



Association of  
Institutional Investors (API)

# Research report on PJSC RUSHYDRO

as of 09/30/2016



RESEARCH LABORATORY FOR BUSINESS COMMUNICA-  
TIONS, NATIONAL RESEARCH UNIVERSITY HIGHER  
SCHOOL OF ECONOMICS

## Brief capital structure overview

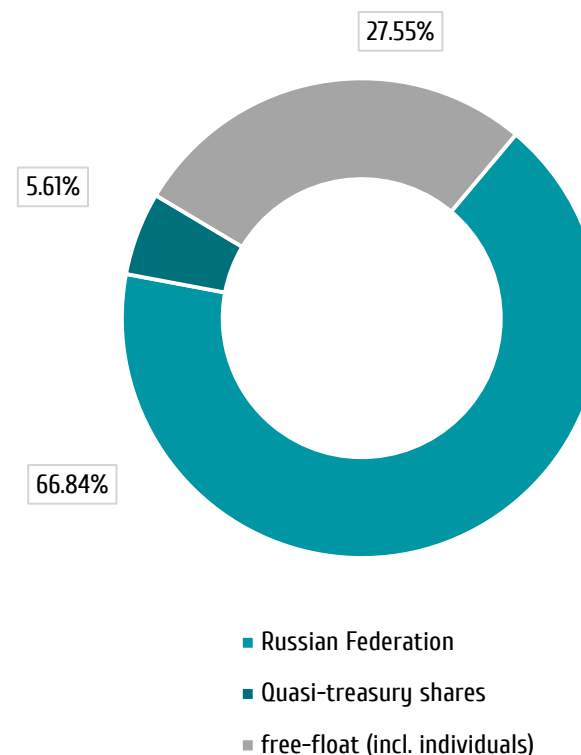
The controlling interest in the Company belongs to the Government of Russia, the majority shareholder's possible effective voting stake is 72.4%. Quasi-treasury shares account for about 5.6% of the share capital; a shareholder agreement was concluded on June 23, 2016 between Russia's Federal Agency for State Property Management / Rosimushchestvo and three entities controlled by the Company in respect of 5.53% of the shares which, among other things, governs the voting of these shares. Some of the quasi-treasury shares, according to media reports, can be acquired by VTB Bank (PJSC) in a deal aimed at increasing the Company's capital, as was announced on November 16, 2016, with the result that the Bank's shareholding in RusHydro may reach about 14%.

*After four consecutive issues in 2010–2013, the number of the Company's shares increased by 97.5 billion (33.8%). The Government acquired 93% of the additionally issued shares and eventually increased its stake by 8.87 percentage points. The dilution ratio for minority stakes was 0.79.*

## Corporate governance self-assessment

*According to the Company, RusHydro complied with only 30, partially complied with 39 (more than half), failed to comply with 10 out of 79 principles and recommendations of the Corporate Governance Code in 2015.*

Breakdown of voting shares



## General summary of CG practice

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- Professional approach of the current BoD Chairman to organizing the BoD activity: encouraging the BoD to attend to its direct responsibilities, high commitment to physical meetings (9 meetings in presentia in the period from the BoD Chairman's election in June 2015 to September 30, 2016);
- high information disclosure standards: materials for GSMs, disclosure of material facts, the Company publishes minutes of BoD meetings and meetings of committees on the website, discloses material terms of related party transactions, persons proposing BoD candidates etc., information on the auditor selection procedure;
- according to the Articles of Association, the BoD is vested with powers in relation to significant agenda items of corporate bodies' meetings at subsidiaries;
- the current independent director contributes to the Company's communications with the investment community;
- the Audit Committee takes an active approach to work (this conclusion is drawn from the minutes and comments by one of the committee members, while a meeting with the Chairman failed);
- the regulatory and procedural framework of the risk management system meets the best standards.

