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RusHydro announces 1H 2016 IFRS results

RusHydro Group (hereinafter referred to as the “Group”, ticker symbol: MOEX, LSE: HYDR; OTCQX: RSHYY) announces its condensed consolidated interim unaudited financial information prepared in accordance with International Financial Reporting Standards (IFRS) for the 1st half of 2016.

Key highlights for 1H 2016:

- Financial results reflected a significant increase in electricity generation by hydropower plants in 1st half of 2016, liberalization of hydro capacity market in Siberia and interim results of implementation of program aimed at improving operating and investment efficiency and reducing costs initiated by the Company’s management;
- Increase in revenue in 1H 2016 – 10.2%, in 2Q 2016 – 10.2%;
- 2Q 2016 EBITDA – RUB 20,808 mn (+43.0%), 1H 2016 EBITDA – RUB 48,020 mn (+42.6%);
- Operating expenses in 2Q 2016 increased by 3.0%, in 1H 2016 – by 2.8% mainly due to growth of electricity distribution expenses, fuel costs, depreciation of fixed assets, as well as third-party services;
- Net profit for 1H 2016 – RUB 25,475 mn (+37.1%); net profit adjusted for non-cash items – RUB 29,770 mn (+48.4%).

1H 2016/2015 highlights (in RUB mn)

	2Q'16	2Q'15	chg	1H'16	1H'15	chg
Revenue, including	86,633	78,640	10.2%	194,340	176,308	10.2%
<i>Revenue</i>	83,457	76,174	9.6%	187,861	170,788	10.0%
<i>Government grants</i>	3,176	2,466	28.8%	6,479	5,520	17.4%
Operating expenses	71,879	69,772	3.0%	158,830	154,569	2.8%
EBITDA¹	20,808	14,555	43.0%	48,020	33,667	42.6%
Net profit	10,428	6,720	55.2%	25,475	18,582	37.1%
Net profit (adj.)²	12,916	7,514	71.9%	29,770	20,066	48.4%

Nikolay Shulginov, Chairman of the Management Board – General Director of PJSC RusHydro, commented: “Financial results of RusHydro Group for the 1st half of 2016 demonstrate that we have chosen the right development vector aimed at efficiency improvement of the whole Group. We are now carrying out a process of financial rehabilitation of the Group in order to withstand changing macroeconomic environment. Importantly, for the first time our cost optimization plan was included in the new development Strategy of RusHydro Group approved by the Board of Directors in June 2016. Currently, we are searching for new areas for optimization. According to preliminary results of analysis, these areas include a number of inefficient expenses and businesses, that we can get rid of to attain more savings and release additional cash flows, that might be used to invest in efficient projects, and also to pay dividends to our shareholders. One of our priorities is optimization of organizational structure and decrease in the number of administrative staff. Some major work is yet to be done in terms of repairs and maintenance expenses, fuel supply, administrative and transportation costs. Another important part of our cost optimization program is disposal of non-core assets. I am sure that we will continue to deliver strong results in the second half of the year”.

Operating results

In the 2nd quarter of 2016, total electricity generation by power plants of RusHydro Group amounted to 32,334 GWh, a 5.9% increase as compared to the same period of 2015, total power generation in the 1st half of 2016 amounted to 63,110 GWh (+10.4%). In the 2nd quarter of 2016, hydropower (HPPs) and pumped storage power plants (PSPPs) of RusHydro Group increased electricity generation by 8.9% to 25,671 GWh, in the 1st half of 2016 – by 16.3% to 46,835 GWh, output by thermal (TPPs) and geothermal plants located in the Far East of Russia in the 2nd quarter of 2016 decreased by 4.4% to 6,662 GWh, in the 1st half of 2016 output decreased by 3.6% to 16,275 GWh.

The underlying factors of the production change in January-June 2016 were:

- total water inflow to reservoirs of the Volga-Kama cascade in the 2nd quarter of 2016 was close to normal, in the 1st half of 2016 – slightly higher than long-run average;
- water inflow to major reservoirs of Siberia in the 1st half of 2016 was close to normal;
- increased electricity generation by hydropower plants of the South of Russia associated with water level close to long-run average;
- decrease in electricity generation by TPPs of RAO ES of East Holding due to higher electricity generation by hydropower plants of the Far East.

In the 1st half of 2016, heat output by thermal plants of RAO ES of the East increased by 4.2% to 18,259 ths. GCal as compared to the same period of 2015.

