

STRATEGY

OF RUSHYDRO GROUP

Mission and values

RusHydro Group's mission is to ensure efficient use of water resources and reliability of the Unified Energy System of Russia, as well as to support the social and economic development of the Far Eastern regions by providing its existing and prospective consumers with access to energy infrastructure.

Strategy and its implementation

RusHydro Group's Development Strategy¹ until 2020 with an outlook for 2025 was approved by RusHydro's Board of Directors in 2016 (Minutes No. 238 of June 8, 2016).

The Group's strategy stems from the draft energy strategy of the Russian

Federation until 2035 developed jointly with RusHydro. The industry strategy centres around the transition from resource-based to innovative development of the energy sector, focusing on the comprehensive upgrade of the Russian energy companies. RusHydro Group's

strategy seeks to implement the tasks outlined in the draft energy strategy of the Russian Federation until 2035.

The strategy sets out development goals for the entire RusHydro Group along with specific objectives for their achievement.

RUSHYDRO GROUP'S CORPORATE VALUES



Clean energy – ensuring environmental safety and protection of natural resources.



Engineering culture – operating assets in a safe and reliable manner.



Prosperous society – promoting reliability and infrastructure development, efficient use of water resources, utilization of hydropower potential and expanded use of renewable energy sources which contribute to the development of territories, economic growth and society's welfare and prosperity.



Reliable business – implementing social policy which supports the Company's employees and residents across its footprint.



Leading company – striving for the Company's success and leadership by combining its employees' efforts, resources and business components to achieve excellence in every aspect of the Company's operations.



United team – providing opportunities for the development and fair remuneration of the employees to build a competitive edge across RusHydro's operations (team spirit, self-expression and unlocking employees' potential).

