

## RusHydro announces 2017 IFRS results

**March 26, 2018. Moscow, Russia.** RusHydro Group (hereinafter referred to as the “Group”, ticker symbol: MOEX, LSE: HYDR; OTCQX: RSHYY) announces its audited consolidated financial statements for the year ended December 31, 2017, prepared in accordance with International Financial Reporting Standards (IFRS).

### Key highlights for 2017:

- Financial results reflected increase in sales of capacity due to liberalization of hydropower capacity market in Siberia and launch of Zelenchukskaya HPP, divestment of LLC ESC Bashkortostan in the end of 2016, effect of the forward contract with PJSC VTB Bank recognized as long term derivative instrument, and effects of the new federal legislation effective as of July 1, 2017, that envisages decrease of electricity tariffs in the Russian Far East to basic level.
- Total revenue in 4Q 2017 - RUB 112,122 mn (-0.3%), in 2017 – RUB 380,864 mn ( - 2.7%), excluding contribution of LLC ESC Bashkortostan comparable revenue for the 4Q and 2017 increased by 5.7% и 5.4%, respectively<sup>1</sup>.
- 4Q 2017 EBITDA<sup>3</sup> – RUB 32,433 mn (+8.5%), 2017 EBITDA – RUB 104,038 mn (+3.7%); excluding contribution of LLC ESC Bashkortostan comparable EBITDA for 4Q and 2017 increased by 10.4% and 6.4%, respectively.
- Operating expenses in 4Q and 2017 decreased by 1.3% and 3.8%, respectively; excluding contribution of LLC ESC Bashkortostan comparable operating expenses for the 4Q and 2017 increased by 5.9% and 5.6%, respectively.
- Net profit for 2017 – RUB 22,451 mn (-43.5%); net profit adjusted for non-cash items<sup>4</sup> – RUB 62,702 mn (-2.6%).

### 4Q and 2017/2016 highlights (in RUB mn)

	4Q/17	4Q/16	chg.	2017	2016	chg.
<b>Revenue, including</b>	<b>112,122</b>	<b>112,464</b>	<b>-0.3%</b>	<b>380,864</b>	<b>391,322</b>	<b>-2.7%</b>
Revenue	99,515	105,428	-5.6%	348,119	374,072	-6.9%
Government grants	12,607	7,036	79.2%	32,745	17,250	89.8%
Operating expenses	87,587	88,751	-1.3%	303,805	315,705	-3.8%
Operating profit <sup>2</sup>	24,535	23,713	3.5%	77,059	75,617	1.9%
<b>EBITDA<sup>3</sup></b>	<b>32,433</b>	<b>29,895</b>	<b>8.5%</b>	<b>104,038</b>	<b>100,341</b>	<b>3.7%</b>
Net profit	-	-	-	22,451	39,751	-43.5%
Net profit (adj.) <sup>4</sup>	21,847	22,900	-4.6%	62,702	64,377	-2.6%

### Comparable 4Q and 2017/2016 highlights (in RUB mn), excl. LLC ESC Bashkortostan<sup>1</sup>

	4Q/17	4Q/16	chg.	2017	2016	chg.
<b>Revenue, including</b>	<b>112,122</b>	<b>106,038</b>	<b>5.7%</b>	<b>380,864</b>	<b>361,400</b>	<b>5.4%</b>
Revenue	99,515	99,002	0.5%	348,119	344,150	1.2%
Government grants	12,607	7,036	79.2%	32,745	17,250	89.8%
Operating expenses	87,587	82,719	5.9%	303,805	287,733	5.6%
Operating profit <sup>2</sup>	24,535	23,319	5.2%	77,059	73,667	4.6%
<b>EBITDA<sup>3</sup></b>	<b>32,433</b>	<b>29,387</b>	<b>10.4%</b>	<b>104,038</b>	<b>97,816</b>	<b>6.4%</b>
Net profit	-	-	-	22,451	38,215	-41.3%
Net profit (adj.) <sup>4</sup>	21,847	22,551	-3.1%	62,702	62,822	-0.2%

## Operating results

In 2017, electricity generation by RusHydro Group and Boguchanskaya hydropower plant has set an all-time high record of 140,249 GWh. Total electricity generation by power plants of RusHydro Group in 4Q 2017 amounted to 32,384 GWh (+5.5%), in 2017 – 126,961 GWh (+1.7%). In 4Q 2017, total production by hydropower and pumped storage plants amounted to 23,118 GWh (+4.5%), total output by fossil fuel and geothermal plants – 9,266 GWh (+7.7%). In 2017, total production by hydropower and pumped storage plants amounted to 95,971 GWh (+1.0%), total output by fossil fuel and geothermal plants – 30,991 GWh (+3.6%).

