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RusHydro announces 1Q 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 quarter of 2016.

Key highlights for 1Q 2016:

- Financial results reflected a significant increase in electricity generation by hydropower plants in 1Q 2016 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 1Q 2016 – 10.3%;
- 1Q 2016 EBITDA¹ – RUB 27,212 mn (+42.4%);
- Increase in operating expenses in 1Q 2016 by only 2.5%;
- Net profit for 1Q 2016 – RUB 15,047 mn (+26.9%); net profit adjusted for non-cash items² – RUB 16,854 mn (+34.3%).

1Q 2016/2015 highlights (in RUB mn)

	1Q’16	1Q’15	chg
Revenue, including	107,707	97,668	10.3%
<i>Revenue</i>	104,404	94,614	10.3%
<i>Government grants</i>	3,303	3,054	8.2%
Operating expenses ⁴	86,951	84,797	2.5%
EBITDA¹	27,212	19,113	42.4%
Net profit	15,047	11,862	26.9%
Net profit (adj.)²	16,854	12,552	34.3%

Operating results

In the 1st quarter of 2016, total electricity generation by power plants of RusHydro Group amounted to 30,776 GWh, a 15.6% increase as compared to the same period of 2015. In the 1st quarter of 2016, hydropower (HPPs) and pumped storage power plants (PSPPs) of RusHydro Group increased electricity generation by 26.6% to 21,164 GWh, output by thermal (TPPs) and geothermal plants located in the Far East of Russia in the 1st quarter of 2016 decreased by 3.1% to 9,613 GWh.

The underlying factors of the production change in January – March 2016 were:

- total water inflow to reservoirs of the Volga-Kama cascade in the 1st quarter of 2016 was higher than normal;
- water inflow to major reservoirs of Siberia in the 1st quarter of 2016 was close or slightly higher than normal;
- increased electricity generation by hydropower plants of the South of Russia associated with water level close or slightly higher than long-run average.

Events in January – March 2016

- The Board of Directors elected Andrey Kazachenkov, First Deputy General Director, as a member of the Management Board of RusHydro.
- As part of program aimed at operating and investment efficiency improvement and optimization of costs RusHydro Group announced that it aims to reduce its operating

expenses by RUB 8.96 bn (-9.2%) adjusted for inflation expectations as compared to 2015.

- Management of PJSC RusHydro and the Ministry of economic development of Russia agreed to conduct external audit of financial and operating activities of RusHydro Group with the assistance of an independent auditor in order to analyze further potential to reduce costs and improve the Company's efficiency.
- PJSC RusHydro successfully closed a bid book for the exchange-traded bonds of series BO-P04 in total amount of RUB 15 bn (the bonds were placed on April 8, 2016). The coupon rate was set at 10.35% per annum – the lowest coupon rate among corporate marketable securities since June 2014.
- On March 30, 2016, the Company's Board of Directors preliminary approved of draft investment programs for 2016 (amended) and 2017-2019 and funding sources. The Board of Directors commissioned Nikolay Shulginov, Chairman of the Management Board – General Director of PJSC RusHydro, to submit the draft investment programs to the Ministry of energy of Russia for approval.

Revenue

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

	1Q'16	1Q'15	chg
Electricity sales	74,268	67,374	10.2%
Heat and hot water sales	15,796	13,844	14.1%
Capacity sales	8,872	8,193	8.3%
Other sales	5,468	5,203	5.1%
Revenue	104,404	94,614	10.3%
Government grants	3,303	3,054	8.2%
Total revenue	107,707	97,668	10.3%

In the 1st quarter of 2016, total revenue of the Group increased by 10.3% to RUB 107,707 mn. The change is associated with the following key factors:

- increase in electricity generation by hydropower plants due to: a) increased water inflow to reservoirs of the Volgo-Kama cascade; b) higher than long-run average water inflow to major reservoirs in Siberia; c) increased output by hydropower plants of the South of Russia;
- increase in revenue from electricity sales of RAO ES East subgroup segment as a result of increase in output and growth of tariffs;
- 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 and increase in sales;
- 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 from May 1, 2014, with the growth of portion of capacity sold under KOM tariffs from 65% to 80%³;
- indexation of regulated electricity and capacity tariffs.

