



## API Voting Recommendations for Annual General Meeting

Company: JSC OGK-2

Meeting date: June 2, 2017

Record date: May 8, 2017

### Company Overview

JSC OGK-2 is a major Russian thermal generation company with an installed capacity of 18,958 GW and an annual revenue of about RUB 112 billion. The core activities of JSC OGK-2 include production and sales of electricity and thermal energy. The Company's main sales market is the wholesale electricity and capacity market.

Shares of JSC OGK-2 are listed on Russia's MICEX Stock Exchange (ticker OGK2) and included in the 'B' quotation list.

Global Depositary Receipts of JSC OGK-2 (GDR, each representing 100 common shares) are currently being traded via the Euroclear and Clearstream clearing systems (under Regulation S), as well as via DTC (under Rule 144A).

There are currently 441,110,160,870 outstanding shares of JSC OGK-2 with a face value of RUB 0.3627 per share (state reg. number 1-02-65105-D).

As of December 31, 2016, the Company's authorized capital was RUB 40,057,009,047.549. It consists of 441,110,160,870 ordinary shares with a face value of RUB 0.3627 each. The Company has not issued preferred shares.

The only legal entity holding more than 5% of shares in JSC OGK-2 on its accounts as of December 31, 2016 is JSC Centerenergyholding (equity stake: 46,279%).

The total ownership interest of Gazprom Group in JSC OGK-2 is 77.3%.

Treasury shares accounted for 4.09% of the authorized capital at the end of 2016.

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No.	AGM agenda item	API recommendation
1.	<a href="#">Approval of the annual report and the annual accounting statements of JSC OGK-2 for 2016</a>	FOR
2.	<a href="#">Distribution of profits (including the payment / declaration of dividends) and losses of JSC OGK-2 based on the results of the 2016 financial year</a>	ABSTAINED*
3.	<a href="#">Election of members of the Board of Directors</a>	API recommends voting FOR <b>Alexander Shevchuk</b> (independent director supported by the API)**
4.	<a href="#">Election of members of the Audit Commission of JSC OGK-2</a>	FOR
5.	<a href="#">Approval of the auditor of JSC OGK-2</a>	ABSTAINED***
6.	<a href="#">Approval of the restated charter of JSC OGK-2</a>	FOR

7.	<a href="#">Approval of internal regulations for the management and supervision bodies of the Company</a>	FOR
8.	<a href="#">Payment of remuneration and compensations to the members of the Board of Directors of JSC OGC-2</a>	FOR
9.	<a href="#">Authorization of related party transactions</a>	ABSTAINED****

\* The materials provided for the AGM do not contain a rationale for the proposed distribution of profits, which prevents the shareholders from forming an opinion on the Company's approach to paying dividends for 2016 and the subsequent years, given that this approach lacks transparency. We recommend that the Company should revise its position as regards disclosure of information on the distribution of profits.

\*\* The API proposes that the shareholders support the candidacy of Alexander Shevchuk consolidating their votes to the maximum degree possible for one candidate (a total of 2 independent candidates to the Board of Directors are nominated, both are related to the API). The current free float of the Company leaves no opportunity for minority shareholders to elect their representative to the Board of Directors by own resources because of the need to consolidate more than 7.1-7.5% of the shares. The independent candidates are nominated by the controlling shareholder (JSC Centerenergyholding).

\*\*\* There are not enough materials available for an affirmative voting recommendation to the shareholders on this issue; the resolution shall be passed by a simple majority of votes. While, according to the Company, an auditor selection competition was held, its results are not disclosed; there is no information available on the cost of audit and consulting services in the AGM-related materials.

\*\*\*\* We recommend that the shareholders act with reasonable care as regards transactions referred to in agenda item 9 and abstain in voting on this issue. For the transactions proposed for approval in sub-items 9.1 and 9.2 which aim at cash pooling, the disclosed information is not enough for a conclusion that the above transactions will serve the interests of all shareholders. First, the materials do not make it clear at what level of Gazprom Group the proposed cash pooling system will exist (Gazprom energoholding or Gazprom), with specific risks attributable to each level. There is no understanding either how the Company will track and ensure profitability of its cash pooling activities, taking into account changes in market interest rates on deposits and loans. Besides, the wording proposed for approval does not rule out a case of simultaneous placement and receipt of funds in the form of a loan.