Events in January – June 2016

- The Board of Directors elected Andrey Kazachenkov, First Deputy General Director, as a member of the Management Board of PJSC RusHydro.
- As part of program aimed at operating and investment efficiency improvement and optimization of costs RusHydro Group announced that it plans to reduce its operating expenses in 2016 by 9% adjusted for inflation expectations as compared to 2015.
- PJSC RusHydro successfully closed a bid book for the exchange-traded bonds of series BO-P04 in total amount of RUB 15 bn . The coupon rate was set at 10.35% per annum – the lowest coupon rate among corporate marketable securities since June 2014.
- The Board of Directors approved the Strategy of RusHydro Group development through 2020 with outlook for 2025. The strategy is aimed at efficient utilization of hydro resources, fostering conditions for reliable functioning of the Unified energy system of Russia and socio-economic development of the Far Eastern regions via provision of accessible energy infrastructure to existing and future customers.
- In June the Board of Directors commissioned to conduct an independent external audit of costs of RusHydro and its subsidiaries, develop the list of measures aimed at optimization of costs based on the results of audit and determine areas for improvement.
- In June, RusHydro completed a mandatory squeeze-out procedure in respect of the remaining shares of PJSC RAO ES East, the final stage of full consolidation of RAO ES East by RusHydro Group. Earlier, the trading of ordinary and preferred shares of PJSC RAO ES East on Moscow Exchange (MOEX) was terminated from May 16, 2016.
- On June 27, 2016, the AGM of PJSC RusHydro elected new Board of Directors and resolved to pay dividends for 2015 RUB 0.038863 per share in total amount of RUB 15 bn (50% of PJSC RusHydro net profit for 2015 calculated under RAS).

Revenue

Revenue breakdown 1H 2016/2015 (in RUB mn)

	2Q'16	2Q'15	chg	1H'16	1H'15	chg
Electricity sales	62,848	56,808	10.6%	137,116	124,182	10.4%
Heat and hot water sales	7,023	6,298	11.5%	22,819	20,142	13.3%
Capacity sales	8,351	7,612	9.7%	17,223	15,805	9.0%
Other sales	5,235	5,456	-4.1%	10,703	10,659	0.4%
Revenue from operations, total	83,457	76,174	9.6%	187,861	170,788	10.0%
Government grants	3,176	2,466	28.8%	6,479	5,520	17.4%
Total revenue	86,633	78,640	10.2%	194,340	176,308	10.2%

In the 1st half of 2016, total revenue of the Group increased by 10.2% to RUB 194,340 mn. The change is associated with the following key factors:

- significant increase in electricity generation by hydropower plants due to: a) increased water inflow to reservoirs of the Volgo-Kama cascade; b) water inflow to reservoirs in Siberia, HPPs of the South and the Far East of Russia – close to long-run average;
- increase in revenue from electricity sales of RAO ES East subgroup segment as a result of growth of electric and thermal power tariffs and increase in heat output;
- increase in revenue from electricity sales of ESC RusHydro subgroup segment following a planned tariff growth, increase in electricity consumption, as well as new consumers acquisition;
- increase in revenue from capacity sales at the competitive capacity auctions (KOM) for the hydropower plants of the second pricing zone following liberalization of hydro capacity market of Siberia with the growth of portion of capacity sold under KOM tariffs from 65% to 80%³ from January 1, 2016, and from 80% to 100% from May 1, 2016;
- indexation of regulated electricity and capacity tariffs;
- growth of government grants by 17% as a result of additional compensation of decrease in tariffs for customers, reimbursement of losses from increase in expenses following growth of prices of goods and services, including fuel, and indexation of salaries.

Operating expenses⁴

Operating expenses in 1H 2016/2015 (in RUB mn)

	2Q'16	2Q'15	chg	1H'16	1H'15	chg
Employee benefit expenses	17,699	18,065	-2.0%	35,986	35,899	0.2%
Fuel expenses	10,830	10,269	5.5%	30,262	28,760	5.2%
Purchased electricity and capacity	12,075	12,622	-4.3%	29,365	30,485	-3.7%
Electricity distribution expenses	9,916	9,189	7.9%	22,600	20,724	9.1%
Third parties services	8,193	7,760	5.6%	15,197	14,751	3.0%
Depreciation	5,867	5,474	7.2%	12,061	11,157	8.1%
Taxes other than on income	2,567	2,399	7.0%	5,042	4,854	3.9%
Other materials	2,053	2,034	0.9%	3,518	3,710	-5.2%
Water usage expenses	828	723	14.5%	1,609	1,409	14.2%
Other expenses	1,851	1,237	49.6%	3,190	2,820	13.1%
TOTAL	71,879	69,772	3.0%	158,830	154,569	2.8%

Total operating expenses in the 1st half of 2016 compared to the same period of 2015 increased by 2.8% from RUB 154,569 mn to RUB 158,830 mn.