Main factors, determining operating results in 2017, were:

- total water inflow to reservoirs of the hydropower plants of the Volga-Kama cascade significantly higher than long-run average;
- commissioning of Yakutskaya GRES-2 in autumn of 2017 as well as Blagoveshenskaya CHP (second stage) and hybrid Zelenchukskaya HPP-PSPP gradually reaching full production capacity;
- decrease in water inflows to hydropower plants of the South of Russia, Siberia and the Far East as compared to 2016 to long-run average levels.

In 2017, heat output by thermal plants of RusHydro Group in the Far East decreased by 5% to 29,924 thousand GCal as compared to the same period of 2016. The decrease is due to higher temperatures and reduced length of heating season in a number of towns of the Far East.

In the 2017, total electricity output by RusHydro Group's electricity retail companies, operating in Chuvashia, Ryazan and Krasnoyarsk regions (ESC RusHydro subgroup), amounted to 20,717 GWh, a 5.5% decrease as compared to the same period of 2016. A number of consumers switching to wholesale electricity purchases (primarily in Krasnoyarsk region), higher temperatures and other factors are the main reasons for the decrease in output.

## Events in 2017

- In March 2017 PJSC RusHydro and PJSC Bank VTB signed agreements related to a purchase of 55 bn ordinary shares of the Company (40 bn shares of the new issue and 15 bn shares of quasi-treasury stock) and conclusion of a 5-year non-deliverable forward contract in respect of these shares. The cash in the amount of RUB 55 bn received by the Company through the sale of shares was used to repay the debt of RAO ES East subgroup.
- As of April 1, 2017 the management structure of Group's subsidiary – JSC RAO ES East has changed. Headquarters of PJSC RusHydro and JSC RAO ES East have been integrated; Far East Division has been established within PJSC RusHydro in order to improve management of the Far East energy system, reduce the number of management levels and decrease expenses of RusHydro Group.
- On April 24, 2017 Standard & Poor's Global Ratings Services raised long-term corporate credit ratings on PJSC RusHydro to the sovereign rating of Russian Federation ('BB+' / outlook 'Positive').
- On June 26, 2017 AGM of PJSC RusHydro elected new Board of Directors and approved 2016 dividends of RUB 0.0466245 per share in total amount of RUB 19.9 bn.

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- As of July 1, 2017 management authority of PJSC DEK, part of RAO ES Subgroup, were transferred to management company JSC ESC RusHydro. The transfer of management authority was implemented in the context of development of retail segment of RusHydro Group for 2017-2019, aimed at redefining of the retail business management model.
  - In July 2017 the Resolution of the Russian Government No. 895 ‘On reaching basic rates (tariffs) for electric power (capacity) in the territories of the Far East Federal region (the ‘Far East’)’ became effective, under which rates for consumers in the territories of the Far East were reduced starting from 1 January 2017 to the basic level (RUB 4.00 / kWh). According to the Resolution of the Russian Government No. 1614-r of 28 July 2017, PJSC RusHydro was appointed as the recipient of a premium to the price for capacity provided by the Company in the price zones of the wholesale market under CCS agreements. The premium to the price for capacity is set in order to achieve the basic level of rates (tariffs) for electricity (capacity) planned for the next regulation period in the Far East constituent regions. Within the amounts defined by Resolution No. 1615-r of the Russian Government dated 28 July 2017, the Company translated the collected amounts of margin in the form of free-of-charge targeted contributions to the budgets of the respective regions. The Group companies being guaranteeing suppliers will receive compensation for the shortage of income related to the reduction of rates, through subsidies from the Far East constituent regions.
  - On September 8, 2017 international rating agency Moody’s Investors Services Ltd. raised long-term corporate credit ratings on PJSC RusHydro to the sovereign rating of Russian Federation (‘Ba1’ / outlook ‘Stable’).
  - On September 28, 2017 PJSC RusHydro has successfully placed loan participation notes (LPNs) issued by RusHydro Capital Markets DAC. RusHydro used the proceeds from the RUB 20 bn Eurobond issue to refinance its current loan portfolio, finance its investment program and operating expenses. The LPNs will mature in 2022 and bear an interest rate of 8.125% per annum. The following ratings have been assigned to the issue: S&P: ‘BB+’ / Moody’s: ‘Ba1’ / Fitch: ‘BB+’.
  - On October 3, 2017 Analytical Credit Agency ACRA has assigned to PJSC RusHydro top credit rating on the national scale: ‘AAA(Ru)’, outlook stable. The Agency also assigned credit rating of ‘AAA(Ru)’ to the new RUB 20 bn Eurobond issue of RusHydro. RusHydro became one of the first Russian companies with partial state ownership to and the first company in the energy sector to receive the highest credit rating from ACRA.
  - The Directive of the Russian Government No. 2527-r from November 15, 2017, sets the amount of the premium (surcharge) to the price for capacity provided by PJSC RusHydro in the price zones of the wholesale market under CCS agreements in order to achieve the basic level of rates (tariffs) for electricity (capacity) planned for 2018 in the Far East constituent regions. The 2018 basic level of rates (tariffs) for electric power (capacity) in the Far East was set at RUB 4.3 / kWh, the total amount of premium (surcharge) – at RUB 35 bn. PJSC RusHydro translates the collected amounts of margin in the form of free-of-charge targeted contributions to the budgets of the respective regions. The Group companies as guaranteeing suppliers will receive compensation for the shortage of income related to the reduction of rates, through subsidies from the Far East constituent regions.