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### [In-depth AGM agenda review:](#)

1.	AGM agenda item	API recommendation
	<a href="#">Approval of the annual report and the annual accounting statements of JSC OGC-2 for 2016</a>	FOR

#### AGENDA ITEM 1 DETAILS:

The annual report of JSC OGC-2 for 2016 contains information on the key performance indicators achieved by the Company in 2016, development prospects, information on related party transactions **(1,004 deals for a total amount of RUB 97,359.7 million)**, as well as a report on compliance with the recommendations of the Corporate Governance Code recommended for application by the Bank of Russia.

The Company's key transactions effected within Gazprom Group are as follows:

- purchase of gas, for a total amount of RUB 40,256 million;
- repayment of borrowed resources in the amount of RUB 21,878 million;
- receipts of borrowed capital in the amount of RUB 16,000 million;
- other procurement activities for a total amount of RUB 12,144 million.

The reliability of the 12-month accounting statements of the Company is confirmed by an audit report provided by JSC BDO UNICON.

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Please see below the key financial and operational performance indicators according to IFRS standards:

Item	2015	2016	Change, year-on-year
Revenue, million rubles	112,233	134,398	19.7%
Operating expenses, million rubles	108,533	124,529	14.7%
Operating profit, million rubles	3,918	9,389	139.6%
Profit for the period, million rubles	2,597	3,053	17.6%
Basic earnings per share, rubles	0.03	0.03	-
EBITDA, million rubles	10,111	18,923	87.2%
EBITDA margin, %	9.0	14.1	5.1 p.p.

The change in Group's 12-month revenue in 2016 was mainly driven by an increase in electricity generation, higher prices in the day-ahead market and beginning of capacity supplies from facilities commissioned under the capacity supply agreement to the wholesale electricity and capacity market (the PGU-420 combined cycle gas turbine unit of Serovskaya GRES, the PSU-330 steam power unit of Novocherkasskaya GRES, the PSU-660 steam power unit of Troitskaya GRES and the PSU-330 steam power unit of Ryazanskaya GRES).

Operating expenses increased by 14.7%, primarily due to higher fuel consumption (resulting from growing power generation) and an increase in fuel prices.

Operating profit went up 139.6% to reach RUB 9,389 million. EBITDA amounted to RUB 18,923 million increasing by 87.2% year-on-year. Profit grew by 17.6% to RUB 3,053 million.

#### DRAFT RESOLUTION ON AGENDA ITEM 1:

Approve the annual report of JSC OGK-2 for 2016 and the annual accounting (financial) statements of JSC OGK-2 for 2016.

2.	AGM agenda item	API recommendation
	<a href="#">Distribution of profits (including the payment / declaration of dividends) and losses of JSC OGK-2 based on the results of the 2016 financial year</a>	<b>ABSTAINED</b>

#### AGENDA ITEM 2 DETAILS:

The dividend policy of JSC OGK-2 provides for the following dividend payment procedure: the dividend payout ratio is 5% to 35% of the Company's net profit recorded in the annual financial statements prepared according to the Russian laws, provided that the reserve fund is fully formed in accordance with the Company's Charter. It is proposed that the Company earmark RUB 874.2 million for dividends, which is 25% of the Russian GAAP (RAS) net profit or 27.6% of the net profit attributable to shareholders according to IFRS.

The materials provided for the AGM do not contain a rationale for the proposed distribution of profits, which prevents the shareholders from forming an opinion on the Company's approach to paying dividends for 2016 and the subsequent years, given that this approach lacks transparency. We recommend that the Company should revise its position as regards disclosure of information on the distribution of profits.

