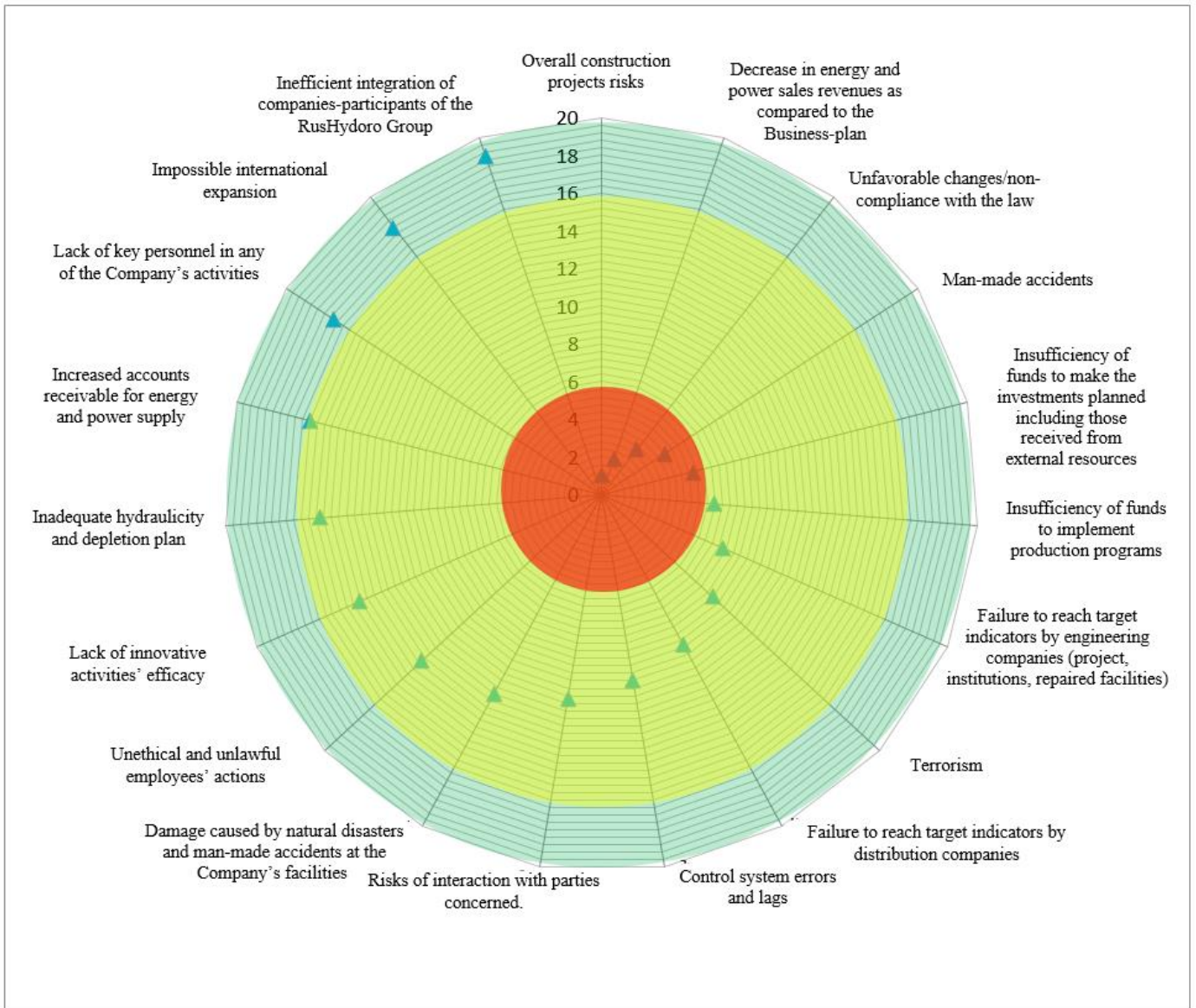
The current register of strategic risks associated with the Company's operations was formed on the basis of the register of the previous period and analysis of external information and approved by the Company's Board in November 2016.

*For more details on the formation of the risk register go to ([http://www.rushydro.ru/sustainable\\_development/riski/reestr-riskov/](http://www.rushydro.ru/sustainable_development/riski/reestr-riskov/))*



The strategic risk register, taking into account their ranking according to the likelihood of implementation and impact on the Company's and Group's business, is presented at the Risk Radar. The Radar reflects the Company's risk profile in 2016-2017. The risk ranking presented in the Radar reflects the priorities of the management to ensure the Company's readiness for possible negative scenarios for the development of the overall risk environment.

**PJSC RusHydro Risk Radar for 2016-2017**



**PJSC RusHydro strategic risks register**

Risk name	Risk factors	Status
<b>Capital construction project risks</b>	<p align="center"><b>Critical risks</b></p> <p>The risk is related to a wide range of investment programs for the next few years, and the complex management and financing structure of a range of products.</p> <p>Risk factors:</p> <p>At the initiation and design stage:</p> <ul style="list-style-type: none"> <li>● great uncertainty in the projects' feasibility studies,</li> <li>● non-compliance of the quality of design documents with the requirements set,</li> <li>● considerable dependence of the projects' economic parameters on the external factors (the availability of grid infrastructure and markets by the date of commissioning of the facility constructed).</li> </ul> <p>At the implementation stage:</p> <ul style="list-style-type: none"> <li>● problems with the preparation of flood zones,</li> <li>● increase of the cost of equipment and materials during the construction,</li> <li>● supply chain interruptions due to various reasons.</li> </ul> <p>Other:</p> <ul style="list-style-type: none"> <li>● interaction with shareholders of JSC RusHydro.</li> </ul>	<p>The arrangement of data on the designed projects:</p> <ul style="list-style-type: none"> <li>● development of the corporate project management system aimed at arranging data on the existing and designed projects.</li> </ul> <p>The development of the internal expert review of design and detailed design documents:</p> <ul style="list-style-type: none"> <li>● improvement of the efficiency of design institutes, optimization of purchasing activities intended to reinforce the role of the Company's own design institutes in performing the internal assessment of design and tender documents;</li> <li>● regulation of the internal expert assessment of design documents.</li> </ul> <p>Control over the quality of work, schedule and cost:</p> <ul style="list-style-type: none"> <li>● maintenance of the list of mala fide designers, and selection of subdesigners;</li> <li>● refinement of insurance and purchasing systems in regard of construction and mounting activities;</li> <li>● development of regulatory documents in regard of performance of individual types of work, the implementation of an authorization system permitting the employees to perform such types of work, and enabling the suspension of individual employees from the performance of work in case of any material violations;</li> <li>● development of the supplied equipment quality control (including equipment manufacture and shipment/delivery);</li> <li>● development of the schedule and cost monitoring and control system for the new construction projects based on the SAP capital construction management information system.</li> </ul>
<b>The risk of the reduction of electric power and capacity sales income as compared to the business plan</b>	<p>The risk is critical due to overregulation of the electricity and capacity market, highly volatile electricity prices on WECM, variability of fuel prices, taking into account risks for the generating facilities of the RusHydro Group located in the Far East, decreasing payment capacity of contractors resulting from the effects of financial crisis, unfavorable conditions (dry years), difficulties in forecasting the payload of the equipment.</p>	<ul style="list-style-type: none"> <li>● Preparation of proposals on changes to be introduced in legal documents regulating power industry;</li> <li>● periodic review of the marketing policy of RusHydro;</li> <li>● implementation of a commercial dispatch system.</li> </ul>
<b>The risk of negative legal changes/violations</b>	<p>The critical risk of unfavorable changes/ violations of law is one of the most significant for the power industry not only in Russia, but also worldwide. The safety, insurance, environmental and other regulatory requirements are</p>	<ul style="list-style-type: none"> <li>● Continuous monitoring of initiated and reviewed amendments to the legislation which may affect the activities of the Company;</li> <li>● monitoring and review of the existing standards and normative documents in</li> </ul>

	<p>getting more stringent. Possible claims of tax authorities, due to the uncertainty of tax legislation.</p>	<p>the sphere of technical regulation;</p> <ul style="list-style-type: none"> <li>● representation of the Company interests, its representatives, participation in major events and round table discussions concerning the above mentioned amendments, such events and discussions organized by the bodies of legislative, executive and judicial powers, by nongovernmental organizations, industry associations, by legal unions and associations;</li> <li>● performance of periodic environmental audits and adhering to the resulting recommendations;</li> <li>● participation in the activities of the work groups of the Russian Ministry of Energy on issues of technical regulation (concerning Technical Procedures) and in the work of the Technical Committee No 330 of the Russian Technical Regulation Authority (concerning national standards).</li> </ul>
<p><b>The risk of man-made accidents</b></p>	<p>The risk is mitigated within the red zone due to the implementation of the comprehensive modernization programme and the respective equipment reliability and safety growth. However, taking into consideration the potential consequences of risk occurrence, which may threaten human life and health and lead to the disruption of production and further reduction of the Company's revenue, the risk remains in the focus of attention of the managers of the Group. The negative effect on the risk probability of severance of managerial ties is possible in case of Company privatisation and/or restructuring of the management system by cash-generating units and projects under construction. Here the risk factors result from design faults manifesting at the operation stage, equipment deterioration, violation of operating conditions, untimely repairs, re-equipment and reconstruction, low-quality repair, low-quality of construction and installation works connected with re-equipment and reconstruction, human factor and environmental factors. The above risk factors may lead to the breakdown of major equipment and deterioration of hydrotechnic structures. As estimated by the Company, the probability of the breakdown of equipment and structures remains within the industry-average level. All main production facilities of PJSC RusHydro are insured.</p>	<ul style="list-style-type: none"> <li>● Repair work in full and the implementation of the re-equipment and reconstruction programme;</li> <li>● development of the quality control system for supplied equipment including its manufacturing and shipment/delivery, construction, installation and commissioning, as well as increasing the scope of contractual liability of suppliers/contractors for the manufacture and supply of equipment and materials;</li> <li>● filing claims against mala fide suppliers/contractors;</li> <li>● observance of the recommendations given in the course of the inspection of facilities owned by PJSC RusHydro;</li> <li>● strengthening onsite control over suppliers/contractors in terms of eliminating injuries, fire incidents, misconduct and thefts;</li> <li>● development of regulatory technical documentation aimed at enhancing the quality of designing and construction management processes;</li> <li>● introduction of continuous up-to-date equipment troubleshooting procedures, advanced control technologies for business assets including appropriate information technologies;</li> <li>● refinement of the structure and amount of replacement parts;</li> <li>● development of equipment lifecycle management systems at operating hydroelectric power plants;</li> <li>● control over the officials' compliance with the regulations, instructions, etc. in the course of operations, service, etc.</li> </ul>
<p><b>The risk of fund shortage including the shortage of external funds for planned investments</b></p>	<p>Against ongoing stagflation and international sanctions the risk may be slightly mitigated due to the</p>	<ul style="list-style-type: none"> <li>● Maintenance of the availability of money and financial resources in sufficient amounts by ensuring adequate</li> </ul>

	<p>reconsideration of investment priorities. At that, given that international sanctions continue, the risk of the unavailability of borrowed funds on terms favourable for the Company is growing due to the existing covenants set forth in the Group's loan agreements. Most of the affecting risk factors are represented by the country and external factors of the Group.</p> <p>The risk of external fund shortage is critical for the Company. It is closely bound with the implementation of capital construction projects. The full or partial reduction of financing sources within the framework of the investment programme may cause the late completion of ongoing projects or the Company's being forced to suspend construction or even suspend the construction of a number of facilities. Taking into account high cost of preservation of facilities under construction, which in some cases is comparable with the cost of proceeding with the construction, this fact will affect the economic efficiency of the Company's investment projects, as well as its financial and performance results.</p>	<p>loan facilities;</p> <ul style="list-style-type: none"> <li>● implementation of a balanced model of the working capital financing by using short-term and long-term sources;</li> <li>● control over the observance of credit agreements to prevent any violation of financial covenants of the Company;</li> <li>● placement of temporarily available funds in short-term financial instruments (bank deposits);</li> <li>● execution of contracting agreements in accordance with standard financial provisions;</li> <li>● interest and currency risk management with a view to the credit policy of RusHydro;</li> <li>● preparation of the flood zones of power plants under construction using the funds of the federal budget and of the budgets of the subjects of the Russian Federation;</li> <li>● in order to reduce the debt burden of RusHydro Holding, an additional issue of shares was made and an agreement was concluded on the purchase of 55 billion shares of the Company by PJSC "VTB Bank".</li> </ul>
<b>Significant risks</b>		
<p><b>The risk of the shortage of resources for the implementation of working programs</b></p>	<p>This risk correlates with the risk of a shortage of funds for investment. There are possible disruptions of competitions, equipment supplies, rendering of services by foreign counterpartents, reviews of bank guarantees issued by foreign banks.</p>	<ul style="list-style-type: none"> <li>● Prompt performance of claims work in response to low quality of repairs, inadequate quality of equipment, violation of delivery time;</li> <li>● using the recommendations of the Analytical Center when making production programs;</li> <li>● monitoring of financial information about the suppliers and contractors to prevent the risk of the counterparty's bankruptcy;</li> <li>● refinement of the process of contract negotiation, amending local regulations of the Company on contractual activity;</li> <li>● monitoring of technical re-equipment and reconstruction projects implementation in accordance with the standards of the organization.</li> </ul>
<p><b>The risk of failure to achieve target values by engineering companies</b></p>	<p>In the crisis, the key development opportunity is quality growth and cost reduction at all stages of the life cycle of the Group's assets, largely due to reduced risks of engineering activities. At the same time, it is possible to restrict access of engineering companies to credit facilities in the event of long-term international sanctions and difficulties in obtaining funds in freely convertible currency. The company considers this risk to be significant because of the significant importance of the engineering business within the life cycle of production</p>	<ul style="list-style-type: none"> <li>● Development of a unified design complex of PJSC RusHydro by restructuring the engineering subsidiaries and affiliates;</li> <li>● implementation of the development programs for engineering subsidiaries;</li> <li>● introduction of international experience sharing programs to repair and engineering subsidiaries and affiliates;</li> <li>● personnel development and scientific personnel training programs;</li> <li>● development of standard bills of work for repair of equipment and hydrotechnic structures;</li> <li>● creation and operation of the database</li> </ul>



	assets.	<ul style="list-style-type: none"> <li>of advanced innovations;</li> <li>minimization of the risks of the inefficient management of non-core operations by their consolidation at specialised maintenance subsidiaries.</li> </ul>
<b>Terrorism risk</b>	<p>This risk is caused by general political and social tensions, the activity of armed groups in the North Caucasus and their attempts to expand their activities to other regions of the Russian Federation, the high probability of local and regional armed conflicts in areas bordering the Russian Federation, the growing threat of international terrorism and political instability in a number of developing countries caused by the economic crisis, as well as the activity of extremist organisations, and growing commercial terrorism.</p> <p>Lack of coordination with international antiterrorist services in the event of tougher international sanctions. The upcoming events (World Cup in 2018, etc.), a large proportion of foreign-made ASIS.</p> <p>Another risk factor is the growth of cyberterrorism threats (according to the Kaspersky Lab's research, Russia belongs to the leaders in the rating of susceptibility to cyber threats).</p>	<ul style="list-style-type: none"> <li>Provision of armed security of facilities by forces of the private guard of Rosgvardia, FSUE "Okhrana" of Rosgvardia and FSUE "Departmental security" of the Ministry of Energy of the Russian Federation;</li> <li>development and maintenance of up-to-date plans for interaction with law enforcement agencies to protect the Company's facilities when committed or threatened to commit a terrorism act;</li> <li>maintenance of security pass regime for the Company's facilities;</li> <li>application of measures to identify, prevent and suppress acts of unlawful interference in the activities of the Company's facilities jointly with law enforcement agencies;</li> <li>assessments of the most likely threats and develop plans for mitigation, together with the territorial bodies of EMERCOM of Russia in the constituent entities of the Russian Federation at the location of the Company's facilities;</li> <li>equipment of the facilities of the Company with engineering and technical means of protection;</li> <li>organization and control over the access to information on the composition and condition of engineering and technical means of protection;</li> <li>property insurance of the Company for the risk of "Terrorism and Diversion".</li> <li>increased number of equipment certified by FSTEC of Russia, and equipment of domestic production.</li> <li>audits of information and technical security;</li> <li>organization and control over the mode of access to software and hardware of control systems and information systems.</li> </ul>
<b>The risk of failure to achieve target values by retail companies</b>	<p>The risk declines, still remaining significant for the Company. The risk may depend on slumping demand for electric power and capacity due to decline in production, intense competition with independent power supply companies and the development of energy-saving technologies, as well as consumers' financial insolvency caused by stagflation and the development of energy-saving technologies.</p> <p>The risk factors include a high level of competition, a threat of losing the last resort supplier status in retail regions and the possibility for construction of alternative electric supply facilities by</p>	<ul style="list-style-type: none"> <li>Monitoring of the Company's compliance as a guaranteeing supplier with financial stability criteria in accordance with retail market rules;</li> <li>active cooperation with consumers to establish a mutually beneficial relationship, including through JSC ESK RusHydro. A program to retain customers has been approved;</li> <li>introduction of a corporate risk management system for PJSC RusHydro in its subsidiary sales companies;</li> </ul>

	large consumers.	
<b>The risk of delays and errors in management system improvement</b>	<ul style="list-style-type: none"> <li>● Changing structure of the Holding Company;</li> <li>● conflict of interests between shareholders and the Company's management, conflicts of interest between employees;</li> <li>● delayed approvals by the stakeholders of the Company;</li> <li>● imperfection of the Company's business processes;</li> <li>● slow rate of making approvals and management decision-making;</li> <li>● rejection of documents on formal grounds/artificial delays in business processes.</li> </ul>	<ul style="list-style-type: none"> <li>● Improved activity regulation and the business process management system;</li> <li>● refinement of the procurement schedule;</li> <li>● improved cooperation with stakeholders.</li> </ul> <p>The internal control department of PJSC RusHydro analyses key business processes in order to improve the Company's control system and enhance its process efficiency. Civil responsibility of the Company's officers to any third parties is insured. PJSC RusHydro introduces corporate governance standards in reacquired or established subsidiaries and affiliates, as well as the systems of corporate project management, staff grading (grading means the establishment of a job hierarchy based on the job evaluation, strategy, and corporate culture of the Company), manager certification and implementation of individual personnel development plans.</p>
<b>The risk of cooperation with stakeholders</b>	<ul style="list-style-type: none"> <li>● Incorrect interpretation of information by representatives of the target audience, including environmental (ecological) organizations, which can damage the Company's reputation and/or cause its shares to fall;</li> <li>● dissemination of false and black information about the Company in the media and social networks, including projects;</li> <li>● delayed response to the information in the media.</li> </ul>	<ul style="list-style-type: none"> <li>● Observance of the Regulation on Information Activity, the Regulation on Participation in Public Events, Regulations on Information Disclosure.</li> <li>● preparation of explanatory press releases and materials for mass media;</li> <li>● establishment of cooperation with stakeholders as per the key activities of the Company including the organisation of joint public events;</li> <li>● preparation of press releases, representing the official position of the Company concerning key operational matters on a regular basis;</li> <li>● press tours and special events for mass media.</li> </ul>
<b>The risk of damage caused by natural disasters and man-made accidents outside the Company's facilities</b>	<p>Risk aggravation is connected with the uncertainty of consequences and difficulties in forecasting such risks. This is one of the most significant risks for fuel and energy companies, according to insurance companies. Protection procedures are being improved, but there may be the risk of force-majeure events including incidents similar to the flood of 2013. There is the probability of systemic accidents and damages caused by natural disasters.</p>	<ul style="list-style-type: none"> <li>● Modernization in accordance with modern requirements of the centralized system emergency control system;</li> <li>● research and development of methods for remote monitoring of the state of facilities and operating modes of HPPs;</li> <li>● compliance with the RF legislation in the field of industrial safety and the use of a production control system operating on its basis;</li> <li>● property insurance of the Company.</li> </ul>
<b>The risk of the misconduct or legislation violation of employees</b>	<p>This is the growing risk; such incidents are possible due to the conflict of interests in case of restructuring (including privatisation), though the efficiency of risk management is constantly improving. The growing probability of such risks is detected all over the world, according to the findings of international consulting companies.</p>	<ul style="list-style-type: none"> <li>● Introduction of the integrated automated control system for the purposes of the distribution of information containing commercial secret;</li> <li>● monitoring of the observance of the Regulation on Insider Information by the employees.</li> <li>● restriction of the right of access to the insider information for the Company's employees;</li> </ul>

		<ul style="list-style-type: none"> <li>organization of mandatory notification by insiders about transactions they enter into with the Company's securities.</li> </ul>
<b>The risk of the low efficiency of innovation activity</b>	<p>The risk growth against stagflation and the toughening of international sanctions is caused by the adoption of new requirements for the elaboration and implementation of innovation development programs by regulatory authorities, the growing gap between the currently used technologies and the best international practices, as well as the lack of financing for design and survey work due to the risk of fund shortage.</p> <p>However, there arise new opportunities for innovation development, which may increase competitiveness in case of decline in the exchange rate of the Russian national currency.</p>	<ul style="list-style-type: none"> <li>Alteration/elaboration of work methods and infrastructure in order to ensure the implementation of the innovation programme;</li> <li>update of the innovative development programme;</li> <li>regular benchmarking of currently used technologies.</li> </ul>
<b>The risk of incorrect water-content and output forecasting</b>	<p>The risk is mitigated, since it is largely the factor of the risks described above, and its occurrence does not directly lead to damages, but may contribute to the possibility of the risks listed above. This risk includes the failure to accurately forecast power output in the medium- and long-term perspectives.</p>	<ul style="list-style-type: none"> <li>Refinement of the water resource usage of RusHydro's Energy Saving Program;</li> <li>development of an industry hydro-meteorological observation system and protecting the interests of the HPPs in inter-agency operational groups under the Federal Agency for Water Resources (Rosvodresurs);</li> <li>integration of the medium-term water-content forecasting model executed by the Dispatching Centre Information System and the Commercial Dispatching Information System.</li> </ul>
<b>The risk of growth of accounts receivable for the supply of power and capacity</b>	<ul style="list-style-type: none"> <li>Decreased solvency of counterparties in unfavorable macroeconomic environment;</li> <li>mala fide contractors;</li> <li>lack of effective debt collection mechanisms.</li> </ul>	<p>Arrangements for management of accounts receivable of the Company and marketing subsidiaries, including initiation of claims and lawsuits, settlements outside the authorized credit institution on the Wholesale Electricity and Capacity Market (WECM) in accordance with the terms of Contract of connection to the WECM trade system.</p>

### 2.2.3. External Environment and Company's risks

#### Country risks

The Russian economy is not protected against market decline and global economic recessions. The decline in the volume of foreign investment in the Russian economy, as well as the vulnerability of the Russian economy to changes in world energy prices, can lead to a significant restriction of the Company's access to capital and adversely affect the purchasing power of consumers of products and services.

Moreover, under the economy stagnation, there is a risk of reduced demand for electricity, which can result in decreased sales and corporate revenues, as well as the risk of growth in accounts receivable due to non-payment by electricity consumers.

Vulnerability to a country risk with some allowances can be indirectly measured using the credit rating (not taking into account the political risks for the business)..According to the international rating agency Standard & Poor's, the long-term credit rating of the Russian Federation on foreign currency obligations remains at the level of "BB +". At the same time, the outlook for the long-term credit rating of the Russian Federation was revised by S&P on September 16, 2016 from negative to stable. According to analysts, external risks for Russia declined, the Russian economy is being adapted to low world prices for raw materials. The downgrade of ratings may occur if geopolitical events lead to stricter sanctions of foreign states against the Russian Federation.

#### Financial risks

The impact of financial risks (risk of growth rates on bank loans, currency risk, inflation risk, liquidity risk) on the Company's activities is estimated as insignificant.

Financial metrics, liquidity, financing sources and RusHydro's performance are not very responsive to changes in the exchange rate and interest rates, because the Company sells energy on the domestic market, as well as settles accounts with resource suppliers, and accrues and receives payments from consumers mainly in the national currency - Russian ruble.

Due to the aggravation of the international situation, economic sanctions and other force majeure circumstances, the risks of access to the funds of foreign counterparts is increased well as the debt cost of PJSC RusHydro and the losses due to the growth of the exchange rate of foreign currencies and interest rates. Control over these risks consists in reducing the limits for counterparty banks with a lowered rating, stress testing of possible losses due to the currency appreciation and interest rates in the framework of the methodology of currency and interest risks managing and legal support of the contractual base, approved by JSC RusHydro.

The credit portfolio of PJSC RusHydro mainly consists of the loans with fixed interest rate. Some of the loans of PJSC RusHydro have been taken at variable interest rates of MosPrime and Euribor. In order to minimize interest risk, PJSC RusHydro concluded a swap contract to fix a floating interest rate for the loan of PJSC Sberbank (~ 836 million rubles as of December 31, 2016).

The rate of inflation directly depends on the political and economic situation in the country.

The inflation rate is associated with the overall dynamics of interest rates.

The negative impact of inflation on the financial and economic activities of the Company manifests in the growth of the following risks:

- the risk of damages connected with the reduction of the actual value of receivables with a significant deferral of or delay in payment;
- the risk of increasing the value of the Company's liabilities;
- the risk of increasing the unit cost of goods, products, works, services due to the increase of energy prices, transportation costs, and salaries;
- the risk of the decrease of the actual value of funds raised to finance the investment program;

The significant impact of inflation on the financial performance of PJSC RusHydro is worth mentioning. The increase in inflation may lead to an increase in the costs of PJSC RusHydro and, as a consequence, to a fall in the profit and profitability of the activities of PJSC RusHydro. In addition, the growth of inflation is associated with an increase in the cost of borrowed funds for PJSC RusHydro, which is characterized by a risk of shortage of current assets of the company.

According to Rosstat, annual inflation in the Russian Federation (CPI) in 2016 reached its minimum since 1991 - 5.4 % compared to 12.9 % in 2015. In accordance with the forecast of social and economic development of the Russian Federation for 2017 and for the planned period 2018-2019, published by the Ministry of Economic Development of the Russian Federation, the annual inflation rate in 2017 is estimated to be no higher than 4.5 % for all variants of the forecast.

In case of inflation growth, PJSC RusHydro plans to increase the turnover of current assets due to changes in contractual relations with consumers.

### **Industry risks**

The Company is specifically exposed to industry risks due to possible changes in the electric power industry.

On the one hand, one should note the decrease in the uncertainty of the work of PJSC RusHydro in the wholesale capacity market associated with the transition in 2015 to a long-term competitive power take-off model, which stipulated in the Wholesale Electricity and Capacity Market Rules (approved by RF Government Decree No. 1172 of 27.12.2010). Based on the results of competitive capacity sampling conducted before 2017, prices for capacity for the period up to 2020 (inclusive) were determined. An increase in the price forecast for future periods reduces the level of industry risk.

At the same time, within the framework of the ongoing reform of the electric power industry, there is constant changes of norms of regulating the Russian electricity market, including norms for market liberalization, setting price rates for electricity, functioning of the capacity market and the system of relations between electricity producers and consumers. Since the official launch of the reform (July 2001), the time frame for implementing the stages of the reform and the scope of such stages has changed several times.

Within the framework of industry risks management the necessary measures have been taken to create a favorable for PJSC RusHydro Legal framework for the functioning of the electricity and capacity market. To fulfill this task, PJSC RusHydro participates as an expert in the development of legal acts in the field of electric power industry at the sites of the Ministry of Energy of the Russian Federation, the Association NP Market Council and the Federal Antimonopoly Service.

In addition to the existing risks inherent in the Russian electricity and capacity market, a large number of operational, commercial, technical, managerial, regulatory and other risks can arise which are currently difficult or impossible to foresee and which are beyond the control of JSC RusHydro. These changes and the uncertainty associated with them can have a significant adverse impact on the economic activities of PJSC RusHydro, its revenues and the results of its operations.

The energy retail companies of the RusHydro Group are at risk of increasing competition when working in the retail market due to the intensification of the work of energy retail companies seeking to attract large consumers to their services. To manage this risk, energy retail companies of the RusHydro Group are directed to work with the client base. The measures to neutralize the risk associated with the loss of consumers include:

- building of individual relations with large consumers;
- promotion of the energy retail companies of the RusHydro Group in the main consumer markets;
- establishment of new relationships between the energy retail companies of the RusHydro Group and the subscribers: improving the quality of service, taking into account the needs and expectations of consumers, strict observance of obligations;
- keeping the status energy retail companies of the RusHydro Group as a guaranteeing supplier to concentrate the customer base and reduce unit costs per unit of energy.

#### **2.2.4. Information about Possible Circumstances that Objectively Hamper the Company's Activity**

Risks associated with the region's geographical features include the risk of losses (for example, the risk related to the decommissioning of fixed assets) due to seismic activity, avalanches and mudslides, possible landslides and rainfall related floods and other adverse weather conditions (hurricanes, heavy snowfalls and frosts).

Most the regions the Company operates in have a developed transportation infrastructure and are not exposed to the risks associated with the disruption of the transportation link. However, some generating assets are located in remote areas with harsh climates, including in the Krasnoyarsk Region and in the areas of the Far Eastern Federal District. The Company is constantly working to upgrade the technologies of access and work in harsh climatic conditions in these areas. However, one cannot guarantee that no additional costs will be required to overcome technical difficulties associated with the climate and the accessibility of these locations, which may negatively impact overall revenues, financial conditions, and the Company's performance and prospects. Thus these risks are estimated as insignificant within the foreseeable future

#### **Terrorism acts**

With a view to the tense political and social situation, the revitalisation of armed groups in the North Caucasus and attempts to move their activities on other Russian Federation regions, the high probability of local and regional armed conflicts in the Russia bordering territories, the increasing threat of international terrorism and political instability in a number of developing countries caused by the economic crisis, the activity of extremist organisations, and developing commercial terrorism, PJSC RusHydro is concerned about possible risks associated with terrorist attacks, in particular at its North-Caucasian facilities. Security is maintained constantly to reduce such risks. The comprehensive program aimed at ensuring safety and protection of the PJSC RusHydro facilities from terrorism is being implemented. The regular inspections of the antiterrorist security of the Company's facilities and personnel training, in particular by anti-terrorist drills and trainings, are being carried out.

The plan for strengthening the security of the Company's facilities is being implemented. The plan amends the existing security program applied to the power plants including sites under construction. The factors affecting the security of facilities are being monitored. Information security audit is being conducted.

The armed security of facilities is being provided by units of private security of Rosgvardia, FSUE "Okhrana" of Rosgvardia and FSTEC Departmental Security Service of the Russian Federation Energy

Ministry. Plans for cooperation with law enforcement authorities are being developed to ensure the protection of facilities in case of a terrorist attack or the threat thereof. Access and internal security control has been introduced within the Company's facilities. Unlawful interference acts in the Company's facilities activities prevention work is being carried out in cooperation with law enforcement agencies. The most relevant threats are being evaluated and consequence management plans are being elaborated in cooperation with the local EMERCOM of the Russian Federation regions (at generating facilities). The main equipment of the company is insured, in particular against terror attacks.

At the same time, international experts do not currently attribute the risk of terrorist attacks to the key risks of the Russian business community - according to the global risks report of the annual Global Economic Forum in Davos (Global risks 2017), the risk of terrorist attacks was ranked 17th in the ranking on the significance of risks to the Business in the Russian Federation.

**Earthquake-prone areas**

Most of the Company's facilities are located in seismically quiet regions. However, such facilities as the Pauhetskaya GeoPP and the Verkhne-Mutnovskaya GeoPP are located in seismic zones, with possible earthquake intensity up to 9 points on the Richter scale. The Company is currently working to create the seismological network of the Dagestan Branch. In 2014, B.E. Vedeneev VNIIG performed seismic monitoring of the Bureyskaya HPP facilities. The Company has developed an emergency plan in case of earthquakes and is constantly monitoring the situation. There are seismic monitoring stations at the Company's facilities. Issues relating to the transportation link are refined in good time with a focus on the above-mentioned risk. Cargo and people transportation schemes are optimized. All corporate facilities comply with earthquake resistance standards.

**Seasonal flood areas**

The risk of seasonal floods plays an important role in corporate activities and is regularly included in the list of critical risks. To manage this risk, the Company has implemented a water regime management, i.e.: forecasting and monitoring hydrological regimes within the facilities, reservoir regulation, spillway construction and operation and other measures.

The Company has also established flood commissions in order to prepare for the spring-summer flood discharge at the Company's branches. They implement numerous measures aimed at ensuring a trouble-free flood season. In particular, they were making a survey of ice conditions in the area of the dam location, inspecting permanent supports to make sure they are ready for work, to conduct readiness checks of back-up power supply units, releasing the gates of the service spillway from icing and ice fringe so that they could be maneuvered, and to perform inspections of hydropower structures, the drainage system of the dam, the power house and the installation site, visual inspection of the dam body abutment to the shores from the upper pool and lower pool.

Company's facilities operate in accordance with the instructions of the interdepartmental working group of the Federal Water Resources Agency. The control of production assets was strengthened. No accidents at the Company's facilities have been recorded in 2016.

**2.2.5. Insurance Protection**

*For more details on the insurance protection go to ([http://www.rushydro.ru/sustainable\\_development/riski/strakhovaya-zashchita/](http://www.rushydro.ru/sustainable_development/riski/strakhovaya-zashchita/))* 

RusHydro's insurance protection is built based on the normalization principles of the insurance protection system, the optimization of insurance coverage, the unity of approaches to insurance organization, and insurance continuity.



### **Insurance company selection**

The Company annually seeks for an insurer to enter into an insurance on the basis of regulated procurement procedures. To ensure insurance coverage, PJSC RusHydro conducted an open one-stage tender without preliminary qualifying selection for the right to conclude insurance contracts in 2016. Requirements for insurance coverage are formed on the basis of an analysis of the current risk situation of the Company, analysis of the insurance market's options, social policy and legal requirements.

### **Types of insurance coverage**

In 2016, the insurance coverage of PJSC RusHydro and its subsidiaries was provided for the following types of insurance:

Property insurance
Insurance of construction and erection risks
Insurance of civil liability for causing damage due to deficiencies in work that affect the safety of capital construction facilities
Voluntary health insurance
Insurance against accidents and diseases
Obligatory insurance of a civil liability of the owner of a dangerous object for causing harm as a result of an accident at a hazardous facility
Insurance of civil liability of the organization for damage caused as a result of a terrorism act or diversion
Obligatory insurance of civil liability of owners of vehicles
Voluntary insurance of civil liability of owners of vehicles (DSAGO)
Motor Vehicle Insurance
Voluntary insurance of shipowner's civil liability
Insurance of means of water transport
Compulsory insurance of civil liability of the carrier for causing damage to life, health, property of passengers
Insurance of civil liability of members of management and officials of the Company before third parties and the Company
All-risk coverage

RusHydro imposes strict requirements with regard to insuring its assets (property insurance against all risks and insurance against construction and installation risks), and due to the limited resources of the Russian insurance market also puts forward additional demands and effects control over risk re-insurance. The Company is implementing a policy of openness to foreign insurance community representatives. Each year, the Company organizes insurance engineering surveys for its facilities, and holds road shows, negotiations and follows reinsurers' recommendations.

## **2.3 The financial performance<sup>14</sup>**

### **2016 events**

- Financial results for the year 2016 are due to an increase in the output of hydropower plants by 16.6 % (comparing with 2015) and a significant optimization of operating costs
- Revenue growth 8.2 % in 2016
- EBITDA for 2016 – 100,341 million rubles (+36.7 %)
- Operating expenses for 2016 grew significantly below inflation - by only 0.2 % as a result of the program to reduce transaction costs
- Net profit for 2016 – 39,751 million rubles (+46.4 %). Adjusted for non-monetary items net profit - 66,114 million rubles (+39.6 %)
- Weighted average earnings per share for 2016 - 0.1095 rubles (+26.6 %)

As a result of 2016, the RusHydro Group demonstrated high financial results. They reflected not only the record level of hydropower generation - almost 17 % higher than 2015, but also the consistent management efforts aimed at optimizing all managed operating costs of the Group and selling large assets that do not affect the Group's core business.

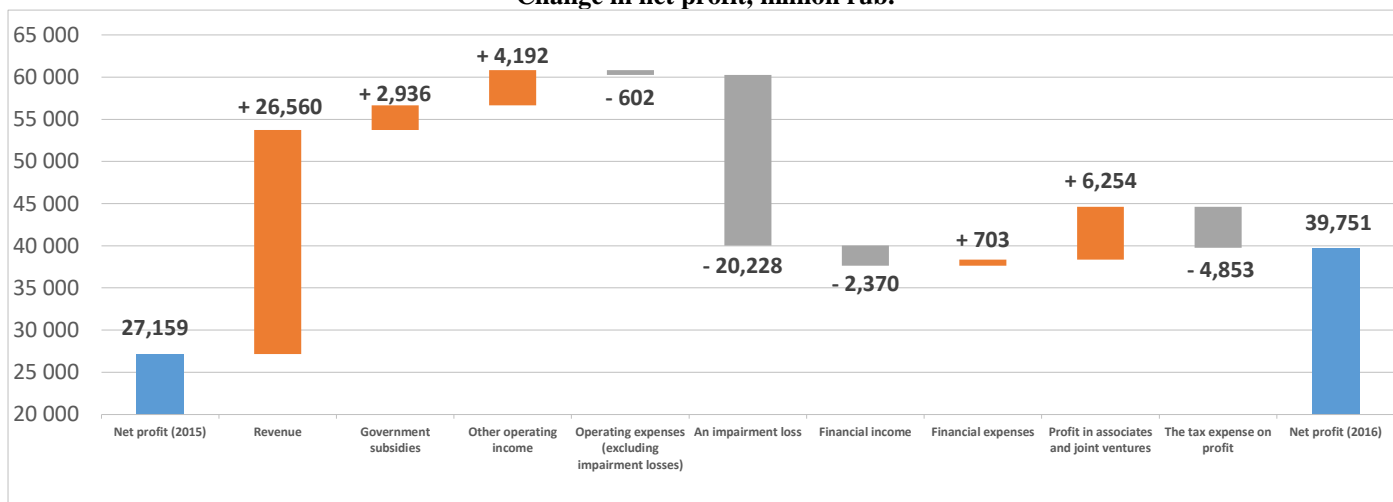
<sup>14</sup> This section of the report is prepared on the basis of the consolidated financial statements of the RusHydro Group for the year 2016 in accordance with International Financial Reporting Standards.

### 2.3.1 Profitability indicators

	2014	2015	2016	Change 2016/2015
EBITDA, million rub.	73,249	73,383	100,341	26,958
EBITDA margin*, %	21.4	19.8	24.9	5.1
Net profit (loss), million rub.	24,131	27,159	39,751	12,592
Net margin*, %	7.1	7.3	9.8	2.5
Net profit (loss) per one share, million rub.	0.0689	0.0865	0.1095	0.0230
Return on assets (ROA), %	2.7	2.9	4.0	1.1
Return on equity (ROE), % <sup>15</sup>	4.0	4.5	6.3	1.8

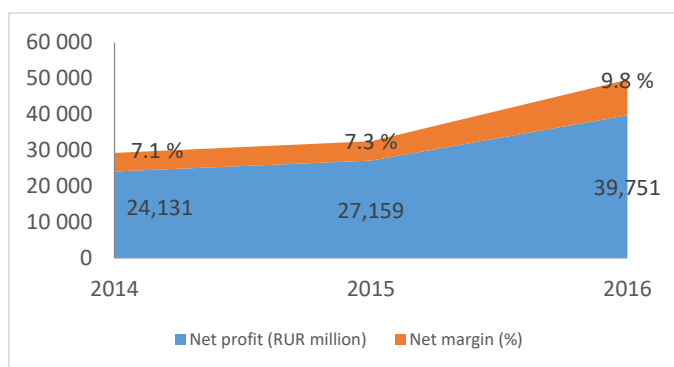
\* Calculation of indicators was made taking into account other income.

Change in net profit, million rub.

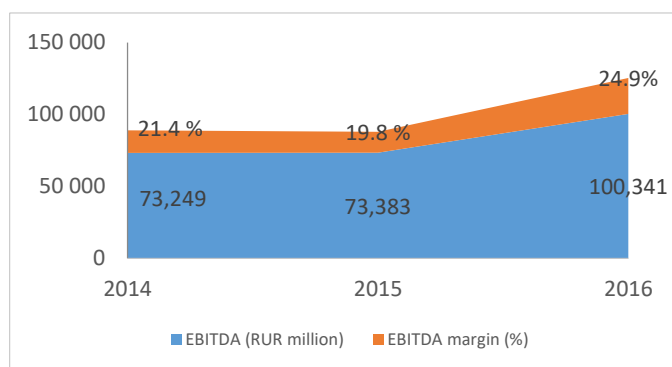


Factors, which influenced the Group's net profit increase in 2016 were finance income and state subsidies.

Net profit dynamics (million rub.) and net margin (%)



EBITDA dynamics (million rub.) and EBITDA\* margin (%)



The Group's net profit for the year 2016 increased by 46.4 % and amounted to 39,751 million rubles, compared with 27,159 million rubles in 2015. The Group's profitability margin increased to 9.8 %.

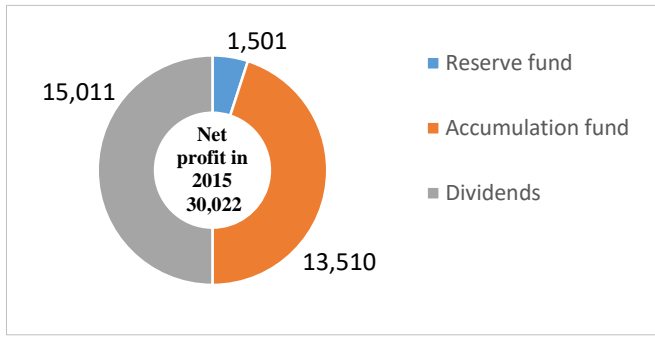
EBITDA in the reporting period increased by 36.7 % and amounted to 100,341 million rubles, compared with 73,383 million rubles in 2015. The Group's EBITDA margin also increased, amounting to 24.9 % as of the end of the year.

\* The indicator is calculated taking into account other operating income received by the RusHydro Group in 2015 (8.2 billion rubles) and 2016 (12.4 billion rubles) in the form of insurance compensation, income from the sale of assets and subsidiaries

<sup>15</sup> The indicator was calculated in accordance with the methodology for calculating and evaluating key indicators of PJSC RusHydro approved by the Board of Directors (Minutes of 25.12.2015 No. 229).

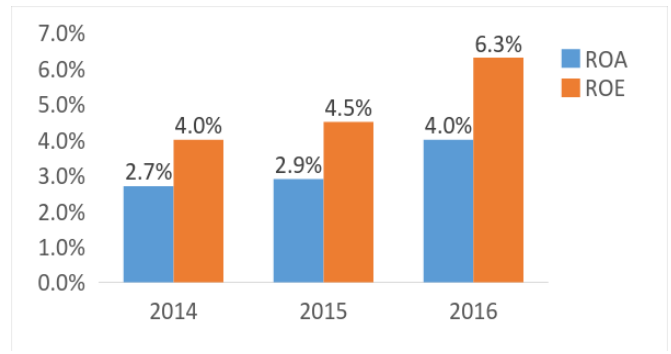


**Distribution of the Company's net profit\*, million rub.**



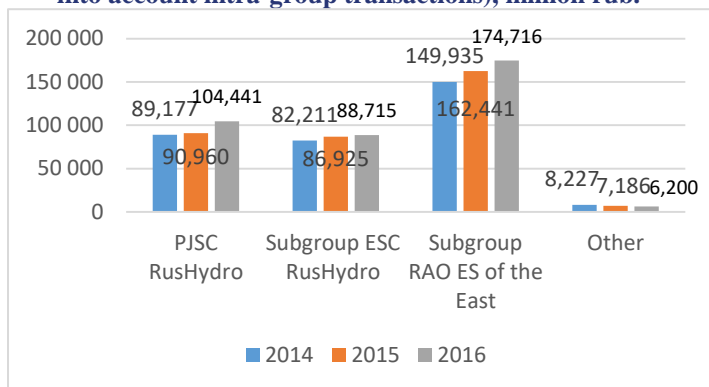
\* In 2016 the distribution of the Company's profit following the results of 2015 was approved at the Annual General Meeting of shareholders of 2016, June 27 (Minutes of 29.06.2015, No.15). The dividend amounted to 50 % of the financial result of PJSC RusHydro determined in the accounting statements according to Russian Accounting Standards and based on the Russian Government decree No.705-r, of 18.04.2016.

**Return on assets and return on equity, %**

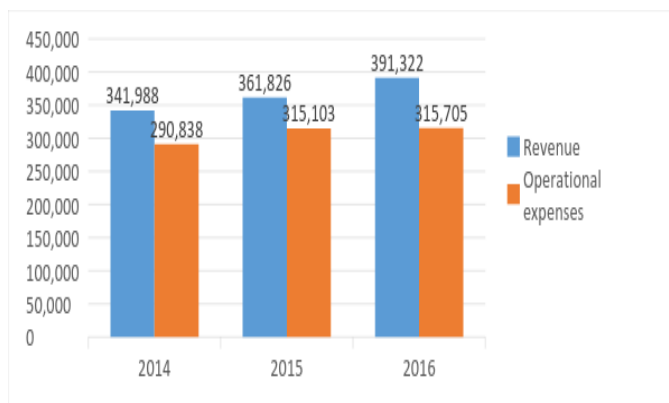


## 2.3.2 Revenue and expenses<sup>16</sup>

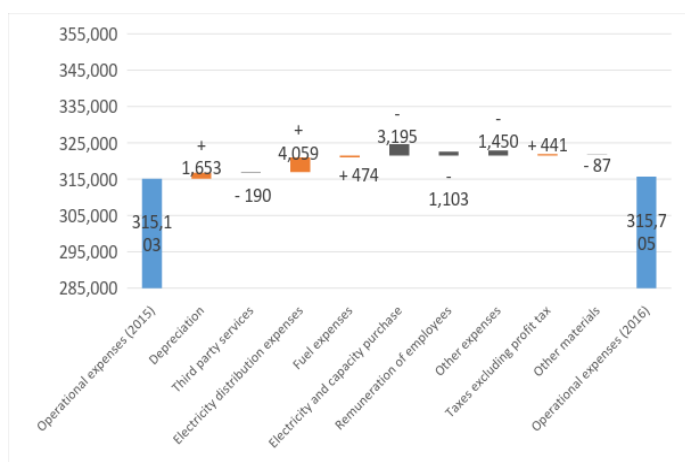
Revenue structure for group companies (without taking into account intra-group transactions), million rub.



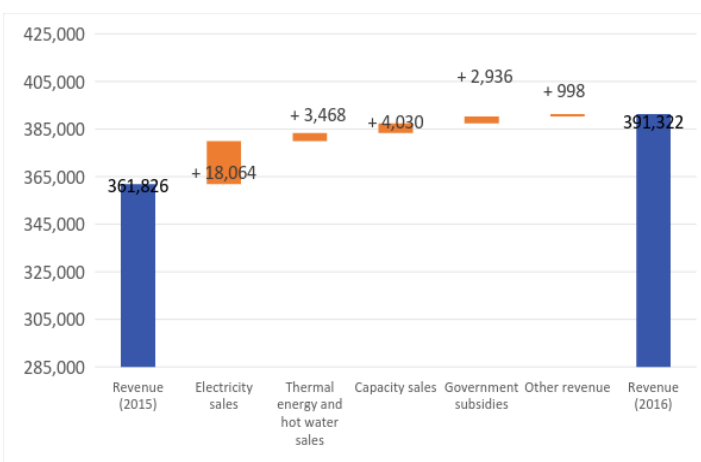
Revenue and Operational expense dynamics, million rub.



Change in operational expenses, million rub.



Change in revenue, million rub.



As for the reporting period the operating expenses of the Group increased by 0.2 % and amounted to 315,705 million rubles, compared to 315,103 million rubles in 2015.

The main factors of operating expenses change:

- reduction of employee compensation costs by 1.5 % due to the continued optimization of the number of personnel and incentive systems for employees and senior management;
- reduction of the cost of purchased electricity and capacity, associated mainly with the output of large consumers serviced by ESKB LLC, to the wholesale electricity market; Reduction of expenses for purchased electricity by PJSC "Yakutskenergo" in connection with the granting of the status of a guaranteeing supplier of JSC "Vilyuiskaya HPP-3" (PJSC "AK ALROSA"); A decrease in the cost of purchased electricity by PJSC RusHydro;
- decrease in other expenses due to a decrease in the loss on fixed assets disposal, a decrease in travel expenses, as well as in social costs;
- lower cost of third-party services, mainly due to lower costs for subcontractors, consulting, legal and information services, repairs and maintenance;
- increase in electricity distribution costs due to an increase in the prices for electricity transmission services, as well as increased volumes of productive power supply to consumers;
- growth in depreciation of fixed assets and intangible assets

The total revenue of the Group for 2016 increased by 8.2 % compared with 2015 from 361,826 million rubles to 391,322 million rubles.

The main factors of revenue change:

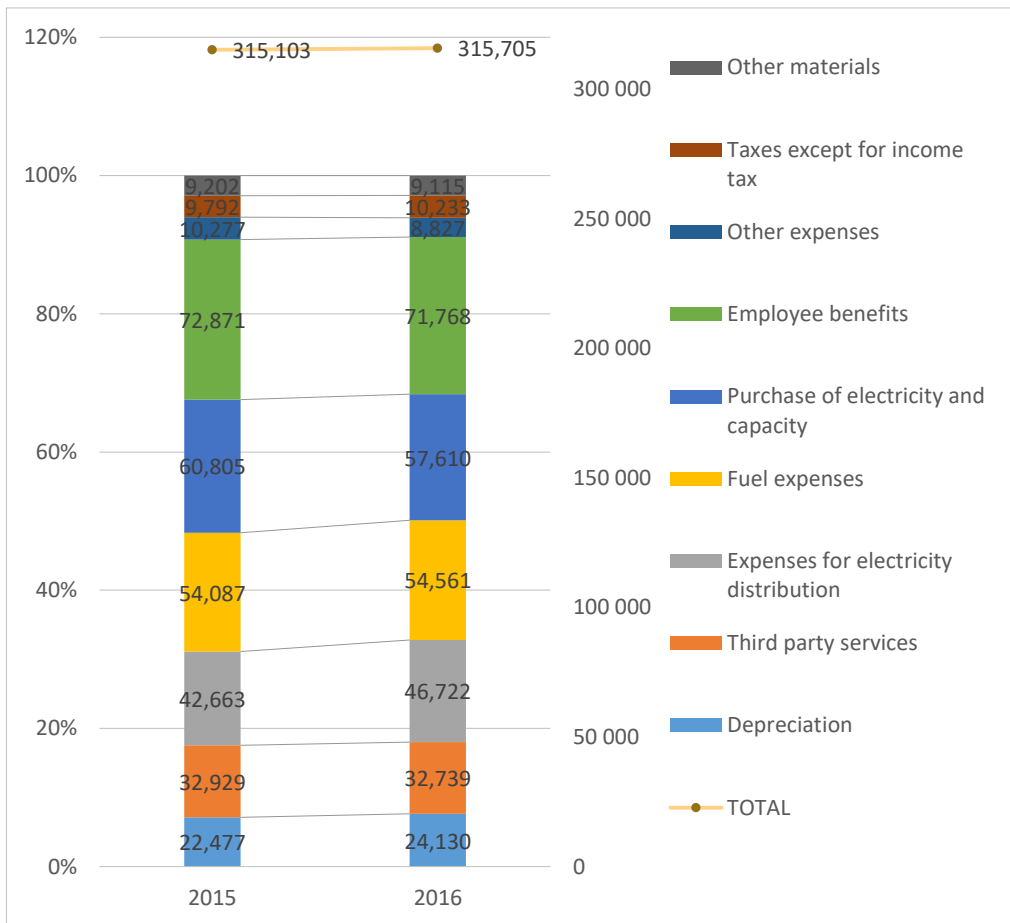
- significant increase in electricity generation by HPP of JSC RusHydro against the background of increased water inflow into a number of large reservoirs;
- increase in free electricity prices in the "one day ahead" market in the first price zone;
- indexation of regulated tariffs for electricity and capacity for HPPs of PJSC RusHydro;
- increase in the price for the sale of capacity at the CCA for HPPs of the second price zone due to the completion of the liberalization of the capacity market of HPP - with the increase in the share of HPP capacity sold at CCA prices from 80 to 100 % from 01.05.2016;
- increase in revenue from electricity sales in the "Subgroup" RAO ES EAST "segment due to the growth of the average tariff rate";
- an increase in government subsidies by 20.5 % to RUB 17,250 million due to compensation in the fourth quarter of 2016 of JSC DGC's expenses for the purchase of natural gas from the Sakhalin-1 consortium in the amount of 2,080 million rubles;
- increase in revenue from the sale of electricity through the segment "Subgroup" ESC RusHydro "due to the planned increase in prices for electricity, the growth of electricity

<sup>16</sup> In this subsection of the Report, total revenue is based on government grants, operating expenses are presented net of any impairment losses.

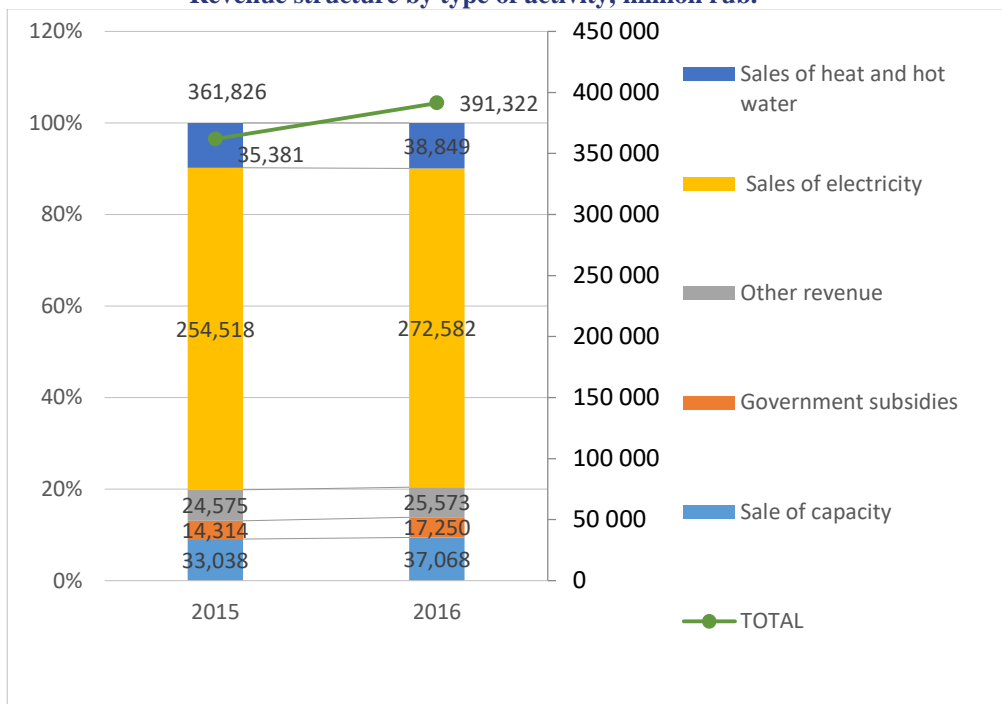
due to commissioning of new fixed assets in PJSC RusHydro, Blagoveshchenskaya TPP JSC and Sulaksky HydroCascade JSC.

- consumption in the operations regions and regions involving a search for new customers;
- increase in revenue from the sale of heat, due to the growth of the average tariff rate and increase in thermal power supply from collectors.

**Structure of operating expenses, million rub.**



**Revenue structure by type of activity, million rub.**

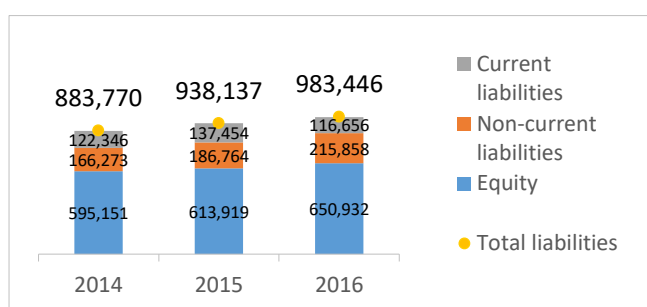


## 2.3.3 Assets, equity and liabilities

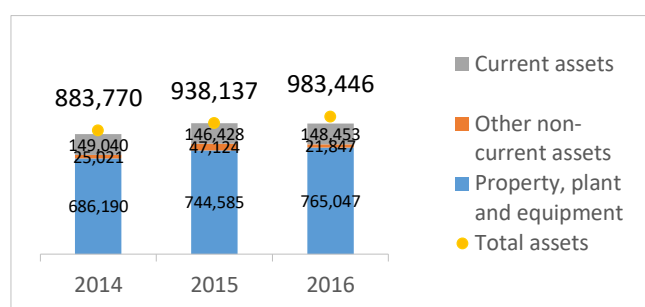
### Assets, equity and liabilities, million rub.

	2014	2015	2016	Change 2016/2015, %
Property, plant and equipment	686,190	744,585	765,047	2.75
Other fixed assets	48,540	47,124	69,946	48.4
Current assets	149,040	146,428	148,453	1.38
<i>Total assets</i>	<i>883,770</i>	<i>938,137</i>	<i>983,446</i>	<i>4.83</i>
Equity	595,151	613,919	650,932	6.03
Liabilities	288,619	324,218	332,514	2.56
<i>Total liabilities and equity</i>	<i>883,770</i>	<i>938,137</i>	<i>983,446</i>	<i>4.83</i>

#### Liabilities structure and dynamics, million rub.



#### Asset structure and dynamics, million rub.



The Group's liabilities as at 31.12.2016 increased by 8,296 million rubles to 332,514 million rubles, compared to the same indicator as of December 31, 2015. The increase in liabilities was due to the placement by PJSC RusHydro in April 2016 of interest-bearing non-convertible exchange-traded bonds of the BO-PO4 series with a nominal value of 15,000 million rubles, as well as by increasing the long-term borrowings of the Subgroup RAO ES EAST. At the same time, the liabilities decreased as a result of the buyout of bonds 01 and 02 by PJSC RusHydro with a nominal value of 14,750 million rubles, as well as due to the reduction of accounts payable to suppliers and contractors.

As of December 31, 2013, the Group's assets increased by 45,309 million rub to 983,446 million rub, compared to the same indicator as of December 31, 2015. The main factors of asset change are:

- increase in the Group's fixed assets due to the implementation of the investment program;
- increase in the value of cash equivalents while decreasing the value of deposits in current assets;
- increase in the value of financial assets available for sale due to the growth of quotations;
- decrease in the value of non-current assets due to the completion of the transaction for the sale of the dams of the Bratsk, Ust-Ilim and Irkutsk hydroelectric power plants.

### **Strategic deals of 2016**

#### ***Sale of dams of the HPP of the Angarsk cascade***

Pursuant to the decision of the Board of Directors of PJSC RusHydro (Minutes No. 242 of 10.10.2016), on 17.10.2016, a contract for the sale of dams of the HPP of the Angarsk cascade was concluded between PJSC RusHydro and LLC "Telmamskaya HPP" (100 % subsidiary of EuroSibEnergo JSC). The state registration of the transfer of ownership of dams to LLC "Telmamskaya HPP" was carried out on 15.11.2016. The selling price of the dams was 10,950,400,000 rubles, including VAT.

The transaction was effected by PJSC RusHydro in order to:

- get a significant source of cash,
- improve the balance and financial results of PJSC RusHydro in order to implement the priority tasks and fulfill the orders of the Government of the Russian Federation to increase the rate of dividend yield,
- maximize the RusHydro Group's business value from dam management in comparison with the lease of dams.

#### ***Refinancing of debt on loans and borrowings of companies of the RAO ES EAST Holding***

In order to fulfill the instructions of the President of the Russian Federation and the Government of the Russian Federation, a large-scale work was carried out to address the high debt burden of the RAO ES EAST Holding.

The Board of Directors of PJSC RusHydro (Minutes No. 244 of 23.11.2016 and No. 246 of December

27, 2016) decided to increase the company's authorized capital, sell part of treasury shares of PJSC RusHydro, approve a new target mechanism for refinancing debts on loans and borrowings of Holding companies of RAO ES EAST, approve the transaction of the non-deliverable forward for the shares of PJSC RusHydro, and determine the terms for transferring funds to the operating companies of the RAO ES EAST Holding from RusHydro.

This mechanism is implemented by selling additional shares (40 billion shares) of PJSC RusHydro and treasury shares of the Company, which are on the balance sheets of RusHydro's JSC Hidroinvest and EZOP (LLC) (15 billion rubles) to VTB Bank (PJSC) with a simultaneous conclusion of a non-deliverable forward contract for RusHydro shares with VTB Bank (PJSC).

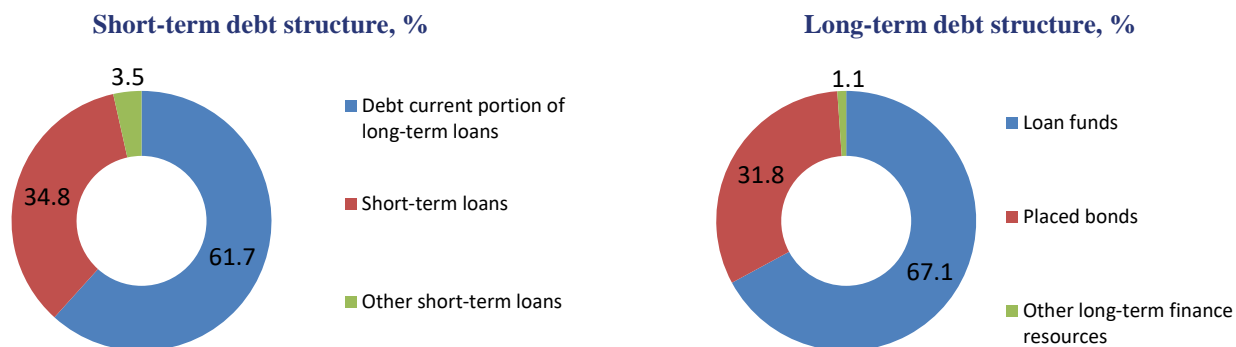
The total amount of funds for refinancing debts on loans and borrowings of companies of RAO ES EAST Holding Company received from the sale of shares of PJSC RusHydro amounted to 55 billion rubles.

The Bank of Russia carried out the state registration of the additional issue of shares of PJSC RusHydro on 07.12.2016.

On March 7, 2017 legally-binding documentation on the deal with VTB Bank (PJSC) was signed. The funds raised from the sale of PJSC RusHydro shares to Bank VTB (PJSC) amounting to 55 billion rubles were received and fully directed to pay off the debt burden of the operating companies of RAO ES EAST.

**Analysis of the structure and changes in debt. Credit Ratings**

The debt of the RusHydro Group for borrowed funds increased insignificantly for 2016: by 2,410 million rubles (1.2 %), while the share of short-term part of borrowed funds decreased to 20.9 % as of December 31, 2016 (and amounted to 41,757 million rubles) . The volume of net debt of the Group (the difference between the total amount of debt on short-term and long-term borrowed funds and the total amount of cash and equivalents) as of December 31, 2016 amounted to 132,449 million rubles (a decrease for 2016 amounted to 16,919 million rubles). Taking into account the significant growth in the Group's operating profit for 2016, the level of the debt burden of the RusHydro Group (including the amount of the guarantee of PJSC RusHydro for the obligations of PJSC Boguchanskaya HPP) decreased: the indicator "Financial debt / EBITDA" fell to 2.3 as of December 31, 2016 against 3.1 as of December 31, 2015, which confirms the strengthening of the Group's stable financial position.



The Group's short-term debt as of December 31, 2016 amounted to 41,757 million rubles. Reduction of short-term debt by 20,457 million rub. is mainly due to refinancing of short-term borrowings through the attraction of long-term loans with a more comfortable repayment schedule. As a result, the short-term portion of long-term loans accounts for 61.7 % of the short-term debt of the RusHydro Group, including placed bonds of PJSC RusHydro (series 09) in the amount of 10 billion rubles, 34.8 % form short-term loans and 3.5 % - other short-term loans.

The Group's long-term debt for 2016 increased by 22,867 million rub. (16.9 %) to 158,046 million rub., mainly due to the procurement of long-term borrowings to finance the Group's investment activities and the refinancing of debt due for redemption. As of December 31, 2016, 67.1 % of the long-term debt accounted for credits and loans, 31.8 % for the ruble-denominated bonds placed by the Group and 1.1 % for other long-term borrowed sources of financing.

More than 90 % of RusHydro's consolidated financial debt (including guarantees for obligations of Boguchanskaya HPP under the loan of Vnesheconombank) was denominated in Russian rubles as of December 31, 2016, which makes the Group's currency risk non-significant regarding the financial debt. At the same time, more than 32 % of the total volume of loan debts are liabilities to large Russian banks with state participation.

As of 31.12.2016, the available balance of the sample under the current loan agreements of the Group of companies amounted to more than 97,353 million rubles, which is much higher than the demand for short-term refinancing of the debt and significantly reduces financial risks.

Taking into account the insignificant increase in the financial debt following the results of 2016, the interest on borrowed funds paid by the Group increased by 773 million rubles (+4 %), amounting to 20,271 million rubles.

#### Targeted capital structure

Within the framework of the Long-term development program of the RusHydro Group for the period up to 2020 (inclusively), approved by the decision of the Board of Directors of PJSC RusHydro (Minutes No. 244 of November 23, 2016), it is envisaged that the debt to equity ratio (Financial leverage ratio) shall be maintained at a level not exceeding 1.5 to ensure the necessary level of financial stability.

#### Credit ratings (at the end of 2016)

Rating Agency ►	Standard & Poor's	Fitch Ratings	Moody's
The credit rating on the National scale	ruAA	AA (rus) *	- **
The credit rating on the International scale (in foreign currency)	BB	BB+	Ba2
Outlook on the credit rating	Positive	Negative	Stable
Outlook revision date in 2016	19.12.2016	20.05.2016	27.04.2016

\* The Fitch Ratings have been refused on 06.02.2017 according to the results of the system solution.

\*\* The Moody's ratings have been refused on 18.03.2016 according to the results of the system solution.

### 2.3.4 Cash flow

#### Cash flow, million rub.

	2014	2015	2016	Change 2016-2015
Net cash generated by operating activities	57,926	69,800	71,373	1,573
Net cash used in investment activities	(60,433)	(48,381)	(24,918)	-23,463
Net cash generated by (used in) financing activities	1,091	(8,584)	(26,837)	18,253
Foreign exchange gain (loss) on cash balances	1,338	796	(289)	-1,085
Decrease in cash and cash equivalents	(78)	13,631	19,329	5,698
Cash and cash equivalents at the end of the year	34,394	48,025	67,354	19,329

Net cash flow from the Group's operating activities in 2016 increased by 1,573 million rubles (2 %) amounting to 71,373 million rubles.

The net funds outflow to finance investment activities, on the contrary, decreased by 23,463 million rubles (48 %), amounting to 24,918 million rubles. During 2016, the Group worked to implement a major investment program, increasing financing of capital expenditures by 8,813 million rubles (10 %) to 101,835 million rubles.

For financial activities, the Group recorded a net outflow of cash in the reporting period of 26,837 million rubles against the backdrop of an increase in the amount of repaid borrowings compared to the

previous year and an increase in the amount of dividends paid to shareholders of PJSC RusHydro.

Despite worsening macroeconomic conditions, in 2016 the Group avoided significant exchange rate losses due to a significant share of ruble loans in the overall debt structure. At the same time, the negative exchange rate differences on the Group's cash balances in 2016 amounted to 289 million rubles, against the positive exchange rate differences of the previous year in the amount of 796 million rubles.

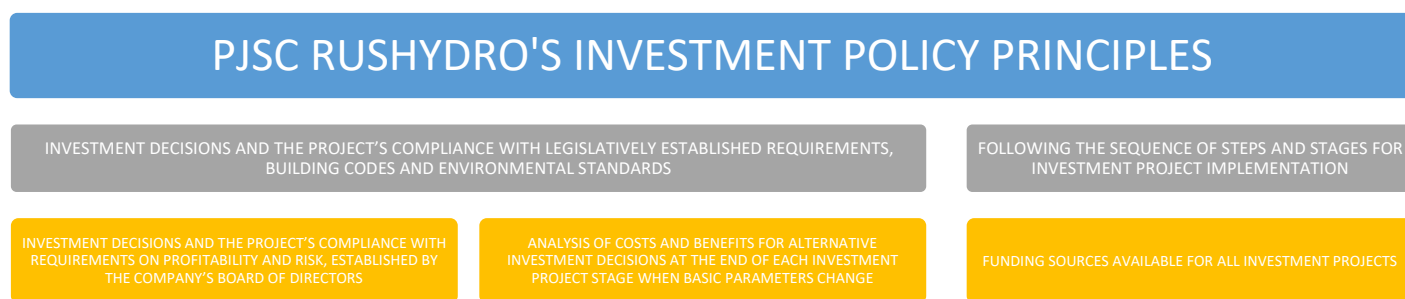
Against this backdrop, the Group increased its cash balances to 67,354 million rubles by the end of the year, which is 19,329 million rubles (40 %) higher than at the beginning of the year.

## 2.4 Investment

### 2016 events

- The investment program financing budget amounted to 78.25 billion rubles<sup>17</sup>: 56.86 billion rubles accounted for the investment projects of PJSC RusHydro and 21.39 billion rubles for projects of RAO ES EAST, PJSC Holding
- The Company introduced new power generation – 240.89 MW, heat – 6.0 Gcal/h, the grid – 876.3 km, Transformer capacity – 436.33 MVA

### 2.4.1 Investment policy principles



The Company's investment activity is guided by the Regulations on the Investment Management Process in the Form of Capital Investments.

Approval of the Company's Investment Program is the responsibility of the Company's Board of Directors. The investment programs, before being approved by JSC RusHydro's Board of Directors, are agreed upon with executive authorities and approved by the Russian Ministry of Energy. Prior to the approval by the authorities, the draft investment programs are preliminarily approved by the Boards of Directors of the respective subsidiaries.

### 2.4.2 2016 Investment program

As part of the Business plan of PJSC RusHydro for 2016-2020 (Minutes of the Board of Directors of 25.12.2015 No. 229) the Business plan of PJSC RusHydro for 2016 has been approved, including investment program for 2016, and the Business plan of PJSC RusHydro for years 2017-2020, including investment program for 2017-2020, has been taken into account.

In the future, in order to optimize expenses for investment activities, the RusHydro Group's investment program was updated, including the reduction of annual amounts of financing for the projects of technical re-equipment and reconstruction of HPPs of PJSC RusHydro by smoothing the schedule for financing the projects of the Program of the comprehensive modernization of hydroelectric power plants and reducing their unit cost, including through increase the effectiveness of procurement procedures with preserving the quality of work performance and the pledged initially target parameters of reliability and safety of hydropower plants.

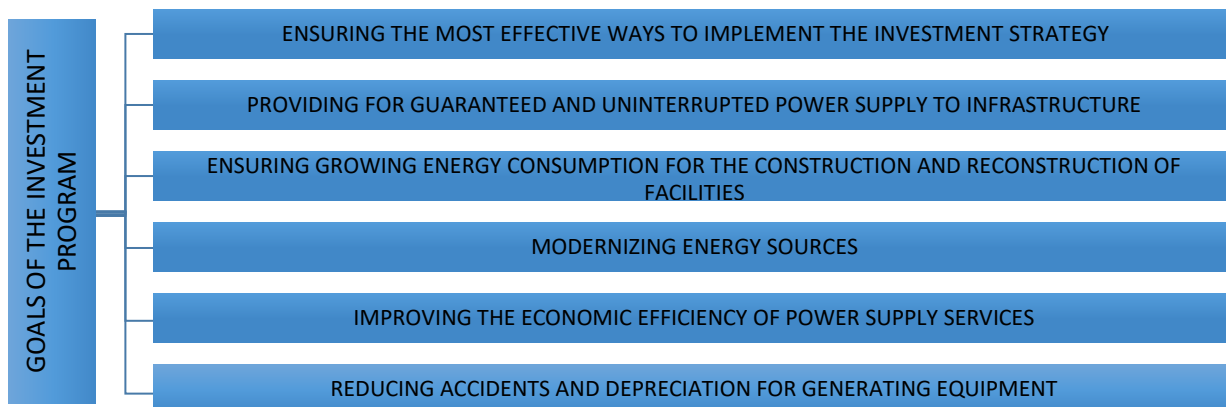
Investments with an expected income level of more than 10 % per year are not used by Company.

Based on the results of the optimization, the Management Board of PJSC RusHydro approved the

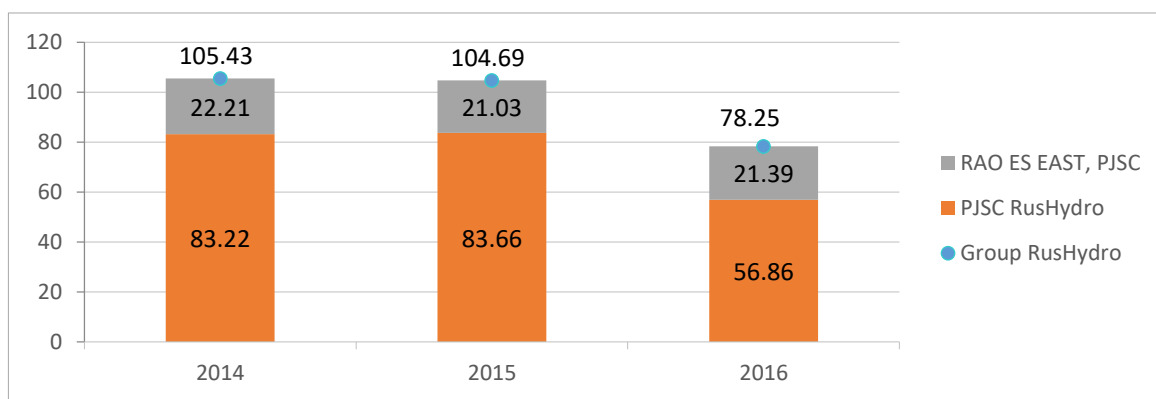
<sup>17</sup> - Investment figures are given with VAT.

Consolidated Investment Program of the RusHydro Group for 2016 (adjustment) (Minutes No. 968pr of March 21, 2013), was noted by the Board of Directors of PJSC RusHydro on 04.07.2016 (Minutes of 08.04.2016 No. 235).

The planned volumes of financing the RusHydro Group's investment program amounted to 112.76 billion rubles (84.43 billion rubles accounted for investment projects of PJSC RusHydro and 28.33 billion rubles for projects of the RAO ES EAST Holding).

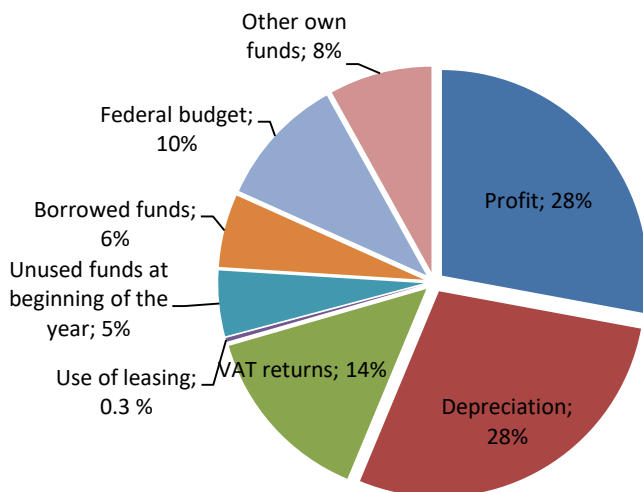


**Investment dynamics, billion rub.**



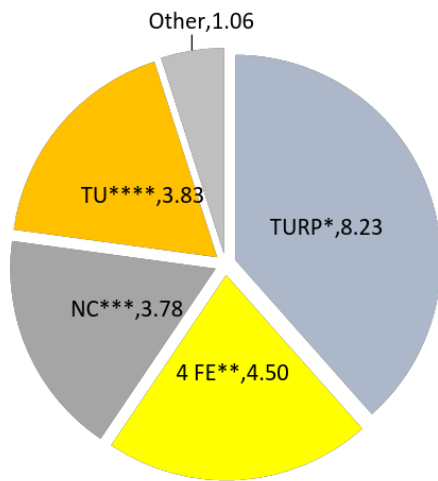
**Execution of investment programs of PJSC RusHydro and RAO ES EAST Holding in 2016**

**Structure of funding sources used in 2016**

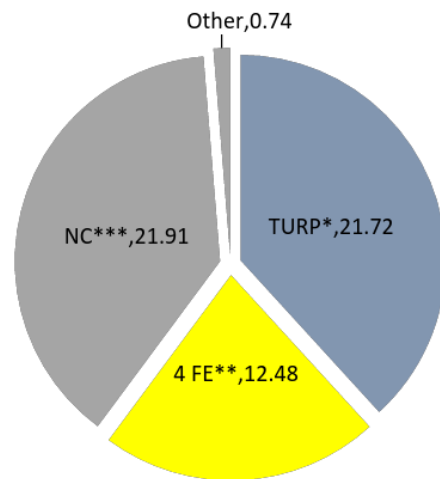




**Main areas of investment, JSC RAO ES EAST in 2015, billion rubles**

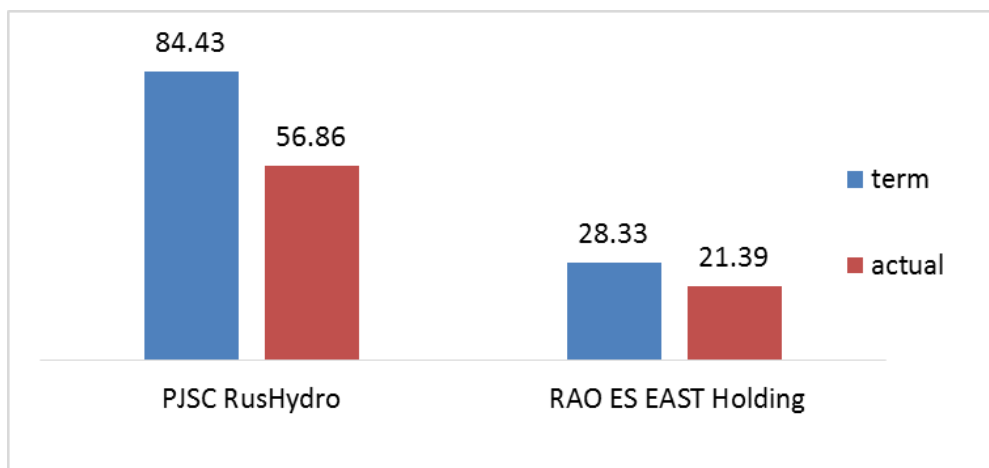


**The main directions of investments of the JSC RusHydro in 2015, billion rubles**



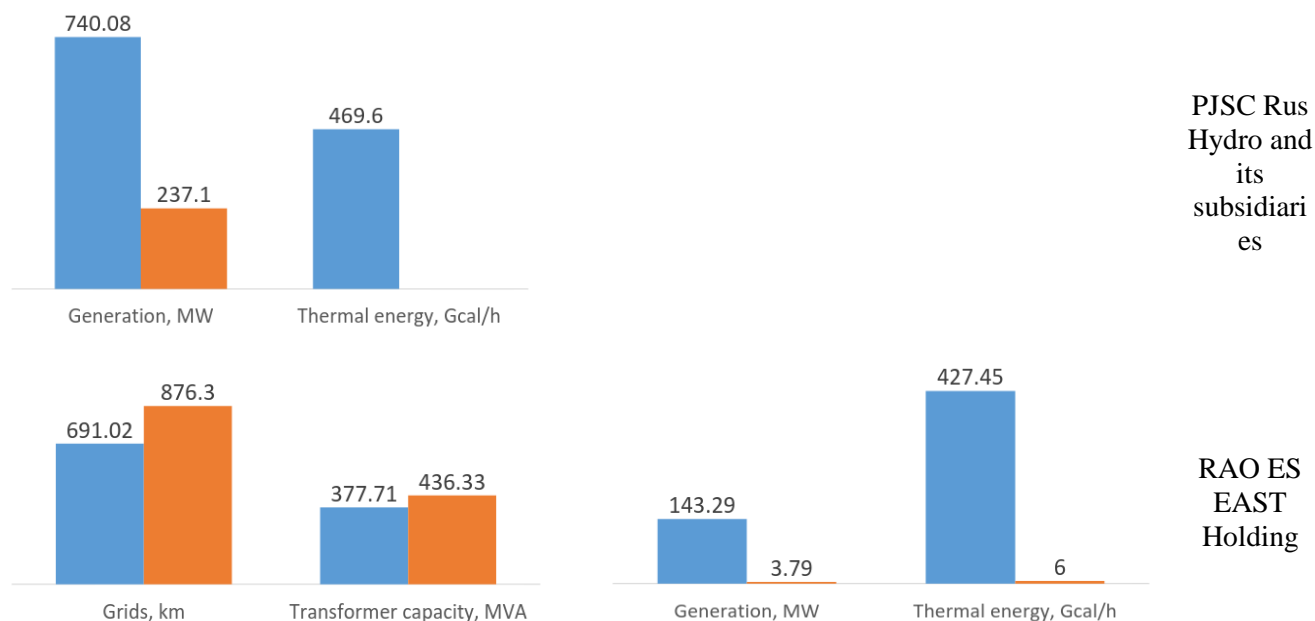
\* TURP - Technical Upgrading and Reconstruction Program  
 \*\* 4 FE - priority projects implemented in the Far East  
 \*\*\* NC - new construction  
 \*\*\*\*TU - Technical Upgrading

**Financing of the investment program in 2016\*, billion rub.**



\* The figures are given with VAT.

## Capacity commissioning



With regard to investment projects implemented by PJSC RusHydro and its subsidiaries, the deviation in terms of financing in the amount of 27.57 billion rubles has taken shape for the following reasons:

1. Optimization of the volume of financing of the projects of technical re-equipment and reconstruction of HPPs of PJSC RusHydro by smoothing the schedule of project financing, reducing their unit cost, improving the efficiency of procurement procedures while maintaining the quality of work performance and the initial target parameters of reliability and safety of HPPs, 47 billion rubles.

According to the Investment Program of PJSC RusHydro for 2016 (adjustment), approved by Order No. 1458 of the Ministry of Energy of Russia of December 30, 2016, it is envisaged to reduce the annual planned financing amounts by 10.53 % of the volumes included in the RusHydro Group Consolidated Investment Program 2016 (adjustment), approved by the Management Board of PJSC RusHydro on March 21, 2016 in the Modernization and reconstruction section.

2. In terms of priority projects implemented in the Far East in pursuance of the Presidential Decree No. 1564 of 22.11.2012 (1st stage of Yakutskaya TPP-2, CHPP in the city of Sovetskaya Gavan, the 1st stage of Sakhalinskaya TPP-2, the second stage of the 2nd stage of Blagoveshchenskaya TPP), the decrease in the volume of financing from the planned volumes amounted to 17.17 billion rubles. The change in financing schedules was made due to the postponement of the completion of the "right" project implementation, namely:

- Yakutskaya TPP-2 (1st stage) from 2017 to 2018,
- Sakhalinskaya TPP-2 (1st stage) from 2017 to 2018,
- CHPP in Sovetskaya Gavan from 2017 to 2019,
- Blagoveshchenskaya TPP from 2016 to 2017.

According to the investment program of PJSC RusHydro for 2016 (adjustment), approved by the order of the Ministry of Energy of the Russian Federation No. 1458 of December 30, in the priority projects of the Far East, the reduction in the annual planned volumes of financing by 14.58 % of the volumes included in the RusHydro Group Consolidated Investment Program for 2016 (adjustment) approved by the Management Board of PJSC RusHydro on March 21, 2016.

3. Deviation from financing schedule of new construction facilities was primarily caused by a decrease in the amount of financing for actual needs related to fixing the end-of-work volumes and transferring payment of guaranteed deferred payments to the beginning of 2017 in connection with the implementation of activities for the structuring of funding with the allocation of a complex of works and the costs necessary for financing and ensuring the safety and security of construction-in-process facilities. In addition, the main deviations were formed due to a delay in summing up the results of the tender for selecting a general contractor and the duration of procurement procedures.

In terms of investment projects implemented by the RAO ES EAST Holding the deviation in terms

of financing in the amount of 8.64 billion rubles was due to the following reasons:

1. According to the infrastructure objects of the four priority projects implemented in the Far East (access roads and railways, schemes for the issuance of electrical and heat capacity, water disposal and water supply systems, ash and slag removal systems, etc.), due to the shift in the construction of the main facilities, the transfer of the terms "to the right" and, as a result, the financing schedule was changed and the volume of financing for 2016 was reduced by 2.42 billion rubles.

2. The postponement of the deadline for completion of works and the procedure for payment for the implementation of technological connection caused a decrease in the revenues of the subsidiaries of the RAO ES EAST Holding by 3.51 billion rubles.

3. As a result of the optimization work, exclusion of a number of projects from the investment programs of the RAO ES EAST Holding, reduction of the unit cost of project implementation, revision of funding schedules with a shift to the right, reduction of expenses related to technical re-equipment and reconstruction of facilities maintaining the operations' quality and keeping up with the initial target parameters of reliability and safety.

4. For the construction of the GTU-CHPP in Vladivostok on the site of the Central Steam-Water Boiler, the design of documentation has been adjusted to change the total cost of construction, and the project implementation period has been postponed from 2016 to 2018.

**Key Investment Projects (under construction)\***

Projects	Design Capacity, MW	Start Construction	Completion Construction	Capacity Commissioning 2016, MW	Capacity Commissioning 2017 (plan), MW
<b>Priority Projects in the Far East</b>					
<b>2nd stage of the Blagoveschenskaya TPP</b> The aim of construction is to liquidate the existing capacity deficit and meet future heat consumption growth, improve energy supply reliability as well as to cover the irregular part of the load schedules of the UES of the East.	120	2011	2017	-	-
<b>1st stage of the Sakhalinskaya TPP-2</b> The new TPP will replace the decommissioned capacity of the Sakhalinskaya TPP, as well as increase the efficiency of Sakhalin energy system performance.	120	2011	2018	-	-
<b>The TPP in Sovetskaya Gavan</b> The TPP is constructed to substitute the decommissioned capacity of the Mayskaya TPP and to ensure compliance with the growing energy needs of the special economic zone in the Sovetskaya Gavan port.	120	2010	2019	-	-
<b>1st stage of the Yakutskaya TPP-2</b> The project is designed to replace the decommissioned capacity of the Yakutskaya TPP and meet consumption growth for energy as well as to enhance energy supply reliability.	193.48	2011	2018	-	193.48
<b>TOTAL</b>				-	193.48
<b>The Gotsatlinskaya HPP</b> The aim of the project is to supply electricity and capacity to consumers of the deficient UES of the North Caucasus, which will have a beneficial impact on the overall socio-political situation while improving the social status of the Republic of Dagestan.	100	2007	2017	-	-
<b>The Zelenchukskaya HPP-PSPP</b> The aim of the project is to enhance the reliability of the energy supply to the North Caucasus energy system and to even out the daily schedule of the Kuban River.	140	2009	2017	140	-
<b>The Nizhne-Bureyskaya HPP</b> This HPP	320	2010	2018	-	320

will be a compensating reservoir of the Bureyskaya HPP, levelling daily water fluctuations in the river resulting from the work of the hydropower plant. This will remove the restrictions on the modes of operation of the Bureyskaya HPP and prevent winter floods in several villages located downstream.					
<b>The Zagorskaya PSPP-2</b> The second stage of the Zagorskaya PSPP is to partially solve the problem of maneuverable regulation power deficit in the Central Region of Russia, as well as to prevent accidents in Moscow and the Moscow Region.	840	2006	2020*	-	-
<b>TOTAL</b>				140	320

\* Parameters are indicated in accordance with the Consolidated Investment Program of the RusHydro Group for 2018-2022. And for 2017 (adjustment) approved by the Management Board of PJSC RusHydro on March 6, 2017.

\*\* The decision to complete the completion of this report is not accepted.

### 2.4.3 Plans in the field of investment activities

#### Investment plans for 2017

	<b>PJSC RusHydro*</b>	<b>RAO ES EAST Holding*</b>
<b>The volume of investments, million rubles</b>	78,560.37	37,425.33
<b>Input power:</b>		
Generation, MW	557.24	1.83
Heat, Gcal/h	469.6	5.38
Grids, km		1,112.66
Transformer capacity, MVA		710.74

\* The Consolidated investment program of the RusHydro Group for the years of 2018-2022 and for 2017 (adjustment) approved by the Management Board of PJSC RusHydro on 06.03.2017.

The investment program of the RusHydro Group provides the commissioning capacity in 2017 at the following sites:

- Nizhne-Bureyskaya HPP (320 MW) in the Amur Region: the introduction of HPPs allows solving a number of energy, economic, nature protection and social tasks on the territory of the Amur Region, including ensuring the long-term consumers of the Far Eastern region with economically efficient electricity (capacity) by removing restrictions on the power output of Bureyskaya HPP and replacing more expensive thermal generation.
- Implementation of the priority projects in the Far East: the first stage of the Yakutskaya TPP-2 in the amount of 193.48 MW and 469.6 Gcal / h, as well as the associated infrastructure thereto - main heating networks, water disposal and water supply systems, electric power transmission networks, access road; Off-site infrastructure in the Sakhalinskaya TPP-2 part - electric power delivery scheme, ash and slag removal system, access roads, and railway access roads to the TPP in Sovetskaya Gavan.
- MGES B. Zelenchuk (North-Caucasian Federal District) in the amount of 1.26 MW. The commissioning of the capacity will enable us to surely guarantee the sufficient electricity supply to consumers of the energy-deficient UES of the South and reduce the electricity deficit in the Karachay-Cherkess Republic.
- Input of the capacity in the framework of technical re-equipment projects and reconstruction (including through the implementation of the Program for the comprehensive modernization of HPPs of PJSC RusHydro) will be 42.5 MW, 136.30 MVA, 109.35 km of electric networks, and 2.47 km and in order to modernize the energy infrastructure of the Far East the heating networks of 1.0 MW, 1.08 Gcal / h will be introduced.
- The capacity input for the implementation of technological connection projects in the Far East territory will be 554.44 MVA, 781.20 km of electric networks, 8.37 km of heating systems.

#### 2.4.4. HPP Complex Modernisation Program

Since 2012, PJSC RusHydro has been implementing the Complex Modernization Program (CMP) - a unique project designed to upgrade production assets in the energy sector. In the framework of the CMP, until 2025, more than half of the main equipment is planned to be replaced at the HPP.

The program is implemented using innovative and energy-efficient solutions (fiber optic technologies, optical transformers, nanostructured materials spraying, control systems based on microprocessors, vibration monitoring systems, etc.)

##### The Program's key performance results in 2016:

- Kamskaya HPP was the first to complete planned modernization of the hydroelectric units;
- at the Volzhskaya HPP: hydro-unit No. 5 is replaced, hydro unit No. 6 was modernized, its hydro generator and a hydroturbine are replaced;
- at the Saratovskaya HPP: modernization of hydroelectric unit No. 8 is completed with replacement of hydro-generator and hydro-turbine. The hydro-turbine No. 4 is replaced;
- at the Zhigulevskaya HPP: replacement of hydro-turbines and modernization of hydro-generators is completed at hydro units Nos. 7, 13 and 16;
- at the Novosibirskaya HPP: replacement of the hydro turbine No. 4 is completed;
- at the Rybinskaya HPP from the Upper Volga HPP Cascade: reconstruction of a 220 kV outdoor switchgear and replacement of modular power transformers at Rybinskaya HPP is completed.

##### Implementation of the HPP Complex Modernization Program

	PKM plan (2012-2025), un.	PKM fact (2012-2016), un.	% of implementation from the plan (2012-2025)
Turbine	201	67	33.3
Generators	187	57	30.5
Transformers	183	51	27.9
High-voltage circuit breakers	398	164	41.2
Hydro facilities	230	194	84.3
Equipment wiring	≈ 10,200	4,405	43.2
Accessories	> 4,200	1,798	42.8

##### Increase in installed capacity, MW

	2016 (actual)	2017 (forecast)*
Volzhskaya HPP	10.5	10.5
Zhigulevskaya HPP	42.0	21
Kamskaya HPP	3.0	0
Saratovskaya HPP	6.0	6.0
Novosibirskaya HPP	5.0	5.0
<b>Total of PJSC RusHydro</b>	<b>66.5</b>	<b>42.5</b>

\* In accordance with the parameters of optimization of the investment program of PJSC RusHydro for 2016 (adjustment), previously approved by the Board of Directors of PJSC RusHydro in order to disclose information on investment program projects in accordance with the requirements of RF Government Resolution No. 24 of January 21, 2004 and adopted by Note to the PJSC RusHydro BD (Minutes No. 235 of 08.04.2016).

## 2.5 Innovation development

### 2016 events

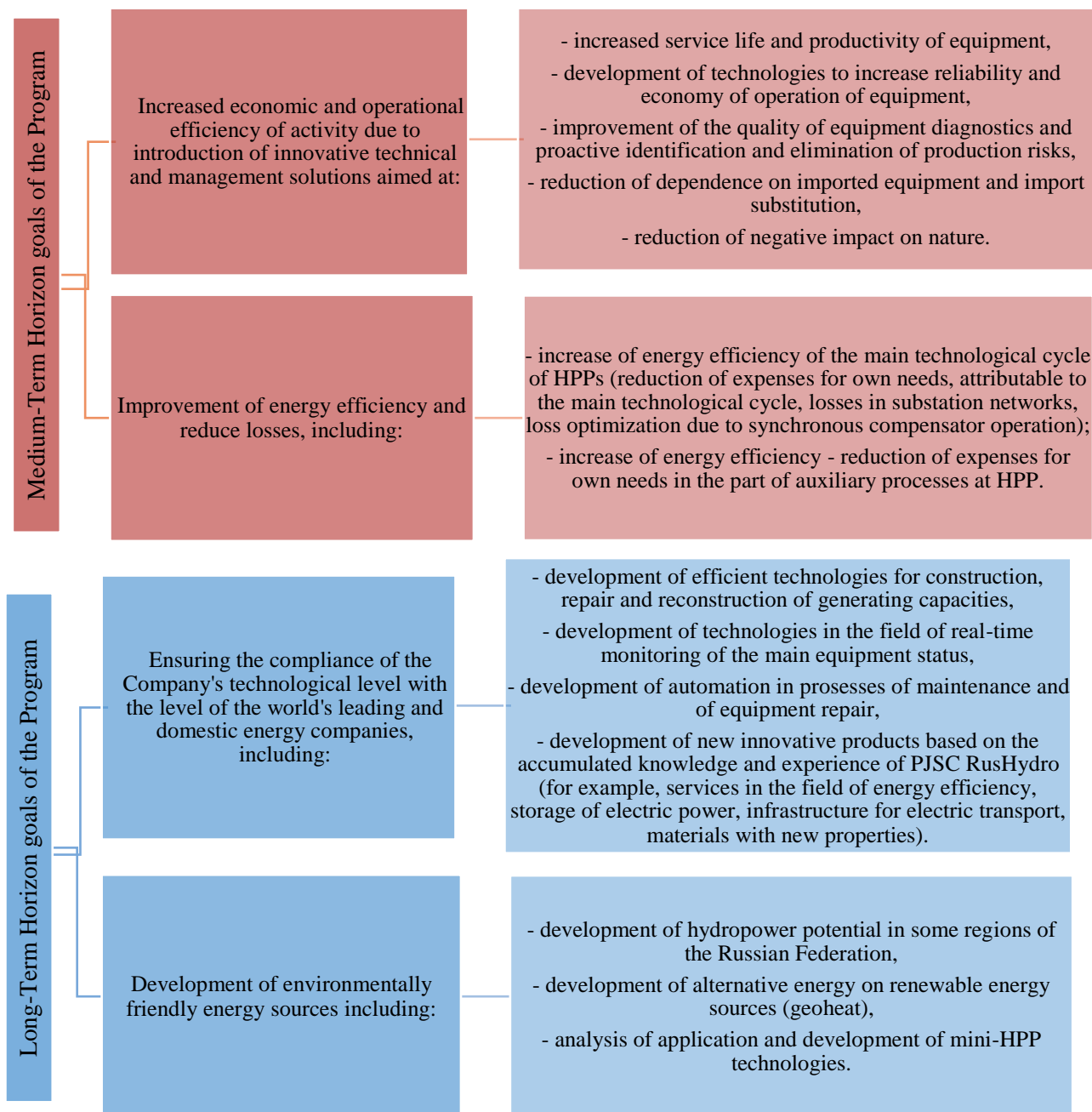
- The RusHydro Group Innovation Development Program was developed and approved by the Board of Directors of PJSC RusHydro for 2016-2020 with a prospect of up to 2025
- An evaluation of the quality of development of the RusHydro Group Innovative Development Program for 2016-2020 has been received with a prospect up to 2025 - 95.2 %
- Expenses for the Innovative development program implementation in 2016 amounted to 463.6 million rubles, including VAT, expenses of RAO ES EAST Holding – 1,182.2 million rubles

### 2.5.1 Innovation development program

The Innovation Development Program of the RusHydro Group for 2016-2020 with a prospect until 2025 is approved by the Board of Directors (Minutes No. 244 of November 23, 2016). Prior to approval, the draft program was approved by the Interdepartmental Commission for Technological Development of the

Presidium of the Presidential Council for Modernization of the Economy and Innovative Development of Russia (hereinafter - IDC)<sup>18</sup>.

In terms of quality the RusHydro Group Program development in accordance with the IDC Minutes No. 23-DO1 of December 26, 2016 was assessed as 95.2 %.



### **Priority directions for innovation development**

Priority directions for innovative development of the RusHydro Group in the field of "hydropower" are:

- ecology and environmental protection,
- hydropotential utilization schemes,
- technologies of design, construction, reconstruction and repair,
- energy efficiency and water resources management,
- monitoring and operation of equipment and facilities,
- design solutions for HPP, PSP, RES.

<sup>18</sup> - Minutes of IDC Meeting of 23.09.2016 No.8-DO1.

The program provides for participation in innovative activities:

- RAO ES EAST Holding<sup>19</sup>,
- JSC NIIES,
- JSC "VNIIG them. B.E. Vedeneev,
- JSC Institute Hydroproject,
- JSC "Lenhydroproject"
- JSC Mosoblgidroproekt.

## 2.5.2 Results of the implementation of the Innovative Development Program in 2016

- There are 49 considered applications for the implementation of research and development works (further - R & D), including 24 applications received through the "One Window" system. For further implementation 20 applications have been selected.
- Purchase of innovative, high-tech products for the amount of 258.5 million rubles.
- The results of 10 previously launched works were received. Two contracts for R & D were concluded:
  - Research and development of methods for remote monitoring of the state of facilities and operating modes of hydroelectric power plants. The development of a method for assessing the state of hydrotechnical structures and hydroelectric power plants of HPPs based on the results of monitoring the amplitude-frequency characteristics of their oscillations, together with the ground base, yielded results for 10 works that were previously launched.
  - Investigation of the possibilities and development of recommendations for improving the energy efficiency of the main technological cycle of HPPs in order to increase power generation.
- Coordination work of the Technology Platform "Perspective Technologies of Renewable Energy" is continued. The platform participants performed 26 projects for a total of 1,487.4 million rubles. The projects were financed at the expense of extra-budgetary sources, as well as in the framework of the FTP "Research and development in priority areas for the development of Russia's scientific and technological complex for 2014-2020."
- Successfully developing cooperation with Mitsui in the framework of the Agreement on Technological Cooperation, signed in 2016. The agreement provides for cooperation in the construction of wind power plants, solar power plants, development of the use of geoheat, the creation of production (and further use) of liquefied hydrogen, and cooperation on the creation of a data storage and processing center.

### The most significant projects of R & D implemented in 2016 by PJSC RusHydro

<p>The project "Development of an automated system for signaling faults in water conduits and measuring turbine costs at derivational and dam-type hydroelectric power plants" Implementation period: 2013-2017.</p>	<p>Main results 2016: A system for signaling faults in water lines and measuring turbine costs at Sengileevskaya HPP was developed and installed. The system was transferred to trial operation. This system helps to increase the safe operation of pressure water conduits of derivational and dam stations.</p>
<p>Project "Development and testing of monitoring technology for piezometric pressure in structural elements of hydraulic structures in the event of failure of embedded piezometers of non-rectilinear form" Implementation period: 2014-2016.</p>	<p>The work was carried out in order to determine the most effective ways of restoring the possibility of monitoring one of the basic parameters characterizing the safety of operation of the GTS - the level of filtration pressure in the ground base of concrete structures. Within the framework of this development, a new technique for restoring control over responsible zones of hydraulic structures has been introduced by increasing the sensitivity of piezometers of non-rectilinear shape; Approbation was carried out at the experimental Kharobrovskaya HPP; Experimental operation was carried out at Novosibirskaya HPP. The development and testing of this technology made it possible to reduce the cost of constructing new piezometers by increasing the sensitivity of existing piezometers of non-rectilinear shape.</p>

<sup>19</sup> JSC "DGC", JSC "DRSK", PJSC "Kamchatskenergo", PJSC "Magadanenergo", PJSC "Peredvizhnaya Energetika", PJSC "Sakhalinenergo", JSC "Sakhaenergo", JSC "Chukotenergo", JSC "YUESK", PJSC "Yakutskenergo", RAO ES EAST, PJSC.

## According to RAO ES EAST Holding:

- The Innovative Development Program of RAO ES EAST Holding for 2016-2020 was developed and approved with a prospect of up to 2025;
- The implementation of 12 projects of R & D was completed, according to their results, 9 objects of intellectual property: 2 patents for inventions, 2 patents for utility models and 5 certificates of state registration of databases and computer programs have been developed and registered;
- The V International Conference "Development of Renewable Energy in the Far East of Russia" was held in Yakutsk, organized by RAO ES EAST, PJSC jointly with the Government of the Republic of Sakha (Yakutia).

### 2.5.3 Plans for 2017

The main tasks in the field of innovative development for 2017:

- completion of the innovation management systems integration of PJSC RusHydro and RAO ES EAST Holding companies;
- improvement of the innovation development management system, its regulations and methodological support;
- search and selection of innovative ideas aimed at achieving the target of the RusHydro Group, launching the most effective innovative development projects;
- expansion of the community of experts (including external), providing expertise of innovative projects;
- expansion of cooperation in the field of innovations with development institutions, scientific organizations, companies and public authorities.

## 2.6 The company on the securities market

### 2.6.1 Authorized share capital

Authorized share capital of PJSC RusHydro as of December 31, 2016

Nominal value, rubles	Number of ordinary shares*, pc.	Nominal value of 1 share	Number of authorized ordinary shares, pc.	State registration number of the issue
386,255,464,890	386,255,464,890	1 rub	54,047,237,489	1-01-55038-E

\* The Company issued no preference shares.

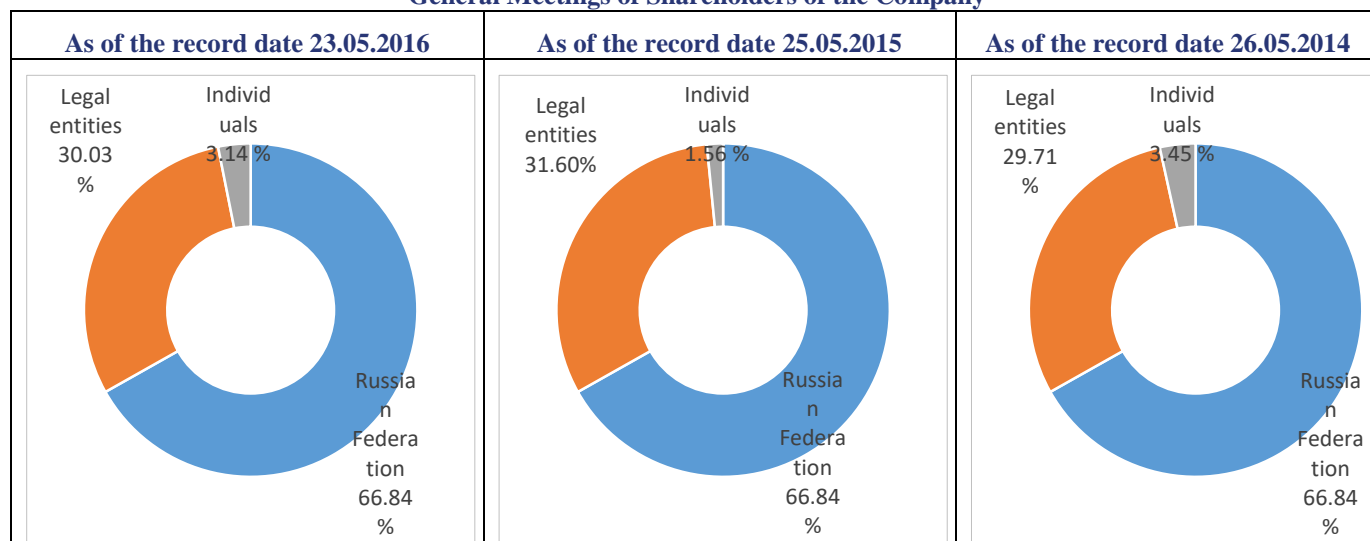
In November 2016, the Board of Directors of the Company decided to increase the authorized capital of the Company by 40,429 million rubles by placing additional shares through open subscription. The decision on the additional issue of shares was registered by the Bank of Russia on December 7, 2016, the issue was assigned registration number 1-01-55038-E-042D as of December 31, 2016, all additional shares were on the issuing account of the Company (they were not placed).

After the reporting date (in January-March 2017), 40,033,348,661 additional shares were placed, including 40 billion additional shares in favor of VTB Bank (PJSC). Since the report on the results of the issue and the relevant amendments to the Company's Articles of Association were not registered at the reporting date, the shares in this report are presented in relation to the Authorized Capital without taking into account the additional issue of shares.



## 2.6.2 Shareholders

### Shareholders' structure as of the date of drawing up the lists of persons who entitled to participate in the previous Annual General Meetings of Shareholders of the Company



#### List of shareholders owning more than 2 % shares (as of December 31, 2016)

Shareholder name	Type of registered entity	Number shares, pc.	Percentage of share capital
The Russian Federation represented by the Federal Agency for State Property Management	Holder	258,161,535,606	66.837
Non-bank credit organization CJSC "National Settlement Depository"	Nominee holder	115,667,789,603	29.9459
Limited liability company "Depository and Corporate Technologies"	Nominee holder	5,391,240,442	1.3958

The Company's shareholders are more than 340 thousand domestic and foreign investors. The Russian Federation owns a controlling stake in 66.84 %. As of December 31, 2016, the Group had 18,852,353,167 shares or 4.88 % of the Authorized Capital of RusHydro from which 3.55 % were owned by JSC HydroInvest. There are no own shares at the Company's disposal.

In 2016, the RusHydro Group completed the consolidation of shares in RAO ES EAST, PJSC. During the acquisition of shares in RAO ES EAST, PJSC from minority shareholders, they were offered to exchange shares of RAO ES EAST, PJSC for shares in PJSC RusHydro. The number of shares of the Company owned by entities controlled by legal entities decreased as compared to December 31, 2015 by 2,934,258,766 shares.

23.06.2016 - Federal Property Management Agency and the Company controlled by the Company - Hydroinvest Joint Stock Company, Limited Liability Company "EZOP" and "Index of Energy – HydroOGK" LLC concluded a shareholder agreement.

30.12.2015 - The Company received a notice from "Gazprombank" (Joint Stock Company) (Moscow, INN 7744001497, OGRN 1027700167110) on the right to dispose of a certain number of votes of the Issuer. In accordance with this notice, the Issuer disclosed that on 24.12.2015 "Gazprombank" (Joint Stock Company) was entitled to dispose of 6.367 % of the votes attributable to the voting shares of the Company.

In accordance with the list of persons entitled to participate in the annual General Meeting of Shareholders, compiled on May 23, 2016, "Gazprombank" (Joint Stock Company) was a shareholder owning 6.367 % of the voting shares of the Company. On April 4, 2017 the share of "Gazprombank" (JSC) voting shares decreased to 4.96 %.

After the reporting date, on March 7, 2017, the Company, as part of the increase in the authorized capital, placed 40 billion shares in Bank VTB (PJSC), and the companies controlled by the Company sold 15 billion shares to VTB Bank (PJSC). Thus, VTB Bank (PJSC) became the second largest shareholder of the Company.

March 7, 2017 the Federal Property Management Agency and VTB Bank (PJSC) entered into a

shareholder agreement.

Completion of PJSC RusHydro shares additional issue and sending a report on the results of the additional issue of the Company's shares for state registration with the Central Bank of Russia is planned for May 2017.

### **Registrar**

The register of shareholders is maintained by the Registrar. In October 2016, following the results of an open tender for the provision of services to maintain the register of shareholders and related services to the Company, the Board of Directors decided to terminate the relationship with the registrar of the Company - Joint Stock Company "Registrar ROST" and approved by the Registrar Joint Stock Company VTB Registrar. The Joint-Stock Company VTB Registrar proceeded to management of the shareholders register since April 17, 2017.

### **2.6.3 Circulation of securities on the Russian market**

Since 2008, RusHydro shares have been included in the quotation list of Tier 1 and traded on the MICEX Stock Exchange under the ticker symbol HYDR, and in March 2013, the Company's shares were among the first on the Russian Stock Market, which were admitted to trading on the T+2 trading system with partial collateral and deferred trade execution.

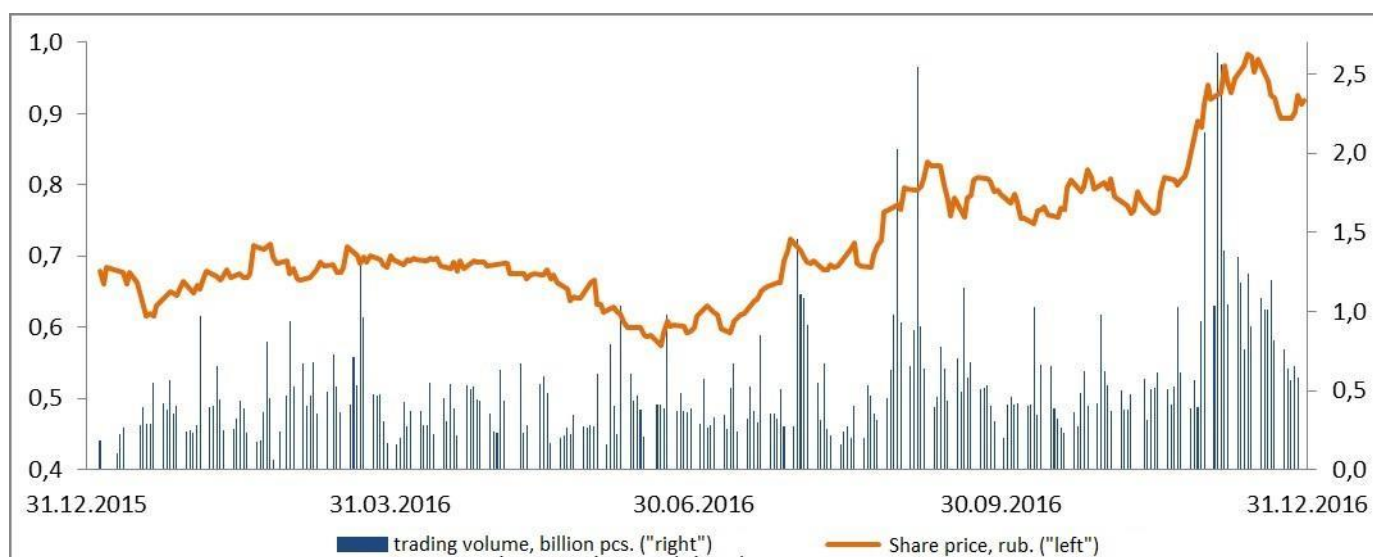
The company's shares are components of major stock market indices, as the Russian, such as MICEX, RTS, MICEX the Power, RTS-Utilities, MICEX BMI, an index of companies state-owned shares (SCI MICEX), and international: MSCI Russia, FTSE All World Emerging Europe.

**Trading results for the shares on the stock market**

	<b>2014</b>	<b>2015</b>	<b>2016</b>
Trading sectors	T+ Shares and DRs	T+ Shares and DRs	T+ Shares and DRs
Trading currency	RUB		
The highest transaction price	0.755	0.679	0.994
The lowest transaction price	0.441	0.496	0.5747
The end of year transaction price	0.542	0.679	0.9259
Trading volume	130 billion	116 billion	134 billion

Source: <http://moex.com/>

**Dynamics of the company's share price and trading volume**



## Dynamics of RusHydro's share price compared to key indices for 2014-2016



Source: <http://moex.com/>

For the period from 2014 to 2016 RusHydro's share price grew by 63 %, the MICEX index grew by 48 %, the MICEX sector indicator Power engineering grew by 92 %.

**2014**

In 2014, the MICEX index lost 7 % and the MICEX index of Electricity decreased by 23 %, RusHydro - 5 %. The main negative factors for the Russian market began a sharp decline in oil prices in the second half of the year and economic sanctions of Western countries against Russia. Leading compared with the MICEX index rate of decline in the industry indicator was due to the low investment attractiveness of the company sector with restrictive tariff policy, including zero tariff indexation in 2014. Support for RusHydro shares, whose growth reached 31 % during the year, had a number of factors, including the liberalization of the market power of the Siberian hydropower plant, the positive results for the company COM-2015, electricity price growth in the second price zone in the second half.

**2015**

In 2015, the MICEX index gained 26 % and the MICEX index Electric power - 18 %, RusHydro shares rose by 25 %. Support for the Russian market as a whole is improved attitude of global investors to assets in emerging markets against the background of conservation soft monetary policy leading central banks and expectations in the medium term, the recovery of the Russian economy. An additional positive for RusHydro became the continuation of the liberalization of the Siberian hydroelectric power sales, outcomes CCA, electricity price growth in the second price area, the Company introduced new capacities, as well as actions to improve the Company's financial profile RAO ES EAST.

**2016**

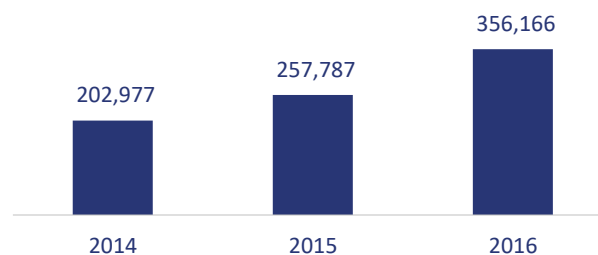
In 2016, the MICEX index added 27 %, the MICEX index Electric power industry - 110 %, RusHydro shares increased by 36 %. Support for the Russian market as a whole was provided by the expectations of the recovery of the Russian economy and strengthening of the rub. rate in the second half of the year. The growth of RusHydro's shares was facilitated by high dividend payments, the completion of the liberalization of the sale of the capacity of Siberian hydroelectric power plants, as well as the strong operating results of the hydro-generating segment against the backdrop of rising water availability. In addition, the positive for the shares were measures to optimize operating and investment costs, making decisions on refinancing the debt of RAO ES EAST Holding by raising equity financing in the amount of 55 billion rubles from VTB Bank with the conclusion of a forward contract; consolidation RAO ES EAST block of shares due to each ownership to 100 %. An additional factor of growth was the Company's implementation of large assets

### The Company's market multipliers \*

	2014	2015	2016
P/E	8.4	9.5	9.0
P/S	0.6	0.7	1.0
EV/EBITDA	4.7	5.5	4.9
P/BV	0.2	0.3	0.4

\* All calculations are based on IFRS financial statements.

### Capitalization, million rub.



Source: <http://moex.com/>

## 2.6.4 Company securities on the international securities market

As of 30.12.2016, 208,518,957 of level 1 ADRs and 78,273 GDR according to the Rule 144A for 20,859,723,000 ordinary shares were issued, which accounts for 5.4 % of the Company's registered capital.

### DEVELOPMENT STAGES OF THE DR PROGRAM

JUNE 2008	JULY 2009	AUGUST 2009	AUGUST 2010	APRIL 2014
LAUNCH OF THE RULE 144A GDR PROGRAM	LAUNCH OF GDR TRADING ON THE LONDON STOCK EXCHANGE (LSE) IN THE INTERNATIONAL ORDER BOOK (IOB) SECTION	LAUNCH OF THE ADR LEVEL 1 PROGRAM AND THE CONVERSION OF THE GDR PROGRAM INTO THE ADR PROGRAM IN ACCORDANCE WITH REGULATIONS	LAUNCH OF DEPOSITORY RECEIPTS TRADING ON THE OTCQX (USA) TRADING PLATFORM IN THE HIGHEST TIER OF THE UNLISTED MARKET, INTERNATIONAL PREMIER	DEPOSITORY RECEIPTS FOR RUSHYDRO SHARES ARE ADMITTED TO STOCK EXCHANGE'S REPO OPERATIONS TO MOSCOW STOCK EXCHANGE

### Depository receipts programs

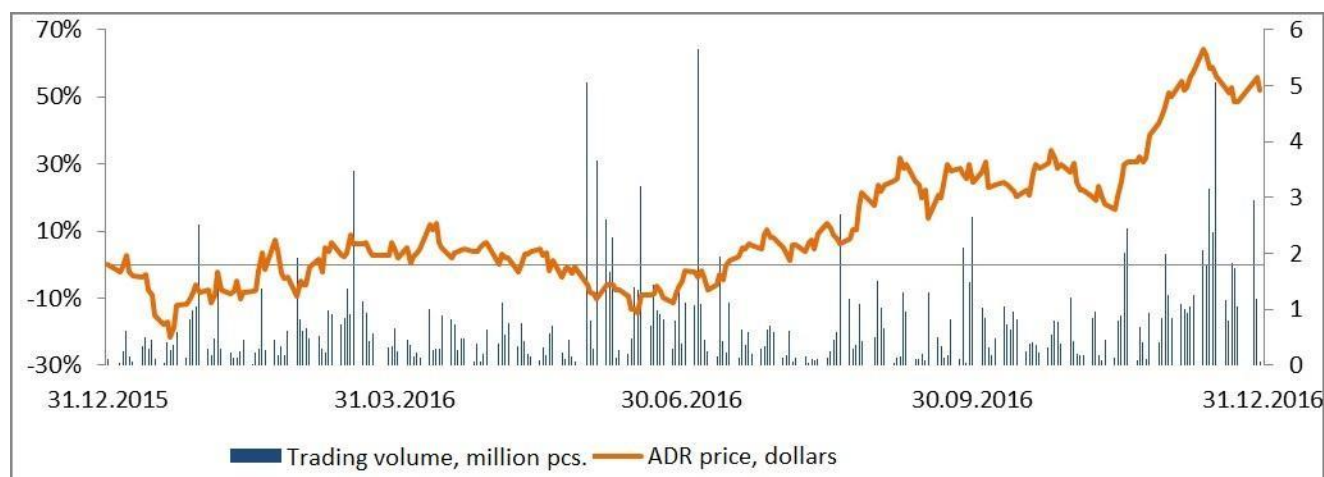
Type of program	Program launch date	Depository bank	Ratio	Ticker symbol	CUSIP number	Maximum volume of the program, shares	Trading floor
<b>Rule 144A GDR</b>	17.06.2008	The Bank of New York Mellon	1 GDR = 100 ordinary shares	HYDR	782183503	832,131,000	London Stock Exchange (Main Market – IOB)
<b>ADR level 1</b>	07.08.2009	The Bank of New York Mellon	1 ADR = 100 ordinary shares	HYDR	782183404		OTCQX

### Results of depository receipts trading on the LSE

	2014	2015	2016
Ticker symbol	HYDR		
Trading currency	USD		
The highest transaction price	2.151	1.305	1.57
The lowest transaction price	0.736	0.697	0.75
Year-end transaction price	0.932	0.956	1.455
Trading volume	293 million	182 million	188 million

Source: Bloomberg

### Dynamics and volume of trading ADR



## 2.6.5 Dividend policy

The main purpose of the Company's dividend policy is to ensure the RusHydro's strategic development and increase shareholder wealthfare by establishing an optimal balance between dividend

payments to shareholders and profit capitalization.

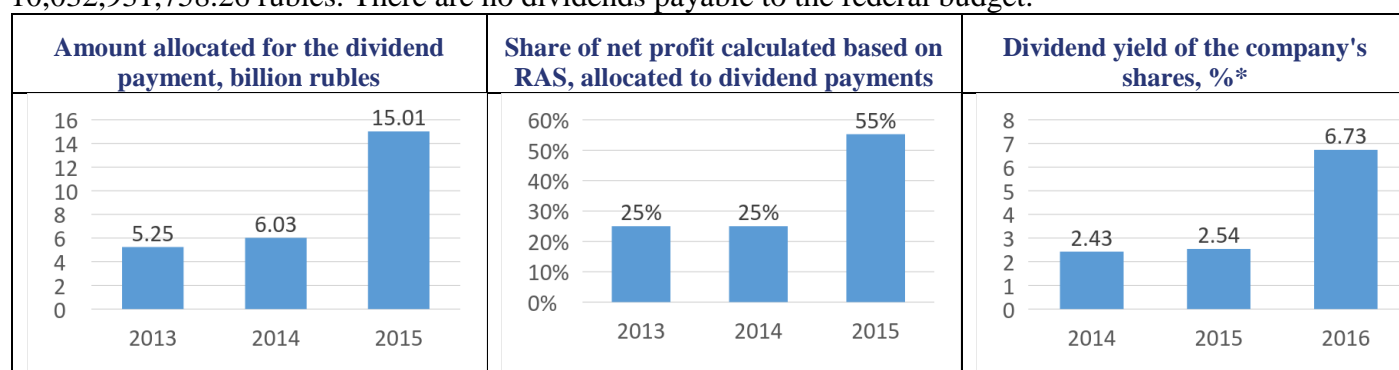
To ensure transparency on defining the size of dividends and their payment, RusHydro adopted a Provision on dividend policy. The Board of Directors draws up recommendations on the size of the dividend for approval by the General Meeting of shareholders, focusing on net income, determined in accordance with the consolidated financial statements of the Group for the RusHydro International Financial Reporting Standards and the Russian Accounting Standards, as well as the Company's need to finance its investment program. The annual dividends distribution rate shall not be less than 5 % of the profit for the period determined in the consolidated financial statements under IFRS RusHydro Group (<http://www.rushydro.ru/investors/dividends/>).

It is important to say that according to the Development Strategy of the RusHydro Group for the period until 2020, with a perspective of up to 2025 – at least 50 % of the net profit shall be distributed as dividend. Thus the Company will aim to ensure a high dividend yield to its shareholders.

### **Report on payment of the declared (accrued) Company's share dividends for 2015**

By decision of the Annual General Meeting of Shareholders of 27.06.2016, 15,011,046,132.02 rubles were transferred for distribution of share dividends in 2015 (50 % of RAS net income or 55.2 % of the profit RusHydro Group in accordance with IFRS), which is about 2.5 times more than according to the results of 2014. As for 31.12.2016 the payments were made in full to all persons registered in the register of shareholders, with the exception of 45,895,273.92 rubles, which have not been paid for reasons beyond the Company: the absence of registration or incorrect address and mailing address; incorrect bank details of recipients of income referred to in the application (statement), provided by the registrar, the method of payment - "bank transfer".

The company fulfilled its obligations to transfer dividends to the federal budget in full - amounting to 10,032,931,758.26 rubles. There are no dividends payable to the federal budget.



\* The dividend yield of shares is calculated on the date of making a decision on the amount of annual dividends as the ratio of annual dividends paid per share and the median value of market prices of this share for the reporting year. (Dividends - PJSC Moscow stock exchange, <http://moex.com>).

#### **Dividend history for the previous 5 years**

Reporting period, subject to the dividend payment	Total amount of declared (accrued) dividends, thousand rub.	Declared dividends per share, rub.
2011	2,500,000	0.00789317
2012	3,675,573	0.00955606
2013	5,248,250	0.01358751
2014	6,032,750	0.01561855
2015	15,011,046	0.038863

### **2.6.6 Bonds**

As of December 31, 2016 there are nine issues of bonds of PJSC RusHydro with a total nominal volume of 75.0 billion rubles (with 60.25 billion rubles in circulation).

#### **Main parameters of the bond issue**

General parameters	Bonds of series 01 and 02	Bonds of series 07 and 08	Bonds of series 09	Exchange-traded bonds of BO-P01,	Exchange-traded bonds of BO-P04

						BO-P02, BO-P03	
Type of bond	Documentary non-convertible interest-bearing bearer bonds with mandatory centralized custody	State registration number	4-01-55038-E 4-02-55038-E	4-07-55038-E 4-08-55038-E	4-09-55038-E	4V02-01-55038-E-001R 4V02-02-55038-E-001R 4V02-03-55038-E-001R	4V02-04-55038-E-001R
Par value	1,000 rub	Registration date	23.09.2010	27.12.2012	27.12.2012	03.07.2015	01.04.2016
Nominal amount of issue	Series 01 – 10 billion rub. Series 02 – 5 billion rub. Series 07, 08, 09 on 10 billion rub. each Series BO-P01, BO-P02, BO-P03 – on 5 billion rub. each; Series BO-P04 - 15 billion rub.	Placement date /  Offer date /  Maturity date	25.04.2011  22.04.2016  12.04.2021	14.02.2013  13.02.2018  02.02.2023	28.04.2015  27.10.2017  15.04.2025	08.07.2015  -  04.07.2018	07.04.2016    04.04.2019
Placement price	100 %	Coupon rate	1-10 coupons – 8.0 %, 11-20 coupons – 9.5 %	1-10 coupons – 8.5 %, 11-20 coupons – determined by the Issuer	1-5 coupons – 12.75 %, 6-20 coupons – determined by the Issuer	1-6 coupons – 11.85 %	1-6 coupons – 10.35 %
Placement method	Public offering, bookbuilding	Yield at pricing	8.16 %	8.68 %	13.16 %	12.20 %	10.62 %
Coupon frequency	On a biannual basis	Yield at last transaction price, as of 30.12.2016, %	Series 01 – 11.29 % Series 02 – 2.15 %	Series 07 – 9.52 % Series 08 – 8.66 %	Series 09 – 9.08 %	Series BO-P01- 12.2 % Series BO-P02 – 12.2 % Series BO-P03 – 12.2 %	10.62 %

#### Credit Fitch Ratings on bonds of PJSC RusHydro

Date of assignment	Credit rating
21.01.2015	Fitch Ratings affirmed the senior unsecured rating for ruble bonds of PJSC RusHydro (Series 07 and 08) at the level of «BB +».
30.04.2015	Fitch Ratings assigns ruble bonds of PJSC RusHydro (series 09) senior unsecured rating at «BB +» level.
09.07.2015	Fitch Ratings assigns ruble bonds of PJSC RusHydro (exchange-traded bonds of BO-P01, P02-BW and BO-P03) senior unsecured rating at «BB +».
11.04.2016	Fitch Ratings assigns ruble bonds of PJSC RusHydro (exchange-traded bonds of BO-P04) senior unsecured rating at «BB +».
20.05.2016	Fitch Ratings affirmed the senior unsecured rating for ruble bonds of PJSC RusHydro (Series 01, 02, 07, 08, BO-P01, BO-P02, BO-P03, BO-P04) at the level of «BB +».

## Chapter 3. Business review

### 3.1 Markets

The RusHydro Group of companies operates with electricity and capacity in the wholesale electricity and capacity market, as well as in the retail electricity and heat markets.

#### 3.1.1 Electricity and capacity market overview

##### General installed capacity and electricity production in Russian and in the world

As to installed capacity and production volumes, the Russian energy industry ranks numbers five and four respectively in the world.

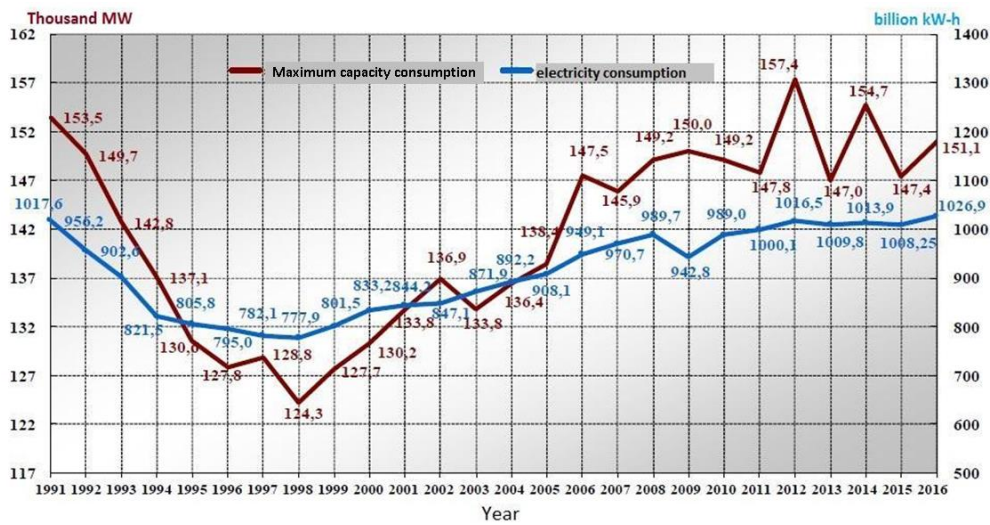
The installed capacity of Russia as of December 31, 2016 totaled 244.1 GW that is 0.4 % more than in 2015 (243.2 GW). The growth in the installed capacity of Russia due to commissioning of new capacity in power plants and the modernization of the existing generating equipment totaled 361.58 MW.

The commissioning of new capacity in power plants of Russia in 2016 counting the power plants of industrial companies totaled 4,293.87 MW. Inefficient and obsolete generating equipment with total capacity of 3,879.16 MW was decommissioned.

In 2016 the energy consumption in Russia increased and totaled 1,054.54 billion kWh that is higher than the energy consumption of 2015 by 1.7 % (1,036.42 billion kWh in 2015).

One of the main factors that affected the change in consumption is the outside air temperature. In January 2016 the decrease in outdoor air temperature in Russia relative to the previous year by 4.6 degrees affected the increase in electricity consumption. The increase in consumption was also affected by the increase in electricity consumption by a number of industrial companies.

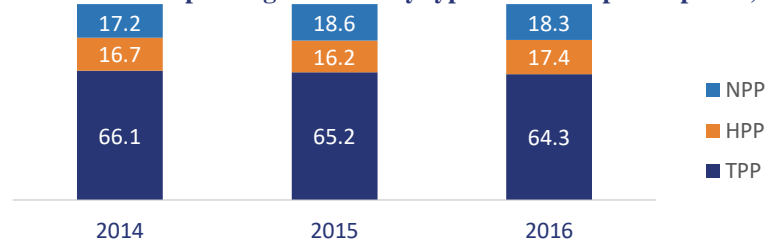
The dynamics of changes in energy consumption and capacity by UES of Russia, 1991-2016



Source: SO UES

Annually, all stations produce about one trillion kWh of electricity. In 2016 energy production in Russia totaled 1,071.8 billion kWh (by 2.1 % up than in 2015).

