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RusHydro announces 1H 2015 IFRS results

RusHydro Group (hereinafter referred to as the “Group”, ticker symbol: MOEX, LSE: HYDR; OTCQX: RSHYY) announces its reviewed unaudited condensed consolidated interim financial information prepared in accordance with International Financial Reporting Standards (IFRS) for the 1st half of 2015.

Key highlights for 1H 2015:

- Financial results reflected improvement in electricity generation by hydro power plants and decelerating growth in operating expenses in 2Q 2015;
- Increase in revenue in 1H 2015 – 3.2%;
- 2Q 2015 EBITDA – RUB 15,315 mn (-3.6%), 1H 2015 EBITDA – RUB 34,427 mn (-16.8%);
- Operating expenses in 2Q 2015 increased by 6.7%, in 1H 2015 – by 10.4% mainly due to growth of employee benefit expenses, fuel costs, expenses for purchased electricity and capacity, as well as third-party services and depreciation of fixed assets;
- Net profit for 1H 2015 – RUB 18,582 mn (-12.9%); net profit adjusted for non-cash items – RUB 20,066 mn (-17.5%).

1H 2015/2014 highlights (in RUB mn)

	2Q'15	2Q'14	chg	1H'15	1H'14	chg
Revenue, including	78,640	76,200	3.2%	176,308	170,916	3.2%
<i>Revenue</i>	76,174	73,693	3.4%	170,788	165,309	3.3%
<i>Government grants</i>	2,466	2,507	-1.6%	5,520	5,607	-1.6%
Operating expenses	69,772	65,409	6.7%	154,569	139,968	10.4%
EBITDA*	15,315	15,891	-3.6%	34,427	41,382	-16.8%
Net profit	6,720	7,042	-4.6%	18,582	21,336	-12.9%
Net profit (adj.)**	7,514	8,452	-11.1%	20,066	24,334	-17.5%

Operating results

In the 2nd quarter of 2015, total electricity generation by power plants of RusHydro Group amounted to 30,539 GWh, a 2.4% increase as compared to the same period of 2014, total power generation in the 1st half of 2015 amounted to 57,174 GWh (-6.2%). In the 2nd quarter of 2015, hydropower (HPPs) and pumped storage power plants (PSPPs) of the Group decreased electricity generation by 0.9% to 23,568 GWh, in the 1st half of 2015 – by 13.4% to 40,281 GWh, output by thermal (TPPs) and geothermal plants located in the Far East of Russia in the 2nd quarter of 2015 increased by 15.4% to 6,969 GWh, in the 1st half of 2015 output increased by 17.2% to 16,890 GWh.

The underlying factors of the production change in January – June of 2015 were:

- lower than long-run average water inflow to reservoirs of the Volga-Kama cascade and low water reserves in reservoirs at the beginning of 2015;
- low water level in the basin of the Angara-Yenisey cascade (excluding Novosibirskoe reservoir);
- increase in electricity generation by HPPs of the South of Russia and North Caucasus as a result of higher than normal water inflow to reservoirs in the 2nd quarter of 2015;
- increase in electricity generation by TPPs of the Far East due to lower hydro production in the unified power system of the Far East and electricity consumption similar to last year.

Events in January – June 2015

- The Board of Directors of PJSC RusHydro increased the number of Management Board members to 6 persons effective March 16, 2015, and appointed Sergey Kirov, Deputy General Director responsible for economics, investments and procurements, to a position of a member of the Company's Management Board.
- In April, PJSC RusHydro successfully placed its bonds of series 09 with par value of RUB 1,000 per bond and total par value of RUB 10 bn. The coupon rate was set at 12.75% per annum;
- RusHydro's largest hydroelectric power plant – Sayano-Shushenskaya – increased its maximum capacity output to 5,100 MW following the modernization of automatic reliability system installed at the station;
- the reservoir of the Boguchanskaya hydropower plant (a 50/50 JV of RusHydro and UC RUSAL) has been filled to its design level of 208 m (above sea level) allowing the plant to reach its full capacity of 2,997 MW and produce 17.6 TWh of electricity per year;
- In June, PJSC RusHydro signed a 5-year loan agreement in the amount of RUB 30 bn with JSC VTB Bank. The facility may be used to finance the Company's current operating and investment activities;
- On June 26, 2015, the AGM elected new Board of Directors and resolved to pay dividends for 2014 in the amount of RUB 0.0156 per share in total amount of RUB 6,033 mn.