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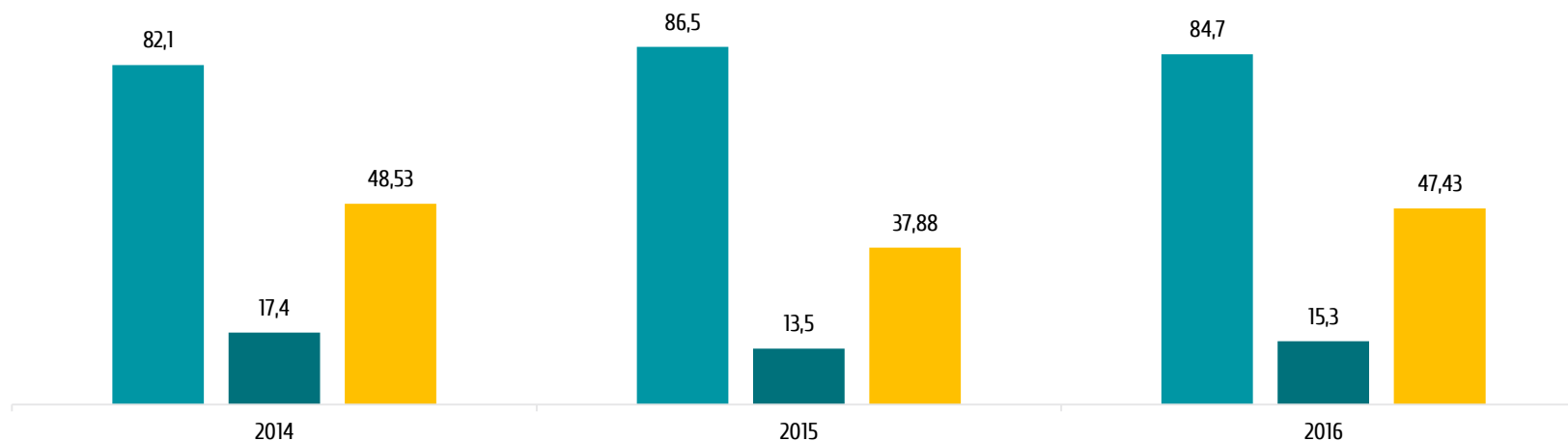
- no disclosure of the top management remuneration system (the proportions of quarterly and annual remuneration components) and the correlation between payments for the reporting period and the KPI achievement, including the integral long-term development program execution index (the correlation is proclaimed in the Company's statements, but the target and actual KPIs are not disclosed);

- (conditionally negative\*) no long-term motivation system at the Company (\*the Chairman of the Nominations and Compensations Committee and representatives of the management confirmed that the issue is being jointly addressed by the BoD and the management, the program is expected to be launched in 2017. We highlight the need for proper disclosure of the program in case it is approved);
- judging by the results of voting at the 2016 AGM, quasi-treasury shares are used for voting at GSMs (the voting policy is not disclosed). The shareholder agreement concluded with Rosimushchestvo is at variance with the proper corporate governance practice and the CG Code if it does not impose a prohibition on the voting of such shares;
- changes made to the corporate by-laws at the GSMs in the last 3 years do not fundamentally improve the observance of CG Code recommendations;
- the existing dividend policy assuming that the Company intends to earmark at least 5% of its IFRS net profit for dividends needs to be updated. The current policy does not take into account the Company's actual (financial) standing, including the need to set debt covenants, free cash flow-related potential, etc.;
- absence of a proper remuneration system for BoD members;
- low proportion of physical meetings held by BoD committees in 2015;
- independent directors (INEDs) and the Nominations and Compensations Committee do not contribute to the drawing-up of a list of BoD candidates for the next corporate year for Rosimushchestvo (the management team has to submit such a list despite a potential conflict of interest).



## General shareholders meeting: activity of shareholders, related party transactions

The proportion of minority shareholders participating in the 2015–2016 AGMs was a mere 14–15% of the quorum or 40–47% of the free-float and private shareholders, the GSM quorum being 86% in 2016 and 77% in 2015. Given the high share capital dispersion among low-active portfolio investors, it is not clear from the voting results disclosed by the Company which of the minority shareholders (accounting for 4.5% in 2015 to 13% in 2016) voted in support of candidates nominated by the Russian Federation and quasi-treasury shares at the GSM. Based on the Company's quarterly report, Gazprombank owned 6.367% of the voting power as of December 30, 2015. Besides, 5.8% of the Company's outstanding shares are represented by depositary receipts in circulation. At each of the AGMs in 2015 and 2016, the Company's investors approved one related party transaction (a liability insurance transaction worth \$68,700 in 2015, a related party transaction which the Company may effect in the normal course of business in future, namely, the purchase of foreign currency, in the amount of RUB 100 billion, in 2016).