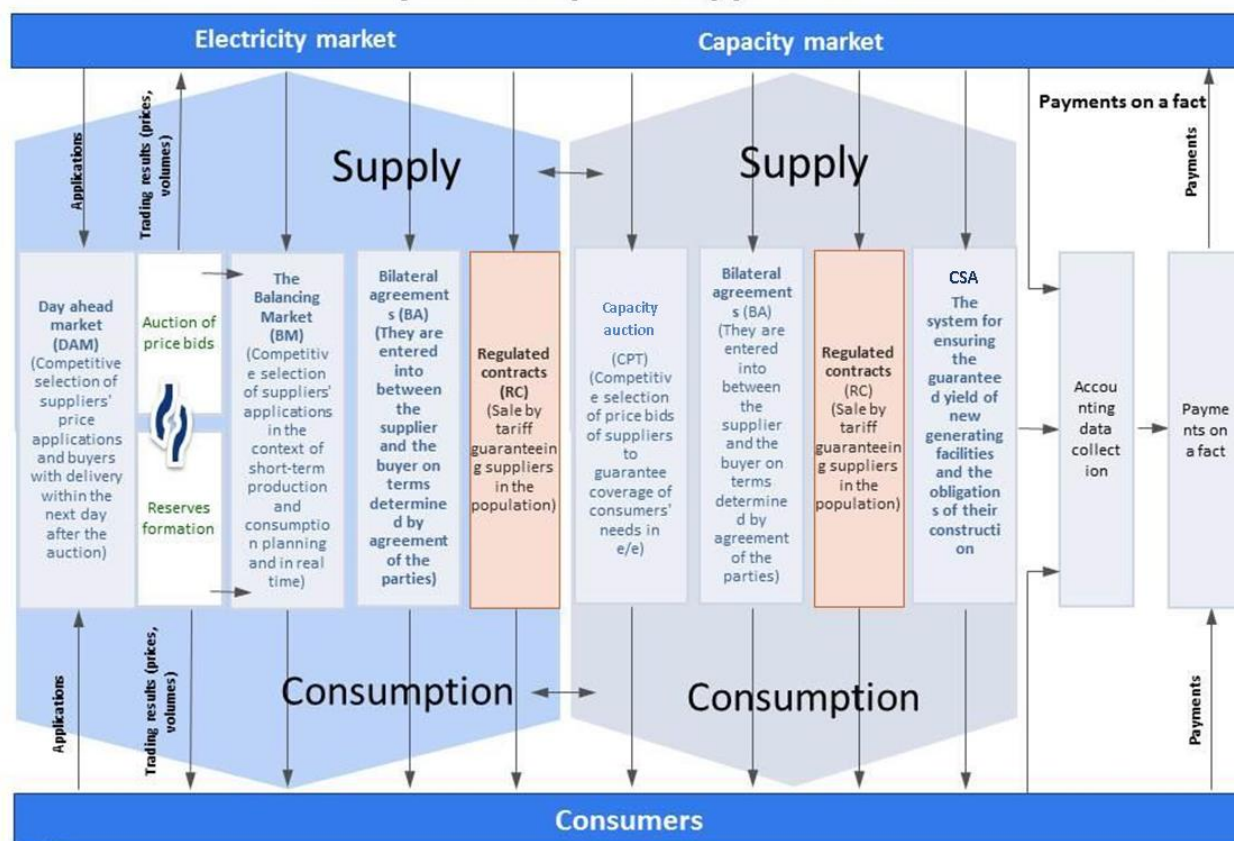
The structure of power generation by types of Russia power plants, %



Source: Russia Energy Ministry

## Business model

### RusHydro Group is a supplier WECM



## Competitive advantages

### The RusHydro Group's key competitive advantages

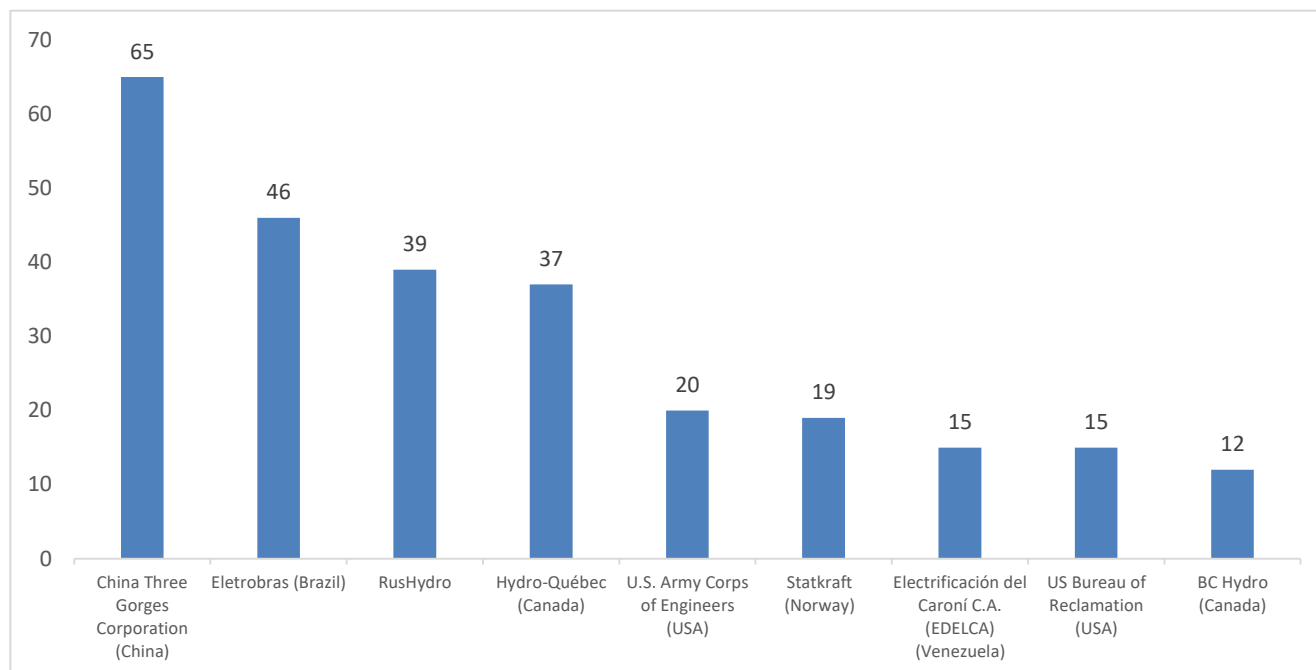
<b>Environmental friendliness</b>	The Hydro resources are a renewable and most environmentally friendly source of energy the use of which allows to reduce emissions of thermal power plants into the atmosphere and to preserve fossil fuel reserves.
<b>High flexibility</b>	Hydropower plants are the most maneuverable and are able to increase significantly the volume of power generation promptly when required to compensate for peak loads.
<b>Fuel component absence in the production cost</b>	Independence from fuel prices and, as a consequence, the possibility of long-term price guarantees for consumers.
<b>Social significance</b>	The hydropower industry is socially significant as the HPP water bodies are used to supply water for industrial and household needs, thus encouraging the development of agricultural and transport facilities. In addition, the HPPs serve as major employment providers in the regions.

The RusHydro Group controls numerous Russian hydropower facilities and is active in the popularization of renewable energy sources. The Group is fully aware of the significance of the tasks it deals with, striving to continuously develop its performance and participating in Russia's environmental and technological advances, while recognizing the Group's high social responsibility. The Group currently controls 400 electric power facilities, including 71 hydropower plants, the Kislogubskaya power plant, the only tidal power generation facility in Russia, 3 geothermal power plants generating more than 90 % of the country's geoheat, thermal power plants and retail companies.

The body of assets makes the RusHydro Group a unique generating company globally and the third largest company among the world's hydropower companies (in terms of installed capacity).



### Installed capacity of the world's major peer group companies in 2016, GW



Sources: PJSC RusHydro and competitor data

The world's major hydropower generating companies are controlled by the governments of their respective countries due to the strategic importance of the hydropower industry. Compared with the global peers, the RusHydro Group's activities are characterized by the very complex climatic and landscape conditions and the widespread operational geography. The Group's facilities are located all over the country ranging from Murmansk Region to the Primorie Region and from Chukotka to the Republic of Dagestan. Furthermore, the Group is engaged in international operations managing the Sevan-Hrazdan Cascade of HPPs in Armenia. The continuous, reliable and safe operation of infrastructural facilities vital for the country with facilities separated by tens of thousands kilometers poses a Herculean task for Group employees, who have successfully dealt with these challenges striving to implement the Group's Mission and Strategic Goals.

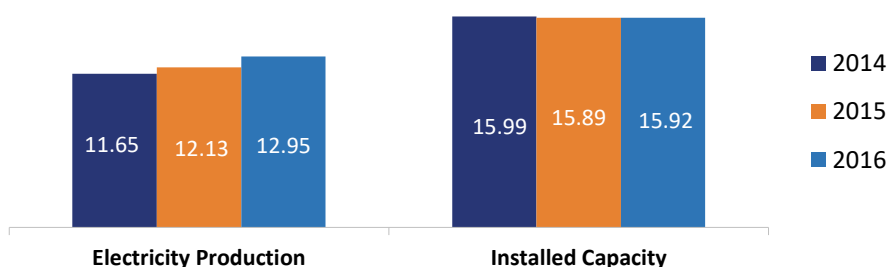
**The RusHydro Group's major Russian competitors in the electric energy generation sphere**  
 Russian generating facilities are mostly concentrated in the several large holding companies.

**Major competitors of PJSC RusHydro**

	<b>Holding Company</b>	<b>Installed capacity on generation type on 31.12.16, GW</b>
1	Gazprom Energy Holding, LLC	39
2	PJSC INTER RAO	28
3	Rosatom State Atomic Energy Corporation	28
4	SC EvrosibEnergo	20
5	PJSC T Plus	16
6	PJSC Unipro (earlier E.ON Russia)	11
7	PJSC Enel Russia	9
8	JSC Siberian Coal Energy Company	8
9	JSC TatEnergo	5
10	OJSC Fortum (TGK – 10)	4
11	PJSC Lukoil	4
12	SC SIBEKO, JSC Biyskenergo (RU-COM)	3
13	JSC TGK – 2 (Sintez Group)	2
14	PJSC Quadra (Onexim Group)	3
15	JSC TGK – 16 (JSC TAIF)	1
16	PJSC TGK – 14 (JSC Russian Railways)	1

The RusHydro Group's main competitors on the power generation market include independent Russian utility companies formed as a result of RAO UES of Russia reform. The Group considers the use of renewable energy sources as one of its priorities and stably increases installed capacity by building new power plants and commissioning new power generation facilities.

**The Group's domestic market share in terms of installed capacity and power generation in Russia, %**

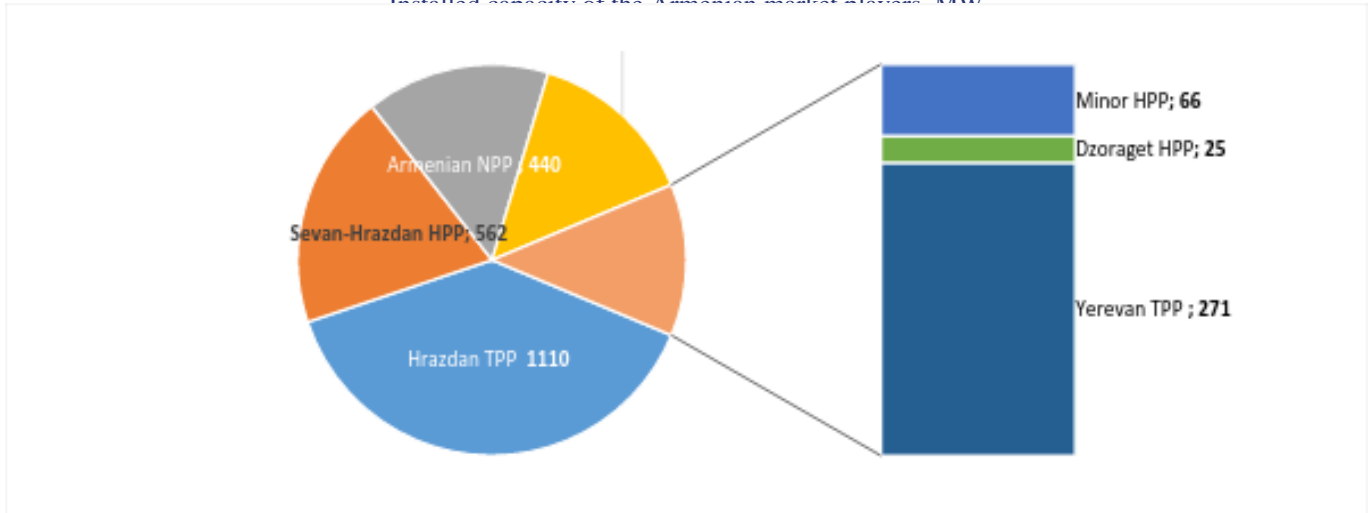


Sources: The information was prepared on the basis of summary data on the group of PJSC RusHydro and the annual report of the Ministry of Energy of the Russian Federation <http://minenergo.gov.ru/node/1161>

**Competitors at the Armenian electric energy generation market**

In 2011 PJSC RusHydro acquired 90 % of the Sevan-Hrazdan Cascade of HPPs shares with total capacity of 562 MW in Armenia. Thus the Group took the significant share of Armenian electric energy generation market.

Installed capacity of the Armenian market players, MW



**Russian markets of electricity and capacity**

The wholesale electricity and capacity market within the territory of Russian Federation is divided into the wholesale electricity and capacity market (WECM) and retail markets (REM). According to the requirements of the legislation, all stations with installed capacity over 25 MW perform electricity sales on the WECM. Stations whose capacity is 5-25 MW can choose to operate either on WECM or on REM.

The wholesale electricity and capacity market participants are: generating companies, electricity export/import operators, electricity sales organizations, electric grid companies (in terms of acquiring electricity to cover transmission losses), big consumers. The wholesale electricity and capacity market functions in price and non-price zones. The first price zone includes the territories of the European part of Russia and the Urals, while the second price zone includes Siberia. The WECM’s non-price zones include: the Arkhangelsk and Kaliningrad Regions, the Komi Republic and the territories of the Far East), where the capacity wholesale is realized on special terms. In the country territories not united in price and non-price zones only the rules of the retail electricity market operate.

WECM price and non-price zones



1 – the first price zone; 2 – the second price zone; 3,4,5 – non-price zones and isolated power systems.

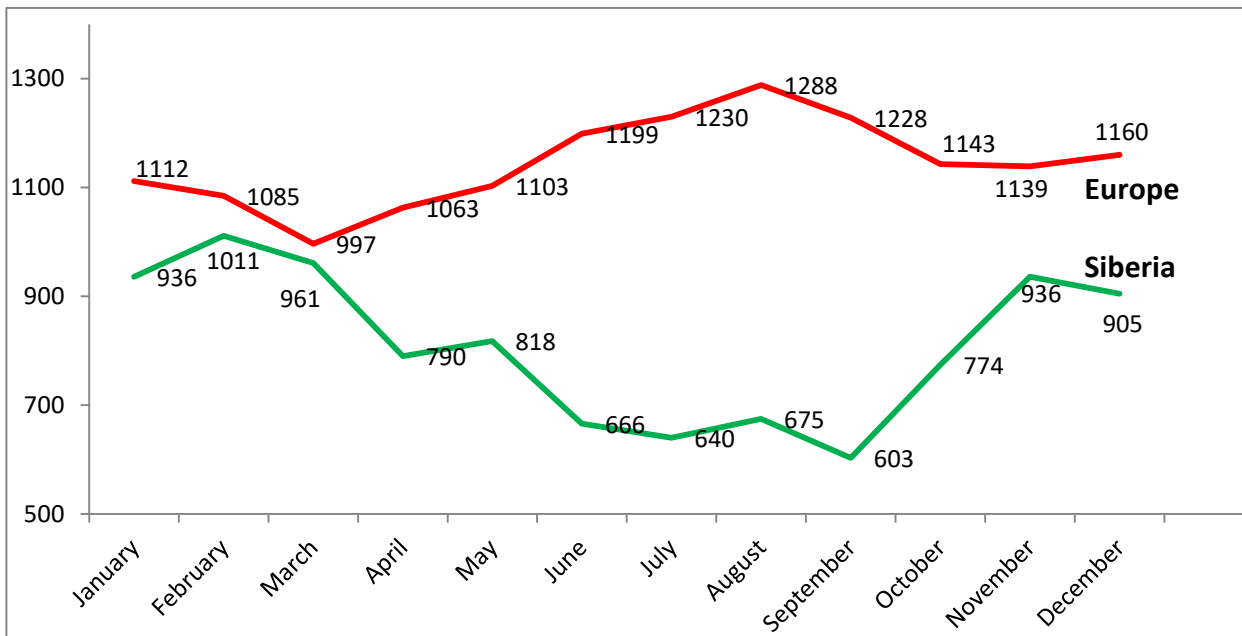
In the wholesale electricity and capacity market there are several sectors that differ in terms of transaction and delivery terms:

- regulated contracts (RC),
- quadripartite agreements (4-sided),
- day-ahead market (DAM),
- balancing market (BM),

- Non-regulated electricity and / or capacity sale and purchase contracts (NRECC, NRCC),
- free bilateral contracts for electricity sale (FDC),
- competitive power take-off (CCA),
- contracts for the purchase and sale of capacity of new NPPs and HPPs including PSHPP (CSA),
- bilateral agreements in non-price zones (BA in NPZ).

### Unregulated prices and tariff regulation

**The electricity and capacity wholesale price dynamics in 2016, rub./ MWh**



### *The change in the price on the DAM in general on the wholesale market of electricity and capacity*

#### **The first price zone**

##### **2016, 1 quarter**

In January the average prices of the DAM, compared with the same period in 2015 increased. The price rise is explained by a significant reduction in the price-taking offer of NPP and by the increase in price parameters in suppliers' bids. In February-March average DAM prices compared with the same periods in 2015 decreased slightly. The decrease in prices is explained by the decrease in demand, taking into account the interflow between price zones against the backdrop of an increase in the supply including the price taking.

##### **2016, 2 quarter**

In April there was the decline in prices of the DAM in comparison with the same period in 2015. The decrease in prices is explained by the more significant, in comparison with the same month of the previous year, excess in the rate of decline in demand over the rate of decline in the price-accepting offer and offer at prices up to 1100 rub/MWh against the background of an increase in the average daily temperature and a relative increase in the flow to the first price zone from the second price zone. In May-June of 2016 there was the increase in the prices of the DAM compared to the same periods in 2015. The price rise is explained by changes in the structure of the offer, as well as by systemic constraints that significantly influenced the formation of the DAM price in May and the delay in the rate of supply growth at prices below 1200 rub/MWh (the level of the DAM index in June 2015) from the rate of increase in aggregate demand taking into account the interflow between price zones with the result that the more expensive supplier bids in June had become price forming.

##### **2016, 3 quarter**

In July-September there was the increase in the prices of the DAM in comparison with the similar periods in 2015. The increase of the DAM index is due to the change in the structure of the offer, which is taking place against the backdrop of the growing demand, the significant reduction in the volume of the price-taking offer due to the decrease in the water availability of the planned HPP production (decrease in inflows of the Volga and Kama rivers), the decrease due to the planned repairs of power units of NPP development. In addition, the increase in demand led to the fact that a more expensive supply of TPPs had relevance.

##### **2016, 4 quarter**

In October there was the decline in prices of the DAM in relation to October 2015, which was mainly due to the growth in the supply of NPP, which exceeded the reduction in the price levels of HPPs and TPPs. In November there was the increase in the prices of the DAM in relation to November 2015 mainly due to the fact that the increase of the price offers up to 1,200 rub/MWh did not fully compensate for the growth in demand. The additional factor that influenced the growth of prices of the DAM was the repair of lines that provide electrical communications to the UES of the Center, UES of the Volga and UES of the South. In December there was the increase in the prices of the DAM in relation to December 2015, which was due to the increase in prices in the UES of the South, which took place against the background of the excess of demand growth taking into account the interflow

between price zones relative to the growth in supply. The increase in prices in the UES of the South by 26 % was caused, among other things, by the decrease in the average air temperature by 5.7° C and, as a result, the demand increased.

### The second price zone

<b>2016, 1 quarter</b>
The price rise of the DAM in January-February was mainly due to the increase in price parameters in the suppliers' bids.
The decline in the prices of the DAM in March 2016 was due to a reduction in demand with the increase in supply and almost all the volume of supply growth fell on the "cheap" electricity of the HPP.
<b>2016, 2 quarter</b>
The decline in the prices of the DAM in April was due to the increase in the price-taking offer and offer at prices below 800 rub/MWh with almost unchanged demand. The applications of more "cheap" generators became price forming due to the temporary reduction in the maximum admissible flow between the eastern and western parts of Siberia, as well as due to the increase in the supply of HPPs and the decrease in the supply of TPPs. The growth of prices of the DAM in May 2016 was due to the excess of the growth rate of demand over the rate of supply growth, as well as to the reduction of the maximum permissible cross-over over section 100152 Ekibastuz-Ural (to the Urals). The decline of the DAM prices in June compared to June 2015 was due to the excess of the supply growth rate over the growth rate of demand while the growth price offers up to 700 rub/ MWh was commensurate with the increase in demand taking into account the interflow between price zones.
<b>2016, 3 quarter</b>
The decline of the DAM prices in July relative to July 2015 is due to the excess of the supply growth rate at prices of up to 700 rub / MWh over the rate of growth of the flow from the price zone with constant demand. In July 2016 there were periods when zero or close to zero prices were formed in a number of regions which is mainly due to repairs. The decline of the DAM prices in August compared to August 2015 is due to the significant increase in the aggregate supply in the price zone outstripping the growth of the flow from the price zone with a practically unchanged volume of the demand. The water flow to the dams of the Sayano-Shushenskaya and Krasnoyarskaya HPPs, which increased by 18 % compared to the hydrological norm, and the commissioning of the 500 kV HV line Sayano-Shushenskaya HPP-Novokuznetskaya in 2015 linking the power systems of Khakassia and Kuzbass led to a significant increase in supply HPP and, as a result, the growth of the aggregate supply in August 2016. The fall in the prices of the DAM in September relative to September 2015 except for the increase in the number of hours to reach the maximum permissible overflow in the system-forming sections within the price zone of Siberia was due to the decrease in demand taking into account the interflow between price zones and the growth of the aggregate supply in the price zone.
<b>2016, 4 quarter</b>
In October the decline of the DAM prices for electricity compared to October 2015 is due to the significant excess of supply growth including price taking in comparison with the growth in demand. In addition, an important factor contributing to the decline of the DAM index in Siberia was the expansion of the repairing campaign and the deterioration of the capacity compared to October of the previous year, both in cross sections between price zones and within the zone of Siberia. In November the growth in prices of the DAM for electricity compared to November 2015 was due to the change in the price structure of the offer. The overall improvement in the throughput capacity of Siberia's backbone networks contributed to a leveling of prices which led to the increase in the price of the DAM on the average in the price zone. In December relative to December 2015 the growth in prices of the DAM for electricity was due to the reduction in the volume of the price-taking offer and, consequently, the reduction in supply at prices of up to 900 rub/ MWh, the rate of decline of which exceeded the rate of demand reduction taking into account the interflow between price zones.

## Electricity and capacity sales tariffs in 2016

### WECM's average weighted tariff dynamics

	2015		2016		Growth 2016-2015		Rate of growth	
	The average tariff	NGP	The average tariff	NGP	The average tariff	NGP	The average tariff	NGP,%
	RUB/ thousand. kW·h	thousand RUB	RUB/ thousand. kW·h	thousand RUB	RUB/ thousand. kW·h	thousand RUB.	%	%
Wholesale market	<b>344.51</b>	<b>25,550,701</b>	<b>385.07</b>	<b>27,599,273</b>	<b>40.55</b>	<b>2,048,572</b>	<b>111.77</b>	<b>108.02</b>
RC	<b>303.47</b>	<b>19,858,742</b>	<b>342.91</b>	<b>21,499,283</b>	<b>39.44</b>	<b>1,640,541</b>	<b>112.99</b>	<b>108.26</b>
Center	407.02	16,350,774	443.61	17,813,595	36.58	1,462,820	108.99	108.95
Siberia	122.14	3,018,173	148.40	3,275,236	26.26	257,063	121.50	108.52
Caucasus <sup>20</sup>	881.70	489,795	873.01	410,452	-8.70	-79,342	99.01	83.80

<sup>20</sup> Decrease in NGP and average tariff for RC (Caucasus) is caused by the exclusion from RC for 2016 of Gizeldonskaya and Dzauzhikauskaya HPPs (installed capacity is less than 25 MW), the whole volume of electricity is sold at higher free-of-control (unregulated) prices.

<b>NPZ</b>	<b>652.29</b>	<b>5,691,960</b>	<b>679.49</b>	<b>6,099,990</b>	<b>27.21</b>	<b>408,031</b>	<b>104.17</b>	<b>107.17</b>
FarEast	652.29	5,691,960	679.49	6,099,990	27.21	408,031	104.17	107.17
Isolated zones of the Retail market		<b>3,332,611</b>		<b>3,693,185</b>		<b>360,574</b>		<b>110.82</b>
Total		<b>28,883,312</b>		<b>31,292,458</b>		<b>2,409,146</b>		<b>105.34</b>

Tariffs for stations-subjects of the WECM were established by the Federal Anti-Monopoly Service of Russia (hereinafter – FAS Russia), in accordance with the developed methods of the Federal Tariff Service (hereinafter - FTS of Russia) (abolished in 2015, the assignee is the FAS Russia).

The main methodology for calculating tariffs in stations was the Indexing methodology approved by the Order of the Federal Tariff Service of Russia from 28.08.2014 No. 210-e/1 «About the Approval of the Formulas for indexation of regulated prices (tariffs) for electricity (capacity) used in contracts for the sale and purchase of electricity (capacity), the order of application, and also the procedure of setting planned and actual indicators used in these formulas». The base, calculated in 2007, is indexed annually using the index of changes in conditionally fixed expenses, defined by the Ministry of Economic Development of Russia. The index-deflator in the tariff of 2016 was 7.4 % - at the level of PPI (including without FECM). The method is also applied to new stations, starting from the second year of operation of the plant, for CSA-objects it is used only in the part of electricity.

For CSA-objects the price for capacity is calculated by the FAS Russia in accordance with the methodology approved by the Order of the FTS from 13.10.2010 No. 486-e «About the approval of the Procedure for defining the price for the capacity of new nuclear and hydroelectric power plants (including pumped storage power plants)».

Reasons for WECM tariffs growth:

- increased in 2016 tariffs of infrastructure organizations,
- indexation of tariffs: the deflator index in the rate of 2016 was 7.4 % - at the level of the CPI without fuel and energy products;
- consolidated performance forecast balance of electricity and capacity;
- increase in tax rates for the use of water objects without water intake for hydropower purposes (in accordance with the tax code of the Russian Federation for 2016 tax rates apply with the factor of 1.32);
- rise in prices of the CSA (capacity supply agreements) in 2016 of previously introduced hydroelectric power plants - the CSA facilities.

#### Major legislative changes

Amendments were made to clause 62 of RF Government Decree No. 1172 of 27.12.2010, according to which binding on RC is not carried out at stations below 25 MW, as well as in pumped storage power plants, which enables hydroelectric power plants Sengeleevskaya HPP, Svistukhinskaya HPP, Egorlykskaya HPP-2, Zaramagskaya HPP - Head Hydropower Plant of the Ardonsky Cascade, Dzauzhikauskaya HPP, Gizeldonskaya HPP, as well as PSPs to operate fully in the free electricity (capacity) market.

#### The work on retail electricity markets

The work on REM in price zones is carried out under free bilateral contracts with consumers (stations less than 5 MW on a mandatory basis, stations from 5 to 25 MW at will). There is no regulation of tariffs in this market sector. The energy is sold according to contract prices.

The work in isolated areas of the REM is carried out by the generating companies of PJSC RusHydro subsidiaries. For them 100 % regulation operates due to the lack of a free electricity (capacity) market.

The tariffs for stations-entities of isolated REM zones are set by regional authorities in the field of tariff regulation (hereinafter referred to as the Regulator), in accordance with the developed methods of the FTS of Russia:

- Federal Tariff Service order No. 20-e / 2 of 06.08.2004 "On approval of methodological guidelines for calculation of regulated tariffs and prices for electric (thermal) energy in the retail (consumer) market" (method of economically justified costs);
- Federal Tariff Service order No. 275-e / 4 of 05.07.2005 "On approval of Methodological Guidelines for Indexation of Marginal (Minimum and (or) Maximum) Tariff Levels and Tariffs for Products (Services) of Organizations Performing Regulated Activities" (indexation method).

The choice of the method of regulation is proposed to the regulated organization but always remains at the discretion of the Regulator.

In 2016 tariff campaign the growth of tariffs above the deflator index was achieved for the subjects of the REM, which produce power at HPPs and GPPs and are regulated by the method of economically justified costs.

### *RusHydro's DAM and CCA price dynamics*

**Price rate dynamics DAM and CCA**

<b>Indicator</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Growth 2016/2015</b>	<b>Change %</b>
DAM price, rub./ MWh	1,139.5	1,206.8	1,205.0	-1.8	-0.1
Price DAM *, rub./ MWh	1,072.9	1,096.0	1,080.0	-16.1	-1.5
1 <sup>st</sup> price zone DAM price, rub./ MWh	1,226.9	1,207.1	1,267.2	60.1	5.0
2 <sup>nd</sup> price zone DAM price, rub./ MWh	776.8	882.5	793.3	-89.2	-10.1
CCA price *, rub./ MW monthly	116,190.6	127,564.1	139,780.8	12,216.7	9.6
1 <sup>st</sup> price zone CCA price, rub./ MW monthly	140,566.7	125,524.0	111,627.7	-13,896.4	-11.1
2 <sup>nd</sup> price zone CCA price, rub./ MW monthly	68,492.8	131,695.6	178,724.1	47,028.5	35.7

\* Weighted average price of DAM / COM.

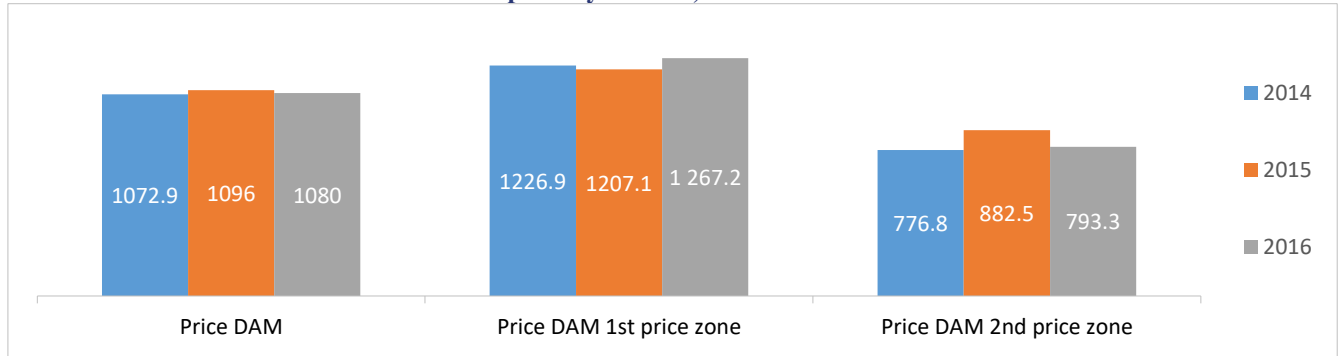
In 2016 for PJSC RusHydro HPPs located in the second price zone the selling price of the DAM zone increased due to a combination of various factors, including due to the general increase in prices of DAM in the second and third quarters due to the decrease in the price-taking offer of the HPP (due to the decrease in the water availability of planned HPP production), due to the decrease in production of NPP (due to scheduled repairs of power units) and due to the increase in the volumes of more expensive TPP supply.

For PJSC RusHydro HPPs located in the second price zone, the selling price in the DAM decreased as a whole. The main reasons were the increased influx of Siberian rivers, the expansion of the repairing campaign and the deterioration of the network capacity, both in cross sections between price zones and within the zone of Siberia.

The increase in the price for the capacity sales at the CCA for HPPs of the second price zone is due to the "liberalization" of the capacity market for HPPs from 01.05.2016<sup>21</sup>.

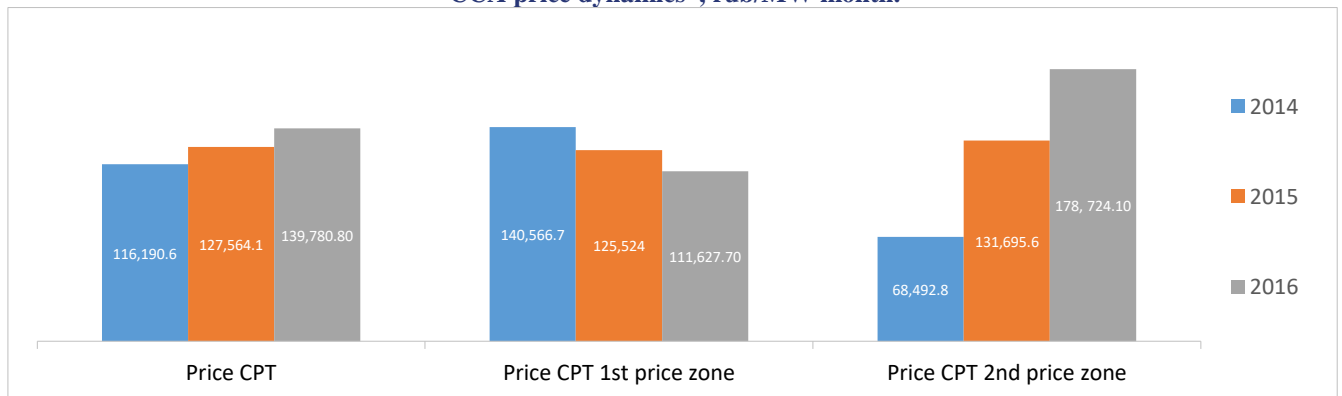
<sup>21</sup> Decree of the Government of the Russian Federation of 30.04.2016 No. 379 lifted restrictions on the sale of the entire capacity of hydroelectric power plants located in the 2nd price zone at free-of-control (unregulated) prices. Thus, the entire amount of capacity of HPPs located in the 2nd price zone minus the volumes supplied by RC was supplied at the price of CCA. Early liberalization was introduced on the condition that the maximum increase in the unit cost of electricity and capacity purchase for consumers in the Republic of Buryatia, determined by the Government of the Russian Federation will not exceed 7.5 % from May to December 2016. If this level of price increase is exceeded then 100 % liberalization will be canceled and HPPs will return to the previous liberalization level of 80 %.

### DAM price dynamics\*, rub/MWh



\* Weighted average DAM price.

### CCA price dynamics\*, rub/MW month.



\* Weighted average CCA price.

### **Plans for 2017**

In accordance with the plans of the Ministry of Energy of the Russian Federation, the Scheme and the program for the development of the Unified Energy System of Russia for 2016-2022 approved by the Order of the Ministry of Energy of the Russian Federation No. 147 of 01.03.2016, based on the analysis of the Investment Program and the business plan of PJSC RusHydro it is expected that:

- The share of generation of generating facilities belonging to the RusHydro Group in the overall output of the Russian Federation in 2017 will decrease from 12.95 % in 2016 to ~ 12.72 % in 2017 while the output of the Company will be about 2 %;
- The share of the installed capacity of power plants of the RusHydro Group in the installed capacity of the Russian power plants will decrease from 15.92 % in 2016 to 15.49 % in 2017 while the Company's installed capacity growth will be about 1.5 %.

### **Far East electric power industry features**

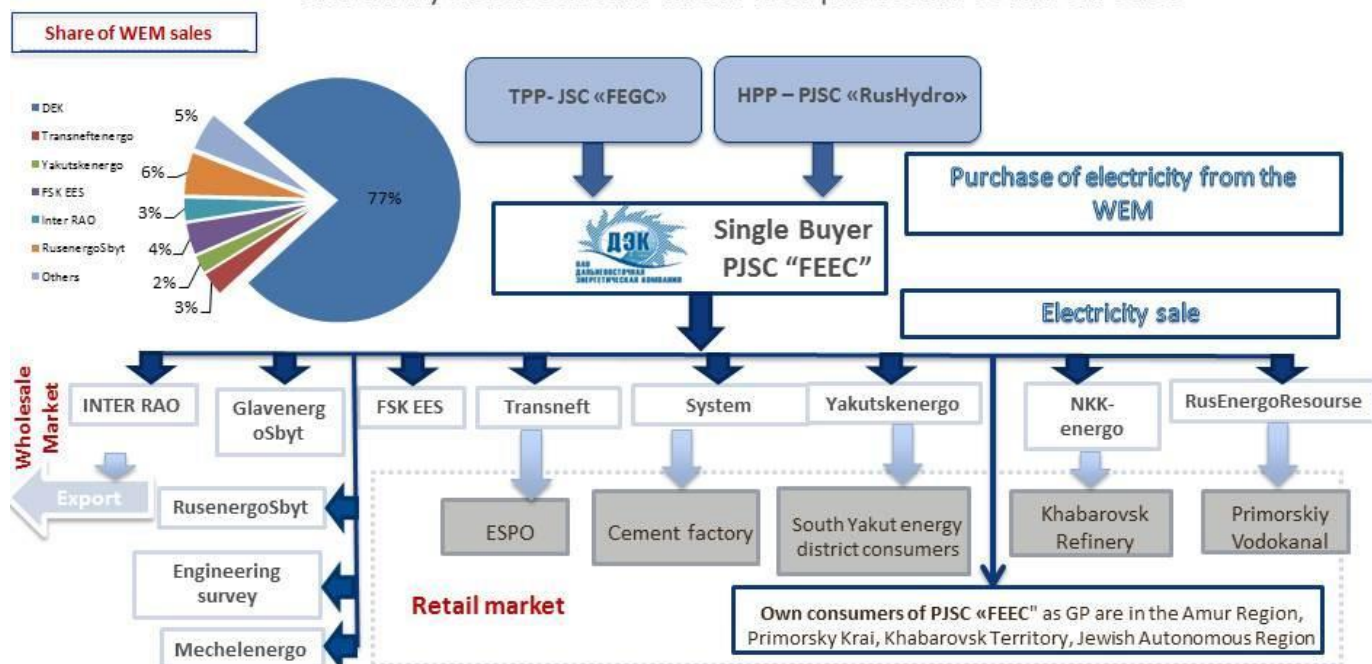
The development of the Far East is one of the highest priorities of the state. For its solution the Federal Target Program for the Development of the Region has been developed and the Ministry for the Development of the Russian Far East has been created.

In the energy sector of the region the situation is complicated by the presence of state regulation of tariffs for heat and electricity. The retiring capacities need to be replaced. The construction of new stations is necessary to improve the reliability of the region's energy supply and to contain growth of tariffs. The management of energy companies operating in the regions of the Far Eastern Federal District in all sectors of the electric power industry - the production of electric and heat, their transfer and sale is carried out by RAO ES EAST, PJSC that is part of the RusHydro Group.

Investment projects aimed at developing the energy infrastructure of the Far East are priority for the RusHydro Group.



## Electricity market model in the non-price zone of the Far East



In the non-price zone of the Far East, tariff regulation is carried out: sales of balance electricity volumes and capacity at the WECM is carried out under quadripartite contracts at supplier tariffs. Overbalance volumes of production and consumption can be realized under bilateral agreements.

### The possibility of concluding bilateral agreements:

**Short-term** are only on e/e on the volume of overbalance output, as well as between the new gene. Objects and consumers (since 2008) at a price not higher than the maximum of the limit level and the supplier's double tariff

**Long-term (from 10 years)** are on e/e and power between the new gene. Objects and consumers (since 2011) at a price not exceeding the maximum level of regional prices (tariff).



2

## Tariff regulation

RAO ES EAST, PJSC operates in the territory of non-price zones and isolated energy systems of the Far Eastern Federal District in accordance with the tariff decisions approved by the state federal executive bodies (FTS of Russia - up to 21.07.2015, after 21.07.2015 - FAS Russia) and by the executive government bodies of the constituent entity of the Russian Federation in the field of state regulation of tariffs (hereinafter - the regional authorities) in accordance with the principles of pricing and rules of state regulation of tariffs for electric and heat in Russia.

### Statutory tariff regulation

- Federal Law No. 35-FZ of 26.03.2003 "On Electric Power Industry" establishes the main principles and methods of state regulation in the electric power industry, the powers of regulatory bodies. The main principles, methods for regulating prices (tariffs) in the electric power industry and the procedure for setting tariffs are defined by the Decree of the Government of RF No. 1178 of 29.12.2011 "On pricing in the field of regulated prices (tariffs) in the electric power industry".
- Federal Law No. 190-FZ "On Heat Supply" of 27.10.2010 establishes the main principles for regulating prices (tariffs) in the field of heat supply and the authorities of regulating bodies in the field of price (tariffs) regulation in the heat supply field.
- The main principles, methods of regulation, as well as the procedure for calculating and approving tariffs for heat are defined by the Decree of the Government of RF No. 1075 of 22.10.2012 "On Pricing in the Field of Heat Supply."
- Federal Law No. 508-FZ of 28.12.2016 "On Amendments to the Federal Law "On Electric Power Industry" provides for the reduction of electricity tariffs in the Far Eastern Federal District to the basic level.
- In order to implement the provisions of the above-mentioned law currently federal executive bodies in cooperation with PJSC RusHydro are developing by-laws that regulate the mechanisms for obtaining premium to the price of capacity in the price zones of the wholesale market and its distribution in the territories of the Far Eastern Federal District. The expected entry into force of the mechanisms is from 01.07.2017.

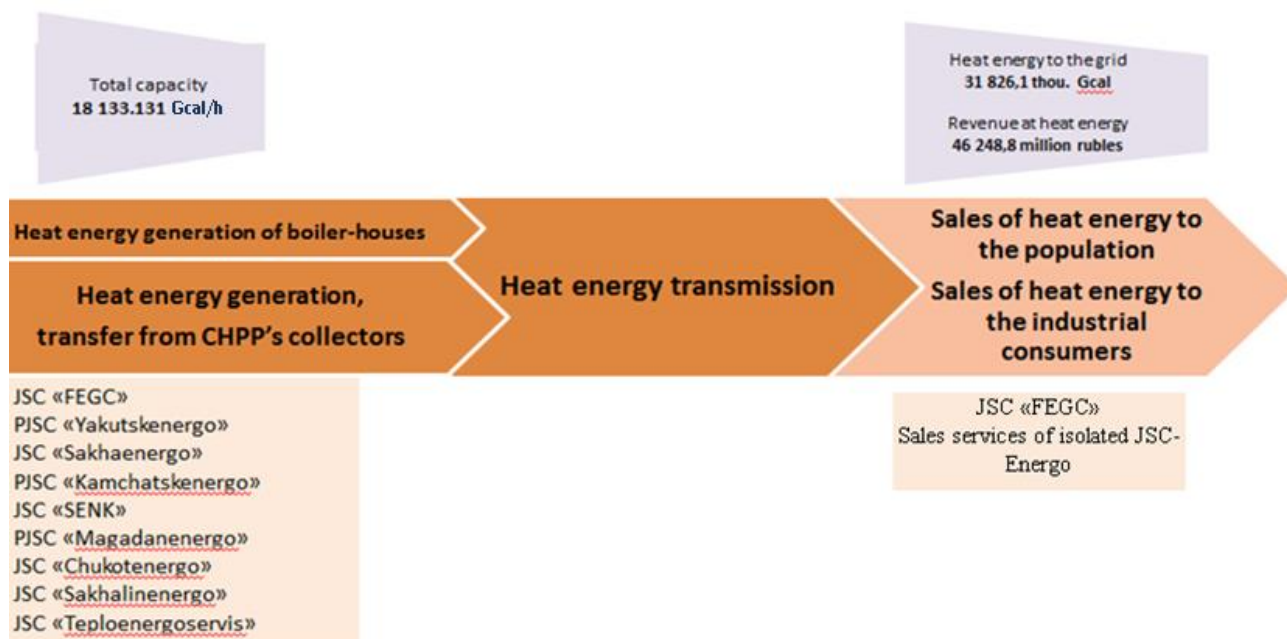
The companies of the RAO ES EAST Holding carry out the following types of regulated activities:

<b>Sale of electricity to end users</b>	In non-price zones: Until 01.07.2016 - the tariffs are set by the regional regulators within the limits set by the FAS Russia in 2016 in accordance with the methodological guidelines for calculation of regulated tariffs and prices for electric (thermal) energy in the retail (consumer) market. From 01.07.2016 - the actual prices for end consumers excluding the population calculated by the guaranteeing supplier on the basis of the rules for price transfer from WECM to REM provided for in the Main Provisions for the Operation of the Retail Electricity Markets approved by the Decree of the Government of RF of 04.05.2012 No. 442. In isolated PP: The tariff are set by regional regulators within the limits approved in 2016 by FAS Russia in accordance with the methodological guidelines for calculation of regulated tariffs and prices for electric (thermal) energy in the retail (consumer) market.
<b>Generation of electricity and capacity for sale in the non-price zone of the WECM</b>	The tariffs for electricity (capacity) for entities in the non-price zone of the WECM (Far East) in 2016 were established by FAS Russia in accordance with the Price (tariff) indexing formulas approved by the order of FAS Russia No. 1177/15 of 27.11.2015.
<b>Transmission of electricity in the non-price zone of the WECM</b>	The tariffs for services on transmission of electric energy in the territory of the non-price zone of the Far Eastern Federal District (except for the Republic of Sakha (Yakutia)) through the networks of JSC "FEDC" was approved by the regional regulators by the method of ensuring the return on invested capital (RAB). The end term of the next long-term regulatory period is 2017. In all territories of the zone of operation of JSC "FEDC" within the limits approved by the Federal Antimonopoly Service in 2016 the boiler tariffs for electricity transmission services have been established.
<b>Generation of heat in combined generation mode</b>	The tariffs are set by regional regulators by indexing the established tariffs within the approved in 2016 by FAS Russia maximum tariff levels for heat generated in the combined generation mode of electric and heat by heat sources with an installed generating capacity of electric power production of 25 MW or more.
<b>Sale of heat to end users</b>	The tariffs are approved by the PTR by indexing for the long-term period of 2016-2018. Starting from 2016 the tariff growth is limited not by the maximum level of tariff growth (FAS Russia is not established) but by the index of the change in the amount of utility payments paid by citizens for the constituent entities of the Russian Federation established by the Decree of the Government of RF No. 2182-r of 28.10.2015.

### 3.1.2 Heat market

The RusHydro Group presents in the heat generation market through the activities of RAO ES EAST Holding. The subsidiary companies of the Holding are participants of retail heat markets in their territories. The sale of heat according to the legislation of the Russian Federation is a fully regulated activity.

#### Business model\*



\* Isolated JSCs of RAO ES EAST Energy Holding are vertically integrated energy companies that unite activities for production of electricity and heat,

transmission of electricity through distribution networks and heat through heat networks and sales functions.

UES of East JSC "FEGC" produces heat, as well as performs transportation and sale of heat to the end user.

In addition, the stations of the branches of PJSC RusHydro Zeyskaya and Bureyskaya HPPs (in addition to electric energy) generate heat in the process of transforming electricity in electric boiler-houses.

The installed thermal capacity of RAO ES EAST power plants subsidiaries as of 31.12.2016 amounted to 18,133.131 Gcal/h and increased by 160.6 Gcal/h in 2016. The main influence on the change in thermal power was provided by the following factors:

- change in capacity of JSC "FEGC" with the commissioning of the second stage of Blagoveshchenskaya TPP - 188.6 Gcal/h., commissioning of boiler-houses "Nekrasovka" - 30.18 Gcal/h and "Volochnaevsky town" - 9.54 Gcal/h.;
- change in capacity of JSC "Yakutskenergo", output - 17.01 Gcal/h.;
- change in capacity of the boiler-houses of the enterprise Communal power engineering of JSC "Kamchatskenergo", output - 45.0 Gcal/h.;
- change in capacity of boiler-houses of JSC "Teploenergoservis", output - 7.0 Gcal/h.;
- change of thermal capacity of JSC "SENK", input – 1.3 Gcal/h.

#### Installed capacity of power plants in 2014-2016, Gcal/h.

RAO ES EAST subsidiaries	The installed capacity			Change, 2016-2015
	2014	2015	2016	
JSC "FEGC"	12,585.1	12,585.1	12,813.42	228.32
PJSC "Yakutskenergo"	1,188.02	1,175.7	1,158.69	(17.01)
JSC "Sakhaenergo"	92.425	92.425	92.425	0
PJSC "Magadanenergo"	773.26	773.26	773.26	0
JSC "Teploenergoservis"	763.7122	761.152	754.126	(7.026)
JSC "Chukotenergo"	404.44	404.44	404.44	0
PJSC "Kamchatskenergo"	1,336.867	1,336.867	1,291.87	(44.997)
JSC "SENK"	42.916	42.916	44.25	1.334
JSC "Novikovskaya Diesel Power Plant"	0	0	0	0
PJSC "Sakhalinenergo"	756.15	800.65	800.65	0
<b>Total</b>	<b>17,942.89</b>	<b>17,972.51</b>	<b>18,133.131</b>	<b>160.621</b>

#### Production and transmission of heat

The heat output of power plants and boiler-houses of power companies of RAO ES EAST, PJSC Group in the Far Eastern Federal District in 2016 amounted to 31,494.2 thousand Gcal which is 3.6 % more than in 2015. The increase in heat supply in the Republic of Sakha (Yakutia), the Amur and Sakhalin regions, the Khabarovsk, Primorsky and Kamchatka regions is associated with a lower outdoor air temperature in the first and fourth quarters of 2016 than in 2015.

#### Heat output by power plants and boiler-houses in 2014-2016, thousand Gcal

Index	2014	2015	2016
JSC "FEGC"	21,744.1	21,206.0	22,144.0
PJSC "Yakutskenergo"	2,518.4	2,437.68	2,496.8
JSC "Sakhaenergo"	94.2	99.55	87.7
JSC "Teploenergoservis"	1,409.4	1,359.2	1,333.5
PJSC "Kamchatskenergo"	2,099.2	1,993.4	2,120.0
PJSC "Magadanenergo"	1,251.8	1,252.6	1,232.0
<i>Including Thermal stations</i>	<i>1,059.3</i>	<i>1,065.5</i>	<i>1,072.9</i>
JSC "Chukotenergo"	461.9	478.4	442.4
PJSC "Sakhalinenergo"	1,508	1,485.7	1,558.1

JSC "SENK"	78	76.4	79.7
<b>Total</b>	<b>31,165.0</b>	<b>30,388.9</b>	<b>31,494.2</b>

The amount of heat losses in heat networks in 2016 amounted to 7,614.9 thousand Gcal (23.9 % in relation to the release of heat to the grid). Relative losses at the level of previous years: the increase of 0.3 % compared to 2015 and compliance with the level of losses in 2014.

**The release of heat into the grid and the loss of heat by RAO ES EAST, PJSC Group subsidiaries**

Index	2014	2015	2016
Heat supply to the grid. thousand Gcal	31,478.2	30,681.7	31,826.1
Heat losses. thousand Gcal	7,519.5	7,249.8	7,614.9
Heat losses. % of the supply to the grid	23.9	23.6	23.9

**Dynamics of tariffs for heat for end consumers, rub / Gcal**

Name	2015			2016			Variation, %		
	Total	1 Half-year	2 Half-year	Total	1 Half-year	2 Half-year	2016/ 2015	1 half-year 2016/	2 half-year 2016/
								2 half-year 2015	1 half-year 2016
<b>JSC "FEGC", including</b>	<b>1,299.09</b>	<b>1,252.31</b>	<b>1,366.11</b>	<b>1,397.31</b>	<b>1,378.44</b>	<b>1,424.17</b>	<i>107.6</i>	<i>100.9</i>	<i>103.3</i>
Amur region	767.7	746.8	796.3	806.86	796.24	821.38	<i>105.1</i>	<i>100.0</i>	<i>103.2</i>
Primorsky region	1,533.40	1,457.80	1,663.30	1,689.95	1,663.27	1,738.06	<i>110.2</i>	<i>100.0</i>	<i>104.5</i>
Primorsky region (LuTEK)	1,167.80	1,115.80	1,246.70	1,268.54	1,246.42	1,302.01	<i>108.6</i>	<i>100.0</i>	<i>104.5</i>
Khabarovsk region	1,212.60	1,173.60	1,266.30	1,287.44	1,265.58	1,316.21	<i>106.2</i>	<i>99.9</i>	<i>104.0</i>
Volochevskaya boiler-house	1,471.20	x	1,471.20	1,503.88	1,471.18	1,538.60	<i>102.2</i>	<i>100.0</i>	<i>104.6</i>
Jewish Autonomous Region	1,825.30	1,772.70	1,897.20	1,896.37	1,895.52	1,897.64	<i>103.9</i>	<i>99.9</i>	<i>100.1</i>
"Neryungrinskaya TPP" (Yakutia)	1,676.20	1,598.40	1,772.10	1,867.96	1,772.08	1,984.33	<i>111.4</i>	<i>100.0</i>	<i>112.0</i>
<b>PJSC "Yakutskenergo"</b>	<b>1,325.50</b>	1,284.60	1,376.60	<b>1,452.32</b>	1,376.56	1,548.49	<i>109.6</i>	<i>100.0</i>	<i>112.5</i>
<b>PJSC "Kamchatskenergo"</b>	<b>4,409.60</b>	4,215.90	4,742.40	<b>5,029.23</b>	4,733.83	5,515.85	<i>114.1</i>	<i>99.8</i>	<i>116.5</i>
<b>PJSC "Magadanenergo"</b>	<b>3,692.20</b>	3,516.30	3,978.80	<b>4,029.84</b>	3,987.38	4,098.01	<i>109.1</i>	<i>100.2</i>	<i>102.8</i>

**Dynamics of average tariffs, NGP, thousand rubles.**

	2015	2016	Growth 2016-2015	Growth rate, %
Heat	45,198,287.14	48,405,780.36	3,207,493.33	107.1

**Heat sales market**

In 2016 the actual productive heat supply in total for the RAO ES EAST, PJSC Group subsidiaries amounted to 23,442.0 thousand Gcal which is higher than the index of 2015 by 670.1 thousand Gcal. Revenues amounted to 46,248.8 million rubles and exceeded the index of 2015 by 4,299.2 million rubles.

The receipt of cash for the implemented heat in 2016 amounted to 44,183.2 million rubles which is higher than in 2015 by 4,305.6 million rubles. The level of payments to revenue in 2016 was 95.5 %.

The main share in the structure of productive supply is accounted for by the population, HOAs, HBCs, managing companies and accounts for 59.1 % of total consumption.

As of 31.12.2011 the debt of consumers for heat was 15,948.9 million rubles. The main share in the structure of accounts receivable is occupied by the population with HOAs, HBCs and Managing companies - 77.7 % of the total debt.

#### Heat sales in 2014-2016.

Index	2014	2015	2016
Productive heat supply, thousand Gcal	23,260.0	22,771.9	23,442.0
Revenue for heat, million rubles	40,590.6	41,949.6	46,248.8
Cash inflow for heat, million rubles	38,967.8	39,877.6	44,183.2

The following factors influenced the growth of the productive heat supply by 670.1 thousand Gcal in comparison with the year 2015: the decrease in the outdoor air temperature relative to the fact of the previous year, the increase in the duration of the heating season 2015-2016, and the earlier start of the heating season 2016-2017.

The cash inflow for heat released in 2016 amounted to 44,183.2 million rubles which is 4,305.6 million rubles higher than in 2015. The payment to revenue ratio in 2016 was 95.5 % which is higher than in 2015 by 0, 4 %.

### 3.1.3 Operational results

#### 2016 events

- In 2016 actual electricity generation of HPPs of PJSC RusHydro is 16.6 % that is higher than in 2015
- Zaragizhskaya HPP (30.6 MW) and Zelenchukskaya HPP-HPSP (140 MW) were put into operation
- The construction of the Blagoveshchenskaya TPP second stage was completed

#### Generating facilities of RusHydro Group

Name	Generation (million kWh)			Productive supply (million kWh)			Installed capacity (MW)		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
The Bureyskaya HPP	6,065.9	5,830.3	7,052.70	5,921.2	5,690.0	6,906.17	2,010.0	2,010.0	2,010.0
The Zeyskaya HPP	6,427.8	4,280.7	6,407.52	6,186.8	4,043.0	6,160.57	1,330.0	1,330.0	1,330.0
The Novosibirskaya HPP	2,117.9	2,092.5	2,249.74	2,096.6	2,068.8	2,224.15	460.0	465.0	470.0
The Sayano-Shushenskaya HPP	20,374.6	20,626.0	26,958.12	20,270.4	20,454.1	26,719.31	6,721.0	6,721.0	6,721.0
The Kamskaya HPP	1,998.4	2,463.8	1,926.54	1,967.4	2,433.8	1,900.93	543.0	549.0	552.0
The Votkinskaya HPP	2,792.5	3,210.9	2,873.17	2,735.8	3,148.2	2,810.26	1,020.0	1,020.0	1,020.0
The Upper Volga Cascade of HPPs	863.3	723.3	1,191.36	838.3	702.6	1,169.82	476.6	476.6	476.6
The Nizhegorodskaya HPP	1,281.2	1,168.7	1,491.62	1,259.7	1,149.8	1,472.36	520.0	520.0	520.0
The Cheboksarskaya HPP	1,889.6	1,632.6	1,989.45	1,833.6	1,578.3	1,931.78	1,370.0	1,370.0	1,370.0
The Zhigulevskaya HPP	10,484.1	10,398.3	10,670.87	10,380.0	10,307.1	10,580.59	2,383.0	2,404.0	2,446.0
The Saratovskaya HPP	5,599.6	5,560.3	5,512.49	5,504.6	5,469.1	5,423.97	1,378.0	1,391.0	1,397.0
The Volzhskaya HPP	11,565.9	10,999.4	11,841.36	11,416.6	10,870.8	11,720.08	2,639.5	2,650.0	2,660.5
The Zagorskaya pump storage plant	1,859.7	1,841.5	1,875.35	1,808.0	1,791.4	1,821.36	1,200.0	1,200.0	1,200.0
The Kubanskaya Cascade HPPs	1,383.6	1,299.1	1,363.43	1,353.5	1,271.3	1,336.00	476.5	476.5	476.5
Karachay-Cherkessia branch	1.7	336.2	89.68	-1.0	331.1	84.70	160.6	160.6	300.6
Kabardno-Balkaria branch	564.7	478.7	503.47	556.7	471.2	496.25	157.5	157.5	188.1
North Ossetia branch	293.4	267.4	174.87	287.7	261.3	168.66	94.5	94.5	94.5
Dagestan branch	4,014.1	4,196.8	6,107.71	3,970.2	4,156.2	6,059.47	1,785.5	1,885.5	1,885.5
<b>Total</b>	<b>79,578.1</b>	<b>77,406.4</b>	<b>90,279.4</b>	<b>78,385.9</b>	<b>76,198.0</b>	<b>88,986.4</b>	<b>24,725.8</b>	<b>24,881.3</b>	<b>25,118.35</b>
The Kolymskaya HPP	1,558.4	1,672.8	1,663.48	1,516.3	1,628.1	1,612.81	900.0	900.0	900.0
JSC The Ust-	372.9	280.5	337.40	360.6	267.8	323.52	168.0	168.0	168.0

Srednekanskaya HPP									
JSC Geothermal Power Plant	405.5	409.7	400.20	371.8	376.4	366.45	62.0	62.0	62.0
JSC The Pauzhetskaya GeoPP	42.3	42.3	43.11	35.2	34.8	35.60	13.6	13.6	13.6
CJSC IEC	474.7	453.4	405.46	465.3	444.3	395.60	561.4	561.4	561.4
PJSC The Kamchatka GEC	38.8	39.0	39.4	37.5	37.8	37.90	24.8	24.8	24.8
PJSC The Boguchanskaya HPP	8,361.7	13,076.8	13,969.61	8,306.9	12,995.0	13,878.17	2,997.0	2,997.0	2,997.0
CJSC Blagoveshchenskaya TPP	-	-	-	-	-	-	-	120.0	-
PJSC RAO Energy Systems of the East	31,155.9	33,970.2	31,672.07	27,246.3	29,831.9	27,651.61	8,981.7	8,924.0	9,022.9*
<b>Total</b>	<b>121,988.3</b>	<b>127,350.9</b>	<b>138,810.2</b>	<b>116,725.7</b>	<b>121,814.2</b>	<b>133,288.1</b>	<b>38,434.2</b>	<b>38,652.0</b>	<b>38,868.1</b>

\* The Blagoveshchenskaya TPP (second stage) is included into the power supply of the RAO ES EAST Holding.

### Installed capacity

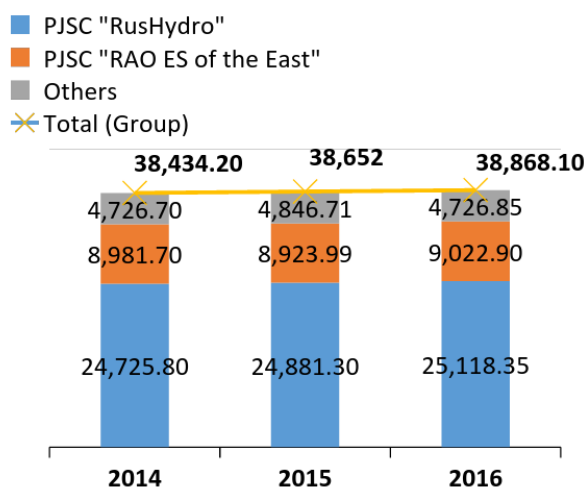
As for 01.01.2016 the installed capacity for the PJSC RusHydro Group was 38,652 MW. During 2016 the total installed capacity increased by 216.1 MW and as for 31.12.2016 it was 38,868.1 MW.

The growth of installed capacity in PJSC RusHydro branches (comparing with previous year) happened due to equipment remarking: Novosibirskaya HPP - by 5.0 MW; Kamskaya HPP - by 3.0 MW; Zhigulevskaya HPP - by 42.0 MW; Volzhskaya HPP - by 10.5 MW; Saratovskaya HPP - by 6.0 MW.

Besides, due to the commissioning of new hydroelectric power plants at the Zelenchukskaya HPP-PSPP of the branch of PJSC RusHydro - Karachay-Cherkessia Branch (140.0 MW) and Zaragizhskaya HPP transferred under the lease agreement to the branch of PJSC RusHydro - Kabardino-Balkaria Branch (30.6 MW).

The RusHydro Group was always first in the rating of installed capacity among Russian power suppliers. The implemented investment program gives grounds to expect it to save its leading position

### Installed capacity<sup>22</sup>, MW

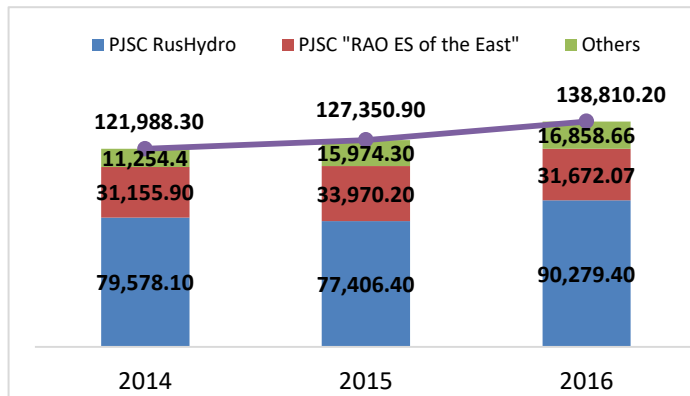


### Electricity output

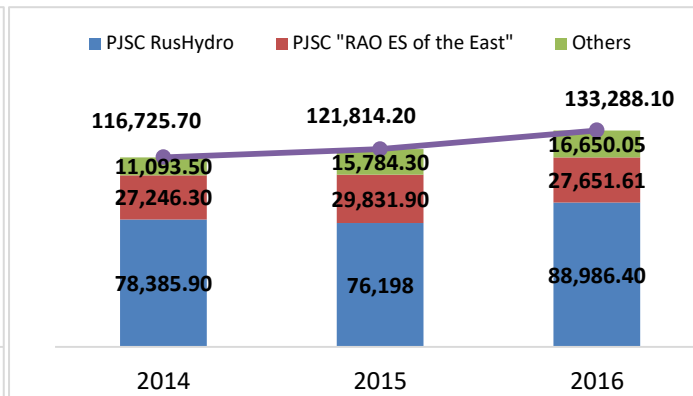
In 2016 the electricity output by HPPs of PJSC RusHydro amounted to 138.7 billion kWh which is 16.6 % higher than in 2015 and 11.6 % higher than planned. The increase in production is due to the actual hydrological conditions that developed during the reporting period and caused by high inflow to the reservoirs of Siberia and of the Far East. According to the Hydrometeorological Center of Russia the increase in inflow from the mean annual values was 12 and 57 % respectively.

<sup>22</sup> The data are given taking into account the PJSC "Boguchanskaya HPP" (owned by PJSC RusHydro and UC RUSAL), taking into account the HPP-2 of PJSC KamGEC, excluding HPP-1 and HPP-3 of PJSC KamGEC, which are under trust management of PJSC RusHydro.

### Dynamics of electricity generation of RusHydro Group<sup>33</sup>, million kWh



### Dynamics of productive supply of electric power of RusHydro Group<sup>33</sup>, million kWh



### Electricity and capacity sales

For 2016 net sales of electricity and capacity by branches of PJSC RusHydro which takes into account the purchase of electricity and capacity costs amounted to 107,227.3 million rubles.

The main factors that influenced the increase in revenue from the sale of electricity and capacity:

- the increase in electricity generation by 16.6 %,
- the increase in the price for the capacity sales at the CCA for HPPs of the second price zone due to the "liberalization" of the capacity market for HPPs from 01.05.2016,
- the growth of capacity purchase price at the CCA in the first price zone,
- the indexation of adjustable electricity and capacity tariffs,
- the decrease of the amount and cost of purchasing electricity.

#### PJSC RusHydro net revenue changes, million rub.

	2015	2016	Change,	Change,
				%
<b>Sales (revenue)</b>	<b>105,923.0</b>	<b>114,250.8</b>	<b>8,327.8</b>	<b>7.9</b>
- Revenue from electricit	73,262.4	77,338.1	4,075.7	5.6
- Revenue from capacity	32,582.6	36,832.7	4,250.1	13.0
- Services of Regional Distribution Grid Company	77.9	79.9	2.0	2.6
<b>Purchasing expenses</b>	<b>13,970.2</b>	<b>7,023.5</b>	<b>-6,946.7</b>	<b>-49.7</b>
- Cost of electricity purchased	13,957.3	7,005.5	-6,951.8	-49.8
- Cost of capacity purchased	12.9	18.0	5.1	39.5
<b>Net revenue</b>	<b>91,952.8</b>	<b>107,227.3</b>	<b>15,274.5</b>	<b>16.6</b>

#### Capacity sales

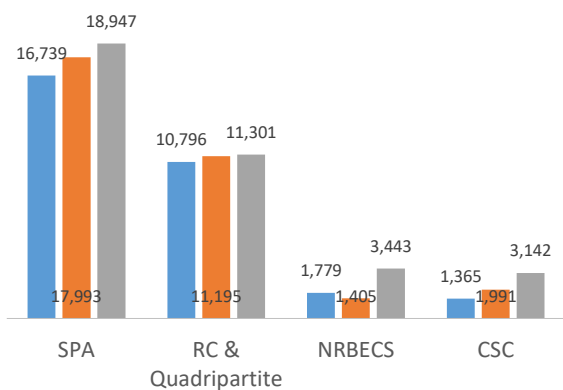
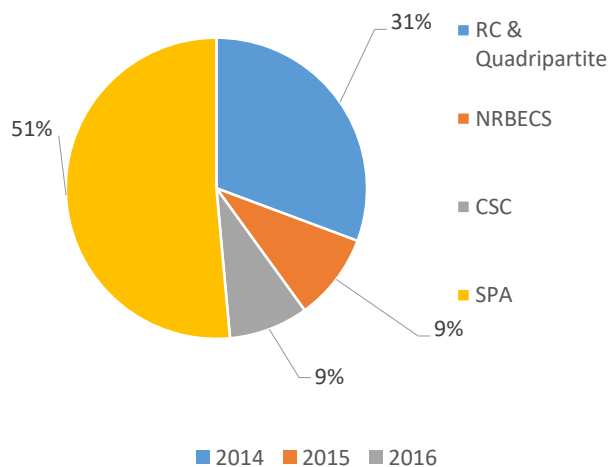
The main part of revenue from sales of capacity by the branches of PJSC RusHydro is formed by contracts signed within the CCA. Following the results 2016 the share of such contracts decreased from 55.2 to 51.4 % (+ 5.0 % in value terms) against the backdrop of growth in sales under free capacity sale and purchase contracts (FCSPC) from 4.3 % to 9.35 %. The conclusion of the FCSPA is due to the need to improve the payment discipline at the WECM. As a result of these agreements the share of defaulters is reduced for the capacity sold within the CPA, thereby increasing the overall level of payment for the delivered capacity. Also sales of new NPPs and HPPs under capacity sales and purchase contracts increased by 57.8 % due to the beginning of work at the WECM of Gotsatlinskaya HPP since October 2015.

#### Electricity sales

Revenues in the DAM occupy the first position in the structure of the electricity sales revenues of the branches of PJSC RusHydro. Thereby, its share grew from 81.9 % to 91.4 % (+ 17.7 %) in 2016 against the decrease of sales as per free bilateral contracts (FBC) by 99 % and the slight increase in sales volume of electricity in the balancing market (BM) by 1.8 %.

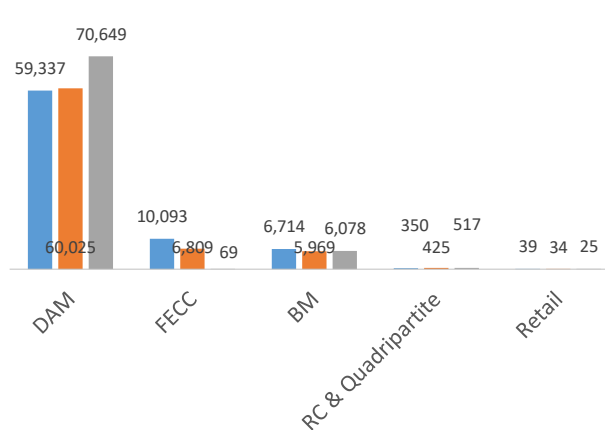
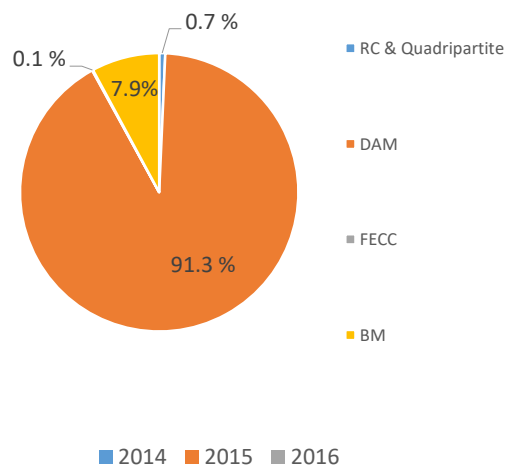
### Capacity sales structure and dynamics of PJSC RusHydro, million rub.

(2016 – 36,832.7 million rub.)



### Electricity sales structure and dynamics of PJSC RusHydro, million rub.

(2016 – 77,338.1 million rub.)



## 3.2 Operations and Procurement Management

### 3.2.1 Optimization and increase of operating activities efficiency

A significant contribution to the positive results of the RusHydro Group in 2016 was made by consistent management efforts aimed at optimizing all managed operating expenses of the Group and selling large assets that do not affect the Group's core business.

In the reporting year a five-year program to optimize the operating expenses of the RusHydro Group was adopted with special attention paid to maintaining a high level of reliability and safety. The optimization of capital expenditures for 2016-2019 is almost 60 billion rubles.

The target value of the indicator "Decrease in operating costs (expenses)" is at least 2 % annually for the period 2015-

In pursuance of the Action Plan of the Government of the Russian Federation aimed at ensuring the stable social and economic development of Russia in 2016 approved by the Government of the Russian Federation on 01.03.2016, the Directive of the Government of the Russian Federation No. 3795p-P13 of 01.06.2016 and the decisions of the Board of Directors of PJSC RusHydro (Minutes of 23.06.2016 No. 239) according to the technical assignment approved by the Ministry of Economic Development of the Russian Federation for auditing the costs of the RusHydro Group and developing the action plan for their optimization, an audit of costs was carried out.

The audit was conducted in the areas with the greatest potential to reduce costs:

- operating expenses,
- management model and the reduction in administrative and management costs,
- investment activities.

The plan of measures to optimize costs based on the results of an external independent audit of the Company's costs taking into account the subsidiaries is approved by the decision of the Board of Directors (Minutes No. 244 of 23.11.2016).



2019, while in accordance with the directive of the Government of the Russian Federation from 04.07.2016 No. 4750p-P13, the target value of the KPI "Decrease in operating costs (expenses)" for 2016 is not less than 10 %. The KPI in the reporting year was fulfilled by 11 percent: the actual effect of PJSC RusHydro from the implementation of measures to reduce operating expenses in 2016 amounted to 3.7 billion rubles (-15.4 % of the level of 2015 taking into account inflation 5.4 % according to data Rosstat).

For the Group's operating expenses and the factors that affected the change see Section 2.3 Financial Results.

### 3.2.2 Procurement Management

#### Regulation of the procurements

PJSC RusHydro in the conduct of purchases of goods, works and services is guided by the requirements of the legislation of the Russian Federation in particular by the requirements of the Federal Law of 18.07.2011 No. 223-FL "About procurements of goods, works, services by Individual Types of Legal Entities" and also by the procurement policy for the needs of PJSC RusHydro (approved in a revised version by the decision of the Board of Directors of PJSC RusHydro of 23.06.2006 No. 239, as amended). The Policy have been developed with a view to timely and qualitatively providing the Company with goods, works, services and economical expenditure of funds of the Customer based on the principles of transparency and competition in full compliance with Russian law.

For monitoring and coordination of procurement activities the Company has established a collegial permanent body - the Central Procurement Commission (CPC). The functional of the CPC includessolving of disputes and complaints during the implementation of regulated purchases, monitoring compliance with the requirements of the legislation of the Russian Federation, normative documents of PJSC RusHydro in conducting regulated purchases.

For direct organization and conduct of procurement procedures the CPC appoints permanent procurement commission. The procurement commissions according to powers are allocated to commissions of the 1st and 2nd level, as well as specially created procurement commissions.

The procurement function is structured in the following way: in the staff of the Executive body of PJSC RusHydro the procurement is carried out by the Purchasing, Marketing and Pricing Department, and in the staff of branches – by the offices for procurement.

PJSC RusHydro publishes information about planned purchases of goods, works and services of the Company, places current official procurement publications containing the name of the purchase (subject of procurement), significant conditions for competitive procurements and other information on procurement on the official website of the Russian Federation [www.zakupki.gov.ru](http://www.zakupki.gov.ru), as well as on the electronic trading platforms [www.b2b-energo.ru](http://www.b2b-energo.ru) and <https://rushydro.roseltorg.ru>. According to the results of the procurement there is published information on the results of the procurement with an indication of the bid winner and the price of the winner's bid of the competitive procedure.

In 2016 1,034 competitive procurement in electronic form were hold in the amount of 21, 672.18 thousand rubles which is 88.45 % at a cost of conducted competitive procurement procedures.

In accordance with Order No. 180 of 21.03.2016 "On the centralization of procurement activities and the system of supply of goods, work, services of enterprises of the RusHydro Group" by the Chairman of the Management Board – CEO N. Shulginov and for the purpose of centralization and raising the efficiency of procurement practices and supplying the Group with goods and services a special entity of JSC RusHydroSnabzheniye (JSC RHS) was created. Its activities were started by the Chairman of the Management Board – CEO N. Shulginov on 2016, August 9.

Current goals of JSC RHS:

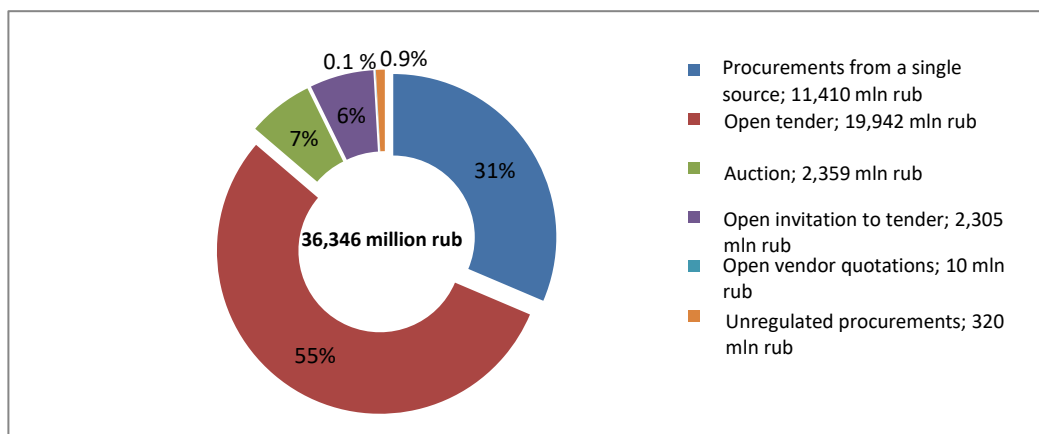
- ensuring the transparency of procurement practices,
- ensuring the optimal quality of the purchased goods and services,
- increasing the speed of procurement and supplies.

Current functions of JSC RHS:

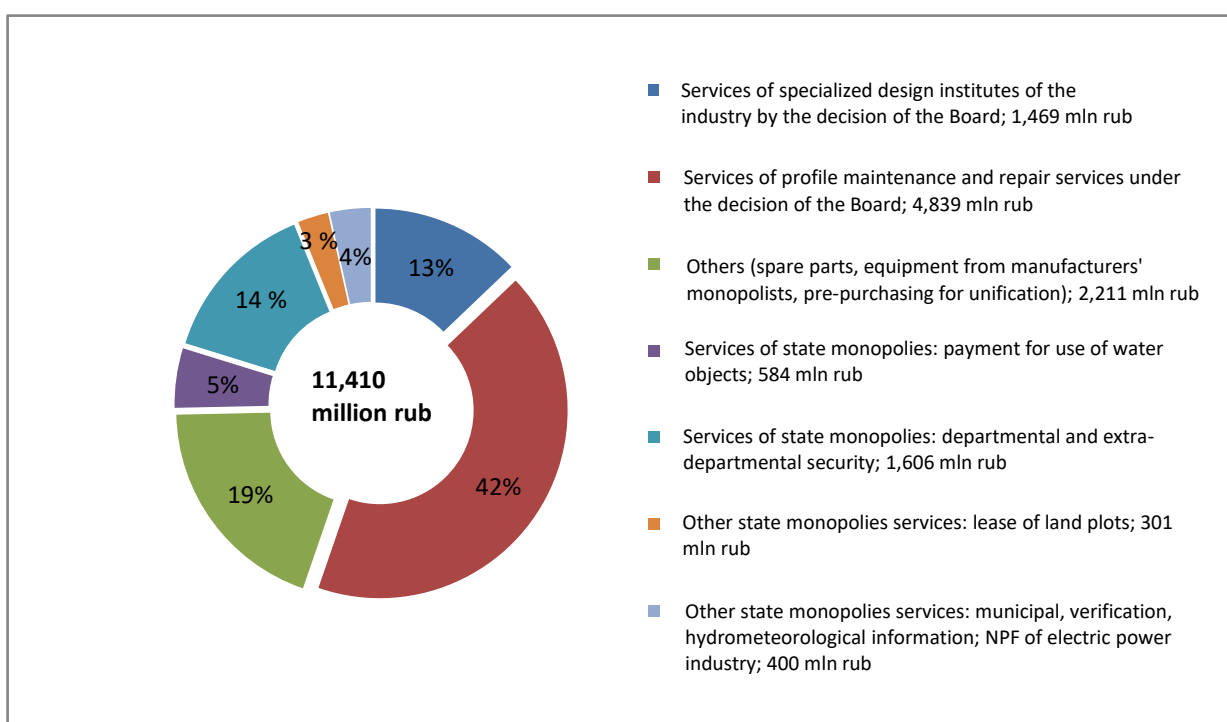
- development of the procurement and supply function of the Group,
- support of the procurement planning process and the work of the CPC,
- approval of the documents necessary for the start of the procurement procedures,
- market analysis,
- organization and realization of the procurement procedures,
- analysis of the pricing documents,
- approval of contracts and additional contracts,
- inspections of the economic safety,
- other support functions for the procurement management of the Group's companies

## Implementation of an annual comprehensive program by types of procurement

Implementation of an annual comprehensive program by types of procurement



Procurements from a single source



## Expansion of access of small and medium-sized enterprises to procurement

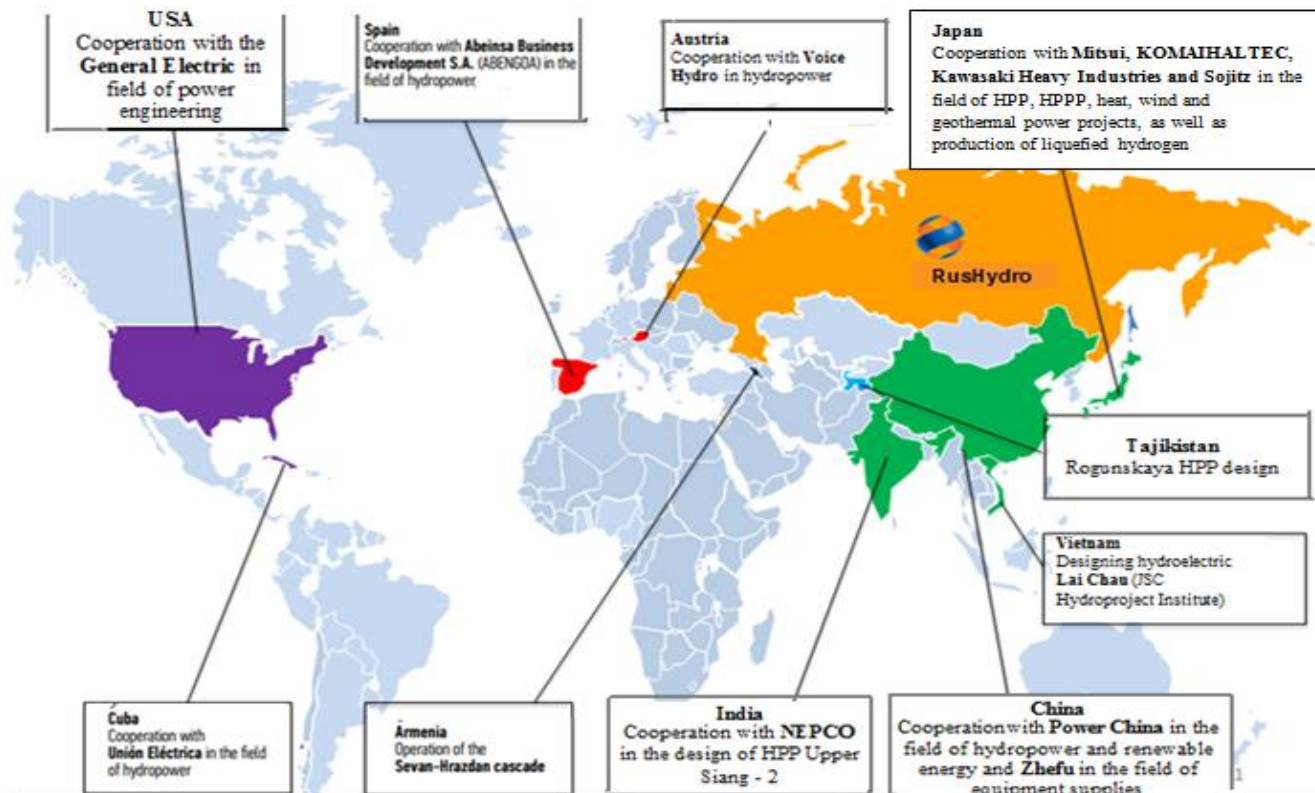
On the website of the Unified Information System in the field of procurement (<http://zakupki.gov.ru/epz/gws/quicksearch/search.html>) and on the website of PJSC RusHydro there is a list of goods, works, services, purchases of which are carried out by small and medium-sized businesses.

As a result of 2016, the share of purchases from small and medium-sized businesses amounted to 73.78 %, including purchases from small and medium-sized businesses based on the results of bids, in which small and medium-sized business entities are participants the only in procurement (56.8 %).

In 2017, PJSC RusHydro plans to purchase from small and medium-sized businesses in the amount of not less than 18 % of the total volume of purchases, including at least 10 % of purchases conducted with the participation of small and medium-sized businesses only.

### 3.3 International Activities

#### PJSC RusHydro International Cooperation



#### 3.3.1 Targets and goals of international activities

The attraction of investments, innovative technologies, and equipment to RusHydro projects and the expansion of the Group’s presence in foreign markets based on its long-term experience in engineering, building, and operating energy facilities are the main objectives of the Company within its international activity.

The RusHydro focuses on long-term and mutually advantageous cooperation with foreign partners, which corresponds to the geostrategic interests of the Russian Federation.

The main directions of international activities are:

- the representation of interests of the RusHydro and of the Russian power industry in political, industry and business areas;
- bilateral cooperation with foreign energy companies and energy equipment producers, including the development of joint ventures and the localization of production within the territory of Russia;
- the cooperation with intergovernmental organizations and sectoral and business associations;
- the promotion of the attraction of foreign investments to the RusHydro projects;
- cooperation in experience exchange, innovations, and new technologies in hydropower, thermal power, RES, and heat supply;
- the monitoring of processes in the global energy industry.

While conducting its international activity the PJSC RusHydro follows such principles as:

- the mutual benefit and transparency of joint activity,
- the long-term nature of cooperation,
- available warranty and post-warranty maintenance service in case of the acquisition of modern foreign technologies and foreign equipment,
- the preparation of complex decisions taking into account the specifics of the Russian power market,
- the improvement of economic efficiency.

### 3.3.2 International Partnership

The largest world generating and engineering companies and the power equipment producers including Mitsui, KOMAIHALTEC, Kawasaki Heavy Industries and Sojitz, Voith Hydro, GE, PowerChina and ZHEFU are the main partners of RusHydro.

Together with Japanese companies Mitsui, KOMAIHALTEC, Kawasaki Heavy Industries and Sojitz, the possibilities of joint implementation of projects in the field of development of HPPs, PSPs, wind and geothermal power facilities, as well as production of liquefied hydrogen are being explored. The cooperation with Voith Hydro on the project of localization of production and on the modernization of the equipment of the hydroelectric power plants of RusHydro is continuing. As a part of the comprehensive modernization of the assets of PJSC RusHydro in the field of thermal generation in the Far East of Russia the cooperation with energy companies and power equipment manufacturers of Japan, China, the United States and other countries is carried out.

As a part of advancing the competencies of the RusHydro scientific and project complex in the field of hydropower and RES to foreign markets, in 2016, the RusHydro's engineering organizations successfully completed contracts for the provision of engineering services at facilities in Turkey and Vietnam. In 2016, a number of contracts and contracts for the provision of engineering services were concluded within the framework of energy projects, including in Tajikistan and India.

The Company concluded a number of agreements on cooperation and the implementation of joint projects with the largest foreign power corporations within the reporting year.

#### Intercorporate documents signed in 2016

Agreement	Area of cooperation	Advantages
Agreement on technological cooperation between PJSC RusHydro and Mitsui & Co., Ltd (09.02.2016)	Cooperation in the field of joint development of strategic cooperation for the implementation of new projects using technologies and expertise of the Japanese side.	The possibilities of attraction of investments and modern international technologies.
Memorandum of Understanding on the implementation of cooperation projects between PJSC RusHydro and Mitsui & Co, Ltd (16.12.2016)	Cooperation and joint implementation of potential projects mainly in the field of thermal, hydro, wind, geoheat and production of liquefied hydrogen.	The possibilities of the attraction of investments and modern international technologies.
Memorandum of Understanding on Acquisition of Treasury stocks of PJSC RusHydro between PJSC RusHydro, Mitsui and Japan Bank for International Cooperation (JBIC) (02.09.2016)	The implementation of the acquisition of treasury stocks of PJSC RusHydro, Mitsui conducted a comprehensive audit of the main assets of PJSC RusHydro.	Fund raising for the implementation of projects within the territory of the Russian Federation.
Memorandum of Intent between PJSC RusHydro, Mitsui and KOMAIHALTEC Ink (16.12.2016)	The implementation of potential joint wind energy projects (within the framework of the RES Development Program), For this purpose, the Parties intend to reduce the cost RES projects due to the production of wind power plant or an element (elements) of wind power plants within the territory of the Russian Federation,	Attraction of investments and modern international technologies.
The agreement between PJSC RusHydro, Kawasaki Heavy Industries, Ltd and Sojitz Corporation on cooperation to expand the use of GTUs in the implementation of projects in the Far Eastern Federal District (16.12.2016)	Cooperation to expand the use of GTUs in the implementation of projects on the territory of the Far Eastern Federal District. According to the agreement, Kawasaki undertakes to certify the GTU's manufactured equipment in accordance with Russian standards, and together with Sojitz to open a service company in the Far Eastern Federal District in 2017 to maintain this equipment.	Attraction of modern international technologies.and equipment
Declaration of intent for the purpose of cooperation in the field of RES development between PJSC RusHydro, the Republic of Sakha (Yakutia) and the New Energy and Industrial Technology Development Organization of Japan	Cooperation in the implementation of mutually beneficial Russian-Japanese projects in isolated energy areas of the Russian Federation.	The possibilities of attraction of modern international technologies

The RusHydro participates in the meetings of intergovernmental commissions on trade and economic and scientific and technical cooperation between Russia and foreign countries. Those events result in the establishment of working contacts with foreign business partners.

### **3.3.3 Cooperation with international organizations**

The PJSC RusHydro pays considerable attention to participation in the activity of international power organizations. The RusHydro representatives participate in committees and working groups of a number of non-profit partnerships and international organizations being the members of such organizations as:

- World Energy Council
- The Global Sustainable Electricity Partnership (GSEP),
- The International Hydropower Association (IHA),
- The International Commission on Large Dams (ICOLD),
- Russian-Chinese Business Council

The Company develops cooperation within international government organizations and integration associations including the Eurasian Economic Union (EEU) as a part of activities with the Eurasian Economic Commission (EEC); the CIS Electric Power Council (CIS EPC); the Asia Pacific Economic Cooperation (APEC); the Shanghai Cooperation Organization (SCO); BRICS, etc.

The Company is an active participant of large international forums, exhibitions, and conferences on thermal power, hydropower, RES, and heat supply. In 2016 the RusHydro Group sponsored and actively participated in the East Economic Forum which was an efficient platform for the establishment and strengthening of relations with foreign partners, especially with Asia-Pacific countries, and attracting investors to Far East energy infrastructure development projects. Also the traditional international platform for RusHydro's presence is the St. Petersburg International Economic Forum.

## Chapter 4. Corporate governance

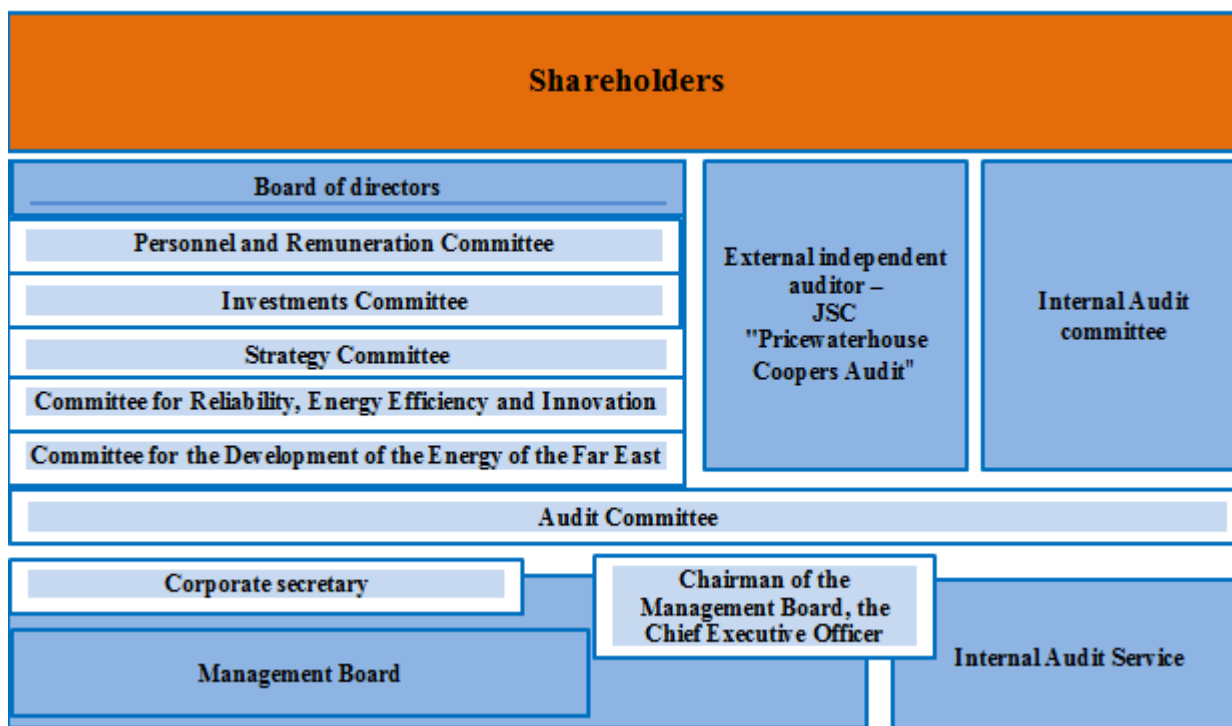
### 2016 events

- The highest corporate governance rating for the third year in a row - 8
- The Board of Directors has approved amendments to the Corporate Governance Code and new revisions to the Regulations on Committees and the Provisions on the Corporate Secretary
- "Association of Independent Corporate Directors" conducted an independent assessment of the Board of Directors

### 4.1 Corporate governance system

#### 4.1.1 Corporate governance structure

The highest governance body in the Company is the General Meeting of Shareholders, which annually elects the Board of Directors, the Audit Commission and the auditor. The Board of Directors forms the Committees of the Board of Directors and the Management Board, appoints the Chairman of the Management Board - CEO, the Corporate Secretary and approves the appointment of the Head of the Internal Audit Service. In 2016, there were no significant changes in the Corporate Governance System.



#### 4.1.2 Compliance with the principles of the Corporate Governance Code

The key document determining corporate governance in the Company is the Corporate Governance Code of the Company. The Corporate Governance Code was approved by the Board of Directors of the Company on June 19, 2015. By the decision of the Board of Directors of June 23, 2016 a number of amendments were made to the Code. In 2016, the Company introduced the provisions of the Code by bringing internal documents in line with it, as well as applying the provisions in daily practice.

#### Compliance with the principles of the Corporate Governance Code\*

Status of the implementation of the Code provisions and principles	Year	Shareholder rights and equality of shareholders in the exercise of their rights	Board of Directors	Corporate Secretary	System of remuneration of members of the Board of Directors, executive bodies and	Risk management and internal control system	Information Disclosure on the Company, the Company's information	Significant Corporate Actions

					other key management employees of the Company		policy	
Principles, the Company that are fully observed	2015	9	12	-	3	5	1	-
	2016	10	20	2	10	5	3	-
Principles, the Company that are partially observed	2015	3	17	2	6	1	6	4
	2016	2	12	-	-	1	4	4
Principles, the Company that are not observed	2015	1	7	-	1	-	-	1
	2016	1	4	-	-	-	-	1
Not applicable	2015	-	-	-	-	-	-	-
	2016	-	-	-	-	-	-	-
<b>In total</b>		<b>13</b>	<b>36</b>	<b>2</b>	<b>10</b>	<b>6</b>	<b>7</b>	<b>5</b>

\* Extract from the report on compliance by the Company with the principles and recommendations of the Corporate Governance Code, drawn up using Letter No. 06-02/8 of the Central Bank of the Russian Federation of February 17, 2016. For a full report on the Company's compliance with the principles and recommendations of the Corporate Governance Code and explaining deviations from the criteria for assessing compliance with the corporate governance principle, as well as information on compliance with the UK Corporate Governance Code, see the Appendix 1 to the PJSC RusHydro annual report.

#### 4.1.3 Subsidiaries management

PJSC RusHydro participates in the authorized capitals of companies engaged in design, construction, maintenance and repair, technical re-equipment and reconstruction of power facilities, and production and sale of electricity.

The interaction between the Company and its subsidiaries is aimed at implementing the Company strategy, ensuring stable economic development and investment attractiveness, protecting the rights and interests of shareholders, both the Company itself and the subsidiaries.

The subsidiary companies are managed through their representatives by the General Meetings of Shareholders, the boards of directors and in the control bodies of subsidiaries in accordance with the Articles of Association and the Regulations governing the operations of the representatives of PJSC RusHydro in the management bodies of the companies it participates in.

The adoption of decisions on the management of subsidiaries, whose authorized capital fully belongs to the Company, is within the competence of the Board of Directors. Determination of the Company's position on strategic issues related to the activities of its subsidiaries (reorganization, liquidation, change of the authorized capital, approval of major transactions, participation in other organizations, etc.) is within the competence of the Board of Directors.

In 2016, the Company purchased shares of RAO ES EAST, PJSC, the largest holding company of the Company, from minority shareholders on the basis of a public offer. In 2017, PJSC RusHydro will manage the operations of RAO ES EAST, PJSC as well as those of its controlled companies

## 4.2 Governing bodies

### 4.2.1 General Meeting of Shareholders

On 27.06.2016 the Company held its Annual General Meeting of Shareholders in Moscow where it approved the annual report, annual accounting (financial) statements, profit distribution at the end of 2015, declared dividends, elected new Board of Directors and the Audit Committee, approved by the auditor of the Company. The Company has also decided to pay remuneration to members of the Board of Directors, approved amendments to the Articles of Association, the Regulations on the Procedure for Convening and Holding Meetings of the Council and the Directors of the Company, the Regulation on the Audit Committee of the Company, the Regulations on remuneration and compensation to members of the Audit Commission, the Regulation on payment of remuneration and compensation to members of the Board of Directors and also approved the interested party-transactions.

*(Materials of the meeting, including the Minutes to:*

<http://www.rushydro.ru/corporate/general-meeting/overpast/2016/godovoe-obshchee-sobranie-aktsionerov-pao-rusgidro-gosa-27-iyunya-2016-goda/>)

#### **4.2.2. The Board of Directors**

The Board of Directors consists of 13 directors. The Board of Directors acts on the basis of the Regulations on the Procedure for Convening and Holding Meetings of the Board of Directors of PJSC RusHydro<sup>23</sup>, approved by the General Meeting of Shareholders on June 27, 2016.

In 2016, there were two members of the Board of Directors - the board elected by the annual General Meeting of Shareholders on June 26, 2015 and the board elected on June 27, 2016. Out of 13 members of the Board of Directors, 8 members of the Board of Directors acted in each of these boards, 5 members of the Board of Directors were elected in 2016.

The liability of the Board of Directors' members is insured annually.

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<sup>23</sup> Approved on June 27, 2016 by the annual General Meeting of Shareholders of PJSC RusHydro (Minutes of the annual General Meeting of Shareholders of PJSC RusHydro No.15 of June 29, 2016)

<http://www.rushydro.ru/upload/iblock/0ab/Prilozhenie--5-k-protokolu-godovogo-Obshhego-sobraniya-aktsionerov-PAO-RusGidro--15-ot-29.06.2016.pdf>



**Board of directors composition on 31.12.16**

	<b>Yury Trutnev</b> (Chairman of the Board of Directors)	<b>Artem Avetisyan</b>	<b>Maxim Bystrov</b>	<b>Pavel Grachev</b>
Status	Representative of the Russian Federation, voting on directives	Representative of the Russian Federation, voting on directives	Recognized by the Board of Directors as an independent director	Independent Director
b.y.	1956	1976	1964	1973
Education	Perm Polytechnic Institute (mining engineer)	Finance Academy under the Government of the Russian Federation (estimated activity "Finance and Credit")	Moscow Civil Engineering Institute. VV Kuibyshev (hydraulic engineering structures and river hydro power plants) All-Russian Academy of Foreign Trade, (the world economy)	St. Petersburg State University, jurisprudence, lawyer; University of Trieste, jurisprudence, doctor of law
Experience over the past 5 years and participated in the management bodies of other organizations as of 31.12.16	2004-2012 - Minister of Natural Resources and Environment 2012-2013 - Assistant to the President of the Russian Federation Since 2012 - Member of the Supervisory Board of the State Corporation "Rosatom" Since 2013 - Deputy Chairman of the Russian Government - Presidential Plenipotentiary in the Far Eastern Federal District.	2008-2011 - President of "NEO Centre" Since 2011 - the director of the direction of the "New Business" ANO "Agency of strategic projects for the promotion of new initiatives" 2012-2015 - Member of the Supervisory Board of JSC "Rosselkhozbank" Since 2012 - Member of the Supervisory Board of OJSC "SME Bank" From 2014 - Vice-President of "NEO Centre" From 2015 - President of "Commercial Bank" Uniastrum "  He is Chairman of the Board of JSC "Commercial Bank" Regional credit »	2010-2013 - Deputy Plenipotentiary Representative of RF President in the North Caucasian Federal District Since 2013 - Chairman of the Board of OJSC "ATS", the Association "NP Market Council"  He is a member of the BoD PJSC "FGC UES", JSC "UES"; Chairman of the Board of JSC "Resorts of the North Caucasus", "Management Company Airport Mineralnye Vody»	2011-2013 - Head of Representative Office ALPINAKAPITAL EL.S.E.L. LIMITED "(Republic of Cyprus), Moscow 2013 - General Director of JSC "Fund for Development of the Far East and Baikal Region" 2013- 2016 - Member of the Board of Directors of Polyus Gold International Limited 2013-2014 - Interim Chief Executive Officer of Polyus Gold International Limited 2014 - Chairman of the Board of Managing Directors Representative offices of NGO Nafta Moscow (Cyprus) Limited (Republic of Cyprus) Moscow 2014-2016 - President of JSC Polyus Since 2014 - General Director, member of the Board of Directors of LLC "MC Polus" 2014- 2016 - Chief Executive Officer of Polyus Gold International Limited
Committees	Committee for the Development of Energy in the Far East	Investments Committee	Audit Committee, Personnel and Remuneration Committee, Investment Committee	The Strategy Committee, the Committee for the Development of Energy in the Far East
Extended	(2016) Russian Federation	(2016) Russian Federation	(2016) Russian Federation	(2016) Russian Federation
Members ip in the Board of Directors	Since 2015	Since 2015	Since 2013	Since 2016

	<b>Sergey Ivanov</b>	<b>Vyacheslav Kravchenko</b>	<b>Vyacheslav Pivovarov</b>	<b>Nikolay Podguzov</b>
Status	Recognized by the Board of Directors as the Independent Director	Representative of the Russian Federation, voting on directives	Independent Director	Representative of the Russian Federation, voting on directives
b.y.	1961	1967	1972	1974
Education	Moscow Engineering Physics Institute (theoretical nuclear physics) Doctor of Economic Sciences Corresponding Member of the Russian Academy of Sciences	Moscow State University. University (jurisprudence)	State Academy of Management (Sergo Ordzhonikidze (World Economy) American University in Paris (Applied Economics) Stanford Business School	St. Petersburg State Technical University; Moscow State Institute of International Relations (University) of the Ministry of Foreign Affairs of Russia
Experience over the past 5 years and participated in the management bodies of other organizations as of 31.12.16	Since 2009 - Chairman of the Presidium of the ANO "National Energy Security Institute" Since 2010 - General Director of JSC "Erko" Since 2013 - General Director of the managing company LLC "LENSET", LLC "Lisiteya", LLC "Pasiphae", LLC "Metis", LLC "Amalthea", LLC "Oberon", JSC Corporation "Nechernozemagropromstroy"  He is a member of the BoD "Erko", CJSC INPK "RET", JSC Corporation "Nechernozemagropromstroy"	2008-2011 - General Director of LLC "RN-Energo" 2010-2012 - CEO JSC "United Energy Company" Since 2011 - a state representative in the Supervisory Board of NP "Market Council" Since 2013 - Deputy Minister of Energy 2013-2014 - Member of the Supervisory Board of OJSC "RRDB" 2012-2014 - Chairman of the Board of OJSC "ATS"  Is a member of the BoD PJSC "FGC UES", JSC "SO UES", PJSC "MOESK", PJSC "IDGC of Siberia"	Since 2011 - President, General Director of Altera Capital LLC 2009 - 2011 - Freelance Adviser to the Minister of Economic Development	2010-2012 head of department, head of the management of CJSC VTB Capital. 2012-2013 Deputy Director of the Department of Economics and Finance of the Government Office of the Russian Federation Since 2013 he is Deputy Minister of Economic Development of the Russian Federation. 2015-2016 Member of the Board of Directors of JSC Rosgeology Since 2015 he is a member of the Board of Directors of GC "DIA" and a member of the Supervisory Board, the Chairman of the Personnel and Remuneration Committee of the Supervisory Board of JSC "AHML" Since 2016 - Member of the Board of Directors, member of the Strategic Planning Committee of the Board of Directors, member of the Committee on Priority Investment Projects of the Board of Directors presently JSC Russian Railways and Member of the Board of Directors of PJSC Rosseti

Committees	Audit Committee, Personnel and Remuneration Committee, Committee on Reliability, Energy Efficiency and Innovation	Committee on Reliability, Energy Efficiency and Innovation, Committee for the Development of Energy in the Far East	Audit Committee, Personnel and Remuneration Committee, Investment Committee	The Strategy Committee
Extended	(2016) Russian Federation	(2016) Russian Federation	(2016) Russian Federation	(2016) Russian Federation
Membership in the Board of Directors	Since 2015	Since 2014	Since 2013	Since 2016

	<b>Nikolai Rogalev</b>	<b>Alexey Chekunkov</b>	<b>Sergey Shishin</b>	<b>Andrey Shishkin</b>	<b>Nikolay Shulginov</b>
Status	Representative of the Russian Federation, voting on directives	Member of the Board of Directors	Member of the Board of Directors	Member of the Board of Directors	Representative of the Russian Federation, voting on directives, Chairman of the Management Board - CEO
b.y.	1962	1980	1963	1959	1951
Education	Moscow Power Engineering Institute (Thermal Power Plants)	Moscow State Institute of International Relations, (economist)	Higher School of the KGB Border University KGB Russian Academy of Public Administration under the President of the Russian Federation (state and municipal administration)	Moscow Institute of Petrochemical and Gas Industry. THEM. Gubkin (promteploenergetik-engineer)	Novocherkassk Order of the Red Banner of Labor Polytechnic Institute named after Sergo Ordzhonikidze (electricity supply of industrial companies and cities); Candidate of Technical Sciences

Experience over the past 5 years and participated in the management bodies of other organizations as of 31.12.16

<p>2010-2012 Scientific adviser - 1st deputy of General Director of CJSC "Escotek"          2012-2012 - deputy of Manager of the Energy without Borders Foundation, JSC Inter RAO UES          2013-2013 - Acting Rector of FGBOU IN "NIU MPEI"          Since 2013 - the Rector of the State Educational Establishment of Higher Professional Education in the NIU MPEI          2013-2015 Member of the Committee for Cooperation with the Society, Consumers, Authorities and Information Policy of PJSC "Rosseti"          Since 2013 Member of the Strategy Committee of PJSC "Rosseti"          2001-2013 Head of Department Department (part-time) FGBOU IN "NIU MPEI"          2014- 2015 Member of the Board of Directors of OOO Engineering Center Gas Turbine Technologies          From 2015 - Head. Department (part-time) FGBOU IN "NIU MPEI"          2015-2016 Member of the Audit Committee and Independent Director of PJSC "Inter RAO"          Since 2016 - President of the NP "Scientific and Technical Council of the Unified Energy System"</p>	<p>2011-2013 Director, Member of the Management Board of LLC "UK" RFPI "          2013-2014 First Deputy General Director of OOO Kada-Neftegaz          Since 2014 - General Director of JSC "Fund for the Development of the Far East and Baikal Region"          Since 2015, he is a Member of the Supervisory Board of ALROSA (PAO), ANO Agency for the Development of Human Capital in the Far East, Member of the Board of Directors of the JSC "Corporation for the Development of the Far East"          Since 2016 - Chairman, Member of the Supervisory Board of ANO "Agency of the Far East for attracting investments and supporting exports"</p>	<p>Since 2007 - Senior Vice President of JSC "Bank VTB"          Since 2011 - Member of the Supervisory Board of JSC "RRDB"</p>	<p>2010 - 2012 - Deputy Minister of Energy          Since 2012 - Vice-President of "Rosneft"          Since 2013 - Member of the Supervisory Board of NP "Market Council"          From 2015 - general director of LLC "RN-Active"</p> <p>He is a member of the BoD JSC "Tyumen Energy Retail Company", OAO "Rosseti", JSC "United Shipbuilding Company", LLC "RN-CIR", LLC "National Oil Consortium"; Chairman of the Board of JSC "FECSR», RIG Research Pte. Ltd</p>	<p>2004-2015 - Deputy Chairman, First Deputy Chairman of the Management Board of JSC System Operator of the Unified Energy System          2008-2011 - Member of the Board of Directors of OJSC "First Generation Company of the Wholesale Electricity Market" and PJSC "MOESK"          2008-2012 - Member of the Board of Directors of PJSC "Mosenergo"          Since 2008 - Member of the Supervisory Board of NP "Scientific and Technical Council of the Unified Energy System"          2009-2011 - Member of the Board of Directors of PJSC "Lenenergo"          2013-2016 - Member of the Board of Directors of PJSC "FGC UES"          Since 2015 - Member of the Board of Trustees of the Higher Education Federal State Educational Institution of Higher Education "National Research University" MEI ", Chairman of the Board - General Director, Member of the Board of Directors of PJSC "RusHydro "          Since 2016 - Member of the Board of Trustees of the Federal State Autonomous Educational Institution of Higher Education "Siberian Federal University" (SFU), Chairman of the Board of Directors of RAO Energy Systems of the East, Member of the Board of Directors of PJSC "Russian Networks", Member of the Supervisory Board of NP "Hydropower of Russia" and Association NP "Council of the market for the organization of an effective system of wholesale and retail trade in electrical energy and capacity"</p>
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Committees	Committee on Reliability, Energy Efficiency and Innovation; Strategy Committee; Committee on Investments	Committee on Energy Development of the Far East; Committee on Reliability, Energy Efficiency and Innovation; Committee on Investments	The Strategy Committee	Committee on Reliability, Energy Efficiency and Innovation; The Strategy Committee	The Strategy Committee
Extended	(2016) Russian Federation	(2016) Russian Federation	(2016) Russian Federation	(2016) Russian Federation	(2016) Russian Federation
Membership in the Board of Directors	Since 2016	Since 2016	Since 2011	Since 2014	Since 2016

\* Members of the Board of Directors as of December 31, 2016 do not own shares in the Company, including indirectly. In the reporting year the members of the Board of Directors did not purchase or sell any company shares. The Company and the Group companies did not issue loans to members of the Board of Directors.

The status of the Representative of the Russian Federation was conferred by the Government of the Russian Federation on nominating candidates for election to the Board of Directors No. 565-r of March 31, 2015, and No. 539-r of March 30, 2016. The duties of the Representatives of the Russian Federation are determined by Decree No. 738 of the Government of the Russian Federation of 03.12.2004.

Independence of the members of the Board of Directors is determined in accordance with the criteria for independence of the PAO Moscow Stock Exchange and the Corporate Governance Code recommended by the Bank of Russia.

#### **Members of the Board of Directors that functioned until June 27, 2016**

	<b>Evgeny Dod</b>	<b>Victor Zimin</b>	<b>Larisa Calanda</b>	<b>Denis Morozov</b>	<b>Alexander Osipov</b>
Status	Representative of the Russian Federation, voting on directives	Representative of the Russian Federation, voting on directives	Member of the Board of Directors	Representative of the Russian Federation, voting on directives	Representative of the Russian Federation, voting on directives
b.y.	1973	1962	1964	1973	1969
Education	Moscow Aviation Institute - State Technical University (economics and management at the enterprises of mechanical engineering) Candidate of Economic Sciences	Tomsk State University of Architecture and Civil Engineering (cars and motor-car economy)	Sverdlovsk Institute of Law (Law) Postgraduate Institute of Philosophy and Law of the Academy of Sciences of Belarus	Moscow State University. University (economics, law) The Swiss Banking School Harvard Business School (Management) School of International Relations and Public Management at Columbia University (public administration, management of economic policy) Candidate of Economic Sciences	Rostov-on-Don Institute of National Economy (Economic informatics and automation) Stavropol State University (jurisprudence) Academy of National Economy under the Government of the Russian Federation (financial management organization)

Experience over the past 5 years and participated in the management bodies of other organizations	<p>2009 - 2015 - Chairman of the Board - CEO PJSC RusHydro</p> <p>Since 2008 - Member of the Board of SPA "RSPP" and LLC "RSPP"</p> <p>Since 2010 - Member of the Supervisory Board of NP "Hydropower of Russia"</p> <p>2010-2013 - Member of the Supervisory Board of OJSC "RRDB"</p> <p>Since 2011 - Member of the Board of Governors of ANO "ISEDC"</p> <p>Since 2012 - member of the Presidium of RNA WEC</p> <p>Since 2013 - member of the Board of Trustees and the Board BUT Charitable Fund "Ownership" Fund</p> <p>2014-2015 - member of RusHydro International B.V. of the Supervisory Board</p> <p>Chairman of the Board of RAO ES EAST, PJSC</p>	<p>Since 2009 - Head and Chairman of the Government of the Republic of Khakassia</p>	<p>Since 2006 - Vice-President, Secretary of State - Vice-President of OAO "NK" Rosneft "</p> <p>Since 2007 - Acting CEO JSC "ROSNEFTEGAZ"</p> <p>Since 2008 - Deputy Chairman of the Board of OJSC "NK "Rosneft"</p> <p>Member of the BoD "ROSNEFTEGAZ"</p>	<p>2010 - President, General Director of OJSC "Uralkali"</p> <p>Since 2011 - the Russian representative to the Board of the European Bank for Reconstruction and Development, the executive director of the Russian Federation, Belarus and Tajikistan</p> <p>2012-2015 - Member of the Supervisory Board of "ALROSA" (JSC)</p> <p>From 2014 - Chairman of the Supervisory Board of JSC "Rosselkhozbank"</p> <p>Member of the BoD PJSC "Rossetti"</p>	<p>2009-2013 - General Director of "Center of assessment and audit"</p> <p>Since 2013 - First Deputy Minister of Development of the Far East</p> <p>He is a member of the BD JSC "FEEMC", JSC "Fund for the Development of the Far East and the Baikal region"</p>
Extended	(2015) Russian Federation	(2015) Russian Federation	(2015) Russian Federation	(2015) Russian Federation	(2015) Russian Federation
Membership in the Board of Directors	Since 2010	Since 2010	Since 2014	Since 2013	Since 2015

### **Evaluation of the Board of Directors**

In 2016, a remote evaluation (self-assessment) of the Board of Directors elected in 2015 was conducted. The evaluation was conducted with the involvement of the Association of Independent Corporate Directors "(AICD) - an organization not affiliated with the Company.

The average self-assessment of the work of the Board of Directors in nine areas is defined as 4.1 points on a five-point system, which, according to the methodology of the NCSA, is characterized as a "Mature Level".

During the evaluation, an action plan for 2016-2017 corporate year was drawn up and implementation of the action plan for improving the activities of the Board of Directors was noted in the following areas:

- increase in the number of informal meetings of members of the Board of Directors and meetings of the Board of Directors (held on a full-time basis);
- consideration of strategic directions of activity by the Board of Directors (at meetings of the Board of Directors held on a full-time basis).
- consideration by the Board of Directors of issues related to the risk management system.

- consideration of the possibility of inclusion of the following issues into the agenda of the Board of Directors:

- outcomes of the external evaluation of the Board of Directors,
- a report on the implementation of this plan of measures to improve the effectiveness of the work of the Board of Directors and committees;

- consideration of the possibility of inclusion of the following issues into the agenda:

- consideration of the Company's reports on the implementation of the directives of the Government of the Russian Federation on optimization of the Company's operational and capital expenditures (in particular, directive No. 4750-P13 of July 4, 2016).

The results of the evaluation and the plan of measures to improve the work of the Board of Directors were considered by the Board of Directors of the Company on June 23, 2016.

### **Conflict of interest**

In accordance with the Code of Corporate Ethics of PJSC RusHydro approved by the Board of Directors on 21.05.2012 (Minutes No. 152) and the Code of Corporate Ethics of PJSC RusHydro approved by the Board of Directors on April 7, 2016 (Minutes No. 235), members of the Board of Directors must refrain from actions that will lead or are potentially capable of leading to a conflict of interest, and in the event of a conflict of interest, a member of the Board of Directors must notify the Company thereof. The obligation to notify on a fact of a conflict of interest (from June 27, 2016) is also contained in the Regulations on the Procedure for Convening and Holding Meetings of the Board of Directors.

In 2016, one notification from a member of the Board of Directors, Alexander Osipov, was received on the fact of a conflict of interest in the voting on the issue of "Preliminary approval of the projects of investment programs of PJSC" RusHydro "for 2016 (adjustment) and for 2017 – 2019 in order to disclose information on the projects of investment programs of PJSC RusHydro in accordance with the Resolution of the Government of the Russian Federation of January 21, 2004 No. 24 ". According to Alexander Osipov, a member of the Board of Directors, the conflict of interests was expressed in the fact that he held a position in the Ministry of the Russian Federation for the Development of the Far East, which, in accordance with the normative legal acts of the Russian Federation, considers the investment programs of the electric power industry subjects (including JSC RusHydro) so that he abstained from the voting on this issue.

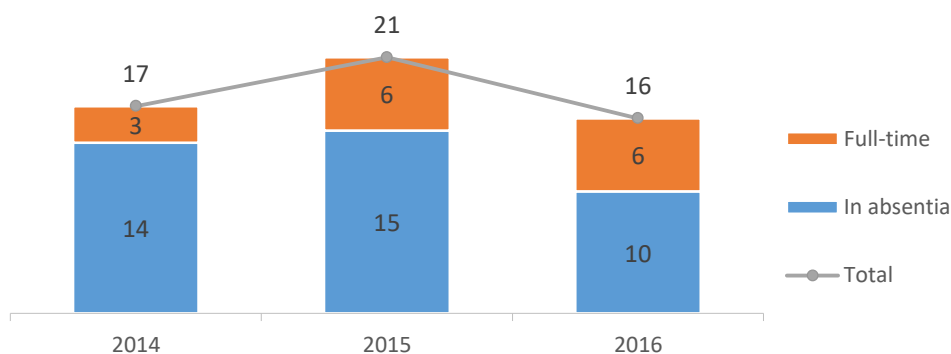
In 2016, there were no other notifications from members of the Board of Directors on their conflict of interest.

### **Report on the performance of the Board of Directors**

The Board of Directors of PJSC RusHydro is a collegial body whose main task is strategic management. In addition to the strategy, the Board of Directors implements corporate governance, investment and business planning, performance management, innovation development, risk management, audit and control, ensures sustainable development, including social policy, charity and environmental aspects. The Board of Directors is also involved in some of the most important operational issues requiring regular supervision, such as reliable operation of the Company's facilities, approval of individual transactions, management of subsidiaries, and others.

In 2016 the Board of Directors held full-time meetings 6 times, also held 10 absentee voting. 177 issues were considered.

**The number of meetings of the Board of Directors**



In 2016, an average attendance level as for the meetings of the Board of Directors amounted to 90 % of all meetings held in 2015.

<b>Composition since 27.06.2016</b>		10.08.2016	20.09.2016	07.10.2016	11.11.2016	22.11.2016	23.12.2016	26.12.2016
		In absentia	full-time	In absentia	In absentia	full-time	full-time	In absentia
Avetisyan A .D.	4/7		V	V		V		V
Bystrov M. S.	7/7	V	V	V	V	V	V	V
Grachev P.S.	7/7	V	V	V	V	V	V	V
Ivanov S. N.	7/7	V	V	V	V	V	V	V
Kravchenko V. M.	7/7	V	V	V	V	V	V	V
Pivivarov V. V.	7/7	V	V	V	V	V	V	V
Podguzov N.R.	6/7	V	V	V	V	V	V	
Rogalev N.D.	7/7	V	V	V	V	V	V	V
Trutnev Y. P.	7/7	V	V	V	V	V	V	V
Chekunkov A.O.	7/7	V	V	V	V	V	V	V
Shishin S.V.	7/7	V	V	V	V	V	V	V
Shishkin A.N.	6/7	V		V	V	V	V	V
Shulginov N.G.	7/7	V	V	V	V	V	V	V

<b>Composition since 26.06.2015</b>		19.02.2016	25.02.2016	30.03.2016	04.04.2016	07.04.2016	12.05.2016	31.05.2016	06.06.2016	23.06.2016
		full-time	In absentia	In absentia	In absentia	full-time	In absentia	In absentia	full-time	In absentia
Avetisyan A. D.	4/9			V			V	V	V	
Bystrov M. S.	9/9	V	V	V	V	V	V	V	V	V
Dod E. V.	6/9		V	V		V	V	V	V	
Zimin V.M.	9/9	V	V	V	V		V	V	V	V
Ivanov S. N.	9/9	V	V	V	V	V	V	V	V	V
Calanda L. V.	8/9	V	V	V	V	V	V	V	V	
Kravchenko V. M.	9/9	V	V	V	V	V	V	V	V	V
Morozov D. S.	9/9	V	V	V	V	V	V	V	V	V
Osipov A. M.	8/9	V	V	V	V	V		V	V	V
Pivivarov V. V.	9/9	V	V	V	V	V	V	V	V	V
Trutnev Y. P.	8/9	V	V	V		V	V	V	V	V
Shishin S. V.	8/9	V	V	V	V	V	V	V	V	
Shishkin A. N.	7/9	V	V	V	V	V	V		V	

#### Attendance and participation of the Board members in the activities of the committees

<b>Attendance</b>			<b>Participation in committees</b>					
Composition since 31.12.2016	Visited	%	The Strategy Committee	The Audit Committee	The Committee on the Human Resources and Remuneration	The investment Committee	The Reliability, Energy Efficiency and Innovation Committee	The Development of Energy in the Far East Committee
Trutnev Y. P.	15/16	93.75						
Avetisyan A. D.	8/16	50	2/4			4/14		
Bystrov M. S.	16/16	100		12/16	9/11	14/14		
Grachev P.S.*	7/7	100	8/8					2/2
Ivanov S. N.	16/16	100		16/16	11/11		3/4	
Kravchenko V. M.	16/16	100					4/5	



Pivivarov V. V.	16/16	100		16/16	11/11	14/14		
Podguzov N.R.*	6/7	85.71	6/7					
Rogalev N.D.*	7/7	100	8/8				1/1	
Chekunkov A.O.*	7/7	100				6/6	0/1	2/2
Shishin S. V.	15/16	93.75	11/12					
Shishkin A. N.	13/16	81.25	8/12				0/1	
Shulginov N.G.*	7/7	100	11/12					
Board members, out-of-ended 27.06.2016								
Dod E. V.	6/9	66.66						
Zimin V.M.	9/9	100				8/8		
Calanda L. V.	8/9	88.88				5/8		
Morozov D. S.	9/9	100						
Osipov A. M.	8/9	88.88	1/4			0/8		

\* Elected to the Board of Directors in 2016.

### **Agenda of the Board of Directors meetings on the most significant issues (quarterly)**

#### **1 Quarter**

Election of a member of the Management Board  
Preliminary approval of the investment program  
Environmental policy  
Questions of the Committees  
Charity program and report  
Changes to the standard Collective Agreement of the branches  
Transactions and priority projects

#### **2 Quarter**

Approval of the Strategy  
Report on the implementation of the Strategic Plan  
Business plan - report for 2015 and 1 quarter of 2016  
Investment program - report for 2015 and 1 quarter of 2016  
KPI - report for 2015 and 1 quarter of 2016  
Preparation of the AGM  
Questions of the Committees  
Board Report  
Amendment of the Corporate Governance Code  
Initiate cost audits  
Evaluation (self-assessment) of the Council's activities  
The price of the auditor's services  
Transactions and Priority Projects

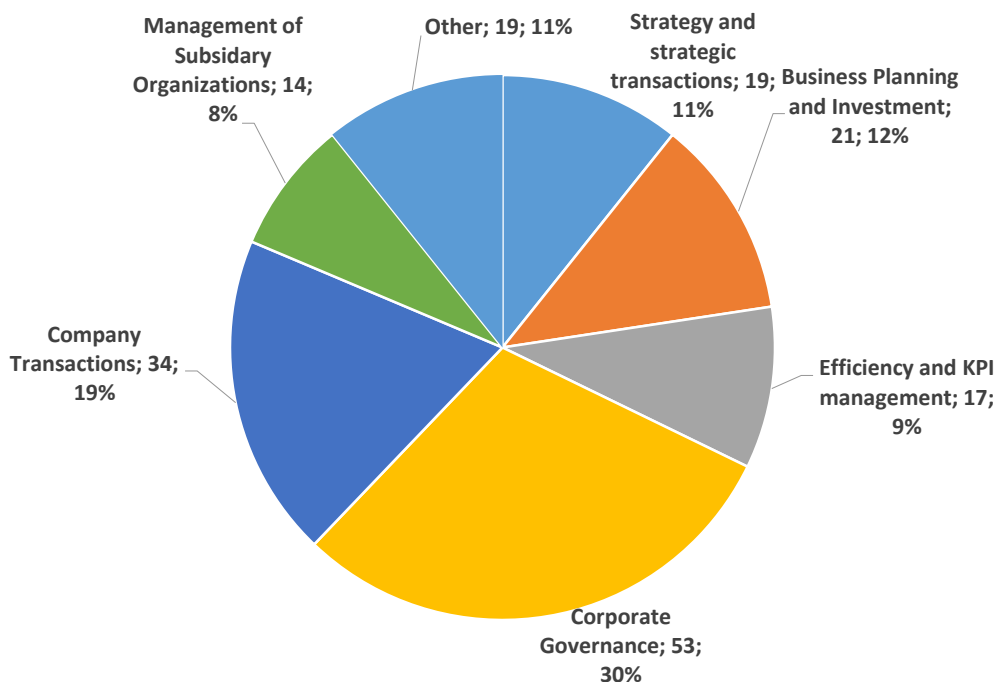
#### **3 Quarter**

Election of a Chairman and work plan  
Questions of the Committees  
Consolidated business plan of the Group  
Business plan - report for the 2<sup>nd</sup> quarter of 2016  
Investment program - a report for the 2<sup>nd</sup> quarter of 2016  
KPI - a report for 2<sup>nd</sup> quarter of 2016  
Initiation of the development of an innovative development program  
Transactions and Priority Projects

#### **4 Quarter**

Long-term development program for 2016-2020.  
And the report for the first half of 2016  
Business plan for 2017  
Business plan - report for the 3rd quarter of 2016  
Investment program of 2017  
Investment Program - Report for the 3rd quarter of 2016  
KPI 2017  
KPI - Report for the 2nd quarter of 2016  
KPI - Report for the 3rd quarter of 2016  
Plan of measures to optimize costs  
Innovative Development Program and Report  
Placement of shares and "Non-Deliverable Forward"  
Typical Collective Agreement of the branches for 2017-2019.  
Transactions and Priority Projects

### The issues considered by the Board of Directors



See the Minutes of the meetings of the Board of Directors on the following web-site: (<http://www.rushydro.ru/corporate/board/minutes/>) and in Appendix No. 7 to the Annual Report

#### **The Board of Directors devoted 6 issues to the Company's strategy and strategic transactions**

In course of its meeting on 06.06.2016 the Board of Directors approved the Development strategy of the RusHydro Group for the period until 2020, with a perspective of up to 2025. At the meeting, the report on the implementation of the Strategic Plan of PJSC RusHydro for the period up to 2015 and the prospect until 2020 was reviewed. The Board of Directors was held in the form of a joint presence.

In accordance with the Directives of the Government of the Russian Federation, the Long-term Development Program of the RusHydro Group was amended at the meeting on October 7, 2016.

The Board of Directors at its meeting on 22.11.2016 approved the updated Long-term development program of the RusHydro Group for the period 2016-2020. At the meeting, the report on the implementation of the Long-term Development Program for the first half of 2016 was reviewed.

At its meeting on December 23, 2016, the Board of Directors of the Company approved target values and methodology for calculating key performance indicators of the Long-Term Incentive Program of PJSC RusHydro for the first cycle for 2017-2019.

The Board of Directors decided to increase capitalist Authorized Capital by an additional issue of 40.429 billion rubles, and approved a strategic deal for the non-deliverable forward for shares of PJSC RusHydro aimed at attracting financing for refinancing debts of the subsidiaries of RAO "ES of the East" Holding. These issues were considered at the meetings on 22.11.2016, 26.12.2016 and 27.02.2017.

The strategic deals - the sale of the dams of the hydropower plant of the Angarsk cascade and the sale of a significant controlled company ESKB LLC, the Board of Directors approved at meetings on October 7, 2016 and 11.11.2016, respectively.

The sessions of 06.06.2016, 22.11.2016 and 23.12.2016 were held in the form of a joint presence. Information on the Strategy is presented in section 2.1. Strategy of the RusHydro Group.

#### **The Board of Directors devoted 9 meetings to the Business Planning and Investments**

The Business Plan and the Investment Program of the Company for 2017 are approved at the meeting on December 23, 2016. At the meeting, the Business Plan of the Company, including the Company's Investment Program for 2018-2021, as well as planned data on investment objects of PJSC RusHydro and new construction sites of subsidiaries, taken into account for calculating the performance of the members of the Management Board of PJSC RusHydro "Implementation of capacity schedules and a plan for financing and development, %" were considered for the year of 2017.

The Consolidated Business Plan, including the Consolidated Investment Program of the RusHydro Group for 2016-2020 was considered and taken into account at the meeting on September 20, 2016.

The meetings were held in the form of a joint presence.

The Board of Directors preliminary approved the project of the Company's Investment Program for 2016 (adjusted) and for 2017-2019, and reviewed the project of the Investment Program of the RusHydro Group for 2016 (adjusted) and for 2017-2019 at the meetings on April 7, 2016 and March 30, 2016, respectively.

The report on the implementation of the Business Plan and the Investment Program of the Company in 2015 was considered at a meeting on 06.06.2016 in the form of a joint presence.

The reports on the execution of the Business Plan and the Investment Program of the Company in the 1st quarter, half-year and the third quarter of 2016 were considered respectively on May 31, 2016, September 20, 2016 and December 26, 2016.

The Board of Directors quarterly reviewed the issue of the construction of 4 facilities in the Far East (Yakutskaya TPP-2 (1st stage), stage 2 of Blagoveshchenskaya TPP, TPP in Sovetskaya Gavan, Sakhalinskaya TPP-2 (Phase 1), approved a change in the management model for the construction of these facilities, approved changes to the agreement on the provision of budgetary investments, which previously attracted state budget funding for these facilities.

In addition, the Board of Directors in 2016 approved the Regulation on the business planning system of PJSC RusHydro, the Regulation on the accounting of investment projects included in the list of investment projects of the RusHydro Group, approved a report on the implementation of a public technological and price audit for 2015 of projects, being implemented and planned for implementation under the Investment Program of PJSC RusHydro, and a list of investment projects, being implemented and planned for implementation under the Investment Program of PJSC RusHydro, for conducting a public technological and price audit in 2016-2017, considered the implementation of certain investment projects of the Company.

Information on performance and investments is presented in sections 2.3 Financial results and 2.4 Investments.

***The Board of Directors devoted 8 meetings to the management of efficiency, innovations and key indicators.***

By virtue of the decision of the Board of Directors as of 23.06.2016, an independent audit of the Company's costs was initiated and a cost optimization plan was developed for subsidiaries.

The costs optimization strategy based on the results of an external independent audit of the Company's costs taking into account the subsidiaries was approved at the meeting on 22.11.2016 in the form of a joint presence. The strategy was taken into account when forming the Business Plan, which includes the Investment Program for 2017.

The KPIs, including the target values and methodology for calculating and evaluating the annual key performance indicators of the members of the Management Board of PJSC RusHydro, the target values and methodology for calculating and evaluating the KPI for the Long-Term Incentive Program of PJSC RusHydro for the first cycle for 2017-2019 was approved at the meeting on December 26, 2016.

At its meeting on October 7, 2016 the Board of Directors adjusted the previously approved key performance indicators for 2016.

The Board of Directors considered the report on the implementation of the KPI of the Company in 2015 at the meeting of 06.06.2016.

Reports on the performance of key indicators of the Company in the 4th quarter of 2015, 1 - 3 quarters of 2016 were considered respectively on 06.06.2016, 31.05.2016, 07.10.2016 and 26.12.2016.

In 2016, the Board of Directors launched a new innovative development program of the RusHydro Group for 2016-2020 with perspective prospect of up to 2025 and approved it at the meeting on November 22, 2016 after approval of the report on the implementation of the Innovative Development Program of PJSC RusHydro for 2011-2015 with a prospect of up to 2021 for 2015.

The Board of Directors approved the Regulations on the procurement of products for the needs of PJSC RusHydro on June 23, 2016, approved by the Board of Directors of PJSC RusHydro and amended during 2016. The Board of Directors also delivered a number of orders to the management aimed at improving the efficiency of procurement activities.

The annual comprehensive procurement program of PJSC RusHydro for 2017 was approved at the meeting on December 26, 2016.

The reports on the implementation of the Annual comprehensive procurement program of PJSC

RusHydro for 2016 were considered simultaneously with the approval of reports on the implementation of the Company's Business Plan.

Information on measures to improve operational efficiency is presented in Section 2.3 Financial Results.

Information on procurement is provided in section 3.2.2 Procurement management.

Information about innovations is presented in section 2.5 Innovative development.