#### DRAFT RESOLUTION ON AGENDA ITEM 2:

1. Approve the following distribution of profits (losses) of the Company for the 2016 financial year:

	(thousand rubles)
Profit (loss) of the reporting period before distribution:	3,496,694.2
including:	
Reserve fund	174,834.7
Dividends	874,173.6
Investment and other purposes related to the Company's activities	2,447,685.9

2. Highlight the need to use the 2016 profit earmarked for "other purposes related to the Company's activities" for financing the Company's investment program and easing its debt burden.
3. Pay the 2016 dividends on the Company's ordinary shares in the amount of RUB 0.00825304739908 per ordinary share of the Company in cash within the dividend payment period provided for by the Russian laws.
4. Set June 20, 2017 as the dividend record date, i.e. the date as of which the persons entitled to dividends are determined subject to the decision to pay (declare) dividends.

3.	AGM agenda item	API recommendation
	<a href="#">Election of members of the Board of Directors</a>	API recommends voting <b>FOR</b> <b>Alexander Shevchuk</b> (independent director supported by the API)

#### AGENDA ITEM 3 DETAILS:

11 out of the 14 candidates nominated by the shareholders should be elected to the new Board of Directors. The list of candidates includes ten current Board members (elected in 2016), six of whom were also elected to the Board in 2015; there are only 2 independent directors on the Board.

Proceeding from the current free float of the Company, consolidation of more than 80% of the total free float is required to ensure election of independent directors by the minority shareholders' votes, which is hardly realizable. Given the substantial dispersion of minority shareholders' stakes, chances for the election of even one independent director are low, in our view. Therefore, we propose that the minority shareholders focus on backing one candidate. Both independent directors are nominated by the majority shareholder.

No.	Name	Candidate office / position (at the primary place of employment)	Nominated by	Status
1.	Roman Abdullin	Deputy head of department, PJSC Gazprom	Gazprom energoholding LLC	non-executive director
2.	Stanislav Ananyev	CEO, JSC OGC-2	Gazprom energoholding LLC	executive director
3.	Albert Bikmurzin	Director for corporate and property issues, Gazprom energoholding LLC	Gazprom energoholding LLC	non-executive director
4.	Yuri Dolin	Deputy CEO for capital construction, Gazprom energoholding LLC	Gazprom energoholding LLC	non-executive director
5.	Evgeny Zemlyanoy	Deputy CEO for economy and finance, Gazprom energoholding LLC	Gazprom energoholding LLC	non-executive director
6.	Irina Korobkina	Deputy head of division, PJSC Gazprom	Gazprom energoholding LLC	non-executive director
7.	Alexander Rogov	Deputy head of division, head of section, PJSC Gazprom	Gazprom energoholding LLC	non-executive director
8.	Denis Fedorov	Head of division, PJSC Gazprom	Gazprom energoholding LLC	non-executive director
9.	Sergey Fil	Deputy CEO for corporate and legal affairs, Gazprom energoholding LLC	Gazprom energoholding LLC	non-executive director

10.	Elena Khimichuk	Head of section, PJSC Gazprom	Gazprom energoholding LLC	non-executive director
11.	Pavel Shatsky	First deputy CEO, Gazprom energoholding LLC	Gazprom energoholding LLC	non-executive director
12.	Denis Kulikov	Adviser to Executive Director, Association of Institutional Directors	JSC Centerenergyholding	independent director
13.	Mikhail Sorokin	Head of section, PJSC Gazprom	JSC Centerenergyholding	non-executive director
14.	Alexander Shevchuk	Executive Director, Association of Institutional Investors	JSC Centerenergyholding	independent director

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

\*The API supports this candidate at the AGM.

Details on the API liaison with independent directors are provided on the official API website at:

<http://api-russia.org>

All independent directors backed by the API are open to direct contact with shareholders; please contact us for further information.

#### DRAFT RESOLUTION ON AGENDA ITEM 3:

Elect the following members to the Board of Directors:

1. Roman Abdullin;
2. Stanislav Ananyev;
3. Albert Bikmurzin;
4. Yuri Dolin;
5. Evgeny Zemlyanoy;
6. Irina Korobkina;
7. Alexander Rogov;
8. Denis Fedorov;
9. Sergey Fil;
10. Elena Khimichuk;
11. Pavel Shatsky;
12. Denis Kulikov;
13. Mikhail Sorokin;
14. Alexander Shevchuk

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4.	AGM agenda item	API recommendation
	<a href="#">Election of members of the Audit Commission of JSC OGC-2</a>	API recommends voting <b>FOR</b> on all candidates

#### AGENDA ITEM 4 DETAILS:

The shareholders are asked to elect a new Audit Commission consisting of five members. The nominees are not different from the previous year's Audit Commission candidates.