- %, proportion (in relation to quorum) of Russia + quasi-treasury shares
- %, proportion (in relation to quorum) of the free-float and individuals
- %, minority shareholders taking part in the meeting, in relation to total free-float+individuals



## Information on the shareholders of PJSC RUSHYDRO, according to Bloomberg data and information disclosure by the shareholders

Shareholder Name	Voting stake	Comment on voting
RUSSIAN FEDERATION	66.84	No voting policy, Rosimushchestvo votes as instructed by the Government of Russia.
HYDROINVEST OJSC	4.31	Quasi-treasury shares, the company is controlled by RusHydro.
ОАО ZZOP	0.81	Quasi-treasury shares, the company is controlled by RusHydro.
VANGUARD GROUP	0.8	The shareholder discloses its approaches to voting at shareholder meetings, as well as the way it voted in the last corporate season. For funds focused on investments in Russia, the shareholder disclosed voting in the affirmative (FOR) on all agenda items at the EGM of RusHydro held on December 25, 2015 and non-voting at the 2016 AGM. The shareholder does not nominate BoD/SB (Supervisory Board) candidates, but supports, according to the generally disclosed approaches to voting, the idea of nominating at least 20% of INEDs by a group of shareholders holding at least 3% of the company's shares in the preceding 3 years. The shareholder follows recommendations from proxy advisory firms.
BLACKROCK	0.73	The shareholder discloses both global corporate governance principles and regional approaches to voting and engagement with companies. Information on voting in the last corporate season is disclosed. The shareholder disclosed non-voting at the EGM in 2015 and the AGM in 2016. Recommendations of proxy advisory firms are followed. The shareholder does not nominate BoD/SB candidates but can support other shareholders' proposals if there is certainty about meeting shareholders' interests in the best way possible.
ОАО INDEX ENERGETIKI	0.41	Quasi-treasury shares, the company is controlled by RusHydro.
NORGES BANK	0.29	The shareholder discloses its voting in the last 3 years. At the EGM in 2015, voting in the affirmative (FOR) on all agenda items; at the 2016 AGM, the shareholder voted FOR 4 independent BoD candidates (3 of them were elected to the Board of Directors, the independent candidate nominated by the quasi-treasury package was not elected). The shareholder discloses its voting policy and the results of its voting, does not nominate BoD/SB candidates in Russia, unlike other countries. Recommendations of proxy advisory firms are followed.
PICTET FUNDS	0.18	According to the UK Stewardship Code compliance report published by the shareholder, PICTET FUNDS declares a passive approach to participation in corporate actions (with exceptions possible under certain conditions). The shareholder acknowledges taking advice from a proxy advisory firm (ISS) for voting purposes. The voting details are not disclosed.
RAIFFEISEN BANK INTERNATIONAL AG	0.17	The shareholder is likely a nominal holder.
GRANTHAM MAYO VAN OTTERLOO & CO	0.15	The shareholder discloses information on its voting at the shareholders' meeting following ISS recommendations. No specific voting disclosure.
EATON VANCE CORP	0.14	According to the shareholder's latest voting policy available for review dating back to 2009, the shareholder employs the services of a proxy advisory firm (ISS).
DOD EVGENY V	0.12	Ex-CEO, the shareholding is valued at RUB 354.5 million as of September 30, 2016.



# General shareholders meeting: disclosure of information, preparation process

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- the deadline for putting issues on the GSM agenda and nominating candidates to the Company's control and management bodies is 90 days;
- materials for GSMs are disclosed in the English and Russian languages 30 days prior to the GSM date;
- the materials contain information on the external auditor, its qualification and experience, information on the competitive procedures used in the auditor selection process (including the bidders' names, comparative data on the cost of services, according to the tender bids, and results of the bid evaluation process);
- the minutes of the BoD committees' meetings included in the GSM materials disclose individual voting by the committees' members on their respective agenda items, which provides an opportunity for assessing their personal positions;
- the Company's annual report contains details of major transactions and related party transactions: their key parameters (subject matters, parties, price/limits, validity period), parties in interest, the corporate body approving the transaction (including the minutes details to obtain information on the voting and other aspects of approving the transaction from the disclosure system or other sources).

