

Development strategy

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.

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.

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.

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

Prosperous society – promoting reliability and infrastructure development, efficient use of water resources, utilisation 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.

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.

Strategy and its implementation ^[102-26]

RusHydro Group's Development Strategy until 2020 with an outlook for 2025 approved by the Company's Board of Directors¹ relies on 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;

- Regional social and economic strategies, energy strategies;
- Industry strategies.

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

¹ Minutes No. 238 of June 8, 2016.

RusHydro Group's strategic goals

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
The Company ensures the reliable and safe operation of equipment, hydraulic structures and thermal power plant infrastructure with regard to society and environment, taking into account the economic feasibility of funds allocated for mitigating possible risks and reducing potential damage	The Company expands its electricity generation volumes by improving the efficiency of the production programs and investment projects, taking into account their economic performance	The Company ensures steady development of the Far Eastern energy sector and participates in the implementation of national goals to streamline the social and economic development of the region	The Company strives to increase its fundamental value, investment appeal and value growth while ensuring reliable and safe operation of its facilities

Key tasks

Development and improvement of performance of production and technological complex	Investment policy and changing approaches to the investment program development	Operating efficiency and transparency
Improvement of the Far East assets management and the Far East energy development		
Human resources development		

The Company has a strategic management system in place, which links strategic management processes with the incentive system. The system factors in the recommendations of the Federal Agency for State Property Management¹ on the development of key strategic documents.

The key enablers of the strategy are RusHydro Group's Long-Term Development Program, the Value Growth Plan and the Strategy Implementation Plan outlining the Company's development priorities as well as objectives and indicators aimed at achieving its strategic goals.

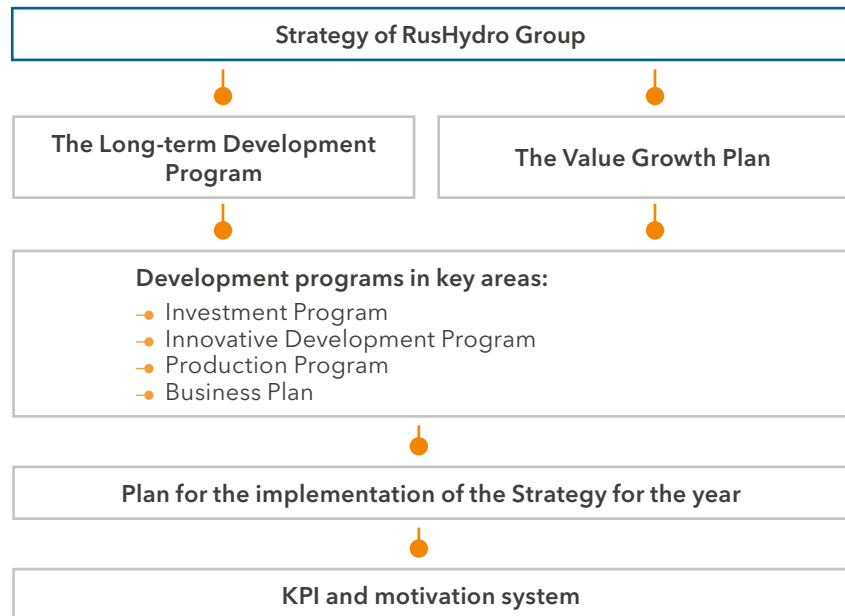
Long-Term Development Program

RusHydro Group's Long-Term Development Program for 2018–2022 was prepared in accordance with the instructions of the President of the Russian Federation² and the Russian Government³ and approved by the Company's Board of Directors⁴.

In compliance with the import substitution directives of the Russian Government, the Company's Board of Directors amended its Long-Term Development Program in 2019 to include an action plan providing for the Group's increased reliance on domestically developed software.