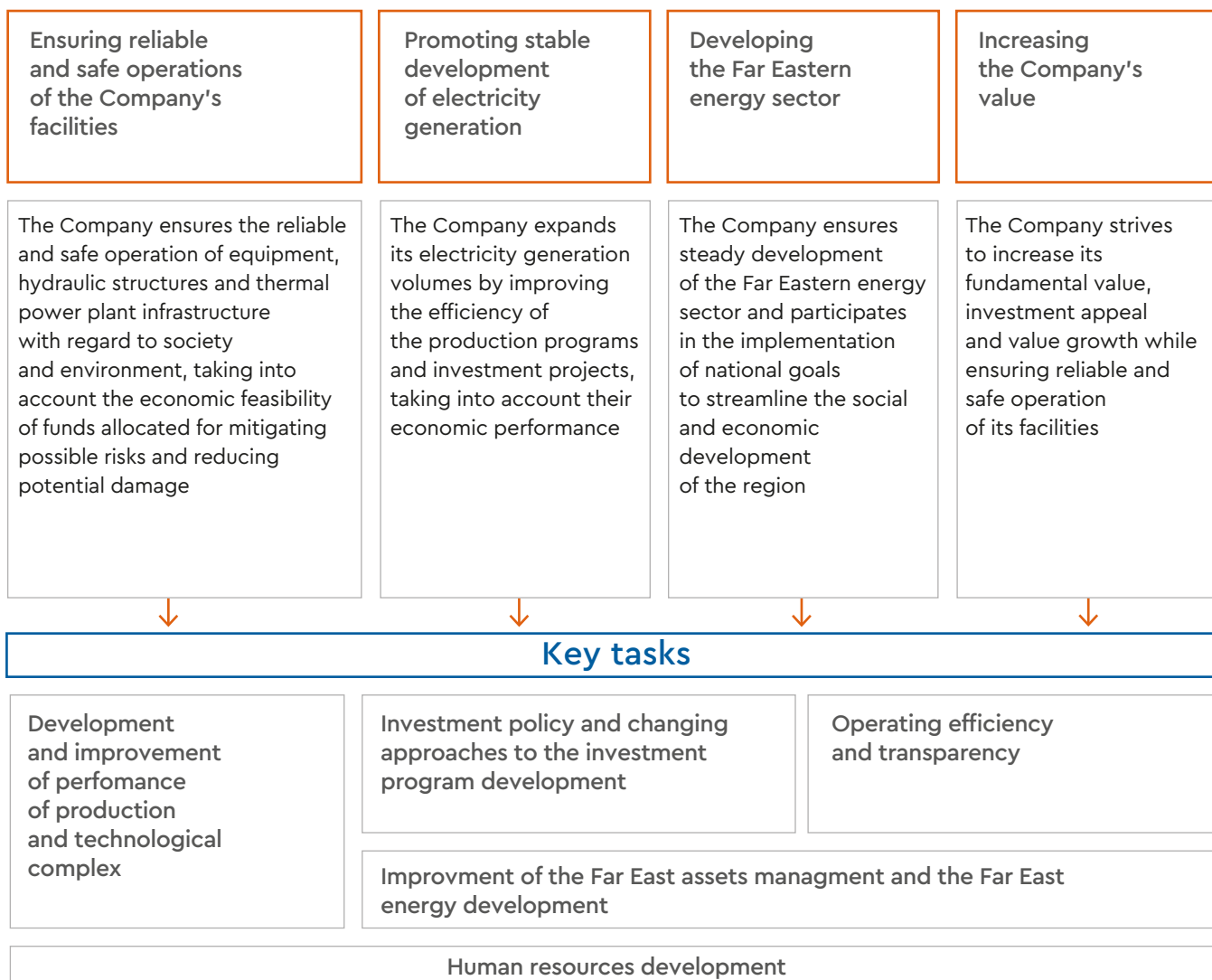


Developmental environment – implementing new technologies and offering infinite opportunities to foster further development.



Young energy – promoting energy-related careers among schoolchildren.

RusHydro Group's strategic goals



Strategic management system

The Company has a strategic management system in place², which links strategic management processes with the incentive system.

The main tools for implementing the strategy are RusHydro Group's Long-term Development Program and

Strategy Implementation Plan outlining the Company's development priorities, objectives and indicators aimed at achieving its strategic goals, as well as the Value Growth Plan.

Long-term Development Program

RusHydro's Long-term Development Program for 2018–2022 has been prepared in accordance with the instructions of the President of

the Russian Federation³ and the Russian Government⁴.

RusHydro Group's Long-term Development Program sets out the main principles and activities for the Company's rapid growth, seeking to ensure efficient use of water resources, sustainability of Russia's Unified Energy System, as well as social and economic development of the Russian regions, including the Far East, by providing its existing and prospective consumers with access to energy infrastructure.

¹ RusHydro Group's strategy was drafted in line with the following documents:

- Concept of long-term social and economic development of the Russian Federation until 2020;
- National Security Strategy of the Russian Federation;
- Long-term forecast of economic development of the Russian Federation until 2030;
- Draft energy strategy of the Russian Federation until 2035;
- Scheme and program for the development of Russia's Unified Energy System;
- General layout of power generation facilities until 2020;
- Regional social and economic strategies, energy strategies;
- Industry strategies.

² The system factors in the recommendations of the Federal Agency for State Property Management on the development of key strategic documents (Recommendations of the Federal Agency for State Property Management No. OD-11/18576 of April 29, 2014).

³ Instruction No. Pr-3086 of December 27, 2013.

⁴ Minutes No. 3 of January 30, 2014, Directive No. 4955p-P13 of the Russian Government of July 17, 2014.



RusHydro Group's Long-term Development Program¹ for 2018–2022 has been prepared in accordance with RusHydro Group's Development Strategy until 2020 with an outlook for 2025 and sets key parameters for the production programs, investment program, Innovative Development Program, and the Consolidated Business Plan of the Group, while also featuring the analysis of implementation risks and key performance indicators of the Long-term Development Program.

Objectives of RusHydro Group's Long-term Development Program:

- Ensuring reliable and safe operations of the Company's facilities;
- Promoting stable development of electricity generation;
- Developing the Far Eastern energy sector;
- Increasing the Company's value.

In the reporting year, RusHydro Group's Long-term Development Program was implemented within the framework of production, investment and innovative

programs. Information on the program implementation and on Long-term Development Program's KPI achievement is provided in the following sections: Key performance indicators, Economics and finance, Production and sales, Investment activities, Innovations, as well as in Appendix No. 9 Report on the Long-term Development Program implementation of RusHydro Group for the year of 2018 and Methodology of Calculation and Measurement and Appendix No. 10 The auditor's report on the Long-term Development Program implementation in 2017 of RusHydro Group for the period 2016-2020.

The progress on RusHydro Group's Long-term Development Program is monitored in accordance with the Long-term Development Program audit standard approved by RusHydro's Board of Directors² and the Terms of Reference for auditing the implementation of the Long-term Development Program³ developed in line with the recommendations of the Russian government⁴.

Value Growth plan

RusHydro Group's Value Growth Plan through to 2021 was approved by RusHydro's Board of Directors on October 27, 2017⁵ to maximize the Company's value and its investment appeal for shareholders and investors.

Value Growth Plan aims to increase RusHydro's fundamental and market value as fundamental value drives market capitalization, which is particularly important in view of the fact that shares of RusHydro and other Russian power companies are currently traded with a significant discount to global majors.

