



API Voting Recommendations for Annual General Meeting

Company:	FGC UES, PJSC (FEES)
Meeting date:	June 28, 2018
Record date:	June 4, 2018

Company Overview

The Company focuses on the management of the Unified National (all-Russian) Electric Grid, provision of electricity transmission and technological connection services to participants of the wholesale electricity and capacity market, investment activities related to the development of the Unified National (all-Russian) Electric Grid, upkeep and maintenance of electricity mains, engineering supervision over the power facilities and infrastructure.

The authorized capital of FGC UES, PJSC amounting to 637,332,661,531 rubles 50 kopecks consists of 1,274,665,323,063 ordinary shares with a face value of 50 kopecks.

As at December 31, 2017, the Russian Federation represented by the Federal Agency for State Property Management (Rosimushchestvo) owned 0.59% shares of FGC UES, PJSC. The Company's controlling shareholder is PJSC ROSSETI (80.13% of shares), the minority shareholders hold 19.28% of shares in total.

It should be noted that the Company's controlling shareholder and Rosimushchestvo have concluded an agreement on the procedure for managing and voting the shares of FGC UES, PJSC. Taking this agreement into consideration, Rosimushchestvo's direct and indirect controlling interest over the company reaches 80.72%.

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No.	AGM agenda item	API recommendation
1.	Approval of the 2017 Annual Report of FGC UES, PJSC	FOR
2.	Approval of the 2017 annual accounting (financial) statements of FGC UES, PJSC	FOR
3.	Approval of the distribution of profits and losses of FGC UES, PJSC for the 2017 reporting year	FOR
4.	Amount, time and form of payment for 2017 dividends, determining the dividend record date	FOR
5.	Payment of remuneration to the members of the Board of Directors (except for public officers) for their service in this capacity in the amount determined by the internal regulations (by-laws) of FGC UES, PJSC	FOR
6.	Payment of remuneration to the members of the Audit Commission (except for public officers) for their service in this capacity in the amount determined by the internal regulations (by-laws) of FGC UES, PJSC	FOR
7.	Election of members of the Board of Directors of FGC UES, PJSC	API recommends voting FOR Alexey Germanovich (an API-supported independent

		director)*
8.	Election of members of the Audit Commission of FGC UES, PJSC	API recommends voting FOR on all candidates
9.	Approval of the restated Regulations on Payment of Remuneration and Compensation to Members of the Audit Commission of FGC UES, PJSC	FOR
10.	Approval of the independent auditor of FGC UES, PJSC	FOR
11.	Membership of FGC UES, PJSC in the Russian Association of Employers “The Russian Union of Industrialists and Entrepreneurs” (RSPP)	FOR

* The API recommends that the shareholders vote for the independent director **Alexey Germanovich** supported by the API members that are active institutional investors. In the API's view, the Board of Directors of FGC UES, PJSC would benefit from a more active independent director. It should be noted that the API experts were unable to meet with any of the independent directors when evaluating the corporate governance at the Company in 2016-2017. Given the scarce free float, the election of one independent director is theoretically possible in case of 100% consolidation of all the voting minority shareholders. Alexey possesses extensive experience of service as an API-backed independent director at Aeroflot and Bank Saint-Petersburg.

In-depth review of the Annual General Meeting agenda:

1-2	AGM agenda item	API recommendation
1.	Approval of the 2017 Annual Report of FGC UES, PJSC	FOR*
2.	Approval of the 2017 annual accounting (financial) statements of FGC UES, PJSC	FOR

* The API considers it necessary to note the non-disclosure of the correlation between the remuneration payable to Management Board members and the achievement of target KPIs in the Company's annual report. Besides, the Company has not disclosed the individual remuneration payments as it was expected to do according to best corporate governance practices.

We recommend that the Board of Directors pay attention to the need to disclose the variable part of the Management Board members' remuneration as regards the quarterly and annual payments amounting to RUB 217.3 million and their dependence on the achievement of the target KPIs.

AGENDA ITEMS 1-2 DETAILS:

The annual report of FGC UES, PJSC for 2017 presents information on the Company's annual performance results, development prospects, a description of the key risk factors, information on related party transactions, a report on compliance with the recommendations of the Corporate Governance Code recommended for application by the Bank of Russia and other information.

The accuracy of the annual accounting (financial) statements of FGC UES, PJSC prepared according to Russian Accounting Standards and the consolidated financial statements of FGC UES, PJSC according to International Financial Reporting Standards is confirmed by an audit report of RSM RUS Ltd.

