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RusHydro announces 9M 2015 RAS results

PJSC RusHydro (MOEX, LSE: HYDR; OTCQX: RSHYY) announces its non-consolidated financial results under Russian accounting standards (RAS) for the nine months of 2015.

Key highlights:

- 3Q 2015 revenue – RUB 26,811 mn (+1%), 9M 2015 revenue – RUB 78,023 mn (-5%);
- 9M 2015 operating expenses – RUB 45,558 mn (-3%);
- 3Q 2015 EBITDA – RUB 13,586 mn (+13%), 9M 2015 EBITDA – RUB 43,044 mn (-4%);
- EBITDA margin in 3Q 2015 – 51% (+6 p.p.), in 9M 2015 – 55% (+1 p.p.);
- Reported net profit for 9M 2015 – RUB 27,558 mn (+1%), adjusted net profit – RUB 25,173 mn (-12%).

Key financials for the 9M 2014/2015 under RAS (in RUB mn)

| | 9M'15 | 9M'14 | chg | 3Q'15 | 3Q'14 | chg |
|----------------------------------|----------|----------|------|----------|----------|------|
| Revenue | 78,023 | 81,943 | -5% | 26,811 | 26,517 | 1% |
| Operating expenses | (45,558) | (46,980) | -3% | (16,831) | (17,747) | -5% |
| Operating profit | 32,465 | 34,963 | -7% | 9,980 | 8,770 | 14% |
| EBITDA ⁽¹⁾ | 43,044 | 44,621 | -4% | 13,586 | 12,035 | 13% |
| Net profit | 27,558 | 27,309 | 1% | 7,382 | 5,309 | 39% |
| Net profit (adj.) ⁽²⁾ | 25,173 | 28,692 | -12% | 5,747 | 6,464 | -11% |

Revenue

In the 9 months of 2015, revenue decreased by 5% to RUB 78,023 mn as compared to RUB 81,943 mn for the same period of 2014. The underlying factors behind the change in revenue were:

- decrease in production and electricity output by hydropower plants of PJSC RusHydro as a result of: a) lower than long-run average water inflow to reservoirs of the Volga-Kama cascade and Siberia (excluding Novosibirsky reservoir); b) lower or close to long-run average water inflow to reservoirs of HPPs the South of Russia and North Caucasus;
- increase in “day-ahead” prices in the 2nd pricing zone due to decrease in electricity generation by hydropower plants and higher load of fossil fuel fired power plants;
- decrease in the average prices on the “day ahead” market in the 1st pricing zone against the background of non-indexation of gas tariffs for industrial consumers starting from the second half of 2014 as well as sluggish electricity demand;
- increase in capacity sales following partial liberalization of hydro capacity market in the second price zone from May 1, 2014⁽³⁾.

Revenue breakdown (RUB mn)

| | 9M'15 | 9M'14 | chg | 3Q'15 | 3Q'14 | chg |
|--|-------|-------|-----|-------|-------|-----|
|--|-------|-------|-----|-------|-------|-----|

| | | | | | | |
|-------------------|---------------|---------------|------------|---------------|---------------|-----------|
| Electricity sales | 53,693 | 59,074 | -9% | 19,146 | 18,999 | 1% |
| Capacity sales | 23,406 | 21,929 | 7% | 7,375 | 7,226 | 2% |
| Other sales | 924 | 940 | -2% | 290 | 292 | -1% |
| TOTAL | 78,023 | 81,943 | -5% | 26,811 | 26,517 | 1% |

Operating expenses

Operating expenses in January-September 2015 decreased by 3% to RUB 45,558 mn as compared to the same period of 2014.

Operating expenses breakdown (in RUB mn)

| | 9M'15 | 9M'14 | chg | 3Q'15 | 3Q'14 | chg |
|--|---------------|---------------|------------|---------------|---------------|------------|
| Depreciation | 10,579 | 9,658 | 10% | 3,606 | 3,265 | 10% |
| Purchased electricity and capacity | 9,950 | 13,287 | -25% | 3,535 | 4,844 | -27% |
| Labor expenses | 4,777 | 5,344 | -11% | 2,028 | 2,792 | -27% |
| Property tax | 4,890 | 4,492 | 9% | 1,646 | 1,495 | 10% |
| Repairs & maintenance | 2,244 | 2,262 | -1% | 1,033 | 1,009 | 2% |
| Other third-party services | 2,136 | 1,551 | 37% | 891 | 786 | 13% |
| Services of System Operator, ATS, CFS | 2,133 | 2,081 | 2% | 746 | 694 | 7% |
| Security expenses | 1,282 | 1,238 | 4% | 416 | 418 | 0% |
| Other taxes and fees (in relation to labor expenses) | 1,178 | 1,110 | 6% | 412 | 418 | -1% |
| Transport expenses | 1,104 | 484 | 128% | 433 | 318 | 36% |
| Contingencies | 1,099 | 912 | 21% | 437 | 377 | 16% |
| Insurance expenses | 1,080 | 859 | 26% | 493 | 315 | 57% |
| Rent | 892 | 818 | 9% | 305 | 274 | 11% |
| Water tax | 687 | 666 | 3% | 228 | 203 | 12% |
| Leasing expenses | 220 | 597 | -63% | 68 | 112 | -39% |
| Other | 1,307 | 1,621 | -19% | 554 | 427 | 30% |
| TOTAL | 45,558 | 46,980 | -3% | 16,831 | 17,747 | -5% |