No.	Name	Candidate office / position (at the primary place of employment)
1.	Vadim Bikulov	Deputy head of department, head of division, PJSC Gazprom

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2.	Denis Korshnyakov	Head of the long-term financial investments unit, Gazprom energoholding LLC
3.	Yuri Linovitsky	Head of the Internal Audit Division, Gazprom energoholding LLC, internal audit project, Gazprom Personnel LLC
4.	Margarita Mironova	First Deputy Head of the Management Committee Administration – Head of department, PJSC Gazprom
5.	Alexander Yuzifovich	Deputy Head of the Treasury Division, Gazprom energoholding LLC

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

#### DRAFT RESOLUTION ON AGENDA ITEM 4:

Elect the following Audit Commission members:

1. Vadim Bikulov
2. Denis Korshnyakov
3. Yuri Linovitsky
4. Margarita Mironova
5. Alexander Yuzifovich

5.	AGM agenda item	API recommendation
	<a href="#">Approval of the auditor of JSC OGK-2</a>	ABSTAINED

#### AGENDA ITEM 5 DETAILS:

The materials prepared for the meeting include reference to the Company's open invitation to tender with the aim of selecting an audit firm to audit the Company's financial (accounting) statements according to Russian accounting standards and consolidated financial statements of OGK-2 Group according to International Financial Reporting Standards for 2017, as well as a list of requirements for the bidders.

However, the other open tender participants, their bids and other significant aspects of the auditor selection procedure remained undisclosed. We recommend that the company include these data, as well as information on the price of services, (including, if any, non-audit services) offered by the winning bidder to materials prepared for the general shareholders meeting. Given insufficiency of disclosure, we recommend that the shareholders abstain in voting on this agenda item and that the Company improve disclosure of these materials.

#### DRAFT RESOLUTION ON AGENDA ITEM 5:

Approve JSC BDO Unicon (registered seat: Varshavskoye Shosse 125 bld 1 section 11, 117587 Moscow; tax number: 7716021332, primary state reg. no. (OGRN) 1037739271701, certificate of membership in SRO NP Audit Chamber of Russia no. 3127) as the auditor of the Company.

6.	AGM agenda item	API recommendation
	<a href="#">Approval of the restated charter of JSC OGK-2</a>	FOR

#### AGENDA ITEM 6 DETAILS:

The new version of the document aims at bringing its provisions in compliance with the legal innovations, including the procedure for agreeing major transactions and related party transactions, the procedure for exercising the rights attributed to securities by owners whose rights to such securities are recorded by nominal holders, the possibility of remote participation in general shareholders meetings through electronic voting, as well as recommendations of the Corporate Governance Code. The Charter also provides for the procedure required for implementing these innovations.

The timeframe for submitting of annual accounting (financial) statements, as well as the proposed distribution of profits and losses for the reporting year for consideration by the Board of Directors has been reduced by one-third (from 45 to 30 days prior to the Annual General Meeting date).

The clause removing transactions that are mandatory for the Company under federal laws and/or other legal instruments of the Russian Federation the settlement of which is based on prices determined in the procedure established by the Government of Russia, or on prices and tariffs set by a federal executive body authorized by the Government of Russia from the list of transactions subject to approval by the general shareholders meeting and/or the Board of Directors is excluded from the new version of the document.

No innovations prejudicing the position or restricting the rights of shareholders are proposed in the new version of the document.

#### DRAFT RESOLUTION ON AGENDA ITEM 6:

Approve the new version of the Charter of JSC OGK-2.