## Revenue

Revenue breakdown in 4Q and 2017/2016 (in RUB mn)

	4Q/17	4Q/16	chg.	2017	2016	chg.
Electricity sales	66,591	74,382	-10.5%	241,409	272,582	-11.4%
Heat and hot water sales	13,454	13,161	2.2%	38,907	38,849	0.1%
Capacity sales	11,118	9,891	12.4%	40,881	37,068	10.3%
Other sales	8,352	7,994	4.5%	26,922	25,573	5.3%
<b>Revenue from operations, total</b>	<b>99,515</b>	<b>105,428</b>	<b>-5.6%</b>	<b>348,119</b>	<b>374,072</b>	<b>-6.9%</b>
Government grants	12,607	7,036	79.2%	32,745	17,250	89.8%
<b>Total revenue</b>	<b>112,122</b>	<b>112,464</b>	<b>-0.3%</b>	<b>380,864</b>	<b>391,322</b>	<b>-2.7%</b>

Comparable 4Q and 2017/2016 revenue (in RUB mn), excl. LLC ESC Bashkortostan<sup>1</sup>

	4Q/17	4Q/16	chg.	2017	2016	chg.
Electricity sales	66,591	67,979	-2.0%	241,409	242,774	-0.6%
Heat and hot water sales	13,454	13,161	2.2%	38,907	38,849	0.1%
Capacity sales	11,118	9,891	12.4%	40,881	37,068	10.3%
Other sales	8,352	7,971	4.8%	26,922	25,459	5.7%
<b>Revenue from operations, total</b>	<b>99,515</b>	<b>99,002</b>	<b>0.5%</b>	<b>348,119</b>	<b>344,150</b>	<b>1.2%</b>
Government grants	12,607	7,036	79.2%	32,745	17,250	89.8%
<b>Total revenue</b>	<b>112,122</b>	<b>106,038</b>	<b>5.7%</b>	<b>380,864</b>	<b>361,400</b>	<b>5.4%</b>

In 2017, total revenue of the Group decreased by 2.7%, which was mostly a result of divestment of LLC ESC Bashkortostan in December 2016. Comparable revenue, excluding the effect of LLC ESC Bashkortostan sale, increased by 5.4%. The change is associated with the following key factors:

- increase in revenue from capacity sales following commissioning of Zelenchukskaya hybrid hydropower plant in Karachayevo-Cherkessia, sold under capacity delivery agreement;
- increase in revenue from capacity sales of PJSC RusHydro at the competitive capacity auctions (KOM) for the hydropower plants in the first and second price zones, liberalization of hydro capacity market of Siberia with the growth of share of capacity sold under KOM tariffs to 100% from May 1, 2016;
- increase in day-ahead-market (DAM) price in the second price zone on the back of decrease in hydropower production along with supply increase of thermal generation;
- increase in revenue of JSC DRSK as a result of growth of tariffs in Khabarovsk region, Primorsky Krai, Evreysky autonomous region and South of Yakutia;
- increase in revenue of PJSC Yakutskenergo driven for the most part by increase of transmission revenue of third-party electricity under the agreement with JSC Viluyskaya GES-3, a guaranteed electricity supplier for PJSC ALROSA facilities that have seen an increase in electricity consumption.