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- the persons proposing issues to the GSM agenda for consideration are not disclosed in the GSM materials;
- comparison tables reflecting changes made to corporate documents are only attached to restated versions of the Articles of Association. The tables do not contain the reasons for proposed changes;
- the materials do not contain the rationale for the profit distribution, including the profit earmarked for dividends and for corporate development purposes (the Company should provide the related recommendation of the BoD members with a detailed rationale for the proposal);
- the minutes of BoD meetings summarizing the agenda should disclose dissenting opinions of the BoD members if they concern the GSM agenda.

## Comment on the opportunities for minority shareholders' participation in the meeting

The serious share capital dispersion, including a substantial proportion of depositary receipts, prevents minority shareholders from consolidating 2% of the Company's shares for nominating another independent director to the Board of Directors, even though the current BoD structure enables shareholders to elect at least one INED by their own forces if their candidate gains votes from at least 6% of the shareholders. Overall, in our view, the Company's BoD would only benefit from the shareholders' ability to additionally elect 2 independent directors.



## Board of Directors: international and domestic practice

BoD activity aspect	TransAlta Corporation	ENEL	E.On	PJSC RusHydro
INEDs/total number of BoD members	8 of 9	8 of 9	10 of 12 (6 staff representatives are considered to be INEDs)	3 of 13 (2 of them were recognized as INEDs by a special decision of the BoD, seeing as the BoD members fail to meet the applicable independence criteria).
Participation in meetings of BoD and committees in 2015	BoD: attendance ratio is 96% (for 13 BoD members) Audit Committee: 100% attendance HR Committee: 94%	BoD: 1 member missed 1 meeting (BoD held a total of 15 meetings). All committees: 100% attendance.	BoD: 1 member missed 2 meetings (a total of 6 meetings were held). All committees: 100% attendance.	Attendance ratio 58% for 1 BoD member, ~80% for 4 BoD members, 90% for 2 BoD members, 95% for 3 BoD members, 100% for 3 members. Audit Committee: 95%, Nominations and Compensations Committee: 100% attendance.
Remuneration of BoD members / actual payments based on 2015 performance*	\$330K to BoD Chair, \$160K to BoD member, including 50% in shares (deferred restricted stock units/ DRSU) or money at payee's choice, 50% in shares or DRSU + \$25K to Chairs of Audit Committee and HR Committee, \$15K to Chair of Governance Committee + \$1,500 for meeting, Actual: \$192-417K (excluding BoD members who do not serve for a whole corporate year):	€80K + up to €70K for membership in committees (€30K for chairpersons, €20K for members + €1K for each meeting). €238K payable separately to BoD Chairman, as decided by the GSM following the committees' recommendation). Actual: €80K for BoD membership + €57-66K for committees	Actual: €140-440K €440K to BoD Chairman, €320K to Deputy BoD Chairman, €140K to BoD member, €180K to AC Chair; €110K to AC members; €140K to Chairs of other committees, €70K to members of other committees. €1K additionally payable for each meeting of the BoD or its committee	RUB 0.9 million, but no more than RUB 1 million. Uplift factors: 30% for BoD Chair, 20% for Chair of a committee, 15% for senior INED, 10% for member of a committee. Actual: RUB 7.8 million for all BoD members <b>BoD members earn precious little in the way of remuneration, a destructive approach to the BoD motivation, no other cases of such an approach among peers. The gap between the annual remuneration of a BoD member and that of a Management Board member is more than 120 times (no more than 15-20 times at peers)!</b>

*We recommend that the shareholder and the Board of Directors, including the Nominations and Compensations Committee, revise the existing approach to remuneration of BoD members by increasing the base remuneration at least 5 times, given the Company's scale. Surprising is the position of the BoD members (only 1 'abstained' vote) and members of the Nominations and Compensations Committee who voted in favor of the recommendation to approve the 2016 regulations on the remuneration of BoD members (essentially similar to the existing regulations, with a base remuneration of RUB 900,000 or \$14.2 thousand) at the general shareholders meeting. Seeing as the company does not disclose who put this issue on the GSM agenda, we cannot be sure whether this initiative came from the shareholder or the BoD, but the practice is negative in any case.*



## Board of Directors: practical activity aspects

### Chairman of the Board of Directors

*Yuri Trutnev*

(representing the Russian Federation), no shareholding in the Company;

### Chairman of the Audit Committee

*Sergey Ivanov (INED)\*\**

CEO, RT Capital LLC,  
no shareholding in the Company

### Chairman of the Nominations and Compensations Committee (NCC)

*Viatcheslav Pivovarov (INED)\**

President, Altera Capital LLC, no shareholding in the Company;

*Maxim Bystrov (INED)\*\**

member of the Audit Committee and the Nominations & Compensations Committee, no shareholding in the Company.