Please see below the key financial and operational performance results of the Group according to IFRS:

Item	2016	2017	Change, year-on-year
Revenue, billion rubles	255.6	242.2	-5.2%
Operating expenses, billion rubles	155.5	151.6	-2.5%

Profit for the period, billion rubles	68.4	72.7	6.3%
Profit margin, %	26.8	30.0	3.2 p.p.
EBITDA, billion rubles	120.3	129.0	7.2%
EBITDA margin, %	47.1	53.3	6.2 p.p.
Net debt, billion rubles	221.8	215.4	-2.9%
Net debt / EBITDA ratio	1.84	1.67	-0.17

In 2017, the Company increased its net profit by 6.3% to RUB 72.7 billion, its EBITDA by 7.2% to RUB 129 billion.

The Company's total revenue for 2017 decreased by 5.2% against the 2016 level to RUB 242.2 billion as revenue from electricity sales dropped 2.7 times to RUB 8.2 billion when one of the Company's subsidiaries went out of this business. Besides, the lower income from technological connection services (decreasing twice to RUB 19.4 billion) resulting from a change in the schedule of services determined by consumer requests contributed significantly to the overall revenue decline. At the same time, the revenue from electricity transmission services increased by 13% to RUB 192.2 billion as the transmission tariff increased due to the capacity growth under contracts with direct consumers.

Operating expenses decreased by 2.5% to RUB 151.6 billion, mainly resulting from a reduction in expenses for the purchase of electricity (-6.5% to RUB 24.3 billion) as one of FGC UES subsidiaries stopped electricity sales, lower spending on fuel for mobile and gas turbine stations (-32.6% to RUB 5.5 billion). The Company also reduced the cost of electricity transit by 51.7% to RUB 1.1 billion resulting from the Kazakh tenge depreciation and shrinking transit of electricity through the territory of foreign countries. In the reporting period, the Company recovered provisions for doubtful debts as a result of debt restructuring efforts and payments related to certain counterparties.

The Company's net debt for the year decreased by 2.9% to RUB 215.4 billion rubles. The net debt / EBITDA ratio stood at 1.67 at the end of 2017 against 1.84 the year before.

DRAFT RESOLUTIONS ON AGENDA ITEMS 1-2:

ITEM 1: Approve the 2017 Annual Report of FGC UES, PJSC.

ITEM 2: Approve the 2017 annual accounting (financial) statements of FGC UES, PJSC.

3-4	AGM agenda item	API recommendation
3.	Approval of the distribution of profits and losses of FGC UES, PJSC for the 2017 reporting year	FOR*
4.	Amount, time and form of payment for 2017 dividends, determining the dividend record date	FOR

AGENDA ITEMS 3-4 DETAILS:

According to the Dividend Policy Regulations of FGC UES, PJSC approved by a resolution of the Board of Directors dated December 16, 2010, the amount allocated for dividends shall be at least 10% of the net profit according to Russian Accounting Standards after a mandatory contribution to the reserve fund, reduced by the income from revaluation of financial investments, non-recurring income from the sale of securities and other assets.

Besides, when calculating the amount of dividends, the Board of Directors took into consideration the Russian Government's order no. 1094-r dated May 29, 2017, as amended by the Russian Government's order no. 393-r dated March 7, 2018, according to which the amount allocated for dividends shall be at least 50% of the IFRS net profit adjusted for the income and expenses related to revaluation of financial investments (shares) and the respective income tax, actual investments made out of the net profit earned when implementing the investment programs approved by Russia's Ministry of Energy, the portion of the net profit earned from technological connection to electricity supplies.

Based on the data provided in the explanatory note, the Company's net profit (the calculation base), including adjustments,

amounted to RUB 40.616 billion according to Russian GAAP (RAS), RUB 27.422 billion according to IFRS.

The Board of Directors decided to recommend that the General Shareholders Meeting resolve to allocate RUB 18.884 billion for dividends. The total amount of 2017 dividends, including the interim dividends for the 3-month period, will reach RUB 20.308 billion (50% of the adjusted Russian GAAP (RAS) net profit, 74% of the adjusted IFRS profit). The proposed amount of dividends has increased by RUB 2.123 billion (12%) against the previous year (the Company allocated RUB 18.185 billion for the 2016 dividends).

The Board of Directors also recommended that the remaining profit be distributed as follows: RUB 2.118 billion to the Reserve Fund, RUB 19.936 billion for development.

Therefore, the Company intends to pay RUB 0.014815395834 in cash in dividend per ordinary share of FGC UES, PJSC based on the results of the 2017 reporting year (excluding the interim dividends).

We note insufficient disclosure in the meeting materials of the profit distribution policy of the Board of Directors as regards return on investment in development, weighted average cost of capital, the use of benchmarking, etc. We recommend that the Company disclose this information.