## Operating expenses<sup>5</sup>

### Operating expenses in 4Q and 2017/2016 (in RUB mn)

	4Q/17	4Q/16	chg.	2017	2016	chg.
Employee benefit expenses	20,973	19,233	9.0%	74,390	71,768	3.7%
Fuel expenses	18,475	16,793	10.0%	58,098	54,561	6.5%
Electricity distribution expenses	12,611	13,287	-5.1%	43,482	46,722	-6.9%
Purchased electricity and capacity	11,361	15,912	-28.6%	40,747	57,610	-29.3%
Third parties services	9,185	9,680	-5.1%	32,638	32,739	-0.3%
Depreciation	6,648	5,896	12.8%	25,023	24,130	3.7%
Taxes other than on income	2,619	2,728	-4.0%	10,681	10,233	4.4%
Other materials	3,080	2,714	13.5%	10,170	9,115	11.6%
Water usage expenses	892	812	9.9%	3,370	3,202	5.2%
Other expenses	1,743	1,696	2.8%	5,206	5,625	-7.4%
<b>TOTAL</b>	<b>87,587</b>	<b>88,751</b>	<b>-1.3%</b>	<b>303,805</b>	<b>315,705</b>	<b>-3.8%</b>

### Comparable 4Q and 2017/2016 operating expenses (in RUB mn), excl. LLC ESC Bashkortostan<sup>1</sup>

	4Q/17	4Q/16	chg.	2017	2016	chg.
Employee benefit expenses	20,973	19,120	9.7%	74,390	71,105	4.6%
Fuel expenses	18,475	16,793	10.0%	58,098	54,561	6.5%
Electricity distribution expenses	12,611	11,477	9.9%	43,482	38,065	14.2%
Purchased electricity and capacity	11,361	12,158	-6.6%	40,747	40,098	1.6%
Third parties services	9,185	9,623	-4.6%	32,638	32,489	0.5%
Depreciation	6,648	5,795	14.7%	25,023	23,575	6.1%
Taxes other than on income	2,619	2,524	3.8%	10,681	10,022	6.6%
Other materials	3,080	2,714	13.5%	10,170	9,092	11.9%
Water usage expenses	892	812	9.9%	3,370	3,202	5.2%
Other expenses	1,743	1,703	2.3%	5,206	5,524	-5.8%
<b>TOTAL</b>	<b>87,587</b>	<b>82,719</b>	<b>5.9%</b>	<b>303,805</b>	<b>287,733</b>	<b>5.6%</b>

Total operating expenses in 2017 compared to 2016 decreased by 3.8% to RUB 303,805 mn, which was mostly a result of divestment of LLC ESC Bashkortostan in December 2016 with total operating expenses in 2016 of RUB 27,972 mn. Comparable operating expenses excluding the effect of LLC ESC Bashkortostan sale were up 5.6% due to the following factors.

- increase in electricity distribution expenses due to tariffs increase and higher volumes of electricity transmission due to increase of useful output of ESC RusHydro subgroup as well as RAO ES East subgroup;
- increase in fuel expenses mostly due to fuel cost increase of JSC DGK and increase in electricity output of JSC DGK in 2017 compared to 2016;

- increase in employee benefit expenses as a result of indexation of remuneration of the operating personnel in compliance with collective agreements;
- increase in depreciation of property, plant and equipment and amortization of intangible assets.

## **Profit**

In the reporting period, EBITDA increased by 3.7% to RUB 104,038 mn compared to the same period of previous year.

In 2017, the Group's net profit decreased by 43.5% to RUB 22,451 mn. Adjusted net profit in the reporting period amounted to RUB 62,702 – 2.6% decrease as compared to the same period of the previous year. Comparable net profit in 2017 excluding contribution of LLC ESC Bashkortostan remained flat year-on-year.

The difference between the reported and adjusted profit is attributed mainly to the following non-cash effects (before income tax) and recognition of change in fair value of the derivative financial instrument:

- impairment of property, plant & equipment in the amount of RUB 24,000 primarily in relation to Yakutskaya GRES-2 and PJSC Yakutskenergo as a result of insufficient tariff revenue generation under the current tariff regulation;
- financial expense in the amount of RUB 13,946 mn as a result of change in fair value of non-deliverable forward contract as a result of reduction of market price of RusHydro's shares in the reporting period;
- impairment of accounts receivable in the amount of RUB 5,957 mn resulting from analysis of overdue receivables and estimation of their collectability.

