

Corporate governance system

RusHydro Group's corporate governance seeks to make sure that the rights and interests of its shareholders are protected and its investor relations are based on mutual trust. The quality of corporate governance is the key driver behind growth of the Company's value and dividend yields, contributing to a greater investment appeal.

RusHydro's corporate governance system:

- builds on compliance with the applicable Russian laws, Listing Rules of the London Stock Exchange and Moscow Exchange and the U.S. OTCQX rules for international companies;
- takes into consideration recommendations set out in the Corporate Governance Code of the Bank of Russia¹;
- seeks to incorporate best global and domestic practices.

Having the Federal Agency for State Property Management (on behalf of the Russian government) as the Company's controlling shareholder exerting significant influence

on the corporate management processes is the key distinctive feature of RusHydro's governance framework. Certain procedures for the government to exercise its rights as a shareholder are stipulated by law and set out the proceedings through which the state can use its corporate rights to make and pursue decisions with respect to the Company.

Over the past five years, the Company's corporate governance system has seen progressive improvements triggered by the implementation of the principles and guidelines set forth in the Bank of Russia's Corporate Governance Code,

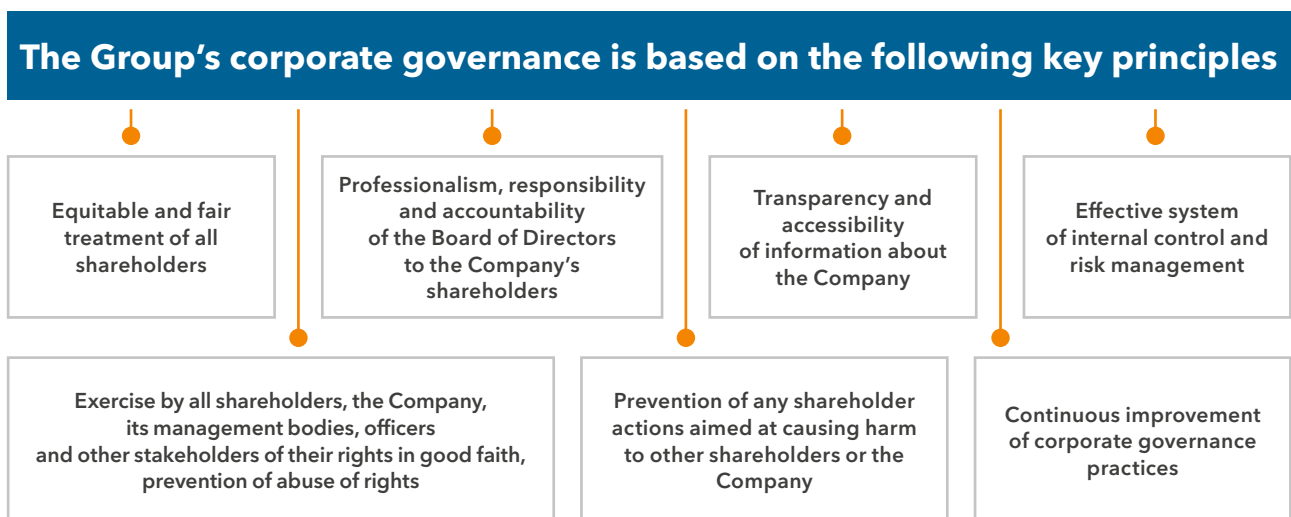
including through the adoption of RusHydro's own Corporate Governance Code².

The Company's corporate governance principles and procedures are laid out in its Charter and internal regulations, while the corporate practices are formalized in the Corporate Governance Code.



All internal corporate governance regulations adopted by PJSC RusHydro are available on the Company's website at:
<http://www.eng.rushydro.ru/>