To secure effective implementation of the Value Growth Plan, it is planned to introduce a cost approach to the Company's management for the management processes, systems and solutions to maximize value while ensuring safe operations at generating facilities. At the same time, the Value Growth Plan includes tasks and initiatives to streamline operational and investment activities, both controlled by the management and dependent on external factors.

Moreover, the Value Growth Plan outlines the Company's key focus areas aimed at improving the openness and transparency of RusHydro Group in regards to the market participants and minimizing the gap between the fundamental and market value of the Company.

The focus area of the Company's efforts in 2018 to pursue the Value Growth Plan was a change in approaches to setting tariffs in the Far Eastern Federal District. A Decree of the Government of the Russian Federation was drafted to introduce long-term tariffs for non-price zones in the Far Eastern Federal District, which makes it possible for the energy companies to accommodate

¹ Minutes No. 271 of the Board of Directors of 01.06.2018, taking into account changes approved by the Minutes No. 279 of the Board of Directors of October 26, 2017.

² Minutes No. 281 of the Board of Directors of December 27, 2018.

³ Minutes No. 279 of the Board of Directors of October 26, 2018.

⁴ Instruction No. ISH-P13-2583 of the Russian Government of April 15, 2014.

⁵ Minutes No. 259 of the Board of Directors of October 30, 2017.

economically justified costs in the tariff and to retain the effect of cost savings. Within the framework of the heat generation modernization program of the Government of the Russian Federation, a return on investment is expected at a rate consistent with that of the projects for replacing retired capacities in the Far East.

In terms of optimization measures for investment and operating activities, as well as activities for the sale of non-core assets, the resulting effect has already exceeded RUB 55 bn.

In addition, in order to minimize the impact of ongoing non-monetary impairment on the amount of dividends paid, proposals were made for adjusting the Dividend Policy to establish the minimum level of dividend payout. The revised Dividend Policy was approved by the Company's Board of Directors (Minutes No. 287 of April 22, 2019).

Strategic risks

The Company maintains a strategic risk register which identifies risk owners and is reviewed on an annual basis. The register is used to disclose risk-related information to shareholders, rating agencies, auditor and other stakeholders, and to further promote and control risk optimization initiatives.

» The list of strategic risks and information on the risk management system are available in the Risk management section.

Strategy implementation in 2018

The Strategy Implementation Plan for 2018 sets the following strategic goals.

Key strategic goals for 2018

Goal	Progress
Ensuring reliability of existing assets and their upgrade, enhancing management efficiency with respect to the production complex	<ul style="list-style-type: none"> ➤ RusHydro Group's Technical Policy is being developed to reconcile top-level documents of RusHydro and RAO ES East aiming to determine the scope and development trends of technologies and technical solutions improving reliability and efficiency of RusHydro Group's production facilities in the short and long term, while also ensuring safe operations. ➤ RusHydro Group's Environmental Policy has been approved, which, along with the principles of environmental protection and safety, sets out key tasks aimed at improving the environmental management system.
Enhancing the operating performance and transparency	<ul style="list-style-type: none"> ➤ Cost optimization plan is being implemented based on the results of the external independent cost audit of RusHydro and its subsidiaries. ➤ In 2017–2018, the economic effect of the initiatives to optimize operating costs and the management model amounted to RUB 10,552 mn and RUB 1,863 mn, respectively.
Improving the efficiency of the Far Eastern asset management system and developing the Far Eastern energy sector	<ul style="list-style-type: none"> ➤ The Company is preparing a development strategy for its scientific and engineering design complex.
Increasing the competitive edge of the engineering design complex	<ul style="list-style-type: none"> ➤ The Group's Long-Term Development Program for 2018–2022 has been updated. ➤ RusHydro has approved the concept of the Company's positioning in the international market seeking to determine the main development areas of RusHydro Group's international activities and its approaches to fostering a positive image of the Company in the global business arena.
Drafting the Company's strategic documents	<ul style="list-style-type: none"> ➤ The number of corporate governance standards and principles set forth in the Corporate Governance Code and implemented in RusHydro's corporate governance practices grew to 92.4%.
Improving the corporate governance system	<ul style="list-style-type: none"> ➤ The Action Plan for the Introduction of Professional Standards into RusHydro's Operations is being implemented, including 33 standard training programs for the professional development and retraining of facility personnel at the Corporate Hydropower University based on the professional standards framework. ➤ RusHydro Group's employees completed 36,537 training courses. ➤ RusHydro participated in the creation of Institute of Hydropower and Renewable Energy Sources (part of Moscow Power Engineering Institute) acting as a single center for education and training of engineers specializing in hydropower and renewables.
Expanding the talent pool	