Revenue

Revenue breakdown 1H 2015/2014 (in RUB mn)

	2Q'15	2Q'14	chg	1H'15	1H'14	chg
Electricity sales	56,808	55,187	2.9%	124,182	119,902	3.6%
Heat and hot water sales	6,298	5,814	8.3%	20,142	19,620	2.7%
Capacity sales	7,612	6,294	20.9%	15,805	13,223	19.5%
Other sales	5,456	6,398	-14.7%	10,659	12,564	-15.2%
Revenue from operations, total	76,174	73,693	3.4%	170,788	165,309	3.3%
Government grants	2,466	2,507	-1.6%	5,520	5,607	-1.6%
Total revenue	78,640	76,200	3.2%	176,308	170,916	3.2%

In the 1st half of 2015, total revenue of the Group increased by 3.2% to RUB 176,308 mn. The change is associated with the following key factors:

- increase in capacity prices of the competitive capacity auctions (KOM) for the hydropower plants of the second pricing zone following partial liberalization of hydro capacity market of Siberia from May 1, 2014;
- increase in revenue from electricity sales of ESC RusHydro subgroup segment following an increase in electricity output, planned tariff growth as well as new consumers acquisition;
- increase in revenue from electricity sales of RAO ES of the East subgroup segment as a result of growth of revenue from electricity sales by 13% and heat and hot water sales by 2.7% following both increase in output and indexation of tariffs;
- increase in electricity prices on the “day-ahead” market of the second price zone following decrease in electricity generation by hydropower plants;
- decrease in electricity generation by hydropower plants due to: a) low water level in the basin of the Angara-Yenisey cascade (excluding Novosibirskoe reservoir); b) lower than long-run average water inflow to reservoirs of the Volga-Kama cascade;
- decrease in the average prices on the “day ahead” market in the first 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.

Operating expenses***

Operating expenses in 1H 2015/2014 (in RUB mn)

	2Q'15	2Q'14	chg	1H'15	1H'14	chg
Employee benefit expenses	18,065	16,585	8.9%	35,899	32,044	12.0%
Purchased electricity and capacity	12,622	11,917	5.9%	30,485	26,816	13.7%
Fuel expenses	10,269	8,994	14.2%	28,760	24,100	19.3%
Electricity distribution expenses	9,189	9,376	-2.0%	20,724	21,145	-2.0%
Other third-party services	7,518	7,055	6.6%	14,509	13,273	9.3%
Depreciation	5,474	5,202	5.2%	11,157	10,407	7.2%
Taxes other than on income	2,399	2,252	6.5%	4,854	4,436	9.4%
Other materials	2,034	2,254	-9.8%	3,710	3,867	-4.1%
Water usage expenses	723	685	5.5%	1,409	1,368	3.0%
Travel expenses	537	332	61.7%	938	734	27.8%
Social charges	500	554	-9.7%	727	729	-0.3%
(Loss)/profit on disposal of property, plant and equipment, net	116	(102)	-213.7%	210	27	677.8%
Purchase of oil products for sale	80	17	370.6%	141	243	-42.0%
Loss on disposal of subsidiaries and joint venture, net	31	-	-	31	-	-
Other expenses	215	288	-25.3%	1,015	779	30.3%
TOTAL	69,772	65,409	6.7%	154,569	139,968	10.4%

Total operating expenses in the 1st half of 2015 compared to the same period of 2014 increased by 10.4% from RUB 139,968 mn to RUB 154,569 mn.

