

Message from the Chairman of the Board of Directors



Dear shareholders,

In 2019, RusHydro Group continued to grow sustainably. Following the commissioning of new generating facilities and the upgrade of our existing ones, the installed capacity of RusHydro's power plants increased to 40 GW. As a result, we have further strengthened our leading position in this area. The Group's electricity generation, including Boguchanskaya HPP, remained close to the previous year's record high level and amounted to 142.8 bn kWh. This is an increase on the average over the last three years. Heat supply grew by 0.4% to 30.0 mn Gcal.

RusHydro Group is developing in line with its priorities. The Russian Far East is our key operational macroregion. Electricity consumption in this region is growing faster than Russia's average. In 2019, UES East and isolated energy systems in the Far East registered a 3.3% growth as compared to a slight decline across Russia.

The Russian Government is taking steps to further enhance the region's investment appeal. It has extended the mechanism to bring tariffs for industrial consumers in line with the Russian base (average) rate for another year and is considering further extension to 2028. Another step was to approve the long-term tariff regulation in the Far East, with isolated energy hubs already operating under the new system and a similar measure to come into effect in the UES East's non-price zone from 1 July 2020. This solution will enable

energy companies to improve their efficiency and channel the resulting savings into modernizing and upgrading their facilities. It also makes the macroregion's regulatory framework more transparent for potential investors.

Given the need for the faster development of energy infrastructure and capacities, RusHydro commissioned Nizhne-Bureyskaya HPP and Sakhalinskaya GRES-2 in 2019. We are also completing the construction of a CHPP in Sovetskaya Gavan and a wind diesel power plant in the settlement of Tiksi, and providing for a utility connection of consumers. Total capacity connected to the Group's electrical grids in the Far East in 2019 increased by 630 MW (582 MW in 2018).

In the mid-term, we plan to implement another four major investment projects as part of the Comprehensive Trunk Infrastructure Upgrade and Extension Plan until 2024. They include the construction of Khabarovskaya CHPP-4, Artyomovskaya CHPP-2 and the second stage of Yakutskaya GRES-2, as well as the upgrade of Vladivostokskaya CHPP-2 with a total electrical and heat capacity amounting to 1.3 GW and 2,600 Gcal/h, respectively.

The construction projects will guarantee returns on investment.

All our CAPEX projects in the Russian Far East are fully in line with the Russian President's Order On National Goals and Strategic Objectives of the Russian Federation through to 2024 and aim to ensure stable power supply for the consumers, foster a comfortable urban environment and promote the digital economy.

New generating facilities will deliver positive multiplier effects by building a strong foundation for the growth of other industries, creating jobs, contributing more taxes, and improving the quality of life.

Setting the stage for sustainable development in our regions of operation is one of our main priorities. In 2019, RusHydro Group paid more than RUB 82 bn in taxes to the budgets of all levels. As part of our charity program, which seeks, among other things, to foster a favorable social environment and help unlock Russia's spiritual, scientific, technical and intellectual potential, we supported over 300 socially important projects in the regions where we operate.

Efforts are also ongoing to enhance the Group's corporate governance. RusHydro Group

has the highest ranking among domestic energy companies, which corresponds to the Advanced Corporate Governance Practice level, according to the Russian Institute of Directors.

By reducing costs, providing guaranteed returns on investments in our projects, implementing long-term tariff regulation in the Far East to take due account of energy companies' economically justified expenses, and improving our corporate governance, we ultimately seek to maximize the Group's market capitalization and boost its appeal for shareholders as well as strategic and financial investors. To this end, the Board of Directors approved a new dividend policy in 2019. The document sets the minimum dividend payout to be the average amount for the previous three years. In 2017-2019, we paid RUB 47 bn to our shareholders. Based on new calculations, the reporting year's dividends may exceed RUB 15 bn, which is in line with the previous year's payouts.

We are grateful to our shareholders for their trust in our governance bodies.

Yury TRUTNEV

Chairman of the Board of Directors
of PJSC RusHydro