RusHydro Group's Long-Term Development Program relies on the Group's Development

The system of strategic management of RusHydro



In the reporting year, RusHydro Group's Long-Term Development Program was implemented within the framework of production, investment and innovative programs. For more details, see the following sections: [Key performance indicators](#), [Investment activities](#), [Economics and finance](#), [Production and sales](#), [Innovative development](#) as well as [Appendices 9 and 10](#).

Strategy until 2020 with an outlook for 2025, the Consolidated Business Plan and the key development programs.

The progress on RusHydro Group's Long-Term Development Program is monitored in accordance with the Long-

Term Development Program audit standard approved by the Company's Board of Directors⁵ and the Terms of Reference for auditing the implementation of the Long-Term Development Program⁶ developed in line with the recommendations of the Russian Government⁷.

¹ Recommendations of the Federal Agency for State Property Management No. OD-11/18576 of April 29, 2014.

² Instruction No. Pr-3086 of December 27, 2013.

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

⁴ Minutes No. 271 of June 1, 2018 as amended by resolutions of the Board of Directors (Minutes No. 279 of October 26, 2018, No. 294 of August 29, 2019, and No. 297 of October 21, 2019).

⁵ Minutes No. 281 of December 27, 2018.

⁶ Minutes No. 279 of October 26, 2018.

⁷ Instruction of the Russian Government No. ISH-P13-2583 of April 15, 2014.

Value Growth Plan [103-2]

RusHydro Group's Value Growth Plan through to 2021 was approved by the Company's Board of Directors¹ to maximize the Company's value and its investment case for shareholders and investors.

One of RusHydro Group's strategic goals is to enhance the Company's value, which is set forth in its Development Strategy until 2020 with an outlook for 2025. The Value Growth Plan aims to increase RusHydro's fundamental and market value as the 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 in the Company's management activities for the management processes, systems and solutions to maximize value while also ensuring safe operations at generating facilities.

The efforts to improve the efficiency of operating and investing activities based on the findings of the external independent cost audit of RusHydro Group² in 2017–2019 brought about economic savings of RUB 24.7 bn as regards operating expenses and RUB 26.0 bn as regards investment expenses.

One of the key elements in the Value Growth Plan is cooperation with federal government authorities focusing on fostering a healthy investment climate in the energy sector of the Far Eastern Federal District and improving the tools to guarantee returns on investments in construction and upgrade projects. In 2019, following a meeting of the Government Commission on the Development of the Electric Power Industry, on July 15, 2019, the Russian Government adopted decree No. 1544-r to approve four modernization projects for the Far Eastern Federal District (1,262 MW): construction of Artyomovskaya CHPP-2 and associated off-site facilities (420 MW, 483 Gcal/h), Khabarovskaya CHPP-4 and associated off-site facilities (328 MW, 1,374 Gcal/h) and the second stage of Yakutskaya GRES-2 (154 MW, 194 Gcal/h), equipment modernization (turbo generators No. 1–3 and boiler units No. 1–8) at Vladivostokskaya CHPP-2 (360 MW, 570 Gcal/h) (for details, see the Construction and Modernization of Production Facilities section).

In order to enhance the transparency and predictability of dividend payouts, RusHydro approved an updated version of the Regulations on the Dividend Policy³, which sets the minimum dividend payout (lower threshold) at the level of the average dividend paid for the previous three years. The Dividend Policy seeks to ensure predictability of

dividend payouts given the non-monetary impairment of energy facilities commissioned in the Far Eastern Federal District and its impact on the Group's IFRS financial results.

Additionally, as part of its Value Growth Plan, the Group focuses on key operating domains with a view to increasing the transparency and predictability of the Company for market participants and bridging the gap between the fundamental and market values, including by improving the quality of corporate governance, ensuring a predictably high dividend flow, enhancing the liquidity of shares and depositary receipts, increasing our weight in the key indices, etc.

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 Plan for 2019 [EC]

The Strategy Implementation Plan sets the following key goals and initiatives for 2019⁴.

¹ Minutes No. 259 of October 30, 2017.