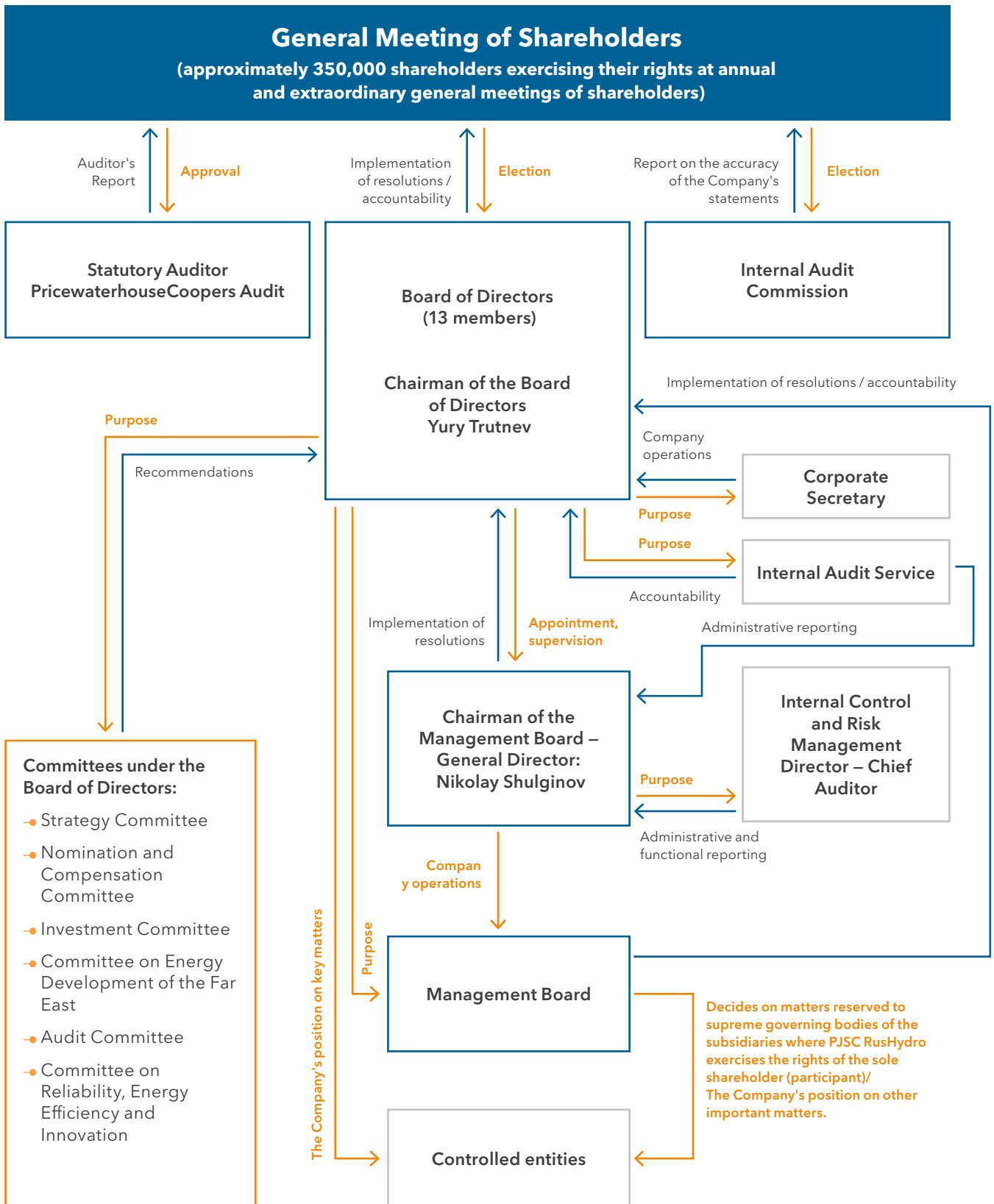
Key principles [102-16]



¹ The Corporate Governance Code recommended for implementation by joint-stock companies with securities admitted to organized trading as per letter of the Bank of Russia No. 06-52/2463 dated 10 April 2014.

² Approved by the Board of Directors on June 19, 2015 (Minutes No. 218 of June 22, 2015 as amended by resolutions adopted by the Board of Directors of RusHydro, Minutes No. 239 of June 23, 2016 and No. 263 of December 28, 2017).

Corporate governance structure [102-18]



Subsidiary management

PJSC RusHydro has stakes (including indirectly through its subsidiaries) in the authorized capital of companies engaged in electricity and heat generation and distribution, energy facilities design, construction, repair, maintenance, rehabilitation and modernization, and other activities.