7.	AGM agenda item	API recommendation
	<a href="#">Approval of internal regulations for the management and supervision bodies of the Company</a>	FOR

#### AGENDA ITEM 7 DETAILS:

The changes in internal regulations proposed for approval by the shareholders aim at bringing their provisions in compliance with the changes in the current laws and the Company's charter.

A clause obliging a member of the Board of Directors to notify the Board on circumstances preventing him/her from being an independent director has been added to the Regulation on the Board of Directors.

The Regulation on the Audit Commission provides for the Company's obligation to disclose the information contained in notices of persons which may be recognized as parties interested in the Company's transactions to the Audit Commission when the Company receives such notices. The current version provides for the disclosure of such information only if requested by the Commission.

No innovations prejudicing the position or restricting the rights of shareholders are proposed in the new version of the document.

#### DRAFT RESOLUTION ON AGENDA ITEM 7:

7.1. Approve the restated Regulation on the General Shareholders Meeting of JSC OGK-2

7.2. Approve the restated Regulation on the Board of Directors of JSC OGK-2

7.3. Approve the restated Regulation on the Audit Commission of JSC OGK-2.

8.	AGM agenda item	API recommendation
	<a href="#">Payment of remuneration and compensations to the members of the Board of Directors of JSC OGK-2</a>	FOR

#### AGENDA ITEM 8 DETAILS:

The payment of remuneration in the form of shares is provided for by the Regulation on the procedure for determining the size of remuneration and compensations to members of the Board of Directors of JSC OGK-2 as additional remuneration payable if the Company earns a net profit. Taking into account OGK-2's current stock price on the Moscow Exchange (RUB 0.36-0.4 per ordinary share), the actual amount of additional remuneration payable to each member of the Board of Directors may range from RUB 2.5 million to RUB 2.8 million; in this case, the total remuneration payable to members of the Board of Directors, in our view, is commensurate with average market levels.

#### DRAFT RESOLUTION ON AGENDA ITEM 8:

Pay additional remuneration to members of the Board of Directors elected by a resolution of the Extraordinary General Meeting of JSC OGC-2 shareholders on December 16, 2016 in the form of 78,941,511 (seventy eight million nine hundred and forty one thousand five hundred and eleven) ordinary shares of JSC OGC-2 being in the possession of JSC OGC-2.

Determine that the total amount of additional remuneration shall be distributed among the members of the Board of Directors of JSC OGC-2 in equal shares.

9.	AGM agenda item	API recommendation
	<a href="#">Authorization of related party transactions</a>	<b>ABSTAINED</b>

#### AGENDA ITEM 9 DETAILS:

For the transactions proposed for approval in sub-items 9.1 and 9.2 which aim at cash pooling, we note the absence of a rationale for the proposed rates. It is proposed that Gazprom energoholding LLC lend to the Company at a rate of MosPrime+2% while the Company lend to Gazprom energoholding LLC at a rate of MosPrime-2%. In the event that the companies conclude the loan agreements simultaneously, it is theoretically possible that the Company may take out a loan from Gazprom energoholding LLC and provide a loan under the reciprocal loan agreement to Gazprom energoholding LLC at a rate 4% below the rate at which it borrowed from Gazprom energoholding LLC, which may cause economic damage to the Company. No restrictions on limits of mutual positions aimed at avoiding such simultaneous transactions are provided for in the material terms of the transactions.

Furthermore, the materials do not make it clear at what level of Gazprom Group the proposed cash pooling system will exist (Gazprom energoholding or Gazprom), with specific risks attributable to each level. There is no understanding either how the Company will track and ensure profitability of its cash pooling activities, taking into account changes in market interest rates on deposits and loans.

We recommend that the shareholders act with reasonable care as regards transactions referred to in agenda item 9 and abstain in voting on this issue.

For the transaction referred to in sub-item 9.3, we note the lack of a proper rationale for the borrowing rate (the materials should contain the average borrowing rate for the Company and a forecast based on the current situation and expected volume of loan replacement).

#### DRAFT RESOLUTION ON AGENDA ITEM 9:

9.1. Approve the conclusion of a loan contract as a related party transaction on the following essential terms:

Parties: Gazprom energoholding LLC (the Lender), JSC OGC-2 (the Borrower);

Subject matter: the Lender shall provide to the Borrower money resources, while the Borrower undertakes to repay the loan provided to it and to pay interest on the loan.

