

Message from the Chairman of the Management Board – General Director

[102-14]

Dear shareholders, colleagues and partners!

In 2019, RusHydro celebrated its 15th anniversary. Over the years, our company, which consolidates more than 50 RAO UES hydroelectric power plants, has evolved into one of Russia's largest electric power holdings. With the exception of nuclear power, we generate all kinds of energy and are engaged in diverse operations, including the development of energy infrastructure in the Far East, a strategically important region for the nation.

In the course of our 15 years, we have put on stream 52 generating facilities with a total installed capacity of 6.05 GW and continue to build new ones. In March 2019, we inaugurated the third hydropower unit at Ust-Srednekanskaya HPP, and commissioned Nizhne-Bureyskaya HPP and Sakhalinskaya GRES-2 in September and November 2019, respectively. December saw us complete the construction of Zaramagskaya HPP-1. In 2019, we launched a hot water peaking boiler plant in Yakutsk and a solar power plant at Nizhne-Bureyskaya HPP.

The Group is continuing to implement its Comprehensive HPP Modernization Program. As at the end of 2019, we have replaced 100 turbines, 79 generators and 69 transformers. Since the start of the Program in 2012, our generating capacities have increased by nearly 430 MW. The Company's management considers it necessary to extend the Program until 2035.

Thanks to the commissioning of new generating facilities, upgrade of our existing ones and the integration of Far Eastern energy assets, we finished the anniversary year with an installed capacity of 40 GW, which represents a 1.7-fold increase as compared to the start of our growth journey.

In 2020, we plan to put on stream a CHPP in Sovetskaya Gavan, ramp up the wind diesel power plant in the settlement of Tiksi to its full capacity and complete the construction of three

smaller HPPs in the Northern Caucasus. Our investments in these projects are estimated at RUB 109.4 bn.

In accordance with the Russian Government's heat generation modernization program in the Far East, RusHydro Group's priority region of operation, we expect to implement four major investment projects before 2026. The projects aimed at modernizing our thermal power plants include the construction of new facilities at Artyomovskaya CHPP-2, Khabarovskaya CHPP-4 and the second stage of Yakutskaya GRES-2 to replace obsolete and heavily worn-out facilities, as well as the upgrade of Vladivostokskaya CHPP-2. The list of these facilities was approved by the Russian Government in 2019. RusHydro set up three dedicated branches (Primorsky Krai, Khabarovsk and Yakutsk) responsible for these projects. Design work is under way.

We have also achieved significant progress in developing smaller HPPs. The Company's Management Board gave the go ahead for the smaller HPP development program, and the Russian Government approved the extension of support to renewable energy projects until 2035, including the Company's proposal to change the classification criteria for smaller HPPs by increasing maximum capacity from 25 MW to 50 MW. Given Russia's extensive but untapped water resources, we advocate the inclusion of hydropower in the energy strategy of the Russian Federation until 2035 drafted by the Russian Government.

We kept opening single settlement centers for consumers in the Far East and the Krasnoyarsk Territory. Starting from 2016, we have set up 47 such centers, with another four to follow by the year-end. In 2019, we launched the Russian Far East's first charging network for electric vehicles. This is a very promising line of business, with the number of EVs increasing by more than 50% each year. This new project will enable a fast and convenient charging of electric vehicles, while also helping us to step up electricity sales, diversify business and create

new competencies. In 2020, we plan to open 40 more charging stations.

When it comes to operating results, the reporting year brought us both challenges and opportunities. In February 2019, Russian military engineers together with RusHydro specialists cleared a landslide at the Bureyskoye water reservoir and normalized hydrological conditions. In July and August, the effective operation of Bureyskaya and Zeyskaya HPPs helped minimize the negative impact of a series of floods caused by rainfalls. Across other regions, the beginning of the year saw a decrease in HPP output due to low water, which was almost fully offset in the second half of the year thanks to rare autumn and winter floods. As a result, RusHydro Group electricity generation, including Boguchanskaya HPP, amounted to 142.8 bn kWh, coming close to the previous year's record high level.

RusHydro enjoys a strong financial standing. Our total revenue increased by 1.6% to RUB 407 bn, and EBITDA exceeded RUB 97 bn. Our consolidated net profit stood at RUB 643 mn due to the effect from Far Eastern asset impairment and losses of JSC DGK.

We are taking a range of measures to normalize DGK's financial position. In 2019, the Russian Government approved the long-term tariff regulation in the Far East's non-price zone with cost base recalculation. Over the year, RusHydro's Board of Directors gave its consent to the asset swap with JSC DEK's minority shareholders, which will make RusHydro the owner of more than 94% shares of the company in exchange for the Luchegorsky coal strip mine, its non-core asset, and Primorskaya GRES technologically linked to it. The deal will enable a conversion of DGK's debt into shares. We are also optimizing DGK's organizational structure by reducing the number of management levels and consolidating repair and maintenance operations.

In 2019, RusHydro and VTB Bank signed a supplement to the forward contract entered into in March 2017. The new terms provide for a reduction of the forward rate by 0.5% per annum, which will help save up to RUB 1.5 bn in payments, and a contract extension to 2025. The extension will enable the Company to find a strategic investor and take additional measures to increase the share price.

The Company's management keeps working hard to optimize costs. In 2019, we started centralizing repairs at our Far Eastern energy facilities, along with tax and accounting functions. We are also setting up a single treasury. The efforts to cut operating expenses in 2017-2019 delivered an economic effect of RUB 24.7 bn, while Group-wide procurement savings in 2019 exceeded RUB 14.2 bn, up 48% y-o-y.

At present, RusHydro has all its international credit ratings affirmed as investment grade, with two of them on a par with the sovereign rating of the Russian Federation. ACRA confirmed RusHydro's top credit rating on the national scale.

The reporting year brought another milestone in our rating history as we made it onto the World's Best Employer rating run by Forbes and Statista. Importantly, RusHydro was Russia's only electricity generating company to feature in the rating.

Pivotal to our 15-year-long success story is the hard work of tens of thousands of employees engaged in various operations, including generation, grid management, sales, R&D, repairs and construction. I would like to thank all our people for their dedication and commitment. We all are striving to achieve common goals and bring the best value to our shareholders.

Nikolay SHULGINOV

Chairman of the Management Board –
General Director of PJSC RusHydro

