**Rationale for the Proposed Net Earnings Distribution Arrangements.**

The Company distributes its net earnings for 2017 primarily based on the following national and corporate regulations:

* Government Executive Order No. 1094-r of May 29, 2017;
* Federal Law No. 208-FZ *On Joint Stock Companies* of December 26, 1995;
* Dividend Policy of PJSC “Lenenergo” that replaces the version approved by the Board of Directors of PJSC “Lenenergo” on August 31, 2010 (Minutes No. 4 of August 31, 2010);
* Articles of Association of PJSC “Lenenergo” approved by the General Meeting of PJSC “Lenenergo” on June 14, 2017 (Minutes No. 1/2017 of June 14, 2017).

Since the Dividend Policy of PJSC “Lenenergo” does not specify which portion of the Company’s net earnings is to be paid out as dividends, the payouts were calculated based on following requirements prescribed by the Government Executive Order No. 1094-r of May 29, 2017:

1. The net earnings to be paid out as dividends will be fifty or more percent (≥50%) of a company’s net earnings calculated based on its IFRS financial statements, including the consolidated figures.
2. For the purposes of clause a) above, the following amounts are not included into the calculation of the net earnings:

- Exchange-traded equity revaluation profit/loss;

- Actual investments out of net profit from the regulated activities disbursed under the programs approved by the Russian Ministry of Energy;

- Portion of the net earnings from grid connection operations other than cash actually received in the reporting period.

For the purposes of calculating the portion of the net earnings to be paid out as dividends the following amounts are excluded:

* Net power distribution earnings used to finance investments;
* Cash inflow from the grid connection operations of subsidiaries and affiliates that does not affect a stronger cash flow for the Group.

After 2017, the Company’s net earnings were RUB 12,560,998,000.

At December 31, 2017, the Company’s reserves were RUB 562,315,000 (6.5% of the Company’s authorized capital) as of the date of the proposal regarding the distribution of the Company’s net profit after 2017, which is below fifteen percent (15%) of the Company’s authorized capital. In accordance with the Articles of Association of the Company (Clause 8.1), at least five percent (5%) of the Company’s net earnings will be transferred into reserves until the reserves have reached the prescribed level.

Today, the Company’s profits are to be spent on financing its investment program aimed at enabling an uninterrupted and reliable supply of high quality electricity to consumers, meeting the growing demand for electric power and capacity.

Therefore, five percent (5%) of the Company’s RAS net earnings for 2017 will be transferred to reserves as required by Federal Law No. 208-FZ *On Joint Stock Companies* of December 26, 1995 (version of March 07, 2018, Article 35).

In the next reporting periods, the Company will continue to transfer no less than five percent (5%) of its net earnings into reserves until they have reached fifteen percent (15%) of the Company’s authorized capital.

In accordance with the Company’s Articles of Association (Clause 7.3, *Dividends*), the total dividend on a Company’s preference share will be ten percent (10%) of the Company’s net earnings for the last financial year divided by the number of class A preferred shares outstanding.

The calculated amount of the preferred stock dividends for 2017 meets the requirements prescribed by the Articles of Association of PJSC “Lenenergo” (divided per share at RUB 13,4682, payable in cash).

RUB

|  |  |  |
| --- | --- | --- |
| Indicator | Order  of calculation | Amount |
| Net earnings as stated in the Profit and Loss Statement | 1 | 12,560,997,845.54 |
| Dividend per preferred share\* | 2 | 13,4682 |
| Number of preferred shares | 3 | 93,264,311.00 |
| Total preferred stock dividend | 4=2\*3 | 1,256,102,393.41 |

\* Figure rounded up to the fourth decimal point