Price: the loan amount shall not exceed RUB 65,000,000,000 (sixty five billion rubles);

In case the loan is exhausted, the Borrower may, upon early repayment of the loan provided to it or part thereof, apply to the Lender for a loan in the amount not exceeding the repaid part of the loan.

The amount of interest on the loan is determined proceeding from an interest rate not exceeding the MosPrime rate for the actual loan term plus 2 (two) per cent per annum.

Loan maturity: December 31, 2017. The loan maturity shall be extended for another year (until December 31 of the following year) if none of the parties declares otherwise in writing 10 (ten) business days before the loan maturity.

Loan disbursement date: the loan shall be considered as granted on the date the funds are credited to the Borrower's account.

Parties related to transactions and grounds for recognizing their related party interest: PJSC Gazprom is recognized as a party interested in the conclusion of this transaction, inasmuch as it exercises control over the parties to the transaction. Gazprom energoholding LLC is recognized as a party interested in the conclusion of the transaction on account of its status as a party to the transaction. Denis Fedorov is recognized as a party interested in the conclusion of the transaction because of his status as the Chairman of the Board of Directors of JSC OGK-2 and CEO of Gazprom energoholding LLC.

9.2. Approve the conclusion of a loan contract as a related party transaction on the following essential terms:

Parties: JSC OGK-2 (the Lender), Gazprom energoholding LLC (the Borrower);

Subject matter: the Lender shall provide to the Borrower money resources, while the Borrower undertakes to repay the loan provided to it and to pay interest on the loan.

Price: the loan amount shall not exceed RUB 50,000,000,000 (fifty billion rubles);

In case the loan is exhausted, the Borrower may, upon early repayment of the loan provided to it or part thereof, apply to the Lender for a loan in the amount not exceeding the repaid part of the loan.

The amount of interest on the loan is determined proceeding from an interest rate of no less than the MosPrime rate for the actual loan term minus 2 (two) per cent per annum.

Loan maturity: December 31, 2017. The loan maturity shall be extended for another year (until December 31 of the following year) if none of the parties declares otherwise in writing 10 (ten) business days before the loan maturity.

Loan disbursement date: the loan shall be considered as granted on the date the funds are credited to the Borrower's account.

Parties related to transactions and grounds for recognizing their related party interest: PJSC Gazprom is recognized as a party interested in the conclusion of this transaction, inasmuch as it exercises control over the parties to the transaction. Gazprom energoholding LLC is recognized as a party interested in the conclusion of the transaction on account of its status as a party to the transaction. Denis Fedorov is recognized as a party interested in the conclusion of the transaction because of his status as the Chairman of the Board of Directors of JSC OGK-2 and CEO of Gazprom energoholding LLC.

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9.3. Approve the conclusion of a loan contract as a related party transaction on the following essential terms:

Parties: PJSC Gazprom (the Lender), JSC OGK-2 (the Borrower);

Subject matter: the Lender shall provide to the Borrower money resources, while the Borrower undertakes to repay the loan provided to it and to pay interest on the loan.

Price: the loan amount shall not exceed RUB 32,100,000,000 (thirty two billion one hundred million rubles); the amount interest on the loan is determined proceeding from the interest rate of no more than 14 (fourteen) per cent per annum.

Loan period: the loan shall be provided for a period of no more than 5 years after the signing of the loan contract.

Loan disbursement date: the loan shall be considered as granted on the date the funds are credited to the Borrower's account.

Parties related to transactions and grounds for recognizing their related party interest: PJSC Gazprom is recognized as a party interested in the conclusion of this transaction, inasmuch as it exercises control over the parties to the transaction.

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The AGM Voting Recommendations are based, among other things, on the Annual General Meeting reference materials published on the website of JSC OGK-2. For questions and/or comment, please contact us at: +7 (495) 510-5306 or via email: [polovnev@api-russia.org](mailto:polovnev@api-russia.org).