² The cost optimization plan based on the external independent cost audit of PJSC RusHydro and its subsidiaries (carried out by LLC Ernst & Young Assurance & Consulting Services) was approved by resolution of the Company's Board of Directors (Minutes No. 244 of November 23, 2016).

³ Minutes of the Board of Directors No. 287 of April 22, 2019.

⁴ As compared to 2018, the strategic goals for 2019 were expanded to include:

— substitution of imported products with those of Russian origin having similar specifications and usability.

Goal	Progress
Ensuring reliability of existing assets and their upgrade, enhancing management efficiency with respect to the production complex	As part of the Comprehensive Modernization, Rehabilitation and Repair Program, additions to installed capacity in 2019 amounted to: <ul style="list-style-type: none"> — 10 MW at Novosibirskaya HPP; — 30 MW at Votkinskaya HPP; — 12 MW at Saratovskaya HPP; — 10.5 MW at Zhigulevskaya HPP.
Enhancing the investment case and transparency	The Company's Board of Directors ¹ approved a new edition of the Regulations on the Dividend Policy, which sets out 50% of RusHydro Group's IFRS net profit for the respective reporting period as the base rate for calculating dividends. Additionally, the minimum dividend payout (lower threshold) is set at the level of the average dividend paid for the previous three years.
Substitution of foreign-made products, works and services with those of Russian origin having similar specifications and usability	The Company is implementing its import substitution roadmap and corporate plan, which includes drafting proposals to stimulate domestic manufacturers. The Company's Board of Directors ² approved the Action Plan for 2019-2021 providing for the Group's increased reliance on domestically developed software. In cooperation with the Industrial Development Fund of the Russian Ministry of Industry and Trade, the Company is implementing the defense industry diversification roadmap for the betterment of the domestic energy sector within the state industrial information system.
Improving the efficiency of the Far Eastern asset management system and developing the Far Eastern energy sector	The Company's Board of Directors ³ approved the Priority Development Program for the electric power industry in the Far Eastern Federal District with a view to promoting regional growth. The Program aims to ensure stable power supply for the consumers, including through centralized energy systems and modernization of thermal power plants in line with social and economic needs. The Russian Government's Decree No. 1544-r dated July 15, 2019 amended the list of thermal power plants to be modernized (rehabilitated) or constructed in the WECM non-price zones to include RusHydro's projects, specifically the second stage of Yakutskaya GRES-2, Artyomovskaya CHPP-2, Khabarovskaya CHPP-4, Vladivostokskaya CHPP-2.
Drafting the Company's strategic documents	The Group's Long-Term Development Program for 2018-2022 was updated. The Company's Board of Directors approved amendments to the Intelligent Systems and Digital Technology Roll-out section of the Group's Long-Term Development Program which were developed in compliance with Russian Government's Directive No. 10068p-P13 of December 6, 2018 and in accordance with the Board of Directors resolution on the Company's increased reliance on domestically developed software. As resolved by the Government Commission on the Modernization of the Economy and Innovative Development of Russia led by the Chairman of the Russian Government, ⁴ RusHydro Group updated its Innovative Development Program for 2020-2024 based on benchmarking vs global peers. RusHydro Group's technological capabilities and innovations are generally on a par with the leading peers and international best practices.
Improving the corporate governance system	The Company's corporate government practices were assessed. The results of the Board of Directors' performance assessment (self-assessment) and the assessment performed by the internal audit function were reviewed by the Board of Directors at a meeting held in person ⁵ . Based on the external assessment results, independent directors praised the Company's progress in corporate governance. The Company took notice of recommendations on improving its corporate governance following the assessment performed by the internal audit function and proposals for enhancing the Board of Directors' performance following the Board of Directors' performance self-assessment, all in line with methodology guidelines of LLC PricewaterhouseCoopers Advisory.

¹ Minutes No. 287 of April 22, 2019.

² Minutes No. 285 of March 26, 2019.

³ Minutes No. 292 of June 22, 2019.

⁴ Meeting minutes No. 2 of October 22, 2018.

⁵ Minutes No. 287 of April 22, 2019.