Operating expenses⁴

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

	1Q'16	1Q'15	chg
Fuel expenses	19,432	18,491	5.1%
Employee benefit expenses	18,287	17,834	2.5%
Purchased electricity and capacity	17,290	17,863	-3.2%
Electricity distribution expenses	12,684	11,535	10.0%
Third parties services	7,004	6,991	0.2%
Depreciation	6,194	5,683	9.0%
Taxes other than on income	2,475	2,455	0.8%
Other materials	1,465	1,676	-12.6%
Water usage expenses	781	686	13.8%
Other expenses	1,339	1,583	-15.4%
TOTAL	86,951	84,797	2.5%

Total operating expenses in the 1st quarter of 2016 compared to the same period of 2015 increased by 2.5% from RUB 84,797 mn to RUB 86,951 mn.

Major factors affecting expenses:

- implementation of program aimed at improving operating and investment efficiency and reducing costs (approved by RusHydro's Board of Directors as a part of the Company's business-plan in December 2015), which provides for optimization of expenses related to the headquarters of PJSC RusHydro and RAO ES East subgroup, as well as other non-operating costs;
- increase in electricity distribution expenses due to growth of electricity transmission tariff, 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, increase in fuel consumption due to increased electricity generation, as well as growth of fuel prices;
- growth of employee benefit expenses as a result of quarterly indexation of tariff rates and salaries of personnel of PJSC RusHydro branches and RAO ES East subgroup's subsidiaries in accordance with utilities employees' union agreement.

Profit

In the reporting period, EBITDA increased by 42.4% to RUB 27,212 mn compared to RUB 19,113 mn for the same period of previous year.

In the 1st quarter of 2016, the Group's net profit increased by 26.9% to RUB 15,047 mn compared to RUB 11,862 mn for the previous year. Adjusted net profit in the reporting period amounted to RUB 16,854 mn, a 34.3% 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):

- accrual of impairment of accounts receivable in the amount of RUB 1,362 mn resulting from analysis of past due receivables and estimation of their collectability;
- accrual of impairment of fixed assets in the amount of RUB 777 mn.

Key indicators of financial position

As of March 31, 2016, the Group's assets increased by RUB 20,578 mn (+2.2%) to RUB 958,715 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 available-for-sale financial assets;
- 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 decreased by RUB 833 mn (-0.3%) from December 31, 2015, to RUB 323,385 mn. Change in the liabilities was mainly a result of decrease in accounts payable to suppliers and contractors working on construction site of the Nizhne-Bureyskaya HPP; reduction in the amount of RUB 1,723 mn in liabilities related to the tender offer to acquire PJSC RAO ES East shares; as well as increase in accounts payable in terms of VAT and property tax.

Events after the reporting date

- The Board of Directors resolved to convene the AGM on June 27, 2016, in Moscow and recommended that the AGM approves dividend payment in total amount of RUB 15 bn, RUB 0.038863 per share (50% of PJSC RusHydro net profit for 2015 calculated under RAS). The dividend record date is July 8, 2016.
- In June, RusHydro completed a mandatory squeeze-out procedure in respect of the remaining shares of PJSC RAO ES East, the final stage of consolidation process of full consolidation of RAO ES East by RusHydro Group. Earlier, the trading of ordinary and preferred shares of PJSC RAO ES East was terminated from May 16, 2016, as per decision of Moscow Exchange (MOEX) in accordance with the Listing rules of MOEX, as a result of mandatory squeeze-out procedure initiated in compliance with the article 84.8 of the Federal Law on Joint Stock Companies.
- As part of program aimed at operating and investment efficiency improvement and optimization of costs RusHydro Group announced the amendments to consolidated investment program of RusHydro Group for 2016-2019 aimed at ensuring the Group's financial stability, increase in operational and investment efficiency and improvement of the RusHydro investment profile. Total capital spending in 2016 – 2019 amounts to RUB 352.7 bn (including VAT), which is by RUB 31.8 bn (-8%) lower than previously planned amount of RUB 384.5 bn.
- On April 19, 2016, the Bureya river in the Amur region has been dammed up and the river now flows through the Nizhne-Bureyskaya hydropower plant. This is the most important stage of construction of the plant.
- 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.

¹ EBITDA is calculated as operating profit / loss excluding depreciation of property, plant and equipment and intangible assets, impairment of property, plant and equipment, accounts receivable, financial result of disposal of subsidiaries and other non-monetary items of operating expenses.

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

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 henceforth operating expenses do not include losses from impairment.

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 conditions, our competitive environment, risks associated with operating in Russia, rapid technological and market change in our industries, as well as many other risks specifically related to RusHydro and its operations.