***The Board of Directors devoted 11 meetings to the corporate governance***

In addition to the standard annual issues, related to the preparation of the Annual General Meeting of Shareholders, formation of Committees and consideration of reports on their activities, election of the Chairman and Vice-Chairman, planning of their work, consideration of the Board's report, the Board of Directors in 2016 considered the issue of recognizing two directors as independent, reviewed the results of the evaluation (self-evaluation) of the Board of Directors, elected to the Board Kazachenkov A.V., considered the new organizational structure of the Company, approved the amendments to the Corporate Governance Code and the new edition of the Regulations on the Committees, the Regulation on the Corporate Secretary, decided to terminate the relationship with the former registrar and approved JSC VTB Registrar as a new registrar.

After the reporting date, at the meeting of 01.18.2017 the Board of Directors has increased the number of members of the Board by up to 6 people and has elected Markin V. I. to be a board member since 15.02.2017.

Apart from the foregoing, the Board of Directors considered audit issues in 2016, including the selection and recommendation of the auditor's candidacy to the General Meeting of Shareholders, approved the remuneration of the auditor, approved the new version of the Internal Reform Policy, the Code of Ethics, the Anti-Corruption Policy, the Conflict of Interest Policy, the Environmental policy . It also considered the Charity and Sponsorship Program and the report on its implementation, approved the transactions of the Company and its subsidiaries, approved the Regulation of remuneration and compensation for the RusHydro Management Board members and the new edition of the Regulation of long-term motivation of PJSC RusHydro.

The list of issues considered by the Board of Directors other than those recognized as confidential is provided for in the form of the texts of the Minutes in Appendix No. 7.

**4.2.3 The Committees of the Board of Directors**

The Board of Directors of PJSC RusHydro has six committees: the Strategy Committee, the Audit Committee, the Investment Committee, the Personnel and Remuneration Committee, the Reliability, the Energy Efficiency and Innovation Committee and the Far Eastern Energy Development Committee.

**The Audit Committee** shall assist the Board of Directors in monitoring of the financial and business activities of the Company. The key function of the Committee is to monitor financial reporting, functioning of the internal control system, risk management, corporate governance, system of notification of dishonest actions, as well as to ensure the independence and fairness of internal audit and external audit.

**1st half of 2016**

Composition		Key issues
Independent members of the Board of Directors: Ivanov S.N. Bystrov M.S. * Pivovarov V.V.	<ul style="list-style-type: none"> <li>• Compliance with insider information requirements</li> <li>• Annual report</li> <li>• Auditor's reports for the year 2015</li> <li>• Auditor's candidacy for 2016</li> <li>• Auditor's opinion on the implementation of the Long-term Development Program in 2015</li> <li>Opinion of the Audit Commission</li> </ul>	<ul style="list-style-type: none"> <li>• Report on the implementation of the schedule of control activities</li> <li>• Report of the Audit Committee</li> <li>• Results of the procurement activities in 2015, corruption risks analysis</li> <li>• Evaluation of the effectiveness of the risk management system</li> <li>• Report of the RAS auditor, 9 months.</li> </ul>

**2nd half of 2016**

Composition		Key issues
Independent members of the Board of Directors:	<ul style="list-style-type: none"> <li>• Analysis of corruption risks in capital construction projects</li> </ul>	<ul style="list-style-type: none"> <li>• Auditor's plans for 2016</li> <li>• Auditor's report for 6 months,</li> </ul>

Ivanov S.N.*, Bystrov M.S. Pivovarov V.V.	<ul style="list-style-type: none"> <li>● Proposals to improve the effectiveness of the Long-term Development Program</li> <li>● Compliance with insider information requirements</li> <li>● Plan of the audit schedule for 2017</li> <li>● Report on the execution of the plan of the audit schedule.</li> </ul>	2016 <ul style="list-style-type: none"> <li>● Strategic risk management plan in 2016-2017.</li> <li>● Internal Audit Policy</li> <li>● Registrar of the Company</li> <li>● Non-financial report</li> </ul>
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\* Chairman of the Committee.

*Information on internal audit is given in section 4.3 Audit and control.*

*The list of issues considered by the Audit Committee in 2016, in addition to those recognized as confidential, is given in Appendix No. 8.*

**The Personnel and Remuneration Committee** (nominations) functions for developing recommendations on the formation of a professional composition of the Company's management bodies and effective and transparent practice of their remuneration. The main task of the Committee is the preliminary analysis and development of recommendations to the Board of Directors on issues within their competence.

### 1st half of 2016

Composition	Key issues
Independent members of the Board of Directors: Pivovarov V.V. Bystrov MS*. Ivanov SN	<ul style="list-style-type: none"> <li>● Election of Board Member</li> <li>● Additional agreement (typical) to the collective agreement of the Company's branch for 2014-2016.</li> <li>● Report on the results of the committee</li> <li>● Payment of remuneration to members of the Board</li> </ul> <ul style="list-style-type: none"> <li>● Regulation on remuneration and compensation of the Board of Directors in a new edition</li> <li>● Short-term and long-term motivation system of the Management Board and Chairman of the Management Board; the relationship between motivation and the Company's Strategy (together with the Strategy Committee)</li> </ul>

### 2nd half of 2016

Composition	Key issues
Independent members of the Board of Directors: Pivovarov VV, Bystrov MS*. Ivanov SN	<ul style="list-style-type: none"> <li>● Regulations on the Corporate Secretary</li> <li>● Election of the Corporate Secretary</li> <li>● Organizational structure</li> <li>● KPI of members of the Management Board for 2017</li> </ul> <p style="margin-left: 20px;">Typical collective agreement of the branch for 2017-2019</p> <ul style="list-style-type: none"> <li>● Interested party transactions</li> <li>● Short-term and long-term motivation system of the Management Board and Chairman of the Management Board</li> <li>● Report of the Committee</li> </ul>

\* Chairman of the Committee.

*Detailed information on remuneration to management bodies, control bodies and the auditor is provided in section 4.4 Report on remuneration to management bodies, control bodies and the auditor.*

*The list of issues considered in 2016 by the Committee for Personnel and Remunerations (nominations), other than those recognized as confidential, is given in Appendix No. 8.*

**The Strategy Committee** functions to ensure effective work of the Board of Directors on the issues of strategic development of the Company.

### 1st half of 2016

Composition	Key issues
Members of the Board of Directors: Avetisyan A.D. Osipov A.M. Shishin S.V. Shishkin A.N. Members of the Executive Bodies:	<ul style="list-style-type: none"> <li>● Implementation of the Strategic Plan for the period up to 2015 and for the future until 2020.</li> <li>● Approval of the Group's development strategy for the period until 2020, with a perspective up to 2025.</li> <li>● System of motivation of the Company's management; (Together with the Committee for Personnel and Remuneration)</li> </ul>

Shulginov N. G. Rizhinashvili D.I. Committee members: Auzan A.A. ** Zadvornov I.A. Mamin V.V. Nikonov V.V. Rusakov M.V. Olkhovich E.A. Snikkars P.N.	Report of the Committee
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## 2nd half of 2016

Composition	Key issues
Members of the Board of Directors: Grachev P.S. Podguzov N.R. * Rogalev N.D. Shishin S.V. Shishkin A.N. Shulginov N.G. Members of the Executive Bodies: Rizhinashvili D.I. Committee members: Auzan A.A. ** Zadvornov I.A. *** Mamin V.V. Nikonov V.V. Olkhovich E.A. Rusakov M.V. Snikkars PN	<ul style="list-style-type: none"> <li>● Implementation of the Long-term development program of the RusHydro Group in the first half of 2016</li> <li>● Cost optimization strategy</li> <li>● The Group's long-term development program for 2016-2020.</li> <li>● Alienation of ESKB LLC- a significant subsidiary<sup>24</sup></li> <li>● Refinancing of RAO ES EAST, PJSC - a significant subsidiary</li> <li>● The additional issue of shares of the Company and the Transaction "Non-Deliverable Forward"</li> <li>● Transactions in the process of de-fogging the project of the Boguchansky Energometallurgical Association</li> <li>● Sale of dams of the HPP of the Angarsk cascade</li> <li>● Report of the Committee</li> </ul>

\* Member of the Committee as of 10.10.2016

\*\* Chairman of the Committee until 11.11.2016

\*\*\* The Chairman of the Committee from 11.11.2016

*Detailed information about the Strategy is given in section 2.1. Strategy of the RusHydro Group. Information on the members of the Strategy Committee and the list of issues considered by the Committee in 2016, in addition to those recognized as confidential, are given in Appendix No. 8.*

**The Investments Committee** was established for consideration of new investment projects and investment programs, as well as improvement and development of the Company's investment policy.

## 1st half of 2016

Composition	Key issues
Independent members of the Board of Directors: Bystrov MS * Pivovarov V.V. Members of the Board of Directors: Avetisyan A.D. Zimin V.M. Kalanda L.V. Osipov A.M. Members of the Executive Bodies: Kirov S.A. Rizhinashvili DI Committee members: Dr. Berndt K.A. Bugrov A.E. Mantrov M.A.	<ul style="list-style-type: none"> <li>● Progress in the implementation of priority projects</li> <li>● Regulation on the business planning system</li> <li>● Public technological and price audit</li> <li>● Regulation on the procedure for recording investment projects included in the investment program</li> <li>● Procurement Regulations</li> <li>● Adjustment of the investment program for 2016</li> <li>● Report on the implementation of the Business Plan and Investment Program</li> <li>● Report on the KPIs</li> <li>● Consolidated Business Plan for 2016-2020.</li> <li>● Consideration of transactions of the Company and controlled entities</li> </ul> Report of the Committee

<sup>24</sup> The deal of the sale of 100 % shares of ESKB LLC was completed in November 2016. The buyers are Russian companies which are aligned with PJSC "Inter RAO". The deal value is 4,1 million rub. All the transactions regarding this deal were completed in the 1<sup>st</sup> quarter of 2017.

Milyutin D.V.  
Podgorny A.Y.  
Snikkars PN

## 2nd half of 2016

### Composition

Independent members of the Board of Directors:

Bystrov M.S. \*

Pivovarov V.V.

Members of the Board of Directors:

Avetisyan A.D.

Chekunkov A.O.

Rogalev N.D.

Members of the Executive Bodies:

Kirov S.A.

Rizhinashvili D.I.

Committee members:

Domnich V.A.

Zhuravlev S.I.

Milyutin D.V.

Podgorny A.Yu.

Skulkin V.S.

Tikhonova M.G.

### Key issues

- Progress in the implementation of priority projects
- Business plan for 2017-2021
- Purchasing Program 2017
- Report on the implementation of the Business Plan and Investment Program
- Report on the KPIs
- Model of construction management in the Far East
- Annual comprehensive procurement program
- Consideration of transactions of the Company and controlled entities
- Report of the Committee

\* Chairman of the Committee.

*Detailed information on investments is given in section 2.4 Investments.*

*Information on the members of the Committee on Investments and the list of issues considered by the Committee in 2016 are given in Appendix No. 8.*

**The Committee for Reliability, Energy Efficiency and Innovation** functions to ensure the effective work of the Board of Directors in matters of the Company's technical policy, reliable and safe operation of the Company's hydraulic facilities, energy conservation policies, innovation policy, environmental policy and other issues within the competence of the Committee.

## 2016 year

### Composition in the first half of 2016

Independent members of the Board of Directors:

Ivanov S.N.

Members of the Board of Directors:

Kravchenko V.M.

Members of the Executive Bodies:

Bogush B.B.

Rizhinashvili D.I.

Committee members:

Bolgov MV

Vishnevsky Yu.M. \*

Gorbenko Yu.V. \*

Zavizenov K.V.

Kudryavy V.V. \*\*

Milensky E.D.

Tolstoguzov S.N.

Frolov K.E. \*

Shkatov V.A.

### Composition in the second half of 2016

Members of the Board of Directors:

Rogalev N.D. \*\*\*

Chekunkov A.O.

Shishkin A.N.

Kravchenko V.M.

Members of the Executive Bodies:

Bogush B.B.

Rizhinashvili D.I.

Committee members:

Vikhansky A.E.

Tolstoguzov S.N.

Vishnevsky Yu.M.

Frolov K.E.

Karpukhin N.I.

Fedorov M.P.

Gromov R.E.

### Key issues

- Approval of the Environmental Policy
- Program for implementing the Environmental Policy
- Measures to improve the Reliability and Efficiency of the Electric Power Industry of the Far East
- Report on the implementation in 2015 of the program of innovative development for 2011-2015 with a prospect of up to 2021
- The program of innovative development of the RusHydro Group for 2016-2020 with a prospect of up to 2025
- Method for calculating and evaluating the performance of the KPI "Accident rate"

Report of the Committee

\* Elected to the Committee on 30.03.2016 instead of VA Pekhtin, VA Tokarev. And Khaziahmetova RM

\*\* Chairman of the Committee in the first half of the year

\*\*\* Chairman of the Committee in the second half of the year

*Detailed information on innovations is presented in Section 2.5 Innovative Development.*

*Information on the members of the Committee on Reliability, Energy Efficiency and Innovation and a list of issues considered by the Committee in 2016 are given in Appendix No. 8.*

**The Committee for the Development of the Energy of the Far East** is functioning with the aim of effective work of the Board of Directors on the development of the power industry of the Far Eastern Federal District in terms of the responsibility of the Company and its subsidiaries.

## 2016 year

Composition in the first half of 2016	Composition in the second half of 2016	Key issues
<b>Members of the Board of Directors:</b> Trutnev Yu.P. * Osipov A.M. Chekunkov A.O. Kravchenko V.M. <b>Members of the Executive Bodies:</b> Shulginov N.G. Kazachenkov A.V. <b>Committee members:</b> Zadvornov I.A. Korneychuk A.V. Molsky A.V. Nikonov V.V. Pilenyks D.V. Tolstoguzov S.N. Tupikin V.V.	<b>Members of the Board of Directors:</b> Trutnev Yu.P. * Chekunkov A.O. Grachev P.S. Kravchenko V.M. <b>Members of the Executive Bodies:</b> Kazachenkov A.V. <b>Committee members:</b> Zadvornov I.A. Kachaev S.V. Molsky A.V. Nikonov V.V. Olkhovich EA Pilenyks D.V. Tolstoguzov S.N. Tupikin V.V.	<ul style="list-style-type: none"> <li>● Results of the Eastern Economic Forum - 2016</li> <li>● Energy supply status for the territories of advanced development and infrastructure facilities of the gas transmission system "The Power of Siberia"</li> <li>● Progress in the implementation of priority projects in the Far East</li> </ul> Debt financing of RAO ES EAST, PJSC

\* *Chairman of the Committee.*

*Information on the members of the Committee for the Development of Energy in the Far East and the list of issues considered by the Committee in 2016 are listed in Appendix No. 8.*

## Corporate secretary

### **Natalia Kovaleva**

Year of birth: 1972

Education: Irkutsk State University, 1996, lawyer

Position: Deputy Director of the Department of Corporate Governance and Property Management, Corporate Secretary

Appointment to the Corporate Secretary: 11.11.2016

From 01.2016 to the present:

- Deputy Director of the Department for Corporate Governance and Property Management of PJSC RusHydro, Corporate Secretary of PJSC RusHydro;

- Adviser to the First Deputy Director General of PJSC RusHydro;

From 07.2010-12.2015 Director of the Corporate Governance Department of PJSC "MOESK".

Combining positions: Member of the Board of Directors / Deputy Chairman of the Board of Directors for a number of RusHydro Group companies.

Does not own shares of the Company, also indirectly.

The Company and the Group companies did not issue loans to Natalia Kovaleva.



#### 4.2.4 Members of the Management Board - Corporate governance and Chairman of the Management Board - CEO\*

	<b>Nicholai Shulginov</b> - Chairman of the Management Board - CEO	<b>Boris Bogush</b> - First Deputy General Director - Chief Engineer	<b>Andrey Kazachenkov</b> - First Deputy General Director	<b>Sergey Kirov</b> - First Deputy General Director	<b>George Rizhinashvili</b> - First Deputy General Director
b.y.	1951	1952	1980	1976	1981
Education	Novocherkassk Red Banner of Labor Polytechnic Institute. Sergo Ordzhonikidze (Power supply of industrial companies and municipalities)	Saratov Polytechnic Institute (Mechanical Engineer) Academy of National Economy under the Government of the Russian Federation (the company's management development)	St. Petersburg State University of Engineering and Economics (economics and management at engineering enterprises, "Management"); University of Wisconsin, Madison, USA (MBA degree)	Perm State Agricultural Academy. DN Pryanishnikova (economics and management of agricultural production) Regional interdisciplinary retraining center at Perm Technical University (Economics and Management)	Moscow State University. MV University (economics) Ph.D.
Experience over the past 5 years and participated in the management bodies of other organizations as of 31.12.2016	2004-2015 - Deputy Chairman of the Board, First Deputy Chairman of the Management Board of OAO "UES SO" From 2015 - Chairman of the Board - CEO PJSC RusHydro He is a member of the BoD PJSC "FGC UES", a member of the Supervisory Board of NP "Scientific and Technical Council of the Unified Energy System"	Since 2007 - Managing Director, Head of Business Unit "Production", First Deputy General Director of PJSC RusHydro - Chief Engineer  He is a member of the BoD of "VolgaGidro", a member of the Board of Trustees, Foundation "Awareness", a member of the Supervisory Board of NP "Hydropower of Russia"	From 2009 to 2015, the adviser to the Chairman of the Board; Deputy Chairman of the Management Board, First Deputy Chairman of the Management Board of PJSC "FGC UES" Managing Director, Head of Business Unit "Production", First Deputy General Director.  Member of the Board of Directors of RAO ES EAST, PJSC	2010-2014 - General Director of "RusHydro IT service" Since 2010 - Director for Economy, Deputy General Director for Economy, Investment and procurement activities, First Deputy General Director of PJSC RusHydro  2010 - 2014 - Member of the BoD of "RusHydro IT service"	Since 2009 - Member of the Board, First Deputy General Director of PJSC RusHydro 2010-2014 - Member of the Supervisory Board of NP "end of UES"  He is a member of the Board of Trustees Foundation "Awareness"
Memberships on the Management Board	Since 2015	Since 2010	Since 2016	Since 2015	Since 2009
Shareholding	Does not own company shares Did not purchase or sell company shares in the reporting period	Share of the Issuer's ordinary shares owned – 0.004241 % Did not purchase or sell company shares in the reporting period	Does not own company shares Did not purchase or sell company shares in the reporting period	Does not own company shares Did not purchase or sell company shares in the reporting period	Share of the Issuer's ordinary shares owned – 0.014193 %

Availability of loans from the Company and the Group companies	No	No	No	No	No
Membership in committees in BD	Strategy Committee	Reliability Committee, Energy Efficiency and Innovation	Committee for the Development of Energy in the Far East	Investment Committee	Reliability Committee, Energy Efficiency and Innovation, Strategy Committee, Investment Committee

\* In the reporting year, there were no decisions on early termination of the powers of persons who are members of the Management Board of the Company.

### **Report on the activities of the Board**

In 2016, 64 meetings of the Board were held (12 of them were held in preasentia), on which more than 455 issues related to the Company's current activities were considered. In addition, all issues, submitted for consideration by the Board of Directors, were preliminarily discussed.

Attendance of meetings by the members of the Management Board exceeds 80 %. The Chairman of the Management Board - CEO took part in all meetings.

The results of the activities of the Management Board are reflected in this Annual Report.

### **4.3 Audit and control**

PJSC RusHydro has a system for monitoring financial and business activities, which consists of local regulatory documents, current practices, procedures and methodology, and key stakeholders:

- Audit committee
- External Auditor
- Audit Committee under the Board of Directors
- Internal Audit Service

The main principles, goals, tasks, methods and processes of the control system are defined in the documents approved by the General Meeting of Shareholders and the Board of Directors of PJSC RusHydro:

- Regulations on the Audit Commission (<http://www.rushydro.ru/upload/iblock/389/03Polozhenie-o-RK.pdf>).
- Code of Corporate Governance (<http://www.rushydro.ru/upload/iblock/65d/Kodeks-korporativnogo-upravleniya-RusGidro.pdf>),
- Internal Control and Risk Management Policy ([http://www.rushydro.ru/upload/iblock/c9c/Politika-VKiUR-PAO-RusGidro\\_16.11.2015\\_utv.pdf](http://www.rushydro.ru/upload/iblock/c9c/Politika-VKiUR-PAO-RusGidro_16.11.2015_utv.pdf)),
- Internal Audit Policy (<http://www.rushydro.ru/upload/iblock/993/Politika-v-oblasti-vnutrennego-audita.pdf>),
- Regulations on the Audit Committee under the Board of Directors (<http://www.rushydro.ru/upload/iblock/20b/Prilozhenie-15.-Polozhenie-o-KA.pdf>),
- Code of Corporate Ethics (<http://www.rushydro.ru/upload/iblock/527/Prilozhenie-7.-Kodeks-korporativnoj-etiki.pdf>),
- Anticorruption policy (<http://www.rushydro.ru/upload/iblock/ac6/Prilozhenie-5.-Antikorruptsionnaya-politika-nov.red..pdf>).

The Audit Commission of the Company is accountable to the General Meeting of Shareholders. The conclusion of the Audit Commission is the subject of consideration of the Audit Committee. The opinion of the Audit Commission on the results of the audit of the Annual Report is a mandatory document provided to the General Meeting of Shareholders.

The opinion of the Auditor is the subject of consideration by the Audit Committee and the Audit Commission. The Audit Committee reviews the auditor's plan for analyzing the Group's activities.

The Audit Committee performs functional management of the Internal Audit Service, including approving the annual Control Schedule and quarter implementation reports.

### 4.3.1 Internal Audit Committee

The number of members of the Audit Committee is five.

#### Members of the Audit Commission

	<b>Igor Repin</b> - Chairman of the Audit Committee for the period of 2016	<b>Natalia Annikova</b> - member of the Audit Committee for the period of 2016	<b>Alexander Bogachev</b> - member of the Audit Committee for the period of 2016	<b>Mandal Denis Kant</b> - Member of the Audit Committee for the period of 2016	<b>Vladimir Khvorov</b> - member of the Audit Committee for the period of 2016	<b>Andrey Kharin</b> - member of the Audit Committee until June 27, 2013
b.y.	1966	1955	1989	1987	1947	1979
Main position held	Deputy Executive Director of the Non-Profit Organization Investor Protection Association	First Deputy General Director of JSC "Construction Management No. 308"	Acting Director of the Department of the Ministry of Energy of the Russian Federation	Member of the Committee on Budget of the Board of Directors of OJSC ANK Bashneft	Leading expert of the Ministry of Economic Development of the Russian Federation	(By the time of termination of powers) Deputy Director of the Department of the Ministry of Energy of the Russian Federation
Nominated by	(2015, 2016): Russian Federation	(2015, 2016): Russian Federation	(2016): Russian Federation	(2015, 2016): Russian Federation	(2015, 2016): Russian Federation	(2015): Russian Federation
Ownership of the Company's shares	no	no	no	no	no	no

In 2016, the Audit Committee conducted an audit of the financial and economic activities of PJSC RusHydro based on the results of its activities for the year 2015<sup>25</sup>. Conclusions of the Committee on the results of the audit were submitted to the annual General Meeting of Shareholders on June 27, 2016. The audit confirmed that the data contained in the Company's reports and financial documents are reliable, accounting and financial reporting are carried out in compliance with the requirements of the current legislation and internal regulations, financial and economic activities are conducted in compliance with the interests of the Company and its shareholders.

### 4.3.2 External Auditor

PJSC RusHydro annually conducts an independent external audit of financial (accounting) reports in accordance with the Russian and international standards. Selection of an external auditor who independently reviews the accounting (financial) statements of PJSC RusHydro under RAS and IFRS for 2015-2017 was conducted in the manner of an open tender. The organization and procedure for the procurement were determined in accordance with the Regulation on the procedure for regulated purchases of goods, works and services approved by the decision of the Board of Directors of the Company based on the decision of the Central Purchasing Committee of PJSC RusHydro of 04.12.2014 No. 470.

As a result of the procurement procedure, the PricewaterhouseCoopers Audit JSC (PvK Audit JSC) was recognized as the winner of the tender and approved by the annual General Meeting of Shareholders on June 26, 2015 and the annual General Meeting of Shareholders on June 27, 2016 by the auditor of the financial (accounting) statements for 2015 and 2016.

In 2016, PwC Audit JSC conducted an independent audit of the Company's accounting (financial) statements for the year 2015, compiled in accordance with the Russian Accounting Standards and the Consolidated Financial Statements for the year 2015, drawn up in accordance with International Financial Reporting Standards. In addition, PwC Audit JSC conducted a review of the consolidated interim financial

<sup>25</sup> Report of the audit Commission of PJSC RusHydro on the results of financial and economic activity for 2016 is in the Appendix No. 20 to this annual report.

statements of the issuer for the six months ending June 30, 2015.

### **4.3.3 Internal Audit Service**

The main objective of the internal audit activity of PJSC RusHydro is to assist the Board of Directors and the executive bodies of the RusHydro Group in improving the management of the Group and improving its operations, including through a systematic and consistent approach to the analysis and evaluation of the risk management system, internal control and corporate governance.

The Internal Audit Service is a separate structural unit of PJSC RusHydro, which is subordinate to the Board of Directors in the person of the Audit and Administrative Subordination Committee to the Chairman of the Management Board - CEO of PJSC RusHydro. The head of the Internal Audit Service was approved by the decision of the Board of Directors of PJSC RusHydro.

The tasks and functions of the Internal Audit Service include:

- Organization and holding of internal audits of the Company and its subsidiaries, processes and activities;
- Assessment of the effectiveness of the internal control system, risk management system, corporate governance of the Company and subsidiaries;
- Organization of methodological support and control over the activities of the Company's representatives in the audit commissions of subsidiaries;
- Interaction with the Audit Committee under the Company's Board of Directors.

The priorities of the Company's internal audit in accordance with the objectives of the RusHydro Group, taking into account the available resources, as well as the risk-oriented approach to planning control activities, are determined by the Control Schedule, which is approved annually by the Audit Committee.

During the year of 2016, 16 scheduled monitoring activities were carried out and 10 unscheduled inspections and official investigations were conducted / participated in the course of which audit evidences were collected and analyzed in order to assess the effectiveness of the internal control, risk management and corporate governance system, including:

- inspections of branches and subsidiaries engaged in the construction, operation, repair of generation facilities;
- thematic audits aimed at identifying opportunities to improve the business processes of the Company and activities of key subsidiaries;
- assessment of the Company's critical risks management performance.

Based on the results of the control activities, the Company's and subsidiaries' management develops and implements corrective actions aimed at adjustment of the identified remarks, increase of the effectiveness of the internal control system, prevention of the further violations, application of disciplinary measures to persons who committed violations. Internal auditors carry out the follow-up control over the corrective actions.

The Audit Committee quarterly reviews the report of the Head of the Internal Audit Service on the implementation of the Control Schedule, which contains a brief description of the identified material violations, comments and deficiencies in the Company's operations and its Subsidiaries, including information on significant risks, control and corporate governance problems, and as well as recommendations for their elimination, improving the effectiveness of the internal control system.

Based on the results of the evaluation (feedback) of the audit, in 2016, the internal audit performance was highly efficient in terms of identification of shortcomings, that would reduce / exclude the impact of negative factors on the efficiency of the Company and its subsidiaries if eliminated.

The general principles and approaches to the Company's internal audit system are fixed in the Internal Audit Policy approved by the Board of Directors of PJSC RusHydro. The policy takes into account the requirements of the Corporate Governance Code of PJSC RusHydro, the Methodological Recommendations and the instructions of the Federal Property Management Agency, and it is aimed, among other things, at increasing the compliance of the Internal Audit Service of PJSC RusHydro with the International Professional Standards of Internal Audit.

During 2016, the Internal Audit Service was working to update local regulations governing the activities of the Internal Audit Service and the Audit Committee.

The main directions of the current development of the internal audit function are:

- implementation of the Program of guarantees and improvement of the internal audit quality ;

- actualization of local normative acts that determine the principles for building the general group functioning as an internal audit of RusHydro Group;

- implementation of programs and methodologies for annual independent evaluation of corporate governance, evaluation of the internal control and risk management system effectiveness. .

#### **Evaluation of the internal audit process effectiveness by the Audit Committee**

The Audit Committee reviews and evaluates / approves, the reports of the Internal Audit Service on the monitoring activities carried out and their results on a quarterly basis.

## **4.4 Report on remuneration to the management and control authorities**

### **4.4.1 Members of the Board of Directors Remuneration**

#### **Remuneration of the Board of Directors in 2016, rub.**

<b>Indicator</b>	<b>As of 31.12.2014</b>	<b>As of 31.12.2015</b>	<b>As of 31.12.2016</b>
Remuneration for participation in the work of the management body	7,442,307.68	7,861,990.94	5,561,538.45
Salary	0	0	0
Variable component (premium)	0	0	0
Commission (remuneration)	0	0	0
Compensation for expenses	0	0	0
Other types of remuneration	0	0	0
<b>TOTAL:</b>	<b>7,442,307.68</b>	<b>7,861,990.94</b>	<b>5,561,538.45</b>
Costs associated with the performance of the functions of a management member, reimbursed by the Company	0	336,214.43	52,510.00

In 2016, the remuneration was paid to the Board of Directors elected on June 26, 2015 appointed for the period from June 26, 2015 to June 27, 2016.

The amount of the remuneration was calculated in accordance with the Regulation on the payment of remuneration and compensation to the members of the Board of Directors of PJSC RusHydro approved by the annual General Meeting of Shareholders on June 26, 2015 (date of approval – June 26, 2015, Minutes of June 26, 2015 No.13).

Basic calculation parameters:

- the basic part of the remuneration of each member of the Board of Directors is 900,000 rubles;
- the amount of remuneration depends on the number of meetings attended by a member of the Board of Directors;
- the amount of remuneration increases if the member of the Board is:
  - o a Chairman of the Board of Directors (by 30 %),
  - o a Chairman of the Committee (by 20 %),
  - o a member of the Committee of the Board of Directors (by 10 %);
- the total amount of remuneration, taking into account the allowances established by the Regulations, may not exceed 1,000,000 rubles;
- remuneration shall not be paid to a civil servant;
- remuneration shall not be paid to members of the Board of Directors who are or have been members of the executive bodies of the Company.

The decision on payment of remuneration to members of the Board of Directors was adopted by the Annual General Meeting of Shareholders on June 27, 2016. The decision on payment of remuneration to members of the Board of Directors was previously reviewed and recommended by the Personnel and Remuneration Committee (Minutes No. 50 of April 27, 2016).

The new version of the Regulation on the payment of remuneration and compensation to members of the Board of Directors of PJSC RusHydro was approved by the Annual General Meeting of Shareholders on June 27, 2016 (date of approval 27 June, 2016, Minutes of June 29, 2016 No. 15). The new edition of the Regulation abolished the maximum remuneration limit of 1,000,000 rubles, though set a premium on the

remuneration of the senior Independent Director, presented details regarding the compensation paid to the members of the Board of Directors, and lowered the threshold of missed meetings, which reduced remuneration from 50 to 25 %.

The Company does not pay compensation other than related to travel and accommodation for participation in the meeting, in particular, the Company does not pay remuneration to members of the Board of Directors in connection with the change in control or early termination of powers.

#### 4.4.2 Member of the Management Board Remuneration

The remuneration of the Management Board members, rub.

Indicator	As of 31.12.2014	As of 31.12.2015	As of 31.12.2016
Remuneration for participation in the work of the management body	0	0	0
Salary	127,367,216.24	97,827,885.72	71,655,251.40
Variable component (premium)	755,549,861.00	625,844,823.00	153,917,203.00
Commission (remuneration)	0	0	0
Compensation for expenses	0	0	0
Other types of remuneration	0	0	0
<b>TOTAL:</b>	<b>882,917,077.24</b>	<b>723,672,708.72</b>	<b>225,572,454.40</b>
Costs associated with the performance of the functions of a management member, reimbursed by the Company	26,024,539.35	7,788,019.40	6,993,854.30

Remunerations to members of the Management Board, including the Chairman of the Management Board - CEO, were paid in 2016 in accordance with the terms of employment contracts and the Regulations on the procedure for payment of remuneration and compensation to members of the Management Board of PJSC RusHydro, approved by the decision of the Board of Directors on 16.11.2010 (date of approval - 16.11.2010, Minutes of 19.11.2010 No.111).

In 2016, the Board of Directors, with the direct participation of the Personnel and Remuneration Committee (nominations) and with the involvement of the Strategy Committee, conducted a detailed analysis of the current system of remuneration of the Management Board and introduced a new system of remuneration for the executive bodies of the Company from 2017 (date of approval - 11.11.2016, Minutes of 14.11.2016 No. 243).

The new remuneration model is fully interrelated with the implementation of short-term and long-term key performance indicators of the Company, approved by the Board of Directors of the Company upon the recommendation of the Personnel and Remuneration Committee (nominations) under the Company's Board of Directors. The new system of motivation is based on the following principles: transparency, balance (observing the balance of interests of the shareholders of the Company and the interest of management in achieving the Company's long-term and short-term objectives), fairness (the amount of remuneration directly depends on the results of the Company's activities and the implementation of significant projects).

The new remuneration model provides for the Long-Term Incentive Program of the Management Board with reference to the growth of the value of shares and the fulfillment of key performance indicators of the Program established by the Board of Directors of the Company. The program is designed to more closely link the interests of the management and shareholders of the Company in the steady growth of the Company's capitalization and business development. The main objectives and principles of the Program: motivation of the Company's management for the implementation of strategic tasks and openness to shareholders, remuneration is determined taking into account the level of achievement of the Program KPI, a unified mechanism for calculating remuneration and equal conditions for obtaining remuneration.

The amount and terms of remuneration to the members of the Management Board payable due to the early termination of the contract are determined by a document approved by the Board of Directors regulating the payment of remuneration and compensation to the members of the Management Board of PJSC RusHydro. No change-in-control benefits are applicable. The maximum amount of remuneration paid in case of early dismissal of a member of the Management Board is limited in accordance with the legislation of the Russian Federation by a three-fold average monthly salary of a member of the Management Board.

### 4.4.3 Remuneration of the Audit Committee

#### Remuneration of the Audit Committee, rub.

	2014	2015	2016
Remuneration for participation in the work of the body supervising the financial and economic activities of the issuer	497,000	342,200	<b>629,475</b>
<b>Total</b>	497,000	342,200	<b>629,475</b>
Expenses related to the performance of the functions of members of the bodies controlling the issuer's financial and business operations, reimbursed by the Company	0	0	<b>0</b>

Payment of remunerations to members of the Audit Committee in 2016 was carried out in accordance with the Regulation on the payment of remuneration and compensation to the members of the Audit Committee of PJSC RusHydro (Minutes No. 13 of 26.06.2015), according to which the remuneration fee of the member of the Audit Committee is set at 25 minimum monthly rates of the worker of the first category established by the branch rates agreement in an electric power complex of the Russian Federation. The remuneration of the Chairman of the Audit Commission is increased by 50 %.

The new version of the Regulation on remuneration and compensation to members of the Audit Commission of PJSC RusHydro was approved by the Annual General Meeting of Shareholders on June 27, 2016 (date of approval - 27.06.2016, Minutes of 29.06.2016 No.15).

The new version of the Regulations provides for 15 % of the average annual remuneration of a member of the Board of Directors as a basic remuneration to a member of the Audit Committee. The basic remuneration is adjusted to the personal participation ratio of the member of the Audit Committee in meetings and the ratio taking into account the work as a Chairman and a Secretary of the Audit Commission. The new version of the Regulations also refines the reimbursement of travel and accommodation expenses necessary for the performance of their functions by the members of the Audit Committee, and provides for more details on the restrictions in payment of remuneration.

### 4.4.4 Auditor's remuneration

#### Auditor's remuneration\*, rub.

Audited fiscal year	2014	2015	2016
Audit of annual accounting (financial) reporting under RAS and Consolidated IFRS reporting, including a review of the consolidated financial statements for 6 months.	72,303,750*	121,577,600	<b>120,000,690</b>
Remuneration for non-audit services	no	no	<b>no</b>

\* Excluding the review of the consolidated financial statements for 6 months.

Remuneration of the auditor is determined by the decision of the Board of Directors of the Company taking into account the results of the competitive procedures and after preliminary consideration by the Audit Committee.

## 4.5. Business ethics and anti-corruption

### 4.5.1 Control over Major and Interested Party Transactions

PJSC RusHydro operates a system of internal control over transactions. The adopted Regulations stipulate the unified procedure for approving, signing and executing of contracts concluded on behalf of PJSC RusHydro. The draft contracts pass a corporate examination in order to comply with the legislation and to reduce the risk of disputing contracts by counterparties and shareholders of PJSC RusHydro.

In 2016, PJSC RusHydro concluded interested-party transactions, the list of which, including the subject of transactions, stakeholders and information on their approval, is given in Appendix No. 2 to the Annual Report. The Board of Directors or the General Meeting of Shareholders approved all transactions, thus, there was no conflict of interest in the performance of these transactions.

### 4.5.2 Preventing the use of Insider Information

A new version of the Insider Information Policy was approved in September 2014. The Policy

regulates the Company practices of observing the Russian law pertaining to the prevention of illegal use of insider information and market manipulation. The Policy has been developed taking into account the international practices of corporate governance, including the requirements of the Disclosure and Transparency Rules of the UK Financial Conduct Authority.

The Regulation establishes the categories of persons that PJSC RusHydro includes in the list of insiders, the access procedure and the rules for protecting the confidentiality of insider information, as well as restrictions on the use of information by insiders to conduct transactions with the Company's financial instruments and to transfer information about it to other persons.

The Controller of PJSC RusHydro is in charge of monitoring compliance with the requirements of legislation on insider information. Upon the results of each quarter, the Controller provides a report to the Audit Committee. The Audit Committee includes in its annual report information on the Company's performance of these requirements.

List of insider information is published on the corporate website of PJSC RusHydro.

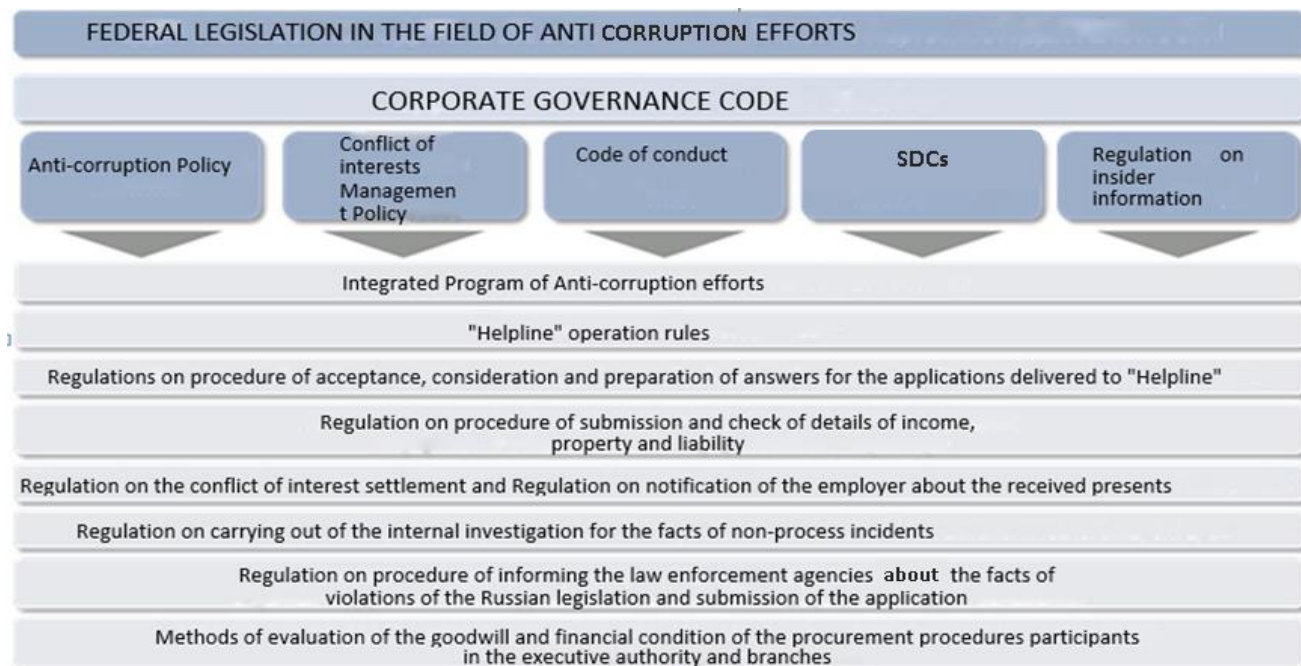
### 4.5.3 Anti-corruption efforts

The Company carries out regular work on prevention and detection of the corruption offence in the PJSC RusHydro, activities aimed at the elimination (minimization) of the reasons and conditions which may allow corruption to occur.

Its work is based on the Anti-corruption Policy, Code of conduct, Conflict of interests Management Policy, Integrated Program of Anti-corruption efforts and a number of other local regulatory documents forming the elements of corporate culture, rules and procedures to ensure prevention of corruption in the PJSC RusHydro.

As per the provisions of the Anti-corruption Policy, all the Company employees and members of the Board of Directors must observe the terms of the Russian legislation and international law in the field of anti-corruption efforts. The obligations are assigned to the employees and members of the Board of Directors by the Code of Conduct to act in the interests of the Company and to avoid the conflict of interests. The members of the Board of Directors must notify the Company about occurrence or the risk of occurrence of the conflict of interests (as well as of its affiliation).

#### Basis of the Anti-corruption system of PJSC RusHydro LND(A), regulating anti-corruption efforts



[Code of Corporate Ethics of PJSC RusHydro](http://www.rushydro.ru/corporate/regulations_and_docs/documents/board/)  
([http://www.rushydro.ru/corporate/regulations\\_and\\_docs/documents/board/](http://www.rushydro.ru/corporate/regulations_and_docs/documents/board/))





PJSC RusHydro is a participant of the Anti-corruption Charter of the Russian business accepted by business community in 2012 for implementation of the National Anti-Corruption Plan.

In 2017, more than 490 declarations of the top managers of the RusHydro Group and its subsidiaries, as well as their relatives (2,226 people) were verified as part of the audit of income data for 2016 (declaration campaign) for participation in the activities of commercial organizations and the existence of a conflict of interest. As a result of the inspection, disciplinary measures were applied to the employees.

As part of the measures to implement the Comprehensive Anti-Corruption Program in 2016, the Company management has examined the knowledge of employees of RusHydro branches and subsidiaries (326 employees participated in the testing), who held positions on the list of posts susceptible to corruption risks on anti-corruption legislation of the Russian Federation.

Anti-corruption activities in the Company are conducted in four areas:

- improvement of the local regulatory documents (acts) basis,
- prevention and combating corruption,
- verification of reports of possible facts of corruption (unlawful actions, conflicts of interest, etc.)
- improving the internal control system.

In 2016, the Board approved a new version of the Program, which is synchronized with the National Anti-Corruption Plan for 2016-2017.

The Company declares the non-acceptability of corruption manifestations, in this regard, the main direction of anti-corruption activities is activities aimed at the prevention of corruption, such as identifying and preventing conflicts of interest, assessing the probability of corruption risks.

For the implementation of the Comprehensive Program, the Chairman of the Management Board - CEO of PJSC RusHydro, approves the annual plan of actions, which fixes the annual target results, as well as the personal responsibility of the officials for obtaining the specified results.

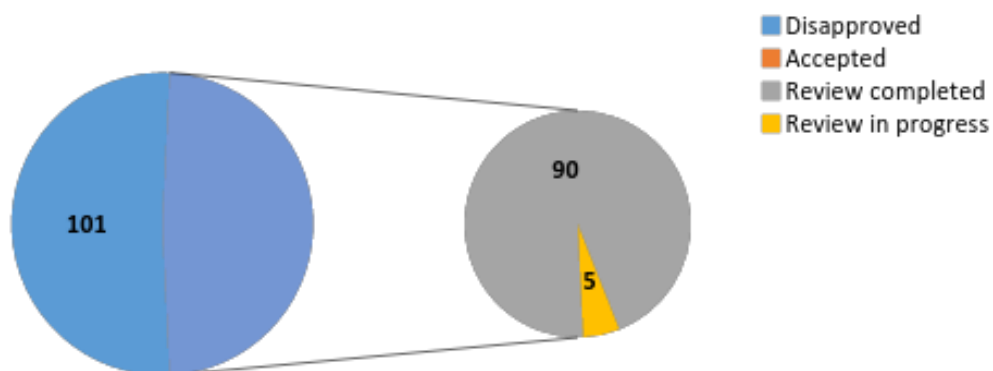
The Company's website regularly features thematic press releases, official statements and information messages on the issues of combating corruption, preventing illegal actions and conflicts of interest, and reports on the implementation of the Comprehensive Anti-Corruption Program.

**Helpline**

"Helpline" permanent functions in the Company (<http://www.rushydro.ru/form/>) – communication channel for applications of the PJSC RusHydro employees and third persons (including the anonymous ones) related to the issues of fraud and corruption management, suppression of illegal actions and conflicts of interests, the Company activities improvement.

In 2016, the Company's Helpline received 196 appeals (from launching the "helpline" in 2011, 719 appeals were received).

**Consideration of applications to the "Helpline", units.**



Compared to 2015, the number of applications received for consideration decreased by 9 %. The main reasons for refusal to consider were:

- non-compliance with the criteria for consideration of applications submitted to the "Line of Trust";
- lack of information for feedback (letters without return address).

Based on the information received by the "Helpline" in the reporting period, 5 service checks were initiated, which were completed (5 times more than in 2015).

Annually, measures are taken to promote (popularize) the "Helpline" among employees of PJSC RusHydro:

- information on the "Helpline" on the official website and the internal portal is systematically updated. The additional criteria for consideration of applications submitted to the "Helpline" and new revisions to the Rules of Work and the Rules for Consideration of Appeals were placed in 2016;
- since 2016, once every six months, information on the results of the work of the "Helpline" is published on the Company's website in the section "Helpline";
- RusHydro posted information posters and mailboxes "Helpline" in the halls of its offices.

### **Compliance with the Code of Corporate Ethics**

The Company has the Code of Corporate Ethics of PJSC RusHydro (the first version of the Code was approved by the Board of Directors, Minutes No. 152 of May 21, 2012, the new version of the Code of Corporate Ethics was approved by the Board of Directors, Minutes No. 235 of 08.04.2016). It takes into account the current recommendations of the Corporate Governance Code approved by the Bank of Russia, as well as other requirements and recommendations issued by the regulatory bodies to date.

In accordance with the Code of Corporate Ethics, the Company's employees shall:

- not give preference to any counterparties of the Company, organizations, be independent of their influence;
- exclude actions related to the influence of any personal, property / financial and other interests that interfere with the conscientious performance of their employment duties;
- observe an impartiality that excludes the possibility of influencing the work of their decisions by political parties and public associations;
- not use the official position to influence the activities of state bodies, local governments, organizations, officials, state (municipal) employees and citizens in solving personal issues;
- not take unlawful actions.

In the part of preventing conflicts of interest the Code states that the Company's employees shall:

- take measures to prevent the emergence of a conflict of interest and the resolution of the emergent cases of conflict of interest;
- refrain from part-time employment at enterprises / organizations outside the RusHydro Group, except for teaching, creative and scientific activities, if this does not lead to a conflict of interest;
- not directly or indirectly apply to any personal loan or service from any individual or legal entity that has a business relationship with the Company or who aspires to such a relationship. This does not apply to organizations that offer similar loans or services as part of their normal business activities;
- state the existence or threat of personal interest, which affects or may affect the proper performance of official duties.

The Code of Corporate Ethics also specifies that employees shall not:

- give gifts in connection with the performance of official duties to state and municipal employees;
- accept remuneration (loans, monetary and other remuneration, services, entertainment, recreation, transport expenses) and gifts from individuals and legal entities<sup>26</sup>.

### **Prevention of conflicts of interests of employees**

In order to identify and prevent conflicts of interest, the Company has established requirements for annual declarations of income, property and title obligations by the top managers of the RusHydro Group towards themselves and their close relatives. The Company operates the procedure for disclosing the chain of beneficiaries by counterparties, and the Human Resources Commission also operates.

Annually, within a specified time period, a declaration campaign is conducted, under which the declarations of the Company's managers are checked for conflicts of interest. The report on the results of the inspection is submitted to the Ministry of Energy of the Russian Federation.

In PJSC RusHydro, the process of verifying declarations has been automated. For this purpose, the

<sup>26</sup> An exception are gifts received by employees in connection with protocol events, official business trips and other official events worth up to three thousand rubles.

"Client of Affiliated Persons" system is used. As part of the development of the program module for the identification and control of affiliated persons, the processes for collecting information and conducting complex inspections to identify conflicts of interest have been automated.

Since 2014, all declarations of employees and their relatives have been submitted, processed and analyzed using this program. The introduction of this software significantly reduced the labor costs for conducting authentication of the information provided and allowed to minimize the risks associated with the human factor in its implementation.

As part of the declaration campaign (verification of income for 2016) to participate in the activities of commercial organizations and the fact of a conflict of interest, more than 490 executives of the Company and its subsidiaries, as well as their relatives (2,226 people) have been verified in 2017. Based on the results of the audit, disciplinary measures were applied to the employees of the RusHydro Group.

In order to provide additional transparency when interacting with suppliers and contractors, special requirements are set for counterparties. In particular, when entering into contracts, an indispensable condition is the provision of information and supporting documents regarding the entire chain of counterparty owners, including the ultimate beneficiaries, as well as the signing of a letter of guarantee for the non-involvement of "one-day firms" in fulfilling obligations under contracts.

In 2016, the Economic Security Department of PJSC RusHydro checked 547 counterparties in the framework of procurement procedures and contracting procedures. Facts and features of conflicts of interest between the leaders (founders) of these organizations and the Company's employees have not been revealed.

## Chapter 5. Sustainable development

### 5.1 Sustainable development management

The Company is aware of its responsibility (economic, social and ecological) as a producer of electrical power necessary for society. Sustainable business development is an important value that is reflected in the mission and strategic goals of the RusHydro Group.

The RusHydro Group primarily aims at ensuring environment and society-friendly operation of its facilities, taking into account the economic feasibility of the funds allocated for minimization of risks and reduction of possible damages. The Company uses its best endeavors in order to increase the share of the renewable resources of energy in power balance of the country. This goal is achieved due to commissioning of new generating capacities and an increase in the "clean" energy generation, produced at the available capacities of the Company under simultaneous enhancement of energy efficiency.

#### Areas of activities in the field of the sustainable development

- ensuring energy security of the Russian Federation
- development of the electric power industry and enhancement of energy efficiency
- positive economic and social impact on the presence regions
- minimisation of the environmental impact, including the impact on the planet climate
- responsible personnel management practice
- enhancement of transparency and accountabilities
- structural interaction with the interested parties

PJSC RusHydro is also seeking for maximization of its value for the state, shareholders, society and employees.

Implementation of the activities focused on sustainable development is performed by the Special Units in the area of their functional responsibility:

- social responsibility – the Personnel Management Unit;
- interaction with public authorities in the presence regions and creation of the favourable social climate for the effective development of the Company – the Unit of interaction with public authorities and civil society, administrative support and international cooperation;
- economic responsibility – the Unit of economic planning and investments, the Unit of production activities, the Unit of capital construction and engineering activities, the Unit of financial and corporate and legal administration;
- generation of electric power, enhancement of energy efficiency and ecological responsibility – the Unit of production activities.

The issues related to the sustainable development are systematically put on the agenda of the meetings of committees at the Board of Directors.

PJSC RusHydro annually prepares a Sustainable Development Report, reflecting the management approaches and the most significant outcomes of the Company's activities in the economic, ecological and social areas since 2007.

*[For more information on managing sustainable development, see the Corporate Social Responsibility and Sustainability Report for 2016](#)*



### 5.2 Interaction with Shareholders

Traditional concept of the sustainable development provides that this is development that meets the needs of the present without compromising the ability of future generations to meet their own needs (The UN International Commission for Environment and Development, 1987). This approach may be implemented only taking into account the interests of the key shareholders (interested parties) upon structural interaction with them and integration of this practice into all business processes of the Company.

By virtue of scale and specific character of the activities the RusHydro Group has a wide range of the interested parties. The focused work with the shareholders is aimed first of all at achieving the Company's strategic goals.

Due to existence of several areas of the core activities (electrical power generation, sales, development of innovative technologies, etc.) each area has its interested parties, and the Company builds systematic and planned interaction with them. At the same time, the Company organizes interaction with a wide range of the interested parties through public accounting, corporate web-sites, contacts with journalists, exhibitions and forums, etc.

### Interaction with Shareholders

Shareholders	Shareholders' interests	Basic mechanisms of interaction
Federal, regional and municipal authorities	Provision of reliable and uninterrupted power supply Support of development of the regions of presence Development and modernization of electrical energy Development of the renewable and alternative sources of energy	Agreements for social and economic cooperation with the RF subjects Investments to development of the regions of presence Holding of public hearings on the power plants construction project Work in joint committees, commissions, expert groups on the issues of the fuel power complex development
Shareholders and investors	Economic effectiveness Company's business continuity Transparency of business processes	Shareholders meetings and other corporate events IR-presentations and IR-events Accounting publication
Employees	Professional and career development Safe working conditions Decent remuneration terms	Personnel development Social support of employees Informing and communication through internal channels Cooperation with trade union organisations
Regulatory and supervisory bodies	Observance of requirements of the Russian and international law	Reporting Working out of proposals on legislation improvement
Business partners, suppliers and contractors	Fair competition and responsible conduct in the market Transparency of activities, as well as transparency of procurement activity	Forums, exhibitions, conferences, dialogues Open and competitive procurement procedures Common projects
Customers and consumers	Sound power supply Products and services quality enhancement High standards of service	Online consultations on the web-sites of the sales companies "Helpline" Mobile service centers Virtual reception area Contact center Personal accounts of the consumers of the guaranteed suppliers Development of the client offices
Local communities in the regions in which the Company operates	Improvement of quality of life in the regions of presence Reduction of negative impact on the environment	Investments to the development of the regions of presence Social programs and projects, including charitable and ecological programs and projects Holding of public hearings on construction facilities
Professional associations and non-profit organizations	Development and modernization of the electrical energy industry Transparency of activities	Cooperation with specialised Russian and international organizations Participation in professional and business associations Cooperation with public organisations
Higher Education establishments and other educational institutions	Target preparation of the personnel Development of the sectoral science Development of the innovative technologies, incl. the ones reducing negative impact on the environment	Cooperation in the field of scientific and research activity Personnel training, retraining and in-service education Orders for R&D
Mass media	Provision of the real time access to the information about the Company's activities	Arrangement of events for mass media Introduction of publications in the Russian-wide, regional and local mass media Updating of information on the corporate web-sites, official blog <a href="http://blog.rushydro.ru/">http://blog.rushydro.ru/</a> and company resources in social networks (Facebook, Live Journal, Instagram, etc.)



### **Interaction with regional authorities**

Recognizing the need for mutually beneficial cooperation with regional and municipal authorities aimed at sustainable social and economic development of the regions and increasing the efficiency of its activities in the regions, the Company enters into cooperation agreements with territorial authorities.

As of 31.12. 2016, there were agreements concluded on cooperation with the authorities of the following regions:

- Dagestan Republic,
- Khakassia Republic,
- Kamchatka Region,
- Amur region,
- Volgograd region,
- Irkutsk region,
- Moscow region,
- Sverdlovsk region.

The Company is convinced that stable contacts with territorial authorities in the implementation of regional programs of social and economic development and investment projects of PJSC RusHydro will serve as a guarantee of successful operations in the regions.

## **5.3 Personnel and social policy**

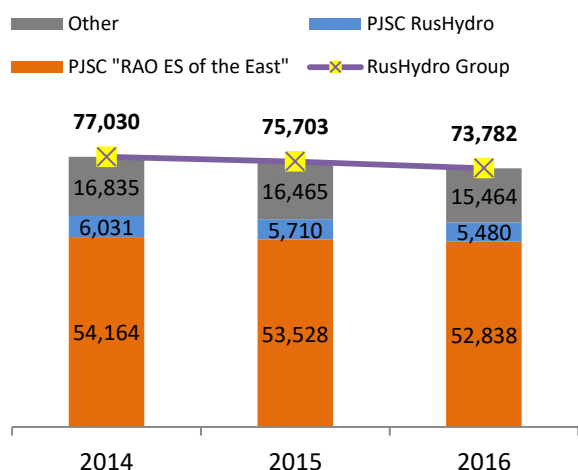
### **2016 events**

- The share of employees with higher education increased from 78.6 to 79.9 %
- 122.3 million rubles were transferred for development of human resources
- Expenses for labor protection increased by 36.95 % and amounted to 445.8 million rubles

### **5.3.1 HR policy PJSC RAO Energy Systems of the East**

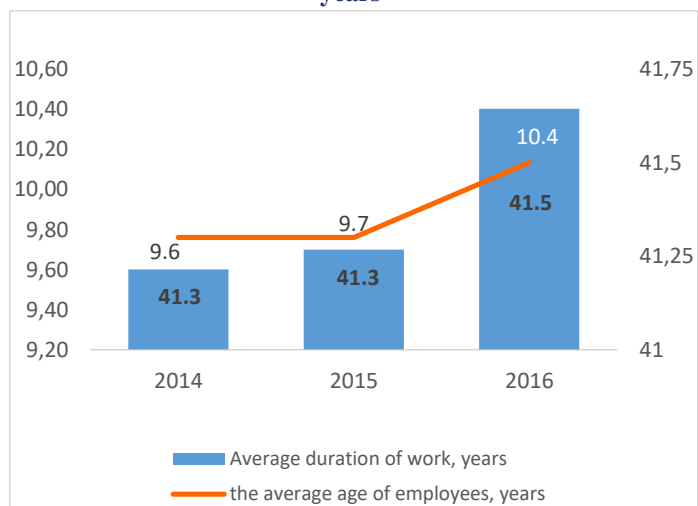
#### **Personnel characteristics**

The average number of Group personnel RusHydro\*, persons



\* The average number of Group personnel RusHydro decreased in 2016 by 2.5 % in relation to 2015 and by 4.2 % to 2014 due to the implementation of measures aimed at the enhancement of the management structure, outstaffing the personell of non-core activities, reduction of the number of customer-subsiidiaries and contractor-subsiidiaries connected with the shrinkage of the investment programs.

Average work experience and average age of employees, years\*



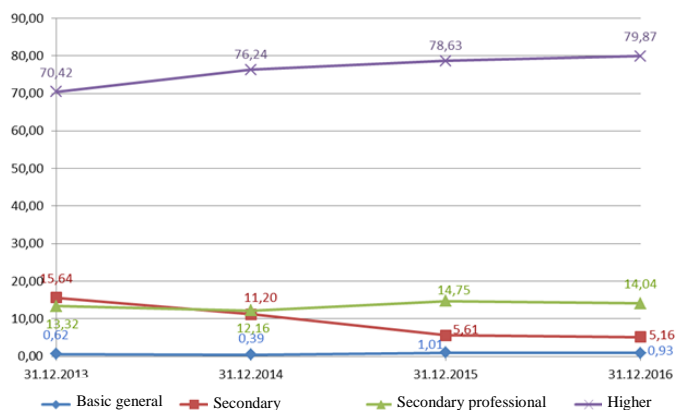
\*Average work experience in PJSC "RisHydro" for 2014-2016 increased from 9.6 to 10.4 years. The average age of the employees is 41.5 years.

#### **Personnel Structure**

During the last 3 years the structure of the personnel has remained stable with a tendency to an

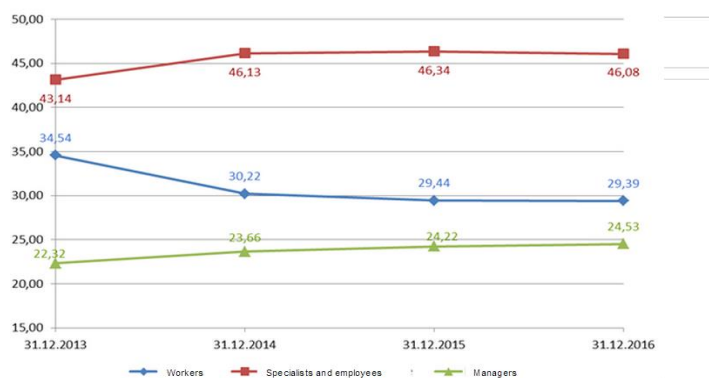
increase in share of highly skilled workers and less significant increase in employer's average age

**Personnel of PJSC RusHydro structure by education, %**



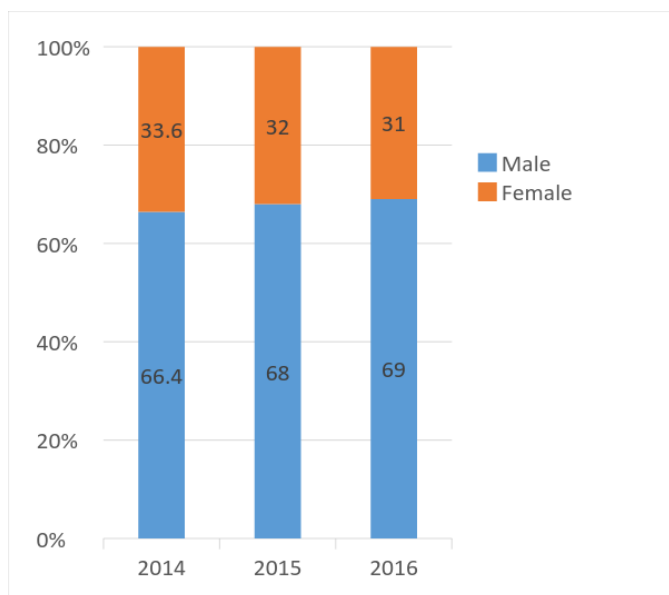
Due to the improvement of the production process and the ongoing program of technical re-equipment of hydroelectric power plants, the qualification requirements for the Company's employees are being raised. Hence the Company is implementing a policy to attract specialists with higher education who have received appropriate training, including university graduates, bound by partnership agreements with the Company. At the end of 2016, the number of employees with higher education increased. The share of low-skilled personnel decreased.

**Personnel of PJSC RusHydro structure by categories, %**

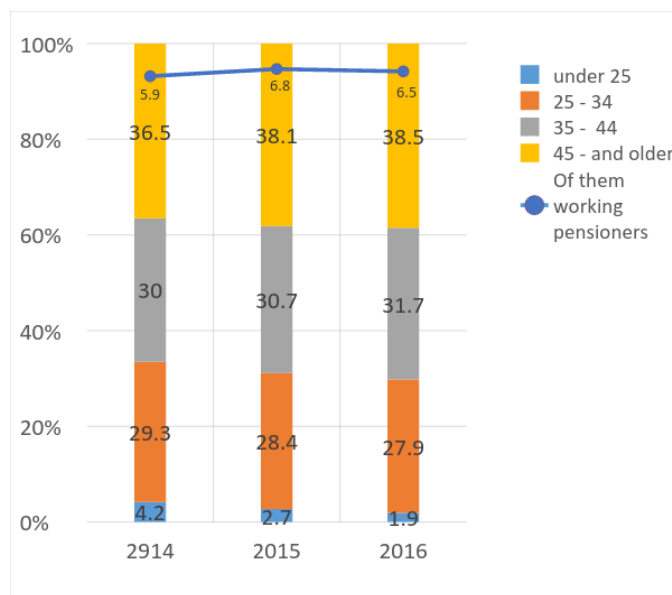


As for PJSC RusHydro (including branches), over the past few years there has been a tendency to increase the share of specialists and employees and to reduce the proportion of workers. The increase in the number of specialists and employees was influenced by processes and activities aimed at improving the efficiency of the organization of branches, strengthening security measures and increasing the reliability of power facilities, which was accompanied by the formation and improvement of relevant management structures and dismissal of non-core personnel.

**Personnel of PJSC RusHydro structure by gender, %**



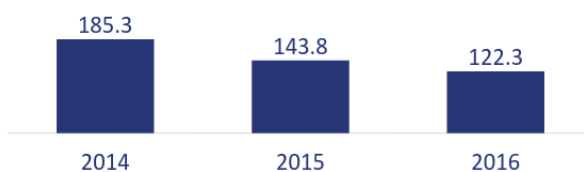
**Personnel of PJSC RusHydro structure by age, %**



### **Training and development of Personnel**

Training and Development of PJSC RusHydro's Personnel is a strategic priority for the Company. It is connected with the requirements of regulatory authorities, production needs to meet the new professional activities, professional development and training of personnel reserve.

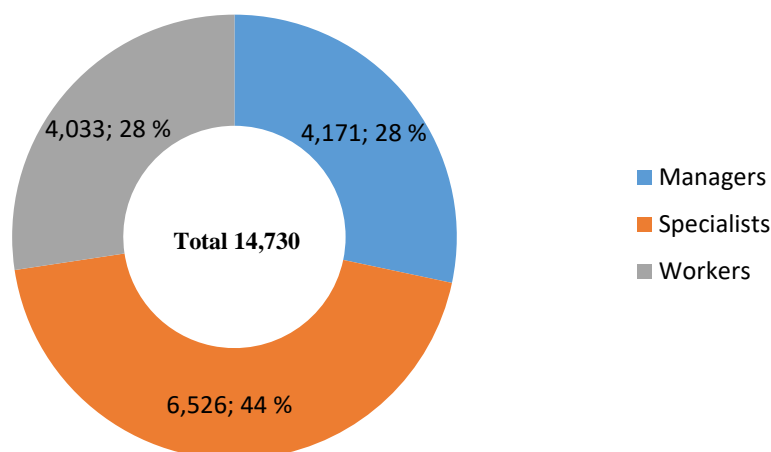
**Expenditures on human resource development, million rub.**



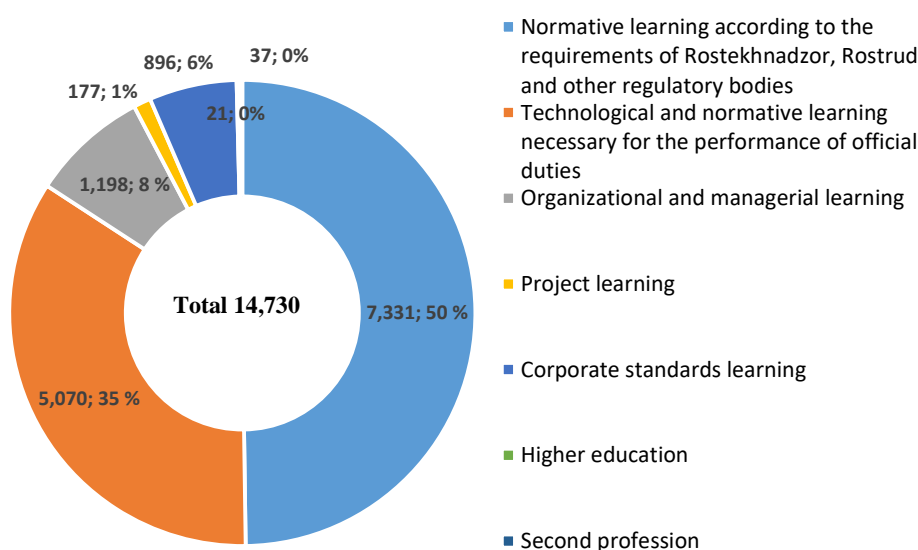
In total in 2016 the company's employees were trained at 14,730 courses of which 10,830 for

corporate training including 1,608 for full-time education, 9,222 for distance education.

**Training of personnel by categories in 2016, persons**



**Training of personnel in areas of training in 2016, persons**



As a part of a comprehensive system of simulator training for production staff in 2016 there were conducted tests of corporate simulator switches in electrical installations, control of hydraulic turbines and hydro-mechanical equipment. Trial training using the simulator were carried out in 15 branches. There was developed a virtual simulator for training of operating personnel in the operational conduct of the negotiations, lock commands and instructions, conducting online documentation, return (receipt) commands and permits.

In 2016 the 7th All-Russian competitions of operating personnel of the HPP were held, 25 teams took part in it including two teams representing the subsidiaries of PJSC RusHydro and fourteen teams representing the third-party energy enterprises.

In order to implement the Program for the Preservation and Enhancement of Operational Stations of Operating Personnel of the Plant in 2016 the Model Provision on the Organization of Activities for the Preservation and Enhancement of the Operating Department (Operating) Personnel in the Branches of PJSC RusHydro was approved, the pilot program of the project "Preservation and Enhancement of Operating Personnel" in the branch of PJSC RusHydro - "Kamskaya HPP" comprising the pre-shift and the after-shift diagnostics functionality of Operating Department staff and remedial activities for the branch employees.

### **Employee pool**

In order to ensure timely and high-quality training to key positions in the PJSC RusHydro is actively working with employee pool based on the following principles:

- Strategically - consistency problems with the personnel reserve, development objectives of the Company and formed strategic organizational competencies;



- Reliability - use of technology assessment and training with high reliability and prognostic;
- Development - creating opportunities for professional development of employees of the Company.

In 2016 28 employees of RusHydro's branches and subsidiaries under the age of 30 years became winners of the project "Internal source of energy-3" and entered the company's prospective employee pool.

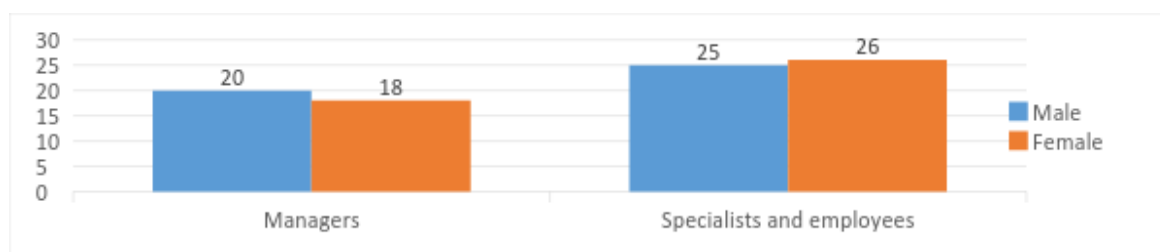
Competitive selection for the position of director of the branch of PJSC RusHydro was conducted. The candidates who had successfully passed the evaluation procedure were appointed to the position.

70 employees of the RusHydro group, who were the members of the staff reserve for the management positions of branches of PJSC RusHydro, completed in 2016 a corporate training program and started the defense of graduation work. Each graduation work is a detailed proposal for improving the efficiency of the organization of production activities or a unique technical solution.

### **Personnel assessment**

The Company's personnel are periodically certified for compliance with the position which assess the professional, business and personal qualities of employees and the results of their professional activity. Managers, specialists and employees of the Company will be certified regardless of sex once every three years.

**The percentage of the PJSC RusHydro branch employees who underwent performance and career development assessment, by gender, %**

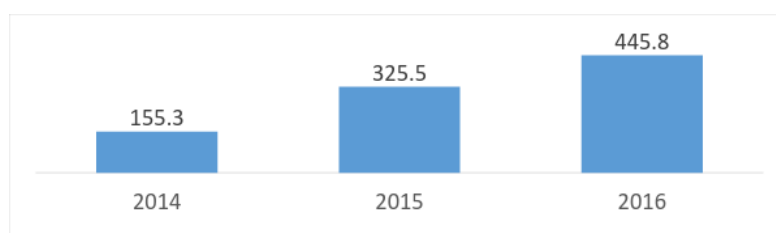


### **Occupational Health and Safety**

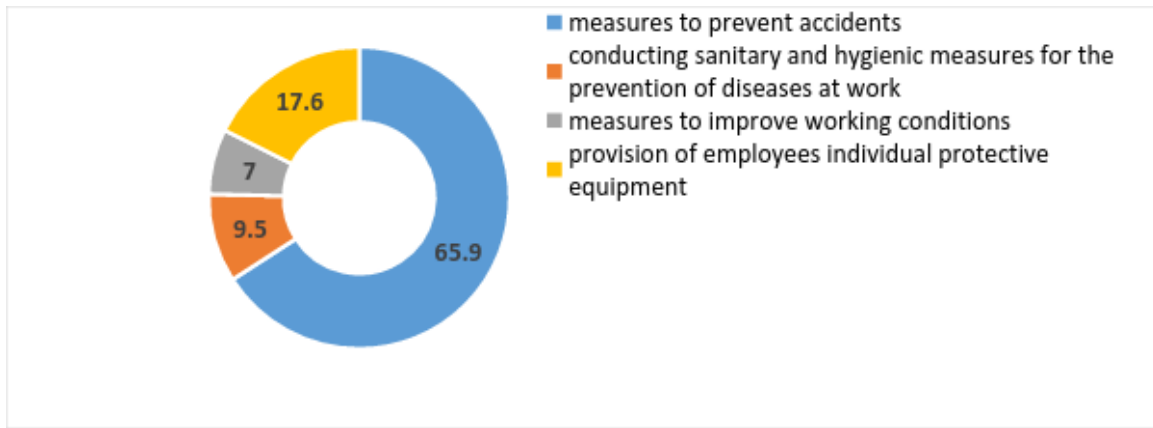
PJSC RusHydro as a responsible and socially oriented employer improves the OHS management system that conforms to the latest world trends. The company is taking measures to prevent accidents and diseases at work, to improve working conditions, to provide workers with personal protective equipment, and organizes medical examinations and a special assessment of the working conditions of staff.

The costs of health and safety in the Company in 2016 amounted to 445.8 million rubles. The cost of providing workers with personal protective equipment in 2016 amounted to 78.3 million rubles.

**Company costs for Occupational Safety and Health, million rubles**

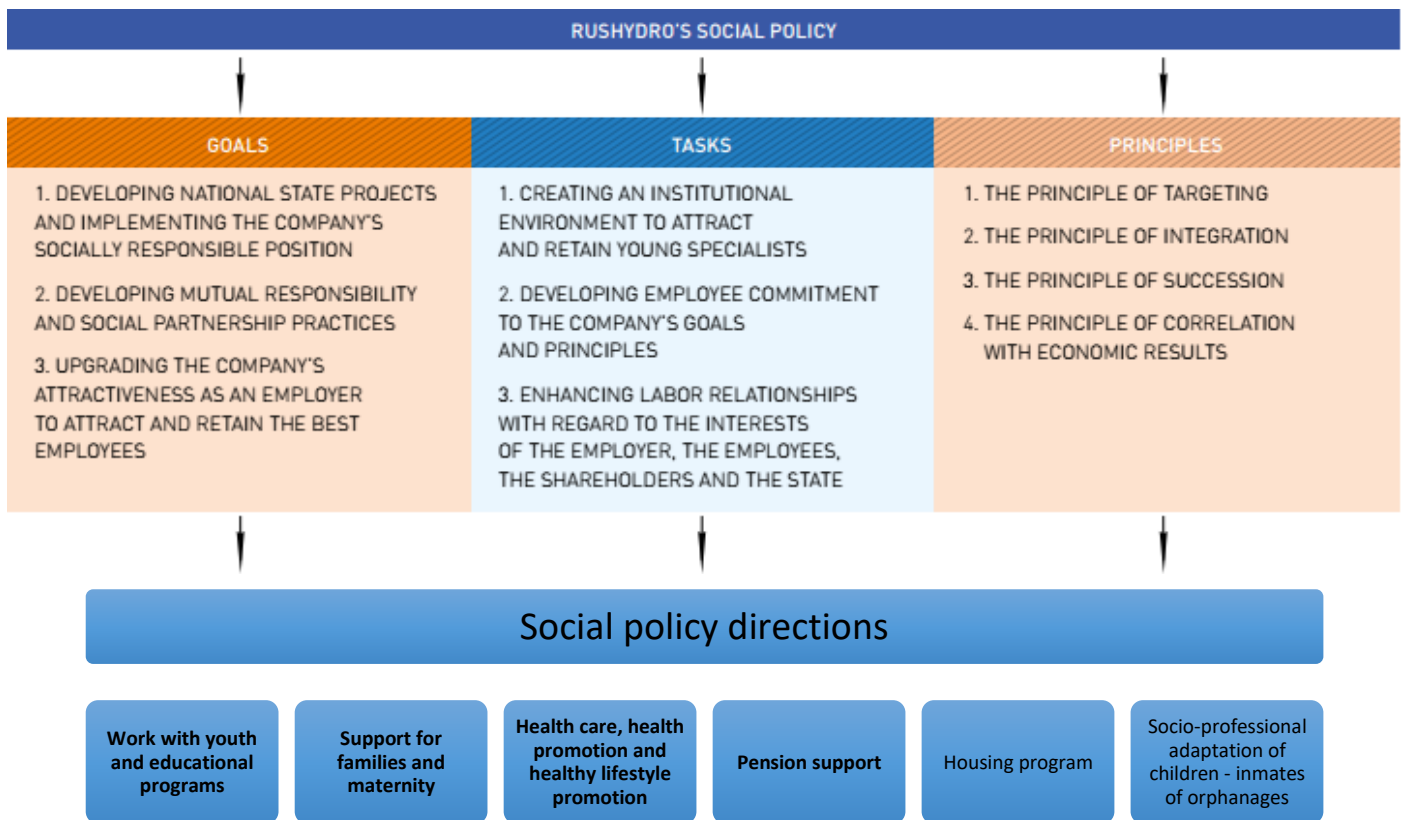


Structure of costs for Occupational Health and Safety in 2016, %



### 5.3.2 Social policy

The Social Policy of RusHydro was adopted in 2013 to address the problems of forming long-term human resource management as a major asset staffing new facilities, performing production programs and attracting young professionals into the industry.



*For more information on managing sustainable development, see the Corporate Social Responsibility Sustainability Report for 2016*



Programs of voluntary medical insurance, of non-state pension provision and of improvement of living conditions of employees remain as priority.

#### **Voluntary medical insurance**

The Voluntary medical insurance (VMI) is a part of the benefits package of the Company employees. The Program covers 100 % of the personnel except part-time employees and employees on trial. Within the VMI the services are rendered for outpatient care, emergency and planned hospital treatment, emergency medical services, insurance of the persons travelling abroad. The list of out-patient hospitals is reviewed and updated annually. Furthermore, within the program the employees shall obtain vaccinations against a number of diseases and may pass medical examination and preventive examinations.

All employees of the Company are insured against accidents and diseases. The insurance coverage is

valid around the world 24 hours a day.

### **Non-state pension provision**

The non-state pension provision (NSPP) of PJSC RusHydro in 2016 included several pension plans and programs designed to finance the retirement savings of different target groups of employees.

The branches continue to implement three main programs: for employees with significant experience in the industry, for awarded by the state and industry ("Supporting"), for honored former employees of the industry ("Veteran") and the programs of the Parity Plan allowing the employee to participate independently in the formation of their own pension savings where the most part of the employees participate.

More than 50 % of employees took part in NSPP programs in 2016.

Within the framework of NSPP the Company is still interested in ensuring both a decent standard of living for employees after retirement and an effective solution of personnel issues related to the attraction and motivation of staff.

### **Personnel housing improvements**

PJSC RusHydro continues implementing a program to improve housing conditions for employees. The priority right to participate in the program is provided to young professionals under the age of 30 who do not have a separate housing ownership, to specialists invited to work in the branch and moved therefore from another location, to key and highly qualified specialists, as well as to employees who are parents with many children and single parents.

The main forms of corporate support in improving of housing conditions of employees are the compensation for the costs of paying interest on mortgage loans to banks and the cost of renting housing. In exceptional cases for employees of the Production Unit of the branches who represent special value for the Company and for whose special retention mechanisms should be provided may rendered targeted interest-free loans for improving housing conditions for up to 10 years.

### **Collective contracts**

In 2016 in all branches of the Company the Collective Agreements concluded in 2014 and defined the Company's obligations on provision of social benefits and guarantees continue to operate.

To support young families there are provided one-off payments in connection with the registration of marriage and the birth of a child, childcare allowance up to three years, compensation of expenses for keeping children in pre-school educational institutions.

In order to attract young qualified specialists to the industry, to promote the formation of dynasties of power engineers, to ensure the continuity of generations the Collective Agreements provide for the payment to children of workers who study at universities in energy specialties.

Also according to the Collective Agreements the employees of the HPPs are encouraged for mentoring, they receive a lump sum payment upon retirement, etc.

Besides the Collective Agreements provide for substantial benefits for those who wish to become foster parents or guardians. The workers who are adoptive parents, guardians and trustees, and who adopted the child receive monthly allowance. Also the compensation for the cost of medical services is provided for children under the age of 14 years who participate in sports sections, developing sections.

In November 2016 the Board of Directors of PJSC RusHydro approved a new version of the standard Collective Agreement of the branches of PJSC RusHydro for 2017-2019. New edition of the model Collective Agreement for 2017-2019 has been completed taking into account the changes in the labor legislation of the Russian Federation and legislation on labor protection.

## 5.4 Safety and Environmental Protection

### 2016 events

- The Board of Directors of PJSC RusHydro approved a new version of the Environmental Policy of PJSC RusHydro
- The number of accidents at branches of PJSC RusHydro decreased by 24.22 %
- The total amount of water withdrawn reduced by 9.7 %
- The total amount of water disposal reduced by 14.1 %.

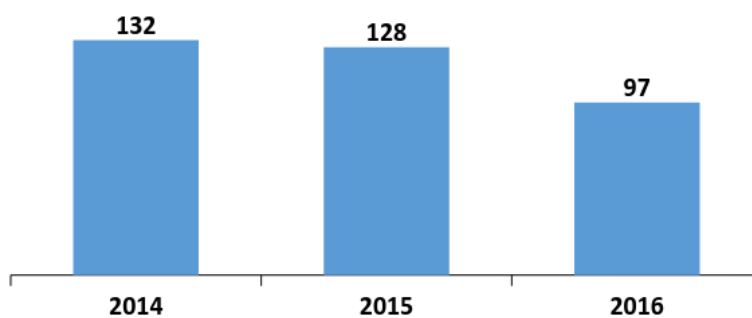
#### 5.4.1 Industrial security

The providing of reliable energy supply and the safe operation of equipment and hydro-power engineering for the population and the environment is one of RusHydro's key strategic objectives.

The approaches used to ensure energy supply reliability and the safety of equipment, buildings and structures are fixed in the provisions of RusHydro's Technical Policy which came into effect in 2011. The instrument used to implement the Technical Policy is the Production Program which is developed based on the results of evaluating equipment condition, the forecasts for energy consumption in the regions and the water content of rivers, as well as industry standard requirements. The activities of the Program are planned for the medium (6 years) and long-term (15 years) outlook.

To identify and to analyze insurance risks at production assets the Company conducts independent technical review, and introduces a system of key performance indicators (KPIs) and limits (control figures) including monitoring of object protection in the event of natural disasters.

The number of accidents at the branches of PJSC RusHydro



#### 5.4.2 Environmental safety<sup>27</sup>

The Company fulfills Russian legislative requirements in the field of environmental protection, participates in the performance of Russia's obligations that arise from international conventions within the environmental protection sphere, as ratified by the Russian Federation, and aims to continually reduce its negative influence on the environment and to prevent environmental pollution.

The introduction of new techniques and technologies under the Comprehensive HPPs Modernization Program is carried out subject to the Company's Environmental Policy objectives and principles which reduces the production's environmental impact.

[Environmental policy \(http://www.rushydro.ru/sustainable\\_development/environmental/ekologicheskaya-politika/\)](http://www.rushydro.ru/sustainable_development/environmental/ekologicheskaya-politika/)



The Company supports the industry and international initiatives to reduce industrial load on the environment and the population, and to promote and to establish environmental responsibility standards. The Company carries out compulsory compensatory measures to reduce the environmental load in zones impacted by the Company's facilities:

- reconstruction of existing equipment and new treatment facilities within the framework of the comprehensive reconstruction of HPP;
- replacement of hydraulic units of hydropower plants for the modernized ones, allowing to minimize the impact on aquatic biological resources, as they pass through hydraulic turbines tract; to eliminate the leakage of oil into the environment in the process of operation of turbine equipment;
- replacement of oil-filled electrical equipment for equipment not containing oil (vacuum and gas-

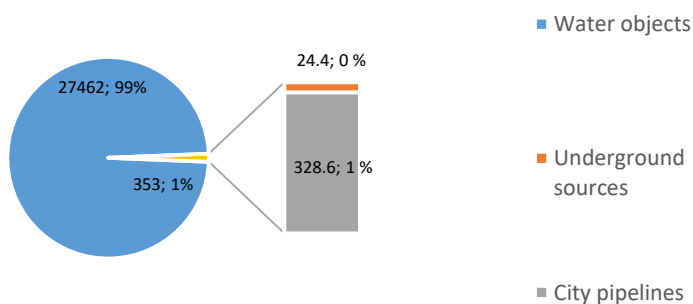
<sup>27</sup> Data of the diagrams of this section are given without taking into account RAO ES EAST Holding. Full data on environmental indicators will be disclosed in the Corporate Social Responsibility and Sustainable Development (CSR) report for 2016.

insulated);

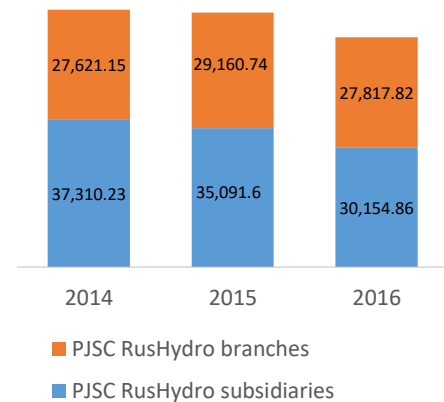
- reconstruction of gas-cleaning equipment;
- implementation of the program of heat facilities on the use of gaseous fuel;
- fish protective equipment installations on the HPPS being under construction;
- reconstruction and repair of hydraulic structures to maintain the proper condition of water protection zones, conducting shore protection works;
- reproduction of aquatic biological resources at the expense of compensation of harm;
- voluntary action on the stocking of water bodies with fish and improvement of natural areas and protected areas;
- voluntary environmental programs aimed at promotion of careful attitude to the nature (cooperation with nature reserves, national parks and other protected natural areas, as well as educational institutions and environmental organizations).

## Water usage

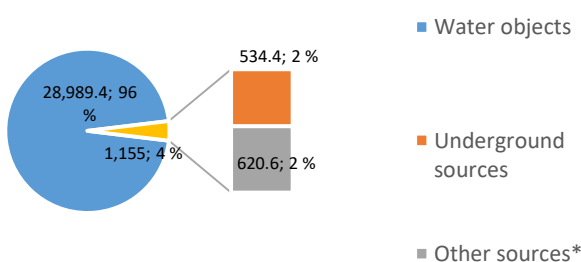
By PJSC RusHydro branches in 2016, thousand m<sup>3</sup>



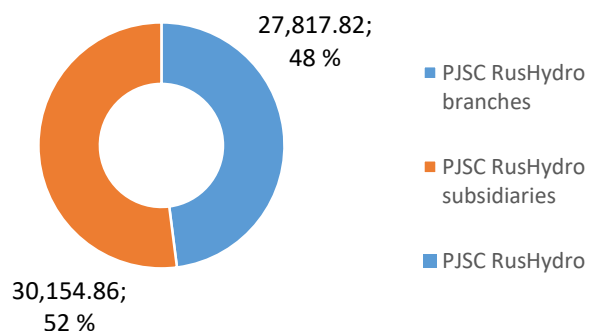
Total amount of water withdrawn by PJSC RusHydro branches and subsidiaries, thousand m<sup>3</sup>



By PJSC RusHydro subsidiaries in 2016, thousand m<sup>3</sup>



The structure of water intake in 2016, %

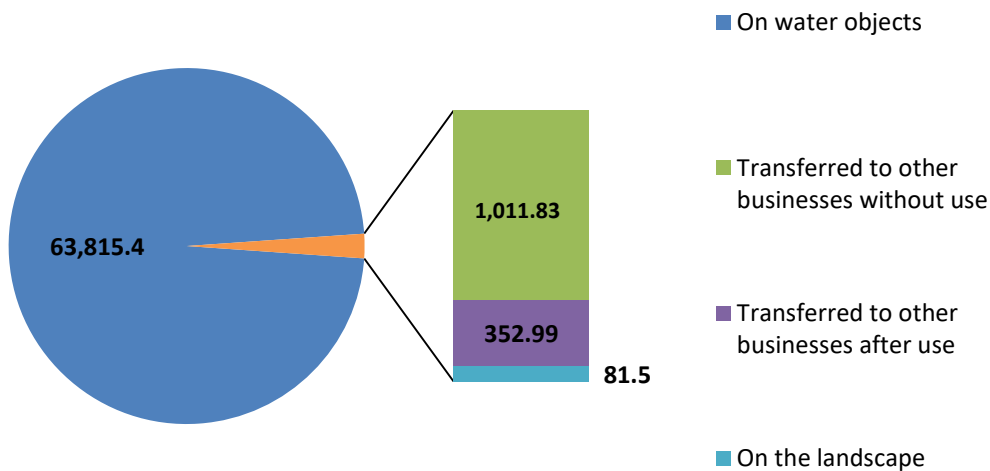


\* PJSC "Pauzhetskaya GeoPP" geothermal steam intake from heat networks of SUE "Kamchatburgothermia" for power generation.

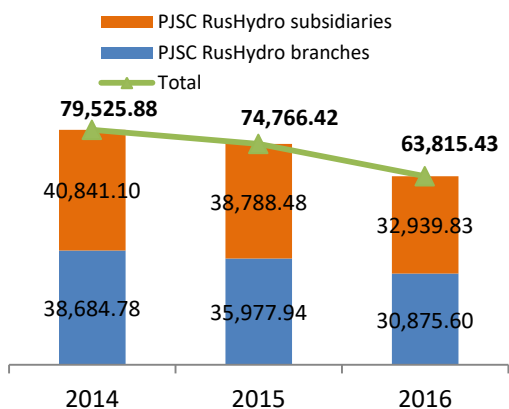
The decrease in water consumption was mainly due to reduction of water consumption for household needs.

## Water disposal

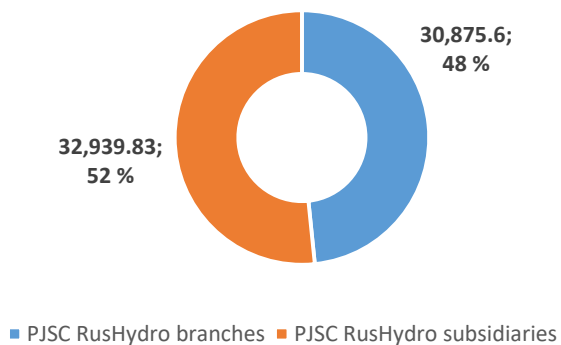
The total volume of wastewater discharges of PJSC RusHydro branches and subsidiaries in 2016 broken down by the receiving facility, thousand m<sup>3</sup>



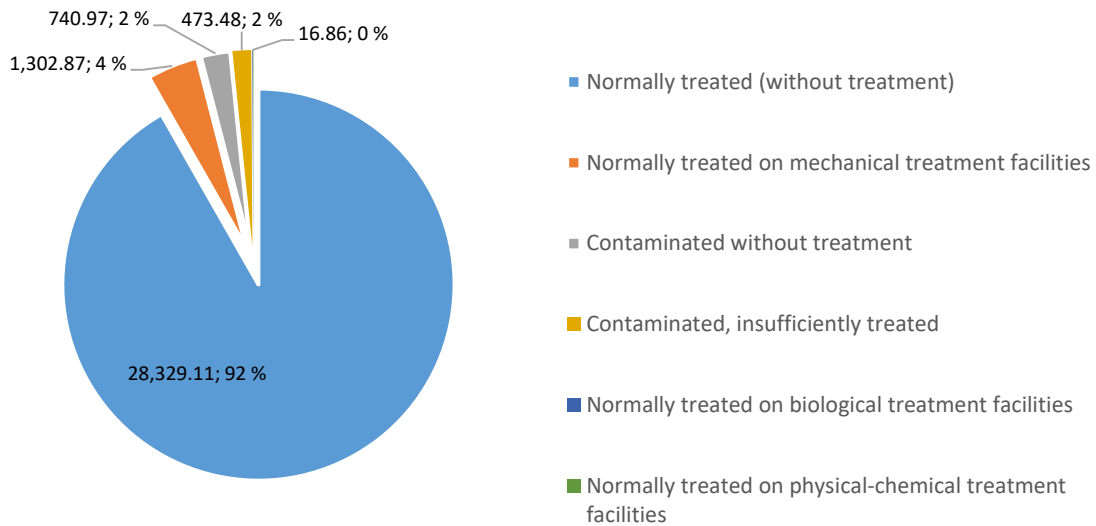
The volume of wastewater discharges of PJSC RusHydro branches and subsidiaries into water bodies, thousand m<sup>3</sup>



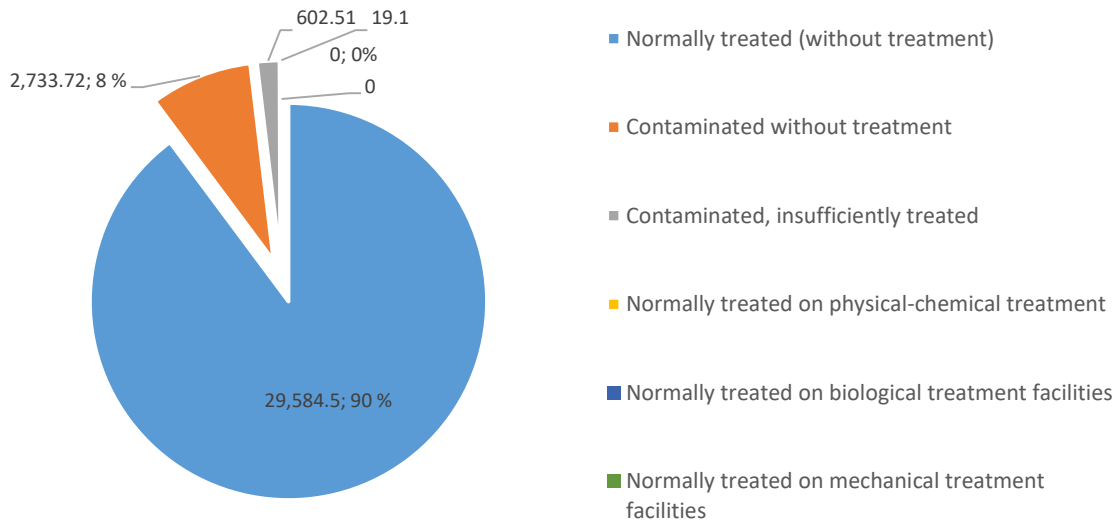
Wastewater discharges structure in 2016, thousand m<sup>3</sup>



### By branches of PJSC RusHydro

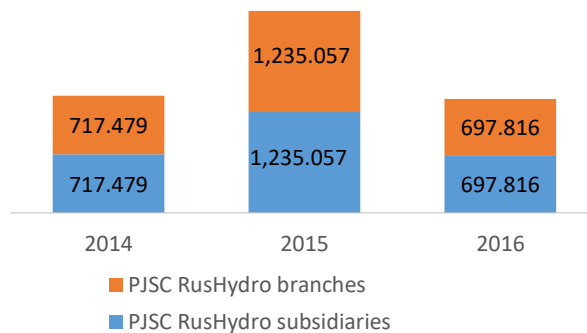


### By subsidiaries of PJSC RusHydro



## Discharges

Volumes of pollutant discharge into a water body with waste (drainage) water, tons

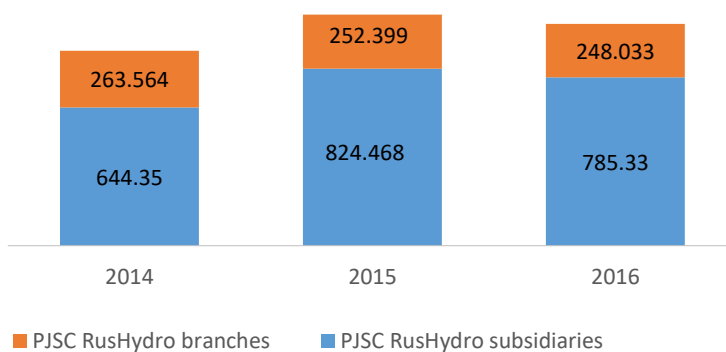


The main cause of changes in the mass of pollutants discharge with waste (drainage) water in 2016 in

comparison with the discharges in 2015 is a decrease in the water disposal volume.

### Hazardous air pollutants

Volumes of hazardous air pollutants, tons

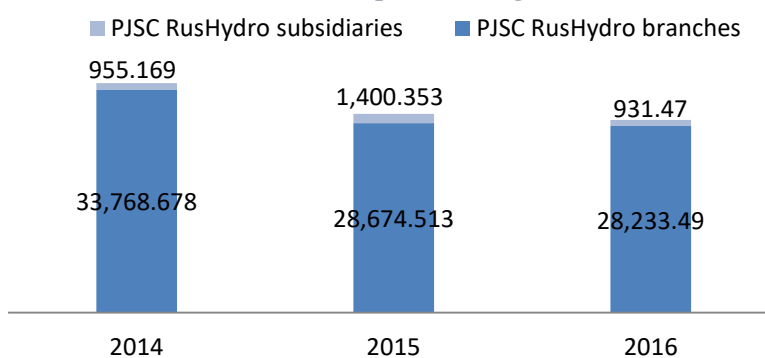


The volumes of hazardous air pollutants decreased mainly due to:

- the introduction of new Emission limit values (ELV) in several branches and clarification of the emissions source;
- the reduction in the amount of repair works carried out according to the operational program;
- the reduction of the produced coolant in JSC “Geoterm” subsidiary.

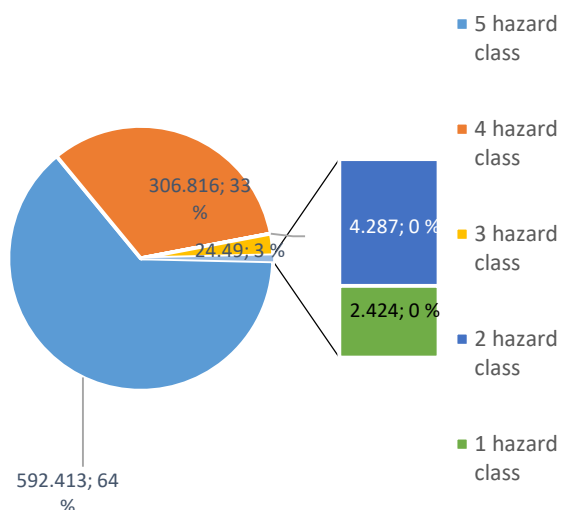
### Waste

Production and consumption waste generation, tons

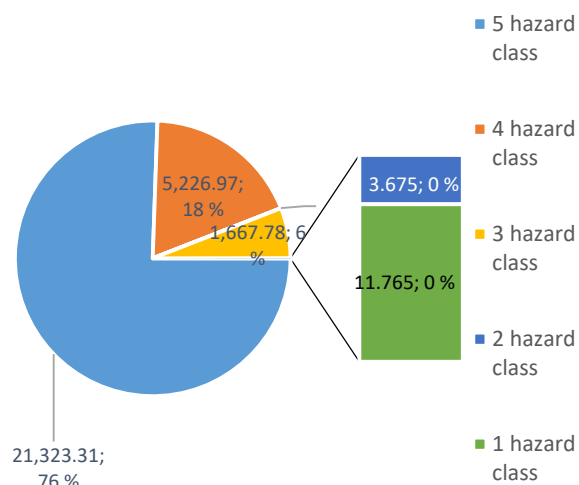




By PJSC RusHydro subsidiaries, tons



By PJSC RusHydro branches, tons



The change in production and consumption waste volumes in 2016 compared with the volumes in 2015 occurred mainly due to:

- the decrease in volume of works under the operational program at PJSC RusHydro branches and subsidiaries;
- the reduction of works to restore the Sayano-Shushenskaya HPP after the accident in 2009;
- the reduction in the scope of work on the repair and reconstruction of equipment.

## 5.5. Energy efficiency

### 2016 events

- An additional generation of electricity in the amount of up to 1,153,000 thousand KWh is ensured, which is equivalent to saving fuel in the amount of 397.6 thousand tons per year
- The overall effect of the energy efficiency increase measures amounted to 99,761 thousand KWh
- The share of own consumption in the annual output dropped to 1.4 %

[Learn more about energy efficiency in the Sustainability Report, as well as on the website \(http://www.rushydro.ru/sustainable\\_development/energy\\_efficiency/\)](http://www.rushydro.ru/sustainable_development/energy_efficiency/)



### 5.5.1. Program in the field of energy saving and enhancement of energy efficiency of the PJSC RusHydro

Hydropower is the main business segment of the Company, being at the same time one of the most energy-efficient electric power sectors. In addition, the company actively participates in the electricity generation development based on other renewable sources - tidal, geothermal and wind energy, which are environmentally friendly and have a high degree of energy efficiency. The facilities of PJSC RusHydro enable the Company to further improve energy efficiency through the modernization of the main equipment and the introduction of innovative energy-saving technologies, optimizing the use of water resources, as well as reducing the power consumption for own needs.

In 2015, the Energy Saving and Energy Efficiency Improvement Programme of PJSC RusHydro for the 2016- to 2020 period was approved. In 2017, the Program was updated according to the results of the examination conducted by the Ministry of Energy of the Russian Federation and due to change in the requirements of regulatory legal acts.

The program is in line with the Technical Policy of JSC RusHydro and contains a list of the main activities in the field of increasing the efficiency of the use of energy and water resources, as well as a number of priority energy-saving solutions. The program is based on the results of energy surveys

conducted in the period 2010-2016.

**Principles of the Program:**

- effective and efficient use of any kind of energy resources,
- supporting and stimulating energy conservation and measures to improve energy efficiency among staff,
- realistic planning for energy saving and increasing energy efficiency by the construction of the energy resources management system,
- comprehensive and systematic implementation of activities throughout the entire control loop of PJSC RusHydro,
- control and management of the Program in simple and reliable ways by managers at all levels.

**Goals of the Program:**

- increase in the efficiency of energy resources,
- reduction in operation costs and production costs of electricity generation,
- increase in the energy efficiency of branches of PJSC RusHydro,
- increased growth of the economy of PJSC RusHydro through the implementation of the energy saving potential.

**Objectives of the Program:**

- preparation of a list of activities aimed at increasing the efficiency of energy resources, reducing their use for their own consumption;
- introduction of energy-saving technologies to reduce energy consumption for own needs;
- modernization of accounting of fuel and energy resources;
- increase in the productive supply of electricity generated by PJSC RusHydro.

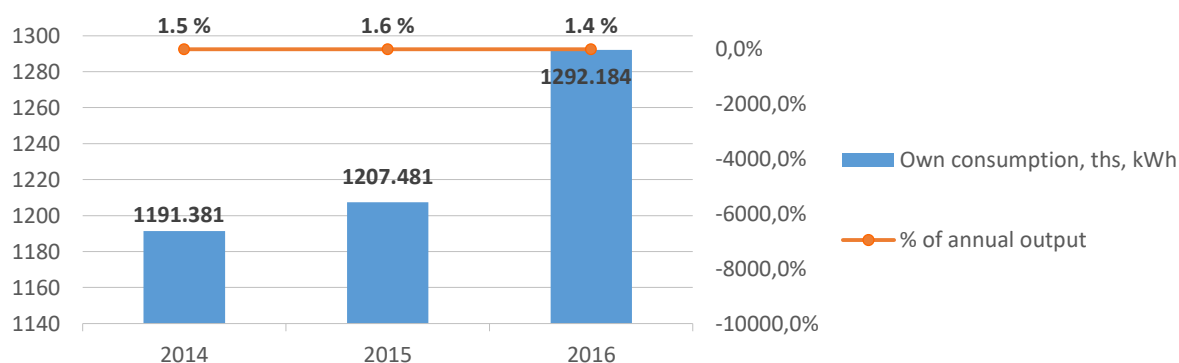
**The Program implementation results**

**Volume by type of energy resource consumption PJSC RusHydro.**

Type of energy resource	Consumption in physical terms			Consumption, ths. Rub.
	2014	2015	2016	2016
Heat, Gcal	23,619	25,293	18,662	24,341
Electrical energy, ths. KW · h	1,191,381	1,207,481	1,301,139	983,956
Gasoline, liter.	737,726	1,842	2,490	83
Diesel fuel, l.	392,129	17,955	11,391	377
Gas Natural, m3	55,417	58,716	40,241	266

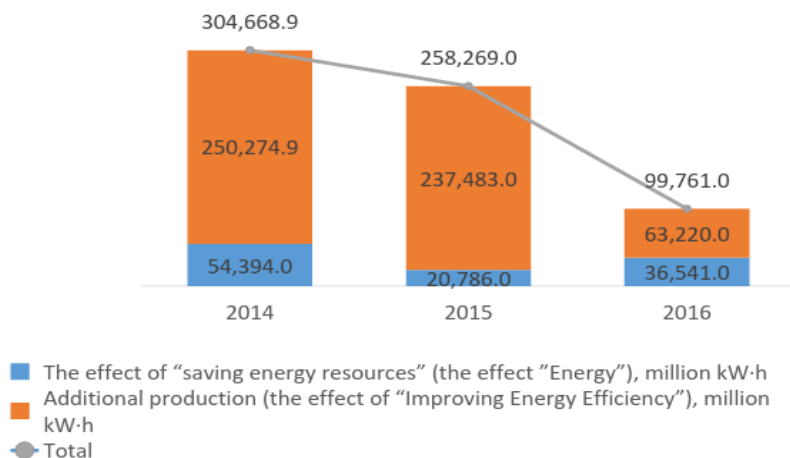
Energy saving is an important task for the Company. In 2016, the value of own electricity consumption amounted to 1,301,139 thousand kWh. The share of own consumption in the annual output, which amounted to 90,279,428 thousand kWh, dropped to 1.4 %. The similar value in 2015 was 1.6 %, in 2014 - 1.5 %.

**Dynamics of energy consumption and share of consumption from the annual output of the RusHydro Group**



In 2016, the implementation of the Energy Saving and Energy Efficiency Program contributed to saving of electricity for own consumption of 63,220 thousand kWh; The additional output from the implementation of measures was 36,541 thousand kWh.

**Effects in areas of "Energy Saving" and "Energy efficiency", million rub.**



Moreover, in 2016, due to selection of the most efficient equipment, optimization of the repairing campaign, work of the hydroelectric power plants at the exceed values of pressure heads in relation to long-time average annual values, and decrease of escapage by redistribution of the reserves of the automatic secondary regulation to the other HPP cascade, the additional electrical generation is provided in the volume of 1,153 million kWh, that is equivalent to fuel saving in the volume of 397.6 thous. tonnes of fuel per year.

At the end of 2016, PJSC RusHydro spent 762 million rubles in the area of "Energy Saving" and 4.985 million rubles in the area of "Enhancing Energy Efficiency".

**Forecasting power system volume**

The ability to accurately predict the volume of electricity produced in the medium and long term is an important condition for optimizing control over the entire system. To this end, RusHydro is constantly improving its own forecasting system.

In 2016, at Sayano-Shushenskaya HPP, the equipment of two precipitation area complexes (hereinafter - PAC) was registered. The equipment was transferred to a warehouse for subsequent installation on automobile platforms. The equipment of the mobile PAC is designed for the rapid acquisition of data on the intensity and the amount of precipitation in the catchment area in real time, storm warnings on hazardous phenomena, advice on adverse meteorological phenomena. The PAC makes it possible to increase the reliability of forecasts for planning optimal water and energy systems operation modes during the completion of the reservoir operation to minimize the risks of idle water discharges (to achieve the dead storage elevation), during the filling of the reservoir to ensure the allowable filling rate (speed), taking into account the strained SSHPP dam and in the period of maximum filling of the reservoir to ensure the integrity of the pressure face of the SSHPP dam;

The reconstruction of the Gilyui hydrometeorological post located on the Gilyui River in 104 km from the mouth has been carried out at the Zeya Hydroelectric Power Plant. A sensor has been replaced, measuring the volume and speed of the river's water flow for a more modern, reliable one, and the way of its installation has been changed, eliminating the effect of the ice cover of the river on the structure of the installation and the efficiency of the sensor. For the winter period the equipment of the gauging station is preserved until the spring flood begins.

Within the framework of the introduction of the medium-term planning system at the HPP of the Far East and Siberia:

- development of medium-term planning modules for the HPPs of the Angara-Yenisei, Kolyma and Ust-Srednekanskaya HPPs continues;
- development of a module for the formation of runoff in the basin of the Bureyskoye reservoir;
- operations to integrate the module for collecting, processing, storing and disseminating the actual and

forecast hydrometeorological and water management data on the territory of the Bureyskoye reservoir basin using the information system for planning water and energy regimes "Dispatch Center";

- development of a module for calculating prospective energy balances for the power district of the Bureyskaya HPP.

### **Company's facilities energy audit**

In accordance with the schedule of energy inspections of branches of PJSC RusHydro in 2016, energy audits of seven facilities of the following branches were carried out: Bureyskaya HPP, Zeyskaya HPP, Cascade of Verkhnevolzhskiy HPPs, Nizhegorodskaya HPP and Novosibirskaya HPP.

For all branches audited, the Company has developed the energy certificates, as well as the energy saving and energy efficiency programs and reports with recommendations.

## **5.6 Charity**

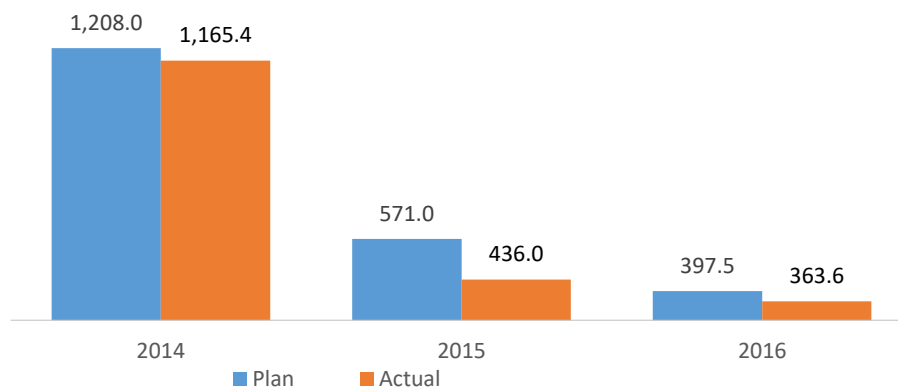
PJSC RusHydro carries out charitable activities, guided by the Charity and Sponsorship Policy. The Company annually develops an annual Charity and Sponsorship Program.

[The Charity and Sponsorship Policy of the Company \(http://www.eng.rushydro.ru/Sustainability/social-responsibility/\)](http://www.eng.rushydro.ru/Sustainability/social-responsibility/)



This Program is of purposive character and includes projects to support orphan asylums, educational and medical organizations for children, educational programs and sports for children. The Program also supports charity environmental actions and projects preserving cultural and religious heritage.

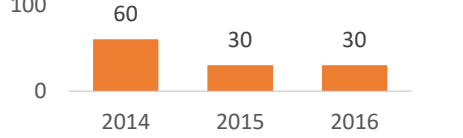
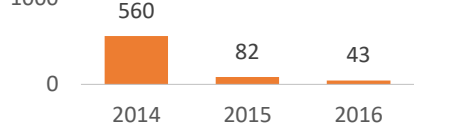
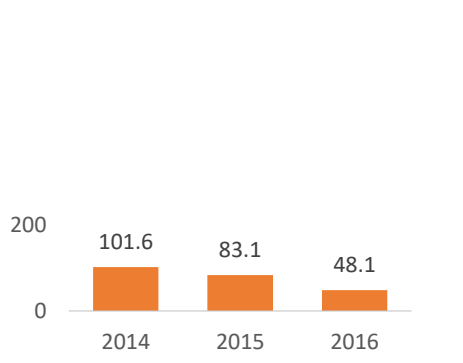
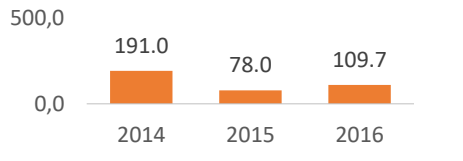
**Planned and actual charity expenses\*, million rubles.**



\* The difference between the financial amounts of 2014-2015 is due to onetime actions of financial support to HC «Dynamo» (500 million rubles) and FC «Alania» (440 million rubles). This is how the Company participated in the implementation of the state program of development of hockey including the support of junior sports, education of coaches, and theory combined with methodical work.

### **Major Charity Projects**

Support areas	Projects	Expenses, million rub.								
<b>Support of higher education institutions</b>	Financial support of educational institutions: <ul style="list-style-type: none"> <li>• Moscow State University of Civil Engineering,</li> <li>• St. Petersburg Polytechnic University of Peter the Great,</li> <li>• Moscow Power Engineering Institute and its branch in Volzhsky,</li> <li>• Sayano-Shushensky branch of the Siberian Federal University,</li> <li>• Far Eastern Federal University.</li> </ul>	<table border="1"> <thead> <tr> <th>Year</th> <th>Expenses (million rub.)</th> </tr> </thead> <tbody> <tr> <td>2014</td> <td>65</td> </tr> <tr> <td>2015</td> <td>62</td> </tr> <tr> <td>2016</td> <td>83</td> </tr> </tbody> </table>	Year	Expenses (million rub.)	2014	65	2015	62	2016	83
Year	Expenses (million rub.)									
2014	65									
2015	62									
2016	83									
<b>Infrastructure development of the Cheryomushki village</b>	Program for the comprehensive development of the infrastructure of the village of Cheryomushki for the renovation and modernization of the social facilities of the village.	<table border="1"> <thead> <tr> <th>Year</th> <th>Expenses (million rub.)</th> </tr> </thead> <tbody> <tr> <td>2014</td> <td>140.3</td> </tr> <tr> <td>2015</td> <td>12</td> </tr> <tr> <td>2016</td> <td>13</td> </tr> </tbody> </table>	Year	Expenses (million rub.)	2014	140.3	2015	12	2016	13
Year	Expenses (million rub.)									
2014	140.3									
2015	12									
2016	13									

<b>Support of the Russian Geographical society</b>	The Company grant funding formation	 <table border="1"> <thead> <tr> <th>Year</th> <th>Value</th> </tr> </thead> <tbody> <tr> <td>2014</td> <td>60</td> </tr> <tr> <td>2015</td> <td>30</td> </tr> <tr> <td>2016</td> <td>30</td> </tr> </tbody> </table>	Year	Value	2014	60	2015	30	2016	30
Year	Value									
2014	60									
2015	30									
2016	30									
<b>Support of the Russian sports development</b>	The funds are allocated to support the Russian Whitewater Federation, the Russian Union of Martial Arts and other organizations.	 <table border="1"> <thead> <tr> <th>Year</th> <th>Value</th> </tr> </thead> <tbody> <tr> <td>2014</td> <td>560</td> </tr> <tr> <td>2015</td> <td>82</td> </tr> <tr> <td>2016</td> <td>43</td> </tr> </tbody> </table>	Year	Value	2014	560	2015	82	2016	43
Year	Value									
2014	560									
2015	82									
2016	43									
<b>The Long-term Integrated Program "Clean energy"</b>	<p>The "Clean Energy" program to provide financial support and implementation of projects for the social rehabilitation of children left without parental care, as well as to develop the creative potential of children, covers 26 orphanages and boarding schools, 18 kindergartens, 24 general education schools, 17 creative development centers for children; 16 branches of the Company provided assistance to foundations and centers for the rehabilitation of disabled children. In all branches of the company, support is provided for the activities of veteran organizations, cultural facilities (philharmonic societies, theaters, cultural centers, libraries).</p> <p>Within the "Clean Energy" framework, the "Ecological Paths" project was developed to organize tourist routes along with the reserves, as well as for further improvement of recreation areas. In 13 regions of the presence, 16 ecological trails were opened, with three of them opened in the reporting year.</p>	 <table border="1"> <thead> <tr> <th>Year</th> <th>Value</th> </tr> </thead> <tbody> <tr> <td>2014</td> <td>101.6</td> </tr> <tr> <td>2015</td> <td>83.1</td> </tr> <tr> <td>2016</td> <td>48.1</td> </tr> </tbody> </table>	Year	Value	2014	101.6	2015	83.1	2016	48.1
Year	Value									
2014	101.6									
2015	83.1									
2016	48.1									
<b>Other</b>	<p>In 2016, the company supported the "Vera" hospice relief fund, the Public Organization of the Disabled Center for Humanitarian Programs, the Directorate of Charitable Programs "Starko", and the Civil Society Development Foundation.</p> <p>The company provided assistance to the Primorie Territory, which was affected by the "Linerok" typhoon</p>	 <table border="1"> <thead> <tr> <th>Year</th> <th>Value</th> </tr> </thead> <tbody> <tr> <td>2014</td> <td>191.0</td> </tr> <tr> <td>2015</td> <td>78.0</td> </tr> <tr> <td>2016</td> <td>109.7</td> </tr> </tbody> </table>	Year	Value	2014	191.0	2015	78.0	2016	109.7
Year	Value									
2014	191.0									
2015	78.0									
2016	109.7									



More details about charity projects can be found in the Corporate social responsibility and sustainable development report for 2016 or on the website: ([http://www.rushydro.ru/sustainable\\_development/socialotvetstvenost/alms/](http://www.rushydro.ru/sustainable_development/socialotvetstvenost/alms/))

## Contacts

<b>Full name</b>	<b>“Public Joint Stock Company Federal Hydro-Generating Company – RusHydro”</b>
Abbreviated name	PJSC RusHydro
OGRN	1042401810494
INN	2460066195
KPP	246601001
OKPO	75782411
OKVED	35.11.2
Number and date of issue of the certificate of state registration as a legal entity	1042401810494 26.12.2004
Main activity	35.11.2 Production of electricity by hydroelectric power plants
Information about the listing of strategic enterprises and strategic joint-stock companies	Presidential Decree of 21.05.2012 No.688 PJSC RusHydro on the list of strategic enterprises and strategic joint-stock companies, approved by Presidential Decree of August 4, 2004 N 1009 "On approval of the list of strategic enterprises and strategic joint-stock companies"
<b>Location</b>	<b>43 Dubrovinskogo Street, Bldg 1, Krasnoyarsk, the Krasnoyarsk Region, Russia, 660017</b>
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Abbreviated name	VTB Registrar
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Fax	+7 (495) 787-44-83
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License No	No. 045-13970-000001 of 21.02.2008
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<b>Depository Bank (Depository Receipt)</b>	
Full name	The Bank of New York Mellon
	Olena Smirnova

Telephone	+1 212 815 2510
E-mail	olena.smirnova@bnymellon.com
<b>Depository (bonds)</b>	
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Abbreviated name	NSD
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Mailing address	+7 (495) 234-48-27
Telephone	+7 (495) 956-09-38
Fax	bonds@nsd.ru
E-mail	www.nsd.ru
<b>Auditor</b>	
Full name	Closed Joint Stock Company PricewaterhouseCoopers Audit
Abbreviated name	CJSC PwC Audit
Location	10 Butyrsky Val Street, Moscow, Russia, 125047
Mailing address	+7 (495) 967-6000
Telephone	+7 (495) 967-6001
Fax	<a href="mailto:pwc.russia@ru.pwc.com">pwc.russia@ru.pwc.com</a>
E-mail	www.pwc.ru

## Glossary

<b>Company, RusHydro</b>	PJSC RusHydro, including its branches and executive office
<b>Combined heat and power plant</b>	Combined heat and power plant generates electricity and useful heat at the same time
<b>Day-Ahead Market</b>	The competitive selection of price bids of suppliers and buyers conducted by JSC "ATS" a day before the actual delivery of electricity with the determination of prices and volumes of delivery for each hour of the day
<b>Energy Efficiency</b>	Effective (rational) use of energy resources. Use less energy to provide buildings or manufacturing processes in production with the same level of energy
<b>Generating companies of the wholesale electricity market</b>	Companies formed on the basis of the power plants
<b>Gigacalorie</b>	A unit of measurement for heating energy
<b>Gigacalorie-Hour</b>	A unit of measurement for heating power
<b>Hydropower plant</b>	A power plant as unified production and technological complexes, combining hydro-technical constructions and equipment that transforms mechanical energy from water into electric energy. In the text of the annual report, except when otherwise noted, tidal power plants and PS HPPs are included as HPPs
<b>Hydro-technical constructions</b>	Dams, hydropower plant constructions, spillways, drain and water-discharge constructions, tunnels, channels, pumping stations, navigation locks, boat lifts; buildings used to protect from floods and the destruction of water reservoir shores; dam constructions, protecting the liquid waste reservoirs of production and agricultural organizations; devices that protect against washing-away and other constructions designed to use water resources and to prevent any negative impact from water and liquid waste
<b>Integrated Energy System</b>	Aggregated production and other electricity property assets, connected via a unified production process (including production in the form of the combined generation of electrical and heat) and the supply of electrical energy under the conditions of a centralized operating and dispatch management.
<b>Installed capacity</b>	Total nominal active capacity of generators at electric power plants which are part of the Group's structure
<b>JSC RAO UES of Russia</b>	The Russian energy company (until July 1st, 2008). Full name - Open Joint Stock Company Unified Energy System of Russia. The Company previously united almost all of Russian energy sector companies under its consolidation. JSC RAO UES of Russia ceased to exist as of June 30, 2008 as a result of a comprehensive energy sector reform
<b>Kilowatt-Hour</b>	A unit of measurement for produced electricity
<b>Megawatt</b>	A unit of measurement for electrical capacity
<b>Pump storage hydropower plants</b>	Pump-storage power plants, which works by transforming electricity from other power plants into the potential energy of water; during reverse transformation, accumulated energy is contributed to the energy system primarily to cover deficits that may occur during peak load periods
<b>Renewable energy sources</b>	Include: hydro, solar, wind, geo-thermal, hydraulic energy, energy from water currents, waves, tides, the temperature gradient of sea water, temperature differences between air masses and the ocean, heat from the Earth , animal bio-masses and vegetable and



	household waste
<b>Subsidiaries and dependent companies</b>	Entities, in which another (main) economic entity due to its majority or greater participation in the charter capital or in accordance with a concluded agreement or in another way, has the opportunity to determine the decisions adopted by said entities.
<b>The RusHydro Group</b>	PJSC RusHydro, including its subsidiaries and dependent companies (SDCs)
<b>Thermal power plant</b>	Thermal power plant is a power plant in which heat is converted to electric power
<b>Useful supply of electricity</b>	Electricity received and paid for by consumers
<b>Wholesale electricity and capacity market</b>	Sphere for the turnover of electric energy and capacity within the framework of Russia's integrated energy system within the country's unified economic space with the participation of large electricity producers and consumers that have the status of wholesale market objects, confirmed in full accordance with the Russian Federal Law "On the electric power industry" (by the Russian Government). The criteria for including large electricity producers and consumers in the category of large producers and large consumers are also established by the Russian government
<b>Wind electric plants</b>	Include two or more wind energy installations designed to convert wind energy into electric energy and its transmission to consumers

## Key Abbreviations

<b>PJSC RusHydro</b>	Public joint-stock company RusHydro, including its branches and executive office
<b>JSC RAO UES of Russia</b>	Joint-stock company RAO Energy Systems of the East
<b>APAC</b>	Asian-Pacific Region
<b>AGM</b>	Annual General Meeting of Shareholders
<b>BoD</b>	Board of Directors
<b>CHPP</b>	Combined heat and power plant
<b>CCA</b>	Competitive capacity auction
<b>DAM</b>	Day-Ahead Market
<b>FEC</b>	Fuel and Energy Complex
<b>FEFD</b>	Far Eastern Federal District
<b>Gcal</b>	Gigacalorie
<b>Gcal/h</b>	Gigacalorie-Hour
<b>HPP</b>	Hydropower plant
<b>IES</b>	Integrated Energy System
<b>KPIs</b>	Key performance indicators
<b>kWh</b>	Kilowatt-Hour
<b>LDP</b>	Long term Development Program
<b>MW</b>	Megawatt
<b>PS HPP</b>	Pump storage hydropower plant
<b>R &amp; D</b>	Research and development
<b>REM</b>	Retail energy market
<b>RES</b>	Renewable energy sources
<b>SDCs</b>	Subsidiaries and dependent companies
<b>TPP</b>	State District Power Plant
<b>SPPs</b>	Solar power plant
<b>TPP</b>	Thermal power plant

<b>VNIIG</b>	The B.E. Vedeneev All Russia Institute of Hydraulic Engineering
<b>WECM</b>	Wholesale electricity and capacity market
<b>WGCs</b>	Generating companies of the wholesale electricity market (WEM)
<b>WPS</b>	Wind electric plants

## Feedback form

Dear reader! You have read with the annual report of PJSC RusHydro, addressed to a wide range of stakeholders. The opinion of the readers - those for whom the report was created, it is extremely important to us. We would be grateful if you will contribute to the quality of the Group's reporting by answering the questionnaire.

When completing the application form please note that PJSC RusHydro also annually publishes a report on sustainable development and of the accounting information located there.

The completed form can be sent to the address: 127006, Moscow, ul. Malaya Dmitrovka, 7, or by fax: +7 (495) 225-37-37 (marked "The Department for Corporate Governance and Property Management"), or by e-mail [corpupr@rushydro.ru](mailto:corpupr@rushydro.ru).

1. Rate the report using the criteria "Completeness and relevance of information"

Excellent       Good       Satisfactory       Unsatisfactory

2. Does the report allowed us to obtain the necessary information about the Company?

Yes       No

Other (comments)

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3. What sections of the report, which proved to be most meaningful and useful for you:

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4. What topics do you think should be included in the next report:

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5. Your advice and additional comments:

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6. Indicate which stakeholder category you belong to:

Shareholder / Investor

RusHydro Group Employees

The representative of the public authorities

The customer / user (the subject of the retail market)

The representative of local communities  
in the presence regions

The representative of the professional community

Representatives of universities and other educational

Media representative

Other (specify) \_\_\_\_\_

Business partner / contractor / supplier

**APPENDICES**

**TO**

**2016 ANNUAL REPORT**

**PJSC RusHydro**

**(Translation from Russian original)**

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# 1. Information on compliance with the Russian Corporate Governance Code and Report on compliance with the principles of UK Corporate Governance Code

## Report on compliance with the principles of UK Corporate Governance Code

		<b>Mandate</b>	<b>Compliance</b>
		SECTION A: LEADERSHIP	
A.1	The Role of the Board	Every company should be headed by an effective board which is collectively responsible for the longterm success of the company	Complies
A.2	Division of Responsibilities	There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision	Complies
A.3	The Chairman	The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role	Complies
A.4	Non-executive Directors	As part of their role as members of a unitary board, non- executive directors should constructively challenge and help develop proposals on strategy	Complies
		SECTION B: EFFECTIVENESS	
B.1	The Composition of the Board	The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively	Complies*
B.2	Appointments to the Board	There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board	Complies
B.3	Commitment	All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively	Complies
B.4	Development	All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge	Partially complies
B.5	Information and Support	The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties	Complies
B.6	Evaluation	The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors	Partially complies
B.7	Re-election	All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance	Complies
		SECTION C: ACCOUNTABILITY	
C.1	Financial And Business Reporting	The board should present a balanced and understandable assessment of the company's position and prospects	Complies
C.2	Risk Management and Internal Control	The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems	Complies
C.3	Audit Committee and Auditors	The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditor	Complies
		SECTION D: REMUNERATION	
D.1	The Level and Components of Remuneration	Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance	Complies
D.2	Procedure	There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration	Complies
		SECTION E: RELATIONS WITH SHAREHOLDERS	

E.1	Dialogue with Shareholders	There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place	Complies
E.2	Constructive Use of the AGM	The board should use the AGM to communicate with investors and to encourage their participation	Complies

\* Despite the fact that the members of the Board of Directors M. S. Bystrov, P. S. Grachev, V. V. Pivovarov and S. N. Ivanov are proposed for the block of shares owned by the Russian Federation, they are not a party of any agreements with the Russian Federation, which subject might be a special voting procedure in accordance with instructions/directives of the Russian Federation. Moreover, the Russian Federation nominated these candidates as independent. The members of the Board of Directors M. S. Bystrov and S. N. Ivanov recognized as an independent Directors of the Board of Directors.