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\* The API only met with 1 INED, Chairman of the Nominations and Compensations Committee.

\*\* the directors are recognized by the Board of Directors as INEDs even with their affiliation with the Government and the Company's major counterparty.

It should be noted that the Government's instruction nominated 6 candidates with an independent director status, all 6 were elected but only 1 meets the applicable independence criteria, while 3 of them are referred to as non-executive directors.

*Please find below the summary of the BoD member's comments combined with the API's expert opinion based on the results of the meeting with the BoD member and a review of information disclosure. We appreciate the BoD member's participation in the interview and believe that such annual meetings with the Company's investors and shareholders are extremely useful for assessing the BoD performance and making decisions on the voting for BoD candidates at general shareholders meetings, among other things.*





## Board of Directors: practical activity aspects

For the period under review (2015 and 9 months of 2016), the BoD held 31 meetings, including 10 physical meetings (32% of all meetings for the period). 9 of the 10 physical meetings were held after the new BoD Chairman was elected in June 2015.

*Following the new BoD Chairman's arrival, meetings are held almost monthly and the BoD members are actively involved in discussions.* According to the INED, the current BoD cannot be called a "dummy body" as the Chairman ensures high efficiency, performance and responsibility. In addition, the Chairman's resources are comparable to those of the management, which also plays an important role.

164 issues were considered at the meetings. Related party transactions were discussed at 13 meetings (51 transactions for a total amount of RUB 609 billion).

*The main priorities for the Board of Directors were as follow:*

- business plan execution (quarterly): 9 issues;
- approval of and adjustments to business plan: 3 issues;
- charity: 9 issues;
- key performance indicators: 7 issues;
- long-term development program: 2 issues;
- report on the strategic plan implementation, approval of the development strategy to 2020, with an outlook to 2025: 2 issues.

*The BoD pays close attention to business planning and the corporate development strategy.* At the same time, the current performance indicators persistently fall short of targets, as exemplified by the need to seriously improve the return on equity.

As for the business plan consideration, we note a delay in approving the 2015-2019 plan (the 2015 business plan was approved at the end of April 2015) and untimely adjustments to the investment program, an integral part of the business plan (in December 2015). However, the 2016-2020 business plan was approved as early as in December 2015.

As for setting KPIs for the financial year, it should be noted that the CEO was instructed by a BoD decision as of June 6, 2016 to submit a proposal concerning the procedure for the calculation and assessment of key performance indicators of PJSC RusHydro for the next planning period on or before November 30, 2016 (1 BoD member representing the Russian Federation voted 'against' the proposal, with no dissenting opinion provided). It is recommended that the Company abandon the practice of establishing the KPI calculation procedure or introducing new KPIs almost retrospectively (or closer to the end of the reporting period). The reason for the delay is usually the absence of the relevant federal executive authority's position or the shareholder's (the Government's) instruction to urgently amend the KPIs.

Charity and sponsorship issues are addressed, among other things, in the context of the Company's performance results.

Voting at BoD meetings is often not unanimous, with the following breakdown of 'abstained' votes by the number of voters:

1 director: 97 cases (hereinafter including sub-items); *Maxim Bystrov, a reputable INED, took the lead in voting 'abstained' (77 cases, the dissenting opinion is presented in 1 case)*; 2 directors simultaneously: 39 cases; 3 directors simultaneously: 14 cases; 4 directors simultaneously: 10 cases (mainly in relation to EGM recommendations in December 2015, no dissenting opinions were presented); 5 directors simultaneously: two cases (both relating to a guarantee to Sberbank of Russia, the terms of which remained undisclosed).

Besides, 36 cases of 1 BoD member voting 'against' and one case of 4 directors voting 'against' simultaneously were registered.

In the period under review, INEDs Viatcheslav Pivovarov and Sergey Ivanov only voted in the affirmative; (after the reporting date, Viatcheslav Pivovarov voted 'abstained' on the long-term development program (LTDP), with no dissenting opinion provided).