Major factors affecting expenses:

- increase in electricity distribution expenses due to growth of electricity transmission tariffs, as well as increase in electricity output;
- increase in depreciation following commissioning of new assets of PJSC RusHydro;
- growth of fuel expenses mainly as a result of increased electricity output of JSC DGK, growth of fuel prices mainly due to growth in gas prices sourced from Sakhalin-1 consortium, as well as growth of fuel cost component in electric and thermal power production;
- increase in third parties services expenses, mainly due to growth of transportation expenses, repairs & maintenance expenses, insurance costs, as well as expenses for purchase and transportation of thermal power.

Profit

In the reporting period, EBITDA increased by 42.6% to RUB 48,020 mn compared to RUB 33,667 mn for the same period of previous year.

In the 1st half of 2016, the Group's net profit increased by 37.1% to RUB 25,475 mn compared to RUB 18,582 mn for the previous year. Adjusted net profit in the reporting period amounted to RUB 29,770 mn, a 48.4% increase as compared to the same period of the previous year. The difference between the reported and adjusted profit is attributed mainly to the following non-cash effects (before the income tax):

- impairment of accounts receivable in the amount of RUB 3,144 mn resulting from analysis of past due receivables and estimation of their collectability, including in PJSC RusHydro (RUB 786 mn), RAO ES East subgroup segment (RUB 1,437 mn), ESC RusHydro subgroup segment (RUB 902 mn) and other segments (RUB 19 mn);
- impairment of property, plant and equipment in the amount of RUB 1,879 mn.

Key indicators of financial position

As of June 30, 2016, the Group's assets increased by RUB 40,202 mn or 4.3% to RUB 978,339 mn against the comparable figure as at December 31, 2015. Change in assets is primarily attributable to:

- increase in fixed assets of the Group;
- increase in value of assets available-for-sale;
- decrease in short-term deposits value with simultaneous increase in cash equivalents;
- increase in accounts receivable.

As at the end of the reporting period the Group's liabilities increased by RUB 20,556 mn or 6.3% from December 31, 2015, to RUB 344,774 mn. Change in the liabilities was mainly a result of placement of non-convertible exchange traded bonds of series BO-P04 in total amount of RUB 15 bn; securing of loans by JSC DGK from PJSC VTB Bank in the amount of RUB 7 bn and PJSC ROSBANK in the amount of RUB 3 bn; reduction in liabilities as a result of buy back of bonds of series 01 and 02 worth a total of RUB 14,750 mn, as well as increase in accounts payable due to distribution of dividends in the amount of RUB 14,278 mn (excluding dividends paid to subsidiaries) announced by the Company on June 27, 2016.

Events after the reporting date

- The Board of Directors elected Yury Trutnev, Deputy Chairman of the Government of the Russian Federation — Plenipotentiary Representative of the President in the Far Eastern Federal District as a Chairman of the Board of Directors of PJSC RusHydro.
- The Board of Directors commissioned Chairman of the Management Board Nikolay Shulginov to amend the Long-term development of the Company to include measures aimed at 10% decrease of operating expenses in 2016.

- JSC RusHydro Supply started to operate in terms of creation of RusHydro Group centralized supply control system.

¹ EBITDA is calculated as operating profit / loss excluding insurance indemnity, depreciation of property, plant and equipment and intangible assets, impairment of property, plant and equipment, impairment of impairment of accounts receivable, loss on disposal of property and other non-cash items of operating income and expenses..

² Net profit is adjusted for the effects of impairment of fixed assets, loss on impairment of accounts receivable, profit on disposal of subsidiaries and joint ventures, loss on disposal of property, plant and equipment.

³ According to the decree of the government of the Russian Federation No. 379 of April 30, 2016, "On amendments to the volumes of capacity trading on the wholesale electricity and capacity market" the wholesale electricity and capacity market rules were amended and starting from May 1, 2016, the whole amount of capacity from hydropower plants of the 2nd pricing zone is sold at unregulated prices.

⁴ Here and hereinafter the operating expenses do not include impairment loss.

About RusHydro

RusHydro Group is one of Russia's largest generating companies. RusHydro is the leading producer of renewable energy in Russia with over 70 generating facilities in Russia and abroad. The company also manages a number of R&D, engineering and electricity retail companies. Group's thermal assets are operated by subsidiary – RAO Energy System of East in the Far East of Russia. Total electricity generation capacity of the Group is 38.6 GW, heat capacity – 16.2 thousand GCal/h.

Russian Federation owns 66.8% in RusHydro, the rest is held by other institutional and individual shareholders (over 360,000). The company's stock is traded on Moscow Exchange (MOEX), and included in MSCI EM и MSCI Russia indexes. Company's GDRs in the IOB section of LSE, ADRs – in OTCQX.

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We do not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in our projections or

forward-looking statements, including, among others, general economic and political conditions, our competitive environment, risks associated with operating in Russia and rapid technological and market changes in our industries, as well as many other risks specifically related to RusHydro and its operations.