Hereby the Board of Directors of PJSC RusHydro announces the observance of the principles of corporate governance enshrined in the corporate governance Code and the reasons of non compliance or incomplete compliance with the individual principles of the Code of corporate governance

## Information on compliance with the Russian Corporate Governance Code

N	Principles of corporate governance	Criteria used to evaluate whether the principle is observed	The status <u>&lt;1&gt;</u> of compliance with the principle of corporate governance.	Explanations <u>&lt;2&gt;</u> of deviations from the evaluation criteria compliance with the principle of corporate governance
1.1	The company should ensure the equal and fair treatment of all its shareholders in the course of their exercising their rights to participate in the management of the company.			
1.1.1	The company should create the most favorable conditions possible for its shareholders, enabling them to participate in the general meetings and to develop informed positions on the issues forming its agenda, as well as providing them with the opportunity to coordinate their actions and express their opinions regarding the issues under discussion.	<p>1. The internal document of the company which regulates the procedure of convening, preparing and holding general shareholders meetings, and which was approved by the general shareholders meeting, should be available within the public domain.</p> <p>2. During the period of preparation for the meeting, the company shall establish the necessary organizational and technical conditions to ensure that shareholders may pose questions to members of the company's executive bodies and Board of directors, as well as to publicly express their opinions on the meeting's agenda items. To this end, a company with a large number of shareholders is recommended to support a special telephone line (hotline) for communication with shareholders, to establish a special email address, and to provide a forum for discussion of the meeting agenda on its website</p>	<p><input checked="" type="checkbox"/> observed</p> <p><input type="checkbox"/> partially observed</p> <p><input type="checkbox"/> not observed</p>	
1.1.2	Procedures for notification of the general meeting and provision of materials for it should enable the shareholders to properly prepare themselves for participation	1. A notice announcing a general shareholders meeting should be published on the website of the company at least 30 days before the date of the meeting.	<input checked="" type="checkbox"/> observed	



	therein.	<p>2. In the message of the meeting provided the meeting venue and documents required for admission to the premises.</p> <p>3. The shareholders were provided with access to information about what the proposed issues on the agenda and who have been nominated to the Board of Directors and the auditing Commission of the company.</p>	<input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
1.1.3	During the preparation for and holding of the general meeting, the shareholders should be able to freely and in a timely manner receive information about the meeting and its materials, to pose questions to members of the company's executive bodies and Board of directors, and to communicate with each other.	<p>1. During the relevant reporting period shareholders should be provided with an opportunity to pose questions to members of the company's executive bodies and Board members before and during the annual general meeting.</p> <p>2. The materials set out the positions of the Board of Directors regarding the general meeting's agenda, as well as dissenting opinions of Board members on each item therein. Such materials are recommended for inclusion into the minutes of a meeting of the Board of Directors where such opinions have been expressed.</p> <p>3. The company is recommended to provide those shareholders who are entitled to review the list of persons authorized to participate in the meeting with the opportunity to review it starting from the date when the company receives such information.</p>	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
1.1.4	There should be no unjustified difficulties preventing shareholders from exercising their right to demand that a general meeting be convened, nominate candidates to the company's governing bodies, and to place proposals on its agenda.	<p>1. The shareholders have the opportunity to propose items to be included in the agenda of its annual general meeting within a 60-day period following the end-date of the respective calendar year.</p> <p>2. If there are typos and other insignificant flaws in shareholder proposals, it is not recommended that the company refuse to include these proposals on the agenda or refuse to allow the proposed candidate to claim his/her place on the list of nominees for election as long as the contents of the proposal as a whole are sufficient to determine the will of the shareholder and to confirm his right to submit the proposal.</p>	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	

1.1.5	Each shareholder should be able to freely exercise his right to vote in a straightforward and most convenient way.	1. To rule out any abuse, the company should include in its internal documents a provision whereby a person filling out a voting ballot may, until the end of the general meeting, request that a copy of the ballot filled out thereby be certified by the company's counting commission (or representatives of the registrar who carry out the functions of such counting commission).	<input checked="" type="checkbox"/> observed <input type="checkbox"/> partially <input type="checkbox"/> observed <input type="checkbox"/> not <input type="checkbox"/> observed	
1.1.6	Procedures for holding a general meeting set by the company should provide equal opportunity to all persons present at the general meeting to express their opinions and ask questions that might be of interest to them.	<p>1. The general meeting should be conducted in such a way as to enable the shareholders to make informed and reasoned decisions on all matters on the agenda. In order to do so, a sufficient time for reports on the agenda should be provided and there should be sufficient time to discuss these issues.</p> <p>2. The company should invite candidates nominated to its Board of directors and internal audit commission to attend the respective general meeting (and such candidates are recommended to attend the same) so that shareholders will be able to ask them questions and make their judgments about such candidates.</p> <p>3. The Board of Directors considered the use of telecommunication systems to provide the shareholders with remote access to their general meetings (for example, by broadcasting its proceedings via the company's website or by using video conferencing).</p>	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially <input type="checkbox"/> observed	<p><b>In respect of paragraphs 2 and 3, the Society gives the following explanation:</b></p> <p>Not all candidates to the Board of Directors were unable to attend the annual General meeting of shareholders in 2016, however, the questions asked by shareholders is not affected candidates.</p> <p>The procedure for remote access of the shareholders by means of telecommunication broadcasts developed and it is assumed that when preparing to the annual General meeting of shareholders in 2018 the matter will be considered by the Board of Directors.</p>

			<input type="checkbox"/> not observed	
1.2	Shareholders should have equal and fair opportunities to participate in the profits of the company by means of receiving dividends.			
1.2.1	<p>The company should develop and put in place a transparent and clear mechanism for determining the amount of dividends and their payment.</p>	<p>1. The company has developed and disclosed its dividend policy approved by the Board of Directors.</p> <p>2. If the dividend policy of the company utilizes indicators from the financial statements of the company to determine the size of the dividend, the relevant provisions of the dividend policy should include the consolidated indicators of financial statements.</p>	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
1.2.2	<p>The company should not make a decision on the payment of dividends if such decision, without formally violating limits set by law, is nevertheless unjustified from the economic point of view and might lead to the formation of false assumptions about the company's activity.</p>	<p>1. The dividend policy of the company should contain clear indications of financial/economic circumstances which prohibit the company from paying dividends.</p>	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	

1.2.3	The company should not allow deterioration of dividend rights of its existing shareholders.	1. The company has not taken any actions which would allow for the deterioration of dividend rights of existing shareholders in the reporting period.	<input checked="checked" type="checkbox"/> observed <input type="checkbox"/> partially <input type="checkbox"/> observed <input type="checkbox"/> not <input type="checkbox"/> observed	
1.2.4	The company should strive to rule out any means through which its shareholders can obtain profit or gain at the company's expense other than dividends and distributions of its liquidation value.	1. The company has established appropriate control mechanisms in its internal documents to prevent its controlling persons from deriving a profit (income) from the company in ways other than dividends or liquidation value. Internal documents of the company contain provisions establishing control mechanisms for timely identification and approval of transactions with affiliated parties and major shareholders (persons entitled to control votes attached to voting shares) in cases when the law does not formally recognize these transactions as interested-party transactions.		<p><b>In respect of paragraph 1, the Society gives the following explanation:</b>  For 2016, the Society had two significant shareholders:  - The Russian Federation (controlling shareholder) and Gazprombank (Joint stock company) – the shareholder holding over 5 % shares of the company.  In April 2017 Gazprombank has reduced the stake below 5 % and has ceased to be a substantial shareholder.</p> <p>The company has established practices for identifying conflicts of interests when entering into contracts. There are also set the LDF Companies in mechanisms for the disclosure of the beneficiaries of counterparties when entering into contracts. In addition, the conclusion of contracts by Society and controlled by the societies is in accordance with the regulated</p>

			<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	purchasing procedures. Despite the fact that the company believes that existing practices and regulations are sufficient to prevent the facts of the individual shareholders of "other ways of receiving profit (income) at the expense of society" the company plans to consider the introduction of additional rules in the internal documents in the 2017-2018 year.
1.3	The system and practices of corporate governance should ensure equal terms and conditions for all shareholders owning shares of the same class (category) in a company, including minority and foreign shareholders. Equal treatment should be unilateral and beyond dispute.			
1.3.1	Society has created the conditions for a fair treatment to every shareholder on the part of management bodies and controlling persons of the company, including conditions to ensure that abuses by large shareholders against minority shareholders.	1. During the reporting period the procedures adopted for management of potential conflict between major shareholders were effective, and the Board of Directors paid sufficient attention to conflicts, if any, between shareholders.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> partially observed	

			<input type="checkbox"/> not observed	
1.3.2	The company should not perform any acts which would or could result in artificial reallocation of corporate control therein.	1. There were no quasi-treasury shares or they did not participate in voting during the course of the reporting period.	<input type="checkbox"/> observed	<p><b>In respect of paragraph 1, the Society gives the following explanation:</b></p> <p>1) quasi-concave shares in the Group RusHydro are a temporary phenomenon and associated with the preparations for the privatization of Companies;</p> <p>2) The Society recognizes the undesirability of quasi-canonical stock, but considers that the efforts of Companies to minimize unintended consequences from the availability of such shares is most correctly addressed by quasi-canonical disposal of the shares. Such Disposals, according to the company, must be exercised with the greatest for the company and its shareholders benefit.</p> <p>3) In March 2017 15 billion pieces of Treasury shares (owned by the Group companies RusHydro JSC Hydroinvest, LLC EZOP was sold to VTB Bank (PJSC) as part of the financing for refinancing of debt on credits and loans companies of the Holding «RAO ES of the East».</p>

			<input type="checkbox"/> partially observed  <input checked="" type="checkbox"/> not observed	
1.4	The shareholders should be provided with reliable and efficient means of recording their rights in shares as well as with the opportunity to freely dispose of such shares in a non-onerous manner.			
1.4	The shareholders should be provided with reliable and efficient means of recording their rights in shares as well as with the opportunity to freely dispose of such shares in a non-onerous manner.	1. The quality and reliability of the work performed by the registrar of the company answers the requirements of the company and its shareholders.	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
2.1	The Board of Directors shall be in charge of strategic management of the company, determine major principles of and approaches to creation of a risk management and internal control system within the company, monitor the activity of the company's executive bodies, and carry out other key functions.			
2.1.1	The Board of Directors should be responsible for decisions to appoint and remove members of executive bodies, including taking action in response to failure of the latter to properly perform their duties. The Board of Directors should also guarantee that the company's executive bodies act in accordance with an	1. According to the charter of the company, the Board of Directors has the authority to appoint, dismiss and determine the terms and conditions of contracts with members of executive bodies of the company.  2. During the reporting period the Board heard reports of the one-person executive body and members of the collective executive body on the implementation of the strategy, with particular attention to conformity with the company's performance in targeting indicators set forth by the		<b>In respect of paragraph 1, the Society gives the following explanation:</b> In accordance with the Charter of the company the terms of the contract of the sole Executive body are determined by the Board of Directors or a person

	approved development strategy and the main business goals of the company.	company's strategy.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially <input type="checkbox"/> not observed	<p>authorized by the Board of Directors to sign the employment contract. While the competence of the Board of Directors assigned the authority to approve Policy on remuneration and compensation for members of Executive bodies. The terms of contracts with members of the management Board are determined by the sole Executive bodies on the basis of the policy on remuneration and reimbursement (compensation) of members of Executive bodies, approved by the Board of Directors.</p>
2.1.2	The Board of Directors should establish basic long-term targets of the company's activity, evaluate and approve its key performance indicators and principal business goals, as well as evaluate and approve its strategy and business plans in respect of its principal areas of operations.	1. During the reporting period the Board of Directors has reviewed matters related to the status of execution of the strategy of the company, approval of its financial plan (budget) and the review of criteria and indicators (including interim) pertaining to the execution of the strategy and business plans of the company.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> partially <input type="checkbox"/> not observed	



			<input type="checkbox"/> not observed	
2.1.3	<p>The Board of Directors should determine principles of and approaches to creation of the risk management and internal control system in the company.</p>	<p>1. The Board of Directors has determined the principles and approaches to creation of the risk management and internal control system in the company.</p> <p>2. The Board of Directors has evaluated the risk management and internal control system during the reporting period.</p>		<p><b>In respect of paragraph 2, the Society gives the following explanation:</b></p> <p>In accordance with clause 9.5 of the current edition of the Code of corporate governance, analysis and evaluation of the functioning of risk management and internal control organizes the Board of Directors or the audit Committee of the Board of Directors of the company; the results of such analysis and evaluation should be considered by the</p> <p>the meeting of the Board of Directors or the audit Committee of the Board of Directors.</p> <p>In 2016, the rating of the risk management system of the company carried out by the audit Committee under the Board of Directors. 28.04.2016 at the meeting of the audit Committee of the Board of Directors reviewed the report of the internal audit Service on the results of assessment of efficiency of functioning of the risk management system of the company.</p> <p>According to the work plan of the Board of Directors of the company for the first half of 2017 (approved. the decision of the Board of Directors, minutes</p>

			<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	28.02.2017 No. 248), the review by the Board of Directors report on the functioning of the corporate system of internal control and risk management is scheduled for June 2017.
2.1.4	The Board of Directors should determine the company's policy on remuneration due to and/or reimbursement of costs incurred by its Board members, members of its executive bodies and other key managers.	1. The company has developed and implemented a policy (policies) on remuneration and/or reimbursement of costs incurred by its Board members, members of executive bodies and other key managers. This policy (policies) was approved by the Board of Directors. 2. During the reporting period the Board of Directors reviewed matters related to the indicated policy (policies).	<input checked="" type="checkbox"/> observed <input type="checkbox"/> partially observed	<b>In respect of paragraphs 1 and 2, the Society gives the following explanation:</b> Because the category "other key employees" is not defined and approved by the Board of Directors in respect of this category of workers, the Policy on remuneration and compensations have not been approved.

			<input type="checkbox"/> not observed	
2.1.5	The Board of Directors should play a key role in prevention, detection and resolution of internal conflicts between the company's bodies, shareholders and employees.	<p>1. The Board of Directors plays a key role in prevention, detection and resolution of internal conflicts</p> <p>2. The company has created a system of identification of transactions related to a conflict of interest and a system of measures intended to resolve such conflicts.</p>	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
2.1.6	The Board of Directors should play a key role in ensuring that the company is transparent, discloses information in full and in due course, and provides its shareholders with unhindered access to its documents.	<p>1. The Board of Directors has approved a regulation on information policy.</p> <p>2. The company has appointed persons in charge of the implementation (enforcement) of the information policy.</p>	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
2.1.7	The Board of Directors should monitor the company's corporate governance practices and play a key role in its material corporate events.	1. During the reporting period the Board of Directors reviewed the corporate governance practices in the company.		<b>In respect of paragraph 1, the Society gives the following explanation:</b> The society on an annual basis engages independent expert for

				<p>the evaluation of the Board of Directors. The events on comprehensive assessment of corporate governance practices is developed and is scheduled for implementation in the 2017-2018 year.</p> <p>In addition, in accordance with paragraph 2 of the schedule of control actions of service of internal audit (approved by the audit Committee at the Board of Directors of PJSC RusHydro) in the community assessment of the system of corporate governance during the reporting period. Also the work plan of the audit Committee are provided in the 1st half of 2017 a preliminary review of the results of the evaluation of corporate governance practices.</p>
			<input type="checkbox"/> observed  <input checked="" type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
2.2	The Board of Directors should be accountable to the company's shareholders.			
2.2.1	Information about the Board of Directors' work should be disclosed and provided to	1. The annual report of the company for the reporting period contains information regarding the directors' attendance at Board and committee	<input checked="" type="checkbox"/> observed	

	the shareholders.	meetings.  2. The annual report contains information about the key results of the evaluation of the work of the Board of Directors in the reporting period.	<input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
2.2.2	The chairman of the Board of Directors must be available to communicate with the company's shareholders.	1. In the company there is a transparent procedure that provides the shareholders the opportunity to send the Chairman of the Board of Directors issues and their position on them.	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
2.3	The Board of Directors should be an efficient and professional governing body of the company which is able to make objective and independent judgments and pass resolutions in the best interests of the company and its shareholders.			
2.3.1	Only persons with impeccable business and personal reputation should be elected to the Board of Directors; such persons should also have knowledge, skills, and experience necessary to make decisions that fall within the jurisdiction of the Board of Directors and to perform all such functions efficiently.	1. The performance assessment procedure for the Board of Directors adopted in the company includes the evaluation of professional qualifications of Board members.  2. In the reporting period, the Board of Directors (or its nominations committee) evaluated candidates nominated to the Board in terms of their experience, knowledge, business and personal reputation, absence of conflicts of interest etc.		<b>In respect of paragraph 2, the Society gives the following explanation:</b> The evaluation procedure of candidates for the Board of Directors from the point of view of whether they have the necessary experience, knowledge, business reputation, lack of conflict of interest, etc., is developed and is scheduled for implementation in 2018..

			<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	
2.3.2	Board members should be elected pursuant to a transparent procedure enabling the shareholders to obtain information about respective candidates sufficient for them to get an idea of the candidates' personal and professional qualities.	1. Biographical data on all candidates nominated to the Board of Directors, and the results of the evaluation of such candidates conducted by the Board of Directors (or its nominations committee), information regarding the candidate's conformity with independence criteria in accordance with recommendations 102-107 of the Code, and the candidates' written consent to be elected to the Board, were provided to shareholders in preparation for all meetings where the election of Board members was on the agenda.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	<b>In respect of paragraph 1, the Society gives the following explanation:</b> The evaluation procedure of candidates for the Board of Directors from the point of view of whether they have the necessary experience, knowledge, business reputation, lack of conflict of interest, etc., is developed and is scheduled for implementation in 2018..
2.3.3	The composition of the Board of Directors	1. During the procedure of assessment of the work of the Board of		

	<p>should be balanced, in particular in terms of qualifications, expertise, and the business skills of its members. The Board of Directors should enjoy the confidence of the shareholders.</p>	<p>Directors conducted in the reporting period, the Board analyzed its composition in terms of qualifications and expertise of its members.</p>	<p><input checked="" type="checkbox"/> observed</p> <p><input type="checkbox"/> partially observed</p> <p><input type="checkbox"/> not observed</p>	
2.3.4	<p>The membership of the Board of Directors of the company must enable the Board to organize its activities in the most efficient way possible, in particular, to create committees of the Board of Directors, as well as to enable substantial minority shareholders of the company to put forth a candidate to the Board of Directors for whom they would vote.</p>	<p>1. During the procedure of assessment of the work of the Board of Directors conducted in the reporting period, the Board of Directors analyzed the conformity of its membership to the needs of the company and its shareholders.</p>	<p><input checked="" type="checkbox"/> observed</p> <p><input type="checkbox"/> partially observed</p> <p><input type="checkbox"/> not observed</p>	
2.4	<p>The Board of Directors should include a sufficient number of independent directors.</p>			
2.4.1	<p>An independent director should mean any person who has the required professional skills and expertise and is sufficiently able to have his/her own position and make objective and bona fide judgments, free from the influence of the company's executive bodies, any individual group of its shareholders or other stakeholders. It should be noted that, under normal circumstances, a candidate (or an elected</p>	<p>1. During the reporting period all independent Board members answered all requirements of recommendations 102-107 of the Code or were deemed independent pursuant to a decision of the Board of Directors.</p>	<p><input checked="" type="checkbox"/> observed</p> <p><input type="checkbox"/> partially observed</p>	

	<p>director) may not be deemed to be independent, if he/she is associated with the company, any of its substantial shareholders, material trading partners or competitors, or the government.</p>		<input type="checkbox"/> not observed	
2.4.2	<p>It is recommended to evaluate whether candidates nominated to the Board of Directors meet the independence criteria as well as to review, on a regular basis, whether or not independent Board members meet the independence criteria. When carrying out such evaluation, substance should take precedence over form.</p>	<p>1. During the reporting period the Board of Directors (or its nominations committee) issued an opinion regarding the independence of each candidate nominated to the Board and provided the shareholders with the appropriate conclusion.</p> <p>2. At least once in the reporting period the Board of Directors (or its nominations committee) evaluated the independence of current members of the Board of Directors indicated by the company in the annual report as independent directors.</p> <p>3. The company has developed procedures indicating the actions which must be taken by a Board member once he/she ceases to be independent including their obligation to inform the Board of Directors of these circumstances in a timely fashion</p>	<input type="checkbox"/> observed  <input checked="" type="checkbox"/> partially observed  <input type="checkbox"/> not observed	<p><b>In respect of paragraph 1, Society gives the following explanations:</b> The evaluation procedure of candidates for the Board of Directors in developing and is scheduled for implementation in 2018..</p>



2.4.3	Independent directors should account for at least one-third of all directors elected to the Board of Directors.	1. Independent directors should account for at least one-third of all directors elected to the Board of Directors.	<input type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input checked="" type="checkbox"/> not observed	<p><b>In respect of paragraph 1, the Society gives the following explanation:</b></p> <p>In the Society at the end of the reporting period there were 4 independent Directors meet the minimum requirements of the listing Rules of the Moscow Exchange.</p>
2.4.4	Independent directors should play a key role in prevention of internal conflicts in the company and performance by the latter of material corporate actions.	1. Independent directors (with no conflict of interest) should preliminarily review material corporate actions related to a potential conflict of interest and a document setting out the results of such evaluation should be made available as part of materials to be provided in connection with a Board meeting where a respective matter is to be considered.	<input type="checkbox"/> observed  <input type="checkbox"/> partially observed	<p><b>In respect of paragraph 1, the Society gives the following explanation:</b></p> <p>Procedural matters of the independent Directors in developing and is scheduled for implementation in 2018..</p>

			<input checked="" type="checkbox"/> not observed	
2.5	The chairperson of the Board of Directors should help it carry out the functions imposed thereon in a most efficient manner.			
2.5.1	<p>It is recommended to either elect an independent director to the position of chairperson of the Board of Directors or identify the senior independent director among the company's independent directors who would coordinate work of the independent directors and liaise with the chairperson of the Board of Directors.</p>	<p>1. The chairperson of the Board of Directors is an independent director or a senior independent director who was appointed from among the independent directors <a href="#">3</a>.</p> <p>2. The role, rights and responsibilities of the chairperson of the Board (and, if applicable, of the senior independent director) are clearly determined in the internal documents of the company</p>		<p><b>In respect of paragraphs 1 and 2, the Society gives the following explanation:</b></p> <p>In accordance with the decree of the Government of the Russian Federation dated 23.01.2003 № 91-R, and in accordance with clause 17 of the Regulations on management of federally owned shares of joint stock companies and the use of special right for participation of Russian Federation in management of joint-stock companies ("Golden share") the representatives of the Russian Federation in the Board of Directors of PJSC RusHydro on the issue of election of the Chairman of the Board of Directors to vote in accordance with the Directive of the Government of the Russian Federation. Independent Director – Ivanov S. N. is Deputy Chairman of the Board of Directors.</p> <p>Despite this, the company plans to implement the recommendations of the corporate governance Code including, in 2018, in part of the Institute's Senior independent Director.</p>
			<input type="checkbox"/> observed	

			<input type="checkbox"/> partially observed  <input checked="" type="checkbox"/> not observed	
2.5.2	The Board chairperson should ensure that Board meetings are held in a constructive atmosphere and that any items on the meeting agenda are discussed freely. The chairperson should also monitor fulfillment of decisions made by the Board of Directors.	1. The performance of the chairperson of the Board of Directors was evaluated within the framework of the Board performance assessment procedure in the reporting period.	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
2.5.3	The chairperson of the Board of Directors should take any and all measures as may be required to provide the Board members in a timely fashion with information required to make decisions on issues on the agenda.	1. The obligation of the chairperson of the Board of Directors to take any and all measures to provide the Board members in a timely fashion with information required to make decisions is stipulated in the internal documents of the company.	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	

2.6	Board members must act reasonably and in good faith in the best interests of the company and its shareholders, being sufficiently informed, with due care and diligence.			
2.6.1	Acting reasonably and in good faith means that Board members should make decisions considering all available information, in the absence of a conflict of interest, treating shareholders of the company equally, and assuming normal business risks.	<p>1. Internal documents of the company should stipulate that if a Board member has a conflict of interest, he/ she should promptly inform the Board of Directors (through its chairman or the company's corporate secretary) both of the existence of and grounds for such conflict of interest. In any case, such notification shall be made before the issue is discussed at a meeting of the Board of Directors or by any of its committees at which such Board member is present.</p> <p>2. According to internal documents of the company, if a Board member has a conflict of interest, he/she may not take part in decision-making. He/ she should abstain from voting on any issues in which he/she has a conflict of interest.</p> <p>3. The company should provide for a procedure (and a related budget) enabling Board members to receive, at the expense of the company, professional advice on issues relating to the jurisdiction of the Board of Directors.</p>	<p><input type="checkbox"/> observed</p> <p><input checked="" type="checkbox"/> partially observed</p> <p><input type="checkbox"/> not observed</p>	<p><b>In respect of paragraph 1, the Society gives the following explanation:</b> In the Code of corporate ethics stipulates the duty of the members of the Board of Directors to notify the company through the Board of Directors of a conflict of interest. The obligation to abstain from voting is not provided directly, though there is a duty to refrain from any action that would entail a conflict of interests. In the Annual report for the year 2016 contains the information about the occurred conflict of interest members of the Board of Directors, and indicated that a member of the Board of Directors, announced the presence of a Conflict of interest abstained from voting.</p>
2.6.2	Rights and duties of Board members	1. The company adopted and published an internal document whereby		

	should be clearly stated and documented in the company's internal documents.	the rights and duties of Board members are clearly stated.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> partially observed <input type="checkbox"/> not observed	
2.6.3	Board members should have sufficient time to perform their duties.	<p>1. Individual attendance at Board and committee meetings and time devoted to the preparation for the participation in meetings was considered during the procedure of assessment of the Board of Directors in the reporting period.</p> <p>2. In accordance with internal documents of the company, Board members should notify the company's Board of directors of their intention to take a position in management bodies of other entities and, immediately after their election (appointment) to the management bodies of such other entities, of such election (appointment).</p>	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not	<p><b>In respect of paragraph 1, the Society gives the following explanation:</b></p> <p>In the evaluation procedure of the Board of Directors in the reporting period conducted, by conducting a remote assessment of the Board of Directors by means of a questionnaire, took into account the participation of the members of the Board of Directors and committees of the Board of Directors, they prepare for the meetings.</p> <p>The company plans to apply this requirement in 2017-2018</p>

			observed	
2.6.4	All Board members should have equal opportunity to access the company's documents and information. Newly elected Board members should be provided with sufficient information about the company and work of its Board of directors as soon as possible.	<p>1. In accordance with internal documents of the company, Board members are given an opportunity to obtain any and all information required to perform their duties, including information on legal entities controlled by the company. The duty of the company's officials to provide the Board members with such information is set forth by the company's internal documents.</p> <p>2. The company has a formal induction program for newly elected Board members.</p>		<p><b>In respect of paragraph 1, the Society gives the following explanation:</b>  This right is not formalized in the internal documents in connection with the fact that paragraph 4 of article 65.3 of the civil code already provides for the right of members of the collegial body to obtain information about the activities of the Corporation.  In the regulations on the procedure for convening and holding meetings of the Board of Directors provides for the right of members of the Board of Directors to request any information and documents necessary for making decisions on issues referred to the competence of the Board of Directors. Also provides for a period of 5 working days to all members of the Board of Directors such information.</p> <p><b>In respect of paragraph 2, the Society gives the following explanation:</b>  Not provided internal documents and practices of corporate governance. In Society the interaction between management and the Board of Directors, which allows to react promptly and provide necessary information to the newly elected members of the Board of Directors for the quick and</p>

			<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	informative introduction to activities of Companies. The Company plans to apply this requirement in 2017-2018
2.7	Meetings of the Board of Directors, preparation for them, and participation of Board members therein should ensure efficient work of the Board.			
2.7.1	It is recommended to hold meetings of the Board of Directors as needed, with due account of the company's scope of activities and its then current goals.	1. The Board of Directors held at least 6 meetings in the reporting period.	<input checked="" type="checkbox"/> observed <input type="checkbox"/> partially observed <input type="checkbox"/> not observed	
2.7.2	It is recommended to develop a procedure for preparing for and holding meetings of	1. The company has an internal document in place regulating the procedure of preparation and holding of Board meetings which, inter	<input checked="" type="checkbox"/> observed	

	<p>the Board of Directors and setting it out in the company's internal documents. The above procedure should enable the shareholders to prepare themselves properly for such meetings.</p>	<p>alia, requires that the notice of a meeting must be made, as a rule, at least 5 days before the date of the meeting.</p>	<p><input type="checkbox"/> partially observed</p> <p><input type="checkbox"/> not observed</p>	
2.7.3	<p>The form of a meeting of the Board of Directors should be determined with due account of the importance of the issues on the agenda of the meeting. Most important issues should be decided at the meetings held in person.</p>	<p>1. According to the charter or an internal document of the company, the most important issues (in accordance with the list provided in recommendation 168 of the Code) must be considered and decided at meetings held in person.</p>	<p><input type="checkbox"/> observed</p> <p><input checked="" type="checkbox"/> partially observed</p> <p><input type="checkbox"/> not observed</p>	<p><b>In respect of paragraph 1, the Society gives the following explanation:</b> The company in practice seeks to examine the most important issues at the meetings. However, the inclusion of such standards in the regulations will make it impossible for the consideration of matters by correspondence, in an emergency, when necessary, cases.</p>
2.7.4	<p>Decisions on most important issues relating to the company's business should be made at a meeting of the Board of Directors by a qualified majority vote or by a majority</p>	<p>1. According to the charter of the company, the most important issues as described by recommendation 170 of the Code must be decided by a qualified majority vote of at least three quarters of the votes or by a majority vote of all elected Board members.</p>		<p><b>In respect of paragraph 1, the Society gives the following explanation:</b> Paragraph 15.6 of the Charter of</p>



	vote of all elected Board members.		<input type="checkbox"/> observed <input type="checkbox"/> partially observed <input checked="" type="checkbox"/> not observed	PJSC RusHydro for the adoption of the PP questions. 23-25, 31 p. 12.1. article 12 of the Charter by a two-thirds majority vote of the members of the Board of Directors participating in the meeting, helps to ensure maximum consideration of the views of members of the Board of Directors.
2.8	The Board of Directors should form committees for preliminary consideration of the most important issues of the company's business.			
2.8.1	For the purpose of preliminary consideration of any matters of control over the company's financial and business activities, it is recommended to form an audit committee comprised of independent directors.	<ol style="list-style-type: none"> <li>1. The Board of Directors formed an audit committee comprised exclusively of independent directors.</li> <li>2. The objectives of the audit committee, including the objectives listed in recommendation 172 of the Code, are determined in the internal documents of the company.</li> <li>3. At least one member of the audit committee, who is an independent director, has experience and knowledge of preparation, analysis, evaluation and audit of accounting (financial) statements.</li> <li>4. Meetings of the audit committee were held at least once every quarter during the reporting period.</li> </ol>		<p><b>In respect of paragraph 3, the Society gives the following explanation:</b></p> <p>The composition of the Board of Directors of PJSC RusHydro was elected by the annual General meeting of shareholders. The company has the ability to affect the decision of shareholders, but is working on regular interaction with shareholders, including in the period of formation of the lists for nomination to the management bodies for election at the annual General meeting of</p>

			<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially <input type="checkbox"/> not	<p>the Board of Directors with an appropriate level of experience, knowledge, business reputation and the number of independent Directors.</p> <p>Elected members of the Board of Directors is balanced from the point of view of the presence among its members the key skills required for the effective operation of the Board of Directors.</p> <p>According to the company, a member of the Board of Directors, heads the audit Committee, has sufficient experience and knowledge to accomplish the Committee objectives.</p> <p>In addition, to the committees of the Board of Directors (including audit Committee) the possibility of engaging experts to advise on specific issues activities, as reflected in the relevant provisions governing the activities of the committees.</p>
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			observed	
2.8.2	For the purpose of preliminary consideration of any matters of development of efficient and transparent remuneration practices, it is recommended to form a remuneration committee comprised of independent directors and chaired by an independent director who should not concurrently be the Board chairperson.	<p>1. The Board of Directors formed a remuneration committee comprised exclusively of independent directors.</p> <p>2. The committee is chaired by an independent director who is not the Board chairperson at the same time.</p> <p>3. The objectives of the remuneration committee, including the objectives listed in recommendation 180 of the Code, are determined in the internal documents of the company.</p>	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
2.8.3	For the purpose of preliminary consideration of any matters relating to human resources planning (making plans regarding successor directors), professional composition and efficiency of the Board of Directors, it is recommended to form a nominating committee (a committee on nominations, appointments and human resources) with a majority of its members being independent directors.	<p>1. The Board of Directors formed a nominations committee (or its objectives indicated in recommendation 186 of the Code are implemented by a different committee <a href="#">4</a>), with a majority of its members being independent directors.</p> <p>2. The objectives of the nominations committee (or the relevant committee performing these functions) including the objectives indicated in recommendation 186 of the Code are determined in the internal documents of the company</p>	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
2.8.4	Taking account of its scope of activities and levels of related risks, the company should form other committees with its Board of directors, in particular, a strategy committee, a corporate governance	1. In the reporting period the Board of Directors considered the conformity of the composition of its committees to the objectives of the Board of Directors and of the company. Additional committees were either formed or were deemed unnecessary.		<a href="#">5</a> <b>In respect of paragraph 1, the Society gives the following explanation:</b> In the Society in addition to the

	committee, an ethics committee, a risk management committee, a budget committee or a committee on health, security and environment, etc.		<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	audit committees and nomination and remuneration established the following committees: - strategy; - on investment; - in terms of reliability, energy efficiency and innovation; - on issues of energy development of the Far East.
2.8.5	The composition of the committees should be determined in such a way that it would allow a comprehensive discussion of issues being considered on a preliminary basis with due consideration of differing opinions.	1. Board committees are chaired by independent directors.  2. Given the specific nature of issues considered by the audit committee, the nominating committee and the remuneration committee, persons who are not members of the above committees can attend their meetings only at the invitation of their chairpersons.	<input type="checkbox"/> observed  <input checked="" type="checkbox"/> partially observed	<b>In respect of paragraph 1, the Society gives the following explanation:</b> The audit Committee, the Committee for personnel and remuneration (categories) and the investment Committee are chaired by independent Directors.

			<input type="checkbox"/> not observed	
2.8.6	Committee chairpersons should inform the Board of Directors and its chairperson of the work of their committees on a regular basis.	1. During the reporting period chairpersons of Board committees presented regular reports to the Board of Directors on their activities.	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
2.9	The Board of Directors should make an exhaustive evaluation of the quality of its work and that of its committees and Board members.			
2.9.1	Evaluation of quality of the Board of Directors' work should be aimed at determining how efficiently the Board of Directors, its committees and Board members work and whether their work meets the company's needs, as well as at making their work more intensive and identifying areas of improvement.	1. Self-evaluation or external evaluation of the work of the Board of Directors in the reporting period included the evaluation of the work of the Board committees, separate members of the Board of Directors and of the Board of Directors as a whole.  2. The results of the self-evaluation or external evaluation of the Board of Directors in the reporting period were reviewed by the Board of Directors at meetings held in person.	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
2.9.2	Quality of work of the Board of Directors, its committees and Board members should	1. An external organization (consultant) was retained to evaluate the work of the Board of Directors at least once in the last three reporting	<input checked="" type="checkbox"/> observed	

	be evaluated on a regular basis, at least once a year. To carry out an independent evaluation of the quality of the Board of Directors' work, it is recommended to retain a third party entity (consultant) on a regular basis, at least once every three years	periods.	<input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
3.1	The company's corporate secretary shall be responsible for efficient interaction with its shareholders, coordination of the company's actions designed to protect the rights and interests of its shareholders, and support of efficient work of its Board of directors.			
3.1.1	The corporate secretary should have knowledge, experience, and qualifications sufficient for performance of his/her duties, as well as an impeccable reputation and should enjoy the trust of the shareholders.	1. The company has adopted and disclosed an internal document – regulation on the corporate secretary. 2. The company disclosed on its website and in its annual report information on the corporate secretary which is as detailed as that required to be disclosed in relation to Board members and members of the executive bodies of the company.	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
3.1.2	The corporate secretary should be sufficiently independent of the company's executive bodies and be vested with powers and resources required to perform his/her tasks.	1. The Board of Directors approves the appointment, termination of appointment, and additional remuneration of the corporate secretary.	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed	

			<input type="checkbox"/> not <input type="checkbox"/> observed	
4.1	The level of remuneration paid by the company should be sufficient to enable it to attract, motivate, and retain persons having required skills and qualifications. Remuneration due to Board members, the executive bodies, and other key managers of the company should be paid in accordance with a remuneration policy approved by the company			
4.1.1	<p>It is recommended that the level of remuneration paid by the company to its Board members, executive bodies, and other key managers should be sufficient to motivate them to work efficiently and enable the company to attract and retain knowledgeable, skilled, and duly qualified persons. The company should avoid setting the level of remuneration any higher than necessary, nor allowing for an excessively large gap between the level of remuneration of any of the above persons and that of the company's employees.</p>	<p>1. The company has adopted an internal document (documents) – a remuneration policy (policies) in relation to its Board members, members of executive bodies and other key managers whereby the approaches to the remuneration of the indicated persons are clearly determined.</p>	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	<p><b>In respect of paragraph 1, the Society gives the following explanation:</b>  Because the category "other key employees" is not defined and approved by the Board of Directors in respect of this category of employees Policy on remuneration was not approved</p>
4.1.2	<p>The company's remuneration policy should be developed by its remuneration committee and approved by the Board of Directors. With the help of its remuneration committee, the Board of Directors should monitor implementation of and compliance with the remuneration policy by the company and, should this be necessary, review and amend the same.</p>	<p>1. During the reporting period the remuneration committee reviewed the remuneration policy (policies) and the practice of its (their) implementation and, when necessary, provided the Board of Directors with the relevant recommendations.</p>	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed	

			<input type="checkbox"/> not observed	
4.1.3	<p>The company's remuneration policy should provide for transparent mechanisms to be used to determine the amount of remuneration due to members of the Board of Directors, the executive bodies, and other key managers of the company, as well as to regulate any and all types of payments, benefits, and privileges provided to any of the above persons.</p>	<p>1. The remuneration policy (policies) of the company contains (contain) transparent mechanisms to be used to determine the amount of remuneration due to members of the Board of Directors, executive bodies and other key managers of the company and regulates (regulate) all types of payments, benefits and privileges provided to any of the indicated persons.</p>	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	<p><b>In respect of paragraph 1, the Society gives the following explanation:</b> Because the category "other key employees" is not defined and approved by the Board of Directors in respect of this category of workers, the Policy on remuneration and compensations have not been approved</p>
4.1.4	<p>The company is recommended to develop a policy on reimbursement of expenses which would contain a list of reimbursable expenses and specify service levels provided to members of the Board of Directors, the executive bodies, and other key managers of the company. Such policy can form part of the company's policy on compensations.</p>	<p>1. The remuneration policy (policies) of the company or other internal documents of the company set forth the rules of reimbursement of expenses of Board members, members of executive bodies and other key managers of the company.</p>		<p><b>In respect of paragraph 1, the Society gives the following explanation:</b> Because the category "other key employees" is not defined and approved by the Board of Directors in respect of this category of workers, the Policy on remuneration and compensations have not been approved</p>



			<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
4.2	The system of remuneration of Board members should ensure harmony between the financial interests of the directors and the long-term financial interests of the shareholders.			
4.2.1	A fixed annual fee shall be a preferred form of monetary remuneration of the Board members. It is not advisable to pay a fee for participation in individual meetings of the Board of Directors or its committees. It is not advisable to use any form of short-term incentives or additional financial incentives in respect of Board members.	1. A fixed annual fee has been the only form of monetary remuneration of Board members for their services on the Board in the reporting period.	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
4.2.2	Long-term ownership of shares in the company contributes most to aligning the financial interests of Board members with the long-term interests of the company's shareholders. However, it is not recommended to make the right to dispose of shares dependent on the achievement by the company of certain performance results; nor should Board members take	1. If the company has a practice (policy) of paying remuneration to the Board members in the form of its shares, its policy (internal document) of remuneration payable to the Board members should set out clear and transparent rules regulating the ownership of shares by the Board members. These rules should encourage them to increase their shareholdings and own the shares on a long-term basis.	<input checked="" type="checkbox"/> observed	<b>In respect of paragraph 1, the Society gives the following explanation:</b> Not applicable. In Society not provided by the practice of remuneration in securities.

	part in the company's option plans.		<input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
4.2.3	It is not recommended to provide for any additional allowance or compensation in the event of early dismissal of Board members in connection with a change of control over the company or other circumstances.	1. The company does not provide for any additional allowance of compensation in the event of early dismissal of Board members in connection with a change of control over the company or other circumstances.	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
4.3	The system of remuneration due to the executive bodies and other key managers of the company should provide that their remuneration is dependent on the company's performance results and their personal contributions to the achievement thereof.			
4.3.1	Remuneration due to the executive bodies and other key managers of the company should be set in such a way as to procure a reasonable and justified ratio between its fixed portion and its variable portion that is dependent on the company's performance results and employees' personal (individual) contributions to the achievement thereof.	<p>1. In the reporting period annual key performance indicators approved by the Board of Directors were used to determine the amount of variable remuneration of members of executive bodies and other key managers of the company.</p> <p>2. During the last evaluation of the system of remuneration of members of executive bodies and other key managers of the company the Board of Directors (remuneration committee) made sure that the company used an effective ratio between the fixed and variable remuneration.</p> <p>3. The company has a procedure ensuring that any award/bonus funds wrongfully obtained by members of executive bodies or managers are repaid to the company</p>	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed	<p><b>In respect of paragraph 3, the Society gives the following explanation:</b> All bonus payments to members of Executive bodies are performed in accordance with the approved Board of Directors policy on remuneration.</p> <p><b>In respect of paragraphs 1-3, the Society gives the following explanation:</b> The category "other key employees" is not defined and</p>

			<input type="checkbox"/> not observed	approved by the Board of Directors.
4.3.2	Companies whose shares are admitted to trading at organized markets are recommended to put in place a long-term incentive program for the company's executive bodies and other key managers involving the company's shares (or options or other derivative financial instruments the underlying assets for which are the company's shares).	<p>1. The company has put in place a long-term incentive program for the company's executive bodies and other key managers of the company involving the company's shares (financial instruments for which the company's shares are the underlying assets).</p> <p>2. The long-term incentive program should provide that the right to dispose of shares or exercise options shall arise no earlier than in three years from the date when such shares were provided. In addition, the right to dispose of the same, upon the expiration of a respective period, should be made conditional on the achievement of certain targets by the company, including nonfinancial targets, if applicable.</p>	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
4.3.3	The amount of severance pay (so-called "golden parachute") payable by the company in the event of early dismissal of an executive body or other key manager at the initiative of the company, provided that there have been no bad faith actions on the part of such person, should not exceed double the fixed portion of his/her annual remuneration.	1. The amount of severance pay (golden parachute) payable by the company in the event of early dismissal of an executive or other key manager at the initiative of the company, provided that there have been no bad faith actions on the part of such persons did not exceed double the fixed portion of his/her annual remuneration.	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
5.1	The company should have in place an efficient risk management and internal control system designed to provide reasonable confidence that the company's goals will be achieved.			
5.1.1	The Board of Directors should determine the principles of and approaches to creation	1. The functions of various governance bodies and divisions of the company in the risk management and internal control system are clearly	<input checked="" type="checkbox"/> observed	

	of the risk management and internal control system in the company	determined in the internal documents of the company/policy of the company approved by the Board of Directors.	<input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
5.1.2	The company's executive bodies should ensure the establishment and continuing operation of the efficient risk management and internal control system in the company.	1. The company's executive bodies ensured the distribution of functions and authority in relation to risk management and internal control among managers (heads) of divisions and departments subordinate to them.	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
5.1.3	The company's risk management and internal control system should enable all concerned to obtain an objective, fair and clear view of the current condition and prospects of the company, integrity and transparency of its accounts and reports, and reasonableness and acceptability of risks being assumed by the company	1. The company has a corruption prevention policy in place.  2. The company has developed a procedure of informing the Board of Directors or the audit committee of violations of the law, internal procedures and the ethics code of the company	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	

5.1.4	<p>The Board of Directors is recommended to take required and sufficient measures to guarantee that the existing risk management and internal control system of the company is consistent with the principles of and approaches to its creation as set forth by the Board of Directors and that it operates efficiently.</p>	<p>1. During the reporting period the Board of Directors reviewed the organization, operation, and efficiency of the risk management and internal control system and, if necessary, made recommendations toward its improvement. The results of such review of the system's efficiency were communicated to the shareholders as part of the annual report of the company.</p>	<p><input type="checkbox"/> observed</p> <p><input checked="" type="checkbox"/> partially observed</p> <p><input type="checkbox"/> not observed</p>	<p><b>In respect of paragraph 1, the Society gives the following explanation:</b></p> <p>In accordance with clause 9.5 of the current edition of the Code of corporate governance, analysis and evaluation of the functioning of risk management and internal control organizes the Board of Directors or the audit Committee of the Board of Directors of the company; the results of such analysis and evaluation should be considered by the the meeting of the Board of Directors or the audit Committee of the Board of Directors.</p> <p>In 2016, the rating of the risk management system of the company carried out by the audit Committee under the Board of Directors. 28.04.2016 at the meeting of the audit Committee of the Board of Directors reviewed the report of the internal audit Service on the results of assessment of efficiency of functioning of the risk management system of the company.</p> <p>According to the work plan of the Board of Directors of the company for the first half of 2017 (approved. the decision of the Board of Directors, minutes 28.02.2017 No. 248), the review by the Board of Directors report on the functioning of the corporate system of internal control and risk management is scheduled for June 2017.</p>
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5.2	To independently evaluate, on a regular basis, the reliability and efficiency of the risk management and internal control system and corporate governance practices, the company should arrange for internal audits.			
5.2.1	It is recommended that internal audits be carried out by a separate structural division (internal audit department) to be created by the company or through retaining an independent third-party entity. To ensure the independence of the internal audit department, it should have separate lines of functional and administrative reporting. Functionally, the internal audit department should report to the Board of Directors, while from the administrative standpoint, it should report directly to the company's one-person executive body.	1. A separate structural division (internal audit department) that reports directly to the Board of Directors or the audit committee was created in the company; an external independent organization with the same status was retained to conduct the audit.	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
5.2.2	When carrying out an internal audit, it is recommended to evaluate the efficiency of the internal control system and the risk management system, as well as to evaluate corporate governance and apply generally accepted standards of internal auditing.	1. In the reporting period, within the framework of internal audit procedures, the efficiency of the internal control system and the risk management system was evaluated.  2. The company uses generally accepted approaches to internal control and risk management.	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
6.1	The company and its activities should be transparent to its shareholders, investors, and other stakeholders.			
6.1.1	The company should develop and implement an information policy enabling	1. The Board of Directors approved an information policy developed in compliance with the recommendations of the Code.	<input type="checkbox"/> observed	<b>In respect of paragraph 1, the Society gives the following</b>

	<p>the company to efficiently exchange information with its shareholders, investors, and other stakeholders.</p>	<p>2. The Board of Directors (or one of its committees) reviewed the company's compliance with the information policy at least once in the reporting period.</p>	<p><input checked="" type="checkbox"/> partially observed</p> <p><input type="checkbox"/> not observed</p>	<p><b>explanation:</b> The new version of Information policy approved in early 2017. Report on observance of information policy will be presented to the audit Committee as envisaged Policies starting in 2017-2018.</p>
6.1.2	<p>The company should disclose information on its corporate governance system and practices, including detailed information on compliance with the principles and recommendations of this Code.</p>	<p>1. The company discloses information on its corporate governance system and the corporate governance principles applied in the company on its official website.</p> <p>2. The company discloses information regarding the composition of its executive bodies and the Board of Directors, independence of Board members and their membership in Board committees (in compliance with the Code).</p> <p>3. If there is a person who controls the company, that person sets its plans with respect to the company in a special memorandum which is then disclosed.</p>	<p><input type="checkbox"/> observed</p> <p><input checked="" type="checkbox"/> partially observed</p> <p><input type="checkbox"/> not observed</p>	<p><b>In respect of paragraphs 2 and 3, the Society gives the following explanation:</b> The new version of Information policy approved in early 2017 and will be implemented from 2017. The Memorandum of the controlling entity are not made..</p>

6.2	The company should disclose, on a timely basis, full, updated and reliable information about itself so as to enable its shareholders and investors to make informed decisions.			
6.2.1	The company should disclose information in accordance with the principles of regularity, consistency and timeliness, as well as accessibility, reliability, completeness and comparability of disclosed data.	<p>1. The information policy of the company determines the approaches and criteria of identifying information which may substantially affect the standing of the company and the value of its securities and the procedures which ensure that such information is disclosed in a timely fashion.</p> <p>2. If the company's securities are traded on international organized markets, material information is disclosed both in the Russian Federation and on such markets in the same amount and at the same time or within the reporting period.</p> <p>3. If foreign shareholders own a substantial number of shares in the company, the company discloses information not only in Russian, but in one of the most commonly-used foreign languages as well.</p>	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
6.2.2	The company is advised against using a formalistic approach to information disclosure; it should disclose material information on its activities, even if disclosure of such information is not required by law.	<p>1. During the course of the reporting period the company disclosed annual and semiannual financial statements prepared in compliance with IFRS. The annual report of the company for the reporting period contains annual financial IFRS statements and the relevant audit report.</p> <p>2. The company discloses full information about the structure of the capital of the company in compliance with Recommendation 290 of the Code in the annual report and on the website of the Company on the Internet.</p>	<input type="checkbox"/> observed  <input checked="" type="checkbox"/> partially observed  <input type="checkbox"/> not observed	<p><b>In respect of paragraph 2, the Society gives the following explanation:</b> The procedure of information disclosure on the share capital structure are being developed and planned to implementation in 2017-2018.</p>



6.2.3	The company's annual report, as one of the most important tools of its information exchange with its shareholders and other stakeholders, should contain information enabling one to evaluate the company's performance results for the year.	<p>1. The annual report of the company contains information about the key aspects of the company's operational activities and financial results.</p> <p>2. The annual report of the company contains information about the environmental and social aspects of the company's activities.</p>	<input checked="checked" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
6.3 The company should provide information and documents requested by its shareholders in accordance with the principle of equal and unhindered accessibility.				
6.3.1	Exercise by the shareholders of their right to access the company's documents and information should not be unreasonably burdensome.	1. The procedure of information provision to shareholders (including information about the organizational controlled by the company) upon their request is not unreasonably burdensome.	<input type="checkbox"/> observed	<p><b>In respect of paragraph 1, the Society gives the following explanation:</b></p> <p>The company has a significant number of controlled companies. Partially data of the company disclose information about yourself.</p> <p>The company discloses information about the controlled information in the Financial consolidated financial statements under IFRS and the statement on corporate social responsibility and sustainable development, based on the Group (most significant controlled companies)</p>

			<input checked="" type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
6.3.2	When providing information to its shareholders, the company should maintain a reasonable balance between the interests of individual shareholders and its own interests related to the fact that the company is interested in keeping confidential sensitive business information that might have a material impact on its competitiveness.	<p>1. During the reporting period the company did not deny shareholders' requests to provide information or such refusals were justified.</p> <p>2. In cases specified in the information policy of the company shareholders are warned of the confidential nature of the information and undertake to protect its confidentiality.</p>	<input checked="" type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
7.1	Any actions which will or may materially affect the company's share capital structure and its financial position and, accordingly, the position of its shareholders ("material corporate actions") should be taken on fair terms and conditions ensuring that the rights and interests of the shareholders as well as other stakeholders are observed.			
7.1.1	Material corporate actions shall be deemed to include reorganization of the company, acquisition of 30 or more percent of its voting shares (takeover), entering by the company into any material transactions, increasing or decreasing its share capital, listing and delisting of its shares, as well as other actions which might result in material	1. The company's articles of association (charter) include a list of (criteria for identifying) transactions or other actions falling within the category of material corporate actions and provide therein that decisions on any such actions fall within the jurisdiction of the company's Board of directors. In cases when the indicated actions are within the purview of the general shareholders meeting in compliance with the requirements of the law, the Board of Directors issues recommendations to the shareholders.		<b>In respect of paragraphs 1 and 2, the Society gives the following explanation:</b> The company's Charter does not stipulate such category as a "major corporate activities". However, the company's Charter to the competence of the Board

	<p>changes in the rights of its shareholders or violation of their interests. It is recommended to include in the company's articles of association a list of (criteria for identifying) transactions or other actions falling within the category of material corporate actions and provide therein that decisions on any such actions should fall within the jurisdiction of the company's Board of directors.</p>	<p>2. The charter of the company determines the following (as a minimum) as material corporate actions: reorganization of the company, acquisition of 30% and more of voting shares (takeover), major transactions, increase or reduction of the charter capital of the company as well as the listing or delisting of the company's shares.</p>	<p>of Directors related to the following issues:</p> <ul style="list-style-type: none"> <li>- adoption of decisions on participation and termination of participation in other organizations (except organizations specified in clause 23 clause 10.2 of article 10 hereof);</li> <li>- preliminary approval of decisions on Commission by the Society: <ul style="list-style-type: none"> <li>a) transactions involving non-current assets in the amount exceeding 10 (Ten) percent of the book value of these assets at the date of adoption of the decision on the execution of such transaction;</li> <li>b) transactions (several interrelated transactions) connected with alienation or possibility of alienation of property constituting fixed assets, intangible assets, construction in progress in cases (amounts) and in the manner determined by separate decisions of the Board of Directors of the company;</li> <li>c) transactions with shares and stakes of organizations which the company participates, in the cases (sizes) and the manner determined by the Board of Directors, or in all other cases when the procedure for the adoption of such decisions by the Board of Directors is not defined.</li> </ul> </li> <li>- adoption of decisions on making deals related to</li> </ul>
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				<p>gratuitous transfer of the company's property or property rights (claims) to itself or to a third person; transactions connected with release from property obligation before itself or before a third person; transactions connected with gratuitous services provided by the company (performance of works) to third parties in cases (sizes) defined by separate decisions of the Board of Directors;</p> <ul style="list-style-type: none"><li>- approval of major transactions in cases stipulated by the Federal law "On joint-stock companies";</li><li>- approval of transactions stipulated by the Federal law "On joint-stock companies";</li><li>- recommendations of the company's voluntary or mandatory offer of acquisition of shares and other emission securities convertible into shares of the company;</li><li>- defining the position of the company (representatives of the company), including instructions to take or not to take part in the voting on agenda issues, to vote on draft decisions "for", "against" or "abstained" on the following issues of agendas of management bodies of affiliated economic companies, unless otherwise determined by separate decisions of the Board of Directors of the company:<ul style="list-style-type: none"><li>a) on reorganization, liquidation of subsidiary companies;</li><li>b) on determination of quantity,</li></ul></li></ul>
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				<p>nominal value, category (type) of declared shares of subsidiaries and rights granted by these shares;</p> <p>c) the increase of the share capital of a subsidiary of the company by increasing the nominal value of shares or by placing additional shares;</p> <p>g) on placement of securities of subsidiaries convertible into ordinary shares;</p> <p>d) on splitting and consolidation of shares of subsidiaries;</p> <p>f) the acquisition subsidiary of shares in the Charter capital) of other business companies, including in the establishment of societies, in the case that the price of such transaction is 15 or more percent of the book value of the assets of the subsidiary companies, defined according to its accounting (financial) statements for the last reporting date;</p> <p>g) on approval of major transactions made by the subsidiary company;</p> <p>s) on the execution by the subsidiary company of transactions (including several interrelated transactions) connected with alienation or possibility of alienation of property of the subsidiary company, constituting fixed assets, intangible assets, objects of incomplete construction, the purpose of which is production, transmission, dispatching, distribution of electric and heat</p>
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			<input data-bbox="1476 1358 1552 1417" type="checkbox"/>	<p>energy in cases (sizes) defined by separate decisions of the Board of Directors of the company;</p> <p>i) the Commission of an associated company of the transactions on alienation, transfer to pledge or other encumbrance (by making one or more related transactions) of stock and a share of societies a child of a subsidiary engaged in the production, transmission, dispatching, distribution and sale of electric and thermal energy;</p> <ul style="list-style-type: none"> <li>- increase of the share capital of the company by placing additional shares within the quantity of declared shares given the limitations set by the Federal law "On joint stock companies" and this Charter;</li> <li>- deciding about the appeal with a statement about listing shares of the company and (or) equity securities convertible into shares, in cases stipulated by the Federal law "On joint stock companies" and other legal acts of the Russian Federation.</li> </ul> <p>In cases where the implementation of these corporate actions directly attributed by the legislation to competence of the General meeting of shareholders, the Board of Directors provides shareholders with the relevant recommendations.</p>
			observed	

			<input checked="" type="checkbox"/> partially observed  <input type="checkbox"/> not observed	
7.1.2	The Board of Directors should play a key role in passing resolutions or making recommendations relating to material corporate actions; for that purpose, it should rely on the opinions of the company's independent directors	1. The company has a procedure in place whereby independent directors state their position/opinion on material corporate actions prior to their approval.	<input type="checkbox"/> observed  <input type="checkbox"/> partially observed  <input checked="" type="checkbox"/> not observed	<b>In respect of paragraph 1, the Society gives the following explanation:</b> Procedure statements are developed independent Directors.
7.1.3	When taking any material corporate actions which would affect the rights or legitimate interests of the company's shareholders, equal terms and conditions should be ensured for all of the shareholders; if statutory mechanisms designed to protect	1. The company's articles of association (charter) establish lower criteria than those specified under the law for the categorization of the company's transactions as material corporate actions.  2. During the reporting period all material corporate actions were subject to approval prior to their execution.		<b>In respect of paragraph 2, the Society gives the following explanation:</b> Internal documents of the company such responsibility is

	<p>the shareholder rights prove to be insufficient for that purpose, additional measures should be taken with a view to protecting the rights and legitimate interests of the company's shareholders. In such instances, the company should not only seek to comply with the formal requirements of law but should also be guided by the principles of corporate governance set out in this <a href="#">Code</a>.</p>		<p><input type="checkbox"/> observed</p> <p><input checked="" type="checkbox"/> partially observed</p> <p><input type="checkbox"/> not observed</p>	<p>not provided. In all cases the Society is guided by the relevant provisions of the Federal law "On joint-stock companies".</p>
7.2	<p>The company should have in place such a procedure for taking any material corporate actions that would enable its shareholders to receive full information about such actions in due course and thus be in a position to influence them, and which would also guarantee that the shareholders' rights are observed and duly protected in the event of taking such actions.</p>			
7.2.1	<p>The company should have in place such a procedure for taking any material corporate actions that would enable its shareholders to receive full information about such actions in due course and thus be in a position to influence them, and which would also guarantee that the shareholders' rights are observed and duly protected in the event of taking such actions.</p>	<p>1. The company should have in place such a procedure for taking any material corporate actions that would enable its shareholders to receive full information about such actions in due course and thus be in a position to influence them, and which would also guarantee that the shareholders' rights are observed and duly protected in the event of taking such actions.</p>	<p><input type="checkbox"/> observed</p> <p><input checked="" type="checkbox"/> partially observed</p>	<p><b>In respect of paragraph 1, the Society gives the following explanation:</b> Procedures for reporting on significant corporate actions are developed and planned for implementation 2017-2018 year.</p>



			<input type="checkbox"/> not observed	
7.2.2	<p>Rules and procedures in relation to material corporate actions taken by the company should be set out in its internal documents.</p>	<p>1. The company's internal documents specify a procedure for the retention of the services of an independent appraiser to determine the value of the property being transferred or acquired under a major transaction or an interested-party transaction.</p> <p>2. The company's internal documents specify a procedure for the retention of the services of an independent appraiser to determine the purchase or buyback value of the shares of the company.</p> <p>3. Internal documents of the company provide an extended list of grounds on which members of the Board of Directors and other stipulated by the legislation the parties are considered interested in the transactions of the society.</p>	<input type="checkbox"/> observed  <input checked="" type="checkbox"/> partially observed   <input type="checkbox"/> not observed	<p><b>In respect of paragraph 1, the Society gives the following explanation:</b> In respect of transactions in which there is an interest, amendments to the legislation 01.01.2017, completely revising approaches to the approval of transactions in which the interest exists. Thus, it is required the revision of internal documents for new legislation. The company plans to evaluate the implementation of this rule in 2017.</p>

These Data on compliance with Russian Code of corporate governance prepared using Central Bank of the Russian Federation from 17.08.2016, the number IN-06-52/8.

Description of the most significant aspects of the model and practices of corporate governance in Societies given in the Annual report in Chapter 4 (Corporate governance), Section 2.6 (a Company in the market of securities) and Section 2.2 (risk Management).

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<1> The Status of "observed" indicates only if the company meets all the criteria for the assessment of compliance with the principle of corporate governance. Otherwise, specify a status of "partially observed" or "not observed".

<2> Are provided for each criterion in the assessment of compliance with the principle of corporate management in the case, if the company matches only part of the criteria or does not meet either the criterion of observance of the principle. If the society has indicated the status "observed", the Ghost explanation is not required.

<3> Specify which of the two alternative approaches allowed by the principle, embedded in the society and explain the reasons for the chosen approach.

<4> If the tasks of the nominating Committee are implemented within the framework of a Committee, specify its name.

<5> Specify a list of additional committees.

## 2. Information on major transactions and interested party transactions in 2016 with an indication of the Parties concerned, date and Protocol number of the management body meeting approving the transaction, and description of the transaction (including its subject, Agreement price and term), of the Interested Party(ies), and of the Person(s), treated as a non-independent Director

1. The company did not perform major transactions in 2016.

2. Information about performance of Companies in 2016 transactions in which there was interest:

№	List of transactions with an indication of the Parties concerned	Number and date of the Protocol of the management body approving the transaction	Description of the transaction (subject, price, and term of the Agreement)	Interested Party(ies) and Person(s) treated as a non-independent Director (as of the transaction approval date)
1.	The agreement between PJSC RusHydro and SO UPS JSC.	Approved by the Board of Directors (Protocol № 232 dated 25.02.2016)	<p>The Agreement of rendering of services in regulation of jet capacity without manufacture of electric energy, concluded on the following essential conditions:</p> <p>Parties to the Agreement:            The Provider: PJSC RusHydro;            The Customer: SO UPS JSC.</p> <p>The subject of the Agreement:            The Provider shall provide the Customer with the service on regulation of reactive power with the use of generating equipment of the Volzhskaya hydro power plant, Zagorskaya pumped storage plant, hydroelectric Hasminskii, Gizeldonskaya of hydro power plant, Zelenchukskaya hydropower plant operating in synchronous compensator mode (hereinafter services SCM), which during the period of service is not produced electrical energy, in the manner and on the terms stipulated in the Agreement and regulatory legal acts of the Russian Federation, and the Customer agrees to pay for services rendered at SCM in size, order and terms stipulated by the terms of the Agreement.</p> <p>Period of services:            Beginning of performance by the Provider obligations under the Agreement related to the provision of services under SCM – 00:00 01.01.2016.            The completion of performance by the Provider obligations under the Agreement related to the provision of services under SCM – 24:00 31.12.2016.            The period of provision of services under SCM – the period of time during which generating equipment PJSC RusHydro must operate in synchronous compensator mode in accordance with control commands SO UPS JSC.</p> <p>Cost of Services: the price (monetary estimate) of services per calendar month under the Agreement of rendering of services on regulation of reactive capacity without electricity production using generating equipment of power plants (Volzhskaya hydro power plant, Zagorskaya pumped storage plant, hydroelectric Hasminskii, Gizeldonskaya of hydro power plant, Zelenchukskaya hydro) (hereinafter – Agreement), being a transaction in the interest is determined by the formula:</p>	<p>The interest of the Russian Federation, a shareholder owning over 20 % of the shares SO UPS PJSC RusHydro and PJSC, and members of the Board of Directors of PJSC RusHydro M. S. Bystrov and V.M. Kravchenko who are both members of the Board of Directors of SO UPS JSC.</p> <p>Dod E. V., recognized at the time of the transaction the dependent Director.</p>

			<p><math>S_{act} = E_{scm} \times (1 + OR) + S_{actual\ capacity}</math>, (the cost of actually rendered per calendar month of services under the Agreement is determined for each of the generating equipment (hydrogenerator)).</p> <p><math>E_{scm}</math>, rub – operating costs caused by participation of generating equipment (hydrogenerator) in the provision of services on regulation of reactive capacity without electricity production using generating equipment operating in synchronous compensator mode (hereinafter – services SCM), determined in accordance with the Order of determination of cost of services rendered at SCM, annexed to the Agreement;</p> <p><math>S_{actual\ capacity}</math>, rub. – the cost of capacity purchased PJSC RusHydro on the wholesale market of electricity and capacity for participation in the provision of services under SCM, determined in accordance with the Order of determination of cost of services rendered at SCM, annexed to the Agreement;</p> <p>OR – operating ratio of products (services) shall be equal to the refinancing rate of the Central Bank of the Russian Federation at the time of conclusion of the Agreement, expressed as a decimal.</p> <p>In addition, pay the value added tax calculated in accordance with the current legislation.</p> <p>The marginal cost (the monetary estimate) of services under the Agreement is 200 000 000 (two hundred million) rubles, including VAT, does not exceed 2 (Two) % of balance cost of assets of PJSC RusHydro as of the last reporting date.</p> <p>The term of the Agreement:</p> <p>The Agreement shall enter into force upon its signing and is valid until the Parties fulfill their obligations under it. The conditions of the Agreement apply to the Parties effective from 01.01.2016.</p>	
2.	Additional agreement to the surety agreement between PJSC RusHydro and Sberbank PJSC.	Approved by the Board of Directors (Protocol № 232 dated 25.02.2016)	<p>Additional agreement No. 1 to the guarantee Agreement signed on the following essential terms:</p> <p>The Parties:</p> <p>The Bank – Sberbank PJSC (The Lender);</p> <p>The Guarantor – PJSC RusHydro;</p> <p>The Beneficiary – PJSC «RAO ES of East» (The Lender).</p> <p>Subject of the Additional agreement:</p> <p>Changing the terms of the Agreement, previously approved by the Board of Directors of PJSC RusHydro (minutes dated 11.12.2015 No. 228) in the part providing for the terms and conditions under which the Lender will pay interest on the loan at a floating interest rate, the amount of which is determined on the basis of the MosPrime 3M plus 3 % per annum.</p> <p>The price of the Loan agreement 1 concluded 30.09.2015 No. 900150013 emerging from the credit Limit in the amount of 5 602 331 000 (Five billion six hundred two million three hundred thirty-one thousand) rubles 00 kopecks and accrued over the life of the Loan agreement 1 (12) interest rate of not more than 13.1 per cent per annum, and also:</p> <p>a) the fee for the use of the credit line limit: no more than 0.83 % per annum, charged on undrawn loan amount;</p> <p>b) Commission for early repayment in the amount not exceeding 3 percent per annum of the repaid amount of the loan;</p> <p>c) one-time charges paid at the conclusion of Credit Agreement 1: not more than 0.5 percent of the credit limit;</p> <p>d) the amount of the liability of Borrower for breach of Loan Agreement 1.</p> <p>The Bank is entitled to unilaterally at its own discretion to produce an increase in the interest rate on the Loan agreement 1, including, but not exclusively, in connection with the adoption by the Bank of Russia of decisions on increase in the key rate and/or the refinancing rate (discount rate).</p>	<p>The interest of the Chairman of the Board - General Director of PJSC RusHydro Shulginov N. G., which is also a member of the Board of Directors of PJSC «RAO ES of East» - the beneficiary of the transaction.</p> <p>Dod E. V., recognized at the time of the transaction the dependent Director.</p>

			<p>Price Credit agreement 2 concluded 30.09.2015 No. 900150012, subject to Additional agreement No. 1 to the Loan agreement 2, the folding of the credit Limit in the amount of 5 602 331 000 (Five billion six hundred two million three hundred thirty-one thousand) rubles 00 kopecks and accrued over the life of the Credit agreement 2 (12) interest rate not exceeding the interest rate established on the date of the Loan agreement, 2 the Central Bank of the Russian Federation when granting the authorized banks to credit funds to refinance loans issued by banks to end-borrowers in accordance with the Program of support of investment projects implemented on the territory of the Russian Federation on the basis of project financing (hereinafter – the Program), plus 2.5 percent per annum, and also:</p> <p>a) the fee for the use of the credit line limit: no more than 0.83% per annum, charged on undrawn loan amount;</p> <p>b) Commission for early repayment in the amount not exceeding 3 % per annum of the repaid amount of the loan;</p> <p>c) the amount of the liability of Borrower for breach of Loan agreement 2.</p> <p>The Bank is entitled to unilaterally at its sole discretion to make the increase/decrease in the interest rate only if the increase/decrease by the Bank of Russia of Interest rates on specialized refinancing instrument and by the amount of its increase/decrease, with notice to the Borrower without execution of this change, an additional agreement to the Agreement.</p> <p>In the event of termination of the refinancing of the loan by the Bank of Russia on the Program under the Credit agreement 2 and the termination of the Agreement on granting state guarantees of the Russian Federation (the termination of the state guarantee of the Russian Federation) on any of the grounds stipulated by the current legislation of the Russian Federation and the state guarantee of the Russian Federation, the Borrower will pay interest on the loan for the period from the date of termination of the refinancing of the loan by the Bank of Russia on the Program until the date of full repayment of the loan at the rate of MosPrime 3M on the date of quotation (date, preceding the date of termination of the refinancing of the loan by the Bank of Russia on the Program for 1 (one) business day (inclusive)) plus 3 % per annum.</p> <p>In case of failure on the part of the Bank of Russia to provide the Bank credit facilities in order to refinance the loan, issued in accordance with the Program, and termination of the Agreement on granting state guarantees of the Russian Federation (the termination of the state guarantee of the Russian Federation) on any of the grounds stipulated by the current legislation of the Russian Federation and the state guarantee of the Russian Federation, as well as the termination by the Bank of Russia's refinancing of credit, issued in accordance with the Program and termination of the Agreement on granting state guarantees of the Russian Federation (the termination of the state guarantee of the Russian Federation) on any of the grounds stipulated by the current legislation of the Russian Federation and the state guarantee of the Russian Federation, the Bank is entitled to unilaterally make changes to the size, procedure and terms of determination of interest rate under the Credit agreement 2, entailing an increase/ decrease in interest rates, including but not exclusively a replacement for, MosPrime 3M MosPrime rate defined for other periods (due to the changing situation on the domestic and foreign financial markets compared with the situation prevailing at the date of the Loan agreement 2 (including in connection with an increase in the volatility of the one-day MosPrime 3M more than 10 percent within 30 calendar days).</p> <p>Sample of loan funds on the Loan agreement 1 is carried out until all of the conditions of issuance of credit funds under the Credit agreement 2 and, accordingly, prior to the issuance of credit funds under the Credit agreement 2. Disbursement of the loan funds under the Credit agreement 2 is in the amount of 5 602 331</p>	
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			<p>000 (Five billion six hundred two million three hundred thirty-one thousand), reduced by the amount of credit issued under the Credit agreement 1.</p> <p>Total (cumulative amounts) of the obligations provided by guarantor under this decision, does not exceed 17 000 000 000 (Seventeen billion) rubles.</p> <p>Term of the Supplementary agreement: Supplementary agreement shall enter into force upon its signing. The guarantee is granted for a term until 29 September, 2030, inclusive.</p>	
3.	The agreement of immovable property between PJSC RusHydro and PJSC FGC UES.	Approved by the Board of Directors (Protocol № 233 dated 30.03.2016)	<p>A lease of immovable property concluded on the following essential conditions:</p> <p>Parties to the Agreement: The Landlord – PJSC RusHydro; The Tenant – PJSC FGC UES.</p> <p>The subject of the Agreement: Under the Agreement the Lessor shall transfer and the Lessee for the placing and maintenance of supports of overhead power lines with a voltage of 220 kV and 500 kV accepts the temporary use of part of the waterworks belonging to the Lessor by right of ownership (hereinafter – Structures), and the Lessee shall accept the Buildings and pay for their temporary use. The list and the size of the leased Facilities and the lease specified in Annex 7 to the Agreement. The rent under the Agreement: Monthly rent is 032 159 (one Hundred and fifty-nine thousand thirty two) rubles 70 kopecks, including 18 % VAT - 259 24 (Twenty-four thousand two hundred fifty nine) rubles 23 kopecks. The rent for the entire lease term is 1 749 359 (One million seven hundred forty-nine thousand three hundred fifty-nine) rubles 70 kopecks, including 18% VAT - 851 266 (two Hundred sixty-six thousand eight hundred and fifty-one) rubles 48 kopecks. The term of the Agreement: The agreement shall enter into force upon its signing and is valid till 29 Feb 2016. The parties agreed that the terms of the Agreement apply to relations arising from 01 April 2015.</p>	<p>The interest of the members of the Board of Directors of PJSC RusHydro M. S. Bystrov and V. M. Kravchenko, Chairman of the management Board - General Director of PJSC RusHydro Shulginov N. G., which are simultaneously members of the Board of Directors of PJSC FGC UES.</p> <p>Dod E. V., recognized at the time of the transaction the dependent Director.</p>
4.	The agreement between PJSC RusHydro and Development Fund of the Moscow power engineering Institute	Approved by the Board of Directors (Protocol № 239 dated 23.06.2016)	<p>A donation agreement is concluded on the following essential conditions:</p> <p>Parties to the Agreement: The Contributor – PJSC RusHydro; The Donee – Development Fund of the Moscow power engineering Institute;</p> <p>The subject of the Agreement: The donation of the Donor by the Donee in the amount of 6 500 000 (Six million five hundred thousand) rubles for financing of authorized activities to assist development of the Federal state budgetary educational institution of higher education «National research University «MPEI», including on payment of works and services associated with the improvement of laboratory facilities and implementation of the program of development of the Department «Hydropower and renewable energy» of the Federal state budgetary educational institution of higher education «National research University «MPEI».</p> <p>The price of the Agreement: 6 500 000 (Six million five hundred thousand) rubles.</p>	<p>Interest member of the Board of Directors of PJSC RusHydro V. M. Kravchenko and Chairman of the Board – General Director of PJSC RusHydro Shulginov N. G., which are simultaneously members of the Board of Trustees of the Federal state budgetary educational institution of higher education «National research University «MPEI» - the beneficiary of the transaction.</p>

				Dod E. V., recognized at the time of the transaction the dependent Director.
5.	The agreement between PJSC RusHydro and the Federal state budgetary educational institution of higher education «National research University «MPEI».	Approved by the Board of Directors (Protocol № 239 dated 23.06.2016)	A donation agreement is concluded on the following essential conditions: Parties to the Agreement: The Contributor – PJSC RusHydro; The Donee – The Federal state budgetary educational institution of higher education «National research University «MPEI»; The subject of the Agreement: The donation of the Donor by the Donee in the amount of 4 000 000 (Four million) rubles for financing of authorized activities of the Organization, as well as the acquisition of equipment for disciplines profile "Hydroelectric power", including the laboratory complex «Hydropower system turbine-generator», hydraulic tray (for students of the Federal state budgetary educational institution of higher education "National research University «MPEI» in Volzhsky). The price of the Agreement: 4 000 000 (four million) rubles.	Interest member of the Board of Directors of PJSC RusHydro Kravchenko V. M. and Chairman of the Board – General Director of PJSC RusHydro Shulginov N. G., which are simultaneously members of the Board of Trustees of the Federal state budgetary educational institution of higher professional education «National research University «MPEI» - the beneficiary of the transaction.  Dod E. V., recognized at the time of the transaction the dependent Director.
6.	The agreement between PJSC RusHydro and the Endowment Fund of the Federal state Autonomous educational institution of higher professional education «Far Eastern Federal University».	Approved by the Board of Directors (Protocol № 239 dated 23.06.2016)	The donation agreement between PJSC RusHydro and the Endowment Fund of the Federal state Autonomous educational institution of higher professional education «Far Eastern Federal University» concluded on the following essential conditions: Parties to the Agreement: The Contributor – The Society; The Donee – The Federal state Autonomous educational institution of higher professional education «Far Eastern Federal University». The subject of the Agreement: The donation of the Donor by the Donee in the amount of 30 000 000 (Thirty million) rubles for financing of authorized activities of The Federal state Autonomous educational institution of higher professional education "Far Eastern Federal University". The donation is transferred to the endowment «Support and development of the far Eastern Federal University» in accordance with the Federal law from 30.12.2006 № 275-FZ «On procedure of formation and utilization of target capital of nonprofit organizations». The price of the Agreement: 30 000 000 (Thirty million) rubles.	The interest of the Chairman of the Board of Directors of PJSC RusHydro Yu. P. Trutnev, who is also a member of the Supervisory Board of The Federal state Autonomous educational institution of higher professional education «Far Eastern Federal University" is the beneficiary of the transaction.  Dod E. V., recognized at the time of the transaction the dependent Director.

7.	The agreement between PJSC RusHydro and the Federal state budgetary educational institution of higher education "National research University «MPEI».	Approved by the Board of Directors (Protocol № 240 dated 11.08.2016)	<p>The Agreement on the target reception concluded on the following essential conditions:</p> <p>Parties to the Agreement:  The Customer: PJSC RusHydro;  The Provider: The Federal state budgetary educational institution of higher education «National research University «MPEI».</p> <p>The subject of the Agreement:  The Provider undertakes to organize in 2016 a target enrollment of nine (9) citizens who have concluded the Agreement on target training with the Customer, and the Customer agrees to organize the practice of citizens who have concluded the Agreement on target training, in accordance with the curriculum of the Provider.</p> <p>The reception is organized in the framework of the quota target enrolment for higher education allocated from the amount established for the next year targets acceptance of citizens for training at the expense of budgetary appropriations of the Federal budget, budgets of constituent entities of the Russian Federation or local budgets.</p> <p>Term of rendering services under the Agreement:  From the date of signing of the Agreement by the Parties on 31.08.2018.  The price of The Agreement is Not determined on the merits of the transaction.</p>	<p>Interest member of the Board of Directors of PJSC RusHydro Rogaleva N. D., at the same time being rector of The Federal state budgetary educational institution of higher education «National research University «MPEI», member of the Board of Directors of PJSC RusHydro Kravchenko V. M., and a member of the Board of Directors, the Chairman of the Board – General Director of PJSC RusHydro Shulginov N. G., which are simultaneously members of the Board of Trustees of The Federal state budgetary educational institution of higher education «National research University «MPEI».</p> <p>Shulginov N. G., recognized at the time of the transaction the dependent Director.</p>
8.	Additional agreement of 18.07.2016 No. 3 to the Agreement dated 08.07.2014 No. UC-SCC-049/14 on the provision of services to ensure the User experience in the System	Approved by the Board of Directors (Protocol № 240 dated 11.08.2016)	<p>Additional agreement of 18.07.2016 No. 3 to the Agreement dated 08.07.2014 No. UC-SCC-049/14 on the provision of services to ensure the User experience in the System transmit and receive tax and accounting reporting in electronic form signed on the following essential terms:</p> <p>Parties to the Agreement:  The Provider: JSC «GNIVC».  The Customer – PJSC RusHydro.</p> <p>Subject of the Additional agreement:  The change of essential conditions of the Agreement on rendering of services to ensure the User experience in the System transmit and receive tax and accounting reporting in electronic form, in particular:  The extension of the term of the Agreement 12 (Twelve) months from the date of issue of the certificate of</p>	<p>The interest of the Russian Federation represented by the Federal property management Agency, shareholder and JSC «GNIVC» owning more than 20 % of the shares of the parties in the transactions.</p> <p>Shulginov N. G.,</p>



	transmit and receive tax and accounting reporting in electronic form between JSC «GNIVC» and PJSC RusHydro.		verification key of electronic signature instead of the certificate key of electronic signature verification, the validity of which ended on 10 July 2016 Establishing the cost of service for new term of the Agreement in the amount of 500 134 (one hundred thirty-four thousand five hundred) rubles 00 kopecks, including VAT (18 %) - 20 516 (twenty thousand five hundred sixteen) rubles 95 kopecks. Service cost for one block is 33 625 (thirty-three thousand six hundred twenty five) rubles 00 kopecks, including VAT (18 %) - 5 129 (five thousand one hundred twenty nine) rubles 24 kopecks. Validity period of Supplementary agreement: The supplementary agreement comes into force from the date of its signing and is valid until the Parties fulfill obligations under the Agreement.	recognized at the time of the transaction the dependent Director.
9.	The Agreement of compensated rendering of services between PJSC RusHydro and the All-Russian Association of employers «Russian Union of Industrialists and Entrepreneurs».	Approved by the Board of Directors (Protocol № 240 dated 11.08.2016)	The Agreement of compensated rendering of services is concluded on the following essential conditions: Parties to the Agreement: The Customer: PJSC RusHydro; The Provider: The All-Russian Association of employers «Russian Union of Industrialists and Entrepreneurs». (AAE «RUIE»); The subject of the Agreement: The Provider shall provide the Customer with the services on organization and holding of public assurance the non-financial report on sustainable development of the RusHydro Group for 2015, and the Customer undertakes to pay these services. The term of rendering services: From the date of Agreement signing till 31.12.2016. The price of the Agreement: 230 000 (two hundred thirty thousand) rubles 00 kopecks, including VAT (18 %) - 084 35 (thirty-five thousand eighty-four) rubles 74 kopecks.	Interest member of the Board of Directors, the Chairman of the Board – General Director of PJSC RusHydro Shulginov N. G., who is also a Board member of AAE «RUIE».  Shulginov N. G., recognized at the time of the transaction the dependent Director.
10.	The service Agreement for the production of qualified certificates of keys of electronic signature verification on the key media Rutoken Lite	Approved by the Board of Directors (Protocol № 240 dated 11.08.2016)	The service Agreement for the production of qualified certificates of keys of electronic signature verification on the key media Rutoken Lite is concluded on the following essential conditions: Parties to the Agreement: The Provider: JSC «GNIVC». The Customer: PJSC RusHydro. The subject of the Agreement: The Provider shall on the request of the Customer at the key bearers Rutoken Lite to produce qualified certificates of keys of electronic signature verification (hereinafter – UPC) in the amount of 20 (twenty) pieces with the introduction of the UPC in the UPC register, and providing the Customer with access to the certificate revocation list (published on the website in the Internet), and the Customer undertakes to accept and pay the performed works on manufacturing of the UPC. Term of rendering of services/execution of works: The Provider after receipt on account of advance payment based on the request of the Customer, in the presence of the Customer makes the UPC certification center of the Provider and at the same time makes the UPC in the UPC register, not later than 15 days from the date of conclusion of the Agreement. The term of the Agreement: The agreement shall enter into force on the date of its signing, extends to the relations of the parties arising from 25 July 2016 and is valid until the Parties fulfill obligations under the Agreement.	The interest of the Russian Federation represented by the Federal property management Agency, shareholder and JSC «GNIVC» owning more than 20% of the shares of the parties in the transactions.  Shulginov N. G., recognized at the time of the transaction the dependent Director.

11.	A guarantee agreement between PJSC RusHydro and the Bank «Russian regional development Bank» JSC	Approved by the Board of Directors (Protocol № 242 dated 10.10.2016)	<p>The guarantee agreement concluded on following essential terms:</p> <p>Parties to the Agreement:  The Lender – The Bank «Russian regional development Bank» JSC;  The Guarantor – PJSC RusHydro;  The Beneficiary – PJSC «Magadanenergo».</p> <p>The subject of the Agreement: PJSC RusHydro surety for performance of the obligations of the Beneficiary to the Lender according to the Agreement about opening of credit line.</p> <p>The obligation secured by surety: the Agreement about opening credit line from 11.07.2016 No. 1010-K-16 between JSC «Magadanenergo» (Borrower) and The Bank «Russian regional development Bank» JSC.</p> <p>The maximum amount of the loan (Credit line limit): 500 000 000 (five hundred million) rubles 00 kopecks;  Period full repayment of the loan: 21.01.2018;  Interest on the loan: of 10.64 % per annum.</p> <p>The interest rate may be increased by the Bank unilaterally, including, but not exclusively, in connection with the adoption by the Bank of Russia of decisions on increase in the key rate and/or the refinancing rate (discount rate)The price of the Agreement:  The maximum amount of credit (Credit line limit): 500 000 000 (five Hundred million) rubles 00 kopecks;  The maximum amount of interest for using credit funds for the entire term of the Credit line at a rate of 10.64 % per annum.</p> <p>Interest rate for using credit funds may be increased by the Bank unilaterally, including, but not exclusively, in connection with the adoption by the Bank of Russia of decisions on increase in the key rate and/or the refinancing rate (discount rate);</p> <p>The penalty interest rate specified in section 1.2 of the solution was increased 1.5 times in percent per annum, accrued on the amount of overdue payment in repayment of the loan or pay interest for each day of delay during the period from the date of occurrence of the overdue debt (not including this date) until the date of full repayment of outstanding debt (inclusive);</p> <p>A penalty of 0.025 % of Credit line limit specified in clause 1.1 of the decision, for each fact of non-performance by Borrower of its obligations to maintain credit turnover on the accounts, open a Bank account, established for the next calendar quarter size.</p> <p>The price of the property which may be alienated under a Agreement of suretyship is less than 2% of the book value of the company's assets determined according to accounting statements on the last reporting date (30.06.2016).</p> <p>The term of the Agreement:  The agreement shall enter into force from the date of its signing by the Parties. Agreement and the obligation of the Surety (guarantee) valid from the date of signing the Agreement on 21.01.2021 inclusive.</p>	<p>Interest member of the Board of Directors Shishin S. V., which is also a member of the Supervisory Board of The Bank «Russian regional development Bank» JSC.</p> <p>Shulginov N. G., recognized at the time of the transaction the dependent Director.</p>
12.	A guarantee agreement between PJSC RusHydro and «Gazprombank» JSC.	Approved by the Board of Directors (Protocol № 242 dated 10.10.2016)	<p>The guarantee agreement concluded on following essential terms:</p> <p>Parties to the Agreement:  The Lender – «Gazprombank» JSC;  The Guarantor – PJSC RusHydro;  The Beneficiary – PJSC «RAO ES of East».</p> <p>The subject of the Agreement:  The guarantor undertakes with the Beneficiary jointly and severally liable to the Lender for the performance by Beneficiary of its obligations to the Lender arising from Loan agreements to open credit</p>	<p>Interest due to the fact that a member of the Board of Directors, the Chairman of the Board – General Director of PJSC RusHydro Shulginov N. G. at the same time is a member of the Board of</p>

			<p>lines.</p> <p>The obligation provided by the guarantee:  The credit agreement on opening of a credit line from 08.07.2016 No. 4016-016-KL between PJSC «RAO ES of East» and «Gazprombank» JSC:  The maximum amount of the loan (Credit line limit) - 1 629 878 500 (One billion six hundred twenty nine million eight hundred seventy-eight thousand five hundred rubles 45 kopecks);  The repayment period is 84 (Eighty four) months from the date of conclusion of the Credit agreement on opening credit line;  Interest on the loan – of 11.09 % per annum;  Commission for early repayment of the loan at 0.25 % per annum of the early repaid loan amount (or part thereof) within the first 30 (thirty) months from the date of conclusion of the Credit agreement on opening a credit line.  The price of the Agreement:  The maximum amount of credit (Credit line limit)– 1 629 878 500 (One billion six hundred twenty nine million eight hundred seventy-eight thousand five hundred) rubles 45 kopecks;  The amount of interest for using credit funds for the entire term of the Credit line at the rate of 11.09 % per annum;  The interest rate for using credit funds may be changed by the Bank unilaterally, including in connection with a change in the Bank of Russia refinancing rate and/or a change in the key rate of the Bank of Russia. A penalty of 0.05%, accrued on the amount of overdue debts on the basic debt and percent for each day of delay;  Commission for early repayment of the loan at 0.25 % per annum of the early repaid loan amount (or part thereof) within the first 30 (thirty) months from the date of conclusion of the Credit agreement on opening a credit line.  The term of repayment of credit funds, is 84 (eighty four) months from the date of conclusion of the Credit agreement on opening a credit line.  Price (monetary valuation) of property which may be alienated under a Agreement of suretyship is less than 2 % of the book value of the company's assets determined according to accounting statements on the last reporting date (30.06.2016).  The term of the Agreement:  The agreement shall enter into force from the date of its signing and is valid until 07.07.2026.</p>	<p>Directors of PJSC «RAO ES of East» - the beneficiary of the transaction.</p> <p>Shulginov N. G., recognized at the time of the transaction the dependent Director.</p>
13.	The agreement between RusHydro and Federal budgetary educational institution of higher education «National research Moscow state University of civil engineering» (NRU MSUCE).	Approved by the Board of Directors (Protocol № 242 dated 10.10.2016)	<p>The Agreement is concluded on the following essential conditions:  Parties to the Agreement:  The Provider: NRU MSUCE;  The Customer: PJSC RusHydro.  The subject of the Agreement:  The Provider undertakes on the instructions of the Customer at its own risk, using their materials and tools to provide services: "Participation in the work of the Commission for technical audit of JSC «Vilyuiskaya HPP-3» in assessing the technical condition of the main hydraulic structures" (hereinafter – the «Services»), and the Customer undertakes to create to the Provider specified in the Agreement conditions for the provision of Services, to accept and pay in accordance with the terms of the Agreement.  The price of The Agreement: is 604 280 (two Hundred eighty thousand six hundred four) rubles 00 kopecks, including VAT (18 %) – 804 42 (Forty-two thousand eight hundred and four) rubles 00 kopecks.</p>	<p>Interest due to the fact that a member of the Board of Directors, the Chairman of the Board – General Director of PJSC RusHydro Shulginov N. G. at the same time is a member of the Board of Trustees NRU MSUCE.</p> <p>Shulginov N. G., recognized at the time of</p>

			<p>Terms of services:  Beginning from the day following the day of conclusion of the Agreement;  The end – 30.07.2016. The term of the Agreement:  The agreement shall enter into force on the date of its approval by the Board of Directors of PJSC RusHydro. The agreement is valid until full execution by the Parties of their obligations. The terms of the Agreement apply to relations of the Parties arising from 20.06.2016.</p>	the transaction the dependent Director.
14.	<p>Additional agreement No. 2 dated 19.09.2016 (hereinafter – Supplementary agreement) to the Agreement of 18.12.2012 № 01-08/827 on the provision of budget investments between PJSC RusHydro and Federal Agency for state property management and the Ministry of energy of the Russian Federation.</p>	<p>Approved by the Board of Directors (Protocol № 242 dated 10.10.2016)</p>	<p>Additional agreement No. 2 dated 19.09.2016 to the Agreement of 18.12.2012 № 01-08/827 on the provision of budget investments concluded on the following essential conditions:  The parties of the additional agreement:  PJSC RusHydro and The Federal Agency for state property management and the Ministry of energy of the Russian Federation.  Subject of the Additional agreement:  The performance by the company of requirements 359-FZ «On Federal budget for 2016» and the order of the RF Ministry of energy 27.06.2016 № 598 «About using in 2016, the balances, the source of which are not used in 2015, provided public joint stock company «RusHydro» investment budget in 2012» regarding the transfer to the personal account not parties in the budget process in the Federal Treasury Department in Moscow (UFC), the budget investments in the amount of 6,098 billion rubles for use in the construction of thermal power plants in Sovetskaya Gavan in accordance with the requirements of the Agreement and the rules of Treasury support in 2016, government Agreements, Agreements (agreements) and Agreements, agreements, agreements concluded within the framework of their implementation, approved by decree of the Government of the Russian Federation 04.02.2016 No. 70.</p>	<p>Interest due to the fact that the Russian Federation represented by Rosimushchestvo - the shareholder owns 66,84 % of the ordinary shares of the company.</p> <p>Shulginov N. G., recognized at the time of the transaction the dependent Director.</p>
15.	<p>Additional agreement to the Agreement on granting of budgetary investments from 18.12.2012 № 01-08/827 between PJSC RusHydro and Federal Agency for state property management and the Ministry of energy of the Russian Federation.</p>	<p>Approved by the Board of Directors (Protocol № 242 dated 10.10.2016)</p>	<p>Additional agreement to the Agreement on granting of budgetary investments from 18.12.2012 № 01-08/827 signed on the following essential terms:  The construction of the 2nd stage of the Annunciation CHP  Limits assessed value of property prices in the 3rd quarter of 2013 in accordance with the conclusion of the FAA «Glavgosekspertiza of Russia» dated 06.12.2013 No. 1196-13/GGE-8083/10 is 8 236 951 510 (Eight billion two hundred thirty six million nine hundred fifty-one thousand five hundred ten) rubles 00 kopecks, including VAT; the cost of additional volumes of works on construction of the object and reconstruction of the Blagoveshchensk thermal plant in the prices of the 3rd quarter of 2015 in accordance with the conclusion of the FAA «Glavgosekspertiza of Russia» on 02.12.2015 No. 1622-15/GGE-8083/10 is 1 217 548 500 (one billion two hundred seventeen million five hundred forty-eight thousand five hundred) rubles 00 kopecks, including VAT;  I stage of construction:  input power – 120 MW, 188 Gcal/h;  the term of commissioning – 2015;  II stage of construction of the object:  the term of commissioning – 2016."  The Society assumes no unconditional obligation to achieve the following indicators of efficiency of use</p>	<p>Interest due to the fact that the Russian Federation represented by Rosimushchestvo - the shareholder owns 66,84 % of the ordinary shares of the company.</p> <p>Shulginov N. G., recognized at the time of the transaction the dependent Director.</p>

			<p>of available budget investments, method of calculation of which is stipulated in the Annex to this Agreement:</p> <table border="1"> <thead> <tr> <th>Figure</th> <th>The value of the index</th> </tr> </thead> <tbody> <tr> <td>The indicator of the financial stability coefficient financial leverage (Loan capital/Own capital)</td> <td><math>\leq 1,5</math></td> </tr> <tr> <td>The indicator of current liquidity (Current assets/current liabilities)</td> <td><math>\geq 1,5</math></td> </tr> <tr> <td>The indicator of debt burden (Financial debt/EBITDA)</td> <td><math>\leq 5</math></td> </tr> <tr> <td>The return on equity (ROE) (Net profit/Average equity)*100 %</td> <td><math>\geq 1,5 \%</math></td> </tr> </tbody> </table> <p>The values of the performance indicators set for each reporting period (1 January to 31 December of the calendar year) for the entire period of the Agreement.  The calculation of all performance indicators are based on data financial statements, formed in accordance with the Federal law of 06.12.2011 № 402-FZ "On accounting" (Russian accounting standards).  The penalty for non-achievement of target values of performance indicators of the company under paragraph 3.2.10 of the Agreement Is 1 (One) % of the amount of funds stipulated by item 1.1. of the Agreement for failure of each performance indicator during the reporting period.  The penalty for failure to the Society obligations for the commissioning of each object within the planned timeframe specified in clause 2.5 of the Agreement – 500 000 (five Hundred thousand) rubles multiplied by the number of days equal to the number of days elapsed from the date of the planned term of commissioning of the object specified in paragraph 2.5 of the Agreement before the actual date of commissioning of the object.</p>	Figure	The value of the index	The indicator of the financial stability coefficient financial leverage (Loan capital/Own capital)	$\leq 1,5$	The indicator of current liquidity (Current assets/current liabilities)	$\geq 1,5$	The indicator of debt burden (Financial debt/EBITDA)	$\leq 5$	The return on equity (ROE) (Net profit/Average equity)*100 %	$\geq 1,5 \%$	
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The return on equity (ROE) (Net profit/Average equity)*100 %	$\geq 1,5 \%$													
16.	A guarantee agreement between PJSC RusHydro and Sberbank PJSC	Approved by the Board of Directors (Protocol № 242 dated 10.10.2016)	<p>A Agreement of guarantee concluded on the following essential conditions:</p> <p>Parties to the Agreement:  The Bank – Sberbank PJSC;  The Guarantor – PJSC RusHydro;  The Beneficiary – PJSC «RAO ES of East» (the Borrower).</p> <p>The subject of the Agreement:  Surety for performance of the obligations of the Borrower to the Bank under the Credit agreement to Finance the Project.</p> <p>The principal terms of the Credit agreement:  The maximum amount of credit (credit line limit) – 6 077 780 556 (six billion seventy seven million seven hundred eighty thousand five hundred fifty six) rubles 04 kopecks.  The repayment period of the loan -28 July 2028.  Interest rate for credit use – of 10.83 % per annum. The interest rate may be changed by the Bank unilaterally, including in connection with a change in the Bank of Russia refinancing rate and/or the key</p>	<p>Interest due to the fact that a member of the Board of Directors, the Chairman of the Board – General Director of PJSC RusHydro Shulginov N. G. at the same time is a member of the Board of Directors of PJSC «RAO ES of East» - the beneficiary of the transaction.</p> <p>Shulginov N. G.,</p>										

			<p>rate.</p> <p>The fee for using the credit line limit is 0.5 % per annum of the free limit balance of the Credit agreement. Commission for early repayment of the loan in the amount not exceeding 3 % of repaid loan amount. The Commission for the reservation in the amount of 0.5 % of the maximum credit line limit – 30 388 902 (thirty million three hundred eighty eight thousand nine hundred two) rubles 78 kopecks.</p> <p>The price of the Agreement: The maximum amount of credit (credit line limit)– 6 077 780 556 (six billion seventy seven million seven hundred eighty thousand five hundred fifty six) rubles 04 kopecks; Interest rate for credit use – of 10.83 % per annum.</p> <p>The interest rate may be increased/decreased by the Bank unilaterally, including in connection with a change in the Bank of Russia refinancing rate and/or key rate;</p> <p>The penalty interest rate specified in paragraph 1.2 solution was increased 1.5 times, calculated on the amount of arrears of principal, interest and Commission payments for each day of delay during the period from the date of occurrence of the overdue debt (not including this date) until the date of full repayment of outstanding debt (inclusive);</p> <p>A penalty of 0.025 % of credit line limit for each fact of non-performance by Borrower of its obligations to maintain credit turnover via accounts opened with the Bank established for the next calendar quarter.</p> <p>The Commission for the reservation in the amount of 0.5 % of credit line limit – 30 388 902 (thirty million three hundred eighty eight thousand nine hundred two) rubles 78 kopecks;</p> <p>The fee for the reservation is paid a lump sum before the issuance of the loan.</p> <p>The fee for using the credit line in the amount of 0.5 % per annum of the free limit balance of the Credit agreement.</p> <p>The Commission accrual is made for the period from the first date of validity of the limit (28.07.2016) (not including this date) until the date of expiry of the period of availability (28.07.2018) or to the date of full repayment of the loan made before the date of expiry of the availability period, subject to the sampling limit line of credit in full (inclusive);</p> <p>Commission for early repayment of the loan in the amount not exceeding 3 % of repaid loan amount.</p> <p>The maximum price of the property which may be alienated under an Agreement of suretyship is less than 2 % of the book value of the company's assets according to its accounting (financial) statements for the last reporting date.</p> <p>The term of the Agreement: The agreement shall enter into force upon its signing. The Agreement and surety valid until July 28, 2031.</p>	<p>recognized at the time of the transaction the dependent Director.</p>
17.	<p>A guarantee agreement between PJSC RusHydro and the Bank «Russian regional development Bank» JSC</p>	<p>Approved by the Board of Directors (Protocol № 242 dated 10.10.2016)</p>	<p>A Agreement of guarantee concluded on the following essential conditions: Parties to the Agreement: The Bank – the Bank «Russian regional development Bank» JSC; The Guarantor – The Society; The Beneficiary – PJSC «Magadanenergo» (The Borrower).</p> <p>The subject of the Agreement: The surety of the Company for performance of the obligations of PJSC «Magadanenergo» before the Bank under the Agreement on opening a line of credit from 20.09.2016 No. 1451-K-16.</p> <p>The maximum amount of the loan (Credit line limit): 400 000 000 (Four hundred million) rubles 00 kopecks.</p> <p>Full repayment of the term loan: December 31, 2017.</p>	<p>Interest member of the Board of Directors Shishin S. V., who is also a member of the Supervisory Board of JSC «Russian regional development Bank».</p> <p>Shulginov N. G., recognized at the time of the transaction the</p>

			<p>Interest on the loan: of 10.33 % per annum.</p> <p>The interest rate may be increased/decreased by the Bank unilaterally, including, but not exclusively, in connection with the adoption by the Bank of Russia of decisions on increase in the key rate and/or the refinancing rate (discount rate).</p> <p>The price of the Agreement:</p> <p>The maximum amount of credit (Credit line) – 400 000 000 (Four hundred million) rubles 00 kopecks;</p> <p>The maximum amount of interest for using credit funds for the entire term of the Credit line at the rate of 10.33 % per annum.</p> <p>Interest rate for using credit funds can be increased/decreased by the Bank unilaterally, including, but not exclusively, in connection with the adoption by the Bank of Russia of decisions on increase in the key rate and/or the refinancing rate (discount rate);</p> <p>The penalty interest rate specified in section 1.2 of the solutions increased 1.5 %, accrued on the amount of overdue payment in repayment of the loan or pay interest for each day of delay during the period from the date of occurrence of the overdue debt (not including this date) until the date of full repayment of outstanding debt (inclusive);</p> <p>A penalty of 0.025 % of Credit line limit specified in clause 1.1 of the decision, for each fact of non-performance by Borrower of its obligations to maintain credit turnover on the accounts, open a Bank account, established for the next calendar quarter size.</p> <p>The maximum price of the property which may be alienated under an Agreement of suretyship is less than 2 % of the book value of the company's assets according to its accounting (financial) statements for the last reporting date.</p> <p>The term of the Agreement:</p> <p>The agreement shall enter into force from the date of its signing by the Parties. Agreement and the obligation of the Surety (guarantee) valid from the date of signing the Agreement to 31 December 2017.</p>	dependent Director.
18.	A lease of immovable property concluded between PJSC RusHydro and PJSC FGC UES.	Approved by the Board of Directors (Protocol № 243 dated 14.11.2016)	<p>A lease of immovable property concluded on the following essential conditions:</p> <p>Parties to the Agreement:</p> <p>The Landlord – PJSC RusHydro</p> <p>The Tenant – PJSC FGC UES</p> <p>The subject of the Agreement:</p> <p>Under the Agreement the Landlord transfers and the Tenant accepts for temporary use of part of the waterworks belonging to the Landlord by right of ownership (hereinafter – Structures), for placing and maintenance of supports of overhead power lines with a voltage of 220 kV and 500 kV and is obligated to pay for their temporary use.</p> <p>The list and the size of the leased Facilities and the lease specified in Annex 7 to the present decision.</p> <p>The rent under the Agreement:</p> <p>The monthly rent is 410 158 (one hundred fifty eight thousand four hundred ten) rubles 16 kopecks, including VAT 18 % - 24 164 (twenty-four thousand one hundred sixty four) rubles 26 kopecks.</p> <p>The rent for the entire lease term is 1 742 511 (one million seven hundred forty-two thousand five hundred eleven) rubles 76 kopecks, including 18% VAT - 265 806 (two hundred and sixty-five thousand eight hundred and six) rubles 88 kopecks.</p> <p>The term of the Agreement:</p> <p>The agreement shall enter into force upon its signing by Parties and is valid until 31.01.2017 and payments, until full execution of obligations on them. The parties agreed that the terms hereof shall apply</p>	<p>Interest due to the fact that a member of the Board of Directors of PJSC RusHydro P. S. Grachev, who is also a member of the Board of Directors of PJSC FGC UES.</p> <p>Shulginov N. G., recognized at the time of the transaction the dependent Director.</p>

			to relations arising from 01.03.2016.	
19.	Additional agreement to the Agreement of trust management between PJSC RusHydro and PJSC «RAO ES of East».	Approved by the Board of Directors (Protocol № 243 dated 14.11.2016)	<p>Additional agreement to the Agreement of trust management of 23.12.2013 № OG-175-169-2013 signed on the following essential terms:</p> <p>The Trustor – PJSC RusHydro; The Trustee – PJSC «RAO ES of East».</p> <p>Subject of the Additional agreement:</p> <p>The Trustee returns to the Trustor of the trust management belonging on the property right to Founder management the following actions (in the exercise of rights on shares, except the right to receive dividends):</p> <p>995 12 500 000 (twelve billion nine hundred ninety five million five hundred thousand) pieces of ordinary registered uncertified shares of JSC «Sahalin GRES-2» (state registration number of issue 1-01-58922-N dated 05.09.2013, the nominal value of one share is 1 (one) ruble);</p> <p>7 744 760 000 (Seven billion seven hundred forty-four million seven hundred sixty thousand) pieces of ordinary registered uncertified shares of JSC «HPP in Sovetskaya Gavan» (state registration number of issue 1-01-58919-N-001D dated 30.01.2014, the nominal value of one share is 1 (one) ruble);</p> <p>500 000 (five Hundred thousand) pieces of ordinary registered uncertified shares of JSC «HPP in Sovetskaya Gavan» (state registration number of issue 1-01-58919-N dated 16.08.2013, the nominal value of one share is 1 (one) ruble);</p> <p>861 16 500 000 (sixteen billion eight hundred sixty one million five hundred thousand) pieces of ordinary registered uncertified shares of JSC «Yakutskaya GRES-2 plant» (state registration number of issue 1-01-58921-N dated 10.09.2013, the nominal value of one share is 1 (one) ruble).</p> <p>2. Paragraph 6.1. The Agreement in the following edition:</p> <p>«6.1. The Trustee shall be paid remuneration in the amount of 750 (seven hundred fifty) rubles per quarter. This fee includes VAT (18 %) 114 (one hundred fourteen) rubles 40 kopeks»</p> <p>The price of the Agreement taking into account the Supplementary agreement: is 72 000 (seventy two thousand) rubles (including VAT) for the entire term of the Agreement, but not more than 750 (seven hundred fifty) rubles per quarter (including VAT).</p>	<p>Interest due to the fact that a member of the Board of Directors, the Chairman of the Board – General Director of PJSC RusHydro N. G. Shulginov is also a member of the Board of Directors of PJSC «RAO ES of East».</p> <p>Shulginov N. G., recognized at the time of the transaction the dependent Director.</p>
20.	Additional agreement No. 8 to Agreement No. 414 dated 26.08.2010, concluded between RusHydro and PJSC Joint-stock company «Non-State pension Fund of electric power industry» (JSC «NPF of Electric Power Industry»).	Approved by the Board of Directors (Protocol № 246 dated 27.12.2016)	<p>Additional agreement to the pension benefit Agreement dated 26.08.2010 No. 414 signed on the following essential terms:</p> <p>The parties of the additional agreement:</p> <p>The Fund – JSC «NPF of Electric Power Industry»;</p> <p>The Contributor – PJSC RusHydro.</p> <p>Beneficiaries – Participants, including members of the collegial Executive body of the company.</p> <p>Subject of the Additional agreement:</p> <p>The following changes in the Agreement:</p> <ul style="list-style-type: none"> <li>- Inclusion in the list of Participants members of the collegial Executive body of the company.</li> <li>- Increase the duration of pension payment to a Participant to "not less than ten (10) years."</li> </ul> <p>The exception of remuneration for services of the Fund.</p> <p>Other material terms of the Supplementary agreement:</p> <p>The depositor makes pension contributions in favour of Participants in the amount established by an administrative letter sent to the Fund.</p> <p>The frequency of contributions and their size is determined by the Depositor independently.</p>	<p>The interest of the members of the management Board as beneficiaries under the contract.</p> <p>Shulginov N. G., recognized at the time of the transaction the dependent Director.</p>



			<p>The price of the Agreement taking into account the Supplementary agreement: is the aggregate pension contributions paid by the company in accordance with the terms of the Agreement, and shall not exceed 0,1 (zero point one tenth) percent of the balance cost of assets of the company as at the date of its conclusion. The size of pension contributions under the Agreement is approved annually in the business plan of the company.</p> <p>Validity period of Supplementary agreement: With 20.12.2016 until the full implementation of obligations under the Agreement.</p>	
21.	<p>The pension benefit agreement between PJSC RusHydro and the Joint-stock company non-state pension Fund VTB Pension Fund (JSC NPF VTB Pension Fund).</p>	<p>Approved by the Board of Directors (Protocol № 246 dated 27.12.2016)</p>	<p>The pension benefit agreement concluded on following essential terms:</p> <p>Parties to the Agreement: The Fund – JSC NPF VTB Pension Fund; The Contributor – PJSC RusHydro (The Society). Beneficiaries – Participants, including members of the collegial Executive body of the company.</p> <p>The subject of the Agreement: The subject of the Agreement is a non-state pension provision, appointed by the Depositor of physical persons (further – the Parties), in the manner and on the conditions specified in the Agreement, the legislation of the Russian Federation on non-state pension coverage and the Pension Rules of the Fund (hereinafter the Fund Rules). The depositor undertakes to remit pension contributions to the Fund, and the Fund shall upon the occurrence of pension grounds in accordance with the Rules of the Fund and established by the Agreement of the pension scheme to pay the non-state pension. The Agreement is governed by the established rules of the pension scheme № 10 "a Pension scheme for the investor is a legal entity, to set the size of pension contributions with pension payments until exhaustion, but not less than five (5) years and provides for a deferred claim on the pension Agreement", providing for the recording of pension contributions to the personal accounts of Participants.</p> <p>Other essential conditions of the Agreement: The depositor makes pension contributions in favour of Participants in the amount established by an administrative letter sent to the Fund. The frequency of contributions and their size is determined by the Depositor independently.</p> <p>The price of the Agreement: Is the aggregate pension contributions paid by the company in accordance with the terms of the Agreement, and shall not exceed 0,1 (zero point one tenth) percent of the balance cost of assets of the company as at the date of its conclusion. The size of pension contributions under the agreement is approved annually in the business plan of the company.</p> <p>The term of the Agreement: With 20.12.2016 until the full implementation of obligations under the Agreement.</p>	<p>The interest of the members of the management Board as beneficiaries under the contract.</p> <p>Shulginov N. G., recognized at the time of the transaction the dependent Director.</p>
22.	<p>The loan agreement between PJSC RusHydro and PJSC «RAO ES of East».</p>	<p>Approved by the Board of Directors (Protocol № 246 dated 27.12.2016)</p>	<p>The loan agreement concluded on following essential terms:</p> <p>The part of the loan agreement: The Borrower – PJSC «RAO ES of East»; The Lender – PJSC RusHydro.</p> <p>The subject of the loan Agreement: The Lender transfers to the Borrower of money (amount of loan) and the Borrower agrees to return the Lender the same amount of money (amount of loan) rate of interest for the use of the loan amount.</p>	<p>Interest due to the fact that a member of the Board of Directors, the Chairman of the Board – General Director of PJSC RusHydro N. G. Shulginov is also a member of the</p>

			<p>The maximum loan amount is 700 000 000 (seven hundred million) rubles 00 kopecks.</p> <p>The term of the loan – demand in time not later than 5 (five) working days from the date of receipt by the Borrower of requirements of the Lender about the repayment of the loan.</p> <p>The interest rate on the loan – 10,095 % per annum, subject to review and is set by Lender on a quarterly basis.</p> <p>The price of the loan Agreement: The aggregate of the following amounts: - maximum loan amount – 700 000 000 (seven hundred million) rubles 00 kopecks; - the interest rate on the loan – 10,095 % per annum; shall be reviewed and established by Lender on a quarterly basis;</p> <p>The term of the loan – demand in time not later than 5 (five) working days from the date of receipt by the Borrower of requirements of the Lender about the repayment of the loan.</p> <p>Price (monetary valuation) of property which may be alienated under the loan Agreement, is less than 2 % of the book value of the company's assets determined according to accounting statements on the last reporting date (30.09.2016).</p> <p>The terms of the loan is non-revolving tranches on the basis of the application of the Borrower.</p> <p>Targeted use of loan – working capital of the Borrower.</p>	<p>Board of Directors of PJSC «RAO ES of East».</p> <p>Shulginov N. G., recognized at the time of the transaction the dependent Director.</p>
23.	The loan agreement between PJSC RusHydro and PJSC «RAO ES of East».	Approved by the Board of Directors (Protocol № 246 dated 27.12.2016)	<p>The loan agreement concluded on following essential terms: The part of the loan agreement: The Borrower – PJSC «RAO ES of East»; The Lender – PJSC RusHydro.</p> <p>The subject of the loan Agreement: The lender transfers to the Borrower of money (amount of loan) and the Borrower agrees to return the lender the same amount of money (amount of loan) rate of interest for the use of the loan amount. Maximum loan amount – 200 000 000 (two Hundred million) rubles 00 kopecks.</p> <p>The term of the loan – demand not later than 5 (five) business days of receipt by the Borrower of requirements of the Lender about the repayment of the loan. The Parties within 3 (Three) months after commissioning of GTU-CHP on the site CPWB (HPP "East") agree on the repayment Schedule, from the date of signing of which the loan is repaid on Schedule.</p> <p>The interest rate on the loan is 0 % per annum.</p> <p>The price of the loan Agreement: Maximum loan amount – 200 000 000 (two Hundred million) rubles 00 kopecks; - the interest rate on the loan is 0 % per annum.</p> <p>The term of the loan – demand in time not later than 5 (Five) working days from the date of receipt by the Borrower of requirements of the Lender about the repayment of the loan. The Parties within 3 (Three) months after commissioning of GTU-CHP on the site CPWB (HPP "East") agree on the repayment Schedule, from the date of signing which the loan is repaid on Schedule.</p> <p>Price (monetary valuation) of property which may be alienated under the loan Agreement, is less than 2 % of the book value of the company's assets determined according to accounting statements on the last reporting date (30.09.2016).</p> <p>The terms of the loan is non-revolving tranches based on the Borrower's application registry for the financing of the costs agreed upon with JSC «UK Hydro».</p> <p>Targeted use of loan – working capital of the Borrower for the financing of expenses on preparation of</p>	<p>Interest due to the fact that a member of the Board of Directors, the Chairman of the Board – General Director of PJSC RusHydro N. G. Shulginov is also a member of the Board of Directors PJSC «RAO ES of East».</p> <p>Shulginov N. G., recognized at the time of the transaction the dependent Director.</p>

			<p>TPP «Eastern» to work in autumn and winter 2016-2017 for the project "Construction of GTU-CHP on the site CPUB".</p> <p>Terms of early loan repayment (effective from the date of signing of the repayment Schedule of the loan): The lender has the right to demand from the Borrower early repayment of the loan. The borrower shall be entitled to fully or partially repay the loan.</p>	
24.	The agreement of rendering of services of voluntary medical insurance between PJSC RusHydro and JSC «SOGAZ»	Approved by the Board of Directors (Protocol № 246 dated 27.12.2016)	<p>The Agreement for voluntary medical insurance Agreement is concluded on the following essential conditions:</p> <p>Parties to the Agreement: The Insurant –PJSC RusHydro; The Insurer – JSC «SOGAZ»;</p> <p>The subject of the Agreement VMI: The insurer on the basis of Rules of voluntary medical insurance undertakes in the insurance case to organize and pay for all Insured persons specified in the List of Insured medical services in accordance with the voluntary medical insurance Programs that are an integral part of the Treaty of DMS, and, in the case of independent payment by the Insured person for medical services abroad, in accordance with the VMI program, to reimburse the cost of provided to the Insured person of medical services (hereinafter – Services VMI).</p> <p>The insured person (Beneficiaries): Employees of the Insured, including members of the collegial Executive body and its Chairman and other persons included in the lists of the Insured provided by the Policyholder to the Insurer.</p> <p>Object of insurance: The property interests of the Insured individuals related to expenses for rendering medical, medical-transport and other assistance in case of an accident.</p> <p>Insurance event: The treatment of the Insured person during the term of the Agreement LCA in medical and other organization from LCA stipulated in the Agreement or agreed by the Insurer for the arrangement and provision of medical and other services (medical and medicinal aid) under the Program LCA. The occurrence, during the term of the Agreement LCA, necessary in the organization and provision of other services provided by the Program DMS, in connection with a health disorder or condition of the Insured requiring the provision of such services.</p> <p>Sum insured: - when the Insured person to a medical institution specified in the Program of voluntary medical insurance in the Russian Federation for the provision of medical services – not more than 8 000 000 rubles; - when handling Insured for medical help during the stay abroad – the ruble equivalent of EUR 50,000, but not less than 2 000 000 rubles.</p> <p>The marginal cost of services under the Agreement LCA: 563 812 46 (forty-six million five hundred sixty-three thousand eight hundred twelve) rubles 48 kopecks, VAT exempt.</p> <p>The term of the Agreement VMI: Start date is 01.01.2017; End date 31.12.2017.</p> <p>In accordance with paragraph 2 of article 83 of the Federal law "On joint stock companies" decision on this issue was adopted by the Board of Directors by a majority vote of the Directors who are not interested</p>	<p>The interest of the members of the management Board as beneficiaries under the contract.</p> <p>Shulginov N. G., recognized at the time of the transaction the dependent Director.</p>

			<p>in the transaction. When summarizing the results of voting on this issue not taken into account the voice of the member of the Board of Directors Shulginov N. G.</p>	
25.	<p>The Agreement of voluntary collective insurance against accidents and diseases between PJSC RusHydro and JSC «SOGAZ»</p>	<p>Approved by the Board of Directors (Protocol № 246 dated 27.12.2016)</p>	<p>The Agreement of voluntary collective insurance against accidents and diseases (hereinafter - LCA) concluded on the following essential conditions: Parties to the Agreement: The Insurant –PJSC RusHydro; The Insurer – JSC «SOGAZ». The subject of the Agreement of DNS: The Insurer shall upon the occurrence of specified in the Agreement MNJ cases, to make an insurance payment to the Insured or specified in the Agreement CSN to the Beneficiary, regardless of the amounts due under other insurance Agreements as well as compulsory social insurance, social security and redress. Insured person: Employees of the Insured, including members of the collegial Executive body and its Chairman are included in the lists of Insured individuals submitted by the Insured to the Insurer. Beneficiaries: Insured persons, other persons named as Beneficiaries with the written consent of the Insured, in case of death of the Insured, their heirs, entitled to receive insurance payments upon the occurrence of the insured event. Object of insurance: Not contradicting the legislation of the Russian Federation the property interests connected with harm to life and health of citizens (Insured persons). Insurance event: Accomplished by a sudden, unforeseen and unintentional for the Insured event (insurance risks) stipulated by the insurance Agreement, the occurrence of which the Insurer is liable to pay insurance indemnity to the Insured person (Beneficiary). Insurance risks: - the death of the Insured person in an accident; - the death of the Insured person as a result of natural causes; - disability due to an accident (with the establishment of I, II and III groups); - disability due to natural causes (with the establishment of I, II and III groups); - temporary disability as the result of an accident in connection with the injury; - temporary disability as the result of an accident that led to the need for emergency hospitalization; - temporary disability as the result of an accident that led to the need for surgery; - temporary disability due to professional diseases; - newly diagnosed disease listed in the insurance Agreement; - loss of occupational disability as a result of disease, listed in the insurance Agreement; - loss of employability in an accident. Sum insured: According to the Appendix No. 7 to the Protocol. The marginal cost of services under the Agreement DNS: 4 749 468 (four million Four hundred sixty-eight thousand seven hundred forty-nine) rubles 70 kopecks, VAT exempt.</p>	<p>The interest of the members of the management Board as beneficiaries under the contract.</p> <p>Shulginov N. G., recognized at the time of the transaction the dependent Director.</p>

			<p>The term of the Agreement DNS: Start date is 01.01.2017, End date 31.12.2017.</p>	
26.	<p>The Agreement of insurance of liability and financial risks of Directors, Officials and Companies between PJSC RusHydro and JSC «SOGAZ»</p>	<p>Approved by the Annual General meeting of shareholders (Protocol № 15 dated 27.06.2016)</p>	<p>The Agreement of insurance of liability and financial risks of Directors, Officials and Companies No. 16DO0001 from 30.12.2015 concluded on the following essential conditions: Parties to the Agreement: The Insurant – PJSC RusHydro; The Insurer – JSC «SOGAZ». The subject of the Agreement: With all of the provisions of the insurance Agreement Insurer agrees upon the occurrence of any of the foregoing in the Agreement of insurance cases to pay in accordance with the insurance Agreement the insurance indemnity (depends on situation) to the appropriate Insured and/or any other person entitled to such indemnity. Insured person (s): Any natural person (including non-residents of the Russian Federation), which during the insurance period is or becomes in accordance with the definitions of the insurance Agreement: Officer, Director, or spouse of any Insured person in respect of any Losses associated with the claim in connection with any Incorrect action of such Insured person; or the agent, heir, property or legal representative, assignee or executor of the deceased, incompetent, insolvent or bankrupt Insured person in respect of any Losses related to any claim in connection with any Incorrect action of such Insured person; an employee of the Company implementing the employee of its management authority or supervision in such Company. For the avoidance of doubt such employees include Executive and managing Directors, heads of Departments, Directorates and other structural subdivisions of the Company, the Chief accountant and his deputies, other persons managing employees of the Company and all persons having power of attorney for signing of Agreements and other documents on behalf of the Company; specified as a potential Insured person in any information on listing of securities, issue prospectus or private placement Memorandum or similar document issued by the Insured; and other persons specified in the insurance Agreement. The company under which the insurance Agreement the Policyholder understands and/or any its subsidiary corresponding to the definition "Subsidiary" of the insurance Agreement (mostly legal entities in which PJSC RusHydro or any subsidiary of PJSC RusHydro, directly or indirectly, through one or more other legal entities owned/owns more than 50 % in the authorized (share) capital of such organization and/or controlled/controls the election/appointment of a majority of the members of the Board of Directors (Supervisory Board) or collegial Executive body (management Board) or any similar to any of the above management bodies of such organizations). Beneficiaries: In respect of losses of any claim by the Beneficiaries are third parties. In respect of defence costs Beneficiaries are the Directors of the Company and the Company. Insurance coverage/insured event: Insured in terms of liability insurance of any Insured person for any Losses incurred by other persons shall be the occurrence of all following circumstances: (a) the occurrence at any time prior to the beginning of the course or at any time during the policy Period any Insured person in accordance with applicable legislation the duty to reimburse any Losses incurred by</p>	<p>The interest of the members of the Board of Directors, the management Board of the company as the beneficiary under the contract.</p>

		<p>other persons in connection with any Incorrect action of the Insured person, and  (b) filing during the Term of insurance to such Over-insurance of any claim in connection with Losses of other persons specified in clause (a) above.</p> <p>Insured with regard to insurance of any Losses of any Insured person (other than in the case of the above-mentioned liability for Losses of other persons) recognizes the performance of such Insured person of any Losses in connection with any claim.</p> <p>Insured in terms of insurance Losses, the company recognizes any bearing by any Company any expenses in connection with reimbursement by such Company of any Losses to any Insured person and/or any other person in the interests of any Insured person in connection with any claim brought against any Insured person and/or liability of any Insured person for any Losses incurred by other persons.</p> <p>Insured in terms of liability insurance of any Company for any Losses incurred by other persons shall be the occurrence of all following circumstances:</p> <p>(a) the occurrence at any time prior to the beginning of the course or at any time during the Term of the insurance from any Company in accordance with applicable legislation the duty to reimburse any Losses incurred by other persons in connection with any Incorrect action of the Company, and  (b) filing during the Term of insurance to such Company of any Claim for securities in connection with Losses of other persons specified in clause (a) above.</p> <p>Insured with regard to insurance of any Losses of any Company (other than in the case of the above-mentioned liability for Losses of other persons) has acknowledged the performance by such Company of any Losses in connection with any claim for securities.</p> <p>Object of insurance:</p> <p>in terms of liability insurance of any Insured person for any Losses incurred by other persons is property interests of such Insured in connection with the obligation to reimburse other persons for any Losses;  in regard to insurance of any Losses of any Insured person shall be property interests of such Insured person connected with incurring of any Losses;  property interests of any Company associated with reimbursement by such Company of any Losses;  in terms of liability insurance of any Company for any Losses incurred by other persons is property interests of such Company associated with the duty to reimburse other persons for any Losses;  in regard to insurance of any Losses of any Company is property interests of such Company associated with incurring of any Losses.</p> <p>Losses:  means any of the following:  any damages in accordance with article 71 and article 84 of the Federal law dated 26 December 1995 No. 208-FZ «On joint stock companies» (with changes and additions) and other analogous damages; and/or  any harm (including any losses) in accordance with article 931 of the Civil code of the Russian Federation (with changes and additions) and other similar harm (including any similar losses); and/or  any amount that any Insured in accordance with any legislation shall pay, including, but not limited to, any amounts awarded by a court decision, arbitration, arbitral Tribunal or similar body/institution (including interest accrued for periods before and after the date of the relevant decision), any losses (including loss of profits, damages recoverable in multiple size, as well as punitive damages, increased damages and the damages awarded as punishment), expenses, payments for out-of-court settlements; and/or  any expenses or costs covered by the insurance Agreement (including but not limited to, protection Costs, Emergency expenses, Expenses in connection with extradition, investigation Costs, Cost of protection</p>	
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			<p>from persecution, the Costs of public relations, Expenses related to unplanned actions of regulatory bodies); and/or any penalties, fines or penalties which may be recovered in accordance with law against whom a lawsuit; and/or any payments that are required to carry out the Insurer in accordance with any expansion of coverage stipulated by the insurance Agreement.</p> <p>Wrong action: in respect of any Insured person any of the following: (a) any actual or declared/responsible/expected action, error, omission, carelessness, negligence, non-performance or improper performance of duties, misconduct, communication of inaccurate information, incorrect or misleading statement, libel, defamation, violation of the conditions of the powers granted, abuse of authority, dereliction/breach of fiduciary or other duties, any Breach of employment or any other act or omission of any Insured person, which acted in the relevant quality or any circumstance declared in respect of any Insured person exclusively in connection with his authority to act in the indicated quality; and/or (b) any actual or declared/responsible/expected action or inaction, error or omission that is the basis, is related to or has the effect of any violation of the Sarbanes-Oxley act in any location worldwide; including but not limited to, any such breach connected with: the work of the audit Committee; or the requirements of the Sarbanes-Oxley act to assurance or disclosure of information; or bringing reporting in line with the requirements of GAAP; or prohibitions against conflicts of interest established by the Sarbanes-Oxley act; or the rights of employees to inform about the facts of the admitted violations without any consequences for the informer; and in relation to any Company: any actual or claimed/imputed/alleged violation/breach of duties/obligations, carelessness, negligence, error, message, false information, wrong or misleading statement, omission or any other act or omission of any Company, but solely in connection with any claim for securities.</p> <p>Insured amount/liability limit: In the aggregate for all insurance covers and extensions excluding extension for independent Directors – 30 000 000 (thirty million) US dollars. Additional insured amount for independent Director is 1,000,000 (one million) US dollars. Total additional insurance amount for independent Directors – 2 000 000 (two million) US dollars.</p> <p>Franchise: Established only in respect of losses and expenses incurred by the Insured in the amount of 100,000 (one hundred thousand) US dollars. In respect of losses and expenses, payable on behalf of each Insured person's deductible is not installed.</p> <p>The price of The Agreement: 36 000 (thirty six thousand) US dollars at the exchange rate of the Bank of Russia on the date of payment, VAT exempt.</p> <p>Period of insurance: From 01.01.2016 to 31.12.2016.</p>	
27.	Guarantee agreement between PJSC RusHydro and VTB Bank PJSC	Approved by the Annual General meeting of shareholders (Protocol	<p>The guarantee agreement concluded on following essential terms: Parties to the Agreement: The Bank – VTB Bank PJSC; The Guarantor – The Society; The Beneficiary – Joint stock company "Far Eastern generating company" (the Borrower).</p>	The interest of the Russian Federation, owning more than 20 % of the shares of the share capital as at PJSC RusHydro and VTB

		<p>№ 15 dated 27.06.2016</p>	<p>The subject of the Agreement: The surety Companies for performance of the obligations of the Joint-stock company "Far Eastern generating company" to the Bank under the Agreement on opening the credit line from 23.05.2016 № KS-MC-702000/2016/00035. The maximum amount of the loan (Credit line limit): 7 000 000 000,00 (seven billion) rubles 00 kopecks. Period full repayment of the loan: 22.05.2019. Interest on the loan: of 10.86 % per annum. The interest rate may be increased/decreased by the Bank unilaterally, including, but not exclusively, in connection with the adoption by the Bank of Russia of decisions on increase in the key rate and/or the refinancing rate (discount rate). The price of the Agreement: The maximum amount of credit (Credit line limit)– 7 000 000 000,00 (seven billion) rubles 00 kopecks; The maximum amount of interest for using credit funds for the entire term of the Credit line at the rate of 10.86 % per annum. Interest rate for using credit funds can be increased/decreased by the Bank unilaterally, including, but not exclusively, in connection with the adoption by the Bank of Russia of decisions on increase in the key rate and/or the refinancing rate (discount rate); A penalty of 0.03 (zero point three hundredths) percent of the amount of overdue debts on the Basic debt per every day of delay accrued by the Lender in case of arrears on principal and payable by the Borrower in accordance with subparagraph 5.1.1. Credit agreement, on the date of actual final repayment of the overdue debt on the principal debt; A penalty of \$ 0.06 (zero point six hundredths) per cent of the amount of arrears on interest/commissions for each day of delay accrued by the Lender in case of arrears on interest/Commission and paid by the Borrower in accordance with subparagraph 5.1.2. Credit agreement, on the date of actual final repayment of the overdue debt percentage/Commission. The term of the Agreement: The agreement shall enter into force from the date of its signing by the Parties. Agreement and the obligation of the Surety (guarantee) valid from the date of signing the Agreement on 22 may 2022 inclusive.</p>	<p>Bank (PJSC).</p>
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### 3. Information Concerning All Forms of the Company's Participation in Commercial Entities Including its Objectives, Form and Financial Involvement, Basic Data on the Entities (Main Statutory Activities, Earnings, Profit), and Efficiency Indicators, in Particular, the Amount of Dividends Received for the Owned Shares in the Reported Period

Company Name	Objectives of the Involvement	Form of the Involvement	Financial Indicators		Earnings, thou. RUB.	Net Profit, thou. RUB	Dividends, Received by RusHydro PLC (in 2015), thou. RUB	Main Activities
			Book Value of the Contribution, RUB	RusHydro PLC' share of the Statutory Capital, %				
<i>Information concerning the companies, in which RusHydro PLC owns less than 2 %</i>								
JSC «TECHNOPARK RUMYANTSEVO»	Auxiliary support services for the Company's main line of business	Participation in the company's statutory capital	10,00	0,000005	18 142	(110 688)	-	Construction and installation works
Irkutskenergo OJSC*	Strategic and financial investment	Participation in the company's statutory capital	4 297 368,00	0,09	-	-	-	Power generation
LLC Energy Index HydroOGK	The target model of activity – accumulation purchased for PJSC RusHydro assets	Participation in the company's statutory capital	9 215 800 000,00	0,11	114 468	9 317 862	-	Activity on management of securities
Far East Energy Company PLC	Strategic and financial investment	Participation in the company's statutory capital	178 714 322,00	1,04	77 470 169	609 879	-	Trade in electric power (capacity)
Krasnoyarsk HPP PLC*	Strategic and financial investment	Participation in the company's statutory capital	457 681,00	0,12	-	-	-	Power generation
Inter RAO PLC*	Strategic and financial investment	Participation in the company's statutory capital	5 701 572 102,90	1,94	-	-	34 019 (in 2015)	A diversified holding group including power generation and trade operations in the domestic and foreign market
Bank of Cyprus Public Company Ltd*	The shares were acquired during the liquidation of RusSUNHydro Limited	Participation in the company's statutory capital	-	0,0037	-	-	-	Banking operations
JSC «Non-state pension Fund of electric power industry»*	Strategic and financial investment	Participation in the company's statutory capital	730 906,14	0,609	-	-	-	the activities of non-state pension funds
<i>Information concerning the companies, in which RusHydro PLC owns from 2 % to 20 %</i>								

Boguchanskaya HPP OJSC	Support of the Company's main line of business	Participation in the company's statutory capital	163 578 869,00	2,89	16 149 127	5 104 566	-	Power generation
<b>Information concerning the companies, in which RusHydro PLC owns from 20 % to 50 %</b>								
Zharki OJSC*		Participation in the company's statutory capital	6 095 900,00	25%+1 share	-	-	-	Tourist and recreation services
PJSC Yakutskenergo	Support of the Company's main line of business	Participation in the company's statutory capital	2 769 811 893,00	29,8	26 468 768	109 053	-	Energy generation, transmission and distribution
Sakhalin Energy Company JSC	Strategic and financial investment	Participation in the company's statutory capital	3 507 568 000,00	28,09	534 709	(13 613)	1 038 (in 2015)	Power generation
JSC Irkutsk Electric Grid Company	Strategic and financial investment	Participation in the company's statutory capital	8 861 928 328,00	42,75	18 367 171	(998 542)		Power transmission
JSC Experimental-industrial Verkhne-Mutnovskaya GeoPP	Support of the Company's main line of business	Participation in the company's statutory capital	133 364 156,00	48,04	37 627	1 570	-	Power generation
Boguchanskaya HPP Construction Project Customer Company CJSC	Support of the Company's main line of business	Participation in the company's statutory capital	4 900,00	49	45 852	91	-	Construction of Boguchanskaya HPP
CJSC Construction Contractor of Boguchansk Aluminium Smelter	Development of a new line of business	Participation in the company's statutory capital	4 900,00	49	555 555	106	-	Construction of Boguchansk Aluminium Smelter
CJSC Verkhne-Narynskie HPPs	Support of the Company's main line of business	Participation in the company's statutory capital	2 500 000 Som	50	375 (thou. Som)	314 439 (thou. Som)	-	Construction of Verkhne-Narynsky HPP Cascade
LLC VOLGAHYDRO	Development of a new line of business	Participation in the company's statutory capital	449 814 356,00	40%	1 366 681	760 904	-	Manufacture of hydro equipment
<b>Information concerning the daughter companies, in which RusHydro PLC owns from 50 % + 1 share to 100 % of their statutory capital</b>								
GVC Energetiki JSC	Auxiliary support services for the Company's main line of business	Participation in the company's statutory capital	325 580	100	11 977	649 334	54 333 (in recent years), 645 338 (in 2016)	Design and development in IT
JSC Ust-Srednekanskaya HPP	Support of the Company's main line of business	Participation in the company's statutory capital	18 809 586 927,00	67,82	426 548	13 290	-	Construction of Ust-Srednekanskaya HPP
Joint-Stock Company Construction Contractor of Boguchanskaya HPP	Support of the Company's main line of business	Participation in the company's statutory capital	5 100,00	51	152 278	326	197 (in 2015)	Construction of Boguchanskaya HPP

JSC Construction Customer of Boguchansk Aluminium Smelter	Development of a new line of business	Participation in the company's statutory capital	5 100,00	51	92 181	10	-	Construction of Boguchansk Aluminium Smelter
JSC ChirkeiGESstroy	Auxiliary support services for the Company's main line of business	Participation in the company's statutory capital	249 690 071,50	75,00	1 825 367	(57 814)	-	Construction works
PJSC RAO Energy Systems of the East	Support of the Company's main line of business	Participation in the company's statutory capital	19 171 124 235,50	84,39	1 538 679	1 514 921	-	Management of holding companies
JSC Kamchatka Gas Power Complex	Support of the Company's main line of business	Participation in the company's statutory capital	1 187 917 534,00	96,58	250 080	(32 785)	636 (in 2015)	Power generation
JSC Geotherm Company	Support of the Company's main line of business	Participation in the company's statutory capital	984 097 918	99,65	991 235	(15 260)	-	Power generation
JSC Zaramag Hydroelectric Station	Support of the Company's main line of business	Participation in the company's statutory capital	17 933 142 000,00	99,75	268 850	120 108	-	Construction of Zaramagskie HPPs, power generation
JSC Kolimaenergo	Support of the Company's main line of business	Participation in the company's statutory capital	12 063 052 613,00	98,76	2 395 501	163 591	-	Power generation
JSC Hydrogeneration Company of Karachaevo-Cherkessia	Support of the Company's main line of business	Participation in the company's statutory capital	6 582 581,00	100	-	(7 984)	-	Construction works
HydroOGK Aluminium Company Limited**	Financial investment	Participation in the company's statutory capital	34 200,00 Euro	100	-	(8 913)	-	Holding
HydroOGK Power Company Limited**	Financial investment	Participation in the company's statutory capital	33 317 311,68 Euro	100	8 953 231	8 949 499	8 256 650 (in 2016)***	Holding
JSC HydroEngineering Siberia	Support of the Company's main line of business	Participation in the company's statutory capital	2 291 979 300,00	100	12 681	(24 489)	-	Design and survey
JSC Vedeneev VNIIG	Auxiliary support services for the Company's main line of business	Participation in the company's statutory capital	8 160 200,00	100	895 442	74 394	54 174 (in 2015), 24 123 (in 2014)	R&D, design and engineering services in hydroenergy
JSC Hydroinvest	The target model of activity – accumulation purchased for PJSC RusHydro assets	Participation in the company's statutory capital	9 550 150 000,00	100	2 409 886	2 894 104	-	Investment in securities
JSC Leningradskaya GAES	Support of the Company's main line of business	Participation in the company's statutory capital	5 763 565 938,00	100	-	(39 969)	-	Redesign of the pilot Northern PES, construction of Leningrad GAES, power generation
NIIES JSC	Auxiliary support services for the Company's main line of business	Participation in the company's statutory capital	733 117 789,50	100	524 146	13 769	-	R&D, design and engineering services in hydroenergy

HydroOGK MC JSC	Support of the Company's main line of business	Participation in the company's statutory capital	150 000,00	100	398 407	4 745	32 269 (in 2016)	Management company
ESCO UES JSC	Support of the Company's main line of business	Participation in the company's statutory capital	15 000 000,00	100	608 527	(232 055)	-	Construction works
JSC Nizhne-Bureyskaya HPP	Support of the Company's main line of business	Participation in the company's statutory capital	14 610 989 509,00	100	95 129	9 244	-	Construction of Nizhne-Bureyskaya HPP
JSC Nizhne-Zeiskaya HPP	Support of the Company's main line of business	Participation in the company's statutory capital	349 715 990,00	100	-	625	-	Construction of Nizhne-Zeiskaya HPP
JSC Zagorskaya PSHPP-2	Support of the Company's main line of business	Participation in the company's statutory capital	53 681 508 646,00	100	10 573	294 298	-	Construction of Zagorskaya GAES 2
JSC RusHydro Transport Company	Auxiliary support services for the Company's main line of business	Participation in the company's statutory capital	18 057 693,00	100	1 755 995	56 392	94 000 (in 2015)	Transportation services
JSC Renewable Energy Engineering Center	Support of the Company's main line of business	Participation in the company's statutory capital	694 072 210,00	100	-	(1 534)	-	Construction of a pilot binary facility
JSC Yuzhno-Yakutsky Hydropower Complex	Support of the Company's main line of business	Participation in the company's statutory capital	3 255 023 323,00	100	-	(259 483)	-	Construction of Yuzhno-Yakutsky Hydroenergy Combine
JSC Sulaksky Hydrocascade	Support of the Company's main line of business	Participation in the company's statutory capital	8 961 493 852,00	100	462 300	(61 796)	-	Construction of Sulaksky Hydro Energy Cascade
CSO CSGES JSC	Auxiliary support services for the Company's main line of business	Participation in the company's statutory capital	482 153 947,00	100	94 671	1 108	-	Training and production of information and innovation center
JSC Gidromont-VKK	Auxiliary support services for the Company's main line of business	Participation in the company's statutory capital	535 040,00	100	10 425 034	154 313	190 521 (in 2015)	Repair works at energy facilities
JSC ESC RusHydro	Auxiliary support services for the Company's main line of business	Participation in the company's statutory capital	11 981 227 367,00	100%-1 share	6 394 501	(9 746 585)	-	Wholesale trade in electric energy and heating
JSC Lenhydroproject	Support of the Company's main line of business	Participation in the company's statutory capital	174 451,00	100	1 532 531	101 180	-	R&D, design and engineering services in energy
JSC Far East Wind Power Plant	Support of the Company's main line of business	Participation in the company's statutory capital	224 088 473,00	100	-	(1 198)	-	Construction of WPS
JSC Malaya Dmitrovka	Support of the Company's main line of business	Participation in the company's statutory capital	4 819 782 000,00	100	585 024	105 043	-	Property management
Altai Smaller HPPs JSC	Support of the Company's main line of business	Participation in the company's statutory capital	500 000,00	100	-	(11 279)	-	Construction of smaller HPPs in Altai

JSC SHPP Dagestan	Support of the Company's main line of business	Participation in the company's statutory capital	161 500 000,00	100	-	(14 882)	-	Construction of smaller HPPs in Dagestan
CJSC RusHydro International B.V.**	Support of the Company's main line of business	Participation in the company's statutory capital	5 800 000,00 Euro	100	18 648 (thou. Euro)	1 939 (thou. Euro)	-	Investment
RusHydro IT Service LLC	Auxiliary support services for the Company's main line of business	Participation in the company's statutory capital	500 000,00	100	368 127	39 464	5 235 (in 2014)	IT consulting services
LLC Verkhnebalkarskaya Small HPP	Support of the Company's main line of business	Participation in the company's statutory capital	581 256 768,00	100	-	(3 396)	-	Construction of Verkhnebalkarskaya small HPP
LLC Fiagdonskaya Small HPP	Support of the Company's main line of business	Participation in the company's statutory capital	80 417 115,49	100	-	(11 879)	-	Construction of Fiagdonskaya small HPP
LLC Small HPPs of Stavropol and Karachaevo-Cherkessia	Support of the Company's main line of business	Participation in the company's statutory capital	219 856 801,28	100	-	-	-	Construction of smaller HPPs in Karachaevo-Cherkessia
JSC RGS	Support of the Company's main line of business	Participation in the company's statutory capital	3 809 000,00	100	179 548	36 454	-	Consultancy services
JSC Blagoveshchensk HPP	Support of the Company's main line of business	Participation in the company's statutory capital	4 285 020 000,00	100	238 139	185 698	-	CHPP construction
JSC Sahalin GRES-2	Support of the Company's main line of business	Participation in the company's statutory capital	15 011 980 000,00	100	-	488 067	-	RPP construction
JSC Yakutskaya GRES-2	Support of the Company's main line of business	Participation in the company's statutory capital	16 861 500 000,00	100	-	395 487	-	RPP construction
JSC HPP in Sovetskaya Gavan	Support of the Company's main line of business	Participation in the company's statutory capital	13 843 500 000,00	100	-	95 510	-	CHPP construction
JSC BoAZ Holding Company	Strategic and financial investment	Participation in the company's statutory capital	500 000,00	100	-	(1 221)	-	Investment
JSC BoGES Holding Company	Strategic and financial investment	Participation in the company's statutory capital	500 000,00	100	-	(1 276)	-	Investment

\* No information concerning the earnings and net profit of Irkutskenergo OJSC, Krasnoyarskaya HPP PLC, Inter RAO PLC, Bank of Cyprus Public Company Ltd., Zharki OJSC, JSC «Non-state pension Fund of electric power industry» as they are not affiliated companies and/or joint ventures of the RusHydro Group, and are not a part thereof. The Company has no access to the account of the said companies.