DRAFT RESOLUTIONS ON AGENDA ITEMS 3-4:

ITEM 3:

Approve the following distribution of profit and losses of FGC UES, PJSC for the 2017 reporting year:

	(thousand rubles)
Profit for the reporting period:	42,361,640
to be distributed as follows:	
Reserve Fund	2,118,082
Dividends, including	20,307,801
- interim dividends based on the results of the first quarter of 2017 (Annual General Meeting resolution no. 18 dated July 3, 2017)	1,423,130
- dividends payable	18,884,671
Coverage of losses of previous periods	-
Development	19,935,757

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ITEM 4:

Pay dividends based on the results of the 2017 reporting year in the amount of RUB 0.014815395834 per ordinary share of FGC UES, PJSC in cash.

The amount of dividend per shareholder of FGC UES, PJSC shall be determined accurate to one kopeck. For calculation purposes, the rounding of numbers shall be subject to mathematical rounding rules.

Set July 18, 2018 as the dividend record date, i.e. the date for determining the persons entitled to dividend based on the results of the 2017 reporting year.

5.	AGM agenda item	API recommendation
	Payment of remuneration to the members of the Board of Directors (except for public officers) for their service in this capacity in the amount determined by the internal regulations (by-laws) of FGC UES, PJSC	FOR

AGENDA ITEM 5 DETAILS:

According to the Regulations on Payment of Remuneration and Compensation to Members of the Board of Directors of FGC UES, PJSC, remuneration shall be paid to members of the Board of Directors (except for public officers, Management Board members and the Management Board Chair) based on the results of the 2017 reporting year if the Company earned a positive net profit in the reporting year. The meetings in which the Board members participated shall be taken into

consideration for remuneration calculation purposes. Additional bonuses shall be paid to Board members for chairmanship of the Board and dedicated committees.

It should be noted that the remuneration payable to a member of the Board of Directors (including additional bonuses) cannot exceed RUB 900,000.

The total amount of remuneration payable to Board members for 2017 will be RUB 6,786.1 thousand.

API believes that the minuscule remuneration payable to Board members negatively affects their motivation and may be one of the reasons for the low activity of some independent directors. We recommend that the Board of Directors offer shareholders a remuneration system according to the normal corporate governance practice, which would allow active professional Board members to work on the Board effectively in the interests of all shareholders of the Company.

DRAFT RESOLUTION ON AGENDA ITEM 5:

Pay remuneration to the members of the Board of Directors of FGC UES, PJSC (except for public officers, Management Board members and the Management Board Chair of FGC UES, PJSC) for the 2017 reporting year in the amount determined in accordance with the Regulations on Payment of Remuneration and Compensation to Members of the Board of Directors of FGC UES, PJSC approved by a resolution of the Company's Annual General Shareholders Meeting on June 26, 2015 (Minutes no. 16 dated June 30, 2015)

6.	AGM agenda item	API recommendation
	Payment of remuneration to the members of the Audit Commission (except for public officers) for their service in this capacity in the amount determined by the internal regulations (by-laws) of FGC UES, PJSC	FOR

AGENDA ITEM 6 DETAILS:

According to the Regulations on Payment of Remuneration and Compensation to Members of the Audit Commission of FGC UES, PJSC, members of the Audit Commission (except for public officers, Management Board members and the Management Board Chair) shall be paid lump-sum remuneration equivalent to twenty minimum standard monthly wages of a first-class worker in the electric power complex of the Russian Federation effective as of the last date of the audit.

The total amount of remuneration payable to members of the Internal Audit Commission for 2017 will be RUB 530.7 thousand.

DRAFT RESOLUTION ON AGENDA ITEM 6:

Pay remuneration to the members of the Audit Commission of FGC UES, PJSC (except for public officers, Management Board members and the Management Board Chair of FGC UES, PJSC) for the 2017 reporting year in the amount determined in accordance with the Regulations on Remuneration and Compensation to Members of the Audit Commission of FGC UES, PJSC approved by a resolution of the Company's Annual General Shareholders Meeting dated June 26, 2015 (Minutes No. 16 dated June 30, 2015).

7.	AGM agenda item	API recommendation
	Election of members of the Board of Directors of FGC UES, PJSC	API recommends voting FOR Alexey Germanovich (an API-supported independent director)

AGENDA ITEM 7 DETAILS:

According to the Company's Articles of Association, the Board of Directors consists of 11 members. The shareholders have nominated 12 candidates, 10 of them are current Board members (italicized below).