The minutes usually contain reference to dissenting opinions of BoD members normally in relation to voting in the negative ('against'), but the dissenting opinion as such is not disclosed. The most reasons for voting were provided by Vyacheslav Kravchenko (Deputy Minister of Energy, a representative of the Russian Federation).

The opinion of only one BoD member we were able to meet with is not enough for a comprehensive assessment of the BoD activity. In any

## Audit Committee (AC)

The Audit Committee consists of current independent directors.

*The powers and the range of issues considered by the AC meet the CG Code recommendations and the best practices.*

In 2015, the AC held 11 meetings, including 3 meetings in the form of joint attendance.

In 2016, 12 meetings were held, including 4 meetings in the form of joint attendance.

Among others, the AC addressed risk management, internal control, measures against unfair actions, engagement with the external auditor, the Company internal audit and LTDP.

*Almost all the minutes of the AC meetings are disclosed on the Company's website.* Judging by the minutes and comments from the INED (who is also an AC member), the work of the Committee is active and regular. The Committee gives proper consideration to any results of inspections and audits, including those conducted by the Ministry of Energy or Russia's Accounts Chamber.

We were not able to meet with the AC Chairman, which prevents a meaningful review of the Committee's activity.

case, we recommend that the BoD discuss the results of voting in the corporate season in order to either optimize the process of preparing materials for BoD meetings (or drawing up draft resolutions) or discuss with the BoD members who most frequently vote 'against' or 'abstained' how approaches to the BoD activity need to be adjusted so as to reduce the number of "protest" votes.

## Nominations and Compensations Committee (NCC)

The Committee consists of independent directors. The powers and the range of issues addressed by the NCC generally meet the CG Code recommendations. *In particular, the NCC prepares recommendations to the BoD for the approval of the sole executive body (CEO) and members of the Management Board. It should be noted that the NCC considered all these significant issues in absentia in 2015.* The Company also discloses the minutes of the NCC's meetings in 2016 (through June 2016), all meetings were also held in absentia in 2016.

However, according to the NCC Chairman, *the Committee worked substantively on the generation of proposals/recommendations concerning the remuneration of the Company's management. The Committee is in a position to consult experts on some issues requiring additional expertise.* We regard this as a positive practice.

The Committee did not consider the BoD performance assessment and did not contribute to the preparation of proposals for the shareholder concerning BoD candidates for the next corporate year. We believe that the NCC and the Board of Directors should show more activity in this regard lest a conflict of interest should occur.



# Essential CG aspects

## External auditor

In 2013-2014, the Company's statements were audited by JSC PricewaterhouseCoopers Audit (PWC). As a result of a procurement procedure, PWC was also selected as the auditor for 2015-2017. The price of audit (review) services in relation to the Company's financial statements prepared under Russian GAAP (RAS) standards and the consolidated financial statements of RusHydro Group prepared under IFRS standards in 2015-2017 is RUB 394.4 million (79.7% of the initial bid price). In 2015, the Audit Committee gave a positive opinion on the audit of the Company's 2014 RAS and IFRS statements for 2014. The amount of remuneration payable to PWC for 2014 was RUB 121.6 million. The AC considered the following issues: establishing the procedure for the selection of an auditor for 2015-2017; recommendations to the Board of Directors concerning the proposed auditor for 2015-2016 and determination of the auditor's fee. In 2016, the AC committee held a physical meeting as part of preparation for the GSM (the minutes are disclosed in the GSM materials).

## Internal audit, internal control, risk management

In 2015, the Company established an internal audit service accountable to the BoD (the Audit Committee). Based on the reporting, the Company discloses information on more than 25 monitoring activities carried out by the service in 2015, including audits at branches and subsidiaries, focused audits and selective risk management assessment. *That said, no information on the structure, headcount and budget of the service is disclosed.* Being unable to meet with the Chairman of the Audit Committee, we have no information about the assessment of performance and resource adequacy in the internal audit activity. The internal audit policy approved by the BoD does not provide for the need to negotiate the budget of the division with the Audit Committee/BoD, which directly affects the possible effectiveness of the division and reduces independence from the Company's management. In all other aspects, the regulations meet the best prac

tices. At the same time, the Audit Committee regulations vest the Committee with the power to consider the budget of the division in the context of limitations of the service's authority. This issue is omitted in the disclosure of information on matters considered by the Committee in 2015. In the period under review, the BoD approved the Company's anti-corruption policy, conflict of interest management policy, internal audit policy, as well as the internal control and risk management policy. *All the documents are disclosed on the Company's website: an outstanding corporate practice.*