\*\* Data provided by consolidated in accordance with IFRS (Dutch GAAP).

\*\*\* Dividends in non-monetary form (agreement to assign).

#### 4. Information Concerning All Forms of the Company's Participation in Non-Commercial Entities, Including the Entity Name, Date of Joining, Subscription Fee in RUB/ other currency, Area of the Entity's Activities

№ p/p	Name of the Entity	Area of Activities	Year of Joining and Relevant Resolution Details	Yearly Membership Subscription
<b>Non-Residents</b>				
1	International Association, IHA      Hydropower	Support and dissemination of hydro power industry knowledge under the auspices of UNESCO International Hydrological Program	<b>2006</b> Extract from the RAO UES Board Resolution Protocol No. 47 dated 21.12.2006	13 200 GBP
2	Global Sustainable Partnership, GSEP      Energy	Elaboration of joint policy platforms and implementation of relevant initiatives, both on domestic markets and internationally	<b>2008</b> Extract from the PJSC RusHydro Board Resolution Protocol No. 59 dated 18.07.2008	150 000 CAD
<b>TOTAL</b>				<b>12 000 GBP</b>
<b>TOTAL</b>				<b>150 000 CAD</b>
<b>Russian Residents</b>				
3	Market Council NP	Arrangement of electric power trade in the Wholesale market	<b>2008</b> Extract from the HydroOGK OJSC Board Resolution Protocol No. 48 dated 03.03.2008	5 092 000,0
4	Association of land and property owners and investors.	The partnership serves a discussion panel used by PJSC RusHydro to promote its interests and dialogue with the government authorities concerning improvement of the legal environment in the area of land and property ownership.	<b>2012</b> Extract from the PJSC RusHydro Board Resolution Protocol No. 168 dated 30.11.2012	300 000,0

5	Hydro Energy of Russia NP	Improvement of efficiency of hydro power facilities and hydro resources	<b>2008</b> Protocol of Supervisory Board meeting of Hydro Energy of Russia NP No. 4 dated 18.02.2008	6 775 000,0
6	All-Russian Association of Employers "Russian Union of Industrialists and Entrepreneurs" (AAE RUIE)	Protection of the members' social and economic interests and legal rights necessary for their companies' and economy's sustainable development	<b>2006</b> Extract from the HydroOGK OJSC Board Resolution Protocol No. 4 dated 18.02.2008	400 000,0
7	Council of Energy Industry Veterans NP	Promotion of the members' activities in comprehensive support of the energy industry veterans	<b>2008</b> Extract from the HydroOGK OJSC Board Resolution Protocol No. 50 dated 04.04.2008	15 000 000,0
8	Russian-Chinese Business Council NP	The Russian-Chinese Business Council was established to promote joint business projects of Russia and China, protection of mutual investment, settlement of corporate disputes and facilitation of cooperation between the Russian and Chinese business communities.	<b>2015</b> Extract from the PJSC RusHydro Board Resolution Protocol No. 13 dated 26.07.2015	750 000,0
9	Directors' Research and Innovations Club NP	The Club is a communications forum for the professionals in research, development and implementation of innovations	<b>2013</b> Extract from the RusHydro OJSC Board Resolution Protocol No. 183 dated 19.06.2013	330 000,0
10	Energostroiallians NP	Promotion of favorable business conditions for companies operating in construction, refurbishment and rehabilitation of permanent facilities and protection of the power industry against unreliable foreign and domestic entities	<b>2010</b> Extract from the PJSC RusHydro Board Resolution Protocol No. 102 dated 29.06.2008	444 000,0

11	Research & Technology Council of UES NP	Support to the Partnership members in the efforts to formulate the Research & Technology and Economic Policy of the Unified Energy System of Russia	<b>2008</b> Extract from the HydroOGK OJSC Board Resolution Protocol No. 50 dated 04.04.2008	1 500 000,0
12	RAEL NP	Support of business cooperation in the power industry through the protection of employers' interests in the social, labor, economic and other areas, their relationships with trade unions, government authorities, municipal bodies, and through development and implementation of an agreed socially responsible policy of the members.	<b>2006</b> Extract from the HydroOGK OJSC Board Resolution Protocol No. 18 dated 10.04.2006	2 450 000,0
13	UES CONS NP	Promotion of professional knowledge and improvement of entrepreneurship and professional qualifications of the power industry specialists and specialists in supporting industries (training); development and improvement of professional training system in the energy industry	<b>2008</b> Extract from the HydroOGK OJSC Board Resolution Protocol No. 47 dated 18.02.2008	2 500 000,0
<b>TOTAL, RUB</b>				<b>35 541 000,0</b>



## 5. Information Concerning Shares / Stakes Purchase Contracts made by PJSC RusHydro in 2016, Indicating the Parties to the Contracts, their Subject, Price and other Terms

### 1) Shares Purchase Contract dated 14.10.2016

#### Parties to the Contract:

Issuer: PJSC RusHydro TC

Purchaser: PJSC RusHydro

#### Subject of the Contract:

The Issuer undertakes to transfer the ownership of the Purchaser, and the Purchaser undertakes to pay and accept in the manner and time prescribed by this Agreement, the following securities are placed through private subscription, issued in accordance with the Decision on additional issue of securities of the Issuer, registered by the Bank of Russia 30.09.2016 (the «Shares»):

The name of the Issuer	Joint-Stock Company RusHydro Transport Company
Kind, category (type) of securities	Registered ordinary shares, uncertificated
The number of shares	613 687 513 (five hundred thirteen million six hundred thirteen thousand six hundred and eighty-seven) pieces
The nominal value of 1 share	1 (one) ruble
The placement price of 1 share	1 (one) ruble
Registration number of additional issue	1-01-40461-F-001D

The Purchaser agrees to pay for the Shares not later than 4 (four) working days prior to the end date of the placement of Shares determined in accordance with the Decision on the additional issue of Shares registered by the Bank of Russia 30.09.2016 (hereinafter – «payment Shares»).

The Purchaser pays 11 404 000 (Eleven million four hundred four thousand) Shares of the Issuer by transferring the property of the Issuer following immovable property:

Description of the property	Cadastral number	Address (location)	Cadastral number of the land plot	The entry in the unified state register	The price of property, rubles*
Name: Building Boxing on the economic court; area: 79.7 sq m; purpose: non-residential building.	64:40:000000:16185	Saratov region, Balakovo, the Saratov hydroelectric power station territory	64:40:010501:8	№ 64-64-27/008/2011-454 03.03.2011	500 000
Name: ABK carpool; area: 198,2 sq. m; purpose: non-residential building.	19:03:080104:133	Republic of Khakassia, Sayanogorsk, settlement Cheryomushki, D. 101	19:03:080104:96	№ 19-19-03/005/2008-230 26.02.2008	763 000
Name: the main building of the Depot; area: 7645,4 sq. m; purpose: non-residential	19:03:080104:137	Republic of Khakassia, Sayanogorsk, settlement Cheryomushki, D. 101	19:03:080104:96	№ 19-19-03/005/2008-231 26.02.2008	10 141 000

building.					
<b>TOTAL</b>					<b>11 404 000</b>

\* Price of the property determined in accordance with the report of the appraiser without VAT.

The total value of immovable property transferred as payment for the Shares under the Agreement is 11 404 000 (Eleven million four hundred four thousand) rubles.

The remaining Shares, the Purchaser pays by cashless transfer of funds to the account of the Issuer specified in paragraph 9 of the Agreement, or any other details specified in the decision on additional issue of Shares and/or by offset of counter homogeneous monetary claims against the Issuer.

## **2) Shares Purchase Contract dated 23.12.2016**

### Parties to the Contract:

Issuer: JSC «Sahalin GRES-2»

Purchaser: PJSC RusHydro

### Subject of the Contract:

The Issuer undertakes to transfer the ownership of the Purchaser the following shares placed by private subscription, issued in accordance with the Decision on additional issue of securities of the Issuer, registered by the Bank of Russia 23.12.2016 (the «Shares»):

The name of the Issuer	Joint-Stock Company «Sahalin GRES-2»
Kind, category (type) of securities	Registered ordinary shares, uncertificated
The number of shares	2 016 480 000 (Two billion sixteen million four hundred eighty thousand) pieces
The nominal value of 1 share	1 (one) ruble
The placement price of 1 share	1 (one) ruble
Registration number of additional issue	1-01-58922-N-002D

The Purchaser agrees to purchase and pay for the Shares not later than 3 (three) working days prior to the end date of the placement of Shares determined in accordance with paragraph 8.2 the Decision on the additional issue of Shares.

The Purchaser pays the Issuer's Shares by transferring funds to any Bank account of the Issuer specified in paragraph 8 of this Agreement and/or other details specified in the decision on additional issue of Shares.

The Purchaser can make the payment for the Contract period one or more payments (hereinafter – «payment date of the Shares»).

\*\*\*

Society in 2016 were not concluded contracts of purchase and sale of shares and shares in economic partnerships and societies.

## 6. Information on the General Meetings of Shareholders

Date, Number	Protocol	Item Number and Title
27.06.2016, No. 15		<ol style="list-style-type: none"> <li>1. Approval of the Company's Annual Report for 2015.</li> <li>2. Approval of annual accounting reports including the Company's 2015 Financial Statements.</li> <li>3. Approval of the Company's 2015 profit distribution.</li> <li>4. Size of dividends for 2015, term and method of dividend payments, determination of the date, for which the list of persons entitled to dividends shall be made.</li> <li>5. Remuneration of the Directors (Board Members) who are not government officials in compliance with the Company's internal regulations.</li> <li>6. Approval of the Regulations on payment of remunerations and compensations to the members of the Board of Directors in the new edition.</li> <li>7. Election of the members of the Company's Board of Directors.</li> <li>8. Election of the Company's Auditing Commission (Auditor).</li> <li>9. Appointment of the Company's Auditor.</li> <li>10. Approval of the Charter in the new edition.</li> <li>11. Approval of the Regulations on the procedure for convening and holding the General meeting of shareholders of the company in the new edition.</li> <li>12. Approval of the Regulations on the procedure for convening and holding meetings of the Board of Directors of the company in the new edition.</li> <li>13. Approval of the Regulations on the auditing Commission of the company in the new edition.</li> <li>14. Approval of the Regulations on payment of remunerations and compensations to members of the audit Commission of the company in the new edition.</li> <li>15. On approval of transactions in which the interest exists.</li> </ol>

## 7. Information on the Meetings of the Board of Directors

Date, Protocol Number and Title	Date, Protocol Number Item Number and Title
20.02.2016, № 231	<ol style="list-style-type: none"> <li>1. On the Register of non-core assets of PJSC RusHydro.</li> <li>2. On the progress of the construction of Zagorsk PSHPP-2.</li> <li>3. On consideration of the reports of the Chairmen of the Committees at the Board of Directors of PJSC RusHydro on the results of activity during the year 2015.</li> </ol>
25.02.2016, № 232	<ol style="list-style-type: none"> <li>1. On approval of the report on implementation of Charitable and Sponsorship Program of PJSC RusHydro for 2015.</li> <li>2. On approval of the Charitable and Sponsorship Program of PJSC RusHydro for 2016.</li> <li>3. On the Company's priority activities.</li> <li>4. On approval of the transactions concluded by the Company.</li> <li>5. On enforcement of the resolutions adopted by the Board of Directors of PJSC RusHydro.</li> <li>6. On the formation of management entities of PJSC RusHydro.</li> </ol>
30.03.2016, № 233	<ol style="list-style-type: none"> <li>1. On approval of a Report on the insurance protection of PJSC RusHydro for 2015.</li> <li>2. On approval of a Regulation on business planning system of PJSC RusHydro.</li> <li>3. On approval of a Supplementary agreement (standard) to the Collective agreement of PJSC RusHydro Branch for 2014-2016.</li> <li>4. On the Company's priority activities.</li> <li>5. On approval of transactions concluded by the Company.</li> <li>6. On approval of the Company's internal documents.</li> <li>7. On issues of the Committees under the Board of Directors of the Company.</li> </ol>
07.04.2016, № 234	<ol style="list-style-type: none"> <li>1. On consideration of proposals of the Company's shareholders regarding nomination of persons to be elected to management and control bodies of PJSC RusHydro.</li> <li>2. On consideration of proposals of the Company's shareholders to include items in the agenda of the annual General Meeting of Shareholders of PJSC RusHydro.</li> </ol>
08.04.2016, № 235	<ol style="list-style-type: none"> <li>1. On the Company's priority activities.</li> <li>2. On approval of the Company's internal documents.</li> </ol>
12.05.2016, № 236	<ol style="list-style-type: none"> <li>1. On approval of the agenda of the Annual General Meeting of the Company's Shareholders.</li> <li>2. On preliminary approval of the Company's Annual Report for 2015.</li> <li>3. On consideration of the Company's annual financial statements for 2015.</li> <li>4. On recommendations to the Annual General Meeting of the Company's Shareholders regarding: the approval of distribution of the Company's earnings based on the results of 2015.</li> <li>5. On recommendations to the Annual General Meeting of the Company's Shareholders regarding: the size of dividends, the period and the form of payment based on the results of 2015 and the establishment of the date on which persons entitled to receive dividends are to be determined.</li> <li>6. On recommendations to the Annual General Meeting of the Company's Shareholders regarding: the payment of remuneration to the members of the Board of Directors who are not civil servants for activity in the membership of the Board of Directors of the Company in the amount established by the Company's internal documents.</li> <li>7. On recommendations to the Annual General Meeting of the Company's Shareholders regarding the nomination for the Company's Auditor.</li> <li>8. On recommendations to the Annual General Meeting of the Company's Shareholders regarding: the approval of the Company's Articles of Association in a new version.</li> <li>9. On recommendations to the Annual General Meeting of the Company's Shareholders regarding: the approval of the Regulation on the procedure for</li> </ol>

	<p>convening and holding the General Meeting of the Company's Shareholders in a new version.</p> <p>10. On recommendations to the Annual General Meeting of the Company's Shareholders regarding: the approval of the Regulation on the procedure for convening and holding meetings of the Board of Directors of the Company in a new version.</p> <p>11. On recommendations to the Annual General Meeting of the Company's Shareholders regarding: the adoption of the Regulation on the Audit Committee of the Company in a new version.</p> <p>12. 12. On recommendations to the Annual General Meeting of the Company's Shareholders regarding: the adoption of the Regulation on remuneration and reimbursement to the members of the Audit Committee of the Company in a new version.</p> <p>13. On recommendations to the Annual General Meeting of the Company's Shareholders regarding: the termination of participation of PJSC RusHydro in NP KONTZ UES.</p> <p>14. On recommendations to the Annual General Meeting of the Company's Shareholders regarding: the approval of non-arm's length transactions.</p> <p>15. On the issues related to convening, preparing and holding the Annual General Meeting of the Company's Shareholders.</p>
31.05.2016, № 237	<p>1. On interim results of implementation of the Company's Business Plan for 2016 taking into account actual figures for the first quarter of 2016 (including reports on implementation of the Investment Program (in particular, the Comprehensive Modernization Program for Generating Facilities) and the Annual Comprehensive Procurement Plan for the first quarter of 2016).</p> <p>2. On approval of a report regarding the compliance with the Company's Key Performance Indicators for the first quarter of 2016.</p> <p>3. On the Company's priority activities.</p> <p>4. On the Company's internal documents.</p> <p>5. On defining the position of PJSC RusHydro (representatives of PJSC RusHydro) on the agenda items of the subsidiaries' management bodies.</p> <p>6. On determining the amount of payment for the services of the Company's Auditor.</p>
08.06.2016, № 238	<p>1. On implementation of the Company's Business Plan for 2015 (including reports on implementation of the Investment Program (in particular, the Comprehensive Modernization Program for Generating Facilities) and the Annual Comprehensive Procurement Plan for 2015).</p> <p>2. On approval of a report regarding the compliance with the Company's Key Performance Indicators for the fourth quarter of 2015 and 2015.</p> <p>3. On consideration of a report on the implementation of the Strategic Plan of PJSC RusHydro for the period until 2015 with an outlook for 2020.</p> <p>4. On approval of the Development Strategy of RusHydro Group for the period until 2020 with an outlook for 2025.</p>
23.06.2016, № 239	<p>1. On consideration of a Report of activity of the Management Board of the Company for 2015.</p> <p>2. On consideration of reports of Chairmen of the Committees under the Board of Directors on the results of activity for 2015.</p> <p>3. On enforcement of the resolutions adopted by the Board of Directors of the Company.</p> <p>4. On the Company's priority activities.</p> <p>5. On the Company's internal documents.</p>
11.08.2016, № 240	<p>1. On election of the Chairman of the Board of Directors of the Company.</p> <p>2. On election of the Deputy Chairman of the Board of Directors of the Company</p> <p>3. On the formation of the Committees to the Board of Directors of the Company.</p> <p>4. On the Company's priority activities.</p> <p>5. On approval of transactions concluded by the Company.</p>
23.09.2016, № 241	<p>1. On approval of the Action Plan of the Board of Directors of PJSC RusHydro for the 2nd half of 2016.</p> <p>2. On interim results of implementation of the Company's Business Plan for 2016 taking into account actual figures for the 1st half of 2016 (including reports on implementation of the Investment Program (in particular, the Comprehensive Modernization Program for Generating Facilities) and the Annual Comprehensive Procurement Plan for the 1st half of 2016).</p> <p>3. On consideration of the consolidated Business Plan (including the consolidated Investment Program) of RusHydro Group for 2016-2020 and amendments to Annex 2 to the Company's Business Plan for 2016-2020 in terms of the target value of KPI Return on equity (ROE).</p> <p>4. On approval of a report on implementation of the Innovation Development Program of PJSC RusHydro for 2011-2015 with an outlook for 2021 in 2015.</p>

	5. On the Company's priority activities.
10.10.2016, № 242	<ol style="list-style-type: none"> <li>1. On enforcement of the resolutions adopted by the Board of Directors of the Company.</li> <li>2. On the Company's priority activities.</li> <li>3. On compliance with the Key Performance Indicators for the 2nd quarter of 2016 by PJSC RusHydro.</li> <li>4. On approval of transactions concluded by the Company.</li> <li>5. On approval of the Company's internal documents.</li> </ol>
14.11.2016, № 243	<ol style="list-style-type: none"> <li>1. On approval of the Typical Collective Agreement of PJSC RusHydro Branch for 2017-2019.</li> <li>2. On preliminary approval of the resolutions on carrying out Company's transactions with shares and stakes of entities with equity participation by the Company.</li> <li>3. On the Company's priority activities.</li> <li>4. On ceasing equity participation and on participation of the Company in other entities.</li> <li>5. On determination of the position of PJSC RusHydro (representatives of PJSC RusHydro) on the agenda items of the subsidiaries' management entities.</li> <li>6. On approval of transactions carried out by the Company.</li> </ol>
23.11.2016, № 244	<ol style="list-style-type: none"> <li>1. On approval of the report on implementation of the Innovation Development Program of PJSC RusHydro for 2011-2015 with an outlook until 2021 for 2015.</li> <li>2. On approval of the Innovation Development Program of RusHydro Group for 2016 - 2020 with an outlook until 2025.</li> <li>3. On the implementation of the Long-Term Development Program of RusHydro Group for the 1<sup>st</sup> half of 2016.</li> <li>4. On approval of the Long-Term Development Program of RusHydro Group for 2016 – 2020</li> <li>5. On the Company's priority activities.</li> <li>5.1. <i>On the Cost Optimization Activities Plan based on the results of the independent external audit of the Company's costs, taking into account its subsidiaries.</i></li> <li>6. On the Company's priority activities: On approval of the structure of transactions as part of the debt refinancing on credits and loans of the companies of RAO ES of the East Holding.</li> <li>7. On approval of the non-deliverable shares forward transaction between PJSC RusHydro and VTB Bank (PJSC).</li> <li>8. On pricing of placing of Company's additional shares.</li> <li>9. On increase of the Company's Authorised Capital.</li> <li>10. On approval of the decision on the additional issue of the Company's securities.</li> <li>11. On approval of the Company's Securities Prospectus.</li> <li>12. On the Company's priority activities: On transactions with the Company's shares owned by the companies incorporated in RusHydro Group.</li> <li>13. On determining the position of PJSC RusHydro (the representatives of PSC RusHydro) on the agenda item of the meeting of JSC Hydroinvest management entities: "On approval of the major transaction carried out by JSC Hydroinvest."</li> </ol>
26.12.2016, № 245	<ol style="list-style-type: none"> <li>1. On the Company's business-plan.</li> <li>2. On approval of the Annual Comprehensive Procurement Plan of the Company for 2017.</li> <li>3. On approval of the report on compliance with Key Performance Indicators of PJSC RusHydro for the 3<sup>rd</sup> quarter of 2016.</li> <li>4. On approval of the List of Annual Key Performance Indicators of the members of the Management Board of PJSC RusHydro for 2017, the target values of annual key performance indicators of the members of the Management Board of PJSC RusHydro for 2017 (including the methodology of calculation and evaluation of key performance indicators of the members of the Management Board of PJSC RusHydro).</li> <li>5. On the status of implementation of priority projects for the construction of 4 facilities in the Far East (Yakutskaya SDPP-2 (the 1<sup>st</sup> stage), the 2<sup>nd</sup> stage of Blagoveshchenskaya CHPP, CHPP in Sovetskaya Gavan, Sakhalinskaya SDPP-2 (the 1<sup>st</sup> stage).</li> <li>6. On approval of the Insurance Protection Program of PJSC RusHydro for 2017.</li> </ol>
27.12.2016, № 246	<ol style="list-style-type: none"> <li>1. Take note of the interim results of implementation of the Company's Business Plan for 2016 taking into account actual figures for 9 months of 2016 (including reports on implementation of the Investment Program (in particular, the Complex Modernization Program for Generating Facilities), the</li> </ol>

	<p>Annual Comprehensive Procurement Plan for 9 months of 2016 and the Report on the Implementation of the Set of Measures (list of activities) to reduce operating expenses (costs) for 9 months of 2016).</p> <ol style="list-style-type: none"><li>2. On the Company's priority activities.</li><li>3. On the Company's equity participation and termination of equity participation in other organisations.</li><li>4. On approval of the Company's transactions.</li></ol>
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Resolutions of the meetings could be found under the link: <http://www.eng.rushydro.ru/governance/board/minutes/2016/>

## 8. Information on the Meetings of the Committees under the Board of Directors

### Far East energy development Committee

Date, Number	Protocol	Item Number and Title
19.09.2016, No. 1		<ol style="list-style-type: none"> <li>1. Election of Vice-Chairman of the Committee on energy development of the Far East under the Board of Directors of PJSC RusHydro.</li> <li>2. Election of the Secretary of the Committee on energy development of the Far East under the Board of Directors of PJSC RusHydro.</li> <li>3. Approval of the work Plan of the Committee on energy development of the Far East under the Board of Directors of PJSC RusHydro for 2016-2017.</li> <li>4. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On the priority directions of the company activities: On the implementation of renewable energy projects".</li> </ol>
22.12.2016, No. 2		<ol style="list-style-type: none"> <li>1. On the outcome of the Eastern economic forum -2016.</li> <li>2. The status of power supply to priority development areas and infrastructure facilities of the gas transportation system "Power of Siberia".</li> <li>3. On the recommendations of the Board of Directors on the issue: "On the status of implementation of priority projects on construction of 4 facilities in the far East: Yakut GRES-2 (1st stage, 2nd stage of the Blagoveshchenskaya TPP, TPP in Sovetskaya Gavan, the Sakhalin GRES-2 (1st stage).</li> <li>4. On the recommendations of the Board of Directors on the issue: On approval of loan Agreements between PJSC RusHydro and JSC «RAO ES of the East» are transactions in which the interest exists.</li> </ol>

### Strategy Committee

Date, Number	Protocol	Item Number and Title
05.04.2016, No. 84		<ol style="list-style-type: none"> <li>1. Preliminary consideration of the issue "On approval of Strategy of development of the Group RusHydro for the period till 2020 with prospect till 2025".</li> <li>2. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On consideration of the report on the implementation of the Strategic plan of PJSC RusHydro for the period till 2015 and on prospect till 2020".</li> </ol>
12.05.2016, No. 85		<ol style="list-style-type: none"> <li>1. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On approval of development strategy of the RusHydro Group for the period up to 2020 with prospect till 2025".</li> </ol>
27.05.2016, No. 86		<ol style="list-style-type: none"> <li>1. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On consideration of the report of the Chairman of the strategy Committee under the Board of Directors of the company on results of activities for the 2015 corporate year."</li> </ol>
03.06.2016, No. 87/50		<ol style="list-style-type: none"> <li>1. Questions on the development strategy of the RusHydro Group for the period up to 2020 with a perspective until 2025.</li> <li>2. On priority activities of the company (Confidential): <ol style="list-style-type: none"> <li>2.1 Detailed analysis of the system of material motivation of the management, PJSC RusHydro;</li> <li>2.2. The principles of the formation of the amount of the bonus Fund of management of PJSC RusHydro.</li> </ol> </li> <li>3. The method of calculation and evaluation of the implementation of the performance indicator TSR and other KPIs of management of PJSC RusHydro.</li> </ol>
05.10.2016, No. 88		<ol style="list-style-type: none"> <li>1. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On approval of the Regulations on the strategy Committee under the Board of Directors of PJSC RusHydro in new edition".</li> <li>2. Approval of the work plan of the strategy Committee under the Board of Directors of PJSC RusHydro for the 2nd half of 2016.</li> <li>3. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "approval of transactions of the Society."</li> <li>4. Election of the Secretary of the strategy Committee under the Board of Directors of PJSC RusHydro.</li> </ol>
27.10.2016, No. 89		<ol style="list-style-type: none"> <li>1. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On course of implementing Long-term development program of RusHydro Group for the 1st half of 2016".</li> </ol>
02.11.2016,		<ol style="list-style-type: none"> <li>1. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On determination of the position of PJSC RusHydro (representatives of PJSC</li> </ol>



No. 90	RusHydro) on the agenda of the management body of the JSC "RAO ES of the East": "to increase the authorized capital of OAO "RAO ES of the East" by placing additional shares."
10.11.2016, No. 91	<ol style="list-style-type: none"> <li>1. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "the plan of measures to optimize costs on the basis of the results of the independent external audit costs, Companies with affiliated organizations."</li> <li>2. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On approval of Long-term development program of RusHydro Group for the period 2016 – 2020".</li> <li>3. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On determination of the position of PJSC RusHydro (representatives of PJSC RusHydro) on the following question of the agenda of the meeting of the Board of Directors of JSC "ESK RusHydro "On the approval of contracts of purchase and sale of the shares in the Charter capital of LLC "ESKB" by JSC "ESC RusHydro is a major interrelated transactions and transactions related to alienation of shares of the company, a child of JSC "ESK RusHydro" and engaged in the sale of electric energy".</li> </ol>
21.11.2016, No. 92	1. On the recommendations of the Board of Directors of PJSC RusHydro on refinancing of debt of RAO ES of the East.
12.12.2016, No. 93	1. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "the termination of participation in other organizations".
21.12.2016, No. 94	<ol style="list-style-type: none"> <li>1. On the recommendations of the Board of Directors of PJSC RusHydro on the issue "Approval of the non-deliverable forward transactions of shares between PJSC RusHydro and VTB Bank (PJSC)".</li> <li>2. On the recommendations of the Board of Directors of PJSC RusHydro on the issue "On the transfer of PJSC RusHydro cash in subsidiaries of JSC "RAO ES of the East".</li> </ol>
26.12.2016, No. 95	<ol style="list-style-type: none"> <li>1. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On approval of transactions with shares of organizations in which the company participates".</li> <li>2. On the recommendations of the Board of Directors on the issue: "On termination of participation in other organizations".</li> <li>3. On the recommendations of the Board of Directors on the issue: "On determination of the position of the Society (representatives of Society) in the management bodies of JSC "Holding company Boges" on the question "On participation in other organizations"".</li> <li>4. On the recommendations of the Board of Directors on the issue: "On determination of the position of the Society (representatives of Society) in the management bodies of subsidiaries".</li> <li>5. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On consideration of the report of the Chairman of the strategy Committee under the Board of Directors on the results of operations for the year 2016".</li> </ol>

### Audit Committee

Date, Protocol Number	Item Number and Title
16.02.2016, No. 77	1. On determination of priority directions of activity: consideration of the results of routine field inspection of energy of the Russian Federation "The implementation of the investment project "Zaramagsky HPP", under the investment program of PJSC RusHydro for 2014 – 2016".
20.02.2016, No. 78	<ol style="list-style-type: none"> <li>1. About the Report of JSC "PricewaterhouseCoopers Audit" (Auditor) on the results of the interim audit of financial statements under RAS for 9 months of 2015.</li> <li>2. Report on the compliance by the company with the requirements of the legislation of the Russian Federation in the field of combating illegal use of insider information and market manipulation and of the Regulations on insider information of PJSC RusHydro for the 4th quarter of 2015.</li> <li>3. On execution of the schedule of control measures of PJSC RusHydro for the 4th quarter of 2015.</li> </ol>
15.03.2016, No. 79	1. On consideration of the plans of measures on elimination of the remarks revealed by the results of field tests, the Ministry of energy of the implementation of the project "Construction of Yakutskaya GRES-2 (1st stage); the implementation of the project "Construction of Blagoveshchenskaya CHPP (2nd stage); the

	implementation of the project "Construction of CHPP in Sovetskaya Gavan"; the implementation of the project "Construction of Sakhalinskaya GRES-2 (1st stage).
24.03.2016, No. 80	1. On review of the updated work Plan of the audit Commission of PJSC RusHydro in 2016.
25.03.2016, No. 81	1. On consideration of materials on anti-corruption activities of the company, for consideration of the Board of Directors of the company. 2. On the review of the Integrated program of anti-corruption activities of PJSC RusHydro (2016 – 2019), and Report on the implementation of the action Plan for the implementation of the Comprehensive program for the prevention of the Commission by employees of PJSC RusHydro illegal actions for 2015.
28.04.2016, No. 82	1. On the recommendations of the Board of Directors on the issue: On preliminary approval and recommendations to the General meeting of shareholders to approve the Annual report of the company. 2. On the recommendations of the Board of Directors on the question of the annual accounting statements, including the Report on financial results of the company prepared in accordance with Russian accounting standards for the year 2015. 3. About the audit report of the company's Auditor for the audit of financial statements of the company prepared in accordance with Russian accounting standards for the year 2015. 4. About the Report of JSC "PricewaterhouseCoopers Audit" (Auditor) on the results of the audit of financial statements of the company prepared in accordance with Russian accounting standards for the year 2015. 5. On the recommendations of the Board of Directors on the candidacy of the Auditor of the company for 2016. 6. On the recommendations of the Board of Directors for determining the amount of remuneration to the Auditor of the Society for 2016. 7. On the Conclusion of the auditing Commission on the results of the audit of the company for 2015. 8. On the recommendations of the Board of Directors of PJSC RusHydro on the issue of the regulation on the audit Commission of the company in the new edition. 9. On the recommendations of the Board of Directors of PJSC RusHydro on the issue of regulations on remuneration and compensation to members of the audit Commission of the company in the new edition. 10. Consideration of the results of the evaluation of the effectiveness of the risk management system of the company. 11. On consideration of the auditor's opinion on the implementation in 2015 of a long-term program of development of Society.
18.05.2016, No. 83	1. Report on the observance of PJSC RusHydro of requirements of the legislation of the Russian Federation in the field of combating illegal use of insider information and market manipulation and of the Regulations on insider information of the company for the 1st quarter of 2016. 2. About the report of JSC "PricewaterhouseCoopers Audit" the audit of the consolidated financial statements of RusHydro Group under IFRS for the year ended 31 December 2015. 3. On execution of the schedule of control measures of PJSC RusHydro for the 1st quarter of 2016. 4. Approval of the report about results of activity of the audit Committee under the Board of Directors for 2015 corporate year.
27.05.2016, No. 84	1. On the recommendations of the Board of Directors on the issue: "About execution of the Federal property Agency "On the preparation of the roadmap for organization of risk management processes and internal control in preventing and combating corruption". 2. On the outcome of the procurement activities of PJSC RusHydro for 2015, analysis of corruption risks in the implementation of the Society of procurement activities and mechanisms aimed at minimization of corruption risks. 3. On consideration of the Regulations on the audit Committee of the Board of Directors of PJSC RusHydro in a new edition.
10.06.2016, No. 85	1. On the outcome of the analysis of corruption risks in the implementation of Society projects of capital construction of PJSC RusHydro for 2015 and mechanisms to minimize corruption risks. 2. Approval of the report about results of activity of the audit Committee under the Board of Directors for 2015 corporate year.
24.06.2016, No. 86	1. Proposals for improving the effectiveness of the company's audit of the DWP in 2015
19.08.2016, No. 87	1. Election of Vice-Chairman of the audit Committee. 2. Appointment of the Secretary of the audit Committee. 3. On execution of the schedule of control measures of PJSC RusHydro for the 2nd quarter of 2016. 4. Report on the observance of PJSC RusHydro of requirements of the legislation of the Russian Federation in the field of combating illegal use of insider information and market manipulation and of the Regulations on insider information of the company for the 2nd quarter of 2016. 5. On determination of priority lines of action: On the results of the implementation of the plan of measures on elimination of the remarks revealed the Ministry of

	energy of Russia on results of a field test "the implementation of the investment project "Zaramagsky HPP", under the investment program of PJSC RusHydro for 2014 – 2016".
28.09.2016, No. 88	<ol style="list-style-type: none"> <li>1. On approval of the work plan of the audit Committee of the Board of Directors of PJSC RusHydro on the 2nd half of 2016.</li> <li>2. On the recommendations of the Board of Directors of PJSC RusHydro on the issue "Approval of the Report on corporate social responsibility and sustainable development the RusHydro Group in 2015".</li> <li>3. On the recommendations of the Board of Directors of PJSC RusHydro on the issue "On approving Policy of internal audit of PJSC RusHydro.</li> <li>4. About The Registrar Of Companies.</li> </ol>
12.10.2016, No. 89	1. Consideration of the results of a field test of the Ministry of energy of the implementation of investment projects "Reconstruction of turbines, a Branch of PJSC RusHydro - "Cheboksary HPP", "Modernization of hydraulic units, a Branch of PJSC RusHydro - "Cheboksary HPP" and consideration of action Plans to address the comments received by the PJSC RusHydro that provide input of objects in operation.
25.11.2016, No. 90	<ol style="list-style-type: none"> <li>1. Report on the compliance by the company with the requirements of the legislation of the Russian Federation in the field of combating illegal use of insider information and market manipulation and of the Regulations on insider information of PJSC RusHydro for 3Q 2016.</li> <li>2. On execution of the schedule of control measures of PJSC RusHydro in the 3rd quarter of 2016.</li> </ol>
29.11.2016, No. 91	<ol style="list-style-type: none"> <li>1. The Plan of JSC "PricewaterhouseCoopers Audit" (Auditor) on the audit of the Group RusHydro for the year 2016.</li> <li>2. About the Report of JSC "PricewaterhouseCoopers Audit" (Auditor) on the results of the interim audit of financial statements of the company for the company for 6 months in 2016.</li> <li>3. About the Report of JSC "PricewaterhouseCoopers Audit" (Auditor) on the results of audit of consolidated interim condensed financial information of the RusHydro Group under IFRS for 6 months ended 30 June 2016.</li> <li>4. On the recommendations of the Board of Directors of PJSC RusHydro on the issue "On consideration of the results of a field test of the Ministry of energy of the implementation of investment projects "Reconstruction of turbines, a Branch of PJSC RusHydro - "Cheboksary HPP", "Modernization of hydraulic units, a Branch of PJSC RusHydro - "Cheboksary HPP" and consideration of action plans on elimination of the revealed remarks that were taken Of PJSC RusHydro that provide input of objects in operation.</li> <li>5. On the recommendations of the Board of Directors of PJSC RusHydro on the issue "On consideration of the results of field tests, the Ministry of energy of the implementation of investment projects "Construction of the 2nd stage of the Annunciation CHP", "Construction of CHPP in Sovetskaya Gavan, Construction of Yakutskaya GRES-2 (1st place), "Construction of Sakhalinskaya GRES-2 (1st stage)" and consideration of action plans on elimination of the revealed comments received by the PJSC RusHydro that provide input of objects in operation.</li> </ol>
14.12.2016, No. 92	<ol style="list-style-type: none"> <li>1. On the recommendations of the Board of Directors on the issue: "On approval of insurance protection Program of PJSC RusHydro for 2017".</li> <li>2. About manage strategic risks Companies 2016-2017</li> <li>3. On approval of the schedule of control actions of service of internal audit of PJSC RusHydro in 2017.</li> </ol>

### HR and Remuneration Committee

Date, Protocol Number	Item Number and Title
12.02.2016, No. 48	1. On the recommendations of the Board of Directors on the issue "On the formation of management bodies of PJSC RusHydro: the education of a member of the Board of PJSC RusHydro
17.03.2016, No. 49	<ol style="list-style-type: none"> <li>1. Election of the Secretary of the Committee for personnel and remuneration under the Board of Directors.</li> <li>2. On the recommendations of the Board of Directors of the company on issue "On approving the Additional agreement (model) to the collective agreement of the branch of PJSC RusHydro for 2014-2016"</li> </ol>
27.04.2016, No. 50	<ol style="list-style-type: none"> <li>1. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On recommendations to the annual General meeting of shareholders on the issue: "approval of the Regulations on payment of remuneration and compensations to the members of the Board of Directors of the company in new revision".</li> <li>2. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On recommendations to the annual General meeting of shareholders on the issue: "payment to members of the Board of Directors of the company of remunerations and compensations"</li> </ol>

	3. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On termination of participation of PJSC RusHydro in non-commercial partnership "Corporate educational and scientific center of Unified energy system". 4. On priority activities of the company CONFIDENTIALLY.
16.06.2016, No. 51	1. On approval of the report on the activities of the Committee for personnel and remuneration under the Board of Directors of the company during the period from 01.06.2015 17.06.2016 on.
22.06.2016, No. 52	1. Preliminary review of Provisions on the Committee for personnel and remuneration (nominations) the Board of Directors of PJSC RusHydro in a new edition.

### Investment Committee

Date, Protocol Number	Item Number and Title
17.02.2016, No. 74	1. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On the construction of Zagorskaya PSP-2". 2. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On approval of the Report on the implementation of activities in 2015, approved by the Registry of non-core assets". 3. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On approval of the Registry of non-core assets of PJSC RusHydro for 2016".
19.02.2016, No. 75	1. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On the transactions connected with gratuitous transfer of property." 2. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On approval of the agreement between PJSC RusHydro and JSC "so UES", being a transaction in an interest". 3. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On approval of Additional agreement to the Agreement between PJSC RusHydro and Voith GmbH & Co. KG, which is a transaction which constitutes an interested party". 4. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On approving the additional agreement to the surety agreement between PJSC RusHydro and JSC Sberbank, being a transaction in an interest".
22.03.2016, No. 76	1. Approval of the report on insurance protection of PJSC RusHydro in 2015. 2. Approval of report on carrying out public technological and price audit of investment projects in 2015. 3. About approval "Provisions on the system of business planning of PJSC RusHydro. 4. About the priority directions of activity of the Companies. 4.1. On the status of implementation of priority projects on construction of 4 facilities in the far East: Yakut GRES-2(1st stage), 2nd phase of the Blagoveshchenskaya TPP, TPP in Sovetskaya Gavan, the Sakhalin GRES-2 (1st stage). 5. On approval transactions made by the company. 5.1. On approval of contract of lease of immovable property concluded between PJSC RusHydro and JSC "FGC UES", being a transaction in interest.
24.03.2016, No. 77	1. About the priority directions of activity of the Companies. 1.1. Preliminary approval of draft investment programs of PJSC RusHydro for the year 2016 (adjustment) and 2017-2019 in order for the disclosure of information about projects of investment programs of PJSC RusHydro in accordance with the decree of the Government of the Russian Federation of 21.01.2004 No. 24.

04.05.2016, No. 78	<ol style="list-style-type: none"> <li>1. On the recommendations of the Board of Directors on the issue: "On consideration of the report on execution of the Business plan of the company for 2015 (including reports on execution of Investment program (including comprehensive modernization Program of generating facilities) and the Annual integrated purchasing program in 2015)".</li> <li>2. On the recommendations of the Board of Directors on the issue: "On approval of the list of investment projects for carrying out public technological and price audit in the period of 2016-2017 years".</li> <li>3. On the recommendations of the Board of Directors on the issue: "On approval of the report on execution of key performance indicators of the company for the 4th quarter of 2015 and 2015."</li> <li>4. On the recommendations of the Board of Directors on the issue: "On recommendations to the annual General meeting of shareholders on the issue: the amount of dividends, terms and form of payment by results of work for the year 2015 and fixing a date for determination of persons entitled to receive dividends".</li> <li>5. On the recommendations of the Board of Directors on the issue: "On recommendations to the annual General meeting of shareholders on distribution of profits of the company by results of 2015".</li> <li>6. About determination of the position of PJSC RusHydro (representatives of PJSC RusHydro) on the agendas of management bodies of subsidiaries.</li> <li>6.1. About determination of the position of PJSC RusHydro (representatives of PJSC RusHydro) on the agenda of the management body of JSC "holding company Boges": "On approval of conclusion of the loan agreement between PJSC RusHydro and JSC "holding company Boges", a major transaction".</li> <li>6.2. About determination of the position of PJSC RusHydro (representatives of PJSC RusHydro) on the agenda of the management body of JSC "holding company Boaz": "On approval of conclusion of the loan agreement between PJSC RusHydro and JSC "holding company Boaz", which is a big deal.</li> <li>6.3. About determination of the position of PJSC RusHydro (representatives of PJSC RusHydro) on the agenda of the management body of JSC "holding company Boges": "On approval of conclusion of the loan agreement between JSC "Holding company Boguchanskaya HPP" and JSC "SGChE Boges", which is a big deal.</li> <li>7. On the recommendations of the Board of Directors on the issue: "On recommendations to the annual General meeting of shareholders on the issue: "On approval of the Commission by the Society transactions with VTB Bank (OAO), interested-party transactions which may be effected in future in the process of conducting normal economic activity."</li> </ol>
26.05.2016, No. 79	<ol style="list-style-type: none"> <li>1. On the recommendations of the Board of Directors on the issue: "On the interim results of the execution of the Business plan of the company for the year 2016 given the fact that for the 1st quarter of 2016 (including reports on execution of Investment program (including comprehensive modernization Program of generating facilities) and the Annual comprehensive program of purchases for the first quarter of 2016)".</li> <li>2. On the recommendations of the Board of Directors on the issue: "On the performance of the key performance indicators of the company for the 1st quarter of 2016".</li> <li>3. On priority activities of the company</li> <li>3.1. On the recommendations of the Board of Directors on the issue: "On the status of implementation of priority projects on construction of 4 facilities in the far East (Yakut GRES-2 (1st stage), 2nd phase of the Blagoveshchenskaya TPP, TPP in Sovetskaya Gavan, the Sakhalin GRES-2 (1st stage)".</li> <li>4. Internal documents of the company</li> <li>4.1. On the recommendations of the Board of Directors on the issue: "On increasing the efficiency, transparency and cost optimization of purchasing activities of PJSC RusHydro (Directive of the Government of the Russian Federation from 19.04.2016 No. 2793p-P13".</li> <li>4.2. On the recommendations of the Board of Directors on the issue: "On the Regulation on the procedure of consideration of investment projects included into the list of investment projects of RusHydro (directives of the Government of the Russian Federation from 15.03.2016 No. 1659p-1PZ)".</li> <li>5. About determination of the position of PJSC RusHydro (representatives of PJSC RusHydro) on the agendas of management bodies of subsidiaries.</li> <li>5.1. On the recommendations of the Board of Directors on the issue: "On determination of the position of PJSC RusHydro (representatives of PJSC RusHydro) on the agenda of the governing body of the JSC "Annunciation CHP": "On approval of conclusion between JSC "Annunciation CHP" and OJSC "Power machines" the contract on performance of stroitelnomontazhnyh of works that are interrelated deals with General contract for construction of the facility "Second phase of Blagoveshchenskaya TPP" No. 1-KS-2013-CHP plant-2/12A 26.12.2013, which is a big deal."</li> <li>5.2. On the recommendations of the Board of Directors on the issue: "On determination of the position of PJSC RusHydro (representatives of PJSC RusHydro) on the agenda of the governing body of the JSC "CHP in Sovetskaya Gavan":</li> </ol>

	<p>"On approval of conclusion between JSC "CHPP in Sovetskaya G East" and JSC Globalelectroservice additional agreement No. 4 to the General contract for construction of TPP in Sovetskaya Gavan No. SG CHP - 14/0027 from 23.06.2014, is a big deal."</p> <p>6. On the financial performance of the Group RusHydro, given the possible scenario of non-payments from electricity and capacity G1AO RusHydro for the period 2016-2019.</p>
15.06.2016, No. 80	<p>1. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On consideration of the report of the Chairman of the investment Committee under the Board of Directors of PJSC RusHydro on the results of corporate activities for the 2015 year."</p> <p>2. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On determination of the procurement policy of OJSC RusHydro: "On approval of the Regulations on procurement of products for the needs of PJSC RusHydro in a new edition".</p> <p>3. On the recommendations of the Board of Directors on the issue: "On consideration of the consolidated Business plan (including the consolidated Investment program) of the RusHydro Group for 2016 — 2020 years."</p> <p>4. On the recommendations of the Board of Directors on the issue: "On introducing amendments to Appendix 2 to the Business plan for 2016 - 2020 in the part of the target value of the KPI "return on equity (ROE)".</p> <p>5. On the recommendations of the Board of Directors on the issue: "On approval of the Registry of non-core assets of PJSC RusHydro in a new edition".</p> <p>6. On the recommendations of the Board of Directors on the issue: "On approval of the Regulations on the procedure for disposing of noncore assets of PJSC RusHydro in a new edition".</p>
21.06.2016, No. 81	<p>1. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: On determination of the position of PJSC RusHydro (representatives of PJSC RusHydro) on the agenda issue of meeting of Board of Directors of JSC "Karachaevo-Cherkessia Hydrogeneration company" "On approval of transaction of sale of immovable and movable property, the balance value of which exceeds 25% of book value of assets of JSC "Karachaevo-Cherkessia Hydrogeneration company.</p> <p>2. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: the making of transactions with shares and stakes of organizations which the company participates.</p> <p>3. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: On determination of the position of PJSC RusHydro (representatives of PJSC RusHydro) on the agenda issue of meeting of Board of Directors of JSC "Zaramag HPP": "On approval of the General Contract as a major transaction".</p> <p>4. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On execution of decisions of the Board of Directors".</p>
06.09.2016, No. 82	<p>1. Election of the Deputy. The Chairman of the investment Committee under the Board of Directors of PJSC RusHydro.</p> <p>2. Election of the Secretary of the investments Committee of the Board of Directors I LAO RusHydro.</p> <p>3. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On the interim results of the execution of the Business plan of the company for the year 2016 given the fact that for the 1st half of 2016 (including reports on execution of Investment program (including comprehensive modernization Program of generating facilities) and the Annual comprehensive program of purchases for the 1st half of 2016)".</p> <p>4. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On execution of key performance indicators of PJSC RusHydro for the 2nd quarter of 2016".</p> <p>5. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On execution of decisions of the Board of Directors".</p> <p>6. On the recommendations of the Board of Directors of PJSC RusHydro on the issue of "On the adjustment of start date of carrying out public technological and price audit of the project "Reconstruction of the dam the main dam with two spillway bays (Complex reconstruction of the Moscow state University)".</p> <p>7. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On approval of the surety Agreement between PJSC RusHydro and the Bank "Russian regional development Bank" (JSC), being a transaction which constitutes an interested party".</p> <p>8. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On approval of the surety Agreement between PJSC RusHydro and "Gazprombank" (Joint-stock company), a transaction which you have interest".</p> <p>9. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On approval of Additional agreement No. 2 to the General loan agreement dated 13.09.2013 No. 1 concluded between the company, Joint-stock company "RUSSIAN ALUMINIUM" (JSC "RUSAL"), a Joint-stock company "RUSAL Krasnoyarsk Aluminum Plant" (JSC "RUSAL Krasnoyarsk") and Closed joint stock company "Boguchansky aluminum plant" (JSC "Boaz"), as transactions entailing the emergence of the Society of the obligations (claims) denominated in foreign currency (tied to changes in foreign currency exchange rate)".</p> <p>10. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On approval of the Agreement of paid rendering of services between PJSC</p>

	RusHydro and Federal budgetary educational institution of higher education "national research Moscow state University of civil engineering" (NRU MSUCE), being a transaction which constitutes an interested party".
20.09.2016, No. 83	<ol style="list-style-type: none"> <li>1. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On execution of decisions of the Board of Directors".</li> <li>2. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On the postponement of the execution of the order on issue No. 2 agenda meeting of the Board of Directors of the company 19.02.2016 "On the construction of Zagorskaya GAES-2 (minutes from 20.02.2016 No. 231)".</li> <li>3. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: On the priority directions of the company activities: On the status of implementation of priority projects on construction of 4 facilities in the far East: Yakut GRES-2 (1st stage), 2nd phase of the Blagoveshchenskaya TPP, TPP in Sovetskaya Gavan, the Sakhalin GRES-2 (1st stage)".</li> </ol>
04.10.2016, No. 84	<ol style="list-style-type: none"> <li>1. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On approval of transactions made by the company: On the transactions associated with gratuitous transfer of property."</li> <li>2. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: On determination of the position of PJSC RusHydro (representatives of PJSC RusHydro) on the agenda of management bodies of subsidiaries — JSC "Annunciation CHP": "Approval between JSC "Annunciation CHP", PJSC "Power machines" the Contract on performance of construction and Assembly works with the negotiation Protocol differences, which are interrelated deal with the General Contract for construction the object "the Second phase of Blagoveshchenskaya TPP" No. 1-KS-2013-CHP plant-2/12A 26.12.2013 as a major transaction".</li> </ol>
06.10.2016, No. 85	<ol style="list-style-type: none"> <li>1. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "Approval of transactions in which the interest exists".</li> <li>2. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On the disposal of non-core assets".</li> </ol>
08.11.2016, No. 86	<ol style="list-style-type: none"> <li>1. Approval of the plan of work of the investment Committee under the Board of Directors of PJSC RusHydro on the 2nd half of 2016.</li> <li>2. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "preliminary approval of decisions on making transactions with shares and stakes of organizations which the company participates".</li> <li>3. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On determination of the position of PJSC RusHydro (representatives of PJSC RusHydro) on the agenda issues of the management body of JSC "Sakhalin GRES-2": <ol style="list-style-type: none"> <li>1) On determination of quantity, nominal value, category (type) of declared shares and rights granted by these shares;</li> <li>2) to increase the authorized capital of JSC "Sakhalin GRES-2" by placing additional shares."</li> </ol> </li> <li>4. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On approving the Additional agreement to the Contract of trust management between PJSC RusHydro and JSC "RAO ES of the East", which is a transaction which constitutes an interested party".</li> <li>5. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On the priority directions of the company activities: on the model of management by construction of generating capacities in the far East".</li> <li>6.1. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On determination of the position of the Society on the acquisition of JSC "VNIIG im. B. E. Vedeneeva" share in the limited liability company "Servicesdigital RusHydro" (JSC "SNG"), the price of which is 15 or more percent of the book value of assets of JSC "VNIIG im. B. E. Vedeneeva", defined according to its accounting reporting for the last reporting date".</li> <li>6.2 On the recommendations of the Board of Directors on the agenda issue of meeting of Board of Directors: "On termination of participation, and about participation in other organizations".</li> </ol>
22.12.2016, No. 87	<ol style="list-style-type: none"> <li>1. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On the interim results of the execution of the Business plan of the company for the year 2016 given the fact that in 9 months of 2016 (including reports on execution of Investment program (including comprehensive modernization Program of generating facilities), the Annual comprehensive program of purchases for 9 months of 2016 and the progress Report on the implementation of measures (list of measures) reduction in operating expenses (costs) for the 9 months of 2016)".</li> <li>2. On the recommendation of the Board of Directors of PJSC RusHydro on the issue: "On execution of key performance indicators of PJSC RusHydro in the 3rd quarter of 2016".</li> <li>3. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On approval of the Registry of non-core assets".</li> <li>4. On the recommendations of the Board of Directors on the issue: "On approval of the annual comprehensive procurement program of PJSC RusHydro for 2017".</li> <li>5. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On the business plan of the company for the years 2017-2021".</li> </ol>

	6. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On consideration of the report of the Chairman of the investment Committee under the Board of Directors of PJSC RusHydro for the 1st half of 2016-2017 corporate of the year".
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### Reliability, Energy Efficiency and Innovations Committee

Date, Number	Protocol	Item Number and Title
23.03.2016, No. 40		1. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On approval of the Environmental policy of PJSC RusHydro in a new edition".
08.04.2016, No. 41		1. On measures to improve the reliability and efficiency of electrical energy industry of the Far East.
02.06.2016, No. 42		1. Approval of the report of the Chairman of the Committee on reliability, energy efficiency and innovations under the Board of Directors of PJSC RusHydro on the results of activities for 2015 corporate year. 2. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On approval of the report on the implementation of the innovative development Program of PJSC RusHydro for 2011-2015 with a perspective up to 2021, 2015".
10.06.2016, No. 43		1. On the recommendations of the Board of Directors of PJSC RusHydro on the issue "On priority directions of the company activities: On approval of the innovative development Program of RusHydro Group for 2016 – 2020 with an Outlook to 2025."
31.08.2016, No. 44		1. Election of Deputy Chairman of the Committee on reliability, energy efficiency and innovations under the Board of Directors. 2. Election of the Secretary of the Committee for reliability, energy efficiency and innovations under the Board of Directors. 3. On the recommendations of the Board of Directors of PJSC RusHydro on the issue: "On the change method of calculation and assessment of KPI fulfillment "rate" in terms of the indicator "not to exceed normative values of the accident rate". 4. On the review of the Program of activities ensuring the implementation of Environmental policy of PJSC RusHydro.



## 9. Information about the sales of non-core assets

The program of disposal of non-core assets of PJSC RusHydro (hereinafter – the Program) approved by the Board of Directors (minutes 10.10.2016 No. 242)<sup>1</sup>, defines General principles and procedures of the Society for the disposal of non-core assets.

The goal of the Program is to develop the methodology for the management of non-core assets.

The main directions of the Program:

- creation and maintenance of a Registry of non-core assets and the Plan of measures on realization of non-core assets;
- methods and procedures for implementation of non-core assets;
- information support of the process of sale of non-core assets;
- providing reports on the sale of non-core assets.

The plan of measures on realization of non-core assets of PJSC RusHydro for 2016 (4th quarter) 2017, and adjusted the Registry of non-core assets of PJSC RusHydro in a new edition approved by the Board of Directors (minutes 27.12.2016 No. 246)<sup>2</sup>.

The registry of non-core assets provides basic information on non-core assets, their carrying amount, the alleged acts against non-core assets and other information.

In the action Plan for the implementation of non-core assets non-core assets planned for implementation in 2016-2017 with the terms of its non-core assets and their market value determined by evaluation organization.

Report on the implementation of non-core assets for 2016 approved by the Board of Directors (minutes 27.02.2017 No. 248).

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<sup>1</sup> Previously, the regulations on the procedure for disposing of noncore assets of PJSC RusHydro, approved by the Board of Directors (minutes dated 01.09.2010 № 106 from 23.06.2016 No. 239).

<sup>2</sup> In 2016, the Registry of non-core assets actualized by the Board of Directors four times (reports from 20.02.2016 No. 231, from 23.06.2016 No. 239, from 10.10.2016 242 and from 27.12.2016 No. 246).

**Information on the sales of non-core assets of PJSC RusHydro in 2016.**

№	Assets	Registration No.	Balance Sheet item reflecting the assets as of the reporting date immediately preceding the sale date	Accounts (including analytical accounts) reflecting the income and expenditure associated with the retirement of the assets (91.1xxx/91.2xxx)	Book value of the assets, thou. RUB	Actual sales value of the assets, thou. RUB	Deviation of the actual sales value of the assets from their book value, thou. RUB	Reasons for the variance between the actual sales value and the book value if the assets, thou. RUB
1	457 681 PCs of shares of JSC "Krasnoyarsk HPP"	-	1170	9101040101/9102040101	43 709	44 395	+686	
2	105 apartments in the settlement Talakan of the Amur region	1003_25, 1003_26 1003_22, 1003_37 1003_4, 1003_5 1004_52, 1004_60 1004_62 - 1004_70 1004_55, 1004_56 1004_1, 1004_5 1003_11, 1004_49 1004_41 - 1004_46 1003_16 - 1003_20 1004_6 - 1004_8 1004_57 - 1004_59 5046_2, 5047_2 5528_2, 1766 - 1771 1004_11, 1004_12 1004_14, 1004_15 1004_17, 1004_40 1004_2, 1004_4 1004_35, 1004_37 1004_29, 1004_31 1004_25, 1004_26 10301010000002690000 10301010000002720000 10301010000002730000 10301010000002750000 - 10301010000002820000 10301010000002840000 -	1151.1	9101010101/ 9102010101	40 978	26 718	- 14 260	Selling at market value, a specific valuation organization, employees of the branch of PJSC RusHydro - "Bureyskaya HPP"

No	Assets	Registration No.	Balance Sheet item reflecting the assets as of the reporting date immediately preceding the sale date	Accounts (including analytical accounts) reflecting the income and expenditure associated with the retirement of the assets (91.1xxx/91.2xxx)	Book value of the assets, thou. RUB	Actual sales value of the assets, thou. RUB	Deviation of the actual sales value of the assets from their book value , thou. RUB	Reasons for the variance between the actual sales value and the book value if the assets, thou. RUB
		10301010000002870000 10301010000002890000 10301010000002910000 - 10301010000002930000 10301010000002960000 - 10301010000002990000 10301010000003010000 - 10301010000003050000 10301010000003070000 10301010000003090000 10301010000003100000 10301010000003130000 10301010000003140000 10301010000003240000 10301010000003250000 10301010000003270000 10301010000003280000 10301010000003310000 10301010000003320000 10301010000003340000 10301010000003350000 10301010000003380000 10301010000003450000 10301010000003460000 10301010000003480000						
3	The apartment is in the city of Volzhsky in Volgograd region	5874	1151.1	910101011	875,2	1 752,0	+ 876,8	Selling at market value, of a particular appraisal organization
4	Garage with land in	WT10107;	1151.1;	9101010101/9102010101	290,88	200	-90,88	Selling at market

№	Assets	Registration No.	Balance Sheet item reflecting the assets as of the reporting date immediately preceding the sale date	Accounts (including analytical accounts) reflecting the income and expenditure associated with the retirement of the assets (91.1xxx/91.2xxx)	Book value of the assets, thou. RUB	Actual sales value of the assets, thou. RUB	Deviation of the actual sales value of the assets from their book value, thou. RUB	Reasons for the variance between the actual sales value and the book value if the assets, thou. RUB
	the town of Tchaikovsky of the Perm region	WT000001	1151.2					value, of a particular appraisal organization
5	6 shop units pyrolysis in Shusha district of the Krasnoyarsk territory	SSH9000006393, SSH9000006388, SSH9000006390, SSH9000006389, SSH9000006392, SSH9000006391	1151	-	17 771	4 047	-13 724	Selling at market value, of a particular appraisal organization
6	34 apartments in the settlement Talakan of the Amur region	1003_38, 1004_53 1004_50, 1004_51 1004_47, 1003_12 1003_12, 1004_9 1004_10, 1004_13 1004_39, 1004_33 1004_32, 1004_30 1004_3, 1004_21 10301010000002700000 10301010000002900000 10301010000002950000 10301010000003080000 10301010000003150000 10301010000003210000 10301010000003230000 10301010000003290000 10301010000003360000 10301010000003510000 10301010000003560000 10301010000003580000 10301010000003410000 10301010000003750000 10301010000003820000 10301010000003950000	1151.1	9102051100	14 053	0,00	-14 053	Gratuitous transfer of ownership to the employees of the branch of PJSC RusHydro - "Bureyskaya HPP"

№	Assets	Registration No.	Balance Sheet item reflecting the assets as of the reporting date immediately preceding the sale date	Accounts (including analytical accounts) reflecting the income and expenditure associated with the retirement of the assets (91.1xxx/91.2xxx)	Book value of the assets, thou. RUB	Actual sales value of the assets, thou. RUB	Deviation of the actual sales value of the assets from their book value, thou. RUB	Reasons for the variance between the actual sales value and the book value if the assets, thou. RUB
		10301010000003990000 10301010000004040000 10301010000004050000						
7	Backbone network FA of district number 5 in the settlement Talakan of the Amur region	12596	1151.3	9102051100	13 695	0,00	-13 695	Gratuitous transfer to municipal ownership
8	Main Sewerage networks of the residential district No. 5 in the settlement Talakan of the Amur region	12597	1151.3	9102051100	1 877	0,00	-1 877	Gratuitous transfer to municipal ownership
9	Sewage treatment plant surface runoff in the settlement Talakan of the Amur region	12598	1151.3	9102051100	7 401	0,00	-7 401	Gratuitous transfer to municipal ownership
10	Lighting permanent settlement Talakan - 3 queue in the settlement Talakan of the Amur region	12605	1151.3	9102051100	13 474	0,00	-13 474	Gratuitous transfer to municipal ownership
11	Object of incomplete construction, the degree of readiness of 9% (Solid waste landfill) in the settlement Talakan of the Amur region	-	1152.2	9102051400	18 851	0,00	-18 851	Gratuitous transfer to municipal ownership

№	Assets	Registration No.	Balance Sheet item reflecting the assets as of the reporting date immediately preceding the sale date	Accounts (including analytical accounts) reflecting the income and expenditure associated with the retirement of the assets (91.1xxx/91.2xxx)	Book value of the assets, thou. RUB	Actual sales value of the assets, thou. RUB	Deviation of the actual sales value of the assets from their book value , thou. RUB	Reasons for the variance between the actual sales value and the book value if the assets, thou. RUB
12	Building experimental bases of alternative energy in the settlement Dubki of the Republic of Dagestan	10163	1151	9102051100	8 648	-	-8 648	Gratuitous transfer to municipal ownership
13	Road bridge across the river Kama in Perm in Perm region	8001.8	1151.3	9102051100	3764	0	-3 764	Gratuitous transfer to municipal ownership
14	The footbridge village Daucus the Karachay-Cherkess Republic	400020	1151	-	0	0	0	The object is decommissioned and dismantled
<b>Total</b>					<b>185 387</b>	<b>77 112</b>	<b>-108 275</b>	

## 10. Information on pending court proceedings

	<b>Number of pending court proceedings</b>	<b>The total sum of claims, RUB</b>
Claimant: PJSC RusHydro	8	645 686 071,98
Defendant: PJSC RusHydro	3	96 068,14

## **11. Information concerning the State support funds received by the Company in the reporting year, including the amount of granted subsidies (Rubles), their use, and drawdown by the year end**

In 2016, the Company PJSC RusHydro will not attract Federal budget allocations for the implementation of projects of the investment program.

For 2016 the company used the previously obtained budgets for the decree of the President of the Russian Federation from 22.11.12 No. 1564 for the construction of generation facilities in the far East in the amount of 8 025.7 million rubles, including:

- CHPP in Sovetskaya Gavan – 334.3 million,
- Sakhalinskaya GRES-2 (1st stage) – 2 572 million rubles
- Yakutskaya GRES-2 (1st stage) – 3 818 thousand rubles
- Blagoveschenskaya TPP (2nd stage) – 1 301.4 million rubles.

As of 01.01.2017, remaining budget funds previously received by the company on account of sale of Russia of additional shares of PJSC RusHydro is 10 005.9 million rubles, including:

- on further construction of generation facilities in the far East - 9 106,6 million rubles;
- the balance of the unspent budget savings investments 899.3 million (allocated for the completion of the shore spillway of the Sayano-Shushenskaya hydropower plant construction is completed) – 476.9 million rubles for the design of hydroelectric Cancun -design – completed) – 422.4 million.

In accordance with the Federal law of 14.12.2015 № 359 "On the Federal budget for 2016" (article 21) PJSC RusHydro is entitled to use the funds of unused contributions to the authorized capital of the company:

- \$241,9 million rubles for the project "Expansion of the 220 kV substation of the Maya and construction of transmission lines visits Megino-Kangalassky district of the Sakha Republic (Yakutia) for connection to electric networks of JSC "FGC UES" electrical installations of JSC "Yakutskenergo", the Republic of Sakha (Yakutia)" in accordance with the Decree of the RF Government No. 2866-p 28.12.2016;
- \$657,4 million rubles for the implementation of the project "Construction of the Ust-Srednekanskaya HPP on the Kolyma river (Magadan region)" in accordance with the Decree of the RF Government No. 2865-p 28.12.2016.



## 12. Implementation Report on the Long Term Development program of the RusHydro Group for the year of 2016

### 1. OVERVIEW

The long - term development program of the RusHydro Group for the period of 2016-2020 (hereinafter – the LTDP) is approved by the Board of Directors of PJSC RusHydro on 22.11.2016 (minutes of 23.11.2016 № 244). The LTDP defines the main principles and directions insuring the effective and dynamic development of the RusHydro Group for the purpose of effective use of water resources, creating conditions for securing the Unified Energy System of Russia, as well as facilitation of social-economical development of the Far East regions by means of insuring energy infrastructure accessibility for existing and future consumers.

### 2. PERFORMANCE VERSUS PLANNED AND ESTIMATED TARGETS BASED ON CONSOLIDATED BUSINESS PLAN OF THE RUSHYDRO GROUP

The medium-term business plan is the economic planning keystone of RusHydro. The Board of Directors of PJSC RusHydro has approved the Provisions of the Business planning system (extract from Minutes of 01.04.2016 № 233), subject to which the Consolidated Business-plan of the RusHydro Group is formed based on IFRS standards.

The Consolidated Business-plan of the RusHydro Group for the years of 2016-2020, reviewed by the Board of Directors of PJSC RusHydro (Minutes of 23.09.2016 № 241), is based on the Business-plans of the companies of the RusHydro Group (PJSC RusHydro and DC PJSC RusHydro), transformation and consolidation amendments, done for adjusting of data in accordance with IFRS requirements.

As per the IFRS consolidated financial statements of the RusHydro Group as of December 31, 2016 the Authorized capital equals to 386 255 million rubles.

For performance analyses of LTDP for 2016 the data of the approved Business –Plan of the RusHydro Group for 2016 was used, represented in the approved LTDP analyses schedules as Planned Targets. The factual data of the implementation report on performance of the Long Term Development Program of the RusHydro Group for 2016 is formed on the basis of the consolidate financial statements of the RusHydro Group for the year of 2016

#### Revenues

Data analyses of the RusHydro Group at year end 2016 demonstrates decrease of actual revenues versus planned targets by 3 929 million rubles (or -1 %).

The maximum share in the RusHydro Group revenues' structure is represented by the revenues from sale of electricity (energy) – 79 % of the overall revenues.

In evidence structure the bulk revenues from sale of electricity (energy) are received by the RusHydro Group regardless of subgroup of RAO ES of the East. «RAO ES of the East» subgroup secures revenues from heat sale (about 10 % of the total revenues of the Group), state subsidies (share of «RAO ES of the East» subgroup is around 100 % of the total volume of the state subsidies) and other income (about 6 % of the total volume).

Current operating revenue structure for 2016, million rubles

Item	2016 planned	2016 actual	Variation (planned/actual)	
			Absolute	relative
Sale of electricity (energy)	304 729	309 650	4 921	1,6 %
Sale of heat	34 916	38 849	3 933	11,3 %
State subsidies	13 925	17 250	3 325	23,9 %
Other income	41 681	25 573	-16 108	-38,6 %
<b>Total Revenues from current operations and State subsidies</b>	<b>395 251</b>	<b>391 322</b>	<b>-3 929</b>	<b>-1,0 %</b>
Including revenues of PJSC RusHydro, with share in total revenues	<b>99 129</b>	<b>115 037</b>	<b>15 908</b>	<b>16,0 %</b>
	25,1 %	29,4 %		
Including revenues of the Holding subgroup “RAO	<b>197 575</b>	<b>192 729</b>	<b>-4 846</b>	<b>-2,5 %</b>

ES of the East”, with share in total revenues	50,0 %	49,3 %		
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Variance analyses of actual values versus planned targets shows growth against the estimated yield:

- from sale of electricity (energy) by 1,6 %;
- from sale of heat – by 1,3 %;
- from state subsidies received -by 23,9 %.

The general revenues reduction against the planned level has influenced the reduction of other income by 38,6 %.

### Expenses

The actual expenses of the RusHydro Group for 2016 decreased by 38 793 million rubles (or by - 10,9 %) against the targeted values.

#### Expense structure for 2016, million rubles.

Item	2016 planned	2016 actual	Variation (planned/actual)	
			Absolute	relative
Fuel consumption	54 965	54 561	-404	-0,7 %
Depreciation of equipment and non-tangible assets	28 279	24 130	-4 149	-14,7 %
Salaries, payments to staff and taxes, related to salary, investments to pension saving fund	70 913	71 768	855	1,2 %
Taxes, except income tax	11 989	10 233	-1 756	-14,6 %
Outsourced services	27 042	25 655	-1 387	-5,1 %
Water consumption expenses	3 287	3 202	-85	-2,6 %
Unclassified stores acquisition costs <sup>3</sup>	16 197	10 180	-6 017	-37,1 %
Infrastructure payments, related to sale of electricity and heat <sup>4</sup>	54 588	53 806	-782	-1,4 %
Purchased electricity (energy)	72 063	57 610	-14 453	-20,1 %
Other expenses (balance)	15 176	4 561	-10 615	-69,9 %
<b>TOTAL Current operation expenses</b>	<b>354 498</b>	<b>315 705</b>	<b>-38 793</b>	<b>-10,9 %</b>
Including revenues of PJSC RusHydro, with share in total revenues	<b>66 980</b>	<b>56 426</b>	<b>-10 554</b>	<b>-15,8 %</b>
	19 %	18 %	27 %	
Including revenues of the Holding subgroup “RAO ES of the East”, with share in total revenues	<b>187 868</b>	<b>189 165</b>	<b>1 297</b>	<b>0,7 %</b>
	53 %	60 %	-3 %	

The general budget decrease versus the planned targets was affected by the below expenses:

- purchased electricity (energy) – decrease by 14 453 million rubles (or -20,1 %);
- other expenses – decrease by 10 615 million rubles (or -69,9 %);

<sup>3</sup> Comprises «Expenses for oil-products purchase for further resale». Actual value under the item makes the amount of expenses, shown in Annex 25 to the Consolidated financial statements of RusHydro Group, done in compliance with IFR for the year, ending on 31.12.2016 and upon this date, under the items: “Other materials” in amount of 9 115 million rubles and « Expenses for oil-products purchase for further resale » in the amount of 1 065 million rubles.

<sup>4</sup> Comprises «Expenses for electrical power distribution» and «Services to PC «SO EES», NPO «Market Council», PC «CFR», «Expenses for acquisition and transportation of heat energy». Actual value under the item makes the amount of expenses, shown in Annex 25 to the Consolidated financial statements of RusHydro Group, done in compliance with IFR for the year, ending on 31.12.2016 and upon this date, under the items: «Expenses for market management» in the amount of 3 642 million rubles, « Expenses for acquisition and transportation of heat energy» in the amount of 3 442 million rubles, « Expenses for electrical power distribution» in the amount of 46 722 million rubles.

- purchase of other assets – decrease by 6 017 million rubles (or -37,1 %);
- capital consumption and depreciation of intangible assets – decrease by 4 149 million rubles (or -14,7 %);
- outsourced services – decrease by 1 387 million rubles (or -5,1 %).

The general budget decrease was influenced by arrangements on cost optimization and improvement of operational efficiency of RusHydro Group, done by the Management

### Financial results

#### Profit and Loss Report of RusHydro Group

Million rubles

Items	2016 planned	2016 actual	Variation (planned/actual)	
			Absolute	Relative
<b>Current operating revenues</b>	<b>381 326</b>	<b>374 072</b>	<b>-7 254</b>	<b>-1,9 %</b>
State subsidies	13 925	17 250	3 325	23,9 %
Other operating income	0	12 422	12 422	
<b>Current operating expenses</b>	<b>-354 498</b>	<b>-315 705</b>	<b>38 793</b>	<b>-10,9 %</b>
Fixed assets Impairment loss	0	-26 525	-26 525	
Receivables impairment loss, net	0	-7 133	-7 133	
Financial assets Impairment loss	0	-4 464	-4 464	
Loans issued Impairment loss	0	-2 378	-2 378	
<b>Current operations income</b>	<b>40 753</b>	<b>47 539</b>	<b>6 786</b>	<b>16,7 %</b>
Financial revenues / (expenses), net	-12 852	902	13 754	-107,0 %
Income related to associated companies and JV	2 635	6 682	4 047	153,6 %
<b>Income before tax</b>	<b>30 536</b>	<b>55 123</b>	<b>24 587</b>	<b>80,5 %</b>
Income tax expenses	-7 811	-15 372	-7 561	96,8 %
<b>Income for the period</b>	<b>22 725</b>	<b>39 751</b>	<b>17 026</b>	<b>74,9 %</b>
Managed semi-fixed costs	126 961	110 180 <sup>5</sup>	-16 781	-13,2 %
Managed semi-fixed costs, indexed by CPI	125 883	110 180	-15 703	-12,5 %

The operating statement analyses makes evident that the effective profit of the RusHydro Group is above the targets by 17 026 million rubles or by 74,9 %. The determinants of the financial result versus the targets are: sale of “ESC Bashkortastan” Ltd (3 048 million rubles), sale of property and other intangible assets, in particular the dams of Bratskaya, Ust-Ilimskaya and Irkutskaya HPP (overall result makes 7 443 million rubles), receipt of insurance payout (1 931 million rubles).

Financial result has been affected by increase of revenues of PJSC RusHydro and decrease of operating expenses for all of the RusHydro Group.

As of 31.12.2016 the long-term credits and loans made 158 046 million rubles. The short-term liabilities as of 31.12.2016 made 41 757 million rubles.

The Decision of the Board of Directors of PJSC RusHydro of 28.03.2014 №195 was taken to approve the «Regulation on dividend policy». Upon the results of 2015, based on the order of the

<sup>5</sup> Managed semi-fixed expenses— expenses, on which the Group has influence and an internal management mechanism. Not included are the expenses, managed by the electrical power market, the legislation of the Russian Federation, and beyond internal management mechanisms (expenses for: purchased energy (capacity), infrastructural payments, related to electricity sale, water consumption, taxes, depreciation, insurance)

Government of the Russian Federation of 18.04.2016 №705-r, the amount of dividends made 50 % of the financials of PJSC RusHydro, stipulated in the financial statements, compiled in compliance with the Russian accounting standards, or 15 011 million rubles

### **Referring the action plan of cost optimization based on results of conducted external independent audit of expenses**

Audit was conducted in fulfillment of the Action Plan of the Government of the Russian Federation, focused on securing of stable social-economic growth of the Russian Federation in 2016, approved by the Government of the Russian Federation on 01.03.2016, the directive of the Government of the Russian Federation of 01.06.2016 № 3795p – P13 and the decision of the Board of Directors of PJSC RusHydro, (Minutes of 23.06.2016 № 239), and in compliance with the technical specifications for expenses audit of the RusHydro Group and elaboration of the action plan for their optimization, approved by the MEDT of Russia (hereafter – the Audit)

Expense audit was done in 3 key directions, being of the maximum cost saving potential:

- Operational costs;
- Management model and decrease of general and administrative expenses
- Investments;

Action plan for cost saving based on results of the conducted external independent audit of expenses of PJSC RusHydro, including the daughter companies, was approved by the decision of the Board of Directors of PJSC RusHydro (minutes of 23.11.2016 №244).

### **3. POLICY MEASURES OF RUSHYDRO GROUP**

#### **Investment program of PJSC RusHydro**

The approved LTDP reflects the investment projects of PJSC RusHydro for the period of 2016-2020 for the amount of 276 753,97 million rubles, of which in 2016 – 74 823,52 million rubles, of which by measures:

1. Retrofitting and upgrading: for the period of 2016-2020 in the amount of 140 133,79 million rubles, of which in 2016 – 26 120,90 million rubles.

2. Complex recovery of Sayano-Shushenskaya HPP named after P.S. Neporozhny: for the year of 2016 – in the amount of 749,99 million rubles.

3. Priority projects in the Far East: in the amount of 49 257,79 million rubles, of which in the year of 2016 – 20 862,10 million rubles.

4. New construction: for the period of 2016-2020 in the amount of 80 600,94 million rubles, of which in the year of 2016 – 25 214,96 million rubles, including:

4.1 Projects under construction: for the period of 2016-2020 in the amount of 79 736,49 million rubles, of which in the year of 2016 – 24 370,51 million rubles.

4.2 RES projects: in the amount of 864,45 million rubles, of which in the year of 2016 – 844,45 million rubles.

5. Other: for the period of 2016-2020 in the amount of 5 011,46 million rubles, of which in the year of 2016 – 875,57 million rubles.

The above parameters include: volumes of financing by investment projects, implemented by PJSC RusHydro - in the amount of 51 075,03 million rubles<sup>6</sup>; volumes of financing by investment projects, implemented by the daughter companies of PJSC RusHydro (hereafter – DC) - in the amount of 23 748,49 million rubles.

It should be noted that in compliance with changes done as per the order of the Government of the Russian Federation of 16.02.2015 № 132 «On making changes in acts of the Government of the Russian Federation referring the approval of the investment programs of electric power engineering entities and monitoring of their implementation», and considering the decisions taken at the meeting of Minenergo of Russia (minutes of 03.04.2015 № 09-563-pr), the investment program parameters, approved by Minenergo

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<sup>6</sup> Variation of the Investment program of PJSC RusHydro for 2016 is approved by order of Minenergo of Russia dated 30.12.2016 № 1458.

of Russia, do not contain the indicators for projects, implemented by the daughter companies of PJSC RusHydro<sup>7</sup>.

As of 01.01.2017, incremental capacities made 237,1 Megawatt: Zelenchukskaya HPP- PSPP – 140,0 Megawatt, Zaragizhskaya SHPP 030,6 Megawatt; in the frames of retrofitting and upgrading projects – 66,5 Megawatt.

Reasons to decline commissioning of Yakutskaya GRES-2 (1<sup>st</sup> stage): terms of design documentation elaboration delayed by the general designer, “Institute Teploenergoproject”; work execution delayed by the general contractor “TEK Mosenergo” PC (for more than 10 months); delay of equipment delivery of the customer - «Yakutskaya GRES-2» PC – the gas boosting station and gas conditioning station (for 4 months); OJSC “GlobalElectroService” failure to deliver on time the construction project of the main heating system (for more than 8 months). Consolidated investment program of RusHydro Group, providing for the end of project implementation of Yakutskaya GRES-2 for 2018, is approved by the Management Board of PJSC RusHydro on 06.03.2017 (minutes of 06.03.2017 № 1029pr) and acknowledged by the Board of Directors of PJSC RusHydro on 04.04.2017 (minutes of 07.04.2017 № 249).

Due to the lack of permission for reservoir storage to the level of 128,00 meters, capacity commissioning of Nizhne-Bureyskaya HPP is postponed to the year of 2017.

Within the limits of the investment program adjustment of PJSC RusHydro<sup>8</sup> there is a planned delay of capacity commissioning for the year of 2017 – for Yakutskaya GRES-2 (1<sup>st</sup> stage) and Nizhne-Bureyskaya HPP - in the designed capacity volume

In the reported years, in compliance with the Investment program of PJSC RusHydro, there was 76,0 % financing of the targeted volume - 56 855,68 million rubles in total.

#### Investment structure in 2016

Funding stream	Financing plan for 2016, billion rubles	Real financing for 2016, billion rubles	Execution, %
Retrofitting and upgrading	26,12	21,72	83,2 %
Complex recovery SSHHPP	1,75	0,87	49,7 %
Priority projects in the Far East	20,86	12,48	59,8 %
Projects under construction	25,21	21,33	84,6 %
Other	0,88	0,45	51,1 %
<b>Total</b>	<b>74,82</b>	<b>56,85</b>	<b>76,0 %</b>

Failure to achieve planned targets in 2016 is due to the below:

1. Retrofitting and upgrading: increase of work execution terms and breach of contract by subcontractors under the projects, continuous tendering for selection of subcontractors, continuous approval and adjustment of design documentation, lack of design documentation by fault of general designer, cancellation of procurement procedures under the projects, work execution rescheduling

2. Complex recovery of Sayano-Shushenskaya HPP: main reason of budget variance was caused by partial work postponing for the year of 2017.

3. Priority projects in the Far East: for Sakhalinskaya GRES-2 (1<sup>st</sup> stage) – need to adjust the design options resulting from replacement of steam turbines manufacture under the Import Substitution Program (ground for 6-month delay); delay in preparation of designs by the general contractor, delay in preparation of detailed design documentation by the general contractor PC «TEK Mosenergo» (more than 12 months); poor management of work execution by the general contractor (general contractor omitted construction specifics in Sakhalin island); contract cancellation by the general contractor with the subcontractor OJSC «GlobalElektroService» for a considerable amount of works (delay up to 4 months); for TPP in the town of Sovetskaya Gavan – customer replaced the design company of PC «Sibirsky NTEC» (E4 Group) for PC «Lonas Technology» due to its bankruptcy (delay up to 6 months); absence of due work execution management on part of the general contractor (delay for more than 12 month); financial insolvency of the

<sup>7</sup> PC «Ust-Srednekanskaya HPP», PJSC «Boguchanskaya HPP», PC «Sulaksy Hydrocascade», PC «Zaramagskiye HPP», PC «Zagorskaya GAES-2», PC «Nizhne-Bureyskaya HPP», PC «Leningradskaya GAES, PC «Kabardino-Balkaria small HPP », JSC «Stavropol and Karachayevo-Cherkessia Small HPP», PJSC«Verkhne-Narinskiye HPP».

<sup>8</sup> Investment program of PJSC RusHydro for 2017 is approved by the Board of Directors of PJC RusHydro on 23.12.2016 (minutes of 26.12.2016 № 245).

general contractor, existence of cash flow constraints for settlements with subcontractors and equipment suppliers; for Yakutskaya GRES-2 (1st stage) – delay of the lead time of the design documentation by the general designer “Institute Teploenergo-project”; failure to comply with working schedule by the general contractor PC «TEK Mosenergo» (more than 10 months); delay of the customer equipment delivery - PC «Yakutskaya GRES-2» - gas booster station and gas conditioning station (for 4 months); OJSC «GlobalElektroService» failure to deliver on time the construction project for the main thermal power system (more than 8 months); for the 2<sup>nd</sup> stage of Blagoveschenskaya TPP – due to nonpayment of the deferred charge under the 2nd stage

4. Projects under construction. Main reasons of the planned financing variance are: decrease of funding allocation for the actual needs, related to fixation of the final scopes of work; payment postponed to the 1<sup>st</sup> quarter of 2017. For Zagorskaya PSPP-2 – decrease of financing volumes related to measures of financing structuring

For Zelenchukskaya HPP-PSPP: variance of effective financing from the targeted volume comes from postponing to 2017 of financing in part of guarantee withholdings (10 %) in compliance with agreements signed, payment will be done within 60 calendar days upon commissioning of objects.

5. Facility addition of Sayano-Shushensky Hydro Complex: variance of effective financing from the targeted volume comes from adjustment of the detailed design documentation, change of local estimates, increase of duration of part of works, contractor failure to fulfill contract liabilities.

#### **Investment program of «RAO ES of the East» Holding**

The LTDP comprises financing of the Investment program project of «RAO ES of the East» Holding for 2016-2020 in the amount of 123 316,67 million rubles<sup>9</sup> (of which in the year of 2016 – 27 303,79 million rubles), of which for PJSC «RAO ES of the East» – 23 522,88 million rubles (of which in the year of 2016 – 9 582,79 million rubles).

In 2016 the below investment programs of the Holding companies, including the adjustment for 2016 (in case the company applies for the investment program adjustment) and the plan for 2017-2019 were approved:

<b>Company of the Holding</b>	<b>Document</b>
<b>PJSC «DEC»</b>	Order of Minenergo of Russia dated 31.10.2016 №1155 «Concerning approval of the investment program of PJSC «DEC» for 2017-2019»
<b>PJSC «Peredvizhnaya energetika»</b>	Order of Minenergo of Russia dated 16.12.2016 №1335 «Concerning approval of the investment program of PJSC «Peredvizhnaya Energetika» for 2017-2019 and amendments in the investment program of PJSC «Peredvizhnaya Energetika», approved by the Order of Minenergo of Russia dated 25.12.2015 №1032
<b>PC «Chukotenergo»</b>	Order of Minenergo of Russia dated 28.12.2016 №1433 «Concerning approval of the investment program of PC «Chukotenergo» for 2017-2019»
<b>PC «UESK»</b>	Order of Minenergo of Russia dated 19.12.2016 №1355 «Concerning approval of the investment program of PC «UESK» for 2017-2019»
<b>PC «Sakhaenergo»</b>	Order of Minenergo of Russia dated 28.12.2016 №1434 «Concerning approval of the investment program of PC «Sakhaenergo» for 2017-2019 and amendments in the investment program of PC «Sakhaenergo», approved by the Order of Minenergo of Russia dated 25.12.2015 №1027
<b>PC «NDES»</b>	Order of Minenergo of Russia dated 31.10.2016 №1165 «Concerning approval of the investment program of PC «NDES» for 2017-2019»
<b>PC «DRSK»:</b>	
the Amur ES Affiliate	Order of the Ministry of Economic Development of the region dated 28.09.2016 №59-pr «Concerning changes in Order of the Ministry ERPT PC dated 13.03.2012 №38-pr»
Primorsk ES Affiliate	Order of the Energy Department of Primorsky Krai dated 14.10.2016 №45pr-52 «Concerning approval of adjustment in the investment program of the affiliate of PC «DRSK» «Primorsk electrical networks» for 2016-2017
Khabarovsk ES Affiliate	Order of the Government of Khabarovsk Krai dated 31.08.2016 №681-rp «Concerning changes of the investment program of the affiliate of PC «DRSK» Khabarovsk electrical networks» for 2012-

<sup>9</sup> Data is given with no consideration of incidental DC PJSC “RAO ES of the East”, for which the investment programs are approved in order, stipulated by the resolution of the Government of the Russian Federation dated 01.12.2009 № 977. The total financing amount in compliance with the investment program project of “RAO ES of the East” Holding for the period of 2016-2020, including the incidental DC PJSC “RAO ES of the East”, the investment programs of which are approved as part of the Business plan of the Holding, makes 123 955, 86 million rubles (of which in the year of 2016 – 27 407,37 million rubles).

	2017, approved by the order of the Government of Khabarovsk Krai dated 14.06.2012 №366-rp»
ES JAR Affiliate	Order of housing and utilities administration and energy of the Government of JAR dated 23.09.2016 №83 «Concerning approval of adjusted investment program of affiliate of PC «DRSK» «Electrical networks of the Jewish Autonomous region» for 2016-2017»
Yuzhno-Yakutskiy ES Affiliate	Order of housing and utilities administration and energy of the Government of RS (Y) dated 01.11.2016 №490-p «Concerning approval of the investment program of the affiliate of PC «DRSK» «Yuzhno-Yakutskiy electrical networks» for 2016-2018»

For PC «DGK», PJSC «Kamchatskenergo», PJSC «Magadanenergo», PJSC «Yakutskenergo», PJSC «RAO ES of the East»<sup>10</sup>, PJSC «Sakhalinenergo», PC «Teploenergoservice» the Ministry of Energy of Russia refused to approve the adjustments of the investment programs for the year of 2016 and the targets for 2017-2019.

Inclusive of changes (including those following the refusals of Minenergo of Russia), the estimated financing volume of the below investment programs of the Holding for 2016 makes 24 334,14 million rubles<sup>11</sup>, of which under the investment program of PJSC «RAO ES of the East»- 4 805,91 million rubles:

Holding company	Document
<b>PC «DRSK»:</b>	
Affiliate the Amur ES	Order Ministry of economic development of the Amur region dated 28.09.2016 №59-pr «On amendments to Order of the Ministry of ERPT PC dated 13.03.2012 №38-pr»
Affiliate Primorsk ES	Order of the Energy Department of Primorsky Krai dated 14.10.2016 №45pr-52 «Concerning approval of adjustment of the investment program of the affiliate of PC «DRSK» «Primorsk electrical networks» for 2016-2017
Affiliate Khabarovsk ES	Order of the Government of Khabarovsk Krai dated 31.08.2016 №681-rp «Concerning changes of the investment program of the affiliate of PC «DRSK» Khabarovsk electrical networks» for 2012-2017, approved by the order of the Government of Khabarovsk Krai dated 14.06.2012 №366-rp»
Affiliate ES JAR	Order of housing and utilities administration and energy of the Government of JAR dated 23.09.2016 №83 «Concerning approval of adjusted investment program of affiliate of PC «DRSK» «Electrical networks of the Jewish Autonomous region for 2016-2017»
Affiliate Yuzhno-Yakutskiy ES	Order of housing and utilities administration and energy of the Government of RS (Y) dated 01.11.2016 №490-p «Concerning approval of the investment program of the affiliate of PC «DRSK» «Yuzhno-Yakutskiy electrical networks» for 2016-2018»
<b>PJSC «DEC»</b>	For 2016: Order of Minenergo of Russia dated 21.12.2015 №982 «Concerning approval of the investment program of PJSC «DEC» for 2016-2018» For 2017-2019: Order Minenergo of Russia of 31.10.2016 №1155 «Concerning approval of the investment program of PJSC «DEK» for 2017-2019»
<b>PC «Chukotenergo»</b>	For 2016: Order of Minenergo of Russia dated 25.12.2015 № 1028 «Concerning approval of the investment program of PC «Chukotenergo» for 2016-2018 For 2017-2019: Order of Minenergo of Russia dated 28.12.2016 №1433 «Concerning approval of the investment program of PC «Chukotenergo» for 2017-2019»
<b>PC «YUESK»</b>	For 2016: Order of Minenergo of Russia dated 14.12.2015 № 949 «Concerning approval of the investment program of PC «YUESK» for 2016-2018» For 2017-2019: Order of Minenergo of Russia dated 19.12.2016 №1355 «Concerning approval of the investment program of PC «YUESK» for 2017-2019»
<b>PC «NDES»</b>	For 2016: Order of Minenergo of Russia dated 24.12.2015 № 949 «Concerning approval of the investment program of PC «NDES» for 2016-2018» For 2017-2019: Order of Minenergo of Russia dated 31.10.2016 №1165 «Concerning approval of the investment program of PC «NDES» for 2017-2019»
<b>PJSC «Peredvizhnaya Energetika»</b>	Order of Minenergo of Russia dated 16.12.2016 №1335 «Concerning approval of the investment program of PJSC «Peredvizhnaya energetika» for 2017-2019 and amendments to the investment program of PJSC «Peredvizhnaya energetika», approved by the Order of Minenergo of Russia dated 25.12.2015 №1032
<b>PC «Sakhaenergo»</b>	Order of Minenergo of Russia dated 28.12.2016 №1434 «Concerning approval of the investment program of PC «Sakhaenergo» for 2017-2019 and amendments to the investment program of PC «Sakhaenergo», approved by Order of Minenergo of Russia dated 25.12.2015 №1027
<b>PC «DGC»</b>	Order of Minenergo of Russia dated 28.12.2015 №1044 «Concerning approval of the investment program of PC «DGC» for 2016-2018»

<sup>10</sup> Letter of Minenergo of Russia dated 27.12.2016 № 09-6858.

<sup>11</sup>Data listed only for energy companies, investment programs of which are approved in order, stipulated by the Government of Russia dated 01.12.2009 № 977 and included in the approved LTDP.

<b>PJSC «Kamchatskenergo»</b>	Order of Minenergo of Russia dated 14.12.2015 №950 «Concerning approval of the investment program of PJSC «Kamchatskenergo» for 2016-2018»
<b>PJSC «Magadanenergo»</b>	Order of Minenergo of Russia dated 24.12.2015 № 1019 «Concerning approval of the investment program of PJSC «Magadanenergo» for 2016-2018
<b>PJSC «RAO ES of East»</b>	Order of Minenergo of Russia dated 25.11.2014 № 862 «Concerning approval of the investment program of PC «RAO ES of the East» for 2015-2017»
<b>PJSC «Sakhalinenergo»</b>	Order of Minenergo of Russia dated 25.12.2015 № 1031 «Concerning approval of the investment program of PC «Sakhalinenergo» for 2016-2018»
<b>PJSC «Yakutskenergo»</b>	Order of Minenergo of Russia dated 25.12.2015 № 1034 «Concerning approval of the investment program of PJSC «Yakutskenergo» for 2016-2018
<b>PC «Teploenergосervice»</b>	Order of Minenergo of Russia dated 21.12.2015 № 983 «Concerning approval of the investment program of PC «Teploenergосervice» for 2016-2018»

Below is the investment structure of «RAO ES of the East» Holding:

**Investment structure in 2016**

<b>Funding stream</b>	<b>Financing plan for 2016, Billion rubles</b>	<b>Effective financing for 2016, Billion rubles</b>	<b>execution, %</b>
Retrofitting and upgrading	9,05	8,12	89,7 %
New construction	6,76	8,28	122,5 %
Technological connection	7,33	3,83	52,2 %
Other	1,19	1,16	97,5 %
<b>Total</b>	<b>24,33</b>	<b>21,39</b>	<b>87,9 %</b>

Actual financing volume of the investment projects of the Holding is 21 392,36 million rubles or 87,9 % of the target, including that for the investment program of PJSC «RAO ES of the East» - 6 813,36 million rubles or 141,8 % of the target.

**Execution of the investment program of «RAO ES of the East» Holding for 2016**

№	Object definition	Financing volume, million rubles		Execution, %
		target	actual	
	TOTAL for «RAO ES of the East» Holding	24 334,14	21 390,48	87,9 %
1	PC "DGC"	4 254,87	4 164,98	97,9 %
2	PC "DRSK"	4 069,65	3 365,83	82,7 %
3	PJSC "DEC"	97,09	92,88	95,7 %
4	PJSC "Kamchatskenergo"	4 363,90	1 219,29	27,9 %
5	PJSC "Magadanenergo"	933,28	765,82	82,1 %
6	PJSC "RAO ES of East"	4 805,91	6 813,36	141,8 %
7	PJSC "Peredvizhnaya Energetika"	254,95	219,46	86,1 %
8	PJSC "Sakhalinenergo"	1 884,66	1 678,51	89,1 %
9	PC "Chukotenergo"	155,22	151,53	97,6 %
10	PC "YUESK"	149,27	147,81	99,0 %
11	PJSC "Yakutskenergo"	2 669,76	2 047,78	76,7 %
12	PC "Sakhaenergo"	307,96	350,94	114,0 %
13	PC "TES"	387,64	372,31	96,0 %

Main reasons of deviation from planned numbers in 2016 are the below:

**PJSC «Kamchatskenergo»**

Postponing of execution period under the project of "OHL 110 kV construction for power supply of SS 110/6 "Chaika", SS 110/6 "Bogatirevka", SS 110/6 "Stellera"<sup>12</sup> (individual technological connection) due to the available application of the Claimant for changing of connection points (letter of OJSC «Oboronenergo» dated 07.07.2016 №KMCH/100/2072). An additional agreement was signed on 04.10.2016 №3 to the main contract (technological connection deadlines postponed to December 2018). Increase of the project life caused by the initiative of the OJSC «Oboronenergo» (- 2 768,16 million rubles).

**PC «DRSK»**

<sup>12</sup> Project is done at the expense of the Claimant



Main reasons of financial plan failure:

1) Under the projects of "Construction of SS 110/35/10 kV "Agrocomplex" and Construction of SS 110/10 kV «Kuchi» (projects of Priority Social and Economical Development Area Mikhailovsky, individual techpress) advance payments were postponed to 2017 due to untimely opening by the supplier of settlement accounts with the Treasury, as per the applicant contract conditions with PC «Far East Development Corporation» (-377,0 million rubles.);

2) Under the project of "Reconstruction of SS 35/6 kV «Gorodskaya» and SS 110/6 kV «Beregovaya» with cable lines 35 kV SS «Beregovaya» - SS «Gorodskaya in the town of Komsomolsk-on-Amur» variance is related to the untimely start of construction-installation works by the subcontracting company "MES" Ltd. Complaint management is in progress (№04-01-08/2061 dated 13.05.2016 for the amount of 2 192 693,94 rubles VAT excluded) (-70,07 million rubles.);

3) Sale difference under procurement procedures (202,7 million rubles saving).

#### **PJSC «Magadanenergo», PJSC «Yakutskenergo»**

Postponing of financing volumes to 2017-2020 and cutoff of a number of projects for cost saving purposes.

#### **PJSC «RAO ES of East»**

Target numbers under investment program of PJSC «RAO ES of the East» for 2016 were approved the Ministry of Energy in 2014 as part of the investment program for 2015-2017 (approval of IDP refused) and do not comprise a number of factors, including delay of commissioning dates for offsite facilities of power generation objects, constructed in compliance with the Decree of the President of the Russian Federation dated 22.11.2012 №1564, and GTU-TPP on the site of SCWBH.

#### **PJSC «Sakhalinenergo»**

The main reason of financial target numbers non-performance is sequestering of a number of objects as an optimization measure (-118.72 million rubles) and considerable decrease of estimated enquiries for technological connection from the applicants up to 15 kVt and from 15 to 150 kVt, as well as cancellation of contracts for technological connection (-113,14 million rubles).

During 2016 the commissioned generation facilities of «RAO ES of the East» Holding were: 3,79 Megawatt and 6,0 Gcal-hr, for grid objects: 876,30 km, 436,33 MVA.

#### **Operational program of PJSC RusHydro**

As a result of implementation of the operational program in 2016 the additional capacity gain made 66,5 Megawatt, including that by means of capacity gain of Volzhskaya HPP (10,5 Megawatt), Zhigulevskaya HPP (42,0 Megawatt), Kamskaya HPP (3,0 Megawatt), Saratovskaya HPP (6,0 Megawatt), Novosibirskaya HPP (5,0 Megawatt).

Main results for 2016:

- Completed capital improvement of hydroelectric installation № 6 Volzhskaya HPP with replacement of hydro generator and turbine;
- Completed replacement of hydro generator № 5 Volzhskaya HPP;
- Completed capital improvement of hydroelectric installations №7, №13 and №16 Zhigulevskaya HPP with replacement of turbines and updating of hydro generators;
- Completed capital improvement of switchgear 220 kV and replacement of power transformers in Ribinskaya HPP;
- Completed capital improvement of hydroelectric installation № 8 of Saratovskaya HPP with replacement of hydro generator and turbine;
- Completed replacement of turbine № 4 in Saratovskaya HPP;
- Completed replacement of turbine № 4 in Novosibirskaya HPP.

The approved LTDP reports the financing of the below listed:

- Operational program for retrofitting and upgrading<sup>13</sup> for the period of 2016 – 2020 in the amount of 140 133,8 million rubles (in target prices VAT included), of which in 2016 – 26 120,9 million rubles.
- Operational repair program<sup>14</sup> for the period of 2016 – 2020 in the amount of 15 896,3 million rubles<sup>15</sup> (in target prices VAT excluded), of which in 2016 – 2 833,7 million rubles.

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<sup>13</sup> Operational program of retrofitting and upgrading for 2016 – 2021 (sent as part of Investment program of PJSC RusHydro – letter of PJSC RusHydro dated 15.08.2016 № 3649.NSH).

- Operational maintenance program<sup>16</sup> for the period of 2016 – 2020 in the amount of 5 909,5 million rubles<sup>14</sup> (in target prices VAT excluded), of which in 2016 – 1 061,8 million rubles.

- Operational R&D program<sup>17</sup> for the period of 2016 – 2020 in the amount of 3 761,3 million rubles<sup>18</sup> (in target prices VAT excluded), of which in 2016 – 686,3 million rubles.

Operational program for retrofitting and upgrading of PJSC RusHydro for 2016 is implemented for 97,4 %.

Repair program of PJSC RusHydro for 2016 is implemented for 97,0 %.

Program of maintenance of the main, auxiliary equipment and HPP systems for 2016 is implemented for 92,0 %.

R&D program for 2016 is implemented for 107,6 %.

#### Program Execution in 2016<sup>19</sup>

Execution targets	Target for 2016, million rubles	Actual for 2016, million rubles	Target execution, %
Retrofitting and upgrading program	30 735,7 <sup>20</sup>	29 924,2	97,4 %
Repair program	2 833,7	2 747,9	97,0 %
Maintenance program	1 061,8	976,7	92,0 %
R&D program	686,3	738,7	107,6 %

In 2016, in the frames of the operational program execution there was a reconstruction of hydrometeorological facility “Giluy” in Zeyskaya HPP done, located on the river Giluy 104 km from the embouchment. As part of modernization, the sensor, measuring the volume and the speed of the water flow of the river Giluy, was replaced for a modern one, as well as the way of installation was changed, eliminating possible influence of the river ice cover on the installation construction and the sensor efficiency

Upon results of 2016, the net actual generation of power objects of PJSC RusHydro, including the daughter companies, made 107 138,1 million. kVt\*hr<sup>21</sup>. In compliance with business plans for 2016<sup>22</sup> - Business plan of PJSC RusHydro<sup>23</sup> and Business plan of daughter companies – the projected volume of generation by the power objects of PJSC RusHydro and the daughter companies is fixed in the amount of 98 098,6 million kVt\*hr<sup>24</sup>. Overrun in 2016 is determined by effective use of water sources and effective operational monitoring of HPP.

#### Production plan of «RAO ES of the East» Holding

Main results of production plan implementation of «RAO ES of the East» Holding for 2016:

Under the program of retrofitting and upgrading:

- Replacement of 9 diesel generation units in PC «Sakhaenergo».
- Modernization of heat networks for heating season.
- Modernization of 4 turbines of PC «DGK» and PJSC «Peredvizhnaya Energetika».
- Modernization of 2 boilers in Artemovskaya TPP and one boiler of Partizanskaya GRES.
- Reconstruction of substations and power lines of PJSC «Sakhalinenergo» and PC «DRSK».

**Under repairing program:**

<sup>14</sup> Operational repair program for 2016 – 2021 (Decision of the Management Board of PJSC RusHydro dated 30.03.2016 № 969pr/3).

<sup>15</sup> By Decision of the Management Board not the financing volume but the expenses volume is approved –in-principle. Recalculation of expenses in projected prices is done as per the target index variant of the Unified scenario conditions of PJSC RusHydro, approved by the order dated 08.02.2016 № 92.

<sup>16</sup> Production plan of technical maintenance for 2016 – 2021 (Decision of the Management Board of PJSC RusHydro dated 30.03.2016 № 969pr/3).

<sup>17</sup> R&D operational program (tests, experiments, researches) for 2016 – 2021 (Decision of the Management Board of PJSC RusHydro dated 30.03.2016 № 969pr/3).

<sup>18</sup> By Decision of the Management Board not the financing volume but the volume of delivery expenses. Recalculation of expenses in projected prices is done as per the target index variant of the Unified scenario conditions of PJSC RusHydro, approved by the order dated 08.02.2016 № 92.

<sup>19</sup> In part of implementation.

<sup>20</sup> As per adjustment of the investment program of PJSC RusHydro for 2016, approved by Minenergo of Russia dated 30.12.2016 № 1458.

<sup>21</sup> Data as of 01.01.2017 including generation of: CJSC «Boguchanskaya HPP» (owned by PJSC RusHydro, and UC «RUSAL», net actual generation makes 13 969,6 million kVt\*hr); HPP-2 CJSC «KamGEK» (not including HPP-1 and HPP-3 CJSC «KamGEK», being confidentially managed by RusHydro Group, net actual generation is 39,4 million kVt\*hr). Data on “RAO ES of the East” Holding is given in a separate section.

<sup>22</sup> Projected values of net generation are calculated based on long-term average annual generation values, including the existing hydrological situation, water storage in HPP reservoirs, draft annual repairing execution plan and water content forecast

<sup>23</sup> Approved by Decision of the Management Board of PJSC RusHydro (minutes of 25.12.2015 № 229).

<sup>24</sup> Of which the generation plan for PJSC “Boguchanskaya HPP” makes 14 302,3 million kVt\*hr (owned by PJSC RusHydro, and UC «RUSAL”).

During the reported year the overhaul and middle-life repairing was conducted for: turbine plants – 23 units (against 23 units planned); boiler units- 30 units (against 30 units planned); generators - 21 units (against 21 units planned); transformers -225 units (against 224 units planned), of which:

- Overhaul repair of power plants: station № 5 of Primorskaya GRES, station №4 of Khabarovskaya TPP-3 PC «DGK»;
- overhaul repair of turbine plants: station № 7 of Khabarovskaya TPP-1, station № 3 of Maiskaya GRES PC «DGK»;
- overhaul repair of boiler units: station № 7 of Magadanskaya TPP of PJSC «Magadanenergo», station № 7 of Kamchatskaya TPP-1 of PJSC «Kamchatskenergo», station № 4 of Chaunskaya TPP of PC «Chukotenergo».

In 2016 about 4 170 km of electrical and 73 km of heating networks had been repaired.

Production plan of retrofitting and upgrading of «RAO ES of the East» Holding for 2016 is implemented by 95,3 %.

Repairing program of «RAO ES of the East» Holding for 2016 is implemented by 100,1 %.

**Program Execution in 2016<sup>25</sup>**

Execution targets	Planned for 2016 million rubles	Actual for 2016 million rubles	Target Execution %
Retrofitting and upgrading program	7 498,00 <sup>26</sup>	7 142,00	95,3 %
Repairing program	11 626,76 <sup>27</sup>	11 636,67	100,1 %

As per the approved business plans of DC/EO of PJSC «RAO ES of the East» for 2016, the projected net generation is defined in the amount of 32 001,0 million kVt\*hr, including 7 759,3 million kVt\*hr for isolated power systems. The real generation of the generating stations of DC/EO PJSC «RAO ES of the East» in 2016 makes 31 672,1 million kVt\*hr, including 7 896,0 million kVt\*hr for isolated systems.

As per the approved business plans of DC/EO PJSC «RAO ES of the East» for 2016, the projected delivery of generating objects of DC/EO PJSC «RAO ES of the East» is defined in the amount of 30 984,1 thousand Gcal, including 9 299,1 thousand Gcal for isolated power systems.

The real delivery of generating stations of DC/EO PJSC «RAO ES of the East» in 2016 makes the amount of 31 494,9 thousand Gcal, including 9 350,8 thousand Gcal for isolated power systems

**Innovative development program of RusHydro Group**

The approved LTDP shows financing of the Innovative development program activities of the RusHydro Group for 2016–2020 in the amount of 11 390,0 million rubles (in target prices VAT included), of which: for PJSC RusHydro- 2 655,9 million rubles; for «RAO ES of the East» Holding - 8 734,1 million rubles, of which in the year of 2016 in the amount of 2 082,9 million rubles, of which: for PJSC RusHydro- 582,5 million rubles; for «RAO ES of the East» Holding- 1 500,4 million rubles<sup>28</sup>.

The listed volumes are included into the LTDP as per the Innovative development Program of the RusHydro Group for the period of 2016–2020 with an outlook for 2025 (hereafter – IDP of RusHydro), approved by the Board of Directors of PJSC RusHydro (minutes of 23.11.2016 № 244).

The medium –term plan of implementation of the Innovative development Program of PJSC RusHydro for 2016-2018, approved by the decision of the Board of Directors of PJSC RusHydro (minutes of 23.11.2016 № 244), estimates the financing plan for activities in 2016 in the amount of 582,5 million rubles, of which for innovative projects and activities – 360,4 million rubles.

Real financing volumes of the medium –term plan of PJSC RusHydro in 2016 made 463,6 million rubles or 79,6 % of the target, of which for innovative projects and activities – 242,9 million rubles or 67,4 % of the target

Underruns of the planned numbers in 2016 are mainly due to the below:

<sup>25</sup> In part of implementation.

<sup>26</sup> As per the IP in part of retrofitting and upgrading (implementation) of specialized DC of PJSC «RAO ES of the East», approved as part of business plans for 2016

<sup>27</sup> Repairing program is reviewed and approved duly by the management of DC PJSC «RAO ES of the East», in particular for 2016 the repairing work programs were approved on December 9, 2016 by minutes of meeting for production programs validation of DC (EO) for 2016: OJSC "Sakhalinenergo" № - № 218, PJSC "Yakutskenergo" № - № 219, PC "DGK" № - № 220, PC "DRSK - № 221, PJSC "Peredvizhnaya Energetika"- № 222, PC "Sakhaenergo" - № 223, PC "Teploelectroservice" - № 224, PJSC " Kamchatskenergo" - № 225, PC "YUESK" - № 226, PJSC "Magadanenergo"- № 227, PC "Chukotenergo"- № 228.

<sup>28</sup> Data on the Innovative development program execution of «RAO ES of the East» Holding is given in a separate section

- postponing of financing of several projects for 2017 related to continuous procurement procedures, need of technical requirements specification, budget adjustments;
- need of additional tests and validation of equipment installed under the pilot testing;
- failure of contractors to meet contract obligations;
- decrease of action cost as a result of the procurement procedures

The major projects, implemented by PJSC RusHydro during the year of 2016:

- Development and implementation of new control restoring method for vital areas of waterworks by increase of non-linear piezometer response. Development of non-linear piezometer cleaning technology
- Development of recommendations for treatment agents' application and requirements estimate for inclusion into the HPP emergency stock. Selection of materials preventing structural icing waterworks
- Development of measuring technique for vertical and angular displacement by means of electronic tilt meters (replacing the hydrostatic leveling method). In 2016 the development model of control system for deformations in concrete constructions in Chirkeyskaya HPP was put into operation.
- Development of pre-design technical documentation for facilities in the corridor of the Akhtuba river and operational arrangements for Volga-Akhtuba channel, feasibility study of the suggested variant
- Elaboration of constructive and technology solutions allowing water supply of Volga-Akhtuba plain at minimum idle discharge into the tail pond of Volzhskaya HPP.

#### **Innovative Development program of «RAO ES of the East» Holding**

As per the Innovative development Program of «RAO ES of the East» for 2016-2020 with outlook to 2025 (hereafter – IDP RAO ES of the East), approved by decision of the Board of Directors of PJSC «RAO ES of the East» dated 01.07.2016 № 145, financing of activities for the period of 2016-2020 makes the amount of 8 734,1 million rubles (in target prices VAT included), of which in 2016 - 1 500,4 million rubles.

The medium – term plan of implementation of the IDP «RAO ES of the East» for 2016-2018, approved by the Management Board of PJSC «RAO ES of the East» (minutes of 15.01.2016 №2), estimates the financing plan for IDP «RAO ES of the East» for 2016 in the amount of 1 500,4 million rubles, of which for innovative projects and activities – 1 479,0 million rubles.

Real financing volumes of the IDP «RAO ES of the East» in 2016 made 1 182,8 million rubles or 78,8 % of the target, of which for innovative projects and activities – 1 163,0 million rubles or 78,6 % of the target

Under runs of planned numbers in 2016 are mainly due to the below

1. In compliance with decision of PJSC «RAO ES of the East», financing of project of «Unification of accounting system of the Holding» for DC (EO) of PJSC «RAO ES of the East», PC «DRSK», PJSC «Magadanenergo», PJSC «Sakhalinenergo», PC «Sakhaenergo», PJSC «Yakutskenergo») in the amount of 1 40,0 million rubles, is postponed to 2017-2018.
2. Financing terms for some R&D work stages are postponed to 2017 due to Executors failure to complete the work schedules under the agreements.
3. 2016 failure of PJSC «RAO ES of the East» to complete the R&D activities is related to: cancellation of procurement procedures under the projects (due to financial assets deficiency); in the view of the only tender offer submitted (project tender declared void).
4. As a result of open tender for selection of the contracting work execution company there was some cost saving achieved

The major projects, implemented by «RAO ES of the East» within the IDP during the year of 2016:

- development of high end technology and mobile pilot plant for recovery of turbine and transformer oils by use of vacuum stripping, electro physical and sorption purification, oil recovery with up-to-date additive packages, quality monitoring of recovered oils and automated workflow control

R&D execution brought up the below results:

- design and detailed design documentation for pilot oil recovery plant elaborated;
- oil recovery unit manufactured;
- start-up and installations tests and commissioning of the unit done

Project execution effect:

- cost saving for purification and recovery of oils compared to expenses for purchase of fresh turbine and transformer oil;

- quality increase of transformer and turbine oil used for equipment operation;

- Reliability growth of power and electro technical equipment

As a result of R&D execution there was a state registration certificate obtained for the ECM «Mefo-1n» program №2016618368, patents of invention for “Turbine oil” and “Way of used fuel oil recovery” are submitted and registered with FGUP “Federal Institute of Industrial property”

• design of composite intermediate supports for HVTL for voltage levels of 0,4 kV and 6-10 kV.

R&D execution brought up the below results:

- design and detailed design documentation sets for composite supports;

- technological charts and individual rates formed for assembly and installation of composite supports;

- development models produced and tests conducted for intermediate composite supports for HVTL for voltage levels of 0,4 kV and 6-10 kV;

- «Type design albums» done for design and construction –installation works, including those for supports usage in difficult access areas;

- pilot series of composite supports done, being installed in 2016 in the affiliate PC «Far-Eastern distribution company» - «Amur electrical networks» in a number of 20 units

As a result of R&D execution there was a patent obtained for a utility model «Composite tower body of the OHPL» № 162084, a patent of invention for «Process of manufacture of the composite support module of the OHPL» № 164151.

• development, implementation and running efficiency analyses of the development model for the mixed-up complex for 100 % power supply insuring of the settlement of Verhnaya Amga of Aldan Ulus at the expense of renewable energy resources.

The uniqueness of the project is the power supply of a settlement in spring-summer time by the exclusive use of power supply of the solar power station and operation of power blocks based on developed automated management system of the mixed-up complex, full substitution of diesel generation.

#### 4. CONCERNING EFFICIENCY AND COMPETITIVENESS OF «RAO ES OF THE EAST» HOLDING

The Holding is one of the major employers in the region. The average staff number of the Holding is above 52 thousand people

##### Financial analyses of «RAO ES OF THE EAST» Holding

###### Results of financial and economic activity of «RAO ES of the East» Holding as of IFRS data for the year of 2016:

№	Definiton	Units	2016 actual
1	Revenue	million rubles.	175 545
2	State subsidies	million rubles.	17 184 <sup>29</sup>
3	OPEX (depreciation and other non-cash items excluded)	million rubles.	(168 835)
4	<b>EBITDA</b>	<b>million rubles.</b>	<b>23 894</b>
5	Depreciation	million rubles.	(7 747)
6	Other non-cash items of OPEX and expenses	million rubles.	(12 498)
	<i>of which:</i>	<i>million rubles.</i>	
6.1.	<i>impairment loss of receivables, net</i>	<i>million rubles.</i>	<i>(3 968)</i>
6.2.	<i>Loss from assets sale, net</i>	<i>million rubles.</i>	<i>(228)</i>
6.3.	<i>impairment loss of capital assets</i>	<i>million rubles.</i>	<i>(5 581)</i>
6.4.	<i>impairment loss of financial assets</i>	<i>million rubles.</i>	<i>(3 120)</i>
6.5.	<i>Revenue from daughter companies retirement</i>	<i>million rubles.</i>	<i>399</i>
7	<b>Profit from operating performance</b>	<b>million rubles.</b>	<b>3 649</b>
8	Financial income	million rubles.	1 264

<sup>29</sup>Including: subsidies for differential made 14 223, 049 million rubles

9	Financial expenses	million rubles.	(11 028)
10	Share in loss of associated companies	million rubles.	(291)
<b>11</b>	<b>Loss before taxation</b>	<b>million rubles.</b>	<b>(6 406)</b>
12	Income tax benefit	million rubles.	222
<b>13</b>	<b>Loss for period</b>	<b>million rubles.</b>	<b>(6 184)</b>

For the reported period the loss of «RAO ES of the East» Holding made 6 184 million rubles.

The main unprofitability factors of the Holding in 2016 are:

– Problem of tariff regulation: insufficient decisions on tariffs (tariff undocumented expenses for 2013-2015, certified by the federal executive authority, make 31 628,2 million rubles), cross subsidization;

– Bad payment history of electrical and heat power consumers, thus the payment level for electricity of PJSC «Kamchatskenergo» makes 96 %; for heat: in PJSC «Kamchatskenergo» - 89,5 %, in PJSC «Yakutskenergo» - 91,5 %, in PC «Teploenergосervice» - 95,4 % (as a consequence – attraction of credit resources for cash deficiency settlement, creation of provisions for doubtful debts, withdrawal of uncollectable receivables);

– Problem of power equipment physical wear (70 % of generating equipment was commissioned before 1985), insufficient technical and technological modernization. Substantial stake of equipment and electrical networks worked out the projected service life, which worsens the total economic indicators of electrical stations operation;

– Largeness of credit portfolio as of 31.12.2016 - 103 587 million rubles (enlargement made 11 931 million rubles versus the data as of 31.12.2015), defined by: unfeasibility of operation of PC «DGC», PC «Chukotenergo»; absence of own financing resources of major investment projects; subsidization of isolated companies operation and short delivery of subsidies in full volume and as a consequence increase of expenses for its service, which make 9 697 million rubles;

– Non-reimbursable in full expenses of PC «DGC», related to price increase for gas, supplied under delivery-sale contract, signed with consortium for the project of “Sakhalin -1” (Short fall in revenue for 2016 makes 1 687 million rubles);

– Short delivery of subsidies for 2016 in PC «Chukotenergo» in the amount of 1 063 million rubles for reimbursement of part of expenses for the purchased electrical power (energy), bought from the affiliate PC «Concern Rosenergoatom» - Bilibinskaya NPP;

– impairment loss of the main assets - 5 581 million rubles, of which: the amount of 8 597 million rubles is announced the impairment loss (PJSC «Magadanenergo» - 2 524 million rubles, PJSC «Sakhalinenergo» - 2 293 million rubles, PJSC «Yakutskenergo» - 1 261 million rubles, PC «Sakhaenergo» - 1 165 million rubles, PJSC «Kamchatskenergo» - 1 093 million rubles, PC «YUESC» - 124 million rubles, PC «Chukotenergo» - 93 million rubles, PJSC «RAO ES of the East»- 44 million rubles) and in the amount of 3 016 million rubles for PC «DGC» impairment restored («Khabarovskaya generation» and «Primorskaya generation»);

– impairment loss of financial assets (JSCB «Peresvet») – 3 120 million rubles.

For 2016 within business plans of the specialized DC of PJSC «RAO ES of East», there is the subsidies volume foreseen for differential in total amount of 13 855 528,0 thousand rubles, shown in LTDP of RusHydro Group. On actual basis, subsidies for differential in 2016 were received in the amount of 14 223 049 thousand rubles, of which by power generating companies:

	2016 (planned)	2016 (actual)	thousand rubles
			Δ2016 Planned-actual
<b>Group "RAO Energy Systems of the East"</b>	<b>13 855 527</b>	<b>14 223 049</b>	<b>367 522</b>
PJSC "Yakutskenergo"	596 173	624 580	28 407
PJSC "Kamchatskenergo"	2 777 598	3 090 036	312 438
PC "YUESC"	2 292 170	2 341 145	48 975
PJSC "Magadanenergo"	2 080 899	1 955 646	-125 253
PJSC "Sakhalinenergo"	817 054	840 873	23 819

PC "Far East Generation Company"	486 405	483 167	-3 238
PJSC "Peredvizhnaya Energetika"	295 225	264 247	-30 978
PC "Chukotenergo"	425 642	610 818	185 176
PC "Sakhaenergo"	372 277	338 701	-33 576
PC "Teploenergосervice"	3 712 085	3 673 836	-38 249
<b>For reference only: subsidy volume by regions:</b>			
The Sakha Yakutia republic	4 965 547	4 830 421	-135 126
The Kamchatka region	5 069 768	5 431 181	361 413
The Magadan region	2 080 899	1 955 646	-125 253
Sakhalinskaya region	817 054	840 873	23 819
Chukotka Autonomous region	425 642	610 818	185 176
Yamalo-Nenets Autonomous region	295 225	264 247	-30 978
The Amur Region	0	4 042	4 042
Khabarovsk Territory	201 392	285 821	84 429

Increase of actual subsidies in 2016 versus the target is defined in particular by the below:

- partial offset in PC «Chukotenergo» of tariffs increase for electrical power (energy) sold by affiliate PC «Concern Rosenergoatom» Bilibinskaya NPP for 2015 - in the amount of 185,2 million rubles;
- change of consumer structure of electrical and heat energy at increase of net electricity supply and decrease of net heat energy supply, which influenced the increase of actual received subsidy in PJSC «Kamchatskenergo» versus the target by 312,4 million rubles.

At this in PJSC «Magadanenergo» the decrease of subsidies volume by 125,3 million rubles is related to in fact signed agreement between PJSC «Magadanenergo» and the Ministry of Construction, Housing and Utility and energy of the Magadan region for the amount of 1 950,0 million rubles.

For the rest of DC of PJSC «RAO ES of the East» increase/decrease of subsidies was defined by changes of actual consumption of electrical and heat energy versus the target

State subsidies, in fact obtained by the specialized DC of PJSC «RAO ES of the East» in 2016 made: 14 223 049 thousand rubles – subsidies for differential; 2 082 113 thousand rubles – subsidies for gas for PC «DGC» (for 2015); 878 838 thousand rubles – other subsidies.

Aiming at operational efficiency increase and provision of adequate liquidity level the Turnaround Program of «RAO ES of the East» Holding for 2016 -2020 was developed.

For implementation of the Turnaround Program of the «RAO ES of East» Holding<sup>30</sup> for 2016 the Total Economic Effect is planned to be obtained in the amount of 5 424,6 million rubles. In fact, upon the results of the reported year, the received economic effect makes 6 445,3 million rubles. By the end of 2016 the below results of cost saving are obtained for «RAO ES of the East» Holding, of which:

- decrease of fixed costs - 4 872 million rubles;
- decrease of direct charges - 924 million rubles;
- profit tax optimization in PJSC «Sakhalinenergo» - 207 million rubles.

The maximum fixed costs optimization effect was obtained for labor costs with deductions in the amount of 2 634 million rubles

At the expense of the below activities:

- organizational structure optimization, decrease of basic premium and extra payments;
- change of amount and indexation period of salaries (base salaries) from quarterly to half-yearly;
- limitation of payments for unutilized vacations

In 2016 in the frames of yield increase «RAO ES of the East» Holding has taken measures for revenue increase by 442 million rubles (with target of 429 million rubles), including the below major activities:

<sup>30</sup>Turnaround program of PJSC «RAO ES of the Far East» for 2016 is approved by decision of the Management Board of PJSC «RAO ES of the Far East» (minutes of July 01,2016 № 19). Turnaround program is reviewed at meetings of the Board of Directors of the controlled companies of PJSC «RAO ES of the Far East»

- Signature of purchase-sale agreement for electric power with PC "Pervenets" (PJSC «Yakutskenergo») – 148 million rubles;
- Increase of net electrical power sale at the expense of consumer service improvement (PJSC «Yakutskenergo») – 136 million rubles.

### **Tariff regulation**

Under the improvement of operational efficiency «RAO ES of the East» Holding is in progress of changes of the existing tariff regulation system

From July 2016 there was a transfer done to the new remuneration model for electrical power in non-cost zone<sup>31</sup>.

In order to settle the issue of investment projects payback during the year of 2016 PJSC «RAO ES of the East» has addressed the federal authorities with offers to implement the payback mechanism for investments in construction of generation objects. In December 2016, in order to execute the list of instructions of the President of Russia referring the phased price (tariff) drop for electrical power in all subjects of the Russian Federation, being part of the Far East federal region, to the average Russian level, the Federal Law № 508 «On amendments to the Federal law “About the electrical energy industry” was adopted, stipulating tariff decrease in the Far East to the basic level. The Federal Law secures implementation of compensation surcharge mechanism for compensation of shortfall in income of energy companies due to the tariffs decrease.

At present, PJSC RusHydro participates in activities of the federal authorities (Minenergo of Russia, FAS of Russia, and Ministry for Development of Russian Far East) for development of regulatory acts, securing direct implementation of compensation surcharge and tariff decrease. The draft of changes to resolutions of the Government of Russia is elaborated and posted on the website regulation.gov.ru. In the nearest time the by-laws are expected, stipulating the detailed mechanism of estimation, collection, and distribution of the surcharge and decrease of tariffs in the Far East federal region.

Surcharge introduction and tariffs decrease are expected from July 01, 2017 (with consumer tariffs review from January 01, 2017). It is as well expected that in 2018 and 2019 the energy companies, being part of «RAO ES of the East» Holding, will be able to include the additional expenses into tariffs due to the implemented compensation source. Further development of initiative for implementation of the long-term tariff regulation is planned after implementation of the compensational surcharge mechanism deployment in 2017.

### **Receivables management**

The receivables of consumers for electrical energy to the DC of PJSC «RAO ES of the East» as of 31.12.2016 made 13 821,7 million rubles<sup>32</sup> (rise of debts of the reported period - 1 992,3 million rubles).

The main growth noted by groups: industrial consumers - OJSC «Amurmetal» (the Khabarovsk region), «Sakhalinugol-6» Ltd (Sakhalinskaya region); by enterprises, financed from the federal budget (there were long-term limit thresholds), by municipal enterprises – KGUP «Primteploenergo», GUP ZHKH (The republic of Sakha (Yakutia) and Condominium partnerships).

The main part of receivables are the consumers groups: population – 24,5 %, Utility and Housing facilities – 21,8 %, industry – 13,1 %, «Wholesale resellers<sup>33</sup>» – 12,1 %. Share of the given groups makes 71,5 % of the total receivables volumes.

Receivables for heat energy to DC of PJSC «RAO ES of the East» as of 31.12.2016 made 15 948,9 million rubles<sup>34</sup> (the depth growth for the reported period - 1 567,9 million rubles). Main share in receivables structure comes to the population, Condominium Partnership, housing associations and facility management companies. The share of the given groups makes 77,7 % of the total receivables volume.

DC PJSC «RAO ES of the East» takes all measures, stipulated by the existing legislation, to secure cash inflow against current payments and collection of receivables.

For the most problematic consumer groups and separate companies there is activity on federal subjects and municipality heads level for the purpose of establishment of combined effect on the debtors

<sup>31</sup> Order of the Government of the Russian Federation dated 17.05.2016 № 43.

<sup>32</sup> By composite data of the sales departments of «RAO ES of the East» Holding.

<sup>33</sup> Wholesale resellers

<sup>34</sup> By composite data of sale departments of «RAO ES of the East» Holding.



Thus, as an example, applications had been submitted and meetings held with the Government of the Amur region and the Administration of the town of Blagoveschensk about the major debtor for heat energy – OJSC “Amur Utility networks”. Finally, there was an agreement signed in 2016 for restructuring and way of settlements for the current year. As a result of measures undertaken as of 31.12.2016 there is a decrease of receivables of the major heat consumer of the Amur region

A high percentage in receivables belongs to intermediaries in energy supply, including that for the needs of the Ministry of Defense of Russia and companies under the jurisdiction of the Ministry of Defense of Russia, namely the following: PC «REU» and PC «Slavyanka» - for heat energy, PC «Oboronenergobit» - for electrical power, «GU ZF» and PC «GU ZHKH» - for heat and electrical energy.

Signature of agreement between PJSC «DEC» and Federal State Institution “Unified strategic Eastern Command», energy supply agreements (state contracts) for delivery of electrical energy from 01.01.2016 for the territories of Primorsk and Khabarovsk regions, the Amur region and Jewish Autonomous region, allowed considerable decrease in receivables as of the end of financial year for electrical energy by consumers under jurisdiction of the Ministry of Defense

DC PJSC «RAO ES of the East» makes efforts to transfer the population to “direct settlements” primarily – for heat energy to start with. As of the end of 2016 the share of population “under direct settlements” for heat energy to PJSC «RAO ES of the East» makes 77,8 %.