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The candidate supported by the API meets the applicable director independence criteria; he is also a highly skilled professional with extensive experience of serving on the Boards of Directors of Russian companies.

No.	Name	Candidate office / position (at the primary place of employment)**	Nominated by / equity stake	Years on the Board	Status
1.	Alexey Germanovich*	Director General, AG Ventures, LLC	The Russian Prosperity Fund, The Prosperity Quest Fund, The Prosperity Cub Fund, Prosperity Capital Management SICAV (combined shareholding being 2.09%)	0	Independent director
2.	Pavel Grachev	Director General, PJSC Polyus	PJSC ROSSETI / 80.13	4	Independent director
3.	Andrey Dyomin	Member of the Management Board, PJSC ROSSETI	PJSC ROSSETI / 80.13	4	Non-executive director
4.	Igor Kamensky	Managing Director, Renaissance Broker LLC	PJSC ROSSETI / 80.13	2	Independent director
5.	Pavel Livinsky	Director General, PJSC ROSSETI	PJSC ROSSETI / 80.13	0	Non-executive director
6.	Andrey Murov	Chairman of the Management Board, FGC UES, PJSC	PJSC ROSSETI / 80.13	5	Executive director
7.	Egor Prokhorov	Deputy Director General, PJSC ROSSETI	PJSC ROSSETI / 80.13	2	Non-executive director
8.	Nikolai Roshchenko	Member of the Management Board, Head of the Legal Division, NP Market Council Association	PJSC ROSSETI / 80.13	2	Non-executive director
9.	Sergey Sergeyev	Deputy Director General, PJSC ROSSETI	PJSC ROSSETI / 80.13	2	Non-executive director
10.	Pavel Snikkars	Director of Department, Ministry of Energy of Russia	PJSC ROSSETI / 80.13	2	Non-executive director
11.	Ernesto Ferlenghi	Executive Vice President for Russia and Central Asia Markets Development, Eni S.p.A.	PJSC ROSSETI / 80.13	7	Independent director
12.	Oksana Shatokhina	Deputy Director General, PJSC ROSSETI	PJSC ROSSETI / 80.13	1	Non-executive director

Members of the Board of Directors are elected by cumulative voting.

*The API officially supports the candidate at the Annual General Meeting.

** specified as of the date of nomination

Details on the API's engagement with independent directors are provided on the official API website:

<http://api-russia.org>.

All independent directors supported by the API are open to direct contact with shareholders; please [contact us](#) for further information.

DRAFT RESOLUTION ON AGENDA ITEM 7:

Elect candidates from the following list as members of the Board of Directors of FGC UES, PJSC¹:

No.	Candidate name	Candidate office / position (at the time of nomination)
1	Alexey Germanovich (as an independent director)	Director General, AG Ventures, LLC
2	Pavel Grachev (as an independent director)	Director General, PJSC Polyus
3	Andrey Dyomin	Member of the Management Board, PJSC ROSSETI
4	Igor Kamenskoy (as an independent director)	Managing Director, Renaissance Broker LLC
5	Pavel Livinsky	Director General, PJSC ROSSETI
6	Andrey Murov	Chairman of the Management Board, FGC UES, PJSC
7	Egor Prokhorov	Deputy Director General, PJSC ROSSETI
8	Nikolai Roshchenko	Member of the Management Board, Head of the Legal Division, NP Market Council Association
9	Sergey Sergeyev	Deputy Director General, PJSC ROSSETI
10	Pavel Snikkars	Director of Department, Ministry of Energy of Russia
11	Ernesto Ferlenghi (as an independent director)	Executive Vice President for Russia and Central Asia Markets Development, Eni S.p.A.
12	Oksana Shatokhina	Deputy Director General, PJSC ROSSETI

¹ The newly elected Board of Directors of FGC UES, PJSC shall consist of 11 (eleven) members.

8.	AGM agenda item	API recommendation
	Election of members of the Audit Commission of FGC UES, PJSC	API recommends voting FOR on all candidates

AGENDA ITEM 8 DETAILS:

According to the Company's Articles of Association, the Audit Commission consists of 5 members. The existing Commission members nominated to the Commission are italicized below.

No.	Name	Candidate office / position (at the primary place of employment)
1	<i>Alexander Batalov</i>	<i>Director of Department, PJSC ROSSETI</i>
2	<i>Tatiana Zobkova</i>	<i>Head of a Department unit, Ministry of Energy of Russia</i>
3	Marina Lelekova	Director of Department, PJSC ROSSETI
4	Yekaterina Snigireva	Adviser of a Department division, Federal Agency for

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		State Property Management (Rosimushchestvo)
5.	Vladimir Khvorov	Lead Expert of a Department unit, Ministry of Economic Development of the Russian Federation

Audit Commission members are elected by a simple majority of votes.