In addition, the recognition of one-off income in 2016 from the sale of LLC ESC Bashkortostan in the amount of RUB 3,048 mn, the sale of dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs in the amount of RUB 7,202 mn as well as insurance indemnity in respect to Zagorskaya PSP-2 in the amount of RUB 1,737 mn had an effect on the change of net profit and adjusted net profit in 2017 as compared to 2016.

## **Key indicators of financial position**

As of December 31, 2017, the Group's assets increased by RUB 44,805 mn or 4.6% to RUB 1,028,251 mn against the comparable figure as at December 31, 2016. Change in assets is primarily attributable to:

- increase in fixed assets of the Group;
- increase in accounts receivable and inventories;
- increase in value of cash and cash equivalent.

As at the end of the reporting period, the Group's liabilities were RUB 332,687 mn. The structure of liabilities has changed accordingly: long-term liabilities decreased by RUB 34,419 mn and short-term liabilities increased by RUB 34,592 mn mainly due to reclassification of long-term debt into short-term as a result of approaching redemption date.

Structure of the liabilities of the Group underwent significant changes:

- proceeds from the share issue and sale of treasury shares were fully allocated to repayment of loans of RAO ES East subgroup;
- partial redemption of bonds issued in April, 2015 within offer;
- placement of eurobond issue in the amount of RUB 20 bn;
- in accordance with conditions of non-deliverable forward contract with PJSC VTB Bank, the Group recognized liabilities under the contract, recorded as a long-term derivative financial instrument at fair value by using the Monte Carlo model. The main reason of the change in fair value of the forward contract is the local dynamics in the change of market price of RusHydro's shares in 2017. Therefore, an increase in the market price of RusHydro's shares in the forthcoming reporting periods will reduce the fair value of the forward contract.

### Events after the reporting date

- On February 7, 2018, RusHydro Group's financial debt went down by RUB 26 bn following exclusion of guarantee obligation between PJSC RusHydro and State Corporation 'Vnesheconombank' on PJSC Boguchanskaya HPP loan given out by the bank in 2010. The lending bank supported the termination following construction completion and HPP reaching full capacity, PJSC Boguchanskaya HPP's stable financial and operational results and its ability to service the loan independently. Therefore, the Group's total debt load decreased significantly.
- On February 15, 2018 PJSC RusHydro has successfully placed loan participation notes (LPNs) issued by RusHydro Capital Markets DAC. RusHydro will use the proceeds from the RUB 20 bn Eurobond issue to refinance its current loan portfolio and for general corporate purposes. The LPNs will mature in 2021 and bear an interest rate of 7.40% per annum. The following ratings have been assigned to the issue: S&P: "BB+" / Moody's: 'Ba1' / Fitch: 'BB+' / ACRA 'AAA(RU)'.
- On February 27, 2018 Standard & Poor's Global Ratings Services raised long-term corporate credit ratings on PJSC RusHydro to 'BBB-' with 'Stable' outlook. Short-term corporate credit was raised to 'A-3' respectively.

The full financial statements are available on the Company's website at: <http://www.eng.rushydro.ru/investors/reports>

### 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 39 GW, heat capacity – 16.2 thousand GCal/h.

Russian Federation owns 60.56% 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.

### For more information:

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*The information in this press release may contain projections or other forward-looking statements regarding future events or the future financial performance of RusHydro. You can identify forward looking statements by terms such as "expect," "believe," "anticipate," "estimate," "intend," "will," "could," "may" or "might," the negative of such terms or other similar expressions. We wish to caution you that these statements are only predictions and that actual events or results may differ materially from these statements. 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.*

<sup>1</sup> Here and henceforth comparable data of 2016 excluding contribution of LLC ESC of Bashkortostan are given on basis of management accounting exclusively for information purposes.

<sup>2</sup> Operating profit is calculated as the difference between revenue and operating expenses.

<sup>3</sup> EBITDA is calculated as operating profit / loss excluding insurance indemnity, depreciation of property, plant and equipment and amortization of intangible assets, impairment of property, plant and equipment, impairment of accounts receivable, profit / loss on disposal of property and subsidiaries and other non-cash items of operating income and expenses.

<sup>4</sup> Net profit is adjusted for the effects of recognition of financial expense resulting from change in fair value of non-deliverable forward contract, impairment of fixed assets, impairment of accounts receivable, profit / loss on disposal of property, plant and equipment, financial result of disposal of subsidiaries as well as other one-off operating profits.

<sup>5</sup> Here and hereinafter the operating expenses do not include impairment loss.