Orders of the Government of Russia dated 29.06.2016 № 603 «On amendments to some acts of the Government of the Russian Federation concerning the communal service providing» and of 26.12.2016 № 1498 «Concerning the issues of communal services providing and maintenance of common property in blocks of flats” made some changes in enactments, adjusting the relations between the utility providers, management companies, partnerships or cooperatives and owners (users) of premises in blocks of flats and empowering the utility providers.

#### **Fuel factor decline in value**

In 2016 «RAO ES of the East» Holding continued the optimization process of the fuel supply system

In 2016 the targeted activities were taken, among which are:

1) Demonopolization of fuel and energy market of the Far Eastern Federal District, increase of competition and diversification of fuel supplies by means of use of design coal types.

In Compliance with the program of test burning of off-design coal in 2016 the below test burnings were done:

- Xyloid coal of «2Br» type from Erkovetsky section in Primorskaya GRES of affiliate «LuTEC» PC «DGC».

- Xyloid coal of «3B» type of Krutoyarsky section in Egvekinotskaya GRES PC «Chukotenergo».

- Hardcoal of «Tr» type in Kiyzasky section Khabarovskaya TPP affiliate “Khabarovsk Generation” PC «DGC».

As a result of the test burnings there was a possibility marked to use the given coals in the corresponding TPP in pure form or in estimated ratio with other coals. While preparation and arrangement of consecutive procurement procedures for fuel acquisition for needs of the given TPP, coal requirements can be enlarged to the level, admitting the possibility to offer coals after the test burning.

2) Signature of long-term, minimum for 3 years period, agreements for coal delivery, with stipulations included, concerning the regulations on pricing for each following calendar year, taking into account the market conditions inclusively.

In 2016 upon results of open tendering there were long-term coal delivery agreements signed with the below listed companies:

- «Kolima coal company» Ltd- for delivery to Arkagalinskaya GRES PJSC «Magadanenergo» for the period of 2016-2019;

- «Chukotka trade company» LTD – for delivery to Egvekinotskaya GRES PC «Chukotenergo» for the period of 2016-2018;

- «Tuymaada -coal» LTD – for delivery to Chaunskaya TPP PC «Chukotenergo» for the period of 2016-2018;

- «Gornyak-1» LTD – for delivery to PJSC «Kamchatskenergo» for the period of 2016-2019.

All above stated agreements record the price increase for coal and transportation at the level below the related deflator indexes, defined by the Ministry of economic development of Russia, accepted while

tariff approval for heat/electrical energy

2) Unified contract conditions for delivery of fuel and use of special payment terms

Due to inclusion of conditions for coal products price decrease, depending on its quality (humidity, ash level, combustion heat), cost saving on current coal deliveries in 2016 is estimated by 148,0 million rubles.

4) Signature of frame agreements for fuel delivery.

At closing the overbalancing need, the arrangement of regulated procurement procedures (frame selections with consecutive price requests) secures creation of competition and possible fuel purchase at spot market starting from the lowest bidding price. In 2016 frame agreements were signed for coal delivery for overbalance requirements of stations of PC «DGC» and for delivery of hard coal for Adan affiliate of PC «Teploenergoservice».

5) Cooperation with Minenergo of Russia for creation of retention mechanism for purchase price growth rates on the territory of the Far Eastern region – not above the local prices index advance for power plant coal, at the expense of new tariff control deployment inclusively, and due to deployment of tariff regulation for coal suppliers.

Application was sent to the address of the Minenergo of Russia on launching of export duties for power plant coal (Ref.#. dated 20.12.2016 №5963. NSH «About initiative to implement export duties for energy plant coals»).

#### **Business assets deterioration level decrease**

Heat networks: «RAO ES of the East» Holding operates 2966 km of heat networks (hereafter - HN), HN equipment wear as of the end of 2016 increased by 1 % and as of 31.12.2016 makes 49 %.

As of 31.12.2016 the HN length with useful life term above 25 years makes 990 km (33 % of the total length). In 2016 - 73 km of heat networks pipelines were replaced

Electrical networks: «RAO ES of the East» Holding operates more than 20 200 units of transformer substations 0,4-220 kV and more than 104 000 km of power lines, as of 31.12.2016 the depreciations makes: power lines 52 %<sup>35</sup> (in 2015 - 51 %), transformer substations -65 %<sup>36</sup> (in 2015 - 64 %).

Utilities: «RAO ES of the East» Holding operates: turbine units– 141 units<sup>37</sup> (in 2015 – 140 units), depreciation as of the end of 2016 makes 77 %<sup>38</sup> (in 2015 - 76 %); boiler units - 230 units<sup>39</sup> (in 2015 – 233 units), depreciation as of the end of 2016 makes 65 %<sup>40</sup> (in 2015 - 64 %).

#### **Additional sources of development programs financing of «RAO ES of the East» Holding**

Deficiency payments related to financing of development programs of «RAO ES of the East» Holding are done in the following directions:

1. Yield increase of «RAO ES of the East» Holding. As part of yield increase at the expense of placing the account balance of controlled companies to the cash pool, «RAO ES of the East» Holding has taken measures to increase the number of the Pool participants from 18 companies as of the beginning of the year to 22 companies by the end of 2016. In 2016 the amount of revenues on accounts pool deals made 327,1 million rubles.

2. Refunding of debts of «RAO ES of the East» Holding companies. In execution of order of President of the Russian Federation Putin V.V. dated 01.11.2016 №Pr-2097 and dated 18.09.2015 №Pr-1898 key activities had been completed for refunding of debts of «RAO ES of the East» Holding in the amount of 55 billion rubles. In compliance with Decisions of Board of Directors of PJSC RusHydro (minutes of 23.11.2016 № 244, of 27.12.2016 № 246 and of 27.02.2017 № 248) placement of additional shares of PJSC RusHydro is done (the total issuing volume made 40,429 billion pcs, additional placement is registered with the Bank of Russia on 07.12.2016). At present, PJSC RusHydro has fully accomplished activities for fund raising in the amount of 55 billion rubles (monetary assets in balance) by way of sale to VTB Bank (PJSC) of 40 billion pcs of additional shares and 15 billion pcs of treasury stock of

<sup>35</sup> Preliminary data indicated.

<sup>36</sup> Preliminary data indicated.

<sup>37</sup> Steam turbine commissioned in Blagoveschenskaya TPP.

<sup>38</sup> Preliminary data indicated.

<sup>39</sup> Steam boiler commissioned in Blagoveschenskaya TPP. 4 KA withdrawn

<sup>40</sup> Preliminary data indicated.

PJSC RusHydro, and signature of a 5-year forward contract with VTB Bank (PJSC) for shares of PJSC RusHydro.

- In order to increase management effectiveness of the Far East assets of the RusHydro Group and provision of control of intended use of the raised funds for refinancing of debts of «RAO ES of the East» Holding, up to 100 % shares of PJSC «RAO ES of the East» are consolidated on balance of PJSC «RAO ES of the East» and activities are ongoing in order to integrate the executive bodies of PJSC RusHydro and PJSC «RAO ES of the East». Completion of activities on additional issue of shares of PJSC RusHydro and submitting of report on additional placement of shares of PJSC RusHydro for state registration with the Bank of Russia is planned for May 2017.

- **Implementation of measures for import substitution**

- «RAO ES of the East» Holding works hand in glove with Russian suppliers and producers of equipment and spares (PJSC «Power Machines»; CJSC «Ural Turbine Works»; CJSC «Energomash – Uraltiyazhmash»; «Profsoft-Systems» LTD; “Yunitel Engineering” LTD «Togliatti transformer» LTD, «SPA Sibelektroshield»; JSC «CheAZ» and others)

- For the implemented and current projects of the Holding, such as TPP Vostochnaya, Blagoveschenskaya TPP (2nd stage), Sakhalinskaya GRES-2 (1st stage), Yakutskaya GRES-2 (1st stage), TPP in Sovetskaya Gavan the equipment of Russian origin is mainly used. As part of operational activity for equipment upgrade and reconstruction in energy companies the Holding’s priorities are equipment procurement from local producers. As per the summary procurement analyses of the Holding for the reported year, the share of purchased local equipment comes to 90%.

- In compliance with its technical policy, PJSC «RAO ES of the East» conducts the phased substitution of imported equipment, in the course of its depreciation, for local analogues

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- **Renewable power generation development in the Far Eastern federal region**

Business opportunity of the RusHydro Group in the Far East is the increase of generation, based on renewable energy sources in the Far East

- As part of implementation of the RES development program in 2016, the below was implemented:

- Project for construction of solar electric plant with installed capacity of 80 kVt in Delgey settlement of Olekminsky region in the Republic of Sakha (Yakutia). Project cost is 9 063,3 thousand rubles (VAT excluded). Annualized fuel savings make 1 032 thousand rubles

- - Construction project of solar electric plant with installed capacity of 20 kVt in Innyakh settlement of Olekminsky region in the Republic of Sakha (Yakutia). Project cost is 3 353,7 thousand rubles (VAT excluded). Annualized fuel savings make 354 thousand rubles.

- - Project for construction of energy complex of a solar power plant with capacity of 36 kVt with power blocks of 144 kVt\*hr in the Upper Amga village of Aldan region in the Republic of Sakha (Yakutia). Project cost is 11 642,64 thousand rubles (VAT excluded). Annualized fuel savings make 816 thousand rubles

- In 2016 The Holding held the IV International conference “Development of renewable energy in the Russian Far East”, which is an important milestone in the development of RES branch in the Far Eastern federal region

## 5. MAIN THRUSTS OF REFORMING OF THE SCIENTIFIC-DESIGN COMPLEX

Scientific - design complex (hereafter - SDC) is an asset of PJSC RusHydro, producing the high technology products (rendering services) for high-tech sectors of economy of Russia and comprising 5 institutes as of today: PC «Institute HYDROPROJECT», PC «Lenhydroproject», PC «Mosoblhydroproject», Limited Liability Partnership “VNNIG” and PC «NIIES».

As part of reforming strategy concept for the scientific-design complex of PJSC RusHydro, the 1st stage of reforming included analyses of internal and outer market (versus the orders of RusHydro Group) of surveys and researches with a long term planning time frame. Based on this data, for the purpose of reasonable availability of competencies in demand, the Institutes had started the optimization of financial - economic activities and staff number

An Action plan for creation of affiliate of PC «Institute HYDROPROJECT» - «NIIES» and unification of industrial resources of PC «Institute HYDROPROJECT»-«NIIES» was approved in 2016

Additionally, in the reported year the below measures were taken to increase the efficiency of the SDC:

- processes of competency redistribution in the institutes of the scientific- design complex launched
- Institutes organizational structure optimized, resulting in actual headcount reduction by 227 people.

Share of other customers, other than general contractors of PJSC RusHydro, increased in revenues from 14 % in 2015 to 20 % in 2016

Share of works, executed by subcontracting companies, decreased in revenues from 38 % in 2015 to 18 % in 2016.

As of the end of 2016 the collective results of financial –economic activity in scientific-design complex made:

- Revenues of SDC in 2016 equals to 5 073,28 million rubles, which is 21 % below this figure of the previous year

- Share of proceeds from foreign customers by the end of 2016 made 6 %<sup>41</sup> (for 2015 –3 %<sup>44</sup>).

- Cost saving for 61, 49 million rubles or by 13 % compared to previous year at the expense of resource systematization and allocation of core labs.

Own output per 1 employee in 2016 made 1 736,0 thousand rubles/person.

## **6. CORPORATE MANAGEMENT SYSTEM DEVELOPMENT**

During 2016 PJSC RusHydro implemented the Roadmap, approved by the Board of Directors of PJSC RusHydro on 27.02.2015 (minutes of 02.03.2015 № 210), for implementation of the corporate governance code. As part of the Roadmap:

The Decision of the annual Shareholders meeting of PJSC RusHydro on 27.06.2016<sup>42</sup> approved the below documents in new wording:

- The Charter;
- General Meeting procedure;
- Regulations on Board of Directors procedure;
- regulations on payment of remunerations and compensations to the Board of Directors of the Company;
- Stipulation on Company audit committee;
- Stipulation on remunerations and compensations to members of the Company audit committee

In 2016 PJSC RusHydro approved the below documents:

- Regulation on audit committee and the HR and remunerations (nominations) committee in new wording (minutes of the Board of Directors dated 23.06.2016 № 239).

- Internal audit policy and Regulation on corporate secretary of PJSC RusHydro in new wording (minutes of the Board of Directors dated 10.10.2016 № 242).

- Regulation on Company communication strategy in new wording was approved by the decision of the Board of Directors of PJSC RusHydro dated 21.02.2017 (minutes of the Board of Directors dated 27.02.2017 № 248).

### **Share privatization of PJSC RusHydro**

As part of Roadmap for share privatization of PJSC RusHydro, approved previously by the President of the Russian Federation and the Government of the Russian Federation dated 01.07.2013 № 1111-r), the state authorities did not take any measures for privatization of shares of PJSC RusHydro.

At this as per the orders of the President of the Russian Federation for debt refunding of companies of «RAO ES of the East» Holding there were measures taken to expropriate in favor of VTB Bank (PJSC) the additional reacquired stock of PJSC RusHydro. Share of the Russian Federation in the registered capital of PJSC RusHydro as of results of the deal decreased from 66,84 % to 60,56 %, complying with Order of the President of Russia dated 23.05.2014 № 362.

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<sup>41</sup> Calculated from the proceeds volume of the scientific-design DC: PC «Institute Hydroproject», PC «Lengidroproject», PC «Mosoblhydroproject», PC «B.E. Vedenev VNIIG» JSC and PC «NIIES

<sup>42</sup> Minutes of 29.06.2016 № 15.

During 2017-2022 there is a plan of strategic investor (investor) search together with federal executives and VTB Bank (PJSC), as well as review and provision to the Government of the Russian Federation of sales conditions for the shareholdings, acquired by the VTB (PJSC) from PJSC RusHydro (12,9 % of the registered capital).

It should be noted, that any measures for privatization of PJSC RusHydro, can only be taken in compliance with decisions, taken by the President and the Government of the Russian Federation

## **7. STAFFING SYSTEM DEVELOPMENT**

In 2016 the below activities for staffing system development as part of “Corporate elevator” program implementation were executed:

### **«Corporate Elevator – New School»**

- Implementation of measures for early career choice:

- In 2016 about 158 school children attended classes in technical creativity centers (techno classes) in the Company presence regions (6 classes and one technical laboratory). 496 school children studied in energy classes. In 2016 a new energy class opened in the small town of Novobureyskiy. Above 90 % of graduates entered energy and technical specific higher institutions.

- Industrial Olympiad «Energy of education» for 2015-2016 school year, held for 780 schoolchildren from 50 towns and settlements of Russia.

- 39 school children participated in summer energy school.

- Training modules arranged for school children as part of project shifts of educational centers «Sirius» and «Ocean».

- Implementation of activities under the Program of social-vocational adjustment of orphans:

- In 2016 the program of “Young energy”, addressing socialization and career choice of orphans and abandoned children, was attended by 450 orphaned children, of whom 20 followed the specialized training programs.

### **«Corporate Elevator – High school».**

- Arrangement of strategic partnership with specialized educational institutions of secondary and higher professional education:

- Signature of strategic partnership agreement with the Far East federal university, preparing for Group specialized areas «Electric power and electrotechnics» and «Thermal power and thermal technology». PJSC RusHydro reinforced the special –purpose capital of «Fundamental and research study» of the Endowment Fund of the Far East federal university.

- From the target assignments upon application of PJSC RusHydro the number of students, that entered the FSBEI of higher education National research institute MPEI” in the town of Volzhsky for «Electric power and electrotechnics» direction, «Hydro electrical plants» specialization (Bachelor’s program) – 4 persons; Electric power and electrotechnics» direction, «Hydro-electric power plants» specialization (Master program) – 5 people; in Sayano-Shushensky affiliate of FSBEI of higher education «Sibirsky federal university» for «Electric power and electrotechnics» direction, «Hydro-electric power plants» specialization (Master program) – 8 people.

- 2016 Summer energy students school for the students of the specialized high institutions was attended by 47 students of affiliate of “FSBEI of higher education National research institute MPEI” in the town of Volzhsky

- The VII competition of students projects «Energy of development» was held, the winners of the «Energy of development - 2016» competition participated in the All-Russian engineering contest 2016, held by the Ministry of education and science of Russia

- PJSC RusHydro together with MPEI arranged the laboratory zone in the All-Russian forum «Future intellectual leaders of Russia».

### **«Corporate Elevator – Company».**

- Company staff training:

- In 2016 company staff was trained in 14 730 training programs.

- Creation of complex system for Company operational staff training:

- In 15 Company affiliates there is training in corporate simulator of switch-over in electrical plants, hydro turbine and hydro mechanical equipment operation

– In 2016 a virtual simulator was designed for increase of operative staff skills development, arrangement of urgent negotiations, command and order recording, compiling of on-line documentation, sending (receipt) of orders and permissions.

- All-Russian contest of HPP operating staff:

– In 2016 there were 7 all-Russian contests of HPP operating staff held, with participation of 25 teams, among which 2 teams, representing the daughter companies of PJSC RusHydro, and 4 teams of outer power enterprises.

- Implementation of Program on maintenance and increase of efficiency of substation operational staff:

– Model regulations for arrangement of activity directed on maintenance and increase of efficiency of substation Operational Service (operational staff) of the affiliate of PJSC RusHydro (Order dated 22.12.2016 №1037 «On arrangement of activity directed on maintenance and increase of efficiency of substation operational staff in PJSC RusHydro) developed and implemented.

Psycho physiological tests done and remedial measures taken for 970 employees of the operative service of affiliates of PJSC RusHydro. “Stress management” training was done for 294 employees of affiliates of PJSC RusHydro.

## **8. ANTITERRORIST ECONOMICAL AND INFORMATIONAL SAFETY SYSTEM DEVELOPMENT**

In 2016 the below activities were taken under the projects:

- Integrated safety control system modernization:

- Completion of works on implementation of integrated informational security management system in the following affiliates: Volzhskaya HPP, Saratovskaya HPP, North Ossetia affiliate, Verkhnevolzsky HPP Cascade, Kuban HPP Cascade, Cheboksarskaya HPP, Nizhegorodskaya HPP.

- Start of works on design of integrated informational security management system in Zeiskaya HPP, Zagorskaya PSPP and in Kabardino-Balkaria affiliate.

- Integrated project for segment protection of automated process control systems of affiliates against cyber threats:

- Technical design was completed for protection systems of automated process control systems from cyber threats in 18 affiliates of the Company.

- Technical specifications were developed for work execution while creation of the central node of the protection system of automated process control systems from cyber threats

- Creation of information security situational center:

- Technical specifications for work execution developed.

- Remote access protection system created:

- Technical specifications for work execution developed.

- pilot project was implemented for arrangement of secured remote access to Company corporate network

- Measures to develop integrated safety systems taken in 2016:

- In 2016 Company affiliates had been tested for hazard categorization and confirmation. As part of revision the requirements for safety systems were specified on account of violator’s model. Inspection results are shown in appropriate acts, approved by representatives of MIA and FSB of Russia.

- From the beginning of 2016 integrated security system was commissioned in Zelenchugskaya HPP-PSPP, integrated security system modernization stages completed in Volzhskaya HPP, Vrekhnevolzhskaya HPP Cascade, Kama HPP and Bureyskaya HPP.

- As part of planned antiterrorism exercises and trainings there was a check conducted for security systems and staff training.

## **9. GLOBAL OPERATIONS DEVELOPMENT**

Activities in global operations of RusHydro Group, done in 2016:

1. Capture of foreign partners with high-end technologies and investments for participation in retrofitting and upgrading projects in existing objects and construction of new power plants (small HPP, HPP, PSPP) on the territory of the Russian Federation

#### Cooperation with Mitsui & Co., Ltd (Mitsui).

Technology cooperation agreement signed between PJSC RusHydro and Mitsui for mutual development of strategic cooperation, using technologies and expertise of the Japanese party. Memorandum of understanding was signed for agreement on mutual projects implementation

In September 2016 technical staff of Mitsui investigated the sites of geothermal plants of the RusHydro Group in the Kamchatka region and together with J-Power company offered preparation of pre-feasibility report for operating capacity increase. The companies intend to study the new wind power objects in isolated regions on the territory of Kamchatka, Yakutia, Primorye and Sakhalin island for further implementation of wind plants construction program with total installed capacity of up to 44 Megawatt.

#### Cooperation with KOMAIHALTEC Ink.

Pilot project was deployed for implementation of micro grid system in regions with cold climate in absence of network infrastructure with use of wind power plants (hereafter – WPP) in the settlement of Ust-Kamchatsk in the Kamchaka region.

MOU is signed between PJSC RusHydro, Mitsui and Komai, as per which the investigation is done of possible production localization of WPP or elements, produced by Komai for further application while mutual projects realization

#### Cooperation with Kawasaki Heavy Industries, Ltd.

RusHydro Group, Kawasaki Heavy Industries, Ltd. (Kawasaki) and Sojitz Corporation (Sojitz) conduct mutual research on technological and economic efficiency of project implementation for construction of new electrical plants (GTP-TPP) in the town of Artem and Vladivostok of Primorski krai, based on GTP Kawasaki. Companies signed the cooperation agreement for deployment of GTP while project realization on the territory of the FAR EASTERN FEDERAL DISTRICT.

#### Cooperation with Japanese development company NEDO

PJSC RusHydro, The Republic of Sakha (Yakutia) and New Energy and Industrial Technology Development Organization of Japan (NEDO) signed Declaration of intention for cooperation in RES development sphere. The parties agreed to develop mutually the issues of RES objects construction on the territory of the Republic of Sakha (Yakutia). The pilot project is defined to be implemented on the territory of Tiksi settlement

2. Promotion of engineering services of the RusHydro Group in the sphere of hydro energetics and RES in the foreign markets, including consulting and design works, HPP operating services

PC «Institute HYDROPROJECT» signed a contract with the Italian company Salini for engineering services of design and supervision of construction execution works for Rogunskaya HPP dam (Tadjikistan); works completed under the project with PC «Atomenergoproject» for design services of NPP Akkuyu (Turkey); contract signed with PC «Atomenergoproject» for development of detailed design documentation for technical facilities of power blocks in NPP Kudan Kulam (India).

3. Enlargement of the offered products and services range, based on development of existing and creation of new partnerships, using the resources, available in engineering and project activity experience.

PC “B.E. Voith Hydro VNIIG” signed a number of contracts with objects of thermal power and ore-mining and processing mills of the Republic of Kazakhstan for design of tailing dams and slurry ponds, as well as research-scientific works for nuclear power objects under construction abroad (NPP Akkuyu (Turkey); NPP Busher-2 (Iran); NPP Ninhuan -1 (Vietnam); NPP Khanhikivi -1 (Finland)

4. Participation in development projects of HPP, PSPP and RES through representation of the RusHydro Group in various international companies, sites and projects, intergovernmental commissions, business-partnerships

In order to monitor and define the prospects for collaboration in 2016 the RusHydro Group took part in 20 intergovernmental commissions on trade-economic and scientific-technical cooperation between RF and foreign countries, as well as in activity of the World Energy Council, Electrical Council of CIS, Global Sustainable Electricity Partnership, International hydro energetic Association, International commission on Large Dams and Russian-Chinese Business Council

5. Cooperation with foreign companies in the area of joint manufacturing of hydro energy equipment, retrofitting of existing HPPs, service maintenance

In 2016 RusHydro continued cooperation with «Voith Hydro» company under the project of hydro power equipment production localization on the territory of the Russian Federation, as well as retrofitting of hydroelectric installations of Saratovskaya HPP.

Under the terms of the contract dated 17.06.2011 for complex modernization of vertical Kaplan turbines of Saratovskaya HPP, two hydroelectric installations had been commissioned (station №№ 8, 4).

RusHydro, «Voith Hydro» and «VolgaHydro» Ltd (joint venture of PJSC RusHydro and «Voith Hydro») signed an additional agreement to the Contract, stipulating order of hydro turbines of the 4<sup>th</sup> delivery Set obtaining 10 % contract cost optimization of manufacturing operations to be executed on «VolgaHydro» Ltd site.

PJSC RusHydro put into operation Zaragizhskaya SHPP (30,6 Megawatt) on the territory of Kabardino-Balkaria Republic. Within the project the delivery of hydro power equipment was done of Zhjiang Fuchunjiang Hydropower Equipment Co, Ltd (ZHEFU) origin.

In the frame of agreement with GE Packaged Power, INC of 26.12.2013 for delivery of 4 gas turbine plants for the project of construction of the 1<sup>st</sup> stage of Yakutskaya GRES-2 installation of equipment was done and start-up works are in progress at present.

Installation works were done in the frames of the contract between PJSC «RAO ES of the East» and GE Packaged Power, INC of 07.08.2012 for delivery of 3 gas turbine power blocks for the project «Construction of GTI-TPP in Vladivostok on CSWBH site.

## 10. RISK MANAGEMENT

As part of performance management control of the risk management system of LTDP and implementation of Development program and update of the internal control and risk management corporate system<sup>43</sup> the below measures were taken in 2016:

### Corporate level

1. As part of Policy implementation in the sphere of internal control and risk management the “Strategic risks management Plan of PJSC RusHydro for 2016 – 2017<sup>44</sup>” was reviewed and approved by the Management Board

Based on scenario approach, the indication system of PJSC RusHydro and the RusHydro Group strategic risks implementation for 2016-2017 was developed and implemented as part of the Strategic risk management Plan for 2016 – 2017.

2. The key daughter companies of PJSC RusHydro (design and scientific-research institutes, construction organizers and customers, service and maintenance companies, sale companies) got the approved risk management Plans for 2016-2017.

In the 1<sup>st</sup> quarter of 2017 the listed daughter companies of PJSC RusHydro submit their reports on risk management in 2016 for approval of the Board of Directors

In the view of risk management activity «RAO ES of the East» Holding arranged implementation of measures, stipulated by the general master plan for strategic risks management of “RAO ES of the East» Holding for 2015-2016<sup>45</sup>, developed for strategic risks of PJSC «RAO ES of East», as well as for strategic risks of daughter companies of PJSC «RAO ES of East»: PC «DGC», PC «DRSK», PJSC «DEK» and PJSC «Yakutskenergo».

3. Estimation procedure for maturity level of the corporate structure of internal control and risk management of PJSC RusHydro<sup>46</sup> and daughter companies<sup>47</sup> has been developed.

4. Affiliates and daughter companies of PJSC RusHydro were evaluated and prioritized as per the risk level and status of implementation of risk management procedures for creation of the risk-oriented plan of internal audit control measures of PJSC RusHydro for 2017-2018.

5. Report on operation of the risk management system was reviewed by the audit Committee with the Board of Directors of PJSC RusHydro in April 2016<sup>48</sup>. Report on execution of the Action Plan for

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<sup>43</sup> Approved by the Decision of the Management Board of PJSC RusHydro (minutes of 28.11.2014 № 884pr).

<sup>44</sup> Minutes of the Management Board of PJSC RusHydro dated 01.11.2016 № 1006pr/5.

<sup>45</sup> Approved by decision of the Board of Directors of PJSC «RAO ES of the East» (minutes of 03.08.2015 № 123)

<sup>46</sup> PJSC RusHydro (executive branch and affiliates).

<sup>47</sup> Approved by order of PJSC RusHydro dated 28.09.2016 № 755.

<sup>48</sup> Minutes of Audit Committee with the Board of Directors of PJSC RusHydro dated 28.04.2016 № 82



strategic risks management for 2016 was approved by the Management Board of PJSC RusHydro on 17.01.2017.

### **Business and operational level**

6. Estimation had been done for efficiency and adequacy of control procedures of business processes in “Inventory procurement and service management”, «Management of electricity and power sales» and «R&D Management».

7. Operational efficiency was tested (estimate of implementation and actual execution) for control procedures of the business plan «Inventory procurement and service management ».

8. As part of self-assessment of internal control system PJSC RusHydro held a control environment estimate, using the model, formed in compliance with maturity rating technique of the internal control and risk management corporate system, and with account of result of business –processes of PJSC RusHydro, held in 2015 and 2016.

The priority development areas were defined for the test environment of PJSC RusHydro, with the view of the maturity level of internal control system blocks.

9. In the frames of coordination and methodological maintenance of implementation for the process of internal control system management in PJSC RusHydro:

- Administrators of the internal control and risk management system were appointed for key business-processes;
- Test procedures matrix formed for the key business-processes;
- Corporate training arranged for “Construction and management of internal control system in PJSC RusHydro.

10. Monitoring of implementation of measures for development of the internal control system for the key business-processes of PJSC RusHydro is done on regular basis.

## **11. EXECUTION OF ACTIVITIES OF THE LONG-TERM DEVELOPMENT PROGRAM OF RUSHYDRO GROUP, STIPULATED BY THE GUIDELINES OF THE GOVERNMENT OF THE RUSSIAN FEDERATION**

### **On increase in labor productivity in the society (dated 31.10.2014 № 7389p-P13)**

In pursuance of the guideline of The Government of the Russian Federation as of 31.10.2014 № 7389p-P13, the Long-term Development program of the RusHydro Group for the period of 2016 – 2020, approved by the Board of Directors of PJSC RusHydro (minutes of 23.11.2016 № 244), comprises the key indicator «Labor efficiency», calculated as per Rosstat procedure<sup>49</sup>.

#### **Achievement of target values by “Labor efficiency” indicator**

<b>Indicator Definition</b>	<b>Planned for 2016</b>	<b>Actual for 2016</b>
Labor efficiency (revenue, thousand rubles/man-hours)	10,24	12,33

Execution of the given indicator in 2016 is based on 7,3 % revenue increase from sale of products and reduction of average headcount by 6,1 % as a result of Company restructuring, addressing elimination of double functioning and process optimization.

### **Concerning the labor force demand, including the engineering occupations, required for implementation of the main program measures (of 05.11.2014 № 7439p-P13)**

Basic parameters of labor force demand in PJSC RusHydro (executive branch and affiliates) are defined, taking into account reaching of age limits, as well as possibility of internal staff rotation upon the relevant recommendations available, received while staff evaluation, available labor pools, as well as candidates databases.

Calculation of engineering occupations demand comprises job openings with professional training not below the Bachelor degree from the technical educational institution. Such approach is defined by requirements of the maintenance, repair and service workflow of the basic HPP/PSPP equipment.

#### **Execution of key parameters of labor source demand, including engineering occupations of PJSC RusHydro for 2016**

<b>Indicator name</b>	<b>Planned for 2016</b>	<b>Actual for 2016</b>
Total vacancies number:	110	108

<sup>49</sup> Order of Rosstat dated 23.09.2014 № 576.

Including engineering occupations	69	80
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**Concerning enhancement of Company performance efficiency and transparency (as of 12.11.2014 № 7558p-P13)**

In compliance with the Directive of the Government of the Russian Federation, dated 24.06.2015 № 3984p-P13, the Company has the below approved internal documents:

- Regulation on promotion of investment and operating efficiency and cost saving (minutes of the Board of Directors dated 11.12.2015 № 228).
- Internal audit policy of PJSC RusHydro in new edition (Minutes of the Board of Directors dated 10.10.2016 № 242).
- Provision on business performance quality management of PJSC RusHydro (Minutes of the Board of Directors dated 11.12.2015 № 228).
- Internal control and risk management Policy of PJSC RusHydro (Minutes of the Board of Directors dated 16.11.2015 № 227).
- Provision on way of development and execution of the Innovative development Program of PJSC RusHydro (Order of PJSC RusHydro dated 16.11.2015 №1018).

All DC have standard Charters, meeting requirements of the existing legislation, as well as unified standards for the following business directions: procurement policy, credit policy, internal control and risk management, insurance, business-planning and other

**Concerning planned and phased purchase substitution of foreign products (works, services) with purchase of technically equivalent Russian products (works, services), used in investment projects implementation and current operations in the year of 2015 (dated 05.03.2015 № 1346p-P13)**

In the framework of implementation of integrated generation objects retrofit Program, PJSC RusHydro ramps up volumes of local manufactures equipment deliveries, secured by manufacturing localization of definite types of equipment and spares on the territory of Russia.

In 2016 the share of imported equipment purchased in the course of operational activity and aiming at execution of the phased substitution of imported products (works, services) for purchase of technically equivalent and consumer suitable Russian products (works, services

**Share of imported equipment**

	Planned for 2016	Actual for 2016
Imported equipment share, %	56	36

Under the import substitution and in compliance with Federal law of 18.07.2011 № 223 «On purchase of goods, works, services by certain types of legal entities», as well as in execution of directive of the Government of the Russian Federation dated 15.03.2016 № 1659p-P13<sup>50</sup>, the Company has approved the Stipulation on accounting procedure for investment projects, included into the list of the investment projects of RusHydro Group<sup>51</sup>, establishing a set of regulations, rules and requirements in the process of investment projects selection and obtaining of decision on recording of the investment projects into the Register, approved by the Governmental commission on import substitution. Standard provisions on accounting procedures in the daughter companies of PJSC RusHydro for investment projects, included into the list of investment projects of RusHydro Group, are approved by the Management Board of PJSC RusHydro<sup>52</sup>.

**On OPEX cutting by at least 2-3 % annually (of 16.04.2015 № 2303p-P13) and on operating expenses cutting by 10 % in 2016 (dated 04.07.2016 № 4750p-P13)**

Measures for operational expenses saving of PJSC RusHydro in 2016 provide for reduction of expenses (spending) to the maximum allowable level, nonessential for security of objects smooth running and maintaining of technological reliability and safety.

In execution of directive of the Government of the Russian Federation dated 04.07.2016 № 4750p-P13, the Long-term development program of the RusHydro Group for the period of 2016 – 2020, approved by the Board of Directors of PJSC RusHydro (minutes of 23.11.2016 № 244), stipulates target value of the key efficiency indicator “Cutting of operational costs (expenses)” on the level of minimum 10 % in 2016.

<sup>50</sup> On approval of investment projects accounting, included into the list of investment projects.

<sup>51</sup> Decision of the Board of Directors of PJSC RusHydro dated 31.05.2016 (minutes № 237).

<sup>52</sup> Approved by the Management Board of PJSC RusHydro dated 20.05.2016 (minutes № 980pr/7).

Values of the “Cutting of operational costs (expenses)” indicator, based on results of 2016, made 11 %.

million rubles

Measures/Cost items	Basis 2014	Actual 2016	Discounted actual 2016*	Effect	% of operational costs (expenses) decrease
<b>Efficient procurement tendering:</b>	946	664	558	-388	-41 %
Material costs	475	407	342	-133	-28 %
Other costs	471	258	217	-255	-54 %
<b>Support of assets life cycle management system</b>	3 696	3 712	3 119	-577	-16 %
Production, maintenance and delivery services	3 696	3 712	3 119	-577	-16 %
<b>Measures for organizational structure and Company business-processes optimization</b>	10 619	9 705	8 156	-2 463	-23 %
Labor remuneration, including insurance fees	10 619	9 705	8 156	-2 463	-23 %
<b>Implementation and development of IT systems:</b>	709	577	485	-224	-32 %
Non-productive services	342	231	194	-148	-43 %
Other expenses	367	346	291	-76	-21 %
<b>Non-productive cost saving</b>	491	369	310	-181	-37 %
Non-productive services	491	369	310	-181	-37 %
<i>Furthermore</i>					
Transportation services		1 180	991	991	
Other services		1 324	1 112	1 112	
<b>Total</b>	16 461	17 530	14 732	-1 730	-11 %**

\*In 2014 prices except inflation in the amount of 5,4 % in 2016, 12,9 % in 2015 as per Rosstat data.

\*\* The given percentage of OPEX decrease reflects achievement of the specified value of performance indicator for the planned measures (included in the basis) and distribution of extra charges in the reported year

### **On application of indicator «Total shareholders return» (TSR) (dated 29.04.2016 № 3035p-P13)**

In execution of directive of the Government of the Russian Federation dated 29.04.2016 № 3035p-P13, the Long – term development program of the RusHydro Group for the period of 2016-2020, approved by the Board of Directors of PJSC RusHydro (minutes of 23.11.2016 № 244), in part of calculation method and estimation of the LTDP KPI «Total shareholders return (TSR)», comprises the method, using the aggregated index of MOEX – index of MICEX (index code – MICEXINDEXCF). To minimize the influence of random/nonmarket fluctuations while TSR calculation, the “smoothing period” of 22 trading days is used, for which the average share price is calculated, for end of the year, previous to the reported one, and for the end of the reported year.

- **On innovative development (dated 03.03.2016 № 1472p-P13)**

In execution of directive of the Government of the Russian Federation dated 03.03.2016 № 1472p-P13, the Long – term development program of the RusHydro Group for the period of 2016-2020, approved by the Board of Directors of PJSC RusHydro (minutes of 23.11.2016 № 244), stipulates the relative share of 20 % for the key performance indicator «Cumulative innovative KPI» in the KPI list of the LTDP.

Cumulative innovative indicator is approved by the Minutes of meeting of the Interdepartmental working group for implementation of priority innovative development with the Committee of the council under the President of the Russian Federation for economy and innovative development of the Russian Federation, dated 17.12.2015 № AD-P36-247pr. Indicators, being part of the Cumulative innovative KPI, are included into the Innovative development Program of the RusHydro Group for 2016-2020 with an outlook for 2025, approved by the Board of Directors of PJSC RusHydro(minutes of 23.11.2016 №244).

### **On priority of power complex development targets on the territory of the FAR EASTERN FEDERAL DISTRICT (dated 28.06.2016 № 4531p-P13)**

One of the strategic targets in the development strategy of PJSC RusHydro, approved by the Board of Directors for the period of up to 2020 with an outlook for 2025 (minutes of 08.06.2016 №238), is the

development of power production of the Far East, consisting of security of sustainable development of power production in the FAR EASTERN FEDERAL DISTRICT and participation in implementation of state tasks for speed up social-economic development of the region. The Strategy has a separate section, comprising tasks for increase of effectiveness of the Far East assets management system and development of power generation of the Far East.

Separate sections in the Long-term development Program of PJSC RusHydro Group for the period of 2016-2020 (minutes of 23.11.2016 №244) are refreshed, referring the priority of development tasks for power complex on the territory of the FAR EASTERN FEDERAL DISTRICT:

- subsection «The investment program of “RAO ES of the East Holding»;
- subsection «The investment program of PJSC RusHydro, comprising Priority projects of construction of 4 TPS in the Far East;
- section, devoted to efficiency increase and competitiveness increase of the Far East assets of the RusHydro Group and development of power generation of the Far East.

## 12. EXECUTION OF THE KEY PERFORMANCE INDICATORS OF THE LONG-TERM DEVELOPMENT PROGRAM OF RUSHYDRO GROUP IN 2016

	Indicator	2016 planned	2016 actual	Execution estimate
1	Total shareholders return (TSR), %	100 %	100 %	Done
2	Equity capital profitability (ROE), %	4,2 %	11,1 %	Done
3	Leverage ratio	≤ 1,5	0,5	Done
4	Debt load restriction (Debt/Ebitda)	≤ 4	2,2	Done
5	Avoidance of industrial accidents and limit number of accidents by RusHydro Group	In parallel	In parallel	Done
	Number of industrial accidents, (pcs.)	0	0	Done
	Number of accidents, pcs.	0	0	Done
6	Execution of capacity commissioning schedule for the main new construction objects	333,48 Megawatt	140 Megawatt	Not done
7	Purchase share from small and medium-sized businesses <sup>53</sup>	≥ 18 %	≥ 18 %	Done
8	Labor efficiency (revenue, thousand rubles/man-hours) <sup>56</sup>	10,24	12,33	Done
9	Cumulative innovative KPI	85 %	89,4 %	Done*
10	OPEX (expenses) decrease <sup>56</sup>	≥10 %	11 %	Done

\* Indicator estimate is done in the frames of the independent audit of the Long-term development program as of 30.03.2017

Reasons for non-execution of KPI of the LTDP «Execution of capacity commissioning schedule of main objects of the new construction»: non-execution of indicator is related to violation of scheduled dates for capacity commissioning period in Yakutskaya GRES-2 (1<sup>st</sup> stage) as a result of delay by the general contractor PC «Institute Teploenergo» of development times for detailed design documentation; violation of work execution terms by the general contractor PC «TEK Mosenergo» (more than 10 months); delay of customer equipment delivery -PC «Yakutskaya GRES-2» gas booster station and gas conditioning station (for 4 months); delay of implementation by the OJSC «GlobalElektroServis» of project for construction of the main thermal power system (above 8 months).

<sup>53</sup> For PJSC RusHydro.

**COMMENTS TO CALCULATION OF KEY PERFORMANCE INDICATORS OF THE  
LONG-TERM DEVELOPMENT PROGRAM OF RUSHYDRO GROUP**

Calculation techniques and estimation of all indicators are done based on the KPI of the LTDP of RusHydro Group, approved as part of the Long-term development program of RusHydro Group.

**1. Return on investments of shareholders, (Achieving target level of TSR) (TSR)**

**1.1. Calculation:**

As per the approved method, the indicator is calculated for the reported period (2016) based on the data of Company quoted shares in MOEX and data of the consolidated financial statements of RusHydro Group, formed as per the international financial reporting standards (hereafter -IFRS) with the following formula:

$$TSR = \frac{(\bar{P}_1 - \bar{P}_0) + DPS}{\bar{P}_0},$$

$\bar{P}_0$  – average share price in MOEX for 22 trading days by the end of the year, preceding the reported one, in rubles;

$\bar{P}_1$  – average share price in MOEX for 22 trading days by the end of the reported year, in rubles;

DPS (dividend per share) – total volume of dividends or other payments (special dividends, stock buybacks, etc) to the shareholders, paid per share within the reported year, in rubles

**Absolute value of TSR of PJSC RusHydro with the above formula made 53,8 %**

**1.2. Performance appraisal:**

Performance evaluation is done based on comparison of the real TSR value of the company to the dynamics of the consolidated index of MOEX – MICEX index (index code -MICEXINDEXCF, hereafter – Index). Index change is calculated as percentage of change of the average Index value for 22 trading days by the end of the year, preceding the reported one, and the average Index value for 22 trading days by the end of the reported year. The indicator is deemed obtained (makes 100 %), subject the actual value of the TSR KPI of the Company overcomes the index dynamics for the reported period by positive value

Index change for the reported period with the given formula made **25,9 %**.

Thus, at the year end, KPI «Total shareholders return (TSR), %» for 2016 was achieved.

**2. Return on equity (ROE)**

**2.1. Calculation:**

Initial data used for calculation:

<b>Profit for a period</b>	<b>39 751</b>
<b>Yearly average paid-in capital</b>	<b>632 425</b>
Shareholders' equity of PJSC RusHydro as of 31.12.2016	646 669
Minority interest as of 31.12.2016	4 263
Shareholders' equity of PJSC RusHydro as of 31.12.2015	602 479
Minority interest as of 31.12.2015	11 440

Nonmonetary items, eligible:

Indicator	Statements for Group as per IFRS as of 31.12.2016
Total non-monetary items of operational costs (expenses)	<b>(30 409)</b>
Impairment loss of main assets	(26 525)
Profit from retirement of other fixed assets	7 202
Impairment loss of receivables	(7 133)
Impairment loss of financial assets	(4 464)
Impairment loss of loans issued	(2 378)
Loss of main assets retirement	(555)
Loss of daughter companies and associated companies retirement	3 444

Indicator target value, declared for 2016, made 4,2 %

Actual value - 11,1 %.

## 2.2. Performance appraisal:

Indicator achieved.

## 3. Debt to equity ratio

### 3.1. Calculation:

Debt to equity ratio is calculated as ratio of credit capital to property assets

Indicator	Statements for Group as per IFRS as of 31.12.2016
<i>Credit capital</i>	332 514
Long-term liabilities	215 858
Short-term liabilities	116 656
<i>Property assets</i>	650 932
<b>Debt to equity ratio</b>	<b>0,5</b>

### 3.2. Performance appraisal:

$$Ker = 0,5(\text{targeted value for 2016} \leq 1,5)$$

Indicator achieved.

## 4. Debt load limit

### 4.1. Calculation:

Debt load is calculated based on Debt/EBITDA ratio. Calculation is done based on the data of published consolidated financial statements of RusHydro Group, formed in compliance with IFRS:

$$Debt/Ebitda = \frac{226,55}{102,08} = 2,2 \leq 4$$

### 4.2. Performance appraisal:

Indicator achieved.

## 5. Prevention of accidents at works and accidents limit number for RusHydro Group

### 5.1. Calculation:

Calculation was done by each of the indicator components:

- number of accidents at work, cases;
- number of major accidents.

Indicator	Number of accidents within the scope of accounting indicators of the LTDP execution				KPI performance estimate
	2013	2014	2015	2016	
Number of accidents	3	4	1	2	
Average for the last 3 years	2,66			2	2<2,66 Done
Accidents within the scope of LTDP indicator calculation					
Deaths				0	Done
Group severe accidents				0	Done

### 5.2. Performance appraisal:

Indicator achieved.

## 6. Time schedule execution for commissioning of the new construction basic objects capacities

### 6.1. Calculation:

The schedule of new construction basic objects commissioning for 2016, approved as part of the Long-term development program of RusHydro Group:

№	Object definition	Installed electric power (Megawatt)	Object commissioning in 2016.
1	Construction of Yakutskaya GRES-2 (1 <sup>st</sup> stage)	193,48	Not commissioned
2	Construction of Zelenchucskaya HPP-PSPP	140	commissioned

### 6.2. Performance appraisal:

Indicator not achieved.

Reasons for non-execution of the LTDP KPI «Time schedule execution for commissioning of the new construction basic objects capacities» are: infringement of schedule time for capacity commissioning of Yakutskaya GRES-2 (1<sup>st</sup> stage) due to the delay of the general designer PC «Institute Teploelectroproject» of the detailed design documentation lead time; failure to meet the work execution schedule by the general contractor PC «TEK Mosenergo» (more than 10 months); delay of equipment delivery of the customer PC «Yakutskaya GRES-2» gas booster station and gas conditioning station (for 4 months); failure to meet the delivery date by OJSC «GlobalElektroServis» for the construction project of the main thermal power system (more than 8 months).

## 7. Purchase share from small and medium entrepreneurs

### 7.1. Calculation:

Defined as part of shares (PsmеTOTAL), under the signed contracts with small and medium entrepreneurs in total volume of contracts, signed upon the results of tender procedures. Target indicator value is calculated for PJSC RusHydro.

$$\begin{aligned} \text{PsmеTOTAL} &= \frac{(\text{Sign}^{\text{pr}}\text{SME} + \text{SignSME} + \text{SignSMEsub})}{\text{Sign}^{\text{total}} \cdot 100 \%} \\ &= \frac{4\,316\,211\,180 + 1\,233\,103\,660 + 56\,813\,333}{7\,598\,400\,380} \cdot 100 \% = 74 \% \end{aligned}$$

*Sign<sup>pr</sup>SME* – amount of contracts, signed with small and medium entrepreneurs upon results of procurement among small and medium entrepreneurs only, as per section 2 of Stipulation №1352, in rubles;

*SignSMEsub* – amount of subcontracting contracts of the 1<sup>st</sup> level, signed directly between the small and medium entrepreneurs and companies of any form of incorporation, having signed direct contracts with the Company, in rubles

*SignSME* - amount of contracts, signed with small and medium entrepreneurs, upon results of tender procedures, in rubles;

*Sign<sup>total</sup>* – total amount of contracts, signed upon results of tender procedures, except the contracts, listed in item 2.3.1.1. of the Method of the LTDP indicators calculation and estimate, in rubles

### *Performance appraisal:*

Indicator is achieved

## 8. Labor efficiency

### 8.1. Calculation:

In execution of Directive of the Government of the Russian Federation dated 31.10.2014 № 7389p-P13, the Long-term development Program of the RusHydro Group for the period of 2016 – 2020, approved by the Board of Directors of PJSC RusHydro (minutes of 23.11.2016 № 244), comprises the key performance indicator «Labor efficiency», calculated as per Rosstat procedure<sup>54</sup>.

#### Progress of target values for the “Labor efficiency” indicator (revenues in thousand rubles /worked man hours)

Definition	Planned for 2016	Actual for 2016
Labor efficiency (revenues, thousands of rubles/man hour)	10,24	12,33

Achievement of this indicator is due to the growth of 7,3 % of the sales revenues and reduction of average headcount by 6,1 % as a result of Company restructuring, elimination of functional duplication and operational processes optimization

### *Performance appraisal:*

Indicator is achieved

## 9. Cumulative innovative KPI

### 9.1. Calculation:

Cumulative innovative indicator is calculated based on the below indicators, characterizing the innovation activity of the Company

#### 9.1.1. IDP Development (actualization) quality indicator/IDP execution

Execution is defined based on final estimate of IDP development (actualization)/ IDP execution, formed by intergovernmental commission for technology development with the presidium of the

<sup>54</sup> Order of Rosstat dated 23.09.2014 № 576.

Presidential Council of the Russian Federation for modernization of the economy and innovative development of Russia

In compliance with the Minutes of meeting of the Intergovernmental working group for implementation of priority innovative development with the presidium of the Presidential Council of the Russian Federation for modernization of the economy and innovative development of Russia (hereafter - MVK) dated 17.12.2015 № AD-P36-247pr, the indicator of “IDP Development (actualization) quality indicator/IDP execution”, %», being part of IKPI, is calculated as follows:

«As of the end of 2016 and during the years, for which the IDP actualization is done, to use the weight coefficient with values of 0,5 for estimate of IDP Development (actualization) quality indicator and the value of 0,5 for estimate of IDP execution quality. In other years - to estimate just the IDP execution quality».

By the date of reporting on LTDP indicators execution (March 2017) the indicator «IDP Development (actualization) quality indicator/IDP execution”» cannot be calculated, as such calculation requires available estimates for both components:

a) IDP Development (actualization) quality indicator estimate- received, fixed by the Minutes of MVK dated 26.12.2016 № 23-DO1. Estimate is of 95,2 %, which is one of the highest estimates of IDP Development (actualization) quality indicator among fuel and energy sector companies

b) IDP execution quality – not done, as can be received only upon results of review by the specialized federal executive authorities of the report on IDP execution of the RusHydro Group for 2016.

In compliance with “Guidance papers for creation of monitoring system of implementation of programs for innovative development of joint-stock companies partially owned by government, state corporations and federal state unitary enterprises”, approved by decision of the working group for development of private – state partnerships in innovation sphere with the Governmental commission for high-end technologies and innovations, reporting period for the report on IFP implementation for 2016, approved by the Board of Directors, is fixed before 01.05.2017. Period for consideration of the IDP report and obtaining of evaluation for 2016 IDP execution from the Government of the Russian Federation, is not defined, but judging by the past experience, the evaluation can be received in the 2<sup>nd</sup> half of 2017.

In compliance with the approved IKPI calculation method as part of the LTDP:

«In absence of evaluation at the moment of index calculation its weight is redistributed among all other components of the indicator “Cumulative innovative KPI” in direct proportion to their weights”.

As the evaluation of the indicator “ IDP Development (actualization) quality/IDP execution” was not available on the date of preparation of report on LTDP, and in compliance with the approved IKPI calculation method, the weight of the indicator “IDP Development (actualization) quality/IDP execution” was redistributed among other components of the indicator “Cumulative Innovative KPI” in direct proportion to their weights

#### **9.1.2. Share of R&D expenses in proceeds.**

Indicator is calculated in percentage and is defined as ratio of annual volume of R&D expenses of companies, implementing the Program of innovation development in the companies of RusHydro Group, including «RAO ES of the East» Holding, to proceeds of companies, implementing the Program of innovation development in the companies of the RusHydro Group and «RAO ES of the East» Holding, upon the data of RAS for the reported period, with deduction of expenses for purchased electrical and power energy, expenses for network companies services for electrical and heat energy transmission, for internal Holding procedures, as well as revenues from services on technological connection

Indicators	Target use	Total for PJSC RusHydro and for “RAO ES of the East” Holding	Execution level
Expected proceeds, thousand rubles		236 934 898,98	
R&D financing, thousand rubles VAT included		314 353,02	
Share of R&D expenses from proceeds, %	0,25 %	0,13 %	53,2 %



**Execution level - 53,2 %.**

**9.1.3. Increase of number of intellectual property objects, placed on the balance sheet in the reported year**

Indicator is calculated in percentage and is defined as ratio of actual number of intellectual property objects, placed on the balance sheet of the companies (executed with security documents), participating in implementation of the innovative development Program in the companies of the RusHydro Group and «RAO ES of the East» Holding in the reported year, to the actual number of intellectual property objects, placed on the balance sheet of the companies (executed with security documents), participating in implementation of the innovative development Program in the companies of the RusHydro Group and «RAO ES of the East» Holding in the year, preceding the reported one.

Number of intellectual property objects, placed on balance sheet in 2015, pcs	11
Number of intellectual property objects, placed on balance sheet in 2016, pcs	12
<b>Planned increase of number of intellectual property objects, placed on balance sheet during the reported period, %</b>	<b>4 %</b>
<b>Actual increase of number of intellectual property objects, placed on balance sheet in 2016, %</b>	<b>9 %</b>

**Execution level - 100 %.**

**9.1.4. Combustion efficiency index in power generation**

Index is calculated in percentage and is defined as ratio of summary sale of electrical and heat energy in reduced units for companies, participating in implementation of Innovative development Program «RAO ES of the East» Holding, to the summary fuel consumption of these companies in reduced units for output of electrical and heat energy in the reported year

In total for «RAO ES of the East» Holding:

Planned value of "Combustion efficiency index", %"	Sale of electricity from busbars, million kVt*hour	Sale of heat energy from collectors, Gcal	Summary consumption of reference fuel for output of electrical and heat energy, ton of coal equivalent	Actual value of Combustion efficiency index, %"
51,71	25 798,76	29 967,84	14 715 044,22	50,63

**Execution level - 97,9 %.**

**9.1.5. HPP output control efficiency**

Index is calculated as ratio of average main business headcount to the installed capacity

Average main business headcount, persons	5 282,00
HPP installed capacity, Megawatt	25 118,35
Planned HPP output control efficiency, %	<b>22,43</b>
<b>Actual HPP output control efficiency, %</b>	<b>21,03</b>

The above index is executed at actual value below the planned one (the less is the specific headcount per unit of installed capacity, the better). Taking this into account:

**Execution level - 100 %.**

**Calculation of cumulative innovative KPI:**

$$P_{int} = \sum_{i=1}^5 P_i^0 \cdot weight_i = 53,2 \cdot 0,2143 + 100 \cdot 0,2143 + 97,9 \cdot 0,2857 + 100 \cdot 0,2857$$

$$P_{int} = 89,4 \%$$

**9.2. Performance appraisal:**

Indicator achieved.

## 10. OPEX cost (expenses) reduction

### 10.1. Calculation:

Index is calculated as ratio of amount of the OPEX costs (expenses) for the reported year, reduced to the base year, to the amount of the OPEX costs (expenses) of the base year

million rubles.

Measures/Cost items	Base 2014	Actual 2016	Deducted actual 2016*	effect	% of OPEX costs (expenses)
Efficient procurement procedures	946	664	558	-388	-41 %
Materials costs	475	407	342	-133	-28 %
Other costs	471	258	217	-255	-54 %
Support of assets life cycle management system	3 696	3 712	3 119	-577	-16 %
Production, maintenance and delivery services	3 696	3 712	3 119	-577	-16 %
Measures for Company organizational restructuring and business processes optimization	10 619	9 705	8 156	-2 463	-23 %
Salary payment, including insurance fees	10 619	9 705	8 156	-2 463	-23 %
Implementation and development of IT systems	709	577	485	-224	-32 %
Non-productive services	342	231	194	-148	-43 %
Other costs	367	346	291	-76	-21 %
Non-productive services cost saving	491	369	310	-181	-37 %
Non-productive services	491	369	310	-181	-37 %
<i>therewith</i>					
Transportation services		1 180	991	991	
Other services		1 324	1 112	1 112	
<b>Total</b>	<b>16 461</b>	<b>17 530</b>	<b>14 732</b>	<b>-1 730</b>	<b>-11 %**</b>

\*In 2014 prices except inflation in the amount of 5,4 % in 2016, 12,9 % in 2015 as per Rosstat data.

\*\* Given percentage of OPEX (expenses) reduction shows achievement of the planned value of the execution index of the planned measures (being the basic) and implementation of additional expenses in the reported year.

Achievement of the targeted index is grounded by execution of the Program of operating and investment activity efficiency enhancement and cost saving in PJSC RusHydro for 2016, approved by the Board of Directors as part of the Business plan of PJSC RusHydro for 2016-2020. (Minutes dated 25.12.2015 №229).

### 10.2. Indicator appraisal:

Target value of “Reduction of OPEX (expenses)” index is fixed on the level not less than 10 %, the actual value is 11 %.

Indicator is achieved.

#### Calculation and estimate of “Cumulative execution indicator of the Long-term development program” indicator

Calculation of cumulative indicator of the Long-term development program is done based on execution of the approved target indicator values as part of the Log-term development program of RusHydro Group.

$$P_{\text{intLTDP}} = \sum_{i=1}^{10} \frac{\text{exec}_i \cdot v_i}{n \cdot 100 \%}$$

$$P_{intLTDP} = 95 \%$$

Cumulative KPI of the Long-term development program is achieved  
**Execution level - 100 %.**

## **13. The auditor's report on the implementation in 2016 Long-term development program of RusHydro Group for the period 2016-2020**

### ***Section 1. Brief information on the auditor***

Name: ZAO «HLB Vneshaudit».

Primary state registration number: 1027739314448 (certificate of registration in the Unified state register of legal entities series 77 No. 007858681 dated 4 October 2002 issued by the Interdistrict Inspectorate of Ministry of Russia No. 39 for Moscow).

Location: 119180, Russia, Moscow, Bolshaya Yakimanka str., 25-27/2.

Membership in self-regulatory auditors organization: self-regulating organization of auditors Association «Sodruzhestvo». Main registration record number (ORNZ) in the Register of auditors and audit organizations – 11606046557.

### ***Section 2. Brief information about the Group***

Name: Public joint stock company «Federal Hydrogeneration company RusHydro» (PJSC RusHydro).

Primary state registration number: 1042401810494.

Location: 660017, Russia, Krasnoyarsk Krai, Krasnoyarsk, ul. Dubrovinskogo, d. 43, korp. 1.

The group consists of RusHydro, RusHydro PJSC's branches and subsidiaries, the ownership interest in which the PJSC RusHydro of over 50 %. Of PJSC RusHydro participates in the Charter capital of subsidiaries engaged in the design, construction, repair and maintenance, technical re-equipment and reconstruction of energy facilities, production and sale of electricity.

According to the results of the meeting of the Board of Directors of PJSC RusHydro from 22.11.2016 approved Long-term development program (hereinafter LTDP) for the period 2016-2020.

The efficiency performance of the LTDP is evaluated by means of a system of key performance indicators of the LTDP (hereinafter - KPI LTDP). The KPI system is intended for planning and monitoring performance purposes and objectives of the LTDP.

### ***Section 3. Brief description of the methodological principles***

Audit methodology is based on the customer's needs defined in the specifications, on the one hand, and professional judgment based on the application of professional knowledge of auditor. The tasks described in the terms of reference are implemented in the framework of the verification steps with the specified in them with a methodological approach.

The direct object of an audit of the LTDP are the processes and activities to achieve key performance indicators of the Group, certain of the LTDP. Systematic and consistent approach to validation consists in the following set of verification procedures:

- assessment of risks and opportunities associated with the implementation of the LTDP and the achievement of its results (KPIs);
- analysis of the management processes of the LTDP and components of the program activities aimed at achieving the KPIs;
- verify achievement of key performance indicators of the LTDP during the year.

Our approach to the audit of the LTDP is to review and analyze program activities of the LTDP in conjunction with the system of internal control and Group risk management, functioning of business processes of the Group and overall corporate governance of the Group.

#### **Section 4. Expert evaluation of the auditor**

We have tested the implementation of Long-term development program of RusHydro Group for the year 2016 in accordance with the terms of reference are in Annex 1 to the contract № OG-206-94-2015/3351 from 3 December 2015, and our methodology for conducting the audit of LTDP.

Our responsibility is to Express an opinion (expert evaluation) on the basis of our examination concerning the following matters:

- the reliability of the actual performance indicators of the Group RusHydro at the end of the audited period and the achievement of the target values;
- the efficiency of the targeted usage Group of funds of the respective budgets during the audit period;
- causes of deviations of actual indicators of the performance of the planned LTDP.

For 2016 the Group has calculated the following actual performance results and determined the degree of achievement of the target values.

**Table 1**


<b>№</b>	<b>Indicator (KPI)</b>	<b>Unit</b>	<b>The plan for 2016</b>	<b>The fact in 2016</b>	<b>Performance</b>
1	Total shareholder returns (TSR)	%	100	100	Executed
2	Return of equity (ROE)	%	4,2	11,1	Executed
3	Leverage ratio	Unit	≤ 1,5	0,5	Executed
4	The limit on debt load (Debt/Ebitda)	Unit	≤ 4,0	2,2	Executed
5	Preventing accidents in production and limit the number of accidents in the Group RusHydro		at the same time	at the same time	Executed
5.1	The number of accidents in industry	Pcs	0	0	Executed
5.2	The number of accidents	Pcs	0	0	Executed
6	The schedule of commissioning of the main objects of the new construction	MW	333,48	140	Not executed
7	The share of purchases from small and medium-sized enterprise	%	≥ 18	≥ 18	Executed
8	Labor productivity (Revenue, thousand rubles/person-hours)		10,24	12,33	Executed
9	Integral innovation KPIs	%	85	89,4	Executed
10	The reduction in operating expenses (costs)	%	≥ 10	11	Executed

Calculated the actual performance of the Group for 2016 confirm implementation of the integrated purchasing program of LTDP for 2016, All the indicators are met, except in comprehensive procurement program of "Implementation of the schedule of commissioning of the main objects of the new construction."

Failure to observe this indicator is connected with the violation of the terms of input power of the Yakutskaya GRES-2 (1st stage) in consequence of the delay the General designer of JSC "Teploenergoproject Institute" timing of the development of the working documentation; breaches of the schedule of works by the General contractor JSC "TEK Mosenergo" (over 10 months); delayed delivery of equipment the customer is JSC "Yakutskaya GRES-2" gas booster compressor station and gas treatment (at 4 months); delays implementation of JSC Globalelectroservice of the project on construction of heating

mains (more than 8 months).

During the inspection, our attention was drawn to any facts that would give us reason to believe that these actual performance of the Group for the year 2016 and the degree of achievement of the target values calculated incorrect; there are any other major causes of deviations of actual indicators of the results of operations of the planned LTDP; the intended use by the Group for 2016 respective budgets was carried out inefficiently.

  
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Митрофанов Л. М.  
Генеральный директор  
ЗАО «Эйч Эл Би Внешаудит»



30 Mar 2017

## 14. Information Concerning Establishment of Unified Treasuries in the Head Companies, Subsidiaries and Affiliates

In the execution of the directives of the Government of the Russian Federation dated 08.08.2014 No5110 p - P13 by the Board of Directors of PJSC RusHydro (hereinafter – the company) adopted the decision "On creation of a unified Treasury of PJSC RusHydro, its subsidiaries and dependent companies" (minutes dated 15.09.2014 No. 203) and issued instructions for holding the annual analysis of the results of creating a single Treasury Group RusHydro (minutes dated 05.05.2015 no. 215).

Developed and approved:

- Structure of the EC Group RusHydro and the concept of the organization of the payment system (hereinafter - PSA) (decision of the Board dated 20.03.2015 No. 901pr/4);
- Regulation on the EC and regulates its activity documents (decision of the Board dated 29.05.2015 No. 914pr/6).

Unified Treasury (hereinafter - UT) operates from 30.06.2015 as a single methodological and information center, which aims to regulate the activities of EC, optimization of cash flows and centralization of financial risk management the Group RusHydro.

The UT is a vertically integrated three-tier system of organization of the Treasury Group RusHydro:

- UT – at the top level of management
- The Treasury of the Sample – average control
- Treasury subsidiaries on the lower level of management.

On an annual basis, inventory the payment system of the RusHydro Group, the results of which Report an annual analysis of the results of creating a Single Treasury Group RusHydro forwarded to the Ministry of Finance of the Russian Federation and the Federal service for financial monitoring.

In the intervening period 2016 in order to further develop the EC, financial stability, transparency and efficiency of financial activities of the Group RusHydro, a decision of the Board dated 06.05.2016 No. 976pr/3 amendments to documents regulating the activities of the EC, in particular, developed and approved documents concerning the financial policy of the Group RusHydro, according to which:

- increased requirements for reliability and financial stability of partner banks;
- established uniform for all companies of the Group RusHydro rules of implementation of financial policy through the adoption of uniform Regulations, lists of banks-counterparties and risk Limits for operations with them;
- limited the powers of management of the subsidiaries a self-opening of accounts and implementation of financial policies.

Transition to the system of distributed control of the financial liabilities of the Group RusHydro. In parallel, work is continuing on automation of Treasury functions.

## 15. Information on the results of implementation of Executive Orders and Instructions issued by the President of the Russian Federation, and Instructions issued by the Government of the Russian Federation in 2016

№	Ref. No.	The Body that issued Executive Orders/ Instructions	Brief contents of the Executive Orders/ Instructions	Date of issue of the Executive Orders/ Instructions	Date of completion of the Executive Orders/Instructions
1.	Rin-00023.NSH	Government of the Russian Federation	The draft Federal law "On Federal budget for 2016".	11.01.2016	20.01.2016
2.	Rin-00024.NSH	Government of the Russian Federation	On the progress of work on creation of Fund of development of technology Far Eastern Federal district.	11.01.2016	01.03.2016
3.	Rin-00167.NSH	Government of the Russian Federation	On transfer to the Government of the Altai Republic of the unfinished building of the SHPP "Cibit".	15.01.2016	26.01.2016
4.	Rin-000224.NSH	Government of the Russian Federation	On the implementation of the decisions and recommendations recorded in the minutes of the 18th meeting of the intergovernmental Russian-Kyrgyz Commission on trade-economic, scientific-technical and humanitarian cooperation from 03.12.2015.	18.01.2016	24.06.2016
5.	Rin-00676.DR	Office of the Government of the Russian Federation	For proposals with respect to the mechanism of return of funds under the loan agreement between PJSC RusHydro and JSC "Verkhne-Narynskiye HPP".	01.02.2016	02.02.2016
6.	Rin-00820.NSH	Office of the Government of the Russian Federation	About the funding for the design of overhead line 110 kV Pevek-Bilibino in 2016.	04.02.2016	09.02.2016
7.	Rin-00821.NSH	Government of the Russian Federation	On the adoption of measures aimed at elimination of violations detected by the accounts chamber of the Russian Federation.	04.02.2016	17.02.2016



8.	Rin-01422.NSH	Government of the Russian Federation	On the development of the diamond mining and diamond cutting industries.	24.02.2016	14.03.2016
9.	Rin-01608.NSH	Office of the Government of the Russian Federation	On the implementation of the decisions and recommendations recorded in the minutes on the results of the 14th session of the intergovernmental Russian-Serbian Committee on trade, economic and scientific-technical cooperation.	29.02.2016	12.05.2016
10.	Rin-01634.NSH	Government of the Russian Federation	On the instructions of the Government of the Russian Federation 02.02.2016 No. UT-P9-463 about the funding for the design of overhead line 110 kV Pevek-Bilibino in 2016.	01.03.2016	04.03.2016
11.	Rin-01972.NSH	Government of the Russian Federation	About the feasibility of expenses of ZAO "Verhne-Narynskiye HPP" for the project of construction of Verhne-Narynskiye HPP cascade at the expense of means of PJSC RusHydro.	14.03.2016	15.03.2016
13.	Rin-02169.NSH	Government of the Russian Federation	About approval of the accounting treatment of investment programs.	17.03.2016	18.03.2016
14.	Rin-02178.NSH	Government of the Russian Federation	About the direction of the Directive on innovation-driven development.	18.03.2016	18.03.2016
15.	Rin-02178.NSH	The Administration Of The President Of The Russian Federation	About the direction of information on issues of preparation and holding of the Eastern economic forum in 2016.	22.03.2016	25.03.2016
16.	Rin-02623.NSH	Government of the Russian Federation	On the substantive direction of the negotiations with Venezuela, Cuba and Nicaragua.	30.03.2016	11.06.2016
17.	Rin-02787.NSH	The Administration Of The President Of The Russian Federation	On entering into the composition of the Supervisory Board of the Foundation "Recongress".	04.04.2016	07.06.2016
18.	Rin-02790.NSH	Government of the Russian Federation	On implementation of schedule of activities to complete the construction of the Cheboksary HPP.	04.04.2016	11.04.2016
19.	Rin-02791.NSH	Government of the Russian Federation	On the return of funds invested by society in the construction of the Verhne-Narynskiye HPP cascade.	04.04.2016	23.09.2016

20.	Rin-02883.NSH	Deputy Chairman of the Government of the Russian Federation - Plenipotentiary representative of the RF President in the Far Eastern Federal district	On the financing of works on preparation of the reservoir Nizhne-Bureyskaya HPP.	06.04.2016	29.04.2016
21.	Rin-02987.NSH	Office of the Government of the Russian Federation	On power supply of the Chukotka Autonomous district.	08.04.2016	15.06.2016
22.	Rin-03016.NSH	Deputy Chairman of the Government of the Russian Federation - Plenipotentiary representative of the RF President in the Far Eastern Federal district	On technological connection of facilities of the gas transportation system "Power of Siberia" to electric networks.	11.04.2016	14.04.2016
23.	Rin-03056.NSH	Deputy Chairman of the Government of the Russian Federation - Plenipotentiary representative of the RF President in the far Eastern Federal district	On the modernization of the electric grid complex of the Sakhalin region.	11.04.2016	01.11.2016
24.	Rin-03434.NSH	Government of the Russian Federation	On the development of action Plans (roadmaps) for integrated socio-economic development of constituent entities of the Russian Federation in Far East Federal district.	21.04.2016	12.05.2016
25.	Rin-03473.NSH	Office of the Government of the Russian Federation	On examination of applications COMAR "ADBAS"	22.04.2016	29.04.2016
26.	Rin-03729.NSH	Government of the Russian Federation	Directive on the development and approval of local regulations according to the standards of procurement.	04.05.2016	12.05.2016
27.	Rin-03761.NSH	Government of the Russian Federation	The rental of hydroelectric dams of the Angara cascade.	04.05.2016	07.07.2016

28.	Rin-03762.NSH	Government of the Russian Federation	On consideration of proposals of the accounts chamber of the Russian Federation.	04.05.2016	16.05.2016
29.	Rin-03828.NSH	Government of the Russian Federation	On the implementation of projects for the construction of Taishet aluminum plant and the Krasnoyarsk metallurgical plant.	06.05.2016	14.06.2016
30.	Rin-03830.NSH	Government of the Russian Federation	About the National anti-corruption plan for 2016 - 2017 - Decree No. 147 of 01.04.2016	06.05.2016	13.05.2016
31.	Rin-04070.NSH	Office of the Plenipotentiary representative of the President of the Russian Federation in far East Federal district	Information about measures aimed at execution of orders in terms of ensuring energy supply gas production, gas processing organizations in the Far Eastern Federal district.	17.05.2016	27.05.2016
32.	Rin-04196.NSH	Government of the Russian Federation	The order about modification of the Governmental Commission on security of electricity supply.	19.05.2016	23.06.2016
33.	Rin-04239.NSH	Government of the Russian Federation	On proposals on the question of support of energy development of the Far East.	20.05.2016	25.05.2016
34.	Rin-04240.NSH	Office of the Government of the Russian Federation	For proposals on candidates to the Federal reserve of managerial staff.	20.05.2016	29.07.2016
35.	Rin-04509.NSH	Government of the Russian Federation	The Protocol on the development of grid infrastructure in the far East.	30.05.2016	24.06.2016

36.	Rin-04596.NSH	The Secretariat of the Government Commission on electricity supply security (Federal HQ)	About the change in the accounting treatment of losses of electric energy and reducing losses of PJSC RusHydro in the distribution of power from the Boguchanskaya HPP About the change in the accounting treatment of losses of electric energy and reducing losses of PJSC RusHydro in the distribution of power from the Boguchanskaya HPP.	01.06.2016	01.07.2016
37.	Rin-04597.NSH	The Government Commission on electricity distribution security	About the presentation of information.	01.06.2016	15.06.2016
38.	Rin-04701.NSH	Government of the Russian Federation	An external independent audit costs.	06.06.2016	14.06.2016
39.	Rin-04739.NSH	Office of the Government of the Russian Federation	On the development of the territory of advancing socio-economic development of Kamchatka.	06.06.2016	15.06.2016
40.	Rin-04740.NSH	Government of the Russian Federation	On the implementation of the state policy of development of the Far East.	06.06.2016	08.06.2016
41.	Rin-04827.NSH	Office of the Government of the Russian Federation	For proposals, OOO "UK "ROSNANO" on mechanisms for the investment of high-tech projects, for example, industry and corporate funds.	08.06.2016	20.06.2016
42.	Rin-05405.NSH	Government of the Russian Federation	About the position of preparedness of the formation of a joint corporate and industry funds.	27.06.2016	01.08.2016
43.	Rin-05642.NSH	Government of the Russian Federation	About the need for changes in the Contract on granting of budgetary investments from 18.12.2012, № 01-08/827 and the Agreement on granting of budgetary investments to Finance the construction of electric power facilities in the Far East of 14.12.2012, № S-718-AB/D07.	04.07.2016	21.07.2016
44.	Rin-05643.NSH	Office of the Government of the Russian Federation	Control over the construction of electric power facilities in the Far East.	04.07.2016	06.09.2016

45.	Rin-56837.NSH	Government of the Russian Federation	On the direction of Directives to representatives of interests of the Russian Federation to participate in the meetings of the Board of Directors on the development (updating) of plans to reduce operating costs by 10%.	08.07.2016	29.07.2016
46.	Rin-05906.NSH	Government of the Russian Federation	On the work to implement the orders of the Government of the Russian Federation from 07.06.2016 № DM-P9-3466r on the construction of Taishet aluminium plant.	11.07.2016	06.07.2016
47.	Rin-05908.NSH	Government of the Russian Federation	On determination of payment for technological joining of objects on manufacture of electric energy - hydro power plants to the electricity grid.	11.07.2016	14.07.2016
48.	Rin-06063.NSH	Office of the Government of the Russian Federation	On the submission of information about the graduates of the Federal program.	14.07.2016	09.08.2016
49.	Rin-06068.NSH	Government of the Russian Federation	On the organization of activities of a working group to develop proposals for the digital space of the Eurasian economic Union (Protocol No. 04-1/CPU from 07.07.2016).	14.07.2016	21.07.2016
50.	Rin-08153.NSH	Government of the Russian Federation	About the direction of the Directive.	09.09.2016	10.10.2016
51.	Rin-08675.NSH	Office of the Government of the Russian Federation	Control over the construction of electric power facilities in the Far East.	26.09.2016	29.11.2016
52.	Rin-08678.NSH	Office of the Government of the Russian Federation	On the implementation of the orders of the President of the Russian Federation on ensuring the priority to the financing of socio-economic development of the Far East in the framework of implementation of state programs and activities of development institutions and companies with state participation, including in the implementation of their investment programs.	26.09.2016	19.12.2016
53.	Rin-08839.NSH	Office of the Plenipotentiary representative of the President of the Russian Federation in far East Federal district	The present position about the correctness of the conclusions given in the report of the Government of Kamchatskiy Krai from 27.09.2016 on the implementation of the instructions of the President of the Russian Federation № PR-1968.	29.09.2016	07.10.2016
54.	Rin-09235.NSH	Office of the Plenipotentiary representative of the President of the Russian Federation in far East Federal district	About the direction of information on the implementation of the Protocol from 20.04.2016 No. UT-P9-32pr.	10.10.2016	14.10.2016

55.	Rin-09236.NSH	Government of the Russian Federation	On the provision in the Government of the Russian Federation information on the progress of negotiations, information about the potential project, financial and organizational solutions to supply electrical energy to the Asia-Pacific region.	10.10.2016	07.10.2016
56.	Rin-09469.NSH	Office of the Government of the Russian Federation	On the direction of proposals for the digital space of the Eurasian economic Union.	14.10.2016	20.10.2016
57.	Rin-09643.NSH	Deputy Chairman of the Government of the Russian Federation – Plenipotentiary representative of the RF President in the Far Eastern Federal district	On power supply of the Chukotka Autonomous district.	19.10.2016	23.11.2016
58.	Rin-09676.NSH	The Commission under the RF President on issues of strategic development of the fuel and energy sector and environmental security	To submit presentation materials, the textual part of the report and proposals in the agenda of the meeting of the Commission on the development strategy of power industry of the Russian Federation.	19.10.2016	27.10.2016
59.	Rin-10270.NSH	Office of the Plenipotentiary representative of the President of the Russian Federation in far East Federal district	On reporting on the implementation of the orders of the President of the Russian Federation to provide electricity for gas production and gas transmission capacities in the Far Eastern Federal district.	03.11.2016	11.11.2016
60.	Rin-10396.NSH	Office of the Government of the Russian Federation	On the progress and problems of implementation of investment programs realized in the territory of the Republic of Buryatia, Zabaykalsky Krai, and Irkutsk oblast.	08.11.2016	16.11.2016
61.	Rin-11407.NSH	Deputy Chairman of the Government of the Russian Federation – Plenipotentiary representative of the RF President in the Far Eastern Federal district	On completion of the construction of VL 220 kV "Orotukan-Tent-Central".	05.12.2016	12.12.2016
62.	Rin-11700.NSH	The Administration Of The President Of The Russian Federation	For proposals to the investment forum 27.02.2016 - 28.02.2016.	12.12.2016	20.12.2016
63.	Rin-11874.NSH	Office of the Government of the Russian Federation	On ensuring the energy supply of the Chukotka Autonomous Okrug in the replacement of retired generating facilities. The plan of measures ("Roadmap").	16.12.2016	06.02.2017

64.	Rin-12047.NSH	Government of the Russian Federation	On the preparation and holding of the International conference on development of oil and gas resources of Russian Arctic and continental shelf of CIS - 12.09.2017 - 15.09.2017.	17.12.2017	17.01.2017
65.	Rin-12274.NSH	Deputy Chairman of the Government of the Russian Federation – Plenipotentiary representative of the RF President in the Far Eastern Federal district	On submission of agreed proposals for implementation on the territory of the Russian Far East investment projects in the energy sector with the participation of Japanese investors.	22.12.2016	27.02.2017
66.	Rin-12329.NSH	Office of the Government of the Russian Federation	On the need for a timely update on Portal of information about reservists.	28.12.2016	09.01.2017

## 16. List of the most significant transactions executed by the Company and other significant controlled entities during the last year

The Statute of PJSC RusHydro does not determine criteria for significance of transactions of controlled entities.

At the same time there are regulations on disclosure by issuers in quarterly reports of major transactions, transactions in fulfillment of which there is an interest, as well as significant transactions - transactions, the amount of obligations under which is 10 and more percent of the balance value of the stock company assets.

In the capacity of the most significant transactions performed in 2016 by controlled organizations that have for the PJSC RusHydro substantial significance there is an overview of major transactions, transactions in fulfillment of which there is an interest and a decision on which is adopted by the General shareholders meeting of a corresponding controlled entity, as well as transactions, the amount of obligations under which is 10 and more percent of the balance value of the corresponding controlled entity assets (excluding intra-group).

In 2016 from controlled organizations having for PJSC RusHydro a significant value of such transactions was done only PJSC «RAO ES of the East».

Of the transaction, the size of obligations under which is 10 and more percent of the book value of assets of PJSC RusHydro do not occur.

### **Controlled by the PJSC RusHydro of the organization, having substantial significance for it as of 31.12.2016**

1. Full corporate name: **Stock company «Zagorsk Hydroelectric Pumped Storage Power Plant-2»**  
Abbreviated company name: **SC «Zagorsk HPSPP-2»**
2. Full corporate name: **Public Joint-Stock Company «RAO Energy Systems of the East»**  
Abbreviated company name: **PJSC «RAO ES East»**
3. Full corporate name: **Public Joint-Stock Company «Far Eastern Energy Company»**  
Abbreviated company name: **PJSC «FEEC»**
4. Full corporate name: **Stock company «Far Eastern Generating Company»**  
Abbreviated company name: **SC «FEGC»**
5. Full corporate name: **Public Joint-Stock Company «Krasnoyarskenergosbyt»**  
Abbreviated company name: **PJSC «Krasnoyarskenergosbyt»**
6. Full corporate name: **Public Joint-Stock Company «Yakutskenergo»**  
Abbreviated company name: **PJSC «Yakutskenergo»**



**An overview of the most significant transactions of PJSC «RAO ES of the East» in 2016**

№ No.	Type and subject of a transaction	Transaction Parties	Content of a transaction, including civil rights and obligations, on establishment, modification or termination of which a transaction is directed	Deadline for the fulfillment of the obligation under the transaction, parties and beneficiaries under the transaction, the amount of the transaction in money terms and in percentage of the value of the issuer's assets	The value of assets of the controlled company that has substantial significance for PJSC RusHydro as at the end date of accounting period (quarter, year), that preceded making the transaction (date of contract) and concerning which book-keeping (financial) report is composed in accordance with legislation of the Russian Federation	Transaction closing date (date of contract)	Data on transaction approval PJSC RusHydro	Category of transaction in relation to a controlled entity that has substantial significance for PJSC RusHydro	Regulatory body of a controlled entity that has substantial significance for PJSC RusHydro, having taken decision about transaction approval	Date of taking decision about transaction approval	Date of composing and number of Minutes of Meeting (proceedings) of authorized regulatory body of a controlled entity that has substantial significance for PJSC RusHydro, where the decision about transaction approval was taken
1	The agreement on opening of non-revolving credit line for financing the project "Construction of off-site infrastructure for the Sakhalin GRES-2"	The lender – PJSC "Sberbank"; the Borrower - PJSC "RAO ES East"	PJSC "Sberbank" shall open for the Borrower a non-revolving credit line in the amount and on the terms stipulated in the agreement, and PJSC "RAO ES of the East" undertakes to return the obtained loan and pay interest for the use of them	The period of performance of obligations under the transaction: until 28 July 2028; Parties and beneficiaries under transaction: the Lender – PJSC "Sberbank"; the Borrower - PJSC "RAO ES East"; The size of the transaction in monetary terms: 10 290 130 251,35 RUB x 1 The size of the transaction in percentage of the	45 859 198 000 RUB	28.07.2016	The transaction is not approved	Significant transaction, the size of obligations under which is 10 and more percent of balance cost of assets of the Issuer	_____	_____	_____

				Issuer's assets value: 22.44							
2	The agreement about opening of credit line for the purpose of: refinancing credit portfolio	The lender – VTB Bank (PJSC); Borrower - PJSC "RAO ES of the East"	Bank VTB (PJSC) under the contract undertakes to open The borrower a Credit Line in the amount and on conditions specified in the Contract, and PJSC "RAO ES of the East" shall return the Credit obtained under the Credit line, pay interest and fulfill other obligations under the Contract	The period of performance of obligations under the transaction: the loan period until 22 December 2018; Parties and beneficiaries under transaction: the Lender – VTB Bank (PJSC); Borrower - PJSC "RAO ES of the East"; The size of the transaction in monetary terms: 8 548 523 835,60 RUB x 1 The size of the transaction in percentage of the Issuer's assets value: 16.61	51 459 878 000 RUB	23.12.2016	The transaction is not approved	Significant transaction, the size of obligations under which is 10 and more percent of balance cost of assets of the Issuer	_____	_____	_____

## 17. Information about terms of office (in accordance with the employment contract) of members of the collegial executive body and the person acting as the sole executive body

Members of the Board of PJSC RusHydro 31.12.2016		
Surname, given name, patronymic	Duty Position	Terms of office in accordance with the employment contract
Shulginov Nikolay Grigorievich	Chairman of the Management Board - General Director	14.09.2020
Bogush Boris Borisovich	Member of the Management Board, First Deputy Director General – engineer in chief	termless
Kirov Sergey Anatolievich	Member of the Management Board, First Deputy Director General	termless
Rizhinashvili George Ilich	Member of the Management Board, First Deputy Director General	termless
Kazachenkov Andrey Valentinovich	Member of the Management Board, First Deputy Director General	termless
Markin Vladimir Ivanovich	Member of the Management Board, First Deputy Director General	termless

***Public Joint-Stock Company Federal  
Hydro-Generating Company – RusHydro***

Auditor's Report  
on Financial Statements  
2016

Translation from Russian original



## ***Auditor's Report***

To the Shareholders of Public Joint-Stock Company Hydro-Generating Company – RusHydro:

### **Client**

Public Joint-Stock Company Hydro-Generating Company – RusHydro (PJSC RusHydro)

State registration certificate with inclusion in the Unified State Register of Legal Entities No. 1042401810494 issued by the Inspectorate of the Russian Ministry of Taxes and Levies of Krasnoyarsk on 26 December 2004.

660017, Russian Federation, Krasnoyarsky region, Krasnoyarsk

### **Auditor**

AO PricewaterhouseCoopers Audit (AO PwC Audit) located at: 125047, Russian Federation, Moscow, Butyrsky Val, 10.

State registration certificate No. 008.890, issued by Moscow Registration Bureau on 28 February 1992.

Certificate of inclusion in the Unified State Register of Legal Entities regarding the legal entity registered before 1 July 2002 No. 1027700148431 issued by Interregional Inspectorate of the Russian Ministry of Taxes and Levies No. 39 for the Moscow City on 22 August 2002.

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association).

Major registration record number (ORNZ) in the register of auditors and audit organisations – 11603050547.

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*AO PricewaterhouseCoopers Audit  
White Square Office Center 10 Butyrsky Val Moscow, Russia, 125047  
T: +7 (495) 967-6000, F: +7 (495) 967-6001, [www.pwc.ru](http://www.pwc.ru)*

TRANSLATOR'S EXPLANATORY NOTE: This version of our report/the accompanying documents is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.



## ***Auditor's Report***

To the Shareholders of Public Joint-Stock Company Hydro-Generating Company – RusHydro:

We have audited the attached financial statements of Public Joint-Stock Company Hydro-Generating Company – RusHydro (hereinafter – PJSC RusHydro) which comprise the balance sheet as of 31 December 2016, and statement of financial results, statement of changes in equity and statement of cash flows for the year ended 31 December 2016 and notes to the balance sheet and statement of financial results (hereinafter all the reports together are referred to as the “financial statements”).

### **PJSC RusHydro's responsibility for the financial statements**

PJSC RusHydro's management is responsible for the preparation and fair presentation of these financial statements in accordance with the reporting rules established in the Russian Federation and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **The auditor's responsibility**

Our responsibility is to express an opinion as to whether the financial statements are fairly presented based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of PJSC RusHydro, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient to provide a basis for our audit opinion on the financial statements.

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of PJSC RusHydro as of 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with the reporting rules established in the Russian Federation.



## ***Auditor's Report***

### **Emphasis of matter**

Without modifying our opinion on the fairness of the financial statements we draw attention to Note 3.1.2 Long-term investments (balance sheet line 1170) to the financial statements which describes the reasons for non-revaluation of quoted financial investments in shares of PAO RAO ES of East, PAO Yakutskenergo and PAO Far East Energy Company at their current market values.

As of 31 December 2016 the amount of unrecognised decrease in the market value as compared to the carrying value of these investments is RUB 6,614 million, as of 31 December 2015 – RUB 5,047 million.

Director of AO PricewaterhouseCoopers Audit

A. S. Ivanov

30 March 2017

# BALANCE SHEET

## as at 31 December 2016

Organisation **Public joint stock company Federal Hydro-Generating Company - RusHydro (PAO RusHydro)**  
 Taxpayer identification number  
 Type of activity **Electricity generation by hydroelectric power plants**  
 Form of incorporation/form of ownership  
**Public joint-stock company/mixed Russian ownership with a federal ownership share**  
 Measurement unit: **RUB mln**  
 Address: **Krasnoyarsk, the Krasnoyarsk Territory, Russia, 660017**

Form on OKUD  
 Date (year, month, day)  
 OKPO  
 INN  
 OKVED  
 OKOPF/OKFC  
 OKEI

CODES	
Form on OKUD	<b>0710001</b>
Date (year, month, day)	<b>2016/12/31</b>
OKPO	<b>75782411</b>
INN	<b>2460066195</b>
OKVED	<b>35.11.2</b>
OKOPF/OKFC	<b>12247 / 41</b>
OKEI	<b>385</b>

Note	Narrative	Line code	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
1	2	3	4	5	6
	<b>I. NON-CURRENT ASSETS</b>				
	Intangible assets	1110	1,324	893	1,032
	Results of research and development	1120	1,077	1,091	843
3.1.1	Property, plant and equipment, incl.:	1150	409,109	392,723	378,027
	fixed assets	1151	372,514	344,986	321,645
	construction in process	1152	36,595	47,737	56,382
3.1.1	Income-bearing investments in tangible assets	1160	-	7,065	7,189
3.1.2	Financial investments, incl.:	1170	292,273	320,097	264,352
	investments in subsidiaries, associates and other entities	1171	264,587	267,664	230,313
	loans issued	1172	27,085	51,832	34,039
	promissory notes	1173	601	601	-
3.1.3	Other non-current assets	1190	4,703	3,287	3,538
	<b>Total Section I</b>	<b>1100</b>	<b>708,486</b>	<b>725,156</b>	<b>654,981</b>
	<b>II. CURRENT ASSETS</b>				
3.2.1	Inventories	1210	4,252	4,115	3,437
3.9	Value added tax on goods purchased	1220	51	40	105
3.2.2	Accounts receivable, incl.:	1230	149,614	129,291	144,565
	accounts receivable (payments expected later than 12 months after the reporting date), incl.:	1231	62,615	62,549	62,341
	buyers and customers	1231.1	178	976	409
	advances issued	1231.2	20,004	28,524	31,099
	promissory notes	1231.3	29,312	28,578	27,563
	loans issued	1231.4	11,258	3,447	1,503
	other debtors	1231.5	1,863	1,024	1,767
	accounts receivable (payments expected within 12 months after the reporting date), incl.:	1232	86,999	66,742	82,224
	buyers and customers	1232.1	7,120	6,741	5,840
	advances issued	1232.2	10,206	14,495	12,870
	promissory notes	1232.3	5,459	20,809	19,119
	loans issued	1232.4	30,792	12,925	26,384
	other debtors	1232.5	33,422	11,772	18,011
3.2.3	Financial investments (excl. cash equivalents), incl.:	1240	5,305	15,879	43,446
	bank deposits	1241	4,075	10,609	33,307
	loans issued	1242	1,230	5,270	10,139
3.2.4	Cash and cash equivalents	1250	40,954	18,139	9,032
	Other current assets	1260	11	11	14
	<b>Total Section II</b>	<b>1200</b>	<b>200,187</b>	<b>167,475</b>	<b>200,599</b>
	<b>TOTAL</b>	<b>1600</b>	<b>908,673</b>	<b>892,631</b>	<b>855,580</b>

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Note	Narrative	Line code	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
1	2	3	4	5	6
	<b>III. CAPITAL AND RESERVES</b>				
3.3.1	Charter capital	1310	386,255	386,255	386,255
3.3.2	Revaluation of non-current assets	1340	52,705	52,928	53,111
3.3.3	Additional capital (excl. revaluation)	1350	58,424	58,424	58,424
3.3.4	Reserve capital	1360	11,278	9,776	8,240
	Retained earnings (loss), incl.:	1370	260,674	235,086	212,430
	undistributed profit of previous years	1371	218,797	205,064	181,701
	undistributed profit of the current year	1372	41,877	30,022	30,729
	<b>Total Section III</b>	<b>1300</b>	<b>769,336</b>	<b>742,469</b>	<b>718,460</b>
	<b>IV. LONG-TERM LIABILITIES</b>				
3.4.1	Borrowings and bank loans	1410	94,848	105,070	92,262
3.9	Deferred tax liabilities	1420	13,676	12,402	9,672
3.4.2	Other liabilities	1450	3,746	2,195	2,335
	<b>Total Section IV</b>	<b>1400</b>	<b>112,270</b>	<b>119,667</b>	<b>104,269</b>
	<b>V. SHORT-TERM LIABILITIES</b>				
3.5.1	Borrowings and bank loans	1510	14,025	18,940	21,915
3.5.2	Accounts payable, incl.:	1520	9,681	9,822	8,575
	suppliers and contractors	1521	4,190	5,492	5,295
	payables to employees	1522	24	669	823
	payables to state non-budgetary funds	1523	14	135	119
	taxes payable	1524	4,697	3,103	1,923
	dividends payable	1525	122	67	65
	payables in respect of shares issued	1526	33	-	-
	other creditors	1527	601	356	350
	Income of future periods	1530	73	70	75
3.5.3	Estimated liabilities	1540	2,447	601	1,405
	Other liabilities	1550	841	1,062	881
	<b>Total Section V</b>	<b>1500</b>	<b>27,067</b>	<b>30,495</b>	<b>32,851</b>
	<b>TOTAL</b>	<b>1700</b>	<b>908,673</b>	<b>892,631</b>	<b>855,580</b>

Chairman of Management Board – General Director

\_\_\_\_\_

**N. G. Shulginov**

(clarification of signature)

Chief accountant

\_\_\_\_\_

**Y. GV. Medvedeva**

(clarification of signature)

30 March 2017

# STATEMENT OF FINANCIAL RESULTS

## for the year ended 31 December 2016

Organisation **Public joint stock company Federal Hydro-Generating Company - RusHydro (PAO RusHydro)**  
 Taxpayer identification number  
 Type of activity **Electricity generation by hydroelectric power plants**  
 Form of incorporation/form of ownership  
**Public joint-stock company/mixed Russian ownership with a federal ownership share**  
 Measurement unit: **RUB mln**

Form on OKUD  
 Date (year, month, day)  
 OKPO  
 INN  
 OKVED  
 OKOPF/OKFC  
 OKEI

CODES
0710002
2016/12/31
75782411
2460066195
35.11.2
12247 / 41
385

Note	Narrative	Line code	Year ended 31 December 2016	Year ended 31 December 2015
1	2	3	4	5
3.7.1	Revenue	2110	115,033	107,099
3.7.2	Cost of sales	2120	(56,356)	(63,969)
	<b>Gross profit</b>	<b>2100</b>	<b>58,677</b>	<b>43,130</b>
	<b>Profit from sales</b>	<b>2200</b>	<b>58,677</b>	<b>43,130</b>
3.12.7	Income from participation in other companies	2310	9,481	809
	Interest income	2320	8,777	9,362
	Interest expense	2330	(7,592)	(8,251)
3.8	Other income	2340	23,754	15,005
3.8	Other expense	2350	(38,336)	(20,396)
	<b>Profit before tax</b>	<b>2300</b>	<b>54,761</b>	<b>39,659</b>
3.9	Current income tax, incl.:	2410	(11,188)	(6,814)
	permanent tax liabilities	2421	1,776	(1,902)
	Change in deferred tax liabilities	2430	(2,658)	(2,786)
	Change in deferred tax assets	2450	1,384	(152)
	Other	2460	(422)	115
	<b>Net profit</b>	<b>2400</b>	<b>41,877</b>	<b>30,022</b>
	REFERENCE			
	Gain or loss from other operations not included in the net profit of the period	2520	-	-
	Total financial result for the period	2500	41,877	30,022
3.11	Basic earnings per share, RR	2900	0,10842	0,07773

Chairman of Management Board – General Director \_\_\_\_\_

**N. G. Shulginov**  
(clarification of signature)

Chief accountant \_\_\_\_\_

**Y. G. Medvedeva**  
(clarification of signature)

30 March 2017

# STATEMENT OF CHANGES IN EQUITY

## for the year ended 31 December 2016

Organisation **Public joint stock company Federal Hydro-Generating Company - RusHydro (PAO RusHydro)**  
 Taxpayer identification number  
 Type of activity **Electricity generation by hydroelectric power plants**  
 Form of incorporation/form of ownership  
**Public joint-stock company/mixed Russian ownership with a federal ownership share**  
 Measurement unit: **RUB mln**

Form on OKUD  
 Date (year, month, day)  
 OKPO  
 INN  
 OKVED  
 OKOPF/OKFC  
 OKEI

CODES
0710003
2016/12/31
75782411
2460066195
35.11.2
12247 / 41
385

### I. Changes in equity

Narrative	Line code	Share capital	Additional capital	Reserve capital	Retained earnings	Total
1	2	3	4	5	6	7
<b>Equity as of 31 December 2014</b>	<b>3100</b>	<b>386,255</b>	<b>111,535</b>	<b>8,240</b>	<b>212,430</b>	<b>718,460</b>
<b>for 2015</b>						
Increase of equity, including:	3210	-	-	-	30,022	30,022
net profit	3211	x	x	x	30,022	30,022
additional shares issue	3214	-	-	x	x	-
Decrease of equity, including:	3220	-	-	-	(6,013)	(6,013)
Dividends	3227	x	x	x	(6,013)	(6,013)
Other	3228	-	-	x	-	-
Additional capital change	3230	x	(183)	x	183	x
Reserve capital change	3240	x	x	1,536	(1,536)	x
<b>Equity as of 31 December 2015</b>	<b>3200</b>	<b>386,255</b>	<b>111,352</b>	<b>9,776</b>	<b>235,086</b>	<b>742,469</b>
<b>for 2016</b>						
Increase of equity, including:	3310	-	-	-	41,877	41,877
net profit	3311	x	x	x	41,877	41,877
additional shares issue	3314	-	-	x	x	-
Decrease of equity, including:	3320	-	-	-	(15,010)	(15,010)
Dividends	3327	x	x	x	(15,010)	(15,010)
Other	3328	-	-	x	-	-
Additional capital change	3330	x	(223)	x	223	x
Reserve capital change	3340	x	x	1,502	(1,502)	x
<b>Equity as of 31 December 2016</b>	<b>3300</b>	<b>386,255</b>	<b>111,129</b>	<b>11,278</b>	<b>260,674</b>	<b>769,336</b>

### III. Net assets

Narrative	Line code	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
1	2	3	4	5
Net assets	3600	769,399	742,536	718,529

Chairman of Management Board – General Director \_\_\_\_\_

**N. G. Shulginov**  
(clarification of signature)

Chief accountant \_\_\_\_\_

**Y. G. Medvedeva**  
(clarification of signature)

30 March 2017

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# STATEMENT OF CASH FLOWS

## for the year ended 31 December 2016

Organisation **Public joint stock company Federal Hydro-Generating Company - RusHydro (PAO RusHydro)**  
 Taxpayer identification number  
 Type of activity **Electricity generation by hydroelectric power plants**  
 Form of incorporation/form of ownership  
**Public joint-stock company/mixed Russian ownership with a federal ownership share**  
 Measurement unit: **RUB mln**

CODES	
Form on OKUD	<b>0710004</b>
Date (year, month, day)	<b>2016/12/31</b>
OKPO	<b>75782411</b>
INN	<b>2460066195</b>
OKVED	<b>35.11.2</b>
OKOPF/OKFC	<b>12247 / 41</b>
OKEI	<b>385</b>

Note	Narrative	Line code	For 2016	For 2015
1	2	3	4	5
	<b>Cash flows from operating activities</b>			
	Receipts, including:	4110	118,301	108,833
	sales of products, goods, work and services	4111	113,249	105,028
	lease payments, license payments, royalties, commissions and other payments	4112	843	1,099
3.2.4	other receipts	4119	4,209	2,706
	Payments including:	4120	(59,326)	(64,139)
	to suppliers (contractors) – raw materials, works and services	4121	(22,137)	(29,796)
	wages and salaries	4122	(6,471)	(7,429)
	interest on debt liabilities	4123	(7,788)	(7,484)
	corporate income tax	4124	(10,864)	(6,202)
3.2.4	other payments	4129	(12,066)	(13,228)
	<b>Net cash flows from operating activities</b>	<b>4100</b>	<b>58,975</b>	<b>44,694</b>
	<b>Cash flows from investing activities</b>			
	Receipts, including:	4210	49,554	48,222
	sale of non-current assets (except for investments)	4211	9,382	150
	sale of shares of other organisations (ownership interest)	4212	44	11
	from return of loans, sales of debt securities (chose of possession of cash from third parties)	4213	22,459	14,086
	dividends, interests from long term financial investments and receipts from participation in other entities	4214	9,091	11,244
3.2.4	other receipts	4219	8,578	22,731
	Payments, including:	4220	(58,435)	(84,704)
	purchase, construction, modernisation, reconstruction and preparation for the use of non-current assets	4221	(20,580)	(28,969)
	related to purchase of shares of other organisations (ownership interest)	4222	(23,951)	(35,317)
	purchase of debt securities (chose of possession of cash from third parties), loans issued	4223	(10,893)	(17,739)
	borrowing costs included in the cost of the investment assets	4224	(3,011)	(2,679)
	<b>Net cash flows from investing activities</b>	<b>4200</b>	<b>(8,881)</b>	<b>(36,482)</b>

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Note	Narrative	Line code	For 2016	For 2015
1	2	3	4	5
	<b>Cash flows from financing activities</b>			
	Receipts, including:	4310	15,750	27,034
	borrowings and bank loans	4311	719	2,037
	issue of shares, increase in ownership interest	4313	33	-
	issue of bonds, promissory notes and other debt securities, etc.	4314	14,998	24,997
	Payments, including:	4320	(42,934)	(26,061)
	dividends and other distributions to owners	4322	(14,977)	(5,964)
	redemption (buyback) of promissory notes and other debt securities, loan repayment	4323	(27,949)	(20,067)
3.2.4	other payments	4329	(8)	(30)
	<b>Net cash flows from financing activities</b>	<b>4300</b>	<b>(27,184)</b>	<b>973</b>
	<b>Net cash flows for the reporting period</b>	<b>4400</b>	<b>22,910</b>	<b>9,185</b>
3.2.4	<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>4450</b>	<b>18,139</b>	<b>9,032</b>
3.2.4	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>4500</b>	<b>40,954</b>	<b>18,139</b>
	Foreign exchange rate difference	4490	(95)	(78)

Chairman of Management Board – General Director

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**N. G. Shulginov**  
(clarification of signature)

Chief accountant

\_\_\_\_\_

**Y. G. Medvedeva**  
(clarification of signature)

30 March 2017

## Explanatory Notes to the 2016 balance sheet and statement of financial results

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## **I. General information**

### **1.1 Information about the Company**

Principal activities of public joint stock company Federal Hydro Generating Company - RusHydro (PAO RusHydro, hereinafter - the Company) are the generation and sale of electricity (power). The Russian Government is the Company's major shareholder.

The Company's registered address is: 43 Dubrovinskogo str., bld. 1, Krasnoyarsk, Krasnoyarsk Territory, Russian Federation, 660017. The Company's postal address: 7, Malaya Dmitrovka str., Moscow, Russian Federation, 127006.

As of 31 December 2016 the Company employed 5,499 people (as of 31 December 2015 – 5,635 people).

The Company's shares are traded on OAO MICEX-RTS stock exchange (<http://moex.com>). American depository receipts, each of which corresponds to 100 ordinary shares of the Company are traded on the Main Market of London Stock Exchange and over-the-counter market of the USA.

As of 31 December 2016 the ownership share of the Russian Federation in the Company's share capital amounted to 66,84%.

As of 31 December 2016 the Company has 19 branches registered in the Russian Federation, including: branch Bureyskaya GES, branch Volzhskaya GES, branch Votkinskaya GES, Dagestan branch, branch Zhigulevskaya GES, branch Zagorskaya GAES, branch Zeiskaya GES, Kabardino-Balkarsky branch, branch Kamskaya GES, Karachaevo-Cherkessky branch, branch Cascade of Verkhne-Volzhsky GES, branch Cascade of Kuban GES, branch Corporate Energy University, branch Nizhegorodskaya GES, branch Novosibirskaya GES, branch Saratovskaya GES, branch Sayano-Shushenskaya GES named after P.S. Neporozhny, Severo-Osetinsky branch, branch Cheboksarskaya GES.

Membership of the Company's Board of directors as of 31 December 2016 is as follows:

- Trutnev Yury Petrovich, Chairman of the Board of Directors, Deputy Prime Minister - Plenipotentiary Representative of RF President in the Far Eastern Federal District;
- Ivanov Sergey Nikolaevich, Deputy chairman of the Board of Directors, Managing director of OAO Energetic Russian Company;
- Avetisyan Artem Davidovich, head of "New business" stream of autonomous non-profit organization "Agency of strategic initiatives for promotion of new projects";
- Bystrov Maxim Sergeevich, Chairman of the Management Board NP Market Council responsible for organization of effective system of energy power and capacity wholesale and retail;
- Grachev Pavel Sergeevich, President, PAO Polyus Zoloto;
- Kravchenko Vyacheslav Mikhailovich, Deputy Minister of Energy of the Russian Federation;
- Pivovarov Vyacheslav Victorovich, Chief Executive Officer, LLC Altera Capital;
- Podguzov Nikolay Radievich, Deputy Minister of Economic Development of Russian Federation;
- Rogalev Nikolay Dmitrievich, rector of the Federal State Budget Educational Institution of Higher Education "National Research University "MEI";
- Chekunov Aleksey Olegovich, CEO of AO "Fund of development of Far East and Baikal region";
- Shishin Sergey Vladimirovich, Senior Vice-President, PJSC VTB Bank;
- Shishkin Andrey Nikolaevich, Vice President for power and localisation, OJSC Rosneft;
- Shulginov Nikolay Grigoryevich, Chairman of Management Board, General Director, PAO RusHydro.

According to the decision made by the Company's general meeting of shareholders held on 27 June 2016 (Minutes No 15) Grachev Pavel Sergeevich, Podguzov Nikolay Radievich, Rogalev Nikolay Dmitrievich, Chekunov Alexey Olegovich, Shulginov Nikolay Grigoryevich were elected



to the Board of Directors; the powers of Dod Evgeny Vyacheslavovich, Zimin Victor Mikhaylovich, Kalanda Larisa Vyacheslavovna, Morozov Denis Stanislavovich and Osipov Alexander Mikhailovich were terminated.

As of 31 December 2016 the Company's Management Board includes:

- Shulginov Nikolay Grigoryevich, Chairman of the Management Board, General director,
- Bogush Boris Borisovich, First Deputy General Director, Chief engineer,
- Kazachenkov Andrey Valentinovich, First Deputy General Director,
- Kirov Sergey Anatolyevich, First Deputy General Director,
- Rizhinashvili George Ilyich, First Deputy General Director,
- .

There were following changes in Management Council during 2016 year:

- according to the decision made by the Company's Board of Directors held on 10.12.2015 (minutes № 228) the powers of Tokarev Vladimir Alexandrovich were terminated since 11.01.2016,
- according to the decision made by the Company's Board of Directors held on 25.02.2016 (minutes № 232) Kazachenkov Andrey Valentinovich was elected to the Management Council.
- As of 31 December 2016 members of the Company's Internal Audit Commission included:
  - Anninkova Natalia Nikolaevna, First deputy of General Director on economics and finance OJSC "Stroitelnoe upravlenie №308",
  - Bogashov Aleksandr Evgenyevich, head of department at the Russian Energy Ministry,,
  - Kant Mandal Denis Rishievich, Acting Head of department at the Federal Property Management Agency,
  - Repin Igor Nikolaevich, Deputy Executive Director, Investor protection association,
  - Hvorov Vladimir Vasilyevich, Department Leading Expert in the Russian Ministry of Economic Development.

According to the decision made by the Company's annual general meeting of shareholders held on 27 June 2016 (Minutes No 15) Bogashov Aleksandr Evgenyevich was elected to the Internal Audit Commission; the powers of Kharin Andrey Nikolaevich were terminated.

## **1.2 The Company's operating environment**

The Russian economy displays certain characteristics of an emerging market. It is particularly sensitive to oil and gas price fluctuations. The legal, tax and customs frameworks continue to develop and are subject varying interpretation.

Continuing politic tensions and international sanctions negatively influenced on Russian economy at 2016 year. Mentioned factors contributed to economy downturn that is characterized with decrease of gross domestic product. Financial markets are still characterized with lack of stability, frequent and considerable price changes and increase of trade operations spreads.

Such economic environment has considerable influence on Company's operations and financial position. Future economic and regulatory situation, internal and external business environment are hard to forecast and may differ from Company management's current expectations.

Developing capacity and power wholesale and retail markets possess higher level of risks than developed markets of other products and services.

The Company's risk management policy specifies the continuous efforts to identify risks, assess them and control and also develop and implement actions for addressing the risks, business continuity management in accordance with international and national standards of risk management (COSO ERM 2004, ISO 31000, GOST R ISO 31000-2010, etc.), Code of corporate governance Central Bank of RF, methodological recommendations of the Federal Property Management Agency and the Ministry of Finance of the Russian Federation in the field of risk management and internal control.

### ***Financial risks***

Financial risk includes market risk (currency risk, interest rate risk and other price risks), credit risk and liquidity risk.

Information about the Company's exposure to financial risks, their reasons and risk management tools is presented in paragraph 3.15 of the Explanatory Notes.

### ***Legal risks***

The reasons for legal risks are associated with potential changes in legal and regulatory base including currency and customs regulations, tax legislation and others.

Legal risks in domestic market related to regulation of electricity generation and its sale/purchase, which represent the Company's principal activities, can significantly impact the Company's position by decreasing its net profit.

Legal risks in external market related to currency and customs regulation are insignificant due to insignificant volume of foreign trade transactions the Company participates in, which are managed through legal support and control of these transactions and liability insurance.

To manage the industry risks the Company actively participates as expert in development of energy legislation made by Ministry of Energy of Russian Federation, NP "Market council" and Federal Antimonopoly Service; monitors legislation and makes amendments in the regulatory base.

### ***Country and regional risks***

The reasons for country and regional risks are associated with political and economic situation, the geographic features of the country or the region where the entity operates and (or) is registered as a taxpayer.

Exposure to country risk may be indirectly assessed by credit rating with some assumptions (less political risks for business). Due to external factors such as oil price and Rouble currency rate decrease rating of Russia as for the end of 2014 was reduced from BBB at stable forecast to BB+ at negative forecast according to international rating agency Standard & Poor's which is negative factor that is connected with anti-Russian sanctions. The country risk level may differ depending on the continuity or termination of this policy.

In 2016, the credit rating of Russia under the version of the international rating agency Standard & Poor's remains at the level of BB +, while the forecast has been revised from negative to stable. According to analysts, external risks for the Russian Federation decreased, the Russian economy adapts to low world prices for raw materials.

Also in 2016 international rating agency Standard & Poor's confirmed Company's long-term credit rating at BB level, but changed forecast from stable to positive.

At the moment investor's' comprehension of the country risks reduces the net volume of foreign investment in Russia and has a negative influence on the Russian economy. As well as Russia produces and exports large amounts of gas and oil, the Russian economy is especially vulnerable to the changes of international prices of energy resources; the reduction of gas and oil prices significantly affects the Russian economy development. These events may restrict the access of the Company to the capital and have an adverse impact on consumer purchasing power.

In the crisis environment experienced by the financial market and reduction of manufacturing output there is a risk of decrease in electricity demand that may result in reduction of sales and decrease in the Company's revenue and also a risk of increase in accounts receivable due to non-payments by the consumers of electricity.

The management believes that it has been taking all necessary measures to mitigate the impact of these events on its activities: optimization of leverage, optimisation of the obtained borrowed funds, increase turnover of current assets, assessment of the buyers' solvency, diversification of resources use and others.

Due to enhancement of the state control over energy industry the Company pays considerable attention to transparency and confidence of control procedures relating to budget funds

expenditure within the Company's and subsidiaries' investment programmes and also develops and improves the corporate internal control system and risk management. The company takes the required steps to prevent negative influence of the above risks on its operations.

The Russian regions where the Company performs its operations are characterised by peaceful political situation. Probability of war conflicts, strikes, introduction of the state of emergency in these regions is low except for entities located in North-Caucasus Federal District.

However, changes in the Company's business environment in Russia and in the regions of the Company's presence, the nature and frequency of such changes and related risks are hard to predict and so are their effects on the Company's operations in the future. Such risks are largely beyond the Company's control due to their global scale. If the situation is destabilised in Russia or in any Russian regions, the Company will implement crisis management strategies to minimise the risk of the negative effect of the situation on the Company to the fullest extent possible.

To manage the risks the Company is implementing a complex action plan to enhance safety of the Company's facilities under which the existing plan on ensuring safety at the power plants, including those under construction is amended.

### ***Reputation risks***

Reputation risks are associated with a decrease in the number of an entity's customers as a result of negative perception of the quality of products, works, services sold, the ability to meet the deadlines for products delivery, work performance, etc.

The Company assesses its exposure to these risks as low due to the fact that the Company sells electricity and capacity in the wholesale market and has high and sustainable reputation in the market.

To manage these risks the Company analyses key indicators of reputation risks based on the forecast of changes in the share of positive references in mass media, control over compliance with production and market discipline, cooperating actively with all stakeholders to maintain high reputation. The company organizes public events jointly with interested parties; special events for mass media, analytics and investors. Also, the Company regularly updates information on official Internet sources and prepares official comments on key activities questions.

Besides the Company takes measures to prevent corruption. Anti-corruption policy, the code of conduct, regulations on the procedure of the employer's notification about inducement of personnel to unlawful acts, gifts, conflict of interests arrangement procedures etc. are adopted by the Company. The "Trust line" acts on an on-going basis.

The Company works closely with Ministry of energy, Federal tax service, Federal financial monitoring service within the anti-corruption and control of fraud activities.

### ***Other risks***

To manage the risks the Company focuses on other operating risks including risk of capital construction, industry risk, production risk, risk of hydraulicity, risks associated with compliance with legislation on labour safety, risks of industrial safety, environmental risks and risks associated with the third parties' activities and others.

The reasons for these risks are associated with the industry-specific factors that are relevant to the operations, condition of property, plant and equipment. There is an exposure to these risks, degree of possibility of events is at statistically average or low levels. On a permanent basis, the Company implements actions for monitoring the risks and decreasing the probability of their occurrence and severity of the potential adverse consequences including assignment of responsibility, control, diversification and insurance.

## **II. Accounting policies**

These statutory financial statements have been prepared on the basis of the following accounting policies:

### **2.1 Basis of presentation**

The Company's statutory financial statements are prepared in accordance with the accounting and reporting rules currently effective in the Russian Federation provided for by the Federal Law "On Accounting" and "Regulation on Accounting and Reporting in the Russian Federation" as well as other accounting regulations approved by the Russian Ministry of Finance.

Assets are valued at actual costs, excluding fixed assets of subsidiaries and dependent companies (hereinafter referred to as "SDCs") received in 2008 in connection with the merger of SDCs into the Company; Financial investments, for which the current market value is determined; Assets, for which, in accordance with established procedure, reserves were created to reduce their value (impairment).

### **2.2 Assets and liabilities denominated in foreign currency**

Business transactions in foreign currencies were recorded using the official Rouble exchange rate as of the date of the relevant transaction. Cash on hand and in bank accounts (bank deposits), cash and payment documents, accounts receivable (except for advances received and issued and prepayments) including loans receivable and payable, denominated in foreign currencies are recorded in the financial statements in the amounts calculated based on the official currency exchange rates effective as of the reporting date. The exchange rates were as follows: USD 1 = RUB 60.6569 as of 31 December 2016 (31 December 2015: USD 1 = RUB 72.8827, 31 December 2014: USD 1 = 56.2584), EUR 1 = RUB 63.8111 as of 31 December 2016 (31 December 2015: EUR 1 = RUB 79.6972, 31 December 2014: EUR 1 = RUB 68.3427).

Exchange differences arising during the year from translation (including those as of the reporting date) of foreign currency-denominated assets and liabilities payable in foreign currencies or Russian roubles were reported in the statement of financial results as other income or expenses.

### **2.3 Accounting for assets and liabilities**

In the balance sheet, investments, accounts receivable and accounts payable, including bank credits and estimated liabilities, are treated as short-term if the term of their circulation (maturity) does not exceed 12 months after the reporting date. Other assets and liabilities are recognised as long-term.

Interest on loans issued and other investments are recorded in the balance sheet line 1230 "Accounts receivable"; interest on bank credits and loans received are recorded in the balance sheet line 1510 "Borrowings".

Advances to the suppliers of equipment and capital construction contractors are recognised in line 1230 "Accounts receivable".

Advances issued and received are recorded in the balance sheet including VAT. VAT on advances issued and received is recognised on a gross basis in the balance sheet line 1260 "Other current assets", 1450 "Other liabilities" and 1550 "Other liabilities", respectively.

Deferred tax asset and deferred tax liability are recognized on the balance sheet on a net basis.

## **2.4 Property, plant and equipment, construction-in-progress and income-bearing investments in tangible assets**

Property, plant and equipment are accounted for in accordance with the Russian Accounting Regulation "Accounting for property, plant and equipment" (RAR 6/01).

Property, plant and equipment include land, buildings, facilities, machinery, equipment, transport vehicles and other assets whose useful lives are over 12 months.

Property, plant and equipment are recognized at their historical cost equal to actual acquisition (construction, production) cost. At the same time, fixed assets received in 2008 in connection with the merger of subsidiaries and affiliates (hereinafter - "SDCs") to the Company, are accounted for at their market value determined by an independent appraiser.

The acquired property, plant and equipment with historical cost of below RUB 40 thousand per unit which were initially recognised after 1 January 2011 are accounted for within inventories; property, plant and equipment which were initially recognised before 1 January 2011 were accounted for within inventories, if their historical cost did not exceed RUB 20 thousand per unit.

Real property assets which have been constructed, put into operation and are actually used but the title to which was not registered under the procedure established by the effective legislation are accounted for within property, plant and equipment in a separate line.

Property, plant and equipment are recognised on the balance sheet at cost less depreciation accumulated from the date of their independent valuation for merging subsidiaries and associates (hereinafter - SAC) into the Company in 2008 or over the whole period of their operation, if they were put into operation after merging SAC into the Company.

The Company does not perform the revaluation of property, plant and equipment items.

Useful lives of the acquired property, plant and equipment including those which had been in operation before the acquisition, received as a contribution to the share capital or under legal succession in connection with restructuring, are established by the review committee for commissioning of a facility based on the Classification of the Company's property, plant and equipment when PP&E item is initially recognised. Useful lives of assets which were in use in prior periods are determined with consideration to the number of years (months) they were used by the previous owner.

The adopted standard useful lives by groups of property, plant and equipment in accordance with the Classification of the Company's property, plant and equipment are presented below.

<b>Property, plant and equipment group</b>	<b>Useful lives of property, plant and equipment (years) on the balance sheet</b>
Facilities and transmission equipment	3 to 100
Machinery and equipment	1 to 40
Buildings	7 to 75
Other	1 to 20

Depreciation of property, plant and equipment is accrued on a straight-line basis proceeding from their historical values and depreciation rates calculated based on their useful lives.

Depreciation is not accrued on:

- land plots and natural resources;
- fully depreciated assets that are still on the balance sheet.
- assets that are temporarily shutdown for more than three months and during the restoration period which exceeds twelve months.

Gains and losses on disposal of property, plant and equipment are recorded in the statement of financial results within other income and expenses.

Construction-in-progress includes real estate assets under construction, which have not been put into operation, equipment to be installed and other investments in non-current assets which are not included in PP&E. Equipment which does not require installation, stored in the warehouse and intended for assets under construction are recorded within construction-in-progress in a separate line.

These items are recognised in the balance sheet line 1150 "Property, plant and equipment".

Interest on borrowings raised for the purposes directly related to acquisition, construction and/or manufacture of investment assets, accrued prior to initial recognition of the assets is included in their historical cost; that accrued after the initial recognition of the assets are recognised in the statement of financial results within other expenses.

Interest on borrowings raised for the purposes not related to acquisition, construction and/or manufacture of investment assets, but actually used to purchase the investment assets are included in the cost of investment assets in proportion to the share of the above borrowings in total amount of borrowings raised for the purposes not related to acquisition, construction, manufacture of investment assets.

Income-bearing investments in tangible assets represent PP&E items acquired for leasing out to generate income.

These assets are recognised at their historical cost determined under the procedure used for general PP&E items.

Leased PP&E items are recognised in off-balance-sheet accounts at cost specified in the lease agreement/determined based on the acceptance certificate. If the lease agreement and acceptance certificate do not specify the cost of these assets, property, plant and equipment are recorded in the off-balance-sheet accounts at the following values:

- land plots having the cadastral value - at their cadastral value;
- other PP&E items - in the amount of lease payments inclusive of VAT under lease agreement including the repurchase price of the leasing item.

## **2.5 Investments**

Investments are accounted for in accordance with the Russian Accounting Regulation "Accounting for investments" (RAR 19/02).

Investments include:

- contributions to the share capital of other entities (including subsidiaries);
- debt securities (including bonds, promissory notes);
- deposits in credit institutions except for short-term deposits classified as cash equivalents (paragraph 2.9 of the Explanatory Notes);
- interest-bearing loans issued to other entities;
- government and municipal securities and other investments.

Investments are initially recognised at their actual cost of acquisition.

The Company's actual costs to purchase investments represent the historical cost of investments purchased at a charge.

The historical cost of investments in the Company's share capital is presented by their monetary value agreed by the Company's founders, if not specified otherwise by the Russian legislation.

Investments, the current market value of which can be determined under the established procedure, are recognised on the balance sheet at their current market value as of the end of each reporting period (on a quarterly basis). The difference between the value of these investments as of the current reporting date and their prior value is recorded within other income and expenses.

At the same time, contributions to the charter capitals of SDCs (irrespective of the availability of current exchange quotations on them) refer to financial investments for which revaluation at current market value is not made.

Current market value of the securities which are traded by the institutors of trading is determined at market prices established at OAO MICEX-RTS (<http://moex.com>).

Investments for which no current market value is determinable are recorded on the balance sheet at their carrying (book) value, except for investments for which there are indications that the decline in their value (impairment) is significant and non-temporary as of the reporting date.

Investments are tested for their impairment once a year as of 31 December of the reporting year, if there are indications of impairment.

The Company accrues the impairment provision for the amount of difference between carrying (book) value and estimated value of the investments with regard to investments for which significant and constant impairment indicators are proved by impairment test. The estimated value of investments is determined based on the data about net assets, revenue, composition of expenses, schedule of projects financing and other factors.

Despite of the fact that well-grounded judgements are applied to determine the estimated value of investments, there are unavoidable limitations as in any valuation technique. Therefore, the estimated value represents the Company management's best estimate based on all the information available as of the reporting date. Future events will also have impact on determining the estimated value and impact of such events can be significant for the Company's financial statements.

Difference between the historical cost and nominal value of debt securities for which current market value is not determinable, is recorded on a straight-line basis during the period of their circulation and is recognised in the Company's financial results within other income (expenses). When investments for which current market value is not determinable are disposed, they are carried at book value of each unit of these investments except for issuance securities (shares, bonds) which are disposed under FIFO; when investments for which current market value is determinable under the established procedure are disposed - based on the latest valuation.

The Company discloses information about measurement at discounted value, the amount of the discounted value of debt securities of other related parties and loans issued to them.

Income and expenses associated with investments are reported within other income or expenses. Interest on loans issued and other income from investments are recognised in the balance sheet line 1230 "Accounts receivable".

## **2.6 Inventories**

Inventories are accounted for in accordance with the Russian Accounting Regulation "Accounting for inventories" (RAR 5/01).

Inventories are accounted for at their actual cost of acquisition (production).

If market value of inventories as of the end of the reporting year is below their historical cost including due to on-going (long-term) price reduction, Company makes a provision in the amount of inventory impairment which is charged against increase in other expenses. Such inventories are recognised on the balance sheet net of the inventories' impairment provision.

The average cost method is applied to determine the material expenses when writing-off inventories used to produce goods (provide services).

## **2.7 Expenses of future periods**

Expenses incurred by the Company in the reporting period but related to future reporting periods (payments under voluntary and mandatory insurance of property and employees, one-off payments to purchase licenses and other expenses) are recorded as expenses of future periods. These expenses are written-off for the purpose intended on a straight-line basis during the periods which they relate to.

Expenses of future periods to be written-off during the period exceeding twelve months are recognised on the balance sheet as non-current assets in line 1190 "Other non-current assets"; those to be written-off during twelve months - in line 1210 "Inventories".

## **2.8 Accounts receivable**

Trade receivables are accounted for in the amount of services provided, works performed, good dispatched at justified prices and established tariffs. Settlements with other debtors are recognised for accounting and reporting purposes based on the contractual prices. Accounts receivable include non-interest-bearing promissory notes and non-interest-bearing loans issued.

Accounts receivable which are overdue or unlikely to be repaid by the contractual deadlines and are not secured by guarantees, pledges or otherwise, are recognised on the balance sheet net of

doubtful debt provision. The provision is based on the conservative assessment made by the Company's management with regard to the portion of receivables which is unlikely to be repaid.

Doubtful debts provision is made on a quarterly basis as of the end of the respective period. The provision amount is separately determined based on the unbiased information about solvency of the specific debtor and assessment of probability of receivables repayment in full or partially.

Accrual (release) of doubtful debts provision increases other expenses (income).

Uncollectable receivables are written-off when recognized as such. These receivables are recorded in off-balance-sheet accounts over five years after the debt is written off for monitoring whether there is a possibility of their collection in case of any changes in the debtor's property status.

## **2.9 Cash equivalents and presentation of cash flows in the statement of cash flows**

Cash equivalents comprise current highly liquid investments, which are readily convertible into a predictable amount of cash and are exposed to an insignificant risk of changes in value.

The Company recognises short-term bank deposits with a maturity of up to three months (not longer than 91 days) within cash equivalents if they are treated as funds used for settlements and repayment of liabilities, not intended for investment and other purposes.

The Company's cash flows which cannot be clearly attributed to cash flows from operating, investing or financing activities are included in the cash flows from operating activities in the statement of cash flows. Such cash flows include receipts and payments related to financial instruments of forward deals.

The following items are presented on a net basis in the statement of cash flows:

- indirect taxes within receipts from buyers and customers and payments to suppliers and contractors;
- cash flows used for investing activities and received on repayment of short-term bank deposits (with a maturity of more than three months) within the same reporting period.

Cash receipts and payments do not include cash flows changing the structure of cash equivalents, but not changing their total amount.

## **2.10 Share capital, additional and reserve capital**

The Company's share capital has been recorded in the amount of the nominal value of ordinary shares purchased by shareholders. The share capital is equal to the amount specified in the Company's Charter.

When the share capital is increased through placement of additional shares, transactions associated with the formation of the share capital are accounted for when the respective changes made in the Company's constituent documents are registered.

The Company's additional capital includes share premium resulted from placement of the Company's shares at price exceeding their nominal value and total of additional capital of subsidiaries, associates merged into the Company during the 2008 reorganisation.

In accordance with legislation the Company forms a reserve fund in the amount of 5% of the share capital. The amount of mandatory annual deductions to reserve fund is 5% of the Company's net profit until it reaches the specified level.

## **2.11 Loans and bank credits received**

Loans and bank credits are accounted for in accordance with the Russian Accounting Regulation "Accounting for loans and bank credits" (RAR 15/2008).

Loans payable are stated inclusive of interest payable as of the end of the reporting period according to the loan agreements.

Interest is accrued on a monthly basis at the end of each reporting period. If a lender provides for interest calculation attributable to different reporting periods, the amount of interest shall be allocated and included in the amount payable separately for each month.



Additional expenses incurred in connection with borrowings are charged to expenses of future periods with subsequent straight-line inclusion in other expenses over the repayment period.

## **2.12 Estimated liabilities, contingent liabilities and contingent assets**

### ***Estimated liabilities***

The Company recognises estimated liability, which meets the recognition criteria established in the Russian Accounting Regulation "Estimated liabilities, contingent liabilities and contingent assets" (RAR 8/2010).

The Company recognises an estimated liability:

- for earned but unused employee vacations, which is determined as of the end of the reporting year with reference to the number of unused vacation days of each employee at the reporting date and employee's average salary, inclusive of insurance contributions;
- on payment of bonuses for the results of work for the fourth quarter and year, the value of which at the end of the reporting year is determined based on the forecast of performance of internal corporate key performance indicators, taking into account insurance premiums;
- in other cases provided by RAR 8/2010.

### ***Contingent liabilities and contingent assets***

Contingent liabilities and contingent assets are not recorded on the balance sheet, but instead are disclosed in the Explanatory Notes to the balance sheet and statement of financial results.

Contingent liability (contingent asset) arises as a result of past business events when existence of a liability (asset) of the Company at the reporting date depends on occurrence (non-occurrence) of future uncertain events, which are beyond the Company's control.

Contingent liability is disclosed in the Explanatory Notes to financial statements, except where the likelihood of a decrease in economic benefits associated therewith is remote. Contingent asset is disclosed in the Explanatory Notes when the inflows associated therewith are probable. There is a need to disclose its estimated amount or a range of estimated amounts, if such values are identifiable.

## **2.13 Revenue recognition**

Revenue from sales of products (provision of services) is recognized on an accrual basis (as the products/services are delivered/provided and relevant settlement documents presented to buyers). Revenue is presented net of value added tax.

Other revenues of the Company include:

- proceeds from sale of property, plant and equipment, investments and other assets;
- interest received in connection with providing the Company's cash for use, interest for the bank's use of cash sitting on the Company's bank accounts in the bank, interest for the commodity credit and interest on the acquired interest-bearing notes of the third parties - in accordance with interest provision in the note when presenting it for payment. The Company recognises the above income in the statement of financial results in line 2320 "Interest income";
- income from participation in share capital of other entities (dividends) is recognised by Company when announced and included in the statement of financial results in line 2310 "Income from participation in other entities";
- income from transactions with derivatives when the respective trading positions are closed;
- fines, penalties and interest for breaching contractual terms;
- prior year profit identified in the reporting year (considering the requirements of the Russian Accounting Regulation "Correction of errors in accounting and reporting" (RAR 22/2010);
- other proceeds (income) according to the Russian Accounting Regulation "Income of an organisation" (RAR 9/99) (including income in the form of insurance indemnity).

## **2.14 Recognition of expenses**

Accounting for expenses is regulated by the Russian Accounting Regulation "Expenses of an organisation" (RAR 10/99) under which the Company's expenses are divided into general expenses and other expenses.

Administrative expenses are written-off against the cost of goods produced (services provided).

General expenses are recognised in the reporting period wherein they were incurred irrespective of the actual closure of accounts payable.

Expenses shall be accounted for irrespective of the intention to generate revenue or other income and their form.

Other expenses include:

- expenses incurred in disposal and other write-off of property, plant and equipment, investments and other assets;
- interest paid by the Company for provided cash (bank credit, loans); the Company recognises these expenses in the statement of financial results in line 2330 "Interest expense";
- expenses incurred in payment of services provided by credit institutions;
- doubtful debts provision calculated on the basis of the reporting period results in accordance with the Company's accounting policies (see paragraph 2.8 of the Explanatory Notes);
- expenses from transactions with derivatives when the respective trading positions are closed;
- fines, penalties and interest for breaching contractual terms, compensation of losses caused by the Company;
- prior year losses identified in the reporting period (considering the requirements of the Russian Accounting Regulation "Correction of errors in accounting and reporting" (RAR 22/2010);
- charity and social security;
- expenses incurred as a result of extraordinary events in business operations (natural disaster, fire, accident, etc.)
- other expenses according to RAR 10/99.

## **2.15 Changes in the accounting policies**

There are no significant changes in the Company's accounting policies for 2016 and 2017 based on the Russian Accounting Regulation "Accounting policies of an organisation" (RAR 1/2008).

### III. Disclosure of material indicators

#### 3.1 Non-current assets (Section I of the balance sheet)

##### 3.1.1 Property, plant and equipment (line 1151 of the balance sheet), construction-in-progress (line 1152 of the balance sheet), income-bearing investments in tangible assets (line 1160 of the balance sheet)

PP&E group	Net book value		
	31 December 2016	31 December 2015	31 December 2014
<b>Line 1151 Property, plant and equipment, including:</b>			
Facilities and transmission equipment	192,240	189,819	188,410
Machinery and equipment	140,215	120,251	98,216
Buildings	39,539	34,274	34,457
Motor vehicles	6	23	56
Production and maintenance tools	293	412	281
Land plots	4	4	3
Other types of property, plant and equipment	217	203	222
<b>Total line 1151 "Property, plant and equipment"</b>	<b>372,514</b>	<b>344,986</b>	<b>321,645</b>
<b>Line 1160 Income-bearing investments in tangible assets, including:</b>			
Facilities and transmission equipment	-	7,065	7,189
<b>Total in line 1160 "Income-bearing investments in tangible assets"</b>	<b>-</b>	<b>7,065</b>	<b>7,189</b>

As of 31 December 2016 there are no income-bearing investments in tangible assets (as of 31 December 2015 – RUB 7,065 million, as of 31 December 2014 – RUB 7,189 million). In November 2016, the complex of dams of the Angarsk cascade in the Irkutsk region was sold under the contract of sale of OOO "Telmamskaya HPP" at a price 9, 280 mln RUB without VAT.