RusHydro has, either directly or indirectly, 100% or majority (as the case may be) stakes in the authorized capital of most of the Group's subsidiaries, which helps it pursue the Group's strategy and corporate governance policies all across the controlled entities.

The Company contributes to subsidiaries' strategy delivery, stable economic growth and investment appeal, and protection of rights and interests of the shareholders of both the Company and its subsidiaries.

The Company manages its subsidiaries by being represented at general meetings of shareholders/participants, on boards of directors and in supervisory bodies of the subsidiaries.

Deciding on matters reserved to supreme governing bodies of the subsidiaries where PJSC RusHydro exercises the rights of the sole shareholder (participant) falls within the remit of the Management Board. Establishing the Company's position on key matters regarding subsidiaries (reorganization, liquidation, increase of the authorized capital, approval of major transactions, participation of the subsidiary in other energy organizations, disposal of energy assets) falls within the remit of the Board of Directors. PJSC RusHydro's position on other important

matters regarding subsidiaries (KPI approval (adjustment), participation of the subsidiary in non-energy organizations, nomination of candidates to the subsidiary's governance and supervisory bodies, etc.) is established by the Management Board.

In addition to that, the Company's internal regulations formalize the right of the members of RusHydro's Board of Directors to access documents and make inquiries on subsidiaries while also considering matters relating to material aspects of their business.

The regulations governing subsidiary relations include:

- Charter of PJSC RusHydro;
- Procedure for Interacting with the Organizations Where PJSC RusHydro Has an Interest.

Improving the corporate governance system

In 2019, the Company continued to implement the standards set forth in the Corporate Governance Code of the Bank of Russia (the "Code") to improve overall corporate governance by consistently amending the internal regulations and applying the standards in the day-to-day operations.

The following key actions were taken in 2019:

- The Company's Board of Directors approved a new version of the Regulations on Dividend Policy and the Regulation on the Assessment of the Activities of the Board of Directors and the Board of Director Committees of PJSC RusHydro;

- On June 28, 2019, the Company's shareholders could for the first time vote at the Annual General Meeting of Shareholders using an electronic voting system, while also having an opportunity to benefit from a new forum on the meeting agenda;
- With the adoption of a new version of the Internal Control and Risk Management Policy, the

Board of Directors started playing a more prominent role in managing risks, including by approving Guidelines on RusHydro Group's Risk Appetite;

- The Company's Charter and internal regulations were amended to include the following corporate governance enhancement clauses:
 - resolutions on critical matters set forth in recommendation 170 of the Code shall be passed by a majority vote involving all elected directors;
 - shareholders shall have access to the list of persons entitled to attend General Meetings of Shareholders as soon as such list becomes available to the Company;
 - material corporate actions involving a potential conflict of interest shall be assessed by independent directors;
 - shareholders holding collectively at least 2% of the Company's voting shares shall have the right to submit proposals for the agenda of meetings held by the Company's Board of Directors;



Improving the corporate governance system in subsidiaries

Over the reporting period, standardized subsidiary charters were adopted by the companies to ensure, among other things:

- compliance with applicable laws;
- harmonization of transaction approval approaches;
- quicker turnaround for corporate procedures.

- The quality and exhaustiveness of information disclosed in the Company's annual report and on the Company's website were improved;

- Candidates to the Board of Directors were assessed to confirm they have the necessary experience and knowledge, good reputation and no conflict of interest, with the assessment results submitted to shareholders as part of the materials for the Annual General Meeting of Shareholders;

- In April 2019, a meeting of the Board of Directors held in person

reviewed results of the corporate governance practice assessment and self-assessment of the Board of Directors' performance, considered positive changes in the assessments of independent experts and took note of the proposals put forward to improve the Board's performance¹.

In addition to that, the reporting period saw election of the senior independent director, assessment of the risk management and internal control system efficiency, review of a report on progress in implementing the Information Policy Regulations, etc.