Major factors of change in operating expenses were (among the highest constituent expenses):

- decrease in purchased electricity and capacity as a result of: a) lower consumption of electricity and capacity for own needs due decrease in electricity output; b) lower consumption of electricity for own needs of PSPPs; c) decrease in purchased electricity for unregulated long-term contracts due lower sales under said contracts;
- increase in depreciation and property tax as a result of commissioning of new assets as well as reconstruction and modernization of operating assets;
- decrease in labor expenses after headcount optimization during 2015;
- one-off increase in transport expenses due to establishment of JSC RusHydro Transport company in order to improve transportation management system .

Profit

Operating profit for the period decreased by 7% or RUB 2,498 mn to RUB 32,465 mn.

EBITDA decreased by 4% as compared to the same period of 2014 and amounted to RUB 43,044 mn.

RusHydro's net profit for the reporting period increased by 1% to RUB 27,558 mn. Net profit adjusted for non-cash items decreased by 12% to RUB 25,173 mn as compared to RUB 28,692 mn in the same period of the previous year.

The difference between the reported and adjusted net profit is attributed mainly to the following non-cash effects:

- mark-to-market revaluation of listed equity stakes in the amount of RUB 716 mn;
- regained reserves on accounts receivable in the amount of RUB 1,408 mn;
- gains (net) from other reserves in the amount of RUB 261 mn.

RusHydro's financial position as of September 30, 2015

The Company's total assets increased by RUB 53,371 mn as of September 30, 2015, or 6% against the similar figure as of December 31, 2014, reaching RUB 908,951 mn.

The growth in assets mainly in terms of long-term financial investments is related to acquisition of shares of RusHydro's subsidiaries in total amount of RUB 37,667 mn, including shares that were transferred in trust management of PJCS RAO ES of the East:

- JSC Sakhalinskaya TPP No. 2 in the amount of RUB 12,995 mn;
- JSC Yakutskaya TPP No. 2 in the amount of RUB 11,224 mn;
- JSC TPP in Sovetskaya Gavan' in the amount of RUB 2,520 mn.

As of September 30, 2015, total liabilities increased by 23% or RUB 31,849 mn and amounted to RUB 168,899 mn. The growth in liabilities is mainly related to placement of long-term bonds in total amount of RUB 25 bn in April and July 2015.

The Company's debt portfolio rose by 25% from the beginning of the year from RUB 114,177 mn to RUB 142,357 mn; long-term loans make up 72% of total debt portfolio.

The Company's equity for January-September 2015 increased by 3% to RUB 739,986 mn against RUB 718,461 mn as of the beginning of the reporting year.

The full financial statements are available on the Company's website at:

<http://www.rushydro.ru/investors/reports>

The Company plans to publish its consolidated results for the 9 months of 2015 under International financial reporting standards (IFRS) on December 15, 2015.

(1) EBITDA calculated as gross profit before depreciation.

(2) Net profit adjusted for the mark-to-market revaluation of listed equity stakes, reserves for financial investment impairment, assets and potentially uncollectible accounts receivable, contingencies. This indicator is not reported in the official financial statements under RAS and has been calculated and put into the press release for reference.

(3) According to the decree of the government of the Russian Federation No. 374 of April 28, 2014, "On amendments to the Regulations of wholesale electricity and capacity market in terms of special aspects of participation of gencos, owners of hydropower plants located in the 2nd pricing zone, in the wholesale market" from May 1, 2014 till December 31, 2015, 35% of capacity of the hydropower plants located in the 2nd pricing zone is sold at the regulated tariffs based on the results of the competitive capacity auctions (KOM). Actual decrease in capacity sale price of KOM is related to decrease in capacity tariff of the Sayano-Shushenskaya HPP in the 2nd half of 2013 from RUB 86,825.85 per MW to RUB 35,955.02 per MW.

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 38.5 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 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.