**PAO RusHydro**  
**Explanatory Notes to the 2016 Balance sheet and Statement of Financial Results**  
(in millions of Russian Roubles unless otherwise stated)

**Availability and movement of property, plant and equipment and income-bearing tangible assets**

Narrative	Period	At the beginning of the year		Changes for the period				At the end of the year	
		Cost	Accumulated depreciation	Additions*	Disposals		Depreciation accrued*	Cost	Accumulated depreciation
					Cost	Accumulated depreciation			
<b>Property, plant and equipment including:</b>	<b>2015</b>	<b>389,140</b>	<b>(67,495)</b>	<b>42,761</b>	<b>(3,401)</b>	<b>1,414</b>	<b>(17,433)</b>	<b>428,500</b>	<b>(83,514)</b>
	<b>2016</b>	<b>428,500</b>	<b>(83,514)</b>	<b>43,735</b>	<b>(1,291)</b>	<b>890</b>	<b>(15,806)</b>	<b>470,944</b>	<b>(98,430)</b>
Facilities and transmission equipment	2015	213,984	(25,574)	7,633	(2,260)	367	(4,331)	219,357	(29,538)
	2016	219,357	(29,538)	6,783	(63)	11	(4,310)	226,077	(33,837)
Machinery and equipment	2015	135,135	(36,919)	34,270	(997)	947	(12,185)	168,408	(48,157)
	2016	168,408	(48,157)	30,786	(1,081)	824	(10,565)	198,113	(57,898)
Buildings	2015	38,672	(4,215)	574	(12)	4	(749)	39,234	(4,960)
	2016	39,234	(4,960)	6,106	(96)	20	(765)	45,244	(5,705)
Motor vehicles	2015	82	(26)	5	(37)	8	(9)	50	(27)
	2016	50	(27)	-	(37)	21	(1)	13	(7)
Production and maintenance tools	2015	889	(608)	266	(89)	86	(132)	1,066	(654)
	2016	1,066	(654)	18	(9)	9	(137)	1,075	(782)
Land plots	2015	3	-	1	-	-	-	4	-
	2016	4	-	-	-	-	-	4	-
Other types of property, plant and equipment	2015	375	(153)	12	(6)	2	(27)	381	(178)
	2016	381	(178)	42	(5)	5	(28)	418	(201)
<b>Income-bearing investments in tangible assets including:</b>	<b>2015</b>	<b>7,592</b>	<b>(403)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(124)</b>	<b>7,592</b>	<b>(527)</b>
	<b>2016</b>	<b>7,592</b>	<b>(527)</b>	<b>-</b>	<b>(7,592)</b>	<b>641</b>	<b>(114)</b>	<b>-</b>	<b>-</b>
Facilities and transmission equipment	2015	7,592	(403)	-	-	-	(124)	7,592	(527)
	2016	7,592	(527)	-	(7,592)	641	(114)	-	-

\* Cost of property, plant and equipment received in 2016 and depreciation for the period includes cost of property, plant and equipment repurchased at the expiration of the lease agreements and accumulated depreciation of RUB 1,063 million (for 2015: RUB 3,679 million). Exposure of leased property, plant and equipment is described in paragraph 3.6.1 of the Explanatory Notes.

**Changes in the cost of property, plant and equipment as a result of further construction, re-equipping, reconstruction or partial liquidation**

Narrative	2016	2015
<b>Increase in the cost of property, plant and equipment as a result of further construction, re-equipping, reconstruction including:</b>	<b>23,345</b>	<b>23,674</b>
Machinery and equipment	15,969	17,769
Buildings	5,592	230
Facilities and transmission equipment	1,784	5,673
Other types of property, plant and equipment	-	2
<b>Decrease in value of property, plant and equipment as a result of partial liquidation including:</b>	<b>160</b>	<b>96</b>
Machinery and equipment	151	86
Other types of property, plant and equipment	9	10

**Other use of property, plant and equipment**

Narrative	31 December 2016	31 December 2015	31 December 2014
Leased out PP&E recognised on the balance sheet	1,451	1,604	1,760
Leased PP&E recognised in the off-balance-sheet accounts	33,862	38,490	34,097
Real estate assets which were put into operation and actually used but are in the process of state registration	5,924	2,552	2,094
PP&E that have been temporarily shut down	80	89	77

**Construction-in-progress and purchase of property, plant and equipment and income-bearing investments in tangible assets**

Narrative	Period	At the beginning of the year	Changes for the period				At the end of the year
			Costs for the period	Written off	Other movement*	Recognised as PP&E or uplifted	
<b>Construction-in-progress and purchase of property, plant and equipment and income-bearing investments in tangible assets, including:</b>	<b>2015</b>	<b>56,382</b>	<b>31,083</b>	<b>(44)</b>	<b>(602)</b>	<b>(39,082)</b>	<b>47,737</b>
	<b>2016</b>	<b>47,737</b>	<b>31,778</b>	<b>(252)</b>	<b>4</b>	<b>(42,672)</b>	<b>36,595</b>
Construction-in-progress	2015	51,503	14,698	(21)	15,579	(38,831)	42,928
	2016	42,928	15,900	(234)	16,997	(42,353)	33,238
Incomplete transactions on purchasing property, plant and equipment and income-bearing investments in tangible assets	2015	35	262	(1)	-	(251)	45
	2016	45	282	(17)	33	(319)	24
Equipment for installation	2015	4,844	16,123	(22)	(16,181)	-	4,764
	2016	4,764	15,596	(1)	(17,026)	-	(3,333)

\* Transfer of equipment for installation, reclassification of equipment to be installed to construction-in-progress and other movement not related to transfer of assets to property, plant and equipment

**3.1.2 Long-term investments (line 1170 of the balance sheet)**

Line 1170 "Financial investments" includes contributions to share capital of subsidiaries, associates and other entities, debt securities and long-term loans issued to subsidiaries and associates:

<b>Narrative</b>	<b>31 December 2016</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
Investments in subsidiaries	244,104	252,713	216,413
Investments in associates	11,110	11,110	11,210
Investments in other entities	9,373	3,841	2,690
Long-term loans issued	27,085	51,832	34,039
Debt securities	601	601	-
<b>Total line 1170 "Financial investments"</b>	<b>292,273</b>	<b>320,097</b>	<b>264,352</b>

Exposure of long-term investments to financial risks is described in paragraph 3.15 of the Explanatory Notes.

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**Availability and movement of long-term investments**

Narrative	Period	At the beginning of the year		Changes for the period					At the end of reporting period	
		Cost	Accumulated adjustment*	Additions	Changes in current market value	Disposed (settled)		Other movements**	Cost	Accumulated adjustment*
						Cost	Accumulated adjustment*			
<b>Long-term investments including:</b>	<b>2015</b>	<b>281,529</b>	<b>(17,177)</b>	<b>62,904</b>	<b>780</b>	<b>(5,552)</b>	<b>-</b>	<b>(2,387)</b>	<b>338,881</b>	<b>(18,784)</b>
	<b>2016</b>	<b>338,881</b>	<b>(18,784)</b>	<b>11,239</b>	<b>5,532</b>	<b>(29,207)</b>	<b>-</b>	<b>(15,388)</b>	<b>320,913</b>	<b>(28,640)</b>
Investments in subsidiaries	2015	216,427	(14)	38,771	-	(35)	-	(2,436)	255,163	(2,450)
	2016	255,163	(2,450)	8,787	-	(2,017)	-	(15,379)	261,933	(17,829)
Investments in associates	2015	11,226	(16)	-	-	(100)	-	-	11,126	(16)
	2016	11,126	(16)	-	-	-	-	-	11,126	(16)
Investments in other entities	2015	12,938	(10,248)	401	780	(79)	-	49	13,260	(9,419)
	2016	13,260	(9,419)	9	5,532	-	-	(9)	13,269	(3,896)
Long-term loans issued	2015	34,039	-	23,131	-	(5,338)	-	-	51,832	-
	2016	51,832	-	2,443	-	(27,190)	-	-	27,085	-
Debt securities	2015	6,899	(6,899)	601	-	-	-	-	7,500	(6,899)
	2016	7,500	(6,899)	-	-	-	-	-	7,500	(6,899)

\* Accumulated adjustment includes difference between original and current market value of investments for which current market value can be determined; difference between original and current market value of investments for which current market value is not determinable; provision for impairment of investments.

\*\* Other movements include changes in provision for impairment of investments, accrual of discount on debt securities and reclassification within the balance sheet line 1170 "Investments".



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**(a) Investments in subsidiaries, associates and other entities**

The balance sheet line 1170 "Investments" includes the below investments in subsidiaries, associates and other organisations:

Subsidiaries and associates and other entities	31 December 2016		31 December 2015		31 December 2014	
	Carrying amount	Share, %	Carrying amount	Share, %	Carrying amount	Share, %
<b>Subsidiaries</b>	<b>244,104</b>		<b>252,713</b>		<b>216,413</b>	
AO Zagorskaya GAES-2	60,691	100.00%	60,691	100.00%	55,924	100.00%
AO Ust-Srednekanskaya GES	23,111	67.82%	23,111	67.82%	23,111	67.82%
PAO RAO ES of East	18,495	84.39%	18,495	84.39%	18,495	84.39%
AO Zaramagskie GES	17,216	99.75%	17,216	99.75%	17,216	99.75%
AO Yakutskaya GRES-2	16,862	100.00%	16,862	100.00%	5,638	100.00%
AO Sakhalinskaya GRES-2	15,012	100.00%	12,996	100.00%	1	100.00%
AO Nizhne-Bureiskaya GES	14,611	100.00%	14,611	100.00%	8,673	100.00%
AO CCGT in the City of Sovetskaya Gavan	13,844	100.00%	7,345	100.00%	4,375	100.00%
PAO Kolymaenergo	13,187	98.76%	13,187	98.76%	13,187	98.76%
AO Sulakskiy Hydrocascade	10,094	100.00%	10,094	100.00%	10,094	100.00%
AO Malaya Dmitrovka	6,394	100.00%	6,394	100.00%	6,394	100.00%
AO Gidroinvest	5,422	100.00%	9,550	100.00%	9,550	100.00%
AO Leningradskaya GAES	4,994	100.00%	4,994	100.00%	5,898	100.00%
AO Blagoveschenskaya TEC	4,285	100.00%	6,302	100.00%	6,302	100.00%
AO ESK RusHydro	3,420	100.00% - 1 share	11,832	100.00% - 1 share	11,832	100.00% - 1 share
AO Lenhydroproject	3,260	100.00%	3,260	100.00%	3,260	100.00%
AO Yuzhno-Yakutskiy GEK	3,005	100.00%	3,255	100.00%	3,255	100.00%
AO Geoterm	2,425	99.65%	2,425	99.65%	2,425	99.65%
PAO Yakutskenergo*	1,671	29.80%	1,671	29.80%	1,671	29.80%
HydroOGK Power Company Ltd	1,171	100.00%	1,171	100.00%	1,171	100.00%
AO NIIES	1,067	100.00%	983	100.00%	983	100.00%
OOO Verkhnebalkarskaya MGES	937	100.00%	937	100.00%	937	100.00%
AO CSO SGES	589	100.00%	589	100.00%	589	100.00%
PAO Kamchatsky gas and energy complex	531	96.58%	531	96.58%	531	96.58%
AO Hydro-Engineering Siberia	256	100.00%	990	100.00%	2,292	100.00%
AO GVTS Energetiki**	74	100.00%	653	100.00%	-	-
AO Renewable Energy Engineering Centre	-	100.00%	694	100.00%	694	100.00%
Other	1,480		1,874		1,916	
<b>Associates:</b>	<b>11,110</b>		<b>11,110</b>		<b>11,210</b>	
OAO Irkutsk Electric Grid Company	8,543	42.75%	8,543	42.75%	8,543	42.75%
OAO Sakhalin energy company	2,567	28.09%	2,567	28.09%	2,567	28.09%
Other	-		-		100	
<b>Other entities:</b>	<b>9,373</b>		<b>3,841</b>		<b>2,690</b>	
PAO Inter RAO	7,709	1.94%	2,217	1.94%	1,445	1.94%
PAO Boguchanskaya GES	1,081	2.88%	1,081	2.88%	1,081	2.88%
Other	583		543		164	
<b>Total:</b>	<b>264,587</b>		<b>267,664</b>		<b>230,313</b>	

\* Investment in PAO Yakutskenergo (29.80%) is recorded within subsidiaries as the Company has control over these entities indirectly via other subsidiaries.

Key factors affected changes in the value of investments in subsidiaries, associates and other entities in 2016 are as follows:

- acquisition of shares of additional issues of subsidiaries for a total amount of RUB 8,770 million, including AO TPP in Sovetskaya Gavan for the amount of RUB

- 6,499 million, AO Sakhalinskaya GRES-2 for the amount of RUB 2,016 million and other companies for the amount of RUB 255 million;
- appraisal of financial investments having a current market value, with recognition of profit for a total of RUB 5,532 million (see paragraph 3.15 of the Explanatory Note), including profit of RUB 5,492 million on shares of PAO Inter RAO;
- creation of provision for impairment of financial investments in the amount of RUB 15,402 million, including against AO ESK RusHydro in the amount of RUB 8,412 million, AO Hydroinvest for the amount of RUB 4,128 million, AO Hydro Engineering Sibir for the amount of RUB 734 million, AO Engineering Center for Renewable Energy in the amount of RUB 694 million, AO GVC Energetiki for the amount of RUB 579 million and other companies for the amount of RUB 855 million;
- reduction of the nominal value of shares of AO Blagoveshchenskaya CHPP in the amount of RUB 2,017 million by converting with repayment of monetary funds to the Company.

In 2016, the shares of the companies of AO Blagoveshchenskaya CHPP, AO Sakhalinskaya GRES-2, AO TPP in Sovetskaya Gavan and AO Yakutskaya GRES-2 were returned from the trust management of PAO RAO ES of East.

***Investments in subsidiaries that have current market value***

As of 31 December 2016, 31 December 2015 and 31 December 2014, investments included shares of the Company's subsidiaries, i.e. PAO RAO ES of East, PAO Yakutskenergo and PAO DEK, received in 2011–2013 as a result of the additional issue of the Company's shares which are recognised on the Company's balance sheet. These investments are recorded at the value agreed with the founders and determined on the basis of the market valuation performed by an independent appraiser totalling 20,204 million as of 31 December 2016 (as of 31 December 2015: 20,204 million; as of 31 December 2014: 20,204 million). This valuation exceeds the current market value of the shares as of 31 December 2016, 31 December 2015 and 31 December 2014 by RUB 6,614 million, RUB 5,047 million and RUB 13,535 million, respectively.

The Company's management plans to get benefits from investments in PAO RAO ES of East, PAO Yakutskenergo and PAO DEK by controlling their business operations rather than as a result of fluctuations in their market value. Thus, according to the Company's management, current market quotes do not fairly reflect the fair value of the controlling shareholdings in these companies as the number of shares traded in the market is not representative; not more than 1% of total shares issued are in circulation on a daily basis.

Also since the end of the 2015 year the process of PAO RAO ES of East shares' consolidation in RusHydro Group (RusHydro Group includes the Company and subsidiaries which are controlled by the Company directly or indirectly via other subsidiaries) by buying from minority and bringing the stake to 100% has started. In 2016, as part of the voluntary offer and then the forced repurchase of shares of PAO RAO ES of East, carried out by one of the subsidiaries of the RusHydro Group, RusHydro's stake in PAO RAO ES of East grew from 86.20% to 99.98%. As of 31 December 2016, and to date, delisting of shares from the Moscow stock exchange did not take place, but from the middle of September 2016 the current market value of the shares of PAO RAO ES of East is not determined.

In view of these circumstances and considering that the Company has no plans to sell these investments, in accordance with paragraph 6 of the Russian Accounting Regulation "Accounting reports of an organisation" (RAR 4/99), approved by order No. 43n of the Russian Ministry of Finance of 6 July 1999, the Company decided against performing revaluation of its investments in shares of PAO RAO ES of East, PAO Yakutskenergo and PAO DEK at the current market value from acquisition date.

The Company's management analysed the models of expected cash flows and factors that may show that there are indications of impairment of investments and came to a decision that these assets are not impaired as of 31 December 2016.

The amount of unrecognised change in the market value as compared to the carrying amount as of 31 December 2016 is RUB 6,614 million (as of 31 December 2015: RUB 5,047 million; as of 31 December 2014: RUB 13,535 million). The Company's net assets would have amounted to

RUB 762,785 million, if it included the above unrecognised change in the value (as of 31 December 2015: RUB 737,489 million, as of 31 December 2014: RUB 704,994 million).

***Impairment of investments in subsidiaries, associates and other entities for which current market value is not determinable***

The Company's management analysed the negative trends related to a number of subsidiaries, which is presented below. The management performed the analysis of investments to the share capital of the entities listed below for possible signs of impairment, and also analysed possible impairment of other assets related to these subsidiaries, including those recorded within accounts receivable (see paragraph 3.2.2 of the Explanatory Notes).

As a result of the analysis, a number of subsidiaries and other organizations were impaired and a provision was made in the total amount RUB 15 402 million.

The amount of provision for impairment of investments for which the current market value is not determined as of 31 December 2016 is RUB 17,855 million. (as of 31.12.2015 – RUB 2,466 million, as of 31.12.2014 – RUB 79 million). The initial value of long-term financial investments in respect of which a provision for impairment of financial investments was created is RUB 35,096 million as of 31.12.2016 (as of 31.12.2015 – RUB 8,453 million, as of 31.12.2014 – RUB 111 million).

**AO Zagorskaya GAES-2.** In September 2013, Zagorskaya GAES-2 which is currently under construction suffered from the flooding of a section of the GAES building from the lower reservoir. Due to the technical complexity of identifying the losses as a result of the accident, management are not able to estimate the amount of expenses needed to rectify the accident consequences and write off the damaged items of construction in progress.

Assets in relation to AO Zagorskaya GAES-2 on the balance sheet of the Company as of 31 December 2016 are as follows:

- within long-term investments: shares of AO Zagorskaya GAES-2 for the amount of RUB 60,691 million.

The analysis of recoverability of these assets performed by the Company as of 31 December 2016 was based on the following key factors:

- Construction works and the assets are insured. As at 31 December 2016 all insurance companies PIJSC Ingosstrakh, JSC AlfaStrakhovanie and JSC SOGAZ have recognized the technical incident at Zagorskaya GAES-2 as an insured event and paid insurance indemnity.
- Management plans to perform recovery work and complete construction of Zagorskaya GAES-2. As of 31 December 2016 there is significant uncertainty in terms of the expenses to be incurred on recovery of damage caused by the flooding at Zagorskaya GAES-2. However, these expenses can be significant. Capacity supply contracts were concluded in respect of Zagorskaya GAES-2. There are specific rules for the price setting in respect of new HPPs (including pumped-storage power plants) being constructed: the price is set in a manner that guarantees payback period of 20 years for all CAPEX invested in construction.
- Following the decision of the regulatory body NP Market Council of 22 November 2016 the commissioning of the first stage of the Zagorskaya PSPP-2 and the first date of the beginning of the fulfillment of the obligations for the delivery of capacity were postponed until 1 January 2019, with respect to the second stage - until 1 January 2020. As a result of the adjustment of the terms, AO Zagorskaya PSPP-2 has no penalties for the shortage of capacity to the market under the said contracts.

Based on the analysis of factors that might indicate impairment of assets related to Zagorskaya GAES-2 construction project, the Company's management concluded that there were no such indicators as of 31 December 2016.

No negative trends which may result in impairment of other shareholdings were observed.

**(b) Long-term loans issued**

Loan recipient's name	31 December 2016	31 December 2015	31 December 2014	Annual rate,%
<b>Long-term loans issued to related parties, including:</b>				
AO Hydroinvest	12,137	14,181	-	7,51% - 10,095%
AO Far East Distribution Grid Company	4,846	5,023	6,630	7,997%/ 10,095%
AO Far East Generating Company	4,538	11,838	10,038	7,997%
AO Sakhaenergo	3,476	3,476	3,476	7,997%
AO ESK RusHydro	1,030	3,305	-	10,095%
AO Teploenergосervice	929	929	929	7,997%
AO Zagorskaya GAES-2	-	5,562	7,029	
AO Nizhne-Bureiskaya GES	-	4,653	2,300	
AO Ust-Srednekanskaya GES	-	2,111	1,747	
AO Tekhnopark Rummyantsevo	-	-	1,292	
Other	129	754	598	
<b>Total long-term loans issued</b>	<b>27,085</b>	<b>51,832</b>	<b>34,039</b>	

As of 31 December 2016 the balance sheet line 1170 "Investments" includes the following long-term loans issued:

- Loans to AO Hydroinvest amounting to RUB 12,137 million, including loans amounting to RUB 10,389 million maturing by 28 April 2018 that were removed from short-term interest-free loans (see 3.2.2 of Explanations); and loans amounting to RUB 1,748 million maturing by 29 June 2018 that were removed from short-term interest loans due to changes in conditions of contracts;
- loan to AO Far East Generating Company amounting to RUB 4,846 million to refinance liabilities maturing by 3 December 2018 and 14 October 2025;
- loan to AO Far East Distribution Grid Company amounting to RUB 4,538 million to refinance liabilities and finance working capital maturing by 03 December 2018;
- loan to AO Sakhaenergo amounting to RUB 3,476 million to refinance liabilities with due date 03.12.2018
- loans to AO ESK RusHydro in the total amount of RUB 1,030 million issued for refinance liabilities maturing by 29 June 2018 and 01 December 2025;
- loan to AO Teploenergосervis in the amount of RUB 929 million issued to refinance and debt repayment maturing by 03 December 2018.

There are no indicators of a prolonged decline in the value of the above investments.

**3.1.3 Other non-current assets (line 1190 of the balance sheet)**

Line 1190 "Other non-current assets" includes expenses of future periods to be written-off from expense account during the period beyond 12 months of the reporting date.

Breakdown of total expenses of future periods by types is presented in the table below:

Narrative	31 December 2016	31 December 2015	31 December 2014
Zelenchukskaya GAES connections to the grid	1,931	-	-
Project documentation on the construction of Cheboksarskaya GES related to uplifting water reservoir level	1,620	1,620	1,620
Software and licenses	984	1,153	1,461
Borrowing costs	891	1,083	1,175
Other	150	476	458
<b>Total expenses of future periods, including:</b>	<b>5,576</b>	<b>4,332</b>	<b>4,714</b>
Long-term expenses of future periods which are subject to writing-off from expense account during the period beyond 12 months of the reporting date (within the balance sheet line 1190)	4,703	3,287	3,538
Short-term expenses of future periods which are subject to writing-off from expense account during 12 months of the reporting date (within the balance sheet line 1210)	873	1,045	1,176

As a result of works performed to uplift the level of Cheboksary water reservoir it is planned to increase the production capacity of Cheboksary GES and eliminate the increased depreciation of equipment and hydraulic engineering installations. If the Company becomes aware that it won't obtain the expected additional economic benefits, the above expenses of future periods will be written-off against other expenses.

### 3.2 Current assets (Section II of the balance sheet)

#### 3.2.1 Inventories (line 1210 the balance sheet)

Narrative	31 December 2016	31 December 2015	31 December 2014
Spare parts, materials and other inventories	3,328	3,046	2,241
Short-term expenses of future periods which are subject to writing-off from expense account during 12 months of the reporting date (see paragraph 3.1.3 of the Explanatory Notes)	873	1,045	1,176
Other	51	24	20
<b>Total line 1210 "Inventories"</b>	<b>4,252</b>	<b>4,115</b>	<b>3,437</b>

Spare parts, materials and other inventories are measured at actual cost of acquisition. As of 31 December 2016 the provision for their impairment amounted to RUB 157 million (31 December 2015: RUB 156 million, 31 December 2014: RUB 158 million).

#### 3.2.2 Accounts receivable (line 1230 of the balance sheet)

##### (a) Long-term accounts receivable (payments expected beyond 12 months of the reporting date)

Total long-term accounts receivable were RUB 62,615 million, 62,549 million and 62,341 million as of 31 December 2016, 2015 and 2014, respectively.

Breakdown by types of long-term accounts receivable is as follows:

Type of long-term accounts receivable	31 December 2016	31 December 2015	31 December 2014
Interest-free promissory notes received	29,312	28,578	27,563
Advances issued to suppliers of equipment and capital construction contractors	19,676	28,176	31,095
Interest-free loans issued	11,258	3,447	1,503
Buyers and customers	178	976	409
Lease receivables	152	241	495
Other long-term accounts receivable	2,039	1,131	1,276
<b>Total line 1231 "Long-term accounts receivable (payments expected beyond 12 months of the reporting date)"</b>	<b>62,615</b>	<b>62,549</b>	<b>62,341</b>

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Long-term accounts receivable include advances issued to the following suppliers of equipment and capital construction contractors:

Counterparty	31 December 2016	31 December 2015	31 December 2014
Voith Hydro GmbH & Co KG	9,371	5,289	5,851
PAO Silovye Mashiny	9,220	14,271	15,208
AO Hydroremont-BKK	616	2,859	3,120
OOO VolgaGidro	325	-	-
OOO Corporation SpetsHydroProject	-	5,491	6,565
Other	144	266	351
<b>Total advances issued to suppliers of equipment and capital construction contractors</b>	<b>19,676</b>	<b>28,176</b>	<b>31,095</b>

Advances issued to suppliers of equipment and capital construction contractors relating to the equipment (work) with expected supply during 2017 are included within short-term advances issued.

Long-term accounts receivable include interest-free promissory notes issued by the following issuers:

Issuer	31 December 2016	31 December 2015	31 December 2014
<b>Other related parties, including:</b>	<b>25,689</b>	<b>25,689</b>	<b>25,689</b>
PAO Boguchanskaya GES	21,027	21,027	21,027
ZAO Boguchansky Aluminium Smelter	4,662	4,662	4,662
<b>Total interest-free promissory notes from related parties</b>	<b>25,689</b>	<b>25,689</b>	<b>25,689</b>
PAO ROSBANK	1,491	1,491	935
AO Alfa-Bank	1,280	1,298	850
PAO Bank VTB	742	-	-
OAO Ulyanovskenergo	110	100	89
<b>Total interest-free promissory notes from other counterparties</b>	<b>3,623</b>	<b>2,889</b>	<b>1,874</b>
<b>Total long-term interest-free promissory notes received</b>	<b>29,312</b>	<b>28,578</b>	<b>27,563</b>

As of 31 December 2016, the Company's long-term accounts receivable represented by other related parties' long-term interest-free promissory notes purchased for financing investment program consist of the following promissory notes:

- PAO Boguchanskaya GES: promissory notes for RUB 21,027 million payable on demand after 31 December 2029 (the present value of the promissory notes reflecting time value of money as of 31 December 2016 is RUB 6,269 million);
- ZAO Boguchansky Aluminium Smelter: promissory notes for RUB 4,662 million payable on demand after 31 December 2024 (the present value of the promissory notes reflecting time value of money as of 31 December 2016 is RUB 2,174 million).

Long-term accounts receivable include interest-free loans issued to the following counterparties:

Counterparty	31 December 2016	31 December 2015	31 December 2014
<b>Subsidiaries, including:</b>	<b>10,890</b>	<b>3,078</b>	<b>1,155</b>
AO Nizhne-Bureiskaya GES	4,653	-	-
AO CCGT in the City of Sovetskaya Gavan	2,355	631	-
AO Ust-Srednekanskaya GES	2,111	-	-
AO ESK RusHydro	1,034	1,034	1,034
AO MGES Kabardino-Balkarii	407	-	-
AO Sakhalinskaya GRES-2	330	330	-

TRANSLATOR'S EXPLANATORY NOTE: This version of our report/the accompanying documents is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

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Counterparty	31 December 2016	31 December 2015	31 December 2014
AO Yakutskaya GRES-2	-	1,003	-
Other	-	80	121
<b>Other related parties</b>	<b>7</b>	<b>21</b>	<b>28</b>
<b>Total interest-free loans issued to related parties</b>	<b>10,897</b>	<b>3,099</b>	<b>1,183</b>
Other	361	348	320
<b>Total interest-free loans issued to other counterparties</b>	<b>361</b>	<b>348</b>	<b>320</b>
<b>Total long-term interest-free loans issued</b>	<b>11,258</b>	<b>3,447</b>	<b>1,503</b>

Counterparty	31 December 2016	31 December 2015	31 December 2014
<b>Interest receivable accrued on loans issued and promissory notes received, including:</b>	<b>1,702</b>	<b>690</b>	<b>1,258</b>
Subsidiaries	1,702	690	1,258
<b>Other accounts receivable</b>	<b>337</b>	<b>441</b>	<b>18</b>
<b>Total other long-term accounts receivable</b>	<b>2,039</b>	<b>1,131</b>	<b>1,276</b>

**Amount and movements in the impairment provision for long-term accounts receivable**

Type	Period	At the beginning of the year	Provision creation	Recovery of provision	Write-off against a provision	Transfer to provision for short-term receivables	At the end of the year
<b>Impairment provision for long-term accounts receivable, including:</b>	<b>2015</b>	<b>3,167</b>	-	-	-	(144)	<b>3,023</b>
	<b>2016</b>	<b>3,023</b>	-	-	-	(144)	<b>2,879</b>
Trade receivables	2015	432	-	-	-	(144)	288
	2016	288	-	-	-	(144)	144
Other	2015	2,735	-	-	-	-	2,735
	2016	2,735	-	-	-	-	2,735

**(b) Short-term accounts receivable (payments expected within 12 months of the reporting date)**

Total short-term accounts receivable less doubtful debt provision were RUB 86,999 million, 66,762 million and 82,224 million as of 31 December 2016, 2015 and 2014, respectively.

Type of short-term accounts receivable	31 December 2016	31 December 2015	31 December 2014
<b>Buyers and Customers, including:</b>	<b>7,120</b>	<b>6,741</b>	<b>5,840</b>
Accounts receivable for electricity and capacity	6,214	5,752	5,521
Other	906	989	319
<b>Advances issued, including:</b>	<b>10,206</b>	<b>14,495</b>	<b>12,870</b>
Advances issued to suppliers of equipment and capital construction contractors	9,641	13,286	12,036
Other advances issued	565	1,209	834
<b>Other debtors, including:</b>	<b>69,673</b>	<b>45,506</b>	<b>63,514</b>
Interest-free promissory notes received	5,459	20,809	19,119
Interest-free loans issued	30,792	12,925	26,384
Accounts receivable from subsidiaries as part of additional issues before title for the shares issued is transferred to the Company	22,997	7,951	11,805
Indebtedness under assignment agreement paragraph 3.12.7 of the Explanatory Notes	8,257	-	-
Taxes receivable	676	1,322	2,252
Lease receivables	95	220	707

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Type of short-term accounts receivable	31 December 2016	31 December 2015	31 December 2014
Other	1,397	2,279	3,247
<b>Total line 1232 "Accounts receivable" (payments expected within 12 months of the reporting date)</b>	<b>86,999</b>	<b>66,742</b>	<b>82,224</b>

Short-term accounts receivable include advances issued to the following suppliers of equipment and capital construction contractors relating to the equipment (work) with expected supply within 12 months of the reporting date.

Counterparty	31 December 2016	31 December 2015	31 December 2014
PAO Silovye Mashiny	6,538	6,817	5,317
AO Hydroremont-BKK	838	1,017	965
OOO VolgaGidro	475	-	-
Voith Hydro GmbH & Co KG	22	739	1,160
ZAO Technoserv A/C	3	821	441
OOO Corporation SpetsHydroProject	-	986	1,817
AO ChirkeiGESstroi	-	418	286
Other	1,765	2,488	2,050
<b>Total advances issued to suppliers of equipment and capital construction contractors</b>	<b>9,641</b>	<b>13,286</b>	<b>12,036</b>

Short-term accounts receivable include interest-free promissory notes issued by the following issuers:

Issuer	31 December 2016	31 December 2015	31 December 2014
<b>Subsidiaries, including:</b>	<b>5,457</b>	<b>20,767</b>	<b>18,846</b>
AO Zaramagskie GES	3,090	2,524	1,563
AO MGES Kabardino-Balkarii	2,142	1,839	838
AO Karachaeve-Cherkesskaya Hydrogenerating Company	84	244	244
OOO Index energetiki – HydroOGK	-	13,621	13,646
HydroOGK Aluminium Company Ltd	-	2,142	2,142
AO Hydroinvest	-	256	256
Other	141	141	157
<b>Total interest-free promissory notes from related parties</b>	<b>5,457</b>	<b>20,767</b>	<b>18,846</b>
Other	2	42	273
<b>Total interest-free promissory notes from other counterparties</b>	<b>2</b>	<b>42</b>	<b>273</b>
<b>Total short-term interest-free promissory notes received</b>	<b>5,459</b>	<b>20,809</b>	<b>19,119</b>

As of 31 December 2016, short-term receivables from subsidiaries on short-term interest-free promissory notes acquired by the Company are represented by promissory notes payable on demand.

Short-term accounts receivable include interest-free loans issued to the following counterparties:

Counterparty	31 December 2016	31 December 2015	31 December 2014
<b>Subsidiaries, including:</b>	<b>30,700</b>	<b>12,858</b>	<b>26,313</b>
OOO Index energetiki – HydroOGK	13,521	-	-
AO Ust-Srednekanskaya GES	6,303	3,300	2,218
OOO EZOP	2,902	5,265	5,373
OOO Vostok-finans	2,337	-	-
AO Sulaksky Hydrocascade	1,559	1,166	923
AO Yakutskaya GRES-2	1,353	-	973
AO MGES Kabardino-Balkarii	851	780	780
AO ChirkeiGESstroi	450	-	-
AO Leningradskaya GAES	377	189	151
AO Blagoveschenskaya TEC	370	1,473	1,473

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Counterparty	31 December 2016	31 December 2015	31 December 2014
AO MGES Altaya	251	248	248
AO Tekhnopark Rumyantsevo	183	183	183
OOO Verkhnebalkarskaya MGES	165	165	165
AO Hydroinvest	-	-	12,381
AO CCGT in the City of Sovetskaya Gavan	-	-	631
AO Zagorskaya GAES-2	-	-	452
Other	78	89	362
<b>Other related parties, including:</b>	<b>7</b>	<b>21</b>	<b>12</b>
Loans issued to the Company's key management	7	21	12
<b>Total interest-free loans issued to related parties</b>	<b>30,707</b>	<b>12,879</b>	<b>26,325</b>
Total short-term interest-free loans issued to other counterparties	85	46	59
<b>Total short-term interest-free loans issued</b>	<b>30,792</b>	<b>12,925</b>	<b>26,384</b>

As of 31 December 2016, short-term interest-free loans issued include:

- loans to OOO Index energetiki – HydroOGK in the amount of RUB 13,521 million payable on demand issued as part of the replacement of the obligation to pay interest-free bills presented for redemption;
- loan to AO Ust-Srednekanskaya GES in the amount of RUB 6,303 million payable on demand issued for the financing investment project “Ust-Srednekanskaya GES”;
- loan to OOO Vostok-finans in the amount of RUB 2,337 million till 24.12.2017 for financing of the purchase by the Group of subsidiary PAO RAO ES of East shares during the voluntary offer and the following mandatory buyout.

In addition, short-term accounts receivable include receivables from the following subsidiaries, arising after partial payment for shares of additional issues but before the title to the issued shares is transferred to the Company:

Counterparty	31 December 2016	31 December 2015	31 December 2014
AO Nizhne-Bureyskaya GES	16,128	6,416	5,938
AO Zagorskaya GAES-2	5,473	-	4,767
AO Sulaksky Hydrocascade	1,386	863	-
AO CCGT in the City of Sovetskaya Gavan	-	400	200
Other	10	272	900
<b>Total accounts receivable from the following subsidiaries, arising after partial payment for shares of additional issues but before the title to the issued shares is transferred to the Company</b>	<b>22,997</b>	<b>7,951</b>	<b>11,805</b>

Short-term accounts receivable includes the following types of tax receivables:

Item	31 December 2016	31 December 2015	31 December 2014
Income tax	438	945	1,530
Other taxes and levies	238	377	722
<b>Total tax receivables</b>	<b>676</b>	<b>1,322</b>	<b>2,252</b>

#### **Amount and movements in the impairment provision for short-term accounts receivable**

Type	Period	At the beginning of the year	Provision creation	Recovery of provision	Write-off against a provision	Transfer*	At the end of the year
<b>Provision for short-term accounts receivable,</b>	<b>2015</b>	<b>7,659</b>	<b>2,650</b>	<b>(3,490)</b>	<b>(424)</b>	<b>144</b>	<b>6,539</b>
	<b>2016</b>	<b>6,539</b>	<b>8,283</b>	<b>(2,368)</b>	<b>(179)</b>	<b>854</b>	<b>13,129</b>

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including							
Trade receivables	2015	6,058	2,034	(3,395)	(40)	144	4,801
	2016	4,801	2,463	(1,707)	(162)	144	5,539
Advances issued	2015	31	82	(2)	(2)	-	109
	2016	109	9	(26)	(5)	-	87
Other	2015	1,570	534	(93)	(382)	-	1,629
	2016	1,629	5,811	(635)	(12)	710	7,503

\* Includes transfer from provision for long-term accounts receivable and financial investments.

### Overdue accounts receivable

Item	31 December 2016		31 December 2015		31 December 2014	
	Recognised under contract	Carrying amount	Recognised under contract	Carrying amount	Recognised under contract	Carrying amount
<b>Total, including:</b>	<b>8,594</b>	<b>1,721</b>	<b>7,819</b>	<b>1,387</b>	<b>8,527</b>	<b>600</b>
Buyers and customers	5,423	320	4,978	258	6,522	120
Advances issued	1,332	1,246	1,232	1,124	490	459
Other debtors	1,839	155	1,609	5	1,515	21

### 3.2.3 Short-term investments (Line 1240 of the balance sheet)

The structure of the Company's short-term investments is represented by the following assets:

Type of investment	31 December 2016	31 December 2015	31 December 2014
Bank deposits	4,075	10,609	33,307
Loans issued	1,230	5,270	10,139
<b>Total line 1240 "Investments" (excluding cash equivalents)</b>	<b>5,305</b>	<b>15,879</b>	<b>43,446</b>

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**Short-term investments and their movements**

Item	Period	Opening balance		Changes for the period*				Closing balance	
		Historical cost	Accumulated adjustment	Additions*	Disposal (repayment)		Accrual of impairment provision	Historical cost	Accumulated adjustment
					Historical cost*	Accumulated adjustment			
<b>Short-term investments, including:</b>	<b>2015</b>	<b>43,446</b>	-	<b>90,196</b>	<b>(117,053)</b>	-	<b>(710)</b>	<b>16,589</b>	<b>(710)</b>
	<b>2016</b>	<b>16,589</b>	<b>(710)</b>	<b>58,168</b>	<b>(67,196)</b>	<b>710</b>	<b>(2,256)</b>	<b>7,561</b>	<b>(2,256)</b>
Bank deposits	2015	33,307	-	81,485	(104,183)	-	-	10,609	-
	2016	10,609	-	40,792	(47,326)	-	-	4,075	-
Short-term loans issued	2015	10,139	-	8,546	(12,705)	-	(710)	5,980	(710)
	2016	5,980	(710)	17,376	(19,870)	710	(2,256)	3,486	(2,256)
Promissory notes	2015	-	-	165	(165)	-	-	-	-
	2016	-	-	-	-	-	-	-	-

\* *Movements of short-term investments received and disposed of (repaid) in the same reporting period are presented on a gross basis.*

Exposure of short-term investments to financial risks is described in paragraph 3.15 of the Explanatory Notes.

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**(a) Bank deposits**

As of 31 December 2016, bank deposits include a short-term deposit of RUB 4,075 million placed with PAO Sberbank of Russia maturing from 23.01.2017 till 01.03.2017 (as of 31 December 2015 – RUB 10,609 million maturing from 18 January 2016 till 15 March 2016). These funds represent interest income from the placement of funds that were received by the Company in 2013 during an additional issue and are intended to finance the construction of four thermal stations in the Far East.

**(b) Short-term loans issued**

Loan recipient's name	31 December 2016	31 December 2015	31 December 2014	Annual rate,%
<b>Short-term loans issued to related parties, including:</b>				
AO ESK RusHydro	446	-	3,120	10,095%
AO Transport company RusHydro	369	72	40	10.095%-10.107%
AO Yakutskaya GRES-2	231	-	-	10,139%
AO Far East Distribution Grid Company	177	1,607	-	10,095%
ZAO Verkhne-Narynskie GES	-	2,711	1,484	
AO Nizhne-Bureyskaya GES	-	509	282	
AO Far East Distribution Company	-	200	2,000	
AO Hydroinvest	-	-	1,920	
AO ChirkeyGESstroy	-	-	450	
AO ESKO EES	-	-	260	
AO Malaya Dmitrovka	-	-	205	
Other	7	171	378	
<b>Total short-term loans issued</b>	<b>1,230</b>	<b>5,270</b>	<b>10,139</b>	

As of 31 December 2016 there was provision for impairment of short-term loans issued in the total amount of RUB 2,256 million (31 December 2015: RUB 710 million; 31 December 2014: RUB 0 million). As of 31 December 2016 provision was made for loan issued to ZAO Verkhne-Narynskie GES. There are no indicators of a prolonged decline in the value of investments.

**3.2.4 Cash and cash equivalents (line 1250 of the balance sheet)**

Item	31 December 2016	31 December 2015	31 December 2014
Cash in bank	7,206	898	3,661
Cash equivalents	32,849	17,241	5,371
Cash at accounts in the Office of the Federal Treasury	899	-	-
<b>Total line 1250 "Cash and cash equivalents"</b>	<b>40,954</b>	<b>18,139</b>	<b>9,032</b>

As of 31 December 2016, 2015 and 2014, there is no restricted cash.

The balance of the target cash in the amount of RUB 899 million, received by the Company within the framework of an additional issue in previous periods for the implementation of investment projects for the construction of electric power facilities, as of 31 December 2016 is placed on special accounts in the Office of the Federal Treasury for Moscow. These funds can be used by the Company only after passing the approval procedure by the Federal Treasury on the basis of the established procedure for authorizing the expenses of organizations by Order No. 21n of the Ministry of Finance of the Russian Federation of 25 December 2015.

As of 31 December 2016, 2015 and 2014, cash equivalents included short-term bank deposits with original maturities of three months or less.

As of 31 December 2016 there were cash balances denominated in US dollars equivalent to RUB 312 million (31 December 2015: RUB 0 million; 31 December 2014: RUB 25 million). As of 31 December 2016 there were cash balances denominated in Euro equivalent to RUB 0 million (31 December 2015: RUB 0 million, 31 December 2014: RUB 2,239 million).

As of 31 December 2016, interest rates on Rouble deposits were 9.55% – 10.41% p.a. (31 December 2015: 8.64% – 11.65%, 31 December 2014: 10.00% – 18.50%).

The Company holds cash and cash equivalents in the following credit institutions:

Credit institution	Rating on 31 December 2016	Rating agency	31 December 2016	31 December 2015	31 December 2014
<b>Bank deposits, including:</b>					
Bank VTB (PAO)	BB+	Standard & Poor's	20,430	2,277	-
Bank GPB (AO)	Ba2	Moody's	12,107	-	533
PAO Sberbank	Ba1	Moody's	312	1,728	2,615
PAO Bank FK Otkrytie	-	-	-	7,644	-
PAO AKB Svyaz-Bank	-	-	-	2,718	-
AO SMP Bank	-	-	-	1,874	-
AO Globeksbank	-	-	-	1,000	-
AO UniCredit Bank	-	-	-	-	2,223
<b>Total cash equivalents</b>			<b>32,849</b>	<b>17,241</b>	<b>5,371</b>
<b>Cash in banks, including:</b>					
Bank GPB (AO)	Ba2	Moody's	4,918	245	2,910
Bank VTB (PAO)	BB+	Standard & Poor's	1,803	8	10
PAO Sberbank	Ba1	Moody's	479	581	663
Other			6	64	78
<b>Total cash in bank</b>			<b>7,206</b>	<b>898</b>	<b>3,661</b>

#### **Notes to the statement of cash flows**

Cash flows required for the purposes of supporting the existing scope of the Company's operations are presented within current operations. Cash flows related to expansion of the Company's business are included in investing activities.

Cash flows spent on investments and received on repayment of cash equivalents (excluding accrued interest) are not included in the cash flow statement.

Cash flows spent on investments and received on repayment of short-term bank deposits (with a maturity of more than three months) within the same reporting period, are recorded on a net basis in line 4219 "Other receipts" or line 4229 "Other payments" of the cash flow statement if they have such characteristics as quick return, large amount and short-term maturity.

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Breakdown for lines “Other receipts” and “Other payments” of the statement of cash flows is presented below:

Item	2016	2015
<b>Other receipts from operating activities (line 4119), including:</b>	<b>4,209</b>	<b>2,706</b>
Value added tax	3,508	2,007
Penalties, interest and fines recognised or for which court rulings on collection have been received	385	325
GDR	277	174
Other receipts from operating activities	39	200
<b>Other payments related to operating activities (line 4129), including:</b>	<b>(12,066)</b>	<b>(13,228)</b>
Taxes and levies	(7,821)	(7,976)
Non-budget funds	(1,717)	(1,789)
Charity payments	(434)	(437)
Business trip expenses	(175)	(1,210)
Water usage expenses	(1,183)	(895)
Payment of corporate expenses	(194)	(262)
Other payments related to operating activities	(542)	(659)
<b>Other payments related to investing activities (line 4219), including:</b>	<b>8,578</b>	<b>22,731</b>
Cash placement on a short-term deposit other than cash equivalent	6,537	22,697
Proceeds from the conversion of shares of the subsidiary by reducing the nominal value	2,017	-
Other payments related to investing activities	24	34
<b>Other payments related to financing activities (line 4329), including:</b>	<b>(8)</b>	<b>(30)</b>
Settlement of finance lease obligations (payments under lease contracts)	(5)	(30)
Other payments related to financing activities	(3)	-

### 3.3 Equity and reserves (Section III of the balance sheet)

#### 3.3.1 Share capital (line 1310 of the balance sheet)

As of 31 December 2016, 2015 and 2014, the Company’s share capital is registered according to the established procedure and fully paid:

Share capital composition	Number of shares at 31 December 2016	Number of shares at 31 December 2015	Number of shares at 31 December 2014
Ordinary shares with nominal value of RUB 1 per share	386,255,464,890	386,255,464,890	386,255,464,890

As of 31 December 2016, the following shareholders are registered in the register of shareholders:

Shareholder	Type of shareholder	Number of shares	Ownership share, %
Russian Federation represented by the Federal Agency for State Property Management	beneficial owner	258,161,535,606	66.84%
Non-Banking Credit Organisation ZAO National Settlement Depository	nominee holder	115,667,789,603	29.95%
OOO Depository and Corporate Technologies	nominee holder	5,391,240,442	1.40%
Other		7,034,899,239	1.81%
<b>Total</b>		<b>386,255,464,890</b>	<b>100.00%</b>

The members of the Management Board of the Company hold 71 million shares of the total number of ordinary shares as of 31 December 2016 (as of 31.12.2015 - 71 million units, as of 31.12.2014 - 622 million units). Subsidiary and dependent companies own 18,852 million shares

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of the Company (as of 31.12.2015 - 21,787 million shares, as of 31.12.2014 - 21,787 million shares).

**Additional issue in 2016-2017**

The Company's extraordinary general meeting of shareholders held on 22 November 2016 (Minutes No. 244 on 23.11.2016) made the decision to increase the Company's share capital by placing 40,429,000,000 additional ordinary registered shares with the nominal value of RUB 1 each through public offering with payment in cash and non-monetary assets.

On 7 December 2016, the The Central Bank of the Russian Federation registered the additional issue of the Company's 40,429,000,000 ordinary registered shares No. 1-01-55038-E-042D. The placement of shares in terms of this additional issue began in January 2017 (paragraph 3.16 of the Explanatory Notes).

**3.3.2 Revaluation of non-current assets (line 1340 of the balance sheet)**

As of 31 December 2016, the amount of accumulated revaluation of non-current assets is RUB 52,705 million (31 December 2015: RUB 52,928 million, 31 December 2014: RUB 53,111 million). This metric consists of the amounts of revaluation accumulated by subsidiaries and associate which the Company acquired as part of the 2008 restructuring process.

The amount of accumulated revaluation was decreased by RUB 223 million in 2016 due to disposal of items of property, plant and equipment revalued earlier (2015: RUB 183 million,).

**3.3.3 Additional paid-in capital (line 1350 of the balance sheet)**

As of 31 December 2016, 2015 and 2014, the Company's additional paid capital was RUB 58,424 million, RUB 58,424 million and RUB 58,424 million, respectively, and consisted of share premium of the Company and subsidiaries and associates which the Company acquired as part of the 2008 restructuring process.

**3.3.4 Reserve capital (line 1360 of the balance sheet)**

As of 31 December 2016, 2015 and 2014, the Company's reserve capital was RUB 11,278 million, RUB 9,776 million and RUB 8,240 million, respectively.

In accordance with the decision of the Company's annual general meeting of shareholders of 27 June 2016 (Minutes No. 15), the Company allocated 5% of its net profit for 2015 in the amount of RUB 1,502 million to the reserve capital.

**3.4 Non-current liabilities (Section IV of the balance sheet)**

**3.4.1 Long-term borrowings (line 1410 of the balance sheet)**

Balance sheet line 1410 "Borrowings" includes long-term loans payable:

Lender / creditor	31 December 2016	31 December 2015	31 December 2014
PAO Sberbank	33,389	33,389	33,389
Russian bonds issued in February 2013	20,000	20,000	20,000
Russian bonds issued in July 2015	15,000	15,000	-
Russian bonds issued in April 2016	15 000	-	-
Crédit Agricole Corporate and Investment Bank Deutschland	5,552	6,933	5,946
UniCredit Bank Austria AG	4,951	6,871	5,892
AO Malaya Dmitrovka	652	-	-
Russian bonds issued in April 2011	250	-	15,000
AO GVTS Energetiki	54	1,099	-
European Bank for Reconstruction and Development	-	10,653	11,030
Russian bonds issued in April 2015	-	10,000	-

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Lender / creditor	31 December 2016	31 December 2015	31 December 2014
Bayerische Landesbank (BayernLB)	-	1,125	1,005
<b>Total line 1410 "Borrowings"</b>	<b>94,848</b>	<b>105,070</b>	<b>92,262</b>

In April 2016 the Company placed non-convertible interest bearing market bonds of series BO-P04 with a nominal amount of RUB 15,000 million. The term of the offer is 3 years, coupon rate is 10,35% per annum.

Also in April 2016, holders of Russian bonds issued in April 2011 partially presented securities for early repayment under the offer, as a result of which the Company purchased bonds with a nominal value of RUB 14,750 million. Bonds that were not presented by the holders for early redemption, with a nominal value of RUB 250 million. Will apply until maturity in 2021 with a coupon rate of 9.50%.

During 2016, the loans of the European Bank for Reconstruction and Development (EBRD) and Bayerische Landesbank (BayernLB) were fully repaid in full.

Russian bonds issued in April 2015 with a total nominal value of RUB 10,000 million, as of 31 December 2016, were included in short-term borrowings (see paragraph 3.5.1 of the Explanatory Notes) due to the fact that in 2017 The right of bondholders to present securities for early repayment can be realized (in 2.5 years from the date of issue).

As of 31 December 2016 terms of material received long-term borrowings were the following:

Lender / creditor	Agreement effective year	Redemption year	Amount in million units (in the currency of the loan)	Currency	Loan interest rate
Crédit Agricole Corporate and Investment Bank Deutschland	2014	2029	190	Euro	Euribor 6M + 0,625%
UniCredit Bank Austria AG	2011	2026	128*	Euro	3,35%**
Russian bonds issued in February 2013	2013	2018***	20,000	RUB	8,50%
Russian bonds issued in July 2015	2015	2018	15,000	RUB	11,85%
Russian bonds issued in April 2016	2016	2019	15,000	RUB	10,35%
PAO Sberbank of Russia	2011	2020	20,000	RUB	8,30% / 9,30%****
PAO Sberbank of Russia	2013	2018	10,613	RUB	7,99% / 8,99%****
PAO Sberbank of Russia	2014	2022	2,776	RUB	MosPrime 3M + 2,10%

\* As of December 31, 2016, the amount of the loan received amounted to EUR 86 million, the Company does not plan to use the remaining part of the limit, so the possibility of further sampling was canceled in 2016 by agreement with the creditor.

\*\* Fixed interest rate is applied to 90% of the loan amount, variable quarterly interest rate published by OeKB (Oesterreichische Kontrollbank AG) less 0.25% is applied to the remaining 10% of the loan amount.

\*\*\* Bonds maturity is 10 years with the right of bond holders of early redemption in 5 years after the date of issue.

\*\*\*\* Variable quarterly interest rate determined due to agreement's conditions.

As of 31 December 2016, the total amount of long-term loans to be repaid within 12 months of the reporting date and reclassified to short-term category was RUB 10,619 million (31 December 2015: RUB 15,479 million) (see paragraph 3.5.1 of the Explanatory Notes).

Besides the credit limits from UniCredit Bank Austria AG, Crédit Agricole Corporate and Investment Bank Deutschland and EBRD which are not used in full as of 31 December 2016, the Company has opportunity to raise funds on credit agreements with Bank VTB (PAO) in the amount of RUB 30 000 million maturing at 2020 and with PAO Sberbank in the amount of RUB 40,000 million maturing at 2026, with Bank GPB (AO) in the amount of RUB 20,000 maturing at 2026 and with AB Rossia (AO) in the amount up to RUB 6,000 maturing at 2019.



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**Ageing analysis:**

Due for repayment	31 December 2016	31 December 2015	31 December 2014
From 1 to 2 years	46,495	11,396	15,483
From 2 to 3 years	16,480	48,455	1,272
From 3 to 4 years	21,105	1,743	31,885
From 4 to 5 years	1,355	22,090	1,272
Over five years	9,413	21,386	42,350
<b>Total line 1410 "Borrowings"</b>	<b>94,848</b>	<b>105,070</b>	<b>92,262</b>

**Interest on borrowings included into the cost of investment assets**

In 2016, the amount of interest on borrowings included into the cost of investment assets was RUB 3,262 million (2015: RUB 2,746 million), of which RUB 2,900 million was the interest accrued on borrowings where the agreement does not specify that the funds are provided for special investment purpose (2015: RUB 2,406 million).

**3.4.2 Other non-current liabilities (line 1450 of the balance sheet)**

Line 1450 "Other liabilities" includes long-term VAT on advances issued in the amount of RUB 1,289 million as of 31 December 2016 (31 December 2015: RUB 1,827 million, 31 December 2014: RUB 1,746 million) and trade payables in the amount of RUB 2,457 million as of 31 December 2016 (31 December 2015: RUB 368 million, 31 December 2014: RUB 589 million).

**3.5 Current liabilities (Section V of the balance sheet)**

**3.5.1 Short-term borrowings (line 1510 of the Balance sheet)**

Lender / creditor	Period	Opening balance	Received / accrued	Paid / settled	Closing balance
<b>Borrowings, including:</b>	<b>2015</b>	<b>20,053</b>	<b>16,406</b>	<b>(20,209)</b>	<b>16,250</b>
	<b>2016</b>	<b>16,250</b>	<b>23,371</b>	<b>(28,254)</b>	<b>11,367</b>
Russian bonds issued in April 2015	2015	-	-	-	-
	2016	-	10,000	-	10,000
OOO AlstomRusHydroEnergy	2015	-	750	-	750
	2016	750	-	-	750
UniCredit Bank Austria AG	2015	-	-	-	-
	2016	-	550	-	550
Russian bonds issued in April 2011	2015	-	15,000	-	15,000
	2016	15,000	-	(15,000)	-
European Bank for Reconstruction and Development (EBRD)	2015	-	377	-	377
	2016	377	10,653	(11,030)	-
RusHydro Finance Ltd	2015	20,000	-	(20,000)	-
	2016	-	-	-	-
Other	2015	53	279	(209)	123
	2016	123	2,168	(2,224)	67
<b>Interest on borrowings, including:</b>	<b>2015</b>	<b>1,862</b>	<b>11,001</b>	<b>(10,173)</b>	<b>2,690</b>
	<b>2016</b>	<b>2,690</b>	<b>10,779</b>	<b>(10,811)</b>	<b>2,658</b>
Russian bonds issued in July 2015	2015	-	858	-	858
	2016	858	1,782	(1,773)	867
Russian bonds issued in February 2013	2015	647	1,700	(1,695)	652
	2016	652	1,704	(1,695)	661
PAO Sberbank	2015	521	2,998	(2,991)	528
	2016	528	2,882	(2,888)	522
Russian bonds issued in April 2016	2015	-	-	-	-
	2016	-	1,157	(786)	371
Russian bonds issued in April 2015	2015	-	863	(636)	227
	2016	227	1,279	(1,272)	234
Russian bonds issued in April 2011	2015	237	1,200	(1,197)	240
	2016	240	374	(614)	-
European Bank for Reconstruction and Development (EBRD)	2015	174	1,838	(1,832)	180
	2016	180	1,338	(1,518)	-

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Lender / creditor	Period	Opening balance	Received / accrued	Paid / settled	Closing balance
RusHydro Finance Ltd	2015	280	1,295	(1,575)	-
	2016	-	-	-	-
Other	2015	3	249	(247)	5
	2016	5	263	(265)	3
<b>Total line 1510 "Borrowings"</b>	<b>2015</b>	<b>21,915</b>	<b>27,407</b>	<b>(30,382)</b>	<b>18,940</b>
	<b>2016</b>	<b>18,940</b>	<b>34,150</b>	<b>(39,065)</b>	<b>14,025</b>

### 3.5.2 Accounts payable (line 1520 of the balance sheet)

Total short-term accounts receivable were RUB 9,681 million, RUB 9,822 million and RUB 8,575 million as of 31 December 2016, 2015 and 2014, respectively:

Type of payables	31 December 2016	31 December 2015	31 December 2014
Trade payables	4 190	5 492	5 295
Settlements with personnel	24	669	823
Payables to state off-budget funds	14	135	119
Tax payables	4 697	3 103	1 923
Settlements with participants (founders) in payment of income	122	67	65
Settlements for the payment of own shares before the change of the charter capital in the constituent documents	33	-	-
Other	601	356	350
<b>Total line 1520 "Accounts payable"</b>	<b>9 681</b>	<b>9 822</b>	<b>8 575</b>

The balance sheet line 1521 "Trade accounts payable" includes the following types of payables:

Type of payables	31 December 2016	31 December 2015	31 December 2014
Payables to capital construction contractors	773	1,499	1,447
Payables to suppliers of equipment and other non-current assets	1,801	2,071	2,073
Payables for purchase of electricity and capacity	432	774	856
Payables to suppliers of repair and maintenance services	322	405	276
Other	862	743	643
<b>Total line 1521 "Trade accounts payable"</b>	<b>4,190</b>	<b>5,492</b>	<b>5,295</b>

The balance sheet line 1524 "Taxes payable" includes current payables on the following taxes:

Tax	31 December 2016	31 December 2015	31 December 2014
Property tax payable	1,338	1,494	1,343
VAT payable	3,113	1,480	464
Income tax payable	239	-	-
Other taxes payable	7	129	116
<b>Total line 1524 "Taxes payable"</b>	<b>4,697</b>	<b>3,103</b>	<b>1,923</b>

### 3.5.3 Estimated liabilities (line 1540 of the balance sheet)

As of 31 December 2016 the total estimated liabilities are RUB 2,447 million (31 December 2015: RUB 601 million, 31 December 2014: RUB 1,405 million).

The estimated liability for forthcoming payment of earned but unused employee vacations has a short-term nature.

Item	Period	Opening balance	Recognised	Settled	Written off as surplus	Closing balance
<b>Estimated liabilities, including:</b>	<b>2015</b>	<b>1,405</b>	<b>1,342</b>	<b>(1,789)</b>	<b>(357)</b>	<b>601</b>
	<b>2016</b>	<b>601</b>	<b>3,057</b>	<b>(958)</b>	<b>(253)</b>	<b>2,447</b>
for remuneration payments	2015	-	-	-	-	-
	2016	-	1,364	-	-	1,364
for litigation	2015	728	-	(667)	-	61
	2016	61	627	(61)	-	627
for forthcoming payment of earned but unused employee vacations	2015	554	1,342	(999)	(357)	540
	2016	540	1,066	(897)	(253)	456
Other	2015	123	-	(123)	-	-
	2016	-	-	-	-	-

### 3.6 Off-balance-sheet valuables

#### 3.6.1 Leased property, plant and equipment

As of 31 December 2016, the total rented property, plant and equipment are RUB 33,862 million (31 December 2015: RUB 38,490 million, 31 December 2014: RUB 34,097 million). In 2016, the Company did not receive any property, plant and equipment under lease contracts.

The Company rented and received items of property, plant and equipment under lease contracts from the following entities:

Lessor	31 December 2016	31 December 2015	31 December 2014
AO Sulakskiy HydroKaskad	9,463	9,721	-
Ministry of Property Relations of Moscow region	4,956	4,956	4,956
AO Zaramagskie GES	4,927	5,042	5,042
AO Malaya Dmitrovka	3,381	3,391	3,349
Territorial Office of Federal Property Management Agency (Rosimyschestvo) in the Stavropol Territory	3,185	2,549	2,549
Perm Department of Land and Property Relations	1,307	1,350	1,350
Novosibirsk Department of Land and Property Relations	777	779	779
Territorial Office of Federal Property Management Agency (Republic of Udmurtia)	16	943	943
Territorial Office of Federal Property Management Agency in the Irkutsk Region	-	1,727	3,675
Department of Property and Land Relations of Kochubeevsky region	-	1,060	1,060
Other	4,659	4,703	4,446
<b>Total rent of property, plant and equipment</b>	<b>32,671</b>	<b>36,221</b>	<b>28,149</b>
OOO Leasefinance	1,022	1,022	1,844
ZAO Business Alliance	169	321	321
OOO RB-Leasing	-	829	1,894
OOO IR-Leasing	-	-	1,792
Other	-	97	97
<b>Total lease of property, plant and equipment under lease contracts</b>	<b>1,191</b>	<b>2,269</b>	<b>5,948</b>
<b>Total rent and lease of property, plant and equipment</b>	<b>33,862</b>	<b>38,490</b>	<b>34,097</b>

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**3.6.2 Collateral for liabilities and payments received**

Counterparty	31 December 2016	31 December 2015	31 December 2014
PAO Silovye Mashiny	8,780	8,655	3,018
Voith Hydro GmbH & Co KG	5,433	7,041	4,840
OOO EZOP	5,428	5,428	5,428
OOO Vostok-finans	2,106	-	-
AO Hydroinvest	984	3,919	3,919
AO Transport company Rushydro	511	511	491
OAO Hydroelectromontazh	453	453	-
AO VNIIR Hydroelectroavtomatika	429	424	255
AO TEK Mosenergo	392	405	679
OAO Trest Hydromontazh	390	-	-
ZAO A-security	194	294	398
Alstom Hydro France	67	67	1,106
OOO Alstom	-	-	273
Other	1,886	2,421	2,715
<b>Total collateral for liabilities and payments received</b>	<b>27,053</b>	<b>29,618</b>	<b>23,122</b>

The Company received its own shares purchased by OOO EZOP and AO Hydroinvest as a pledge to secure loans issued for the purpose of acquisition of the Company's shares by OOO EZOP and AO Hydroinvest (see paragraph 3.2.2 of the Explanatory Notes).

For a number of agreements for delivery of equipment and capital construction with Voith Hydro GmbH & Co KG, PAO Silovye Mashiny, OAO Hydroelectromontazh, AO VNIIR Hydroelectroavtomatika, AO TEK Mosenergo and others the Company received bank guarantees for return, in full or in part, of the advances issued to these entities or due fulfilment of the contractual scope of work by these entities.

According to property sales contracts bearing interest for payment by instalments to be made by AO Transport company RusHydro, the sold property for RUB 511 million was pledged.

**3.6.3 Collateral for liabilities and payments issued**

The Company issued the following collaterals and guarantees:

Creditor	Debtor	31 December 2016	31 December 2015	31 December 2014
GC Vnesheconombank	PAO Boguchanskaya GES	47,777	48,426	49,133
PAO VTB Bank	AO Far East Generating Company	11,556	4,522	4,522
PAO Sberbank	AO Far East Generating Company	10,760	7,102	-
GC Vnesheconombank	ZAO Boguchansky Aluminium Smelter	4,615	4,615	4,615
PAO Sberbank	PAO Kamchatskenergo	3,978	3,978	3,979
Rosbank AKB PAO	PAO Far East Energy Company	3,313	-	-
European Bank for Reconstruction and Development (EBRD)	PAO RAO ES of East	3,276	3,695	4,097
PAO Sberbank	PAO RAO ES of East	2,878	2,095	-
Rosbank AKB PAO	AO Far East Generating Company	2,704	851	-
PAO VTB Bank	PAO RAO ES of East	1,831	-	-
European Bank for Reconstruction and Development (EBRD)	ZAO International Energy Corporation	1,538	1,845	1,417
Asian Development Bank,	ZAO International Energy	1,538	1,845	1,415

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Creditor	Debtor	31 December 2016	31 December 2015	31 December 2014
ADB	Corporation			
Bank GPB (AO)	PAO RAO ES of East	1,323	-	-
Bank GPB (AO)	PAO Magadanenergo	1,012	401	-
AO Russian Regional Development Bank	PAO Magadanenergo	900	-	-
PAO Sberbank	AO Chukotenergo	860	-	-
PAO Sberbank	AO Sakhalinenergo	651	651	651
PAO Sberbank	PAO Magadanenergo	500	-	-
PAO Sberbank	PAO Far East Energy Company	-	5,531	-
European Investment Bank	PAO RAO ES of East	-	4,012	2,326
Bank GPB (AO)	AO Far East Generating Company	-	1,002	-
Bank GPB (AO)	PAO Far East Energy Company	-	762	-
AO TEK Mosenergo	AO Yakutskaya GRES-2	-	-	15,000
OAO Bank of Moscow	AO Far East Generating Company	-	-	7,042
PAO VTB Bank	PAO Far East Energy Company	-	-	4,921
ZAO ING BANK (EURASIA)	AO Yakutskaya GRES-2	-	-	3,156
OAO Bank of Moscow	OAO Sakhalinenergo	-	-	499
Other	Other	916	1,424	1,331
<b>Total collateral for liabilities and payments issued</b>		<b>101,926</b>	<b>92,757</b>	<b>104,104</b>

In 2016 the Company issued guarantees:

- in terms of liabilities of AO Far East Generating Company the credit agreement with PAO Sberbank, Bank GPB (AO) and PAO Rosbank AKB. The guarantee covers the amount of credit and interest accrued. Maturity date – 2019.
- in terms of liabilities of PAO RAO ES of East the credit agreement with GPB (AO) and Bank VTB (AO). The guarantee covers the amount of credit and interest accrued. Maturity dates – 2019 and 2030.
- in terms of liabilities of PAO Magadanenergo the credit agreement with AO Russian Regional Development Bank and PAO Sberbank. The guarantee covers the amount of credit and interest accrued. Maturity dates – 2020 and 2021.
- In terms of liabilities of AO Chukotenergo credit agreement with PAO Sberbank. The guarantee covers the amount of credit and interest accrued. Maturity dates – 2020 and 2021.

Guarantees issued by the Company for liabilities of OAO Boguchanskaya GES under its loan agreement with GC Vnesheconombank include:

- total liabilities of PAO Boguchanskaya GES under the loan agreement, including accumulated interest in the amount of RUB 26,750 million as of 31 December 2016 (31 December 2015: RUB 27,399 million);
- pledge of PAO Boguchanskaya GES's interest-free promissory notes for the total of RUB 21,027 million (see Note 3.2.2 of the Explanatory Notes) and pledge of shares for the total of RUB 14 thousand.

RUSAL Group undertakes to reimburse the Company for 50 percent of liabilities settled under this guarantee by the Company for PAO Boguchanskaya GES.

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**3.7 Income and expenses on operating activities (statement of financial results)**

**3.7.1 Revenue (line 2110 of the statement of financial results)**

Revenue from sales of electricity and capacity has the largest percentage in the Company's revenue structure (99,3%).

Item	2016	2015
Sale of electricity	77,338	73,262
Sale of capacity	36,833	32,583
Sale of heat	168	154
Other	694	1,100
<b>Total line 2110 "Revenue"</b>	<b>115,033</b>	<b>107,099</b>

The Company sells a major part of its produced electricity and capacity (99,9%) on the wholesale electricity and capacity market, where sales are made at non-regulated prices (except for sales at regulated tariffs in the RF Far East non-pricing zone and volumes produced for selling to households or equivalent consumer categories).

**3.7.2 Cost of sales (line 2120 of the statement of financial results)**

Item	2016	2015
Depreciation and amortisation	15,213	14,257
Wages and social insurance contributions	9,408	10,113
Purchased electricity and capacity	7,023	13,970
Property tax	6,771	6,640
Repairs and maintenance	3,724	4,109
Third party services	3,720	3,725
Fees for administering the wholesale market of electricity and capacity (AO SO UES, AO ARS, AO CFR)	2,813	2,884
Fire and other security services	1,730	1,729
Insurance expenses	1,710	1,482
Lease expenses	1,579	1,230
Water usage expenses, water tax	1,267	934
Lease of power equipment	186	479
Other expenses	1,212	2,417
<b>Total line 2120 "Cost of sales"</b>	<b>56,356</b>	<b>63,969</b>

Operating expenses include contributions to non-state pension fund AO NPF of Electrical Energy Industry. The type of pension plan for the Company's personnel is the defined benefit plan.

Operating expenses broken down by cost elements are as follows:

Item	2016	2015
Material expenses	17,122	19,056
Payroll expenses	7,570	8,217
Social contributions	2,142	1,896
Depreciation and amortisation	15,213	14,257
Other costs	14,309	20,543
<b>Total for elements of costs</b>	<b>56,356</b>	<b>63,969</b>
Change in balances of work in progress, finished goods, etc. (increase [-] / decrease [+])	-	-
<b>Total expenses incurred on operating activities</b>	<b>56,356</b>	<b>63,969</b>

### 3.8 Other income and expenses (line 2340 and line 2350 of the statement of financial results)

Item	2016		2015	
	Income	Expenses	Income	Expenses
Income and expenses from sales, write-off and other transactions with assets	9,847	(7,987)	516	(2,518)
Gains / (losses) from revaluation of investments measured at current market value	5,544	(12)	1,110	(329)
Foreign exchange differences from remeasurement of assets and liabilities denominated in foreign currencies	4,789	(2,306)	7,167	(8,840)
Doubtful debt provision	2,368	(8,283)	3,490	(2,650)
Charity donations	-	(462)	-	(553)
Expenses for social events	-	(457)	-	(573)
Provision for impairment of investments	14	(17,658)	49	(3,147)
Gain and loss on sale of promissory notes	-	-	784	(784)
Income and expenses due to sale or other disposal of securities (exception promissory notes)	-	-	11	(114)
Other income and expenses	1,192	(1,171)	1,878	(888)
<b>Total line 2340 "Other income" and 2350 "Other expenses"</b>	<b>23,754</b>	<b>(38,336)</b>	<b>15,005</b>	<b>(20,396)</b>

### 3.9 Taxes

#### Value Added Tax

Total VAT calculated with due account of recovered tax amounts was RUB 35,173 million in the reporting year (2015: RUB 30,664 million), including:

- VAT calculated on sales of goods (work, services) is RUB 22,396 million (2015 RUB 19,286 million);
- VAT calculated on the amounts of received payment or partial payment for goods (work, services) to be delivered in the future is RUB 10,652 million (2015: RUB 9,415 million);
- recoverable amount of tax is RUB 2,125 million (2015: RUB 1,963 million).

Total VAT recoverable in the reporting period was RUB 21,383 million (2015: RUB 22,008 million), including:

- VAT recoverable invoiced to the taxpayer on acquisition of goods (work, services), property rights in Russia was RUB 8,839 million (2015: RUB 9,637 million);
- VAT calculated on the amounts of received payment or partial payment for goods (work, services) to be deducted from their delivery date was RUB 10,652 million (2015: RUB 9,416 million);
- VAT calculated on the amounts of payment or partial payment for goods (work, services) to be delivered in the future was RUB 1,352 million (2015: RUB 2,161 million);
- VAT recovered in 2016 which was paid earlier when the goods were imported to the Russian customs territory was RUB 539 million (2015: RUB 789 million);
- other recoverable VAT was RUB 1 million (2015: RUB 5 million).

The Company decreases the calculated VAT by the amount invoiced on purchase of goods (work, services) in Russia, according to tax legislation.

#### Corporate income tax

Income tax calculated on the basis of the accounting profit (theoretical income tax charge) for the reporting year was RUB 10,877 million (2015: RUB 7,851 million).

The Company applied tax rate of 20% in the calculation of income tax based on accounting profit received by the Company's branches (excluding profits received by branches Kamsksya GES and Votkinskaya GES that apply 17% rate).

According to the tax accounting data, the taxable profit for 2016 was RUB 56,327 million (2015: RUB 34,424 million).

In the reporting year, the amount of non-temporary differences which affected the theoretical income tax charge adjustment for the purposes of income tax calculated for tax accounting purposes (current income tax) was RUB 8,949 million (2015: RUB 9,607 million).

The above non-temporary differences arise from differences in recognising certain income and expenses for accounting and income tax purposes.

Non-temporary differences resulted in permanent tax assets amounted to RUB 15,124 million for 2016 (2015: 4,078 million), including:

- income from participation in other entities (dividends) in the amount of RUB 9,367 for 2016 (2015: RUB 779 million);
- increase in value of financial placements determined in fair value in the amount of RUB 5,532 million (2015: RUB 780 million);
- other non-temporary differences in the amount of RUB 225 million (2015: RUB 2,519 million).

Non-temporary differences resulted in the permanent tax liability amounted to RUB 24,073 million for 2016 (2015: 13,685 million), including:

- depreciation of RUB 3,254 million (2015: RUB 4,011 million);
- charges to doubtful debt provision in the amount of RUB 894 million (2015: RUB 944 million);
- charity donations in the amount of RUB 462 million (2015: RUB 553 million);
- expenses related to sale, disposal or other transactions with assets in the amount of RUB 530 million (2015: RUB 2,115 million);
- financial support and other social payments to employees in the amount of RUB 17,658 million (2015: RUB 3,147 million);
- other non-temporary differences in the amount of RUB 1,274 million (2015: RUB 2,915 million).

The total amount of deductible temporary differences, which affected the adjustment of the theoretical income tax charge for the purpose of the current income tax calculated for tax accounting purposes, was RUB 6,934 million (2015: RUB (803) million), including those originated – RUB 11,724 million (2015: RUB 452 million) and settled – RUB 4,790 million (2015: RUB 1,255 million).

Total amount of taxable temporary differences that affected the theoretical income tax expense adjustment for the purpose of the income tax calculation for tax accounting purposes, was RUB 13,080 million (2015: RUB 14,038 million), including those originated – RUB 21,776 million (2015: RUB 19,469 million) and settled – RUB 8,696 million (2015: RUB 5,431 million).

In 2016, movement in deductible and taxable temporary differences was mainly due to:

- different useful lives of property, plant and equipment for accounting and income tax purposes;
- recognition of depreciation premium on items of property, plant and equipment for income tax purposes;
- application of multiplying factor for accrual of depreciation charges on property, plant and equipment used in operations in a hostile environment with a high turnover for tax accounting purposes in prior periods;
- capitalisation of interest on borrowings in the cost of investment assets for accounting purposes;
- including the costs of insurance in the value of investment assets in the accounting records of the Company.

Deferred tax assets and deferred tax liabilities were:



Item	31 December 2016	31 December 2015	31 December 2014
Deferred income tax assets	(3,248)	(1,864)	(2,343)
Deferred tax liabilities	16,924	14,266	12,015
<b>Total line 1420 "Deferred tax liabilities"</b>	<b>13,676</b>	<b>12,402</b>	<b>9,672</b>

Line 2430 "Change in deferred tax liabilities" includes increase of deferred tax liabilities in amount of RUB 39 million with no effect on current income tax. Line 2450 "Change in deferred tax assets" includes increase of deferred tax assets in amount of RUB 231 million with no effect on current income tax. These amounts relate to adjustments of prior periods due to change in temporary differences classification.

### **Other taxes and levies**

In 2016, operating expenses include other taxes and levies in the amount of RUB 8,384 million (2015: RUB 8,430 million), including:

- property tax in the amount of RUB 6,771 million (2015: RUB 6,640 million), including accrual provision for estimated liabilities for property tax;
- insurance contributions to the Pension Fund of the Russian Federation, Social Insurance Fund of the Russian Federation and obligatory medical insurance funds in the amount of RUB 1,596 million (2015: RUB 1,774 million), including contributions related to estimated liabilities on future payment of employee vacations earned but not used;
- other taxes and levies in the amount of RUB 17 million (2015: RUB 16 million).

### **Relations with tax authorities**

Russian tax legislation active or effective as of the end of the reporting period allows varying interpretation of the separate facts of the Company's economic life. As a consequence, the position of the Company's management in terms of taxes and documents substantiates this position may be challenged by tax authorities. The tax control in Russian Federation gets stringent resulting in increase of tax inspections risk. These inspections may cover 3 calendar years preceding the year when the decision about inspection was made. In some cases the earlier periods may be examined.

As of 31 December 2016, the Company's management believe that their interpretation of the relevant legislation was appropriate, tax liabilities are recorded in full and the Company's tax and currency positions will be sustained.

In 2016, the tax authorities conducted an on-site tax audit for 2012-2014, according to which the Company was presented claims, part of which were successfully challenged by the Company. For the rest of the claims, the Company will file an appeal with the higher tax authority and, if necessary, intend to appeal the claims in court in the future.

### **3.10 Dividends**

The Company's annual general meeting of shareholders held on 27 June 2016 (Minutes No. 15) made the decision to pay dividends on the Company's ordinary shares for 2015 in the amount of RUB 0,038863 per 1 share for the total of RUB 15,011 million.

The Company's annual general meeting of shareholders held on 26 June 2015 (Minutes No. 13) made the decision to pay dividends on the Company's ordinary shares for 2014 in the amount of RUB 0,01561855 per 1 share for the total of RUB 6,033 million.

### **3.11 Earnings per share**

Basic earnings per share reflect a portion of reporting period's profit that may be potentially distributed between the shareholders – owners of ordinary shares. It is calculated by dividing basic profit of the reporting year by the weighted average number of ordinary shares outstanding during the year. Basic profit is equal to net profit of the reporting year (Line 2400 of the statement of financial results).

Item	2016	2015
Basic profit for the reporting year (RUB million)	41,877	30,022
Weighted average number of ordinary shares, outstanding during the reporting year (shares)	386,255,464,890	386,255,464,890
<b>Basic earnings per share (RUB)</b>	<b>0.10842</b>	<b>0.07773</b>

Weighted average number of ordinary shares, outstanding during the reporting year was calculated as follows:

Item	2016
Number of ordinary shares outstanding as of 1 January 2016 (shares)	386,255,464,890
Number of ordinary shares outstanding as of 1 December 2016 (shares)	386,255,464,890
Number of ordinary shares outstanding as of 31 December 2016 (shares)	386,255,464,890
Weighted average number of ordinary shares, outstanding in 2016 (shares) (386,255,464,890 * 12 months) / 12 months	386,255,464,890
Item	2015
Number of ordinary shares outstanding as of 1 January 2015 (shares)	386,255,464,890
Number of ordinary shares outstanding as of 1 December 2015 (shares)	386,255,464,890
Number of ordinary shares outstanding as of 31 December 2015 (shares)	386,255,464,890
Weighted average number of ordinary shares, outstanding in 2015 (shares) (386,255,464,890 * 12 month) / 12 months	386,255,464,890

In 2016 and 2015, the Company had no debt securities potentially convertible to shares.

### 3.12 Related Parties

The Company's related parties are its subsidiaries and associates and other entities where the Company has indirect control or significant influence through its subsidiaries and associates.

The list of the Company's related parties is given on the web-site – [www.rushydro.ru/investors/disclosure/affiliated](http://www.rushydro.ru/investors/disclosure/affiliated)

#### 3.12.1 Controlling entity

As of 31 December 2016 the Company is controlled by the Russian Government (represented by the Federal Agency for Federal Property Management) which owns, 66,84% of the Company's ordinary shares (see paragraph 3.3.1 of the Explanatory Notes).

#### 3.12.2 Sales to related parties

Total revenue from sales to related parties was:

Name of the buyer	2016	2015
<b>Revenue from sales to subsidiaries, including:</b>		
PAO Far East Energy Company	6,148	5,722
OOO ESK Bashkortostana*	2,018	1,266
PAO Krasnoyarskenergosbyt	854	836
AO Chuvashskaya Energy Sales Company	634	1,562
PAO Ryazanskaya Energy Sales Company	234	245
AO ESK RusHydro	197	163
Other subsidiaries	117	144
<b>Revenue from sales to related parties, including:</b>		
ZAO Boguchanskiy Alluminievy zavod	668	679
PAO Boguchanskaya GES	110	35
<b>Total sales to related parties</b>	<b>10,980</b>	<b>10,652</b>

\* OOO ESK Bashkortostana was the related party until 01 December 2016

Sales to related parties include, among others, sales of electricity and capacity in the regulated sector of WEM at tariffs determined by the Federal Tariff Service and in the competitive sector at commercial prices established in accordance with the Wholesale Market Rules and Regulation of the Russian Government No. 109 of 26 February 2004, On Pricing of Electric and Heating Energy in the Russian Federation, and Regulation on the Company's sales policy for operating generation

assets in the price zones of the wholesale electricity (capacity) market (minutes of the meeting of the Management Board No. 528 of 17 September 2010).

### 3.12.3 Purchases from related parties

The cost of services provided by related parties was:

Supplier	2016	2015
<b>Repair and technical maintenance services, including:</b>		
<b>Subsidiaries</b>		
AO Hydroremont-BKK	2,855	3,303
OOO RusHydro IT Service	95	-
Other	109	79
<b>Total repair and maintenance services</b>	<b>3,059</b>	<b>3,382</b>
<b>Transport service, including:</b>		
<b>Subsidiaries</b>		
AO Transport company RusHydro	1,271	1,502
<b>Total transport services</b>	<b>1,271</b>	<b>1,502</b>
<b>Rent of premises, territories and other property, including:</b>		
<b>Subsidiaries</b>		
AO Malaya Dmitrovka	514	566
AO Sulakskiy Hydrocascade	428	50
AO Zaramagskie GES	253	260
AO Transport company RusHydro	106	41
Other	100	93
<b>Total rent of premises, territories and other property</b>	<b>1,401</b>	<b>1,010</b>
<b>Works and services in testing, trials and research, including:</b>		
<b>Subsidiaries</b>		
AO Vedeneyev VNIIG	237	159
AO NIIES	180	248
Other	31	100
<b>Total works and services in testing, trials and research</b>	<b>448</b>	<b>507</b>
<b>Electricity purchases</b>	<b>1</b>	<b>1</b>
<b>Other services of third parties</b>	<b>402</b>	<b>545</b>
<b>Total purchases from related parties</b>	<b>6,582</b>	<b>6,947</b>

### 3.12.4 Settlements with non-state pension fund

Non-state Pension Fund of Electrical Energy Industry is the non-state pension fund for implementation of the non-governmental pension security program for the Company's employees. The total amount of contributions to the pension fund was RUB 275 million and RUB 324 million for 2016 and 2015, respectively.

### 3.12.5 Settlements with related parties

As of 31 December 2016, 2015 and 2014, accounts receivable from related parties to the Company less doubtful debt provision were (see paragraph 3.2.2 of the Explanatory Notes):

Type of accounts receivable	31 December 2016	31 December 2015	31 December 2014
Short-term interest-free promissory notes received	5,457	20,767	18,846
Short-term interest-free loans issued	30,700	12,879	26,325
Long-term interest-free promissory notes received	25,689	25,689	25,689
Accounts receivable from subsidiaries as part of additional issues before title for the shares issued is transferred to the Company	22,997	7,951	11,805
Indebtedness under the assignment agreement	8,257	-	-
Long-term interest-free loans issued	10,897	3,099	1,183
Accounts receivable related to other sales	1,217	1,574	1,458

Type of accounts receivable	31 December 2016	31 December 2015	31 December 2014
Other settlements with related parties	5,673	8,213	8,491
<b>Total accounts receivable from related parties</b>	<b>110,887</b>	<b>80,172</b>	<b>93,797</b>

Terms and conditions of settlements with related parties provide for the Company to make advance payments on transactions with individual related parties. As of 31 December 2016 balances include advances issued for the amount of RUB 3,334 million (31 December 2015: RUB 5,926 million, 31 December 2014: RUB 5,116 million).

Doubtful debt provision for related parties' accounts receivables as of 31 December 2016 was RUB 5,904 million (31 December 2015: RUB 291 million; 31 December 2014: RUB 48 million).

As of 31 December 2016, 2015 and 2014, the Company's accounts payable to the related parties were:

	31 December 2016	31 December 2015	31 December 2014
Subsidiaries	1,164	2,707	914
Associates	-	-	30
Other related parties	81	750	-
<b>Total accounts payable to related parties</b>	<b>1,245</b>	<b>3,457</b>	<b>944</b>

The whole amount accounts payable to related parties is payable in cash.

### 3.12.6 Related parties' debt within investments

As of 31 December 2016, 2015 and 2014, The Company's investments include the following amounts due from related parties (see paragraphs 3.1.2 and 3.2.3 of the Explanatory Notes):

Type of financial investments	31 December 2016	31 December 2015	31 December 2014
Loans issued to related parties	28,315	57,102	44,178
Other investments	601	601	-
<b>Total related parties' debt within investments</b>	<b>28,916</b>	<b>57,703</b>	<b>44,178</b>
Total debt within long-term investments (Line 1170 of the Balance sheet)	27,686	52,433	34,039
Total debt within short-term investments (Line 1240 of the Balance sheet)	1,230	5,270	10,139

Interest income on loans issued to related parties and promissory notes received from related parties:

Entity	2016	2015
<b>Subsidiaries, including:</b>	<b>4,986</b>	<b>4,608</b>
AO Far East Generating Company	1,372	1,570
AO Hydroinvest	1,031	168
AO Far East Distribution Grid Company	697	892
AO Nizhne-Bureyskaya GES	424	312
AO Zagorskaya GAES-2	355	588
AO ESK RusHydro	315	250
AO Sakhaenergo	278	278
AO Ust-Srednekanskaya GES	163	156
Other	351	342
<b>Other subsidiaries</b>	<b>61</b>	<b>52</b>
<b>Total interest income</b>	<b>5,047</b>	<b>4,660</b>

### 3.12.7 Income from investments in other companies (related parties)

Income from investments in other companies includes income from investments in subsidiaries in the amount of RUB 9,447 million for 2016 (2015: RUB 775 million):

Entity	2016	2015
HydroOGK Power Company Ltd	8 257	-
AO GVTS Energetiki	698	-
OAO Hydroremont-BKK	191	339
AO Lenhydroproject	114	172
AO NIIES	-	118
Other	187	146
<b>Total income from investments in subsidiaries</b>	<b>9 447</b>	<b>775</b>

In 2016, dividends were received from HydroOGK Power Company Ltd in the amount of RUB 8,257 million in non-monetary form by way of assignment of accounts receivable of the subsidiary company of HC Boguchanskaya HPP classified as part of other short-term accounts receivable of the Company as of December 31, 2016 (see paragraph 3.2.2 of the Explanatory Note).

### 3.12.8 Remuneration to key management personnel

The Company's key management personnel includes members of the Board of directors and Management Board and also includes heads of the Company's business divisions and their deputies.

The remuneration to the members of the Board of directors is calculated according to the *Regulations on the payment of remuneration to PAO RusHydro's directors* approved by the Annual General Meeting of Shareholders held on 30 June 2010 (Minutes No. 5).

Remuneration is paid to members of the Management Board and other management personnel of the Company for their services in management positions and is made up of a contractual salary and performance bonuses depending on the results for the period calculated based on key performance indicators approved by the Company's Board of directors.

The list of members of the Company's Board of directors and Management Board is included in paragraph 1.1 of the Explanatory Notes).

In 2016 and 2015, the Company remuneration to key management personnel within the limits set out in their employment agreements for the total amount of RUB 666 million and RUB 1,475 million, respectively. The insurance contributions amounted to RUB 146 million for 2016 (2015: 236 million). In addition, in 2016, an appraisal obligation was established for premiums to key management personnel in the amount of RUB 165 million.

### 3.12.9 Cash flows between the Company and subsidiaries/associates

Item	Line code	2016	2015
<b>Cash flows from operating activities</b>			
<b>Receipts, including:</b>	4110	8,896	7,872
sales of products, goods, work and services	4111	8,818	7,804
lease payments, licence payments, royalties, commission and other payments	4112	62	66
other receipts	4119	16	2
<b>Payments, including:</b>	4120	(6,447)	(7,229)
suppliers (contractors) – raw materials, work and services	4121	(6,329)	(7,157)
interest on debt liabilities	4123	(17)	-
other payments	4129	(101)	(72)
Net cash flows from operating activities	4100	2,449	643
<b>Cash flows from investing activities</b>			
<b>Receipts, including:</b>	4210	29,886	19,324
sale of non-current assets (except for investments)	4211	95	137
sale of shares of other organisations (ownership interest)	4212	-	10
repayment of loans issued, sale of debt securities (rights of claiming cash to third parties)	4213	22,400	13,674

TRANSLATOR'S EXPLANATORY NOTE: This version of our report/the accompanying documents is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Item	Line code	2016	2015
dividends, interest on debt investments and similar proceeds from equity participation in other organisations	4214	5,351	5,469
other receipts	4219	2,040	34
<b>Payments, including:</b>	4220	(40,108)	(55,731)
acquisition, creation, modernisation, reconstruction and preparation for use of non-current assets	4221	(6,256)	(5,983)
purchase of shares (interest) in other entities	4222	(23,829)	(34,665)
acquisition of debt securities (rights of claiming cash from third parties), issue of loans to third parties	4223	(10,023)	(15,083)
Net cash flows from investing activities	4200	(10,222)	(36,407)
<b>Cash flows from financing activities</b>			
<b>Receipts, including:</b>	4310	719	1,970
borrowings and bank loans	4311	719	1,970
<b>Payments, including:</b>	4320	(1,090)	(143)
redemption (buyback) of promissory notes and other debt securities, loan repayment	4323	(1,090)	(143)
Net cash flows from financing activities	4300	(371)	1,827
<b>Net cash flows for the reporting period</b>	<b>4400</b>	<b>(8,144)</b>	<b>(33,937)</b>

### 3.13 Segment Information

The Company does not identify any reporting segments in its operations, as the Company's core business activity is production of electricity and capacity – their share in the revenue from sales is 99,3%. The individuals credentialed to make the decisions concerning allocation of the resources within the Company and assess the results of its performance analyse the Company's activity as a whole segment.

### 3.14 Contingent liabilities

As of 31 December 2016, the Company had outstanding issued guarantees to the third parties' creditors and pledged assets for the total amount of RUB 101,926 million (31 December 2015: RUB 92,757 million, 31 December 2014: RUB 104,104 million) (see paragraph 3.6.3 of the Explanatory Notes). According to the Company's management expectations, no material liabilities will arise in connection with these guarantees.

Moreover, the prosecutor's office and other oversight bodies examined operations of the Company, and this also may result in additional claims filed against the Company and its employees.

The Russian transfer pricing legislation is aligned with the international principles developed by the Organisation for Economic Cooperation and Development (OECD). The legislation allows tax authorities to assess additional taxes for controlled transactions (transactions between related parties and some transactions between unrelated parties) if such transactions are not on an arm's length basis. The Company's management has implemented internal control procedures to ensure compliance with transfer pricing law.

Tax liabilities arising as a result of operations between the Company and its subsidiaries are determined based on the actual transaction price. There is a probability that the prices may be disputed as practice for application of the transfer rules changes. The effect of such course of events cannot be estimated reliably but may have a material effect on the Company's financial results and/or operations.

New provisions aimed at deoffshorisation of Russian economy have been added to the Russian tax legislation and are effective from 1 January 2015. Specifically, they introduce new rules for controlled foreign companies, a concept of beneficiary owner of income for the purposes of application of preferential provisions of taxation treaties of the Russian Federation. Management of the Company conducts analysis of impact of new rules on Companies' activity and takes necessary measures to meet new requirements of Russian Tax legislation. Likelihood of claims from Russian tax authorities (and probability of positive resolution of disputes) can't be reliably

measured because there's no practice of new tax rules. Financial statements of the Company can be affected if tax disputes arise.

### 3.15 Financial risk management

The primary objectives of the financial risk management function are to provide reasonable assurance of achieving the Company's goals by developing a methodology of risk identification, analysis and assessment, as well as to establish risk limits, and then ensure that exposure to risks stays within these limits and if the limits are exceeded – to treat this risk accordingly.

#### **Market risks**

Market risks include currency risk, interest rate and price risks.

**Currency risk.** The Company sells its produced electricity and capacity in the Russian domestic market at prices denominated in national currency, settlements with resources suppliers, charge and acceptance of payments from the customers are made specifically in Russian roubles. Liabilities of the Company are denominated in national currency; share of liabilities denominated in foreign currency is amounted to less than 15%. As a result effect of changes in currency exchange rates on the Company's financial position and activities is estimated as insignificant. The Company's operations are planned and carried out in such a way that all its assets and liabilities are denominated in the national currency.

Information on the Company's exposure to currency risk is presented in line with its use for the preparation of RusHydro Group's IFRS financial statements as defined in IFRS 7:

	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
<b>31 December 2016</b>			
US Dollars	547	-	547
Euro	-	(11,716)	(11,716)
<b>Total</b>	<b>547</b>	<b>(11,716)</b>	<b>(11,169)</b>
<b>31 December 2015</b>			
US Dollars	3,096	-	3,096
Euro	-	(15,426)	(15,426)
<b>Total</b>	<b>3,096</b>	<b>(15,426)</b>	<b>(12,330)</b>
<b>31 December 2014</b>			
US Dollars	1,700	-	1,700
Euro	2,321	(13,449)	(11,128)
<b>Total</b>	<b>4,021</b>	<b>(13,449)</b>	<b>(9,428)</b>

The above analysis includes only monetary assets and liabilities. Investments in shares and non-monetary assets are not considered to give rise to significant currency risk.

Changes in exchange rates have no significant influence on the Company's financial position.

**Interest rate risk.** The Company's operating profits and cash flows from operating activity are substantially independent of the changes in market interest rates.

The effect of changes in the average market interest rates on the value of the Company's investments is insignificant as the rates of return on the Company's investments are fixed.

The Company also receives loans with floating interest rates based on MOSPRIME, Euribor rates, which leads to risk of changes in interest rates. At the same time, the share of borrowed funds with a fixed interest rate is 91% of the Company's loan portfolio. The influence of changes in these rates on the Company's profit is insignificant.

The Company monitors interest rate risk for its financial instruments. Effective interest rates as of the end of the period are presented in paragraph 3.4.1 of the Explanatory Notes.

To mitigate the interest rate risk, the Company takes the following measures:

- monitors the credit market to identify favourable terms of financing;
- diversifies credit portfolio by raising fixed and floating rate loans.

**Price risk.** The Company sales power and capacity, mainly, in the wholesale market. The price risk at the wholesale market is connected with possible volatility of the prices, and also with reduction of prices of the corresponding goods.

Electricity at the wholesale market is realized by Company mainly at the market for the days ahead. Weighted average price of sale of electricity for the days ahead for the Company in 2016 didn't change significantly in comparison with an indicator of 2015.

As the key instrument for trading capacity in the wholesale market is the contracts for purchase and sale of capacity by results of competitive selection of capacity. The price of capacity, based on which liabilities under such contracts are calculated, after the transition in 2015 to long-term model of competitive selection of capacity, is determined by results of competitive selections of capacity for four years ahead. The price differences on capacity created following the results of competitive selections of capacity for 2016-2020, make no more than 5% for each price zone.

At the liberalized market of the electric power the price of goods directly depends on demand amount. For the purpose of increase in a financial result of economic activity Company considers the seasonal, week and daily changes in demand on the electric power in case of sales planning of the electric power.

The price risk determines the possible changes / fluctuations in the fair value or future cash flows due to changes in market prices (excluding changes leading to interest rate or currency risk).

The table below includes the Company's investments exposed to the price risk.

Category of investments	31 December 2016	31 December 2015	31 December 2014
Equity investments for which current market value can be determined, including:	7,818	2,286	1,505
PAO Inter RAO	7,709	2,217	1,445
PAO Irkutskenergo	65	36	25
PAO Krasnoyarskaya GES	44	33	35
Equity investments to subsidiaries measured at current market value but not revalued as of the reporting date	20,204	20,204	20,204
Equity investments for which current market value cannot be determined	236,565	245,174	208,604
<b>Total equity investments (see paragraph 3.1.2 of the Explanatory Notes)</b>	<b>264,587</b>	<b>267,664</b>	<b>230,313</b>

Current market value of quoted securities is determined by market prices established on the stock exchange OAO MICEX-RTS ([www.rts.micex.ru](http://www.rts.micex.ru)), according to the 'Procedure for determining market value of securities, estimated price of securities and the threshold for the fluctuations of securities' market price for the purpose of Chapter 23 of the Russian Tax Code approved by Order of the Federal Service for Financial Markets No. 10-65/pz-n of 9 November 2010.

### **Credit risk**

Credit risk is the possibility of the Company's losses resulting from the counterparty's inability to meet its obligations under the contract. Exposure to credit risk arises as a result of the Company's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

Although collectability of receivables can be influenced by economic factors, management believe that there is no significant risk of loss to the Company beyond the provision for impairment of receivables already recorded.

Cash has been placed in financial institutions, which are considered at the time of deposit to have minimal risk of default. The Company approves deposit banks as well as rules for making cash deposits. The Company performs regular review of financial institutions, monitors their ratings assigned by independent agencies as well as other performance indicators of these financial institutions.

Summary information on cash deposits and their equivalents including names of banks and other financial institutions and their ratings as of the end of the reporting period is provided in paragraph 3.2.4 of the Explanatory Notes.



### **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Efficient liquidity risk management implies maintaining sufficient cash and marketable securities, and ensuring the availability of additional funding through an adequate amount of committed credit facilities. The Group follows the balanced model of working capital financing when both long-term and short-term sources of finance are used. The Company places available cash to short-term financial instruments, mainly, bank deposits and short-term bank promissory notes. Short-term liabilities are represented mainly by trade accounts payable.

The Company has implemented controls over the contracting process by using standard financial procedures that include standard payment structure, standard payment time, standard correlation between the advance and final settlement amounts, etc. This way the Company controls the maturity structure of capital.

The ageing analysis for long term borrowings is presented in paragraph 3.4.1 of the Explanatory Notes.

### **3.16 Subsequent events**

**Additional issue of new shares.** In January 2017 the Company resumed the results of execution of pre-emptive right by eligible shareholders to acquire Company's shares of additional issue, registered by Bank of Russia on 7 December 2016. During the pre-emptive right period the Company placed 33,348,661 additional shares priced at RR 1,00 per share, or 0.08 percent of the total volume of additional issue.

**Financing from Bank VTB.** In March 2017, the Company and PJSC Bank VTB signed agreements related to a purchase of 55 billion ordinary shares of the Company (40 billion shares of the new issue and 15 billion shares of quasi-treasury stock) and conclusion of a 5-year non-deliverable forward contract in respect of these shares. In accordance with these agreements PJSC Bank VTB bought 40,000,000,000 shares of the Company during the current share issue and 15,000,000,000 shares of the Company which were held by the Company's subsidiaries.

In accordance with the forward contract, the Company has no obligation to buy back its own shares; for the purposes of final settlement under the forward contract it is envisaged that bank sells the Company's shares. Any difference between bank's income from the sale of the above shares at the end of the forward contract and the forward price is due to be settled in cash between the Company and the bank. The forward price is defined as the purchase cost of the shares increased by the total amount of interests charged less total dividends paid during the contract period.

The agreement will allow the Company to raise additional capital for financing the debt of the Company's subsidiary PAO RAO ES Vostoka and its subsidiaries.

Chairman of Management Board - General Director  
of PAO RusHydro

N.G.Shulginov

Chief Accountant of PAO RusHydro

Y. G. Medvedeva

30 March 2017



## **RUSHYDRO GROUP**

**Consolidated Financial Statements  
prepared in accordance with IFRS  
with independent auditor's report**

**As at and for the year ended 31 December 2016**

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## *Independent Auditor's Report*

To the Shareholders and Board of Directors of Public Joint Stock Company Federal Hydro-Generating Company – RusHydro (PJSC RusHydro):

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### *Our opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PJSC RusHydro and its subsidiaries (together – the “Group”) as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### **What we have audited**

The Group’s consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of profit and loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the consolidated statement of cash flows for the year then ended;
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Independence**

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor’s Professional Ethics Code and Auditor’s Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

## Our audit approach

### Overview

PJSC RusHydro's shares are listed on the Moscow Exchange. The Group's principal business operations are generation and sales of electricity, capacity and heat energy in the Russian wholesale and retail markets. The Group companies are also involved in other operations, including electricity transmission and distribution, construction, repairs and provision of other services.



- Overall group materiality: Russian Roubles ("RUB") 3,600 million, which represents 1% of total revenues and government grants.
- We conducted audit work at those companies of the Group that were considered significant components based on their individual share in the Group's revenue, which exceeds 15%: PJSC RusHydro, PJSC DEK, JSC DGK, PJSC Yakutskenergo.
- Our audit scope covered *inter alia* 67% of the Group's revenues and 83% of the Group's total carrying value of property, plant and equipment.

### Key audit matters

- Assessment of impairment of property, plant and equipment
- Assessment of impairment of accounts receivable
- Contingent tax liabilities

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

<b>Overall group materiality</b>	RUB 3,600 million
<b>How we determined it</b>	1% of total revenues and government grants
<b>Rationale for the materiality benchmark applied</b>	We chose total revenues and government grants as the benchmark because, in our view, it is the benchmark against which the Group's performance is represented to the fullest extent possible. We chose 1% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the reporting period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
<p><b>Assessment of impairment of property, plant and equipment</b></p> <p><i>For matters requiring disclosures and related significant accounting policies, judgements and accounting estimates see Notes 2, 7 and 32 to the consolidated financial statements.</i></p> <p>At 31 December 2016, the Group's aggregate carrying amount of property, plant and equipment was RUB 765,047 million. This is the most significant asset on the Group's balance sheet, it accounts for 78% of the total value of assets.</p> <p>The Group's management performed analysis of the business performance, industry outlook and operational plans and then assessed the recoverable value of property, plant and equipment by cash generating units for the purpose of impairment testing. Impairment arises when the recoverable amount, which is determined as the higher of the asset's fair value less costs to sell and its value in use, is below the carrying amount of the analysed assets.</p> <p>The management's testing identified impairment of a number of cash generating units, and the Company accrued impairment loss of RUB 26,525 million in the statement of income for the year ended 31 December 2016.</p>	<p>We obtained and reviewed financial models that the management used for assessing the PP&amp;E impairment. We engaged our valuation experts to form our conclusion on the assumptions and methodology that were used in the impairment assessment.</p> <p>Our audit procedures related to the management's assessment of PP&amp;E impairment included:</p> <ul style="list-style-type: none"> <li>• review of the methodology used by the Group's management for the impairment test purposes;</li> <li>• examination, on a test basis, of key assumptions used in financial models and whether they are in line with the approved budgets and business plans, external available and reliable sources (including macroeconomic forecasts, information on regulated and market electricity and capacity prices, etc.) and our industry-specific expertise;</li> <li>• assessment of competence, skills, experience and objectivity of the management's experts;</li> <li>• examination, on a test basis, of accuracy and relevance of inputs that the management</li> </ul>

Key audit matter	How our audit addressed the Key audit matter
<p>The recognition of additional loss also led to a decrease of RUB 4,920 million in the property, plant and equipment revaluation reserve in the consolidated statement of comprehensive income. There was no basis for accrual of or release of earlier accrued impairment loss for those cash generating units for which the results of the management’s assessment led the management to conclude that their recoverable amount is either higher than their carrying amount or equal to it.</p> <p>We focused on the property, plant and equipment impairment assessment as this process is complicated, requires significant management’s judgements and is based on assumptions that are affected by the projected future market and economic terms that are inherently uncertain.</p> <p>The impairment test is sensitive to reasonably possible changes in assumptions. The most significant judgements are related to the applied discount rate together with the assumptions supporting the relevant forecast cash flows, in particular those concerning the electricity and capacity tariff rates, electricity generation output and capital investments.</p>	<p>incorporated in the financial models for assessing the impairment of property, plant and equipment;</p> <ul style="list-style-type: none"> <li>• examination, on a test basis, of mathematical accuracy of financial models used by the management to assess the impairment of property, plant and equipment ;</li> <li>• consideration of potential impact of reasonably possible changes in key assumptions;</li> <li>• obtaining management’s written representations related to their property, plant and equipment impairment test.</li> </ul> <p>As a result of the above procedures, we believe that the key assumptions used by the management are acceptable for the purposes of preparing the accompanying consolidated financial statements.</p> <p>Acceptability of management’s current estimates regarding the property, plant and equipment impairment for the purpose of preparing the financial statements for the year ended 31 December 2016 does not guarantee that future events that are inherently uncertain would not lead to a significant change in these estimates.</p> <p>We note that the management’s financial models are to a significant extent sensitive to the changes in key assumptions. It could reasonably be expected, that if actual results differ from assumptions made, accordingly, there could arise either additional losses from impairment in the future or gains from the release of previously recognised impairment charge.</p> <p>We also assessed adequacy of disclosures in Notes 2, 7 and 32 to the consolidated financial statements and assessed their compliance with the disclosure requirements of IAS 36 ‘Impairment of Assets’.</p> <p>Our procedures have not identified any findings that would require significant adjustments to the impairment amount recorded in the consolidated financial statements.</p>

## Key audit matter

## How our audit addressed the Key audit matter

### **Assessment of impairment of accounts receivable**

*For matters requiring disclosure, and related significant accounting policies, judgements and accounting estimates see Notes 2, 12 and 32 to the consolidated financial statements.*

At 31 December 2016, the carrying amount of the Group's trade receivables was RUB 33,036 million (RUB 56,936 million less an impairment provision of RUB 23,900 million).

Thus, the receivables that are assessed by the Group's management as doubtful, account for a significant portion within the structure of trade receivables (at 31 December 2016, the Group accrued an impairment provision amounting to 42% of the total trade receivables).

The Group's management establishes a provision for doubtful debts based on the assessment of deterioration of the specific customer's solvency position, their individual specifics, payment dynamics, subsequent payments after the end of the reporting period as well as future cash inflow forecast analysis by reference to the conditions existing at the reporting date. The degree of accuracy of the management's estimate will be confirmed or rebutted depending on the future developments that are inherently uncertain.

We focused on receivables impairment assessment as this process is complicated and requires significant management's judgements, and the amount of impairment is significant.

Our audit procedures related to the management's assessment of trade receivables impairment included:

- review of the management's collectability analysis taking into account counterparty solvency analysis and its deterioration as of the reporting date, presence of intention to allow payment by instalments, subsequent payments after the end of the reporting period, availability of payment security and its quality as well as other factors considered by the management;
- review of the receivables turnover analysis that was used, in particular, for supporting the Group management's collectability analysis;
- sample testing of past due but not impaired trade receivables for assessing the management's conclusion that there is no impairment considering the prospects and timing of collection of such receivables;
- sample testing of underlying documents for management's assessment of the debt repayment probability, such as payment orders supporting payments received in 2017;
- review of external information from the regulators of the wholesale electricity (capacity) market, including the Supervisory Board of NP Market Council, which regularly takes the decisions on excluding the companies from the registry of participants in the wholesale electricity (capacity) market; there are the Group's buyers of its electricity (capacity) among those excluded companies, with deteriorated solvency as expected;
- obtaining management's written representations related to their performed receivables impairment test.



Key audit matter	How our audit addressed the Key audit matter
	<p>We also assessed adequacy of disclosures in Notes 2, 12 and 32 to the consolidated financial statements and assessed their compliance with the disclosure requirements of IAS 39 ‘Financial Instruments: Recognition and Measurement’ and IFRS 7 ‘Financial Instruments: Disclosures’.</p> <p>Acceptability of current estimates of the Group’s management regarding the receivables impairment for the purpose of preparing the financial statements for the year ended 31 December 2016 does not guarantee that future events that are inherently uncertain would not lead to significant changes in these estimates.</p> <p>Our procedures have not identified any findings that evidence that there is a need for significant adjustments to be made to the consolidated financial statements.</p>

### **Contingent tax liabilities**

*For matters requiring disclosure and related judgements and accounting estimates see Note 29 to the consolidated financial statements.*

We consider this audit issue as a key audit matter because the Russian tax legislation (including transfer pricing legislation and rules for deductibility of certain expenses for income tax purposes), which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by the Group’s management and the formal documentation supporting these tax positions may be challenged by tax authorities. While preparing the consolidated financial statements the Group’s management assesses the probability that tax liabilities will arise and their amounts, taking into account actual or potential tax claims and existing tax law application practice.

When the Group management assesses potential tax liability, it takes into account that fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about the review was made.

Our audit procedures aimed at assessing the probability that tax liabilities will arise, and their amount included:

- sample testing of accuracy of calculations and recognition of short-term tax liabilities in the consolidated financial statements;
- sample testing of correctness of tax incentives application and calculation;
- assessing the reasonableness of the management’s position on recording significant tax liabilities arising in the course of the Group’s operations where the Group’s tax positions may be challenged by tax authorities in their audits and in application of tax incentives;
- reviewing the tax authorities’ acts and decisions based on the results of their audits;
- reviewing court decisions made with respect to tax disputes where Group companies are involved;
- analysing court practice in the area of tax disputes related to operations where the Group’s tax positions may be challenged by tax authorities during their audit;

Key audit matter	How our audit addressed the Key audit matter
<p>If the probability of incurring potential tax liabilities is assessed as high (exceeding 50%), the accrued provision is included within short-term liabilities. At 31 December 2016, the accrued provision is insignificant. Other identified potential tax liabilities are disclosed in Note 29 to the consolidated financial statements.</p> <p>While it is not possible to make a sufficiently reliable estimate of the probability of the unfavourable developments for the Group, the impact of such developments may be significant to the overall financial position and financial performance of the Group.</p>	<ul style="list-style-type: none"> <li>• sample testing of adequacy of provisions for tax liabilities recorded in the consolidated financial statements, where the management assessed their probability as high;</li> <li>• obtaining management’s written representations related to their assessment of the amount of potential tax liabilities.</li> </ul> <p>When performing the above procedures we engaged our tax specialists.</p> <p>We also assessed adequacy of disclosures on contingent tax liabilities in Note 29 to the consolidated financial statements with reference to the disclosure requirements of IAS 37 ‘Provisions, Contingent Liabilities and Contingent Assets’.</p> <p>Acceptability of current estimates regarding the contingent tax liabilities made by the Group management in preparing the financial statements for the year ended 31 December 2016 does not guarantee that future events that are inherently uncertain would not lead to a significant change in these estimates.</p> <p>Our procedures have not identified any findings that evidence that there is a need for significant additional disclosures to be made in these consolidated financial statements.</p>

### How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the geographic and management structure of the Group, the accounting processes and controls as well as the specific nature of the industry in which the Group operates.

The Group’s consolidated financial statements are prepared based on the financial information of its components, i.e. individual companies of the Group. If we considered a component to be significant, we audited its financial information based on the materiality level established for each such component.

Similar to the determination of the overall materiality, significance of components was assessed based on the component’s individual share in the Group’s revenue. We determined the following significant components, which individually account for more than 15% of the Group’s total revenue: PJSC RusHydro, PJSC DEK, JSC DGK, PJSC Yakutskenergo.

If we did not consider that the procedures performed at the level of significant components provided adequate audit evidence for expressing our opinion on the consolidated financial statements as a whole, we performed analytical procedures at the Group level and audit of individual balances and types of operations for other components of the Group.



We chose other components of the Group for auditing individual balances and types of operations separately for each financial statement line item included in the scope of our audit, and our choice depended inter alia on the following factors: level of audit evidence obtained from the audit of significant components and level of concentration of balances and types of operations in the Group's structure. We also change our selection of a number of other components on a rotation basis.

On the whole, our audit procedures that were performed at the level of significant and other components of the Group and included, in particular, detailed testing and testing of controls on a sample basis, in our opinion, provided adequate coverage of individual line items in the consolidated financial statements. Thus, for example, our procedures covered 67% of the Group's revenue and 83% of the total carrying value of the Group's property, plant and equipment.

When performing the audit procedures the audit team engaged specialists in taxation, IFRS methodology, as well as experts in valuation of property, plant and equipment and pension liabilities.

We believe that the results of procedures performed on a sample basis at the level of the Group's components, analytical procedures at the Group's level and procedures over the consolidated financial reporting have provided sufficient and appropriate audit evidence for expressing our opinion on the Group's consolidated financial statements as a whole.

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### *Other information*

Management is responsible for the other information. Other information includes PJSC RusHydro's Annual Report for 2016 and Issuer's Report of PJSC RusHydro for Q1 2017, but does not include the consolidated financial statements and our auditor's report thereon. PJSC RusHydro's Annual Report for 2016 and Issuer's Report of PJSC RusHydro for Q1 2017 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above, when it is made available to us, and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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### *Responsibilities of management and those charged with governance for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.



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### *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor responsible for the audit resulting in this independent auditor's report, is Alexey Sergeevich Ivanov.

*AO PricewaterhouseCoopers Audit*

23 March 2017  
Moscow, Russian Federation



*A. S. Ivanov, certified auditor (licence no. 01-000531), AO PricewaterhouseCoopers Audit*

Audited entity: PJSC RusHydro

Certificate of inclusion in the Unified State Register of Legal Entities issued on 26 December 2004 under registration № 1042401810494

Krasnoyarsk, Krasnoyarsk Region, Russian Federation, 660017

Independent auditor:  
AO PricewaterhouseCoopers Audit

State registration certificate No. 008.890,  
issued by Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

ORNZ 11603050547 in the register of auditors and audit organizations



**RusHydro Group**  
**Consolidated Income Statement**  
(in millions of Russian Rubles unless noted otherwise)



	Note	Year ended 31 December 2016	Year ended 31 December 2015
Revenue	22	374,072	347,512
Government grants	23	17,250	14,314
Other operating income	24	12,422	8,230
Operating expenses (excluding impairment losses)	25	(315,705)	(315,103)
<b>Operating profit excluding impairment losses</b>		<b>88,039</b>	<b>54,953</b>
Impairment of property, plant and equipment	7	(26,525)	(12,593)
Impairment of accounts receivable, net		(7,133)	(4,011)
Impairment of financial assets	10	(4,464)	-
Impairment of loans issued	14	(2,378)	-
Impairment of other non-current assets	10	-	(3,220)
Impairment of goodwill of subsidiary	10	-	(448)
<b>Operating profit</b>		<b>47,539</b>	<b>34,681</b>
Finance income	26	9,943	12,313
Finance costs	26	(9,041)	(9,744)
Share of results of associates and joint ventures	8	6,682	428
<b>Profit before income tax</b>		<b>55,123</b>	<b>37,678</b>
Income tax expense	16	(15,372)	(10,519)
<b>Profit for the year</b>		<b>39,751</b>	<b>27,159</b>
Attributable to:			
Shareholders of PJSC RusHydro		40,205	31,539
Non-controlling interest		(454)	(4,380)
Earnings per ordinary share for profit attributable to the shareholders of PJSC RusHydro – basic and diluted (in Russian Rubles per share)	27	0.1095	0.0865
Weighted average number of shares outstanding – basic and diluted (thousands of shares)	27	367,138,482	364,468,853

The accompanying notes are an integral part of these Consolidated Financial Statements

**RusHydro Group**  
**Consolidated Statement of Comprehensive Income**

(in millions of Russian Rubles unless noted otherwise)



	Note	Year ended 31 December 2016	Year ended 31 December 2015
Profit for the year		39,751	27,159
<b>Other comprehensive income / (loss), net of tax:</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Impairment of revalued property, plant and equipment	7	(4,920)	(994)
Remeasurement of pension benefit obligations	17	(274)	(1,495)
<b>Total items that will not be reclassified to profit or loss</b>		<b>(5,194)</b>	<b>(2,489)</b>
<i>Items that may be reclassified subsequently to profit or loss</i>			
Profit arising on available-for-sale financial assets	9	15,050	1,962
Other comprehensive income / (loss)		5	(85)
<b>Total items that may be reclassified subsequently to profit or loss</b>		<b>15,055</b>	<b>1,877</b>
<b>Other comprehensive income / (loss)</b>		<b>9,861</b>	<b>(612)</b>
<b>Total comprehensive income for the year</b>		<b>49,612</b>	<b>26,547</b>
Attributable to:			
Shareholders of PJSC RusHydro		50,082	31,364
Non-controlling interest		(470)	(4,817)

The accompanying notes are an integral part of these Consolidated Financial Statements



**RusHydro Group**  
**Consolidated Statement of Cash Flows**  
(in millions of Russian Rubles unless noted otherwise)



	Note	Year ended 31 December 2016	Year ended 31 December 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
<b>Profit before income tax</b>		<b>55,123</b>	<b>37,678</b>
Depreciation of property, plant and equipment and amortisation of intangible assets	7, 25	24,130	22,477
Loss on disposal of property, plant and equipment, net	25	555	3,366
Share of results of associates and joint ventures	8	(6,682)	(428)
Other operating income	24	(12,422)	(8,230)
Finance income	26	(9,943)	(12,313)
Finance costs	26	9,041	9,744
Impairment of property, plant and equipment	7	26,525	12,593
Impairment of accounts receivable, net		7,133	4,011
Impairment of financial assets	10	4,464	-
Impairment of loans issued	14	2,378	-
Impairment of other non-current assets	10	-	3,220
Impairment of goodwill of subsidiary	10	-	448
Curtailement in pension payment and pension plan	17, 25	-	(717)
Pension expenses		128	84
Other income		(886)	(298)
<b>Operating cash flows before working capital changes, income tax paid and changes in other assets and liabilities</b>		<b>99,544</b>	<b>71,635</b>
Working capital changes:			
(Increase) / decrease in accounts receivable and prepayments		(9,243)	1,992
Increase in other current assets		(3,403)	-
Increase in inventories		(28)	(2,047)
Increase in accounts payable and accruals		1,013	1,450
(Decrease) / increase in other taxes payable		(199)	2,122
(Increase) / decrease in other non-current assets		(7,083)	967
Increase in other non-current liabilities		3,549	1,630
Income tax paid		(12,777)	(7,949)
<b>Net cash generated by operating activities</b>		<b>71,373</b>	<b>69,800</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment		(60,957)	(79,238)
Proceeds from sale of property, plant and equipment		266	3,386
Proceeds from sale of dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs	10	10,950	-
Investment in bank deposits and purchase of other investments		(9,993)	(56,789)
Redemption of bank deposits and proceeds from sale of other investments		25,477	75,817
Placement of special funds on special accounts		(6,998)	-
Return of special funds from special accounts		6,098	-
Proceeds from sale of subsidiaries, net of disposed cash	4	3,559	60
Purchase of shares of subsidiary	15	(414)	-
Purchase of subsidiaries from third parties, net of cash acquired		-	(651)
Proceeds from sale of investments in associates		-	81
Interest received		7,094	8,953
<b>Net cash used in investing activities</b>		<b>(24,918)</b>	<b>(48,381)</b>

The accompanying notes are an integral part of these Consolidated Financial Statements

**RusHydro Group**  
**Consolidated Statement of Cash Flows**  
(in millions of Russian Rubles unless noted otherwise)



	Note	Year ended 31 December 2016	Year ended 31 December 2015
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from current debt	18	64,855	83,896
Proceeds from non-current debt	18	71,829	36,487
Repayment of debt	18	(128,291)	(102,851)
Interest paid		(20,271)	(19,498)
Dividends paid to the shareholders of PJSC RusHydro		(14,228)	(5,712)
Dividends paid by subsidiaries to non-controlling interest holders		(234)	(102)
Proceeds from share issue	15	33	-
Finance lease payments		(530)	(804)
<b>Net cash used in by financing activities</b>		<b>(26,837)</b>	<b>(8,584)</b>
Foreign exchange difference on cash balances		(289)	796
<b>Increase in cash and cash equivalents</b>		<b>19,329</b>	<b>13,631</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>48,025</b>	<b>34,394</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>11</b>	<b>67,354</b>	<b>48,025</b>

**RusHydro Group**  
**Consolidated Statement of Changes in Equity**

(in millions of Russian Rubles unless noted otherwise)



	Note	Share capital	Treasury shares	Share premium	Merger reserve	Foreign currency translation reserve	Revaluation reserve on property, plant and equipment	Revaluation reserve on available-for-sale financial assets	Reserve for remeasurement of pension benefit obligation	Retained earnings	Equity attributable to shareholders of PJSC RusHydro	Non-controlling interest	Total equity
<b>As at 1 January 2015</b>		<b>386,255</b>	<b>(26,092)</b>	<b>39,202</b>	<b>(135,075)</b>	<b>(362)</b>	<b>190,476</b>	<b>-</b>	<b>1,721</b>	<b>122,796</b>	<b>578,921</b>	<b>16,230</b>	<b>595,151</b>
Profit for the year		-	-	-	-	-	-	-	-	31,539	31,539	(4,380)	27,159
Profit arising on available-for-sale financial assets	9	-	-	-	-	-	-	1,952	-	-	1,952	10	1,962
Remeasurement of pension benefit obligations	17	-	-	-	-	-	-	-	(1,032)	-	(1,032)	(463)	(1,495)
Impairment of revalued property, plant and equipment	7	-	-	-	-	-	(994)	-	-	-	(994)	-	(994)
Other comprehensive loss		-	-	-	-	(112)	18	-	-	(7)	(101)	16	(85)
Total other comprehensive loss		-	-	-	-	(112)	(976)	1,952	(1,032)	(7)	(175)	(437)	(612)
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(112)</b>	<b>(976)</b>	<b>1,952</b>	<b>(1,032)</b>	<b>31,532</b>	<b>31,364</b>	<b>(4,817)</b>	<b>26,547</b>
Dividends	15	-	-	-	-	-	-	-	-	(5,710)	(5,710)	(102)	(5,812)
Offer for shares of PJSC RAO ES East	15	-	-	-	-	-	-	-	-	(2,108)	(2,108)	-	(2,108)
Transfer of revaluation reserve to retained earnings		-	-	-	-	-	(948)	-	-	948	-	-	-
Effect of changes in non-controlling interest	15	-	-	-	-	-	-	-	-	12	12	129	141
<b>As at 31 December 2015</b>		<b>386,255</b>	<b>(26,092)</b>	<b>39,202</b>	<b>(135,075)</b>	<b>(474)</b>	<b>188,552</b>	<b>1,952</b>	<b>689</b>	<b>147,470</b>	<b>602,479</b>	<b>11,440</b>	<b>613,919</b>

The accompanying notes are an integral part of these Consolidated Financial Statements

**RusHydro Group**  
**Consolidated Statement of Changes in Equity**

(in millions of Russian Rubles unless noted otherwise)



	Note	Share capital	Treasury shares	Share premium	Merger reserve	Foreign currency translation reserve	Revaluation reserve on property, plant and equipment	Revaluation reserve on available-for-sale financial assets	Reserve for remeasurement of pension benefit obligation	Retained earnings	Equity attributable to shareholders of PJSC RusHydro	Non-controlling interest	Total equity
<b>As at 1 January 2016</b>		<b>386,255</b>	<b>(26,092)</b>	<b>39,202</b>	<b>(135,075)</b>	<b>(474)</b>	<b>188,552</b>	<b>1,952</b>	<b>689</b>	<b>147,470</b>	<b>602,479</b>	<b>11,440</b>	<b>613,919</b>
Profit for the year		-	-	-	-	-	-	-	-	40,205	40,205	(454)	39,751
Profit arising on available-for-sale financial assets	9	-	-	-	-	-	-	14,957	-	-	14,957	93	15,050
Remeasurement of pension benefit obligations	17	-	-	-	-	-	-	-	(230)	-	(230)	(44)	(274)
Impairment of revalued property, plant and equipment	7	-	-	-	-	-	(4,822)	-	-	-	(4,822)	(98)	(4,920)
Other comprehensive income		-	-	-	-	(64)	34	-	-	2	(28)	33	5
Total other comprehensive income		-	-	-	-	(64)	(4,788)	14,957	(230)	2	9,877	(16)	9,861
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(64)</b>	<b>(4,788)</b>	<b>14,957</b>	<b>(230)</b>	<b>40,207</b>	<b>50,082</b>	<b>(470)</b>	<b>49,612</b>
Dividends	15	-	-	-	-	-	-	-	-	(14,278)	(14,278)	(234)	(14,512)
Offer for shares of PJSC RAO ES East	15	-	3,514	-	-	-	-	-	-	4,872	8,386	(6,694)	1,692
Transfer of revaluation reserve to retained earnings		-	-	-	-	-	(796)	-	-	796	-	-	-
Effect of changes in non-controlling interest	15	-	-	-	-	-	-	-	-	-	-	213	213
Other movements		-	-	-	-	-	-	-	-	-	-	8	8
<b>As at 31 December 2016</b>		<b>386,255</b>	<b>(22,578)</b>	<b>39,202</b>	<b>(135,075)</b>	<b>(538)</b>	<b>182,968</b>	<b>16,909</b>	<b>459</b>	<b>179,067</b>	<b>646,669</b>	<b>4,263</b>	<b>650,932</b>

The accompanying notes are an integral part of these Consolidated Financial Statements



## **Note 1. The Group and its operations**

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2016 for PJSC RusHydro (hereinafter referred to as “the Company”) and its subsidiaries (hereinafter referred to as the “Group”).

The Company was incorporated and is domiciled in the Russian Federation. The Company is a joint stock company limited by shares and was set up in accordance with Russian regulations.

The Group’s primary activities are generation and sale of electricity and capacity on the Russian wholesale and retail markets, as well as generation and sale of heat energy.

***Economic environment in the Russian Federation.*** The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 29). During 2016 the Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country’s economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia’s credit rating is still below investment grade.

This operating environment has a significant impact on the Group’s operations and financial position. Management is taking necessary measures to ensure sustainability of the Group’s operations. However, the future effects of the current economic situation are difficult to predict and management’s current expectations and estimates could differ from actual results.

***Relations with the Government and current regulation.*** As at 31 December 2016 the Russian Federation owned 66.84 percent of the total voting ordinary shares of the Company (31 December 2015: 66.84 percent).

The Group’s major customer base includes a large number of entities controlled by, or related to the Government. Furthermore, the Government controls contractors and suppliers, which provide the Group with electricity dispatch, transmission and distribution services, and a number of the Group’s fuel and other suppliers (Note 6).

In addition, the Government affects the Group’s operations through:

- participation of its representatives in the Company’s Board of Directors;
- regulation of tariffs for electricity, capacity and heating;
- approval and monitoring of the Group’s investment programme, including volume and sources of financing.

Economic, social and other policies of the Russian Government could have a material effect on operations of the Group.

***Overview of the electricity and capacity market.*** Capacity and electricity, while interrelated, are treated as separate economic products. The capacity market represents the obligation and ability to keep sufficient generation capability in reserve in order to satisfy a target level of potential demand, while the sale of electricity represents the actual delivery of electricity to the purchaser.

The Russian electricity and capacity market consists of wholesale and retail markets.

Participants of the wholesale market include: generating companies, electricity sales companies (including guaranteeing suppliers), electricity export / import operator, Federal Grid Company (in terms of electricity purchases to cover transmission losses), large electricity consumers. Participants of the wholesale market can act as electricity and capacity sellers and buyers.

Participants of the retail markets include: consumers, providers of public utilities, guaranteeing suppliers, electricity sales (supply) companies, electricity generators of retail markets, grid companies, participants of electricity dispatch.

***Wholesale electricity and capacity market.*** The wholesale electricity and capacity market operates in accordance with the Resolution of the Russian Government No. 1172 dated 27 December 2010.

A wholesale market for electricity and capacity functions on the territory of the regions, which are integrated in pricing areas. European Russia and Urals are included in the first pricing area, Siberia is included in the second pricing area. In non-pricing areas (Arkhangelsk and Kaliningrad regions, Komi Republic, regions of the Far East), where the competitive market relationships are not possible due to technological reasons, sales of electricity and capacity are carried out based on special rules.



In the isolated energy systems which are not technically integrated into the country's unified energy system, there is no electricity and capacity wholesale market and electricity is supplied through the regulated markets.

#### *Wholesale electricity market*

The wholesale electricity market has a number of sectors varying in contractual terms, conditions and delivery timeframes: sector of regulated contracts, day-ahead market, sector of unregulated bilateral contracts and the balancing market.

During 2016 the electricity traded in pricing zones of wholesale market was sold at unregulated prices excluding volumes designated for delivery to population, groups of customers equivalent to population and customers located in North Caucasus and Republic of Tyva.

Electricity and capacity supply tariffs for the Russian Federation are calculated using the price indexing formulas determined by the Federal Tariff Service (hereinafter referred to as "the FTS").

Electricity and capacity supply volumes are determined based on the estimated consolidated balance of electricity production and supply prepared by the FTS, so that for each electricity and capacity supplier, supply under regulated contracts does not exceed 35 percent of the total electricity and capacity supply to the wholesale market determined by the decision on balance for such supplier.

Electricity volumes that are not covered by the regulated contracts are sold at unregulated prices on the day-ahead market (DAM) and balancing market (BM).

DAM is a competitive selection of seller and buyer price bids on the day ahead of planned electricity supply, including prices and volumes for each of the following 24 hours. The selection is managed by the Commercial Operator of the wholesale market (JSC TSA). At the DAM, the price is determined by balancing the demand and supply, and such price is applied to all market participants. To mitigate the price manipulation risk, the DAM introduced a system encouraging the participants to submit competitive price bids – in accordance with the trading rules, the lowest price bids for electricity supply are satisfied first.

Price indices and trade volumes for the DAM are published daily on the web-site of JSC TSA.

Electricity volumes sold under bilateral contracts and at the DAM constitute scheduled electricity consumption. However, actual consumption is inevitably different from the planned one. Deviations from scheduled production / consumption are traded on a real-time basis on BM, and the System Operator of the wholesale market (OJSC SO UES) holds additional tenders to select bids every three hours.

Under unregulated bilateral contracts, the market participants independently determine supply counter parties, prices, timing and volumes.

#### *Wholesale capacity market*

Capacity is traded based on the following trading mechanisms:

- purchase / sale of capacity under capacity sales contracts, concluded as a result of capacity competitive selection of bids;
- purchase / sale of capacity under unregulated contracts;
- purchase / sale of capacity under contracts to provide capacity and under sale contracts of new nuclear power plants and hydroelectric power plants, similar to capacity sale contracts;
- purchase / sale of capacity produced by forced generators;
- purchase / sale of capacity under regulated contracts (within the volumes for delivery to population and groups of customers equivalent to population);
- purchase / sale of capacity produced by qualified renewable energy projects under contracts to provide capacity concluded on the results of the tender for the construction of renewable energy projects.

Competitive capacity selection (CCS) held by OJSC SO UES is the basis of the capacity market and determines which capacity will be paid the wholesale market.

The Resolution of the Russian Government No. 893 dated 27 August 2015 approved new rules for CCS and improved capacity trading principles on the wholesale market. Starting from 2016, capacity under the CCS will be annually selected for the year which is in three calendar years' time from the year of the respective CCS. The CCS procedures are performed for the pricing zones not separated into free power transfer zones. Indexation is performed if CCS is conducted for more than one year ahead. The CCS price is indexed for CPI decreased by 1 percent for the period from 1 January of the year following the year when the CCS was conducted to 1 January of the year of supply.



The CCS price represents the maximum of prices in the selected bids and the price at which the demand function takes a value equal to the cumulative volume of the capacity selected (including the capacity to be paid irrespective of the CCS results). The CCS price for each pricing zone is the same for all selected generating facilities. Non-selected capacity that failed to pass through the competitive selection is not paid for. If the actual demand for capacity exceeds the volume of generating capacity selected, an adjusting CCS procedure can be conducted.

Capacity commissioned under capacity supply contracts (CSC) entered into with heating generation sites and contracts with nuclear power plants and hydropower plants similar to CSC and that of generating sites that are required to maintain the technological operating modes of the energy system or supply heat ("forced" generators) is paid for irrespective of the CCS results.

During 2016, similar to trading operations with electricity, capacity is supplied under regulated contracts only in the volumes required for supply to the population, equivalent consumer categories and consumers operating in some parts of the wholesale market pricing zones, comprising Russian constituent territories as determined by the Russian Government (North Caucasus and Republic of Tyva).

According to the Resolution of the Russian Government No. 374 dated 28 April 2015 approving changes to the regulations of the wholesale electricity and capacity market, all capacity of hydropower plants located in the second pricing area (Siberia) is supplied at the price of CCS from 1 May 2016.