*Internal control:* a system of detecting and preventing conflicts of interest has been developed: the top executives of RusHydro Group annually submit declarations of income, assets and liabilities for themselves and their close relatives; contractors disclose chains of beneficiaries; a personnel commission operates at the Company. More than 3,000 declarations were verified in 2015, the process is automated. Based on the results of verification, a number of employees were subject to disciplinary actions. Suppliers and contractors are obliged to provide information and documentary evidence on the entire chain of ownership, including ultimate beneficiaries, and to sign a letter of guarantee on avoiding dealing with shell companies. The chains of beneficiaries for 669 counterparties were verified during procurement and contracting procedures, no cases and signs of conflicts of interest were revealed.

*Risk management:* the internal control and risk management policy, the register of strategic risks of PJSC RusHydro for 2015-2016, the internal control and risk management policy of RAO ES East, PJSC are updated; internal control and risk management policies of 17 key subsidiaries are approved subject to the parent company's requirements, risk management plans for 2015-2016 are developed, procedures for regular risk management reports at year-end are given effect. *At the same time, we note the absence of issues related to the consideration of reports on assessing the internal control and risk management*



system performance on the agendas of BoD meetings in the period under review (2015 and 9 months of 2016), even though this is definitely within the purview and power of the BoD, according to the existing Articles of Association. Besides, information on the headcount

## Information disclosure

Mandatory information disclosure is in line with the current legislation:

- Most of the notices of related party transactions approved by the BoD disclose essential parameters of such transactions, which should be regarded as a good practice. The price parameters of related party transactions are not always disclosed in material facts, as opposed to annual reports;
- The individual voting of BoD members is not disclosed in the notices of decisions taken by the BoD, only the number of votes cast for the voting options is provided; that said, the Company publishes the minutes of BoD meetings on its website.

of the risk management division is not provided in the reports, which prevents the assessment of resource adequacy.

## Dividend policy

The dividend policy has not been updated since 2014. The Company intends to earmark at least 5% of its consolidated IFRS profit for dividends. Expenses for the investment program approved by the government authorities financed by profits and other spending are included in restrictions. On paper, the dividend policy is not consistent with the current state policy of having state-owned companies earmark at least 25% (50% in 2016) of their respective consolidated IFRS net profits for dividends. Nevertheless, the Company's dividend payment practice complies with the current policy: 47.6% of the consolidated IFRS profit attributable to the Company's shareholders was paid in 2015 dividends. Compared with international peers, the Company has a lower 2015 dividend payout ratio.

## Dividend payout ratios at (conditional) peers vs. RusHydro in 2015\*

<i>TransAlta (proportion of FCF, loss for year)</i>	<i>ENEL</i>	<i>E.On</i>	<i>RusHydro</i>
65%	70%	59%	50%

The Company's dividend policy does not take into consideration the current debt and free cash flow being limited to setting a technical minimum IFRS payout ratio; the investment program is taken into account but the required return ratios are not specified for reasonable profit distribution purposes. In our view, the Board of Directors should update the dividend policy taking into account the Company's development strategy, investment yield targets, including return on invested capital, current and projected debt.

\* data based on the company's profits unadjusted for non-controlling equity interests.



# Management motivation system disclosure practice at international peers of PJSC RusHydro

The payment of remuneration and compensations to members of the BoD are governed by employment contracts and an undisclosed regulation on the procedure for the payment of remuneration and compensations to BoD members dated 2010.

At all conditional peers, the proportion of long-term remuneration is at least 40% of the total level.