Major factors affecting expenses:

- growth of employee benefit expenses as a result of annual indexation of salaries of personnel of subsidiaries of RusHydro Group as well as quarterly indexation of salaries of personnel of PJSC RusHydro branches;
- increase in purchased electricity and capacity expenses as a result of: a) growth of expenses of PJSC Yakutskenergo (RAO ES of the East subgroup) due to start of electricity purchase from JSC Vilyuiskaya HPP-3 (ALROSA group); b) increase in tariffs for electricity and capacity purchase from the Bilibinskaya NPP (JSC Rosenergoatom) by JSC Chukotenergo; c) growth of purchased electricity and capacity expenses of JSC Krasnoyarskenergosbyt mainly due to increase in electricity prices on the “day-ahead” market, as well as increase in the amount of capacity purchased under capacity supply agreements and free agreements; d) growth of expenses following new consumers acquisition;
- growth of fuel expenses mainly as a result of increased electricity output of JSC Far-Eastern Generating company (DGK), increase in fuel consumption due to increased electricity generation by a number of inefficient plants in order to compensate the drop in electricity production by hydropower plants, as well as growth of fuel prices.

Profit

In the reporting period, EBITDA decreased by 16.8% to RUB 34,427 mn compared to RUB 41,382 mn for the same period of previous year. Decrease in EBITDA is related to growth of operating expenses larger than revenue growth.

In the 1st half of 2015, the Group's net profit decreased by 12.9% to RUB 18,582 mn compared to RUB 21,336 mn for the previous year. Adjusted net profit in the reporting

period amounted to RUB 20,066 mn, a 17.5% decrease 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):

- accrual of impairment of fixed assets in the amount of RUB 1,336 mn;
- accrual of impairment of accounts receivable in the amount of RUB 785 mn resulting from analysis of past due receivables and estimation of their collectability;
- recognition of profit on disposal of subsidiaries and joint venture in the amount of RUB 438 mn;
- recognition of loss on disposal of property, plant and equipment in the amount of RUB 210 mn.

Key indicators of financial position

As of June 30, 2015, the Group's assets increased by RUB 40,727 mn to RUB 924,497 mn against the comparable figure as at December 31, 2014. Change in assets is primarily attributable to:

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

As at the end of the reporting period the Group's liabilities increased by RUB 26,220 mn from December 31, 2014, to RUB 314,839 mn. Change in the liabilities was mainly a result of non-convertible bonds placement of series 09 in total amount of RUB 10 bn; securing of short-term loans from PJSC Sberbank of Russia by JSC Sakhaenergo in the amount of RUB 2,750 mn for fuel purchases, as well as growth in liabilities related to higher due dividends.

Events after the reporting date

- In July 2015, PJSC RusHydro placed three issues of exchange traded bonds of series BO-P01, BO-P02, BO-P03 in total amount of RUB 15 bn with coupon rate of 11.85% per annum. The Company raises debt in order to refinance Eurobonds placed in October 2010, as well as to finance the investment program.
- PJSC RusHydro signed a term sheet with JSC VTB Bank for a potential capital-raising deal. According to the document, VTB may acquire up to RUB 85 bn of newly issued shares of PJSC RusHydro with conclusion of a 5-year forward contract. The raised funds will be primarily used to optimize capital structure of RAO ES of the East subgroup, including refinancing of its debt portfolio.

The consolidated financial statements of the Group are available at:

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

The presentation of the results is available at:

http://www.eng.rushydro.ru/investors/presentations/results_presentations/

*EBITDA is calculated as operating profit / loss excluding depreciation of property, plant and equipment and intangible assets, impairment of property, plant and equipment, impairment of available-for-sale financial assets, accounts receivable, loss on disposal of property, plant and equipment, and other non-cash items of operating income and expenses.

**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.

*** 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 38.5 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 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.