#### *Non-pricing zone of the Far East*

Territories of the Amur Region, Primorsky Region, Khabarovsk Region, Jewish Autonomous Region and the Southern District of the Sakha Republic (Yakutia) are integrated into a single non-pricing zone of the wholesale electricity and capacity market of the Far East. There are specific features of managing electricity and capacity trading operations due to limitations in the competition among electricity suppliers and grid-imposed limitations for electricity flow.

Tariffs for electricity supplied by the Far East energy companies to the consumer (end-consumer tariffs) are approved by regional regulatory authorities based on the threshold tariff levels approved by the FTS for the regulated period.

The threshold tariff levels for electricity supplied to population or equivalent consumer categories and other consumers in the Russian constituent territories are determined by the FTS in accordance with the forecast of social and economic development in the Russian Federation for the regulated period.

The single buyer wholesale market model is implemented in the Far East non-pricing zone. Suppliers of the wholesale market supply electricity and capacity to the wholesale market using the tariffs established for them by the FTS.

The single buyer purchases electricity and capacity on the wholesale market at indicative prices calculated by JSC TSA based on the tariffs for suppliers of wholesale market approved by the FTS.

JSC TSA ensures settlements between the electricity suppliers and buyers. Functions of the single buyer are assigned to PJSC DEK, subsidiary of the Group, on the territory of Amur Region, Jewish Autonomous Region, Khabarovsk Region, Primorsky Region and the Southern District of the Sakha Republic (Yakutia).

However there are regions with only retail market operations – they are isolated energy systems of Kamchatsky Region, Magadan Region, Chukotsk Autonomous Region, Western and Central Regions of Sakha Republic (Yakutia) and Sakhalin Region where systems are not technically integrated into the unified energy system of the country.

Federal Law No. 508-FZ dated 28 December 2016 "On Amendments to the Federal Law" On Electric Power Industry" introduces a premium to the price for capacity in the first and second price zones, due to which tariffs in the Far East will be reduced to the average Russian level. This law is the law of indirect action. In early 2017, it is expected that the necessary subordinate legislation will be adopted to implement this support mechanism.

**Retail electricity markets.** In the retail electricity markets the sales of electricity purchased on the wholesale electricity and capacity market and electricity of generating companies which are not participants of the wholesale market are carried out.

The retail market rules were approved by Resolution of the Government No. 442 dated 4 May 2012 "On functioning of retail electricity markets, complete and (or) partial constraint of electricity consumption" (hereinafter referred to as "the retail market rules").



In the territories of the constituent regions of the Russian Federation integrated into pricing zones of the wholesale market electricity is sold at unregulated prices except for electricity sales to population and equivalent consumer categories.

Electricity is supplied to population and groups of customers equivalent to population at regulated prices (tariffs) approved by executive authorities of the constituent regions of the Russian Federation in terms of state tariff regulation.

Regulated prices are established based on forecast of social and economic development of Russian Federation for the next year approved by the Government. The FTS determines the threshold levels for regulated tariffs for electricity supplied to population and equivalent consumer categories.

The guaranteeing suppliers sell electricity at unregulated prices within the threshold limits of unregulated prices determined and applied according to the retail market rules. Electricity sales (supply) companies sell electricity at unregulated prices. Electricity generators in the retail markets sell electricity at unregulated prices.

In the territories of the constituent regions of the Russian Federation integrated into non-pricing zones of the wholesale market for determination of prices for electricity supplied to final customers in the retail markets principles of prices translation of wholesale market are applied. Translation of prices of wholesale market is performed for all final customers except for population and equivalent consumer categories.

Translation prices calculated by electricity sales companies according to the Rules of application of the prices (tariffs) are determined based on regulated tariffs set up for the respective group of customers and cost of purchase of electricity and capacity by guaranteeing supplier (electricity sales company) in the wholesale market. Population and equivalent consumer categories pay for electricity under the tariffs set up by executive authorities of the constituent regions of the Russian Federation.

In the territories of isolated energy systems – sales of electricity to all consumer categories are carried out at regulated prices approved by the FTS and executive authorities of the constituent regions of the Russian Federation in terms of state tariff regulation in the territories where such energy systems are located.

**Heating market.** Operations of the heating market are regulated by Federal Law No.190-FZ “On Heating” dated 27 July 2010 and Resolution of the Government No. 1075 dated 22 October 2012 “On pricing of heating supply”.

The Group’s entities that are included into the segment RAO ES East Group are participants on the retail heating markets in the territories of their presence. Heat energy is supplied on the centralised basis from the heat power plants and boiling houses operated by the energy systems. And a number of energy systems are involved in supplies of heat, generating and distributing heat energy, while others – just generate heat energy.

Heating market provides for:

- supply of heat and heat transfer public utilities relating to hot water and heating supply needs;
- supply of heat for the entities’ technological needs.

According to the Russian legislation, sales of heat energy are fully regulated.

Prices (tariffs) for heat supplied by utilities for all consumer groups are approved by executive authorities in the Russian constituent regions responsible for state regulation of prices (tariffs) within the threshold limits of tariffs approved by the FTS. Starting from 2016, tariffs for heat energy supplied by heat suppliers to other customers are not limited to the maximum level of tariff growth, but the growth of tariffs for heat energy for the population and equivalent consumer categories is limited by the index of changes in the amount of utility payments paid by citizens for the subjects of the Russian Federation established by the Government of the Russian Federation on annual basis. Tariffs for heat energy produced in the mode of combined generation of electric and heat energy by heat energy sources with the installed generating capacity of electric power production of 25 MW or more are approved by the executive authorities of the subjects of the Russian Federation in the field of state regulation of prices (tariffs) within the limits of tariff levels approved by FTS.

Service fee for maintenance of spare heat capacity when there is no heat consumption and fee for connection to the system of heating supply are also regulated by executive authorities in the Russian constituent regions responsible for state regulation of prices.





## Note 2. Summary of significant accounting policies

**Basis of preparation.** These consolidated financial statements have been prepared in accordance with IFRS under the historical cost convention, as modified by the financial instruments initially recognised at fair value, revaluation of property, plant and equipment and available-for-sale financial assets. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Each company of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with Russian standards of accounting (hereinafter referred to as “RSA”). These consolidated financial statements are based on the statutory records with adjustments and reclassifications made for the purpose of fair presentation in accordance with IFRS.

**Functional and presentation currency.** The functional currency of the Company and its subsidiaries, and the Group’s presentation currency, is the national currency of the Russian Federation, the Russian Ruble.

**Foreign currency translation.** Monetary assets and liabilities, which are held by the Group’s entities and denominated in foreign currencies at the end of the reporting period, are translated into Russian Rubles at the exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

As at 31 December 2016, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between Russian Ruble and US Dollar (hereinafter referred to as “USD”) was RR 60.66: USD 1.00 (31 December 2015: RR 72.88: USD 1.00), between Russian Ruble and Euro was RR 63.81: EUR 1.00 (31 December 2015: RR 79.70: EUR 1.00).

**Consolidated financial statements.** Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor’s returns.

The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee’s activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest’s proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount (“negative goodwill” or a “bargain purchase”) is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all the liabilities and contingent liabilities assumed and reviews the appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.



Intercompany transactions, balances and unrealised gains on transactions between the Group's entities are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

**Purchases and sales of non-controlling interests.** The Group applies the economic entity model to account for transactions with owners of non-controlling interest in transactions that do not result in a loss of control. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and the carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

**Acquisition of subsidiaries from parties under common control.** Acquisitions of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or the date when the combining entities were first brought under common control if later. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to merger reserve within equity. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented, i.e. retrospectively except for acquisition of subsidiaries acquired exclusively with a view for resale which are accounted for using predecessor values method prospectively from the acquisition date.

**Investments in associates and joint ventures.** Investments in associates and joint ventures are accounted for using the equity method of accounting, based upon the percentage of ownership held by the Group. Associates are entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as profit or loss in respect of associates and joint ventures, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, and (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the profit or loss in respect of associates and joint ventures.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is defined by making of decisions about the relevant activities required the unanimous consent of the parties sharing control.

The Group discontinues the use of the equity method from the date on which it ceases to have joint control over, or have significant influence on joint ventures and associates.

Unrealised gains on transactions with associates and joint ventures are eliminated to the extent of the Group's interest in the entity, unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

**Disposals of subsidiaries, associates or joint ventures.** When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.



If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

**Property, plant and equipment.** Property, plant and equipment in the statement of financial position includes assets under construction for future use as property, plant and equipment. Property, plant and equipment except for office buildings, land and assets under construction are stated at revalued amounts less accumulated depreciation and provision for impairment (where required). Office buildings owned by the Group are stated at historical cost less accumulated depreciation and accumulated impairment; land and assets under construction are stated at historical cost less accumulated impairment.

Property, plant and equipment except for office buildings, land and assets under construction are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the asset.

The revaluation surplus included in equity is transferred directly to retained earnings when the revaluation surplus is realised on disposal of the asset.

The Group charges deferred tax liabilities directly to other comprehensive income in respect of revaluation of property, plant and equipment that are recorded directly in other comprehensive income.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is highly probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Social assets are not capitalised if they are not expected to result in future economic benefits to the Group. Costs associated with fulfilling the Group's social responsibilities are expensed as incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss for the year.

**Depreciation.** Depreciation on items of property, plant and equipment (except for land and assets under construction) is calculated using the straight-line method over their estimated useful lives.

The useful lives of property, plant and equipment are subject to annual assessment by management and if expectations differ from previous estimates, the changes of useful lives are accounted for as a change in an accounting estimate prospectively.

The average useful lives of property, plant and equipment by type of facility, in years, were as follows:

<b>Type of facility</b>	<b>Average useful lives</b>
Production buildings	25–80
Facilities	10–100
Plant and equipment	5–40
Other	3–30

Depreciation is charged once an asset is available for service. Land and assets under construction are not depreciated.

**Impairment of property, plant and equipment.** Impairment reviews for property, plant and equipment are carried out when there is an indication that impairment may have occurred, or where it is otherwise required to ensure that property, plant and equipment are not carried above their estimated recoverable amounts (Note 7). If such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs of disposal and its value in use. Fair value less costs of disposal represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the cash-generating unit.



The carrying amount of the asset is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs of disposal.

**Investment property.** Investment property is property held by the Group to earn rental income which is not occupied by the Group (Note 10). Investment properties are stated at cost. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs of disposal. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

**Intangible assets and goodwill.** The Group's intangible assets other than goodwill have definite useful lives and primarily include customer base acquired in business combination (Note 10), which is amortised over 5 years, and capitalised computer software. Intangible assets are amortised using the straight-line method over their useful lives. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs of disposal. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

**Financial instruments – key measurement terms.** Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. The Group uses such valuation techniques of fair value which are the most acceptable in the circumstances and as much as possible use the observable basic data.

Fair value measurements are analysed by level in the fair value hierarchy as follows:

- level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- level 3 measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

For disclosure of information on fair value the Group classified assets and liabilities on the basis of an appropriate level of hierarchy of fair value as it is stated above (Note 32).

**Transaction costs** are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

**Amortised cost** is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium



(including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

**Classification of financial assets.** Financial assets have the following categories: (i) loans and receivables; (ii) available-for-sale financial assets; (iii) financial assets held to maturity and (iv) financial assets at fair value through profit or loss. The description of categories of financial assets of the Group is given below.

*Loans and receivables* are unquoted non-derivative financial assets with fixed or determinable payments.

*Financial assets at fair value through profit or loss.* This category is presented by derivative financial instruments which are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Group does not apply hedge accounting.

All other financial assets are included in the *available-for-sale* category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

**Classification of financial liabilities.** Financial liabilities have the following measurement categories: (i) financial liabilities at fair value through profit or loss and (ii) other financial liabilities. All financial liabilities of the Group including loans are categorised as other and carried at amortized cost.

**Initial recognition of financial instruments.** Trading investments, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

**Derecognition of financial assets.** The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

**Available-for-sale financial assets.** Available-for-sale financial assets are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale financial assets. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year. Impairment



losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

**Cash and cash equivalents.** Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

**Trade and other receivables.** Trade and other receivables are carried at amortised cost using the effective interest method.

**Impairment of financial assets carried at amortised cost.** Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred: (i) any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems; (ii) the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains; (iii) the counterparty considers bankruptcy or a financial reorganisation; (iv) there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or (v) the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the impairment loss account within the profit or loss for the year.

**Prepayments.** Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is highly probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

**Inventories.** Inventories are recorded at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses. Cost of inventory that is expensed is determined on the weighted average basis.

**Non-current assets classified as held for sale.** Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the consolidated statement of financial position as "non-current assets classified as held for sale" if their carrying amount will be recovered principally



through a sale transaction (including loss of control of a subsidiary holding the assets) within 12 months after the reporting period. Assets are reclassified when all of the following conditions are met: (i) the assets are available for immediate sale in their present condition; (ii) the Group's management approved and initiated an active programme to locate a buyer; (iii) the assets are actively marketed for a sale at a reasonable price; (iv) the sale is expected within one year; and (v) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current and / or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs of disposal. Held for sale property, plant and equipment, investment property and intangible assets are not depreciated or amortised. Reclassified non-current financial instruments and deferred taxes are not subject to the write down to the lower of their carrying amount and fair value less costs of disposal.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Disposal groups or non-current assets that ceases to be classified as held for sale are measured at the lower of (i) its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale, and (ii) its recoverable amount at the date of the subsequent decision not to sell.

**Income taxes.** Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantially enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is highly probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.



**Uncertain tax positions.** The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period. Adjustments for uncertain income tax positions are recorded within the income tax charge.

**Debt.** Debt is recognised initially at its fair value, less transaction costs. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective interest method; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated income statement as an interest expense over the period of the debt obligation.

**Capitalisation of borrowing costs.** Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

The commencement date for capitalisation is when (i) the Group incurs expenditures for the qualifying asset; (ii) it incurs borrowing costs; and (iii) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale. The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Interest payments capitalised as part of the cost of an assets are classified as cash outflows from financing activities in Consolidated Statement of Cash Flows.

**Employee benefits.** Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are accrued in the year in which the associated services are rendered by the employees of the Group.

**Defined benefit plans.** The Group operates defined benefit plans that cover the majority of its employees. Defined benefit plans define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service, minimum tariff rate of remuneration and others.

The net liability recognised in the statement of financial position in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the end of the reporting period less fair value of plan assets.

The defined benefit obligations are calculated by independent actuary using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related pension liabilities.

Actuarial gains and losses arising from remeasurement of pension benefit obligations are recognised in other comprehensive income. Past service cost is immediately recognised in profit or loss within operating expenses.

**Defined contribution plans.** For defined contribution plans, the Group pays contributions and has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in employee benefit expenses and payroll taxes in the consolidated income statement.





*Other post-employment benefit obligations.* The Group pays a one-off financial aid on occasion of an employee's jubilee. The amount of the benefit depends on one or more factors, such as the age, length of service in the company, salary and others.

For the purpose of calculating benefit obligations of these types, actuarial gains and losses arising as a result of adjustments or changes in actuarial assumptions are recognised within profit or loss in the consolidated statement of income in the period when they arise. All other aspects of accounting for these obligations are similar to those of accounting for defined benefit obligations.

**Finance lease liabilities.** Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

**Operating leases.** Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

**Environmental liabilities.** Liabilities for environmental remediation are recorded where there is a present obligation, the payment is highly probable and reliable estimates exist.

**Revenue recognition.** Revenue is recognised on the delivery of electricity and heat, provisioning for capacity, supply of non-utility services and on the dispatch of goods during the period. Revenue from retail operations is recognised on delivery of electricity and heat to the customer. Revenue amounts are presented exclusive of value added tax.

Revenue transactions under free bilateral contracts are shown net of related purchases of equivalent electricity volumes which the market participant is obliged to make in accordance with the industry regulations. For the year ended 31 December 2016 there was no additional turnover. For the year ended 31 December 2015 additional turnover in the amount of RR 6,288 million was shown net for presentation purposes to reflect the economic substance of transactions.

**Government grants.** Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight line basis over the expected lives of the related assets. Government grants are included in cash flows from operating activities.

**Earnings per share.** The earnings per share are determined by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period, excluding the average number of treasury shares held by the Group.

**Share capital.** Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the placement value over the par value of shares issued is recorded as share premium in equity.

**Treasury shares.** Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company's owners until the equity instruments are reissued, disposed of or cancelled. In case the consideration paid is non-cash asset, the treasury shares received are recognised at the fair value of this asset. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners.

**Dividends.** Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.



**Provisions for liabilities and charges.** Provisions for liabilities and charges are non-financial liabilities of uncertain timing of amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

**Social expenditure.** To the extent that the Group's contributions to social programmes benefit the community at large without creating constructive obligations to provide such benefits in the future and are not restricted to the Group's employees, they are recognised in the income statement as incurred.

**Financial guarantees.** Financial guarantees are irrevocable contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition, and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

**Segment reporting.** Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

#### **Critical accounting estimates and judgments in applying accounting policies**

The Group makes estimates and assumptions that affect the amounts recognised in the Consolidated Financial Statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the Consolidated Financial Statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

**Impairment of non-financial assets.** Accounting for impairment of non-financial assets includes impairment of property, plant and equipment and impairment of investments in associates.

The effect of these critical accounting estimates and assumptions is disclosed in Notes 7 and 8.

**Recognition of deferred tax assets.** At each reporting date management assesses recoverability of deferred tax assets arising from operating losses and asset impairments in the context of the current economic environment, particularly when current and expected future profits have been adversely affected by market conditions. Management considers first the future reversal of existing deferred tax liabilities and then considers future taxable profits when evaluating deferred tax assets. The assessment is made on a tax payer basis. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plans of the Group companies prepared by management and extrapolated results thereafter.

Management considered the recoverability of recognised deferred tax assets, including those on tax losses carried forward, as probable due to existence of taxable temporary differences which recoverability is expected in future and of high probability of deferred tax assets being recoverable by the future taxable profits (Note 16).

**Useful life of property, plant and equipment.** The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets and other factors. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear, warranty terms as well as the environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates which can affect the reported income.



### **Reclassifications**

Certain reclassifications have been made to prior year data to conform to the current year presentation. These reclassifications are not material.

### **Adoption of New or Revised Standards and Interpretations**

The following new standards and interpretations became effective from 1 January 2016 but did not have any material impact on the Group's consolidated financial statements:

- Amendments Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued in May 2014 and effective for the periods beginning on or after 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

### **Note 3. New accounting pronouncements**

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Group has not early adopted. These standards and interpretations have been approved for adoption in the Russian Federation unless noted otherwise.

**IFRS 9, Financial Instruments: Classification and Measurement** (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a "three stage" approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its consolidated financial statements.



**IFRS 15, Revenue from Contracts with Customers** (issued in May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements.

**Amendments to IFRS 15, Revenue from Contracts with Customers** (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The Group is currently assessing the impact of the new standard on its financial statements.

**IFRS 16, Leases** (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

**Disclosure Initiative - Amendments to IAS 7** (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group will present this disclosure in its 2017 financial statements.

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.



**Note 4. Principal subsidiaries**

All principal subsidiaries are incorporated and operate in the Russian Federation. Differences between the ownership interest and voting interest held by some subsidiaries represent the effect of preference shares and / or effects of indirect ownership, or shares of limited liability companies (LLC).

The Group operates in the three main reportable segments one of which is represented by the Group's parent company – PJSC RusHydro (Note 5). The principal subsidiaries are presented below according to their allocation to the reportable segments as at 31 December 2016 and 31 December 2015.

**ESC RusHydro subgroup segment**

ESC RusHydro subgroup segment includes the Group's subsidiaries which sell electricity to final customers. All the entities included in this segment with the exception of JSC ESC RusHydro have the guaranteeing supplier status and are obliged to sign contracts on supplies with all final consumers of their region upon their request.

	31 December 2016		31 December 2015	
	% of ownership	% of voting	% of ownership	% of voting
JSC ESC RusHydro	100.00%	100.00%	100.00%	100.00%
PJSC Krasnoyarskenergosbyt	65.81%	69.40%	65.81%	69.40%
PJSC Ryazan Power Distributing Company	90.52%	90.52%	90.52%	90.52%
JSC Chuvashskaya energy retail company	100.00%	100.00%	100.00%	100.00%
LLC ESC Bashkortostan	-	-	100.00%	-

In December 2016 the Group completed the sale transaction of 100 percent shares of LLC ESC Bashkortostan (electricity sales company, guaranteeing supplier of electricity in the Republic of Bashkortostan) to Inter RAO Group. The total consideration amounted to RR 4,100 million including RR 3,600 million received in cash as at 31 December 2016 and deferred consideration of RR 500 million, that was received by the Group in February, 2017.

Net assets of LLC ESC Bashkortostan at the date of disposal are represented below:

Non-current assets	567
Cash and cash equivalents	41
Accounts receivable and prepayments	6,018
Other current assets	11
<b>Total assets of LLC ESC Bashkortostan</b>	<b>6,637</b>
Non-current liabilities	197
Current debt and current portion of non-current debt	2,220
Accounts payable and accruals	3,053
Taxes payable	115
<b>Total liabilities of LLC ESC Bashkortostan</b>	<b>5,585</b>
<b>Net assets of LLC ESC Bashkortostan</b>	<b>1,052</b>

Profit from the sale of LLC ESC Bashkortostan in the amount of RR 3,048 million is included in Other operating income.

	Date of disposal
Net assets of LLC ESC Bashkortostan	(1,052)
Fair value of consideration	4,100
<b>Profit from the sale of LLC ESC Bashkortostan</b>	<b>3,048</b>



**RAO ES East subgroup segment**

RAO ES East subgroup segment consists of PJSC RAO ES East and its subsidiaries that generate distribute and sell electricity and heat in the Far East region of the Russian Federation and render transportation, construction, repair and other services.

Principal subsidiaries of this segment are presented below:

	31 December 2016		31 December 2015	
	% of ownership	% of voting	% of ownership	% of voting
PJSC RAO ES East*	99.98%	99.98%	85.92%	86.20%
PJSC DEK	52.11%	52.17%	44.92%	52.17%
JSC DGK	52.11%	100.00%	44.92%	100.00%
JSC DRSK	52.11%	100.00%	44.92%	100.00%
PJSC Kamchatskenergo	98.72%	98.74%	84.83%	98.74%
PJSC Magadanenergo**	48.99%	49.00%	42.10%	49.00%
PJSC Sakhalinenergo	57.80%	57.82%	49.67%	57.82%
PJSC Yakutskenergo	79.15%	79.16%	72.21%	79.16%

\* Voting and ownership percent interests in PJSC RAO ES East as at 31 December 2016 include 15.59 percent interest held by the Group's subsidiary LLC Vostok-Finance (31 December 2015: 1.81 percent).

\*\* Control over PJSC Magadanenergo is achieved by the majority of votes on the shareholders meeting because the remaining part of the shares not owned by the Group are distributed among a large number of shareholders the individual stakes of which are insignificant.

The Group's share in PJSC RAO ES East and its subsidiaries increased as a result of voluntary and obligatory offers to purchase shares of PJSC RAO ES East (Note 15).

**Other segments**

Other segments include:

- the Group's subsidiaries with production and sale of electricity and capacity;
- the Group's subsidiaries primarily engaged in research and development related to the utilities industry and construction of hydropower facilities;
- the Group's subsidiaries engaged in repair, upgrade and reconstruction of equipment and hydropower facilities;
- the Group's subsidiaries engaged primarily in hydropower plants construction;
- minor segments which do not have similar economic characteristics.

Principal subsidiaries included in other segments are presented below:

	31 December 2016		31 December 2015	
	% of ownership	% of voting	% of ownership	% of voting
JSC Blagoveschensk HPP	100.00%	100.00%	100.00%	100.00%
JSC VNIIG	100.00%	100.00%	100.00%	100.00%
JSC Geotherm	99.65%	99.65%	99.65%	99.65%
JSC Hidroremont-VKK	100.00%	100.00%	100.00%	100.00%
JSC Zagorskaya GAES-2	100.00%	100.00%	100.00%	100.00%
JSC Zaramag HS	99.75%	99.75%	99.75%	99.75%
JSC Institute Hydroproject	100.00%	100.00%	100.00%	100.00%
PJSC Kolimaenergo	98.76%	98.76%	98.76%	98.76%
JSC Lenhydroproject	100.00%	100.00%	100.00%	100.00%
JSC NIIES	100.00%	100.00%	100.00%	100.00%
JSC Nizhne-Bureiskaya HPP	100.00%	100.00%	100.00%	100.00%
JSC Sahalin GRES-2	100.00%	100.00%	100.00%	100.00%
JSC Sulak HidroKaskad	100.00%	100.00%	100.00%	100.00%
JSC HPP in Sovetskaya Gavan	100.00%	100.00%	100.00%	100.00%
JSC Ust'-Srednekangesstroy	98.76%	100.00%	98.76%	100.00%
JSC Ust'-Srednekanskaya HPP	99.63%	100.00%	99.63%	100.00%
JSC Chirkeigesstroy	100.00%	100.00%	100.00%	100.00%
JSC ESCO UES	100.00%	100.00%	100.00%	100.00%
JSC Yakutskaya GRES-2	100.00%	100.00%	100.00%	100.00%



(in millions of Russian Rubles unless noted otherwise)

**Non-controlling interest**

Summarised financial information related to subsidiaries with significant amount of non-controlling interest before elimination of operations between the Group's subsidiaries is presented below:

<b>Financial position</b>	<b>RAO ES East subgroup</b>		<b>including DEK subgroup</b>	
	<b>31 December 2016</b>	<b>31 December 2015</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Share of non-controlling interest	0.02%	14.08%	47.89%	55.08%
Share of voting rights, attributable to non-controlling interest	0.02%	13.80%	47.83%	47.83%
Non-current assets	114,628	104,873	65,407	57,183
Current assets	57,587	57,638	25,645	23,993
Non-current liabilities	(87,668)	(57,768)	(61,392)	(35,095)
Current liabilities	(74,421)	(88,518)	(33,433)	(54,549)
<b>Net assets / (liabilities)</b>	<b>10,126</b>	<b>16,225</b>	<b>(3,773)</b>	<b>(8,468)</b>
<b>Carrying value of non-controlling interest</b>	<b>3,014</b>	<b>9,732</b>	<b>(421)</b>	<b>(2,656)</b>
	<b>Year ended 31 December 2016</b>	<b>Year ended 31 December 2015</b>	<b>Year ended 31 December 2016</b>	<b>Year ended 31 December 2015</b>
<b>Financial results</b>				
Revenue	175,545	162,713	119,179	109,327
(Loss) / profit for the year	(6,184)	(7,518)	1,573	(8,756)
Total comprehensive (loss) / income for the year	(6,397)	(8,410)	1,744	(9,402)
(Loss)/ profit for the year, attributable to non-controlling interest	(221)	(4,621)	1,641	(4,522)
Changes in other comprehensive (loss) / income, attributable to non-controlling interest	(110)	(446)	114	(59)
<b>Cash flows</b>				
Cash generated by operating activities	12,982	10,919	11,397	5,592
Cash used in investing activities	(17,632)	(14,854)	(6,093)	(6,406)
Cash (used in) / generated by financing activities	(355)	1,786	(4,980)	(191)
<b>(Decrease) / increase in cash and cash equivalents</b>	<b>(5,005)</b>	<b>(2,149)</b>	<b>324</b>	<b>(1,005)</b>

The rights of the non-controlling shareholders of the presented subgroups are determined by the Federal Law "On Joint Stock Companies" and the charter documents of PJSC RAO ES East and PJSC DEK.

**Note 5. Segment information**

Operating segments are components of the Group engaged in operations from which they may earn revenue and incur expenses, including revenue and expenses relating to transactions with other components of the Group. The individual financial information of the operating segments, which based on the same principles as the present consolidated financial statements, is available and is regularly reviewed by the chief operating decision maker (CODM) to make operating decisions about resources to be allocated to the segments and the performance of the segments' operating activities.

The CODM analyses the information concerning the Group by the groups of operations which are aggregated in operating segments presented by the following separate reportable segments: PJSC RusHydro (the Group's parent company), ESC RusHydro subgroup, RAO ES East subgroup and other segments (Note 4). Transactions of other segments are not disclosed as reportable segments based on quantitative indicators for the periods presented.

Management of operating activities of segments is performed with direct participation of individual segment managers accountable to the CODM. Segment managers on a regular basis submit for approval to the CODM results of operating activities and financial performance of segments. The CODM approves the annual business plan at the level of reportable segments as well as analyses actual financial performance of segments. Management bears responsibility for execution of approved plan and management of operating activities at the level of segments.



The segments' operational results are estimated on the basis of EBITDA, which is calculated as operating profit / loss excluding insurance indemnity, depreciation of property, plant and equipment and amortisation of intangible assets, impairment of property, plant and equipment, impairment of other non-current assets, impairment of financial assets, impairment of goodwill, impairment of available-for-sale financial assets, of accounts receivable, of long-term promissory notes, loss on disposal of property, plant and equipment, gain on disposal of subsidiaries and associates, profit on disposal of other non-current assets, curtailment in pension payment and pension plan and other non-monetary items of operating expenses. This method of definition of EBITDA may differ from the methods applied by other companies. CODM believes that EBITDA represents the most useful means of assessing the performance of ongoing operating activities of the Company and the Group's subsidiaries, as it reflects the earnings trends without showing the impact of certain charges.

Segment information also contains capital expenditures and the amount of debt as these indicators are analysed by the CODM. Intersegment debt's balances are excluded.

Other information provided to the CODM complies with the information presented in the consolidated financial statements.

Intersegment sales are carried out at market prices.

Segment information for the years ended 31 December 2016 and 31 December 2015 and as at 31 December 2016 and 31 December 2015 is presented below:



**RusHydro Group**  
**Notes to the Consolidated Financial Statements as at and for the year ended**  
**31 December 2016**



(in millions of Russian Rubles unless noted otherwise)

<b>Year ended 31 December 2016</b>	<b>PJSC RusHydro</b>	<b>ESC RusHydro subgroup</b>	<b>RAO ES East subgroup</b>	<b>Other segments</b>	<b>Total segments</b>	<b>Unallocated adjustments and intercompany operations</b>	<b>TOTAL</b>
<b>Revenue</b>	<b>115,037</b>	<b>88,748</b>	<b>175,545</b>	<b>29,502</b>	<b>408,832</b>	<b>(34,760)</b>	<b>374,072</b>
<i>including:</i>							
<i>from external companies</i>	104,441	88,715	174,716	6,200	374,072	-	374,072
<i>sales of electricity</i>	74,802	87,595	109,586	599	272,582	-	272,582
<i>sales of heat and hot water sales</i>	168	-	38,681	-	38,849	-	38,849
<i>sales of capacity</i>	28,881	-	7,795	392	37,068	-	37,068
<i>other revenue</i>	590	1,120	18,654	5,209	25,573	-	25,573
<i>from intercompany operations</i>	10,596	33	829	23,302	34,760	(34,760)	-
Government grants	-	-	17,184	66	17,250	-	17,250
Other operating income (excluding non-monetary items)	29	1	82	340	452	(17)	435
Operating expenses (excluding depreciation and other non-monetary items)	(39,707)	(85,869)	(168,917)	(29,788)	(324,281)	32,865	(291,416)
<b>EBITDA</b>	<b>75,359</b>	<b>2,880</b>	<b>23,894</b>	<b>120</b>	<b>102,253</b>	<b>(1,912)</b>	<b>100,341</b>
Insurance indemnity	-	-	-	1,737	1,737	-	1,737
Depreciation of property, plant and equipment and amortisation of intangible assets	(13,641)	(752)	(7,747)	(2,247)	(24,387)	257	(24,130)
Other non-monetary items of operating income and expenses	<b>(3,078)</b>	<b>881</b>	<b>(12,501)</b>	<b>(15,711)</b>	<b>(30,409)</b>	-	<b>(30,409)</b>
<i>including:</i>							
<i>impairment of property, plant and equipment</i>	(6,743)	-	(5,581)	(14,201)	(26,525)	-	(26,525)
<i>profit on disposal of other non-current assets</i>	7,202	-	-	-	7,202	-	7,202
<i>impairment of financial assets</i>	-	(243)	(3,120)	(1,101)	(4,464)	-	(4,464)
<i>impairment of loans issued</i>	(2,378)	-	-	-	(2,378)	-	(2,378)
<i>impairment of accounts receivable, net</i>	(1,014)	(1,911)	(3,968)	(240)	(7,133)	-	(7,133)
<i>loss on disposal of property, plant and equipment, net</i>	(145)	(13)	(228)	(169)	(555)	-	(555)
<i>gain on disposal of subsidiaries and associates</i>	-	3,048	396	-	3,444	-	3,444
<b>Operating profit / (loss)</b>	<b>58,640</b>	<b>3,009</b>	<b>3,646</b>	<b>(16,101)</b>	<b>49,194</b>	<b>(1,655)</b>	<b>47,539</b>
Finance income							9,943
Finance costs							(9,041)
Share of results of associates and joint ventures							6,682
<b>Profit before income tax</b>							<b>55,123</b>
Total income tax expense							(15,372)
<b>Profit for the year</b>							<b>39,751</b>
<b>Capital expenditure</b>	<b>29,987</b>	<b>204</b>	<b>20,809</b>	<b>27,366</b>	<b>78,366</b>	<b>2,699</b>	<b>81,065</b>
<b>31 December 2016</b>							
<b>Non-current and current debt</b>	<b>107,274</b>	<b>550</b>	<b>86,912</b>	<b>5,067</b>	<b>199,803</b>	<b>-</b>	<b>199,803</b>

**RusHydro Group**  
**Notes to the Consolidated Financial Statements as at and for the year ended**  
**31 December 2016**



(in millions of Russian Rubles unless noted otherwise)

						Unallocated adjustments and intercompany operations	
<b>Year ended 31 December 2015</b>	<b>PJSC RusHydro</b>	<b>ESC RusHydro subgroup</b>	<b>RAO ES East subgroup</b>	<b>Other segments</b>	<b>Total segments</b>		<b>TOTAL</b>
<b>Revenue</b>	<b>100,826</b>	<b>86,955</b>	<b>162,713</b>	<b>28,113</b>	<b>378,607</b>	<b>(31,095)</b>	<b>347,512</b>
<i>including:</i>							
<i>from external companies</i>	90,960	86,925	162,441	7,186	347,512	-	347,512
<i>sales of electricity</i>	64,198	85,850	104,021	449	254,518	-	254,518
<i>sales of heat and hot water sales</i>	154	-	35,227	-	35,381	-	35,381
<i>sales of capacity</i>	25,611	-	7,047	380	33,038	-	33,038
<i>other revenue</i>	997	1,075	16,146	6,357	24,575	-	24,575
<i>from intercompany operations</i>	9,866	30	272	20,927	31,095	(31,095)	-
Government grants	-	-	14,268	46	14,314	-	14,314
Other operating income (excluding non-monetary items)	-	-	498	800	1,298	(4)	1,294
Operating expenses (excluding depreciation and other non-monetary items)	(41,387)	(84,075)	(164,682)	(29,206)	(319,350)	29,613	(289,737)
<b>EBITDA</b>	<b>59,439</b>	<b>2,880</b>	<b>12,797</b>	<b>(247)</b>	<b>74,869</b>	<b>(1,486)</b>	<b>73,383</b>
Insurance indemnity	-	-	-	6,471	6,471	-	6,471
Depreciation of property, plant and equipment and amortisation of intangible assets	(12,523)	(826)	(7,624)	(1,769)	(22,742)	265	(22,477)
Other non-monetary items of operating income and expenses	(12,586)	(1,387)	(3,547)	(5,014)	(22,534)	(162)	(22,696)
<i>including:</i>							
<i>impairment of property, plant and equipment</i>	(9,747)	-	(1,953)	(893)	(12,593)	-	(12,593)
<i>impairment of other non-current assets</i>	(3,220)	-	-	-	(3,220)	-	(3,220)
<i>impairment of goodwill of subsidiary</i>	-	-	-	(448)	(448)	-	(448)
<i>reversal / (impairment) of accounts receivable, net</i>	1,078	(1,345)	(3,021)	(723)	(4,011)	-	(4,011)
<i>(loss) / profit on disposal of property, plant and equipment, net</i>	(537)	(42)	59	(2,950)	(3,470)	104	(3,366)
<i>curtailment in pension payment and pension plan</i>	-	-	717	-	717	-	717
<i>(loss) / gain on disposal of subsidiaries and associates</i>	(160)	-	651	-	491	(266)	225
<b>Operating profit / (loss)</b>	<b>34,330</b>	<b>667</b>	<b>1,626</b>	<b>(559)</b>	<b>36,064</b>	<b>(1,383)</b>	<b>34,681</b>
Finance income							12,313
Finance costs							(9,744)
Share of results of associates and joint ventures							428
<b>Profit before income tax</b>							<b>37,678</b>
Total income tax expense							(10,519)
<b>Profit for the year</b>							<b>27,159</b>
<b>Capital expenditure</b>	<b>35,206</b>	<b>223</b>	<b>19,554</b>	<b>41,956</b>	<b>96,939</b>	<b>4,896</b>	<b>101,835</b>
<b>31 December 2015</b>							
<b>Non-current and current debt</b>	<b>121,861</b>	<b>1,847</b>	<b>68,019</b>	<b>5,666</b>	<b>197,393</b>	<b>-</b>	<b>197,393</b>



**Note 6. Related party transactions**

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group's principal related parties for the years ended 31 December 2016 and 31 December 2015 were joint ventures, associates of the Group (Note 8) and government-related entities.

**Joint ventures**

The Group had the following balances with its joint ventures:

	Note	31 December 2016	31 December 2015
Promissory notes	10	6,269	5,711
Advances to suppliers		800	-
Loans issued		15	2,725
Loans received		750	750

The Group had the following transactions with its joint ventures:

	Year ended 31 December 2016	Year ended 31 December 2015
Sales of electricity and capacity	931	851
Other revenue	648	778
Purchased electricity and capacity	2,811	2,149

**Associates**

The Group had the following balances with its associates:

	Year ended 31 December 2016	Year ended 31 December 2015
Trade and other receivables	491	440
Accounts payable	781	481

The Group had the following transactions with its associates:

	Year ended 31 December 2016	Year ended 31 December 2015
Sales of electricity and capacity	2,679	2,351
Other revenue	137	258
Rent	521	447
Purchased electricity and capacity	17	19

**Government-related entities**

In the normal course of business the Group enters into transactions with the entities related to the Government.

The Group had transactions during the years ended 31 December 2016 and 31 December 2015 and balances outstanding as at 31 December 2016 and 31 December 2015 with the following government-related banks: SC Vnesheconombank, PJSC Sberbank, JSC Rosselkhozbank, Bank GPB (JSC), PJSC VTB Bank, OJSC Bank of Moscow, PJSC VTB24 (Notes 10, 11, 14, 18). All transactions are carried out on market rates.

The Group's sales of electricity, capacity and heat to government-related entities comprised approximately 30 percent of total sales of electricity, capacity and heat for the year ended 31 December 2016 (for the year ended 31 December 2015: approximately 30 percent). Sales of electricity and capacity under the regulated contracts are conducted directly to the consumers, within the day-ahead market (DAM) – through commission agreements with JSC Centre of Financial Settlements (CFS). Electricity and capacity supply tariffs under the regulated contracts and electricity and heating supply tariffs in non-pricing zone of the Far East are approved by FTS and by regional regulatory authorities of the Russian Federation. On DAM the price is determined by balancing the demand and supply and such price is applied to all market participants. During the period the Group received government subsidies in amount of RR 17,250 million (in 2015 in the amount of RR 14,314 million) (Note 23).



The Group's purchases of electricity, capacity and fuel from government-related entities comprised approximately 20 percent of total expenses on purchased electricity, capacity and fuel for the year ended 31 December 2016 (for the year ended 31 December 2015: approximately 20 percent).

Electricity distribution services provided to the Group by government-related entities comprised approximately 60 percent of total electricity distribution expenses for the year ended 31 December 2016 (for the year ended 31 December 2015: approximately 50 percent). The distribution of electricity is subject to tariff regulations.

**Key management of the Group.** Key management of the Group includes members of the Board of Directors of the Company, members of the Management Board of the Company, heads of the business subdivisions of the Company and their deputies, key management of subsidiaries of RAO ES East subgroup segment.

Remuneration to the members of the Board of Directors of the Company for their services in their capacity and for attending Board meetings is paid depending on the results for the year and is calculated based on specific remuneration policy approved by the Annual General Shareholders Meeting of the Company.

Remuneration to the members of the Management Board and to other key management of the Group is paid for their services in full time management positions and is made up of a contractual salary and performance bonuses depending on the results of the work for the period based on key performance indicators approved by the Board of Directors of the Company.

Main compensation for Key management of the Group generally is short-term excluding future payments under pension plans with defined benefits. Pension benefits for key management of the Group are provided on the same terms as for the rest of employees.

Short-term remuneration paid to the key management of the Group for the year ended 31 December 2016 comprised RR 1,419 million including accrual for bonuses in the amount of RR 165 million (for the year ended 31 December 2015: RR 2,174 million).



(in millions of Russian Rubles unless noted otherwise)

**Note 7. Property, plant and equipment**

Revalued amount / cost	Buildings	Facilities	Plant and equipment	Assets under construction	Other	Total
<b>Balance as at 31 December 2015</b>	<b>83,887</b>	<b>398,693</b>	<b>268,513</b>	<b>285,292</b>	<b>13,646</b>	<b>1,050,031</b>
Impairment of revalued property, plant and equipment	(262)	(4,941)	(943)	-	(4)	(6,150)
Reclassification	(105)	(313)	(2,240)	2,790	(132)	-
Additions	71	1,307	1,591	76,876	1,220	81,065
Transfers	8,247	13,218	49,052	(70,675)	158	-
Disposals of subsidiaries	(352)	(129)	(452)	(34)	(125)	(1,092)
Disposals and write-offs	(162)	(568)	(3,592)	(1,360)	(477)	(6,159)
<b>Balance as at 31 December 2016</b>	<b>91,324</b>	<b>407,267</b>	<b>311,929</b>	<b>292,889</b>	<b>14,286</b>	<b>1,117,695</b>
<b>Accumulated depreciation (including impairment)</b>						
<b>Balance as at 31 December 2015</b>	<b>(31,803)</b>	<b>(131,656)</b>	<b>(105,881)</b>	<b>(29,192)</b>	<b>(6,914)</b>	<b>(305,446)</b>
Impairment charge	(1,729)	(6,227)	(13,317)	(11,692)	(134)	(33,099)
Reversal of impairment	786	3,284	2,433	70	9	6,582
Depreciation charge	(2,018)	(8,294)	(12,621)	-	(1,191)	(24,124)
Transfers	(794)	(719)	(6,554)	8,065	2	-
Disposals of subsidiaries	47	53	343	28	95	566
Disposals and write-offs	52	98	1,861	497	365	2,873
<b>Balance as at 31 December 2016</b>	<b>(35,459)</b>	<b>(143,461)</b>	<b>(133,736)</b>	<b>(32,224)</b>	<b>(7,768)</b>	<b>(352,648)</b>
<b>Net book value as at 31 December 2016</b>	<b>55,865</b>	<b>263,806</b>	<b>178,193</b>	<b>260,665</b>	<b>6,518</b>	<b>765,047</b>
<b>Net book value as at 31 December 2015</b>	<b>52,084</b>	<b>267,037</b>	<b>162,632</b>	<b>256,100</b>	<b>6,732</b>	<b>744,585</b>

Revalued amount / cost	Buildings	Facilities	Plant and equipment	Assets under construction	Other	Total
<b>Balance as at 31 December 2014</b>	<b>81,110</b>	<b>378,702</b>	<b>226,137</b>	<b>256,121</b>	<b>14,925</b>	<b>956,995</b>
Impairment of revalued property, plant and equipment	(26)	(1,160)	(56)	-	-	(1,242)
Reclassification	(55)	89	(1,806)	2,597	(825)	-
Additions	979	808	1,611	97,417	1,020	101,835
Reclassification to non-current assets and assets of disposal group classified as held for sale	(880)	-	-	-	-	(880)
Transfers	2,925	20,357	43,503	(67,292)	507	-
Disposals and write-offs	(166)	(103)	(876)	(3,551)	(1,981)	(6,677)
<b>Balance as at 31 December 2015</b>	<b>83,887</b>	<b>398,693</b>	<b>268,513</b>	<b>285,292</b>	<b>13,646</b>	<b>1,050,031</b>
<b>Accumulated depreciation (including impairment)</b>						
<b>Balance as at 31 December 2014</b>	<b>(29,504)</b>	<b>(116,411)</b>	<b>(89,161)</b>	<b>(29,062)</b>	<b>(6,667)</b>	<b>(270,805)</b>
Impairment charge	(644)	(4,318)	(2,180)	(6,143)	(55)	(13,340)
Reversal of impairment	346	94	299	8	-	747
Depreciation charge	(2,152)	(8,302)	(11,782)	-	(1,439)	(23,675)
Reclassification to non-current assets and assets of disposal group classified as held for sale	92	-	-	-	-	92
Transfers	12	(2,741)	(3,607)	5,819	517	-
Disposals and write-offs	47	22	550	186	730	1,535
<b>Balance as at 31 December 2015</b>	<b>(31,803)</b>	<b>(131,656)</b>	<b>(105,881)</b>	<b>(29,192)</b>	<b>(6,914)</b>	<b>(305,446)</b>
<b>Net book value as at 31 December 2015</b>	<b>52,084</b>	<b>267,037</b>	<b>162,632</b>	<b>256,100</b>	<b>6,732</b>	<b>744,585</b>
<b>Net book value as at 31 December 2014</b>	<b>51,606</b>	<b>262,291</b>	<b>136,976</b>	<b>227,059</b>	<b>8,258</b>	<b>686,190</b>

As at 31 December 2016 included in the net book value of the property, plant and equipment are office buildings and plots of land owned by the Group in the amount of RR 7,745 million (31 December 2015: RR 7,793 million) which are stated at cost.

Assets under construction represent the expenditures for property, plant and equipment that are being constructed, including hydropower plants under construction, and advances to construction companies and



suppliers of property, plant and equipment. As at 31 December 2016 such advances amounted to RR 47,105 million (31 December 2015: RR 59,531 million).

Additions to assets under construction included capitalised borrowing costs in the amount of RR 14,276 million, the capitalisation rate was 10.55 percent (for the year ended 31 December 2015: RR 14,706 million, the capitalisation rate was 11.28 percent).

Additions to assets under construction included capitalised depreciation in the amount of RR 1,042 million (for the year ended 31 December 2015: RR 1,088 million).

Other property, plant and equipment include motor vehicles, land, office fixtures and other equipment.

Management of the Group considers that the carrying amount of property, plant and equipment as at 31 December 2016 and 31 December 2015 does not differ materially from their fair value at the end of the reporting period.

#### ***Process of fair value of property, plant and equipment assessment***

Management of the Group determines the fair value of property, plant and equipment according to the following procedures.

The Group's property, plant and equipment are mainly represented by specialised property: the Group's key assets are represented by unique hydro engineering structures and power equipment manufactured under certain technical specifications for each power plant; such equipment is rarely sold in the market.

The Group's management determines the value of the specialised property on a regular basis, using the cost approach. The cost approach is based on the economic concept which implies that a buyer will pay no more for an asset than it would cost to develop or obtain another asset with the same functionality. The total costs of replacement or reproduction of the analysed asset resulting from such measurement are decreased by the amount of physical, functional and economic depreciation.

The replacement costs are determined based on specialised reference books, regulatory documents, construction rates, manufacturer's prices in effect as of the valuation date; physical and functional depreciation is measured based on the age of the assets, their actual condition and operating mode, etc.

To determine the economic depreciation of specialised assets, the Group's management calculates the recoverable amount using the income approach. It is based on discounted cash flow method, and the Group uses certain assumptions when building the cash flow forecast. In particular, these assumptions are used to determine the expected cash flows, capital expenditures and discount rates for each cash generating unit. The Group's management determines the forecast horizon, and net cash inflows from the asset's operation are calculated for each period of this horizon. The recoverable amount of the cash generating unit is determined by recalculating the discounted net cash flows. The Group's management believes that the Group subsidiaries and Company's branches are separate cash generating units.

If the recoverable amount of the cash generating unit is higher than the replacement cost less physical and functional depreciation of property, plant and equipment included in this cash generating unit, it is concluded that there is no economic depreciation. If this is not the case and if the recoverable amount is less than the carrying amount of cash generating unit, the economic impairment is determined as the difference between the recoverable amount and the carrying amount.



**Impairment of property, plant and equipment as at 31 December 2016 and 31 December 2015**

The following key assumptions were used when the cash flow testing was performed for the years ended 31 December 2016 and 31 December 2015:

Key assumptions used in the cash flow testing	Year ended 31 December 2016	Year ended 31 December 2015
Information used	Actual operating results for 2016 and business plans for 2017–2022	Actual operating results for 2015 and business plans for 2016–2021
Forecast period*	<p>For existing plants 10 years (2017–2026)</p> <p>For plants under construction - 20 years after commissioning and before the completion of capacity sale contracts (2017–2040)</p> <p>For cash-generating units of the Far East - 11-25 years (2017–2041)</p>	<p>For existing plants 10 years (2016–2025)</p> <p>For plants under construction - 20 years after commissioning and before the completion of capacity sale contracts (2016–2039)</p> <p>For cash-generating units of the Far East - 11-25 years (2016–2040)</p>
Forecasted growth rates in terminal period	3.83 percent	4.0 percent
Discount rate before tax (based on weighted average cost of capital)	14.45–17.4 percent (RR)	14.97–16.8 percent (RR)
Forecast of electricity and capacity tariffs in the isolated energy systems and in non-pricing zone of the Far East	Based on methodology of tariffs calculation adopted by regulatory authority	
Forecast of electricity and capacity prices in competitive market	Based on the forecast of JSC TSA and forecast rates on energy prices growth prepared by the Ministry of Economic Development of RF	
Forecast of capacity prices related to competitive capacity selection	<p>For 2017–2020 – based on the results of competitive capacity selection, except for stations, where regulated tariffs are used</p> <p>For 2021 and after – adjusted on consumer index price and forecasts of JSC TSA</p>	<p>For 2016–2019 – based on the results of competitive capacity selection, except for stations, where regulated tariffs are used</p> <p>For 2020 and after – adjusted on consumer index price and forecasts of JSC TSA</p>
Forecast of electricity and capacity volumes	Based on the Company's management assessment of future trends in the business	
Forecast of capital expenditures	Based on the management valuation of capital expenditures on modernisation and reconstruction programme	

\* Management considers that a forecast period greater than five years is appropriate as the wholesale electricity and capacity market is expected to change significantly over the forecast period and cash flow projections will not be stabilised within five years. However a forecast period of cash flows was mainly defined by remaining useful life of assets tested. For hydroelectric power plants this period may amount up to 100 years due to the fact that key asset is a dam. In this regard the recoverable amount of assets was defined based on cash flows during the forecast period and terminal values.

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources.

Management of the Group analyzed the current economic situation, in which the Group operates, in order to detect the indicators of impairment of property, plant and equipment or indicators that an impairment loss recognized in prior periods no longer exists or decreased.

As a result of analysis of property, plant and equipment of the Group on impairment as at 31 December 2016 an impairment loss in the amount of RR 33,099 million was recognised in the Consolidated Income Statement and decrease of previously recognised revaluation reserve in the amount of RR 6,150 million (before income tax of RR 1,230 million) – in other comprehensive loss, the effects relate mainly to the following cash-generating units:

- Saratovskaya HPP – impairment loss in the amount of RR 3,368 million and decrease of previous revaluation reserve in the amount of RR 2,585 million;
- Blagoveschenskaya TPP – impairment loss in the amount of RR 4,731 million;
- Leningradskaya PSHPP – impairment loss in the amount of RR 4,337 million;



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- Votkinskaya HPP – impairment loss in the amount of RR 1,901 million and decrease of previous revaluation reserve in the amount of RR 2,418 million;
- Sakhalinenergo – impairment loss in the amount of RR 3,101 million and decrease of previous revaluation reserve in the amount of RR 76 million;
- Magadanenergo – impairment loss in the amount of RR 2,525 million and decrease of previous revaluation reserve in the amount of RR 9 million;
- Kabardino-Balkarian branch – impairment loss in the amount of RR 1,606 million and decrease of previous revaluation reserve in the amount of RR 301 million;
- Yakutskenergo – impairment loss in the amount of RR 1,261 million and decrease of previous revaluation reserve in the amount of RR 407 million;
- Sakhaenergo – impairment loss in the amount of RR 1,165 million;
- Kamchatskenergo – impairment loss in the amount of RR 1,093 million;
- Cascade Verkhnevolszhskih HPP – impairment loss in the amount of RR 725 million and decrease of previous revaluation reserve in the amount of RR 345 million.

At the same time, a reversal of impairment in the amount of RR 6,582 million was recognised in the Consolidated Income Statement in respect of respect of the following cash-generating units impaired in previous periods:

- Khabarovskaya Generation – in the amount of RR 3,680 million;
- Sayno-Shushenskaya HPP – in the amount of RR 2,137 million;
- Primorskaya Generation – in the amount of RR 765 million.

The sensitivity analysis of the recoverable amounts of cash-generating units for the key assumptions is presented in Note 32.

As a result of property, plant and equipment impairment as at 31 December 2015 its net book value decreased by the total amount of RR 13,835 million. As a result, impairment loss in the amount of RR 12,593 million was recognised in Consolidated Income Statement and decrease of previous revaluation reserve in the amount of RR 1,242 million (before income tax of RR 248 million) – in other comprehensive loss.

The carrying amount of each class of property, plant and equipment that would have been recognised had the assets been carried under the cost model is as follows:

	<b>Production buildings</b>	<b>Facilities</b>	<b>Plant and equipment</b>	<b>Assets under construction</b>	<b>Other</b>	<b>Total</b>
Net book value as at 31 December 2016	34,278	111,189	169,428	264,645	2,134	581,674
Net book value as at 31 December 2015	29,793	111,249	152,336	260,080	1,492	554,950

**Events at Zagorskaya GAES-2.** On 17 September 2013 there was a partial flooding at Zagorskaya GAES-2 which is under construction in the Moscow Region. The flooding of the GAES building originated from the lower reservoir via functional joints of the station block and a newly formed cavity in the right junction of the GAES-2 building foundation. Construction and assembly works as well as property, including equipment, were insured by PIJSC Ingosstrakh, JSC AlfaStrakhovanie and JSC SOGAZ. As at 31 December 2016 all insurance companies have finished all payments on the insured event.

Other operating income for the year ended 31 December 2016 include insurance indemnity received from JSC SOGAZ in the amount of RR 1,384 million (for the year ended 31 December 2015: RR 868 million) and from JSC AlfaStrakhovanie in the amount of RR 353 million (for the year ended 31 December 2015: RR 847 million). For the year ended 31 December 2015 insurance indemnity from PIJSC Ingosstrakh in the amount of RR 4,756 million was also recognised.





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For the year ended 31 December 2016 a loss on disposal of damaged equipment and assets under construction which are not recoverable was recognised in Operating expenses in the amount of RR 15 million. Also for the year ended 31 December 2016 the Group has carried expenses on recovery works in the total amount of RR 1 585 million which are recognized in the following items of Operating expenses: other third parties services, other materials, employee benefit expenses, rent expenses.

At the consolidated financial statements signing date management of the Group cannot reliably estimate future expenses that may be necessary to eliminate consequences of the technical incident. However, these expenses may be material for the Group.

Management of the Group believes that property, plant and equipment at Zagorskaya GAES-2 is not impaired as at 31 December 2016 as there were capacity supply contracts concluded in respect of new power generation facilities of Zagorskaya GAES-2, that guarantee the payback period of 20 years for the total cost of construction for the period. The carrying amount of Zagorskaya GAES-2 property, plant and equipment is RR 61,142 million.

**Leased equipment.** As at 31 December 2016 the net book value of assets held under finance lease and included in property, plant and equipment was RR 1,964 million (31 December 2015: RR 3,107 million). Assets held under finance lease were mainly represented by plant and equipment.

**Operating lease.** The Group leases a number of land areas owned by local governments and production buildings under non-cancellable operating lease agreements. Land lease payments are determined by lease agreements. The land areas leased by the Group are the territories on which the Group's hydropower plants and other assets are located. According to the Land Code of the Russian Federation such land areas are limited in their alienability and cannot become private property. The Group's operating leases typically run for an initial period of 5–49 years with an option to renew the lease after that date. Lease payments are reviewed regularly.

The future payments under non-cancellable operating leases in accordance with rates as at the reporting period end are as follows:

	31 December 2016	31 December 2015
Less than one year	2,175	2,309
Between one and five years	7,404	3,826
After five years	30,524	38,852
<b>Total</b>	<b>40,103</b>	<b>44,987</b>

**Pledged assets.** As at 31 December 2016 RR and 31 December 2015 no property, plant and equipment have been pledged as collateral for borrowings.

## **Note 8. Investments in associates and joint ventures**

The Group's interests in associates and joint ventures and its carrying value were as follows:

	Place of business	% held		Carrying value	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
<b>Associates</b>					
OJSC Irkutsk Electronetwork Company (OJSC IENC)	Russia	42.75%	42.75%	7,528	7,777
OJSC Sakhalin Energy Company (OJSC SEC)	Russia	36.09%	36.09%	1,982	3,429
Other				193	172
<b>Total associates</b>				<b>9,703</b>	<b>11,378</b>
<b>Joint ventures</b>					
BoGES Group	Russia	50.00%	50.00%	9,230	1,229
BALP Group	Russia	50.00%	50.00%	-	-
Other				1,345	1,535
<b>Total joint ventures</b>				<b>10,575</b>	<b>2,764</b>
<b>Total investments in associates and joint ventures</b>				<b>20,278</b>	<b>14,142</b>

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The amounts in respect of associates and joint ventures recognised in the Income Statement are as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
<b>Associates</b>		
OJSC IENC	(249)	(283)
OJSC SEC	(1,447)	(12)
Other	24	(19)
<b>Total associates</b>	<b>(1,672)</b>	<b>(314)</b>
<b>Joint ventures</b>		
BoGES Group	8,546	684
BALP Group	-	-
Other	(192)	58
<b>Total joint ventures</b>	<b>8,354</b>	<b>742</b>
<b>Share of results of associates and joint ventures</b>	<b>6,682</b>	<b>428</b>

**Associates**

*OJSC Irkutsk Electronetwork Company (OJSC IENC)*

OJSC IENC maintains electric power transmission grids with voltage of 220-500 kV and distribution grids with voltage of 0.4-110 kV in the Irkutsk region.

The total length of overhead and cable power lines is over 40,000 km. OJSC IENC also maintains and ensures operation of over 10,000 transforming substations of 6-500 kV in voltage and over 28,000 MVA in total capacity. The core activities of OJSC IENC include provision of services in the area of electric power transmission and distribution, technological connection of consumers to power grids and maintenance of power grids' operating capacity. OJSC IENC's controlling shareholder is EN+ Group.

The Group's investment in OJSC IENC is non-core and considered for sale.

*OJSC Sakhalin Energy Company (OJSC SEC)*

OJSC SEC is a special project developer company involved in construction of a number of new power sector assets in the Sakhalin region to be financed from the federal and regional budgets. OJSC SEC's major project was construction of Power Generating Unit No. 4 (with total capacity of 139 MWt) at Yuzhno-Sakhalinsk Thermal Power Plant-1 (that was put into operation in the fourth quarter of 2013). OJSC SEC also built a number of power supply network facilities. The above units of generation and power supply network are operated by PJSC Sakhalinenergo, the Group's subsidiary, under a lease agreement. Other OJSC SEC's shareholders, in addition to the Group, are the Russian Government represented by the Federal Agency for State Property Management, and the Sakhalin region represented by the Ministry of Land and Property Affairs of the Sakhalin region.

The Group's investments in OJSC SEC are of strategic nature and are considered to be used in the project aimed at consolidating key energy assets of the Sakhalin region on the basis of the core vertically integrated entity PJSC Sakhalinenergo.

Summarised financial information for significant associates for the years ended 31 December 2016 and 31 December 2015 and as at 31 December 2016 and 31 December 2015:

	OJSC SEC		OJSC IENC	
	2016	2015	2016	2015
<b>As at 31 December</b>				
Non-current assets	7,407	11,242	24,169	24,862
Current assets	1,066	761	1,151	1,037
Non-current liabilities	-	(12)	(1,814)	(1,571)
Current liabilities	(543)	(54)	(8,111)	(8,350)
<b>Net assets</b>	<b>7,930</b>	<b>11,937</b>	<b>15,395</b>	<b>15,978</b>
<b>For the year ended 31 December</b>				
Revenue	535	449	18,809	16,995
Impairment of property, plant and equipment	(4,921)	-	-	-
<b>Loss for the year</b>	<b>(4,007)</b>	<b>(35)</b>	<b>(583)</b>	<b>(661)</b>
<b>Total comprehensive loss for the year</b>	<b>(4,007)</b>	<b>(35)</b>	<b>(583)</b>	<b>(661)</b>



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Reconciliation of the summarised financial information presented to the carrying value of interest in associates:

	OJSC SEC	OJSC IENC	Others	Total
<b>Net assets as at 31 December 2014</b>	<b>10,972</b>	<b>16,639</b>	<b>1,026</b>	<b>28,637</b>
Loss for the year	(35)	(661)	(32)	(728)
Additional share issue	1,000	-	-	1,000
Disposal	-	-	(402)	(402)
Reclassification to available-for-sale financial assets	-	-	19	19
<b>Net assets as at 31 December 2015</b>	<b>11,937</b>	<b>15,978</b>	<b>611</b>	<b>28,526</b>
Interest in associates	4,308	6,831	172	11,311
Goodwill	-	946	-	946
Additional share issues	(879)	-	-	(879)
<b>Carrying value as at 31 December 2015</b>	<b>3,429</b>	<b>7,777</b>	<b>172</b>	<b>11,378</b>
<b>Net assets as at 31 December 2015</b>	<b>11,937</b>	<b>15,978</b>	<b>611</b>	<b>28,526</b>
Loss for the year	(4,007)	(583)	90	(4,500)
<b>Net assets as at 31 December 2016</b>	<b>7,930</b>	<b>15,395</b>	<b>701</b>	<b>24,026</b>
Interest in associates	2,861	6,582	193	9,636
Goodwill	-	946	-	946
Other movement	(879)	-	-	(879)
<b>Carrying value as at 31 December 2016</b>	<b>1,982</b>	<b>7,528</b>	<b>193</b>	<b>9,703</b>

### **Joint ventures**

#### *BoGES Group and BALP Group*

Starting from 2006 the Company and RUSAL Group have been jointly implementing the BEMA project based on an agreement for mutual financing, completion and subsequent operation of Boguchanskaya HPP and Boguchansky aluminium plant. Within the BEMA project on parity basis joint ventures BoGES Ltd (Cyprus) and BALP Ltd (Cyprus) were formed, which have controlling interests in PJSC Boguchanskaya HPP and CJSC Boguchansky Aluminium Plant.

BoGES Ltd and PJSC Boguchanskaya HPP together form BoGES Group. BALP Ltd and CJSC Boguchansky Aluminium Plant together form BALP Group.

BoGES Ltd and BALP Ltd provide corporate governance of Boguchanskaya HPP and Boguchansky Aluminium Plant in line with the parity of interests of the investors and are not engaged in other operations.

Starting from November 2012 Boguchanskaya HPP sells electricity and capacity to large consumers and utilities companies. An installed capacity of Boguchanskaya HPP is 2,997 MW, long-term average project production – 17 600 million kWh.

Project capacity of Boguchansky Aluminium Plant is almost 600 thousand tonnes of aluminium per annum. Manufacturing plant complex consists of two series with a capacity of 296 thousand tonnes each. The construction of 1-st series of Boguchansky Aluminium Plant is ongoing. The decision about construction of 2-nd series of the plant is not made by Investors. Boguchansky Aluminium Plant will become the key consumer of energy generated by Boguchanskaya HPP.

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Summarised financial information for significant joint ventures for the years ended 31 December 2016 and 31 December 2015 and as at 31 December 2016 and 31 December 2015:

As at 31 December	BoGES Group		BALP Group	
	2016	2015	2016	2015
Non-current assets	66,472	45,007	27,476	1,475
Current assets including:	3,140	3,681	6,208	6,315
<i>Cash and cash equivalents</i>	898	442	1,141	498
Non-current liabilities including:	(43,932)	(44,343)	(93,907)	(96,872)
<i>Non-current financial liabilities (excluding trade payables)</i>	(38,021)	(37,715)	(93,907)	(96,872)
Current liabilities including:	(7,236)	(1,918)	(2,172)	(3,877)
<i>Current financial liabilities (excluding trade payables)</i>	(835)	(678)	(16)	(3)
<b>Net assets</b>	<b>18,444</b>	<b>2,427</b>	<b>(62,395)</b>	<b>(92,959)</b>
<b>For the year ended 31 December</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Revenue	16,141	14,632	23,155	11,558
Depreciation of property, plant and equipment	(1,192)	(1,191)	(1,717)	(111)
Impairment of promissory notes	(6,000)	(5,780)	-	-
Interest income	877	489	-	7
Interest expense	(3,412)	(2,849)	(7,901)	(6,460)
Foreign exchange differences	(2)	(10)	14,713	(19,118)
Reversal / (impairment) of property, plant and equipment	25,390	-	23,402	(3,869)
<b>Profit / (loss) before income tax</b>	<b>19,484</b>	<b>(125)</b>	<b>30,564</b>	<b>(30,123)</b>
Income tax (expense) / benefit	(3,467)	500	-	(13,201)
<b>Profit / (loss) for the year</b>	<b>16,017</b>	<b>375</b>	<b>30,564</b>	<b>(43,324)</b>
<b>Total comprehensive income / (loss) for the year</b>	<b>16,017</b>	<b>375</b>	<b>30,564</b>	<b>(43,324)</b>

Reconciliation of the summarised financial information presented to the carrying value of interest in joint ventures:

	BoGES Group	BALP Group	Others	Total
<b>Net assets as at 31 December 2014</b>	<b>2,052</b>	<b>(49,635)</b>	<b>2,105</b>	<b>(45,478)</b>
Net assets at the date of the purchase	-	-	1,003	1,003
Profit / (loss) for the year	375	(43,324)	(623)	(43,572)
<b>Net assets as at 31 December 2015</b>	<b>2,427</b>	<b>(92,959)</b>	<b>2,485</b>	<b>(88,047)</b>
Interest in joint ventures	1,214	(46,480)	1,129	(44,137)
Non-controlling interest	15	-	-	15
Accumulated losses	-	46,480	406	46,886
<b>Carrying value as at 31 December 2015</b>	<b>1,229</b>	<b>-</b>	<b>1,535</b>	<b>2,764</b>
<b>Net assets as at 31 December 2015</b>	<b>2,427</b>	<b>(92,959)</b>	<b>2,485</b>	<b>(88,047)</b>
Profit for the year	16,017	30,564	44	47,569
<b>Net assets as at 31 December 2016</b>	<b>18,444</b>	<b>(62,395)</b>	<b>2,529</b>	<b>(41,422)</b>
Interest in joint ventures	9,222	(31,198)	1,146	(20,830)
Non-controlling interest	8	-	-	8
Accumulated losses	-	31,198	199	31,397
<b>Carrying value as at 31 December 2016</b>	<b>9,230</b>	<b>-</b>	<b>1,345</b>	<b>10,575</b>

The Group has issued guarantees for PJSC Boguchanskaya HPP for the loan facility in favour of the State Corporation Vnesheconombank (Note 29).



(in millions of Russian Rubles unless noted otherwise)

**Note 9. Available-for-sale financial assets**

	31 December 2016		31 December 2015	
	% of ownership	Fair value	% of ownership	Fair value
PJSC Inter RAO	4.92%	19,495	4.92%	5,606
PJSC Russian Grids	0.23%	638	0.28%	228
PJSC Boguchanskaya HPP	2.89%	505	2.89%	-
PJSC FGC UES	0.13%	338	0.13%	99
Other	-	205	-	161
<b>Total available-for-sale financial assets</b>		<b>21,181</b>		<b>6,094</b>

The fair values of available-for-sale financial assets were calculated based on quoted market prices; for those which are not publicly traded, fair values were estimated by reference to the discounted cash flows of the investees (Note 32).

Profit arising on available-for-sale financial assets for the year ended 31 December 2016 totaled RR 15,050 million (net of tax), including revaluation of PJSC Inter RAO – RR 13,889 million, was recorded within other comprehensive income (for the year ended 31 December 2015 loss totaled RR 1,962 million).

**Note 10. Other non-current assets**

	31 December 2016	31 December 2015
Long-term promissory notes	38,931	38,189
Discount	(16,415)	(16,946)
Impairment provision	(14,025)	(14,025)
Long-term promissory notes, net	8,491	7,218
Long-term advances to suppliers	3,173	60
VAT recoverable	2,036	2,546
Goodwill	481	481
Dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs	-	2,164
Customer base of LLC ESC Bashkortostan	-	553
Other non-current assets	7,666	8,380
<b>Total other non-current assets</b>	<b>21,847</b>	<b>21,402</b>

Other non-current assets in the amount of RR 7,666 million (31 December 2015: RR 8,380 million) mainly include intangible assets, research and development costs and long-term accounts receivable. Also included in other non-current assets is the amortised value of cash and deposits placed with Peresvet Bank of RR 217 million. The amortised value of these assets was determined using the discounted cash flows expected from the conversion of the balance of RR 4,681 million into convertible bonds of Peresvet Bank (Note 11) with recognition of impairment of financial assets in the amount of RR 4,464 million.

	Rating	Rating agency	Effective interest rate	Maturity date	31 December 2016	31 December 2015
<b>Long-term promissory notes</b>						
PJSC Boguchanskaya HPP	-	-	9.75%	2029	6,269	5,711
PJSC ROSBANK	Ba1	Moody's	10.90–14.58%	2020–2022	888	784
JSC Alfa Bank	BB+	Fitch Ratings	11.39–16.35%	2020–2022	761	673
PJSC Bank VTB	BB+	Standard & Poor's	11.82–13.67%	2018–2021	511	-
Other					62	50
<b>Total long-term promissory notes</b>					<b>8,491</b>	<b>7,218</b>

**Promissory notes of PJSC Boguchanskaya HPP.** As at 31 December 2016 the amortised cost of interest-free long-term promissory notes of PJSC Boguchanskaya HPP (payable not earlier than 31 December 2029 with total nominal value of RR 21,027 million) pledged as collateral to the State Corporation Vnesheconombank amounted to RR 6,269 million (31 December 2015: RR 5,711 million) (Note 8).



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**Dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs.** In November 2016 the Group completed the transaction to sell dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs to EuroSibEnergogroup. These dams are part of technological complex of EuroSibEnergogroup's cascade of hydropower plants located on the Angara river. The dams were received by the Company in 2011 in course of additional share issue and were leased by EuroSibEnergogroup before the sale. The transaction amount is RR 10,950 million (including VAT). Profit from the dams' sale is included in Other operating income (Note 24).

**Goodwill.** Presented below is the carrying value of goodwill:

	Year ended 31 December 2016	Year ended 31 December 2015
<b>Carrying amount as of 1 January</b>	<b>481</b>	<b>929</b>
Impairment loss	-	(448)
<b>Carrying amount as of 31 December</b>	<b>481</b>	<b>481</b>

**Goodwill of JSC Institute Hydroproject.** Goodwill of RR 929 million was recognised at the date of the acquisition of JSC Institute Hydroproject in October 2010 as the Group was able to receive economic benefits from the expected synergy from the high qualification of engineering specialists and long-term relationships between JSC Institute Hydroproject and customers, including the Group entities.

As at 31 December 2016 and 31 December 2015, the Group tested goodwill related to JSC Institute Hydroproject for its potential impairment. For the testing purposes, JSC Institute Hydroproject was considered as a single cash generating asset.

Presented below are key assumptions used for the impairment testing purposes for the years ended 31 December 2016 and 31 December 2015:

Key assumptions used for the impairment testing purposes	For the year ended 31 December 2016	For the year ended 31 December 2015
Information used	Actual performance for 2016 and results of business plans for 2017-2021	Actual performance for 2015 and results of business plans for 2016-2020
Forecast period	5 years	5 years
Growth interest rate after the forecast period	4.0 percent	4.0 percent
Discount rate	15.6 percent	15.6 percent
Net cash inflow after the forecast period	Minimum expectation: RR 57 million in 2017, RR 148 million in 2018, RR 186 million in 2019, RR 217 million in 2020, RR 236 million in 2021	Minimum expectation: RR 148 million in 2016, RR 67 million in 2017, RR 94 million in 2018, RR 110 million in 2019, RR 122 million in 2020
Net cash inflow after the forecast period	Minimum expectation: RR 255 million per year	Minimum expectation: RR 114 million per year

Based on the above assumptions, as at 31 December 2016 the recoverable amount of JSC Institute Hydroproject as a cash generating asset was higher than the carrying amount - there is no economic impairment. As at 31 December 2015 recoverable amount of JSC Institute Hydroproject as a cash generating asset was less than the carrying amount and the Group recognised impairment of goodwill in the amount of RR 448 million.

#### **Note 11. Cash and cash equivalents**

	31 December 2016	31 December 2015
Cash equivalents (contractual interest rate: 6.72-10.94%)	52,594	36,137
Cash at bank	14,738	11,857
Cash in hand	22	31
<b>Total cash and cash equivalents</b>	<b>67,354</b>	<b>48,025</b>

Cash equivalents held as at 31 December 2016 and 31 December 2015 comprised short-term bank deposits with original maturities of three months or less.

Cash and cash equivalents balances denominated in US Dollars as at 31 December 2016 were RR 736 million (31 December 2015: RR 2,801 million). Cash and cash equivalents balances denominated in Euros as at 31 December 2016 were RR 67 million (31 December 2015: RR 61 million).



(in millions of Russian Rubles unless noted otherwise)

Cash and cash equivalents are deposited in several institutions as follows:

	Rating	Rating agency	31 December 2016	31 December 2015
<b>Cash at banks</b>				
Bank GPB (JSC)	BB+	Fitch Ratings	7,255	3,573
PJSC Sberbank	BBB-	Fitch Ratings	4,281	4,630
PJSC Bank VTB	BB+	Standard & Poor's	2,047	719
PJSC ROSBANK	BBB-	Fitch Ratings	387	124
PJSC Bank FK Otkritie	BB-	Standard & Poor's	169	63
CJSC ARDSHINBANK	B+	Fitch Ratings	157	170
PJSC VTB24	Ba1	Moody's	67	230
JSC Alfa-Bank	BB+	Fitch Ratings	12	364
Peresvet Bank	-	-	-	1,405
Other	-	-	363	579
<b>Total cash at banks</b>			<b>14,738</b>	<b>11,857</b>
<b>Bank deposits</b>				
PJSC Bank VTB	BB+	Standard & Poor's	23,152	4,832
Bank GPB (JSC)	BB+	Fitch Ratings	13,922	2,084
PJSC Sberbank	BBB-	Fitch Ratings	13,283	8,992
JSC Rosselkhozbank	BB+	Fitch Ratings	838	519
PJSC Promsvyazbank	BB-	Standard & Poor's	536	-
PJSC Bank FK Otkritie	BB-	Standard & Poor's	525	7,753
PJSC VTB24	Ba1	Moody's	322	6
Peresvet Bank	-	-	-	6,280
Sviaz-Bank	-	-	-	2,724
JSC Bank Severny Morskoy Put	-	-	-	1,875
GLOBEXBANK	-	-	-	1,000
Other	-	-	16	72
<b>Total cash equivalents</b>			<b>52,594</b>	<b>36,137</b>

#### **Group's Cash and Deposits with Peresvet Bank**

On 21 October 2016 the Russian Central Bank introduced the temporary administration in Peresvet Bank for a period of six months due to Peresvet Bank's failure to discharge its creditors' claims on monetary liabilities within the established period and in order to determine the financial position and future perspectives of the credit institution. At the same time, in accordance with the Russian law 'On Insolvency' a moratorium on discharge of Peresvet Bank creditors' claims for a period of three months was imposed, which was extended for another three month on 23 January 2017.

On 20 February 2017 functions of temporary administration of Peresvet Bank were assigned to the State Corporation Deposit Insurance Agency.

The temporary administration of Peresvet Bank has proposed to convert part of Peresvet Bank's monetary obligations into the bank's convertible bonds due in 15 years. This will allow the bank to partially settle its obligations.

As at 31 December 2016 cash and deposits placed with Peresvet Bank together with interest accrued on deposits totalled RUB 5,507 million. Under the proposed action plan which the Group's management considers most likely based on the information available as of the date of the issue of these consolidated financial statements, the Group's cash and deposits are to be converted to subordinated bonds of Peresvet Bank in the amount of RUB 4,681 million or 85% of the total cash and deposits. These assets are recorded within Other non-current assets at amortised value (Note 10). The remaining RUB 826 million of cash is recorded as restricted cash within Other current assets because its receipt is expected within 12 months of the reporting date (Note 14).



**Note 12. Accounts receivable and prepayments**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Trade receivables	56,936	55,075
Provision for impairment of trade receivables	(23,900)	(20,158)
<b>Trade receivables, net</b>	<b>33,036</b>	<b>34,917</b>
<b>VAT recoverable</b>	<b>7,329</b>	<b>8,156</b>
Advances to suppliers and other prepayments	2,617	3,540
Provision for impairment of advances to suppliers and other prepayments	(629)	(1,021)
<b>Advances to suppliers and other prepayments, net</b>	<b>1,988</b>	<b>2,519</b>
Other receivables	8,485	7,248
Provision for impairment of other receivables	(3,762)	(3,194)
<b>Other receivables, net</b>	<b>4,723</b>	<b>4,054</b>
<b>Total accounts receivable and prepayments</b>	<b>47,076</b>	<b>49,646</b>

The provision for impairment of accounts receivable has been determined based on specific customer identification, customer payment trends, subsequent receipts and settlements and the analysis of expected future cash flows (Note 2). The Group believes that the Group's subsidiaries will be able to realise the net receivable amount through direct collections and other non-cash settlements, and the carrying value approximates their fair value.

Movements in the impairment provision for trade and other accounts receivables are as follows:

	<b>Year ended</b> <b>31 December 2016</b>	<b>Year ended</b> <b>31 December 2015</b>
As at 1 January	23,352	21,526
Charge for the year	8,541	6,650
Reversal of impairment	(1,304)	(3,808)
Trade receivables written-off as uncollectible	(1,678)	(1,016)
Disposal of impairment provision due to disposal of subsidiaries	(1,249)	-
<b>As at 31 December</b>	<b>27,662</b>	<b>23,352</b>

The ageing analysis of trade and other finance accounts receivable is as follows:

	<b>31 December 2016</b>	<b>Provision as at</b> <b>31 December 2016</b>	<b>31 December 2015</b>	<b>Provision as at</b> <b>31 December 2015</b>
Not past due	29,547	(1,652)	29,622	(2,426)
Past due for less than 3 months	6,098	(1,378)	6,655	(1,260)
Past due for 3 months to 1 year	9,343	(5,228)	7,499	(2,834)
Past due for more than 1 year	20,052	(19,404)	17,959	(16,832)
<b>Total</b>	<b>65,040</b>	<b>(27,662)</b>	<b>61,735</b>	<b>(23,352)</b>

The majority of trade debtors which are neither past due nor impaired could be aggregated in several groups based on similarities in their credit quality: large industrial consumers – participants of the wholesale and retail electricity and capacity market as well as public sector entities and population.

The Group does not hold any accounts receivable pledged as collateral.

**Note 13. Inventories**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Fuel	14,825	14,291
Materials and supplies	6,402	6,555
Spare parts	2,539	2,782
Other materials	565	606
<b>Total inventories before provision for impairment</b>	<b>24,331</b>	<b>24,234</b>
<b>Provision for impairment of inventories</b>	<b>(294)</b>	<b>(235)</b>
<b>Total inventories</b>	<b>24,037</b>	<b>23,999</b>

There are no inventories pledged as collateral for borrowings as at 31 December 2016 and as at 31 December 2015.





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**Note 14. Other current assets**

	31 December 2016	31 December 2015
<b>Special funds</b>	<b>3,507</b>	-
<b>Deposits and promissory notes</b>	<b>4,292</b>	<b>19,532</b>
<b>Restricted cash (Note 11)</b>	<b>826</b>	-
Loans issued	2,808	2,837
Provision for loans issued	(2,498)	(109)
<b>Loans issued, net</b>	<b>310</b>	<b>2,728</b>
<b>Other short-term investments</b>	<b>162</b>	<b>314</b>
<b>Total other current assets</b>	<b>9,097</b>	<b>22,574</b>

As at 31 December 2016 the rest of special funds in the amount of RR 3,507 million received by the Group to fund construction of generating facilities are located on special accounts of the Federal Treasury of Russia. These special funds may be used by the Group only after the due procedure of expenditure approval performed by the Federal Treasury of Russia according to the Order of Ministry of Finance of the Russian Federation No. 213n dated 25 December 2015.

As at 31 December 2016 the Group impaired loans issued to ZAO Verkhne-Narynskiye HPPs in the amount of RR 2,378 million due to denouncement of agreements between Russian Government and Kyrgyzstan Republic on construction of upper Naryn cascade of hydropower plants.

	Rating	Rating agency	Effective interest rate	31 December 2016	31 December 2015
<b>Deposits</b>					
PJSC Sberbank	BBB-	Fitch Ratings	7.25–10.85%	4,140	18,322
Other deposits	-	-	-	150	1,168
<b>Promissory notes</b>					
JSC Alfa-Bank	-	-	-	-	35
Other promissory notes	-	-	-	2	7
<b>Total deposits and promissory notes</b>				<b>4,292</b>	<b>19,532</b>

**Note 15. Equity**

	Number of issued and fully paid ordinary shares (Par value of RR 1.00)
As at 31 December 2016	386,255,464,890
As at 31 December 2015	386,255,464,890
As at 31 December 2014	386,255,464,890

**Treasury shares.** As at 31 December 2016 treasury shares were represented by 18,852,353,167 ordinary shares in the amount of RR 22,578 million (31 December 2015: 21,786,611,933 ordinary shares in the amount of RR 26,092 million).

During the year ended 31 December 2016, 2,934,258,766 treasury shares were transferred to non-controlling interest shareholders of PJSC RAO ES East in exchange for purchased shares of the subsidiary under voluntary and obligatory offers to purchase shares of PJSC RAO ES East as described below.

**Voluntary and obligatory offers to purchase shares of PJSC RAO ES East.** On 3 November 2015 in accordance with decision of the Board of Directors of the Company LLC Vostok-Finance, a subsidiary of the Group, declared a voluntary offer to purchase shares of PJSC RAO ES East. Under the voluntary offer, shareholders of PJSC RAO ES East could choose to sell their ordinary and preferred shares of PJSC RAO ES East for a cash consideration or exchange them for ordinary shares of the Company.

During 2016, PJSC RAO ES East non-controlling interest shareholders that accepted terms of the voluntary offer transferred 4,715,738,904 ordinary shares and 346,195,762 preference shares of PJSC RAO ES East to LLC Vostok-Finance for a cash consideration of RR 34 million and in exchange for 2,934,258,766 shares of the Company in the amount of RR 3,514 million.

According to current Russian legislation repurchase of more than 10 percent and consolidation of more than 95 percent of PJSC RAO ES East shares allowed the Group to make an obligatory offer to the remaining shareholders to sell their shares.



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Under the obligatory offer to purchase shares LLC Vostok-Finance has purchased 887,217,472 ordinary shares and 312,687,580 preference shares of PJSC RAO ES East for a cash consideration of RR 380 million.

As a result of voluntary and obligatory purchase of PJSC RAO ES East's shares as at 31 December 2016 the share of the Group in share capital of the PJSC RAO ES East increased up to 99.98 percent (Note 4).

**Effect of changes in non-controlling interest of subsidiaries.** As a result of the voluntary and obligatory offers to purchase shares of PJSC RAO ES East as described above non-controlling interest decreased by RR 6,694 million.

Retained earnings of the Group increased by RR 4,872 million as a result of treasury shares disposal, decrease in non-controlling interest and derecognition of the remaining obligation to purchase shares after they were partly purchased for cash.

During 2016 Group's subsidiaries LLC Dom-21 century and JSC HRSK went bankrupt, also in December 2016 JSC «SO UPS» was liquidated. As a result non-controlling interest increased by RR 213 million due to decrease of share in losses of these subsidiaries previously absorbed by shareholders of the Group.

In March 2015 the Group's share in subsidiaries OJSC Daltehenergo and OJSC Guberovskiy machinery and repair plant was sold. In October 2015 share in JSC Kamchatskenergoemont was sold. During the year ended 31 December 2015 LLC Energokomfort Amur electricity wholesale company and JSC Amyrskaya Zhemchuzhina went bankrupt, also in June 2015 OJSC Kamchatskenergoemontservis was liquidated. As a result non-controlling interest increased by RR 141 million due to decrease of share in losses of these subsidiaries previously absorbed by shareholders of the Group.

**Additional share issue.** On 22 November 2016 the Board of Directors adopted a resolution to make a placement of 40,429,000,000 ordinary shares with a par value of RR 1.00 per share by open subscription. The placement price of additional issue shares is determined at RR 1.00 per share. On 7 December 2016 the share issue of 40,429,000,000 ordinary shares was registered with the Bank of Russia (Note 34).

**Dividends.** On 27 June 2016 the Company declared dividends for the year ended 31 December 2015 of RR 0.0389 per share in the total amount of RR 15,011 million (RR 14,278 million excluding dividends to subsidiaries).

On 26 June 2015 the Company declared dividends for the year ended 31 December 2014 of RR 0.0156 per share in the total amount of RR 6,033 million (RR 5,710 million excluding dividends to subsidiaries).

Declared dividends of the Group's subsidiaries in favour of non-controlling interest holders amounted to RR 234 million for the year ended 31 December 2016 (for the year ended 31 December 2015: RR 102 million).

#### **Note 16. Income tax**

Income tax expense is as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Current income tax expense	13,258	8,881
Deferred income tax expense	2,114	1,638
<b>Total income tax expense</b>	<b>15,372</b>	<b>10,519</b>

The income tax rate applicable to the majority of the Group's entities for the year ended 31 December 2016 is 20 percent (for the year ended 31 December 2015: 20 percent).

A reconciliation between the expected and actual income tax expense is provided below:

	Year ended 31 December 2016	Year ended 31 December 2015
<b>Profit before income tax</b>	<b>55,123</b>	<b>37,678</b>
Theoretical tax expense at a statutory rate of 20 percent	(11,025)	(7,536)
Tax effect of items which are not deductible or assessable for taxation purposes	(1,827)	(1,230)
Increase in other unrecognised deferred tax assets	(4,003)	(2,465)
Change in unrecognised deferred tax assets in respect of associates and joint ventures	1,336	86
Other	147	626
<b>Total income tax expense</b>	<b>(15,372)</b>	<b>(10,519)</b>

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The total amount of deductible temporary differences for which deferred income tax assets have not been recognised by the Group as at 31 December 2016 comprised RR 80,055 million (31 December 2015: RR 64,285 million). These temporary differences mainly relate to accumulated impairment of property, plant and equipment, assets under construction and pension liabilities of several Group's subsidiaries.

**Deferred income tax.** Differences between IFRS and statutory taxation regulations in the Russian Federation give rise to temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20 percent (for the year ended 31 December 2015: 20 percent).

	31 December 2015	Income tax charge	Charged directly to other comprehensive income	Other movement	31 December 2016
<b>Deferred income tax assets</b>	<b>5,486</b>	<b>1,144</b>	<b>53</b>	<b>(43)</b>	<b>6,640</b>
Property, plant and equipment	3,516	1,181	-	-	4,697
Accounts receivable	6,509	(57)	-	(8)	6,444
Losses carried forward	1,350	(370)	-	-	980
Other	3,795	(636)	53	(35)	3,177
<i>Deferred tax offset</i>	<i>(9,684)</i>	<i>1,026</i>	-	-	<i>(8,658)</i>
<b>Deferred income tax liabilities</b>	<b>(37,034)</b>	<b>(3,258)</b>	<b>1,189</b>	<b>17</b>	<b>(39,086)</b>
Property, plant and equipment	(46,041)	(2,398)	1,212	17	(47,210)
Accounts receivable	(59)	2	-	-	(57)
Loans and borrowings	(378)	27	-	-	(351)
Other	(240)	137	(23)	-	(126)
<i>Deferred tax offset</i>	<i>9,684</i>	<i>(1,026)</i>	-	-	<i>8,658</i>
				<b>Reclassification of discontinued operations and disposal of subsidiaries</b>	
	31 December 2014	Income tax charge	Charged directly to other comprehensive income		31 December 2015
<b>Deferred income tax assets</b>	<b>5,355</b>	<b>(142)</b>	<b>259</b>	<b>14</b>	<b>5,486</b>
Property, plant and equipment	3,425	76	-	15	3,516
Accounts receivable	5,799	704	-	6	6,509
Losses carried forward	1,574	(217)	-	(7)	1,350
Other	2,622	914	259	-	3,795
<i>Deferred tax offset</i>	<i>(8,065)</i>	<i>(1,619)</i>	-	-	<i>(9,684)</i>
<b>Deferred income tax liabilities</b>	<b>(35,891)</b>	<b>(1,496)</b>	<b>353</b>	<b>-</b>	<b>(37,034)</b>
Property, plant and equipment	(43,303)	(2,977)	239	-	(46,041)
Accounts receivable	(122)	63	-	-	(59)
Loans and borrowings	(115)	(263)	-	-	(378)
Other	(416)	62	114	-	(240)
<i>Deferred tax offset</i>	<i>8,065</i>	<i>1,619</i>	-	-	<i>9,684</i>

Under existing Group' structure tax losses and current income tax assets of different Group's entities may not be offset against current income tax liabilities and taxable profits of other Group's entities and, accordingly, taxes may be accrued even where there is a consolidated tax loss. Therefore, deferred income tax assets and liabilities are offset only when they relate to the same taxable entity and the entity has legal rights to offset it.



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**Note 17. Pension benefit obligations**

The tables below provide information about the benefit obligations and actuarial assumptions used for the years ended 31 December 2016 and 31 December 2015.

Amounts recognised in the Group's Consolidated Statement of Financial Position among other non-current liabilities (Note 19):

	<b>31 December 2016</b>	<b>31 December 2015</b>
Fair value of plan assets	(1,090)	(1,084)
Present value of defined benefit obligations	9,894	9,470
<b>Net liability</b>	<b>8,804</b>	<b>8,386</b>

The movements in the defined benefit liability for the years ended 31 December 2016 and 31 December 2015 are presented in the tables below:

	<b>Present value of defined benefit obligations</b>	<b>Fair value of plan assets</b>	<b>Total</b>
<b>At 1 January 2016</b>	<b>9,470</b>	<b>(1,084)</b>	<b>8,386</b>
Decrease in liabilities related to LLC ESC Bashkortostan sale (Note 4)	(181)	10	(171)
Change in liabilities as a result of changes in the scope of valuation	17	-	17
Current service cost	403	-	403
Interest expense / (income)	875	(106)	769
Past service cost	(143)	-	(143)
Decrease in liabilities as a result of curtailments	(101)	-	(101)
Remeasurement effects (for other long-term benefits):			
Actuarial gain - changes in actuarial assumptions	(4)	-	(4)
Actuarial gain - experience adjustment	(29)	-	(29)
<b>Recognised in profit or loss for the year ended 31 December 2016</b>	<b>1,001</b>	<b>(106)</b>	<b>895</b>
Remeasurements (for post-employment benefits):			
Actuarial loss - change in demographic assumptions	18	-	18
Actuarial loss - change in financial assumptions	459	-	459
Actuarial (gain) / loss - experience adjustments	(196)	62	(134)
<b>Recognised other comprehensive income for the year ended 31 December 2016 before income tax charge of RR 69 million</b>	<b>281</b>	<b>62</b>	<b>343</b>
Employer contributions for funded pension plan	-	(236)	(236)
Benefit payments (Funding NSPF pensions)	(439)	264	(175)
Benefit payments (Non-funded pension plan)	(255)	-	(255)
<b>At 31 December 2016</b>	<b>9,894</b>	<b>(1,090)</b>	<b>8,804</b>

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**Notes to the Consolidated Financial Statements as at and for the year ended**  
**31 December 2016**



(in millions of Russian Rubles unless noted otherwise)

	Present value of defined benefit obligations	Fair value of plan assets	Total
<b>At 1 January 2015</b>	<b>7,874</b>	<b>(986)</b>	<b>6,888</b>
Current service cost	338	-	338
Interest expense / (income)	968	(128)	840
Past service cost	(58)	-	(58)
Curtailement in pension payment	(717)	-	(717)
Decrease in liabilities as a result of curtailments	(83)	-	(83)
Remeasurement effects (for other long-term benefits):			
Actuarial loss - changes in actuarial assumptions	86	-	86
Actuarial gain - experience adjustment	(1)	-	(1)
<b>Recognised in profit or loss for the year ended 31 December 2015</b>	<b>533</b>	<b>(128)</b>	<b>405</b>
Remeasurements (for post-employment benefits):			
Actuarial loss - change in demographic assumptions	112	-	112
Actuarial loss - change in financial assumptions	1,435	-	1,435
Actuarial loss - experience adjustments	249	72	321
<b>Recognised other comprehensive income for the year ended 31 December 2015 before income tax charge of RR 374 million</b>	<b>1,796</b>	<b>72</b>	<b>1,868</b>
Employer contributions for funded pension plan	-	(297)	(297)
Benefit payments (Funding NSPF pensions)	(438)	255	(183)
Benefit payments (Non-funded pension plan)	(295)	-	(295)
<b>At 31 December 2015</b>	<b>9,470</b>	<b>(1,084)</b>	<b>8,386</b>

In December 2015 JSC DGK decided to partially reduce payments to the unemployed pensioners. Also in accordance with the new collective agreement some conditions and the amount of benefits to employees have changed. As a result the Group recognized RR 717 million gain for the year ended 31 December 2015 (Note 25).

Principal actuarial assumptions for the Group are as follows:

	31 December 2016	31 December 2015
Nominal discount rate	8.20%	9.80%
Inflation rate	5.00%	6.00%
Wage growth rate	6.50%	7.50%
Staff turnover	Staff turnover depending on age based on statistics for three years	
Mortality table	Russia-2014*	Russia-2013*

\* Taking into account the pull down adjustment calculated based on statistical data of mortality for employees of the Group of age till 60 years old for years 2012–2016 (31 December 2015: 2012–2015)

The sensitivity of the defined benefit obligation to changes in the principal actuarial assumptions as at 31 December 2016 is presented below:

	Change in assumption	Effect on net liability	Effect on net liability, %
Nominal discount rate	+ 1%	(821)	-8%
	- 1%	930	9%
Inflation rate	+ 1%	613	6%
	- 1%	(556)	-6%
Wage growth rate	+ 1%	325	3%
	- 1%	(319)	-3%
Staff turnover	+ 3%	(1,035)	-10%
	- 3%	1,483	15%
Mortality Rates	+ 10%	(169)	-2%
	- 10%	142	1%

The Group expects to contribute RR 642 million to the defined benefit plans in 2017.

The weighted average duration of the defined benefit obligation of the Group is 9 years.



(in millions of Russian Rubles unless noted otherwise)

**Retirement benefit plan parameters and related risks.** The Group has liabilities under retirement benefit plans in Russia. The retirement benefit plan includes benefits of the following types: lump sum payment upon retirement, jubilee benefits paid at certain age or upon completion of a certain number of years of service, financial aid and compensation to cover funeral expenses in the event of an employee's or pensioner's death, financial aid provided to pensioners, pension benefits paid to former employees through the non-state pension fund (hereinafter referred to as the "NPF").

The amount of benefits depends on the period of the employees' service (years of service), salary level over the recent years preceding retirement, predetermined fixed amount or minimum tariff rate of remuneration or salary or a combination of these factors.

As a rule, the above benefits are indexed according to the inflation rate and salary growth for benefits that depend on the salary level, excluding the retirement benefits paid through NPF, which are not indexed for the inflation rate at the time the payment is made (following the retirement of employees, all risks are borne by NPF).

In addition to the inflation risk, all retirement benefit plans of the Group are exposed to mortality and survival risks. Plan assets held on NPF's accounts are governed in accordance with the local legislation and regulatory practices.

The Group and NPF are severally liable for plans management, including investments decisions and the contribution schedule.

NPF invests the Group's funds in a diversified portfolio. When investing pension savings and placing the pension reserves, NPF is guided by the Russian legislation that provides a strict regulation with respect to the possible list of financial instruments and restricts their utilisation, which also leads to diversification and reduces investment risks.

The Group transfers the obligation to pay lifelong non-state pension benefits to the Group's former employees to NPF and funds these obligations when awarding the pension. Therefore, the Group insures the risks related to payment of non-state pensions (investment risks and survival risks).

#### **Note 18. Current and non-current debt**

##### *Non-current debt*

	<b>Effective interest rate</b>	<b>Due date</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
	7.99–13.20% /			
PJSC Sberbank	MosPrime 3M+2.10%	2017–2028	56,491	47,865
PJSC Bank VTB	8.39–11.50%	2017–2027	29,516	4,522
Russian bonds (PJSC RusHydro) issued in February 2013	8.50%	2018*	20,645	20,635
Russian bonds (PJSC RusHydro) issued in July 2015	11.85%	2018	15,857	15,840
Russian bonds (PJSC RusHydro) issued in April 2016	10.35%	2019	15,347	-
Russian bonds (PJSC RusHydro) issued in April 2015	12.75%	2017*	10,222	10,214
PJSC ROSBANK	9.72–10.36%	2017–2018	8,136	4,909
Bank GPB (JSC)	9.75–11.09%	2017–2023	6,171	469
UniCredit Bank Austria AG	3.35%**	2017–2026	5,242	6,585
Crédit Agricole Corporate and Investment Bank Deutschland	Euribor 6M+0.625%	2018–2029	4,920	6,252
	MosPrime 3M+1.50–3.45% /			
EBRD	LIBOR 6M+3.45%	2017–2027	4,791	20,280
Municipal authority of Kamchatka region	8.57%	2017–2034	1,561	1,535
ASIAN Development bank	LIBOR 6M+3.45%	2017–2026	1,474	1,787
Russian bonds (PJSC RusHydro) issued in April 2011	9.50%	2021***	250	15,240
Bayerische Landesbank	-	-	-	1,212
Other long-term debt	-	-	1,776	1,404
Finance lease liabilities	-	-	1,973	2,262
<b>Total</b>			<b>184,372</b>	<b>161,011</b>
Less current portion of non-current			(25,758)	(25,159)
Less current portion of finance lease liabilities			(568)	(673)
<b>Total non-current debt</b>			<b>158,046</b>	<b>135,179</b>

\* The bonds mature in 10 years with a put option to redeem them in 2018, 2016 and 2017 respectively.

\*\* Fixed interest rate applied to 90 percent of the credit facility, to the rest 10 percent of the facility the quarterly variable export finance rate published by OeKB (Oesterreichische Kontrollbank AG) less 0.25 percent is applied.

\*\*\* In April 2016 holders of the bonds issued in April 2011 partly redeemed the bonds under the put option. The rest of the bonds with nominal amount of RR 250 million will mature in 2021 year.



(in millions of Russian Rubles unless noted otherwise)

**Bonds issue.** In April 2016 the Group placed non-convertible interest bearing market bonds of series BO-P04 with a nominal amount of RR 15,000 million. The term of the offer is 3 years, coupon rate is 10.35 percent per annum.

*Current debt*

	Effective interest rate	31 December 2016	31 December 2015
PJSC Sberbank	10.44–12.00%	5,854	19,668
PJSC ROSBANK	9.90–12.39%	4,755	6,776
Bank GPB (JSC)	9.75–11.50%	3,031	7,038
LLC AlstomRusHydroEnergy	-*	750	750
Bank «RRDB» (JSC)	11.63%	150	966
JSC Alfa-Bank	-	-	501
Current portion of non-current debt	-	25,758	25,159
Current portion of finance lease liabilities	-	568	673
Other current debt	-	891	683
<b>Total current debt and current portion of non-current debt</b>		<b>41,757</b>	<b>62,214</b>

*Reference:*

Interest payable	3,044	2,942
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\* The loan received from a related party, the joint venture of the Group (Note 6), the interest rate on this loan - 0.00 percent per annum.

**Compliance with covenants.** The Group is subject to certain covenants related primarily to its debt. As at 31 December 2016 and 31 December 2015 and during the reporting period the Group met all required covenant clauses of the credit agreements.

**Finance lease liabilities.** Minimum lease payments under finance leases and their present values are as follows:

	Due in 1 year	Due between 1 and 5 years	Due after 5 years	Total
<b>Minimum lease payments as at 31 December 2016</b>	<b>601</b>	<b>855</b>	<b>4,287</b>	<b>5,743</b>
Less future finance charges	(33)	(373)	(3,364)	(3,770)
<b>Present value of minimum lease payments as at 31 December 2016</b>	<b>568</b>	<b>482</b>	<b>923</b>	<b>1,973</b>
<b>Minimum lease payments as at 31 December 2015</b>	<b>706</b>	<b>1,116</b>	<b>4,546</b>	<b>6,368</b>
Less future finance charges	(33)	(475)	(3,598)	(4,106)
<b>Present value of minimum lease payments as at 31 December 2015</b>	<b>673</b>	<b>641</b>	<b>948</b>	<b>2,262</b>

**Note 19. Other non-current liabilities**

	31 December 2016	31 December 2015
Pension benefit obligations (Note 17)	8,804	8,386
Other non-current liabilities	9,922	6,165
<b>Total other non-current liabilities</b>	<b>18,726</b>	<b>14,551</b>

**Note 20. Accounts payable and accruals**

	31 December 2016	31 December 2015
Trade payables	31,451	33,475
Advances received	9,712	9,849
Settlements with personnel	8,245	8,410
Accounts payable under factoring agreements	2,957	4,071
Dividends payable	136	86
Obligation to PJSC RAO ES East shares purchase (Note 15)	3	2,108
Other accounts payable	6,280	2,308
<b>Total accounts payable and accruals</b>	<b>58,784</b>	<b>60,307</b>

All accounts payable and accruals are denominated in Russian Rubles.



**Note 21. Other taxes payable**

	<b>31 December 2016</b>	<b>31 December 2015</b>
VAT	9,833	8,085
Insurance contributions	2,925	2,864
Property tax	1,941	2,159
Other taxes	558	927
<b>Total other taxes payable</b>	<b>15,257</b>	<b>14,035</b>

**Note 22. Revenue**

	<b>Year ended</b> <b>31 December 2016</b>	<b>Year ended</b> <b>31 December 2015</b>
Sales of electricity	272,582	254,518
Sales of heat and hot water	38,849	35,381
Sales of capacity	37,068	33,038
Other revenue	25,573	24,575
<b>Total revenue</b>	<b>374,072</b>	<b>347,512</b>

Other revenue includes revenue earned from transportation of electricity and heat, connections to the grid, rendering of construction, repairs and other services.

**Note 23. Government grants**

In accordance with legislation of the Russian Federation several companies of the Group are entitled to government subsidies for compensation of the difference between approved economically viable electricity and heat tariffs and actual reduced tariffs and for compensation of losses on purchased fuel. During the year ended 31 December 2016 the Group received government subsidies in the amount of RR 17,250 million (for the year ended 31 December 2015: RR 14,314 million) in the following subsidised territories: Kamchatsky territory, the Sakha Republic (Yakutia), Magadan Region and other Far East regions.

**Note 24. Other operating income**

	<b>Year ended</b> <b>31 December 2016</b>	<b>Year ended</b> <b>31 December 2015</b>
Gain on sales of other non-current assets (Note 10) and non-current assets classified as held for sale	7,443	743
Gain on sales of subsidiaries (Notes 4, 15)	3,048	709
Insurance indemnity	1,931	6,778
<b>Total other operating income</b>	<b>12,422</b>	<b>8,230</b>

Gain on sales of other non-current assets and non-current assets classified as held for sale includes the gain on the sale of the dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs in the amount of RR 7,202 million (Note 10).





**Note 25. Operating expenses (excluding impairment losses)**

	Year ended 31 December 2016	Year ended 31 December 2015
Employee benefit expenses (including payroll taxes and pension benefit expenses)	71,768	72,871
Purchased electricity and capacity	57,610	60,805
Fuel expenses	54,561	54,087
Electricity distribution expenses	46,722	42,663
Depreciation of property, plant and equipment and amortisation of intangible assets	24,130	22,477
Taxes other than on income	10,233	9,792
Other materials	9,115	9,202
Third parties services, including:		
Repairs and maintenance	4,507	5,055
Provision of functioning of electricity and capacity market	3,642	3,737
Purchase and transportation of heat power	3,442	3,102
Security expenses	3,369	3,279
Services of subcontracting companies	2,465	4,249
Rent	2,155	2,111
Insurance cost	1,983	1,572
Consulting, legal and information expenses	1,911	2,340
Transportation expenses	1,213	1,108
Other third parties services	8,052	6,376
Water usage expenses	3,202	2,844
Social charges	1,319	1,445
Purchase of oil products for sale	1,065	673
Travel expenses	804	1,798
Loss on disposal of property, plant and equipment, net	555	3,366
Curtailment in pension payment and pension plan	-	(717)
Other expenses	1,882	868
<b>Total operating expenses (excluding impairment losses)</b>	<b>315,705</b>	<b>315,103</b>

**Note 26. Finance income, costs**

	Year ended 31 December 2016	Year ended 31 December 2015
<i>Finance income</i>		
Interest income	6,779	9,620
Foreign exchange gain	2,782	2,316
Income on discounting	118	132
Other income	264	245
<b>Total finance income</b>	<b>9,943</b>	<b>12,313</b>
<i>Finance costs</i>		
Interest expense	(6,813)	(5,762)
Foreign exchange loss	(454)	(1,744)
Expense on discounting	(407)	(885)
Finance lease expense	(295)	(241)
Other costs	(1,072)	(1,112)
<b>Total finance costs</b>	<b>(9,041)</b>	<b>(9,744)</b>



**Note 27. Earnings per share**

	Year ended 31 December 2016	Year ended 31 December 2015
Weighted average number of ordinary shares issued (thousands of shares)	367,138,482	364,468,853
Profit for the period attributable to the shareholders of PJSC RusHydro	40,205	31,539
<b>Earnings per share attributable to the shareholders of PJSC RusHydro – basic and diluted</b> (in Russian Rubles per share)	<b>0.1095</b>	<b>0.0865</b>

**Note 28. Capital commitments**

In accordance with investment programme of the Company and separate investment programmes of the subsidiaries, the Group has to invest RR 243,975 million for the period 2017-2019 for reconstruction of the existing and construction of new power plants (31 December 2015: RR 327,128 million for the period 2016-2018).

Capital commitments of the Group as at 31 December 2016 are as follows: 2017 – RR 115,791 million, 2018 – RR 77,133 million, 2019 – RR 51,051 million.

Future capital expenditures are mainly related to reconstruction of equipment of power plants: Zhigulevskaya HPP in the amount of RR 8,902 million, Votkinskaya HPP in the amount of RR 8,629 million, Volzhskaya HPP in the amount of RR 8,373 million; and to construction of power plants: Zaramagskie HPP in the amount of RR 23,298 million, Sakhalin GRES-2 in the amount of RR 20,882 million, Nizhne-Bureiskaya HPP in the amount of RR 13,328 million, Ust'-Srednekanskaya HPP in the amount of RR 10,367 million.

**Note 29. Contingencies**

**Social commitments.** The Group contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees, including contributions toward the development and maintenance of housing, hospitals, transport services, recreation and other social needs in the geographical areas in which it operates. In the opinion of management there are no significant liabilities that should have been recognised at the reporting date.

**Insurance.** The Group holds limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed to those risks for which it does not have insurance.

**Legal proceedings.** The Group's subsidiaries are parties to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the position of the Group.

**Tax contingencies.** Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management may be challenged by tax authorities, in particular, the way of accounting for tax purposes of some income and expenses of the Group as well as deductibility of input VAT from suppliers and contractors. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax non-compliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review was made. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

During 2016 the Group's subsidiaries had controlled transactions and transactions which highly probably will be considered by tax authorities to be controlled based on the results of the year 2016. Management implemented internal controls to be in compliance with the new transfer pricing legislation.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.



(in millions of Russian Rubles unless noted otherwise)

Management believes that as at 31 December 2016 its interpretation of the relevant legislation was appropriate and the Group's tax position would be sustained.

New provisions aimed at deoffshorisation of Russian economy have been added to the Russian tax legislation and are effective from 1 January 2015. Specifically, they introduce new rules for controlled foreign companies, a concept of beneficiary owner of income for the purposes of application of preferential provisions of taxation treaties of the Russian Federation, a concept of tax residency for foreign persons and taxation of indirect sale of Russian real estate assets.

The Group is currently assessing the effects of new tax rules on the Group's operations and takes necessary steps to comply with the new requirements of the Russian tax legislation. However, in view of the recent introduction of the above provisions and insufficient related administrative and court practice, at present the probability of claims from Russian tax authorities and probability of favourable outcome of tax disputes (if they arise) cannot be reliably estimated. Tax disputes (if any) may have an impact on the Group's financial position and results.

**Environmental matters.** The Group's subsidiaries and their predecessor entities have operated in the utilities industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group's subsidiaries periodically evaluate their obligations under environmental regulations. Group accrued assets retirement obligation for ash dumps used by the Group which is included in other non-current liabilities and other accounts payable and comprised RR 1 048 million as at 31 December 2016 (31 December 2015: RR 683 million).

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

**Guarantees.** The Group has issued guarantees for CJSC Boguchansky Aluminium Plant in favour of its suppliers for future equipment deliveries and for PJSC Boguchanskaya HPP in favour of the State Corporation Vnesheconombank for the loan facility:

<b>Counterparty</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
<i>for PJSC Boguchanskaya HPP:</i>		
State Corporation Vnesheconombank	26,749	27,398
<i>for CJSC Boguchansky Aluminium Plant:</i>		
ALSTOM Grid SAS	31	77
<b>Total guarantees issued</b>	<b>26,780</b>	<b>27,475</b>

Based on the information available to the Group, PJSC Boguchanskaya HPP currently meets and will be able to meet its obligations under the loan facility with the State Corporation Vnesheconombank in the foreseeable future. The probability that the Group becomes liable in respect of these guarantees is low.

### **Note 30. Financial risk management**

The risk management function within the Group is carried out in respect of financial and operational risks. Financial risk comprise market risk (including currency risk, interest rate risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to provide reasonable assurance for achievement of the Group's objectives by establishing Group's overall framework, identifying, analyzing and evaluating risks, establishing risk limits, and then ensuring that exposure to risks stays within these limits and in case of exceeding these limits to impact on the risks.

In order to optimise the Group's exposure to risks, the Company constantly works on their identification, assessment and monitoring, as well as the development and implementation of activities which impact on the risks, business continuity management and insurance, seeks to comply with international and national standards of advanced risk management (COSO ERM 2004, ISO 31000 and others), increases the culture of risk management and continuously improves risk management.

**Credit risk.** Credit risk is the risk of financial loss for the Group in the case of non-fulfillment by the Contractor of the obligations on the financial instrument under the proper contract. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.



(in millions of Russian Rubles unless noted otherwise)

The Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the Note 33.

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

There is no independent rating for the Group's customers and therefore the Group considers the credit quality of customers at the contract execution stage. The Group considers their financial position and credit history. The Group monitors the existing receivables on a continuous basis and takes actions regularly to ensure collection or to minimise losses.

To reduce the credit risk in the wholesale electricity and capacity markets the Group has introduced marketing policy and procedure to calculate internal ratings of counterparties in the unregulated market, based on the frequency of default, and to establish limits based on the rating of the customers' portfolio.

The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide past due accounts receivable and other information about credit risk as disclosed in Note 12.

Cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening. Management of the Group approved the list of banks for deposits, as well as rules for their placement. Moreover, management constantly evaluates the financial condition, ratings assigned by independent agencies, background and other factors of such banks.

The tables in Notes 10, 11 and 14 show deposits with banks and other financial institutions and their ratings at the end of the reporting period.

Credit risk for financial guarantees is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assuming conditional obligations as it does for other financial instruments, through established credit approvals, risk control limits and monitoring procedures.

The Group's maximum exposure to credit risk for financial guarantees was RR 26,780 million as at 31 December 2016 (31 December 2015: RR 27,475 million) (Note 29).

**Market risk.** The Group takes on exposure to market risks. Market risks arise from open positions in (i) foreign currencies, (ii) interest bearing assets and liabilities, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a regular basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated.

**Currency risk.** Electricity and capacity produced by the Group is sold on the domestic market of the Russian Federation at the prices fixed in Russian Rubles. Hence, the Group does not have significant foreign currency exchange risk. The financial condition of the Group, its liquidity, financing sources and the results of operations do not considerably depend on currency rates as the Group operations are planned to be performed in such a way that its assets and liabilities are to be denominated in the national currency.

The table below summarises the Group's monetary financial assets and liabilities exposed to foreign currency exchange rate risk:

	31 December 2016			31 December 2015		
	Monetary financial assets	Monetary financial liabilities	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
USD	840	(3,088)	(2,248)	6,409	(3,735)	2,674
EUR	67	(10,477)	(10,410)	61	(14,335)	(14,274)
Other	31	-	31	102	-	102
<b>Total</b>	<b>938</b>	<b>(13,565)</b>	<b>(12,627)</b>	<b>6,572</b>	<b>(18,070)</b>	<b>(11,498)</b>

The above analysis includes only monetary assets and liabilities. Equity investments and non-monetary assets are not considered to give rise to any material currency risk.

There is no significant effect of the changes of foreign currency rates on the Group's financial position.



(in millions of Russian Rubles unless noted otherwise)

**Interest rate risk.** The Group's operating profits and cash flows from operating activities are not dependent largely on the changes in the market interest rates. Borrowings issued at variable rates (Note 18) expose the Group to cash flow interest rate risk.

The Group obtains debt financing with floating rates, which are established on the basis of the MOSPRIME, Euribor, Libor rates.

As at 31 December 2016, had interest rates at that date been 2 percent higher (31 December 2015: 3 percent higher), with all other variables held constant, profit for the year ended 31 December 2016 and the amount of capital that the Group managed as at 31 December 2016 would have been RR 327 million (31 December 2015: RR 1,161 million) lower, mainly as a result of higher interest expense.

The Group monitors interest rates for its financial instruments. Effective interest rates are disclosed in Note 18.

For the purpose of interest risk reduction the Group makes the following arrangements:

- credit market monitoring to identify favourable credit conditions,
- diversification of credit portfolio by raising of borrowings with fixed rates and floating rates.

**Liquidity risk.** Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities and the availability of funding from an adequate amount of committed credit facilities. The Group adheres to the balanced model of financing of working capital – both at the expense of short-term sources and long-term sources. Temporarily free funds are placed into short-term financial instruments, mainly bank deposits and short-term bank promissory notes. Current liabilities are represented mainly by the accounts payable to suppliers and contractors.

The Group has implemented a control system under its contract conclusion process by introducing and applying typical financial arrangements which include standardised payment structure, payment deadlines, percentage ratio between advance and final settlement, etc. In such a manner the Group controls capital maturity.

The table below shows liabilities as at 31 December 2016 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges). Such undiscounted cash flows differ from the amount included in the Consolidated Statement of Financial Position because this amount is based on the discounted cash flows.

The maturity analysis of financial liabilities as at 31 December 2016 is as follows:

	2017 year	2018 year	2019 year	2020 year	2021 year	Starting from year 2022
<b>Liabilities</b>						
Current and non-current debt	55,373	102,732	28,490	24,992	3,600	20,210
Trade payables (Note 20)	31,451	-	-	-	-	-
Accounts payable under factoring agreements (Note 20)	2,957	-	-	-	-	-
Obligation to PJSC RAO ES East shares purchase (Note 20)	3	-	-	-	-	-
Financial guarantees (Note 29)	800	1,008	1,269	1,536	1,791	20,376
Dividends payable (Note 20)	136	-	-	-	-	-
Finance lease liabilities (Note 18)	601	267	196	196	196	4,287
Net settled derivatives	9	8	5	2	-	-
<b>Total future payments, including principal and interest payments</b>	<b>91,330</b>	<b>104,015</b>	<b>29,960</b>	<b>26,726</b>	<b>5,587</b>	<b>44,873</b>



The maturity analysis of financial liabilities as at 31 December 2015 is as follows:

	2016 year	2017 year	2018 year	2019 year	2020 year	Starting from year 2021
<b>Liabilities</b>						
Current and non-current debt	74,633	33,577	65,664	8,313	28,242	38,978
Trade payables (Note 20)	33,475	-	-	-	-	-
Accounts payable under factoring agreements (Note 20)	4,071	-	-	-	-	-
Obligation to PJSC RAO ES East shares purchase (Note 20)	2,108	-	-	-	-	-
Financial guarantees (Note 29)	712	771	1,008	1,269	1,537	22,178
Dividends payable (Note 20)	86	-	-	-	-	-
Finance lease liabilities (Note 18)	706	442	267	203	204	4,546
Net settled derivatives	32	26	17	10	4	-
<b>Total future payments, including principal and interest payments</b>	<b>115,823</b>	<b>34,816</b>	<b>66,956</b>	<b>9,795</b>	<b>29,987</b>	<b>65,702</b>

### **Note 31. Management of capital**

Compliance with Russian legislation requirements and capital cost reduction are key objectives of the Group's capital risk management.

As at 31 December 2016 and 31 December 2015 the Company was in compliance with the share capital requirements as established under legislation.

The Group's objectives in respect of capital management are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The amount of capital that the Group managed as at 31 December 2016 was RR 650,932 million (31 December 2015: RR 613,919 million).

Consistent with others in the energy industry, the Group monitors the gearing ratio, that is calculated as the total debt divided by the total capital. Debt is calculated as a sum of non-current and current debt, as shown in the Consolidated Statement of Financial Position. Total capital is equal to the total equity, as shown in the Consolidated Statement of Financial Position. The gearing ratio was 0.31 as at 31 December 2016 (31 December 2015: 0.32).

### **Note 32. Fair value of assets and liabilities**

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs).

#### **a) Recurring fair value measurements**

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.



(in millions of Russian Rubles unless noted otherwise)

The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

<b>31 December 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Available-for-sale financial assets	20,619	-	562	<b>21,181</b>
<b>Non-financial assets</b>				
Property, plant and equipment (except for construction in progress, office buildings and land)	-	-	496,637	<b>496,637</b>
<b>Total assets recurring fair value measurements</b>	<b>20,619</b>	<b>-</b>	<b>497,199</b>	<b>517,818</b>
<b>31 December 2015</b>				
<b>Financial assets</b>				
Available-for-sale financial assets	6,057	-	37	<b>6,094</b>
<b>Non-financial assets</b>				
Property, plant and equipment (except for construction in progress, office buildings and land)	-	-	480,692	<b>480,692</b>
<b>Total assets recurring fair value measurements</b>	<b>6,057</b>	<b>-</b>	<b>480,729</b>	<b>486,786</b>

As at 31 December 2016 and 31 December 2015 the Group's liabilities measured at fair value are not significant.

The valuation technique, inputs used in the fair value measurement for significant Level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2016:

	<b>Fair value</b>	<b>Valuation technique</b>	<b>Significant unobservable inputs</b>	<b>Reasonable change</b>	<b>Sensitivity of fair value measurement</b>
<b>Non-financial assets</b>					
Property, plant and equipment (except for construction in progress, office buildings and land)	496,637	Discounted cash flows	Electricity and capacity prices Discount rate Capital expenditures	-10% +1% +10%	(16,725) (7,366) (1,582)
<b>Total recurring fair value measurements at Level 3</b>	<b>496,637</b>				<b>(25,673)</b>

The above tables discloses sensitivity to valuation inputs for property, plant and equipment as changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly.

There were no changes in valuation technique for Level 3 recurring fair value measurements during the years ended 31 December 2016 and 31 December 2015.

**(b) Assets and liabilities not measured at fair value but for which fair value is disclosed**

**Financial assets carried at amortised cost.** The Group considers that the fair value of cash, short term deposits (Level 1 of the fair value hierarchy) and accounts receivable (Level 3 of the fair value hierarchy) approximates their carrying value. The fair value of long term accounts receivable, other non-current and current financial assets is estimated based on future cash flows expected to be received including expected losses (Level 3 of the fair value hierarchy), the fair value of these assets approximates their carrying value.

**Liabilities carried at amortised cost.** The fair value of floating rate liabilities approximates their carrying value. The fair value of bonds is based on quoted market prices (Level 1 of the fair value hierarchy). Fair value of the fixed rate liabilities is estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity (Level 3 of the fair value hierarchy).

The fair value of current liabilities carried at amortised cost approximates their carrying value.

As at 31 December 2016 fair value of bonds exceeded their carrying value by RR 92 million. As at 31 December 2015 the carrying value of bonds exceeded their fair value by RR 763 million.

As at 31 December 2016 the carrying value of non-current fixed rate debt exceeded their fair value by RR 4,705 million. As at 31 December 2015 the carrying value of non-current fixed rate debt exceeded their fair value by RR 7,121 million.



**Note 33. Presentation of financial instruments by measurement category**

The following table provides a reconciliation of classes of financial assets with the measurement categories of IAS 39, Financial Instruments: Recognition and Measurement as at 31 December 2016:

	Loans and receivables	Available-for-sale financial assets	Total
<b>Assets</b>			
<b>Other non-current assets (Note 10)</b>	<b>8,838</b>	-	<b>8,838</b>
Promissory notes	8,491	-	8,491
Long-term loans issued	332	-	332
Net settled derivatives	15	-	15
<b>Available-for-sale financial assets (Note 9)</b>	-	<b>21,181</b>	<b>21,181</b>
<b>Trade and other receivables (Note 12)</b>	<b>37,376</b>	-	<b>37,376</b>
Trade receivables	33,036	-	33,036
Promissory notes receivable	4,340	-	4,340
<b>Other current assets (Note 14)</b>	<b>8,118</b>	-	<b>8,118</b>
Special funds	3,507	-	3,507
Deposits and promissory notes	4,292	-	4,292
Short-term loans issued	310	-	310
Net settled derivatives	9	-	9
<b>Cash and cash equivalents (Note 11)</b>	<b>67,354</b>	-	<b>67,354</b>
<b>Total financial assets</b>	<b>121,686</b>	<b>21,181</b>	<b>142,867</b>
<b>Non-financial assets</b>			<b>840,579</b>
<b>Total assets</b>			<b>983,446</b>

The following table provides a reconciliation of financial assets with the measurement categories as at 31 December 2015:

	Loans and receivables	Available-for-sale financial assets	Total
<b>Assets</b>			
<b>Other non-current assets (Note 10)</b>	<b>7,896</b>	-	<b>7,896</b>
Promissory notes	7,218	-	7,218
Long-term loans issued	633	-	633
Net settled derivatives	45	-	45
<b>Available-for-sale financial assets (Note 9)</b>	-	<b>6,094</b>	<b>6,094</b>
<b>Trade and other receivables (Note 12)</b>	<b>38,383</b>	-	<b>38,383</b>
Trade receivables	34,917	-	34,917
Promissory notes receivable	9	-	9
Other financial receivables	3,457	-	3,457
<b>Other current assets (Note 14)</b>	<b>22,291</b>	-	<b>22,291</b>
Deposits and promissory notes	19,532	-	19,532
Short-term loans issued	2,728	-	2,728
Net settled derivatives	31	-	31
<b>Cash and cash equivalents (Note 11)</b>	<b>48,025</b>	-	<b>48,025</b>
<b>Total financial assets</b>	<b>116,595</b>	<b>6,094</b>	<b>122,689</b>
<b>Non-financial assets</b>			<b>814,660</b>
<b>Non-current assets and assets of disposal group classified as held for sale</b>			<b>788</b>
<b>Total assets</b>			<b>938,137</b>

All of the Group's financial liabilities are carried at amortised cost. Financial liabilities are represented mainly by the current and non-current debt (Note 18), trade payables and other accounts payable (Note 20).

**Note 34. Subsequent events**

**Additional issue of new shares.** In January 2017 the Company resumed the results of execution of pre-emptive right by eligible shareholders to acquire Company's shares of additional issue, registered by Bank of Russia on 7 December 2016. During the pre-emptive right period the Company placed 33,348,661 additional shares priced at RR 1,00 per share, or 0.08 percent of the total volume of additional issue (Note 15).





In March 2017, the Company and PJSC Bank VTB signed agreements related to a purchase of 55 billion ordinary shares of the Company (40 billion shares of the new issue and 15 billion shares of quasi-treasury stock) and conclusion of a 5-year non-deliverable forward contract in respect of these shares. The cash in the amount of RR 55 billion received by the Company through the sale of shares is intended to repay the debts of RAO ES East subgroup. In accordance with the forward contract, the Company has no obligation to buy back its own shares; for the purposes of final settlement under the forward contract it is envisaged that bank sells the Company's shares. Any difference between bank's income from the sale of the above shares at the end of the forward contract and the forward price is due to be settled in cash between the Company and the bank. The forward price is defined as the purchase cost of the shares increased by the total amount of interests charged less total dividends paid during the contract period.

At the moment of these consolidated financial statements approval, the estimate of the forward price and the related effect of the contract on the carrying amount of assets and liabilities, and financial result within the next financial year is not completed by the Group's management.

**Conclusion  
The Audit Commission  
Public Joint Stock Company «Federal Hydrogenerating Company RusHydro» (PJSC  
RusHydro)  
the results of the financial and economic activities audit for 2016**

Moscow

10 April 2017

In accordance with the PJSC RusHydro Audit Commission decision (minutes of the meeting of the Audit Commission No. 2 dated October 14, 2016) financial and economic activities audit PJSC RusHydro (hereinafter - the Company) for the period from January 1, 2016 to December 31, 2016 has carried out.

The audit was carried out by the members of the Audit Committee of PJSC RusHydro exercising their powers on the basis of the decision of the General Meeting of Shareholders from June 27, 2016, consisting of:

1. Repin Igor Nikolayevich (Chairman),
2. Annikova Natalia Nikolaevna,
3. Bogashov Alexander Evgenievich,
4. Kant Mandal Denis Rischevich (secretary),
5. Khvorov Vladimir Vasilyevich.

The Commission carries out its activities in accordance with the Russia legislation norms, PJSC RusHydro Charter and Audit Commission Regulation. PJSC RusHydro Audit Commission Members do not own shares in the Company, they do not hold positions in the Company's management bodies.

The main objectives of the audit were to obtain reasonable assurance that:

- the data contained in the reports and other financial documents of the Company are reliable;
- accounting and presentation of financial statements were carried out in compliance with the requirements of the current legislation and local regulations of the Company;
- financial and economic activities were conducted in compliance with the interests of the Company and its shareholders (participants).

Executive body of the Company is responsible for compliance with the Russian Federation legislation in the conduct of financial and business operations, conduct of activities taking into account the interests of the Company and its shareholders and the presentation of reliable financial statements.

The audit was carried out on a selective basis and included the examination on the basis of testing of evidence supporting the importance and disclosure in the financial statements of information on the financial and economic activities of the Company in order to obtain reasonable assurance that the annual report and accounting (financial) statements for 2016 does not contain significant distortion.

During the audit, the following issues were also analyzed.

## **I. SHAREHOLDER CONTROL OBJECTIVES**

### **1. Verification of purchases conducted by the Company in 2016**

The Audit Commission notes that the decreasing purchases dynamics from a single source is positive.

In more detail, the results of the audit of procurement activities is in the Audit Commission Act (section I.1, p.1).

### **2. Verification of the Government's order implementation "Key performance indicators of the Company"(KPI)**

Conclusions:

1. In 2016, the list of PJSC RusHydro annual KPIs was supplemented by four new indicators,

according to the "Methodical Guidelines for the Application of Key Performance Indicators of the Federal Property Management Agency" dated March 27, 2014. The supplement is reflected in the Company's Long-Term Development Program, target KPI values for 2016-2020 have been set.

2. PJSC RusHydro annual KPIs actual values for the year 2016 correspond to or exceed the target values for this period, with the exception of KPI "Implementation of capacity schedules and a plan for financing and development". The main reason for the failure of the indicator is a violation of the deadline for commissioning the Yakutskaya SPS-2 power plant due to the failure of the designer to complete the working documentation, the failure of the general contractor to perform the work, and the delay in the delivery of the DCU by the customer.
3. Quarterly KPIs actual values (for 1-4Q 2016) is fulfilled, except the indicator "Implementation of quarterly financing schedules and the development of the investment program with the cumulative result from the beginning of the year".
4. The Board compensation linked to achievement of key performance indicators of Companies. However, only 50% of the amount of remuneration is determined by objective indicators, and 25% -50% is a subjective decision of the Chairman of the Board.

"Regulations on payment of remuneration to the members of the Board of Directors of PJSC RusHydro", approved by the annual General meeting of shareholders as of 30.06.2010, requires improvement and harmonization guidelines of the Federal property management Agency in respect of the members of the audit Committee, in terms of the summation of the allowances for membership and/or chairmanship in two or more Committees.

More detailed results of the verification of fulfillment of the instructions of the Government, "Key performance indicators of the company" given in the Act the audit Commission (section 2, p. 6).

### **3. Verification of compliance of the Government Directive "Reducing operating costs"**

The value of the indicator "Reduction of operating costs (expenses)" according to the results for 2016 accounted for 11 % (at the plan of 10%).

More detailed results of checking compliance with the directives of the Government "Reduce operating expenses" described in the report of the auditing Committee (section 3, p. 6).

### **4. The introduction of the principles of corporate governance (the implementation of the program of implementation of the principles of corporate governance)**

The audit Commission studied the "Report on compliance with the principles and recommendations of corporate governance Code" and internal company documents for their compliance with the best practices of corporate governance and the Code provisions of the CG recommended by the Central Bank of the Russian Federation.

Society, in our view, generally consistent with the recommendations of the code of KU recommended by the Central Bank of the Russian Federation.

In more detail the implementation of principles of corporate governance considered in the Act of the auditing Commission (section 4, p. 2).

## **II. VERIFY FINANCIALLY-ECONOMIC ACTIVITIES OF THE COMPANY AND ITS ANNUAL ACCOUNTS FOR THE YEAR 2016**

### **Report on financial and economic activities.**

The results of operations of the company for the year 2016 to demonstrate effective work management to reduce operating costs. So, with revenue growth of 7%, cost of sales decreased by 12%, which has led to an increase in gross profit by 36%, to 58.6 billion rubles. While gross profit margin was 51%, the highest that has been achieved over the past 7 years only in 2011. Because Society still does not emit from the full cost distribution and administrative expenses, gross profit is the profit from the sales.

The proceeds from the sale of electricity grew by 6 percent (4.1 billion rubles), power - on 13% (4.3 billion rubles), heat energy - by 9% (0.01 billion rubles). Revenue from other sales fell by 0.4 billion rubles (main reduction due to recalculation of the revenue from the rent of the hydroelectric

dams of the Angara cascade in the judgment of 22.10.2015 (sold in October-November 2016)).

Expenditure on core activities was reduced overall by 12% without taking into account the deflator index 2016/2015.

The financial results of Companies in 2016 net profit totaled 41.9 billion rubles, which is 39.5% more than in the previous year. This corresponds to the return on net profit 36% - the highest result for the period 2011.

More detailed results of financial and economic activities described in the report of the audit Commission (Report on financial and economic activity, p. 5)

**Conclusions/Recommendations:**

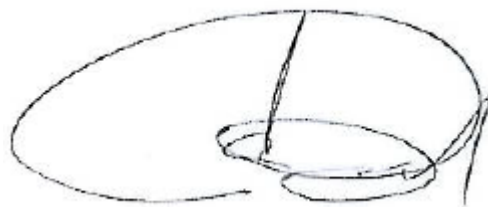
Violations of regulatory acts of the Russian Federation of an order of conducting accounting and submission of financial statements, and also legal acts of the Russian Federation when conducting financial and economic activities, which could materially affect the results of activities of PJSC RusHydro for 2016, is not revealed.

In our opinion, the annual report and Annual accounting (financial) statements of the company for the year 2016, the Report concluded by PJSC RusHydro in 2016, the transactions in which there was interest, reflect fairly, in all material respects, the financial position and results of financial-economic activities of the company for the period from 01.01.2016 to 31.12.2016 year.

However, the company is advised, according to Accounting Rule 10/99, to disclose information on administrative costs in public statements.

The audit Commission has analysed other aspects of Society, including analyzed the status of accounts receivable and payable (the Act of the auditing Commission, section 5, p. 2).

Member of the Audit Commission  
PJSC RusHydro



A.E. Bogashov

Member of the Audit Commission  
PJSC RusHydro



N.N. Annikova

Member of the Audit Commission  
PJSC RusHydro



V.V. Khvorov

Secretary of the Audit Commission  
PJSC RusHydro



D.R. Kant Mandal

Chairman of the Audit Commission  
PJSC RusHydro



I.N. Repin