Corporate governance improvement prospects

Key areas for improvement as regards the Company's corporate governance in 2020 include the following:

- increasing the number of meetings held by the Board of Directors in person;
- making arrangements for a comprehensive formal self-assessment of the Board of

Directors and its committees with a focus on their performance as a single body and individual contributions of directors to the proceedings of the Board of Directors and its committees; drafting recommendations for the Board of Directors to improve the operating performance of the Board of Directors and its

committees; and preparing a report on the results of the self-assessment exercise to be reviewed by the Board of Directors at a meeting held in person;

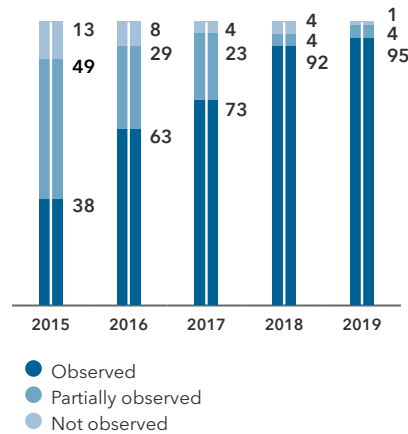
- lowering the threshold applied to disclosures of material transactions on the Company's website;
- improving corporate governance performance in the ESG ratings.

¹ Minutes No. 287 of April 22, 2019.

Compliance with the Corporate Governance Code

As a result of corporate governance improvement efforts and implementation of the standards set forth in the Code, the share of principles fully observed by RusHydro increased from 92% in 2018 to 95% in 2019.

Compliance with the principles and recommendations of the Corporate Governance Code, %



95%

of the Corporate Governance Code's principles recommended by Russian Central Bank are fully observed by PJSC RusHydro

For a detailed report on the Company's compliance with the Corporate Governance Code principles and recommendations, see [Appendix No. 1](#).

Compliance with the principles of the Corporate Governance Code¹

Observance of standards and principles of the Code	Observed			Partially observed			Not observed			Total for 2019
	2017	2018	2019	2017	2018	2019	2017	2018	2019	
Shareholder rights and equitable treatment of shareholders	11	12	12	2	1	1	-	-	-	13
The Company's Board of Directors	23	32	34	10	1	1	3	3	1	36
The Company's Corporate Secretary	2	2	2	-	-	-	-	-	-	2
Remuneration of the Company's directors, executive bodies and other key managers	10	10	10	-	-	-	-	-	-	10
Risk management and internal control system	6	6	6	-	-	-	-	-	-	6
Disclosures and the Company's information policy	6	7	7	1	-	-	-	-	-	7
Material corporate actions	-	4	4	5	1	1	-	-	-	5

¹ Compliance with the principles of the Corporate Governance Code was assessed based on the Bank of Russia's methodology and reporting recommendations with respect to such compliance (annex to the Bank of Russia letter No. IN-06-52/8 dated February 17, 2016).

Corporate governance quality assessment

In the reporting period, RusHydro's corporate governance quality was externally assessed by the Russian Institute of Directors (RID).

In September 2019, the RID affirmed the corporate governance ranking at 8 ("Advanced Corporate Governance Practice" according to the National Corporate Governance Rating (NCGR) scale).

The Company's corporate governance practices were assessed based on four components, each including a set of criteria to reflect corporate governance policies, procedures and structures as required by applicable Russian laws, the Moscow Exchanges Listing Rules, recommendations of the Russian Corporate Governance Code and global best practices.

The RID concluded that the Company complies with the Russian legislative requirements imposed on corporate governance and observes many of the recommendations



Corporate governance quality assessment by TopCompetence

In 2019, RusHydro engaged TopCompetence Corporate Development Center to undertake a comprehensive assessment of the corporate governance quality and draw comparisons between the Company and its peers.

The National Corporate Governance Index research published annually by TopCompetence focuses on Top 100 largest cap Russian companies listed on the Moscow Exchange to analyze key corporate governance trends, identify industry leaders and show a link between excellence in corporate governance and market indices.

In the 2019 research, RusHydro joined the ranks of the **Top 10 Russian companies in terms of corporate governance quality.**

contained in the Russian Corporate Governance Code. In addition, the Company boasts a rather low risk of losses that might be incurred by owners due to corporate governance issues.

RusHydro is committed to further improving its corporate governance rating.

In addition to the external assessment, the Company runs

annual corporate governance quality assessments by the Internal Audit Service. In 2019, the overall assessment grade was 92% out of 100% (vs 89% in 2018).

The assessment found the Company's corporate governance system to be effective. At the same time, certain moderate gaps and areas for improvement were identified.