## Approximate proportions of CEO remuneration components in 2015

<i>Remuneration components (based on payment forecast, incl. shares)</i>	<i>TransAlta Corporation</i>	<i>ENEL</i>	<i>E.On</i>	<i>PJSC RusHydro</i>
Fixed annual remuneration*	25%	43%	28%	14%
Annual bonuses	20%	52%	27%	86%
Long-term component	55%	5% (for 2014**)	45%	0%

## Information on top management shareholdings

<i>Management Board member</i>	<i>Rounded-off value of share package as of 09/30/2016</i>
George Rizhinashvili	RUB 42 million
Boris Bogush	RUB 13 million

\* for RusHydro, this includes the quarterly and annual remuneration, other companies have no practice of paying quarterly remuneration;

\*\* actual proportion for the recently appointed CEO previously serving at subsidiary (proportion of at least 35% is projected in 2016)



	<i>TransAlta Corporation</i>	<i>ENEL</i>	<i>E.On</i>	<i>PJSC RusHydro</i>
Disclosure: all payments, incl. in the form of stock (estimates of future payments)	CEO+CF0+3 top managers Actual (CEO): \$950K in salary, \$763K in cash bonus, \$2,090K in long-dated stock.	CEO + managers with strategic responsibilities, in total. Actual (CEO): €1,155K in salary, €1,386K in cash bonus, €147K in long-dated stock (received at subsidiaries)	CEO+CF0+5 top managers Actual (CEO): €1,240K in salary, €1,197.5K in cash bonus, €1,965K in long-dated phantom stock	Management Board in total, incl. sole executive body (CEO) Actual: RUB 97 million + RUB 625 million in bonuses (for 5 Management Board members in total, incl. carryover bonuses from 2014)
KPIs influencing the short-term (annual) remuneration component	FFO (cash flow from operations) 50%, FCF (free cash flow) 25%. Equipment availability 25% + individual KPIs (multiple). Performance multiple for all KPIs: 2 x base level (90% of salary for CEO, 55% for others)	FFO/ consolidated net debt (up to 40%), consolidated EBITDA (30%), Consolidated spending out of own sources (20%) Reduction in accident rate (10%)	EBITDA, individual KPIs + adjustments for cost of capital, ROACE, comparison with previous year's EBITDA and market indicators	TSR 10%, ROE 20%, proportion of procurement from SME 10%, reliability (accident rate, equipment availability) 25%, commissioning of facilities and plan of financing and implementing investment development program 25%, financial leverage 10% + integral KPI of LTDP execution (12 KPIs) for additional remuneration
KPIs influencing the long-term remuneration	growth of FFO per share, growth of FCF per share, relative TSR to S&P/TSX Composite Index*0.8 (Company's beta) (1/3 each)	For managers with strategic responsibilities Consolidated EBITDA, EPS, ROACE. 2016 plan: Enel vs. average TSR EUROSTOXX Utilities Index (60%), ROACE (40%)	Comparison of average ROACE across a 4-year period with target ROACE set by BoD	N/a
Long-term bonuses	Accumulation and calculation period: 3 years. Stock units (2/3 annual +1/3 deferred). Payment at the end of period in shares / money + part of annual salary and bonuses may be converted into deferred shares (with a mandatory accumulation level)	Calculation procedure based on LTI (long-term incentive program) 2016 – calculation period: 4 years starting from 2016, ceiling 144% of salary subject to KPI targets	Calculation procedure based on LTI (phantom stock payment period: 4 years). Remuneration ceiling for all components: no more than 200% of the total target remuneration per year	N/a

## Corporate social responsibility

The Company has approved a concept and regulations on charity and sponsorship. The documents remain undisclosed. No information is available on the Board of Directors' approaches to generating the budget of expenditure, including the limits of spending.

*In 2015, the Company reduced expenses for charity and social programs almost 3 times versus the 2014 level from RUB 1,171 million to RUB 436 million.* The difference in expenses is attributable to the one-time financial support of HC Dynamo Moscow (RUB 500 million) and FC Alania (RUB 440 million). No financial support details are disclosed, despite the heavy spending financed by the Company's profit, among other things.

RusHydro Group develops corporate volunteering and supports individual involvement of employees in social projects. The Company carries out charity campaigns to raise funds for low-income people, fairs featuring charity foundations, donor days. In 2015, donations by employees of the Company's executive office amounted to approximately RUB 0.93 million.

### Spending on social programs and charity at RusHydro vs. peers in 2015 (% of consolidated profit)

<i>TransAlta (proportion of FCF, loss for year)</i>	<i>ENEL</i>	<i>E.On</i>	<i>RusHydro</i>
1.11%	1.46%	0.85%	1.45%