DRAFT RESOLUTION ON AGENDA ITEM 8:

Elect candidates from the following list as members of the Audit Commission of FGC UES, PJSC:

No	Candidate name	Candidate office / position (at the time of nomination)
1.	Alexander Batalov	Director of Department, PJSC ROSSETI
2.	Tatiana Zobkova	Head of a Department unit, Ministry of Energy of Russia
3.	Marina Lelekova	Director of Department, PJSC ROSSETI
4.	Yekaterina Snigireva	Adviser of a Department division, Federal Agency for State Property Management (Rosimushchestvo)
5.	Vladimir Khvorov	Lead Expert of a Department unit, Ministry of Economic Development of the Russian Federation

The newly elected Audit Commission of FGC UES, PJSC shall consist of 5 (five) members.

9.	AGM agenda item	API recommendation
	Approval of the restated Regulations on Payment of Remuneration and Compensation to Members of the Audit Commission of FGC UES, PJSC	FOR

AGENDA ITEM 9 DETAILS:

The proposed version of the Regulations has completely changed the procedure for determining the amount of remuneration and its payment. Under the current Regulations, the Audit Commission members shall be paid lump-sum remuneration equivalent to twenty minimum standard monthly wages of a first-class worker, the amount of which is fixed by a sectoral tariff agreement in the electric power complex of the Russian Federation. The amount of remuneration payable to the Chair of the Audit Commission shall increase by 50% of that amount.

Under the new version of the Regulations, the remuneration payable to Audit Commission members shall depend on the base remuneration fixed proceeding from the Company's Russian GAAP (RAS) revenue earned in the fiscal year.

The actual remuneration is calculated using a special formula taking into account the base amount of remuneration, the period of service as member of the Audit Commission and the member's personal contribution factor (representing the member's participation in meetings held and inspections carried out by the Commission).

The document provides for non-payment of remuneration to Audit Commission members not participating in more than half of the Commission meetings.

At the same time, the base amount of remuneration is, in our view, extremely low, which may indicate that the Commission's activity is being regarded as a mere formality.

DRAFT RESOLUTION ON AGENDA ITEM 9:

Approve the restated Regulations on Payment of Remuneration and Compensation to Members of the Audit Commission of FGC UES, PJSC.

10.	AGM agenda item	API recommendation
	Approval of the independent auditor of FGC UES, PJSC	FOR

AGENDA ITEM 10 DETAILS::

LLC Ernst & Young was selected as the candidate for the position of independent auditor at FGC UES, PJSC as a result of the open tender held by PJSC ROSSETI without a preliminary qualifications-based selection for the right to conclude a contract for the mandatory annual audit of the accounting statements of subsidiaries and affiliates of PJSC ROSSETI in 2018-2020. The terms and conditions of the auditor selection (including information on the participating companies and their bids) are not disclosed in the general shareholders meeting materials. We recommend that the Company disclose this information, as well as the contract price and the availability of contracts for audit and non-audit services.

DRAFT RESOLUTION ON AGENDA ITEM 10:

Approve Limited Liability Company Ernst & Young as the independent auditor of FGC UES, PJSC.

11.	AGM agenda item	API recommendation
	Membership of FGC UES, PJSC in the Russian Association of Employers “The Russian Union of Industrialists and Entrepreneurs” (RSPP)	FOR

AGENDA ITEM 11 DETAILS:

According to the Company’s opinion provided in the related explanatory note, the accession of FGC UES, PJSC to RSPP will contribute to the consolidation of efforts of Russian electric power market participants, bring about improvements to applicable laws of the Russian Federation and ensure consideration of interests of the integrated power grid by RSPP members in the decision-making process.

DRAFT RESOLUTION ON AGENDA ITEM 11:

Approve the membership of FGC UES, PJSC in the Russian Association of Employers “The Russian Union of Industrialists and Entrepreneurs” (RSPP) on the following terms:

- the entry fee shall amount to 300,000 (three hundred thousand) rubles 0 kopecks, VAT exempt;
- the annual membership fee shall amount to 300,000 (three hundred thousand) rubles 0 kopecks, VAT exempt;
- the amount, procedure and time limits for the payment of the entry, membership, special-purpose, one-time fees shall be determined by the by-laws of RSPP and resolutions taken by the management bodies of RSPP.

The Voting Recommendations are based on the Annual General Meeting reference materials published on the website of FGC UES, PJSC. For questions and/or comment, please contact us at: +7 (495) 510-5306 or via email: polovnev@api-russia.org.