

June 7, 2017

RusHydro announces 1Q 2017 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 2017.

Key highlights for 1Q 2017:

- Financial results reflected substantial increase in capacity sales following commissioning of Zelenchukskaya hybrid HPP, 100% liberalization of hydropower capacity market in Siberia, interim results of implementation of cost optimization measures and operating and investment efficiency program, as well as divestment of LLC Power Retail Company of Bashkortostan (LLC ESC Bashkortostan) in the end of 2016;
- Decrease in revenue in 1Q 2017 – 4.0% (increase in comparable revenue, excluding contribution of LLC ESC Bashkortostan – 5%);
- 1Q 2017 EBITDA – RUB 30,234 mn (+11.1%, excluding contribution of LLC ESC Bashkortostan increase in comparable EBITDA – 14.7%);
- Decrease in operating expenses 1Q 2017 – 9.3% (increase in comparable operating expenses excluding contribution of LLC ESCB – only 0.6%);
- Net profit for 1Q 2017 – RUB 18,806 mn (+25.0%); net profit adjusted for non-cash items – RUB 20,390 mn (+21.0%).

1Q 2017/2016 highlights (in RUB mn)

	1Q/17	1Q/16	chg.	Comparable data (excl. LLC ESC Bashkortostan) ¹	1Q/16	chg.
Revenue, including	103,359	107,707	-4.0%	98,442	5.0%	
<i>Revenue</i>	98,779	104,404	-5.4%	95,139	3.8%	
<i>Government grants</i>	4,580	3,303	38.7%	3,303	38.7%	
Operating expenses	78,869	86,951	-9.3%	78,373	0.6%	
EBITDA²	30,234	27,212	11.1%	26,366	14.7%	
Net profit	18,806	15,047	25.0%	14,712	27.8%	
Net profit (adj.)³	20,390	16,854	21.0%	16,425	24.1%	

Operating results

In the 1st quarter of 2017, total electricity generation by power plants of RusHydro Group amounted to 29,126 GWh, a 5.4% decrease as compared to the same period of 2016. In the 1st quarter of 2017, hydropower (HPPs) and pumped storage power plants (PSPPs) of RusHydro Group decreased electricity generation by 3.4% to 20,452 GWh, output by thermal (TPPs) and geothermal plants located in the Far East of Russia in the 1st quarter of 2017 decreased by 9.8% to 8,673 GWh.

Events in January – March 2017

- In January 2017, the Company finalized execution of pre-emptive right by eligible shareholders to acquire Company’s shares of additional issue, registered by Bank of Russia on 7 December

2016. During the pre-emptive right period the Company placed 33,348,661 additional shares priced at RUB 1 per share, or 0.08% of the total volume of additional issue.

- In March 2017, the Company 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. In accordance with the forward contract, the Company has no obligation to buy back its own shares; for the purposes of final settlement under the forward contract it is envisaged that PJSC Bank VTB sells the Company's shares. Any difference between PJSC Bank VTB's income from the sale of the above shares at the end of the forward contract and the forward price is due to be settled in cash between the Company and PJSC Bank VTB. The forward price is defined as the purchase cost of the shares increased by the total amount of interests charged less total dividends paid during the contract period.

Revenue

Revenue breakdown 1Q 2017/2016 (in RUB mn)

	1Q'17	1Q'16	chg.	Comparable data (excl. LLC ESC Bashkortostan) ¹	1Q'16	chg.
Electricity sales	66,599	74,268	-10.3%	65,031	2.4%	
Heat and hot water sales	15,668	15,796	-0.8%	15,796	-0.8%	
Capacity sales	10,588	8,872	19.3%	8,872	19.3%	
Other sales	5,924	5,468	8.3%	5,440	8.9%	
Revenue	98,779	104,404	-5.4%	95,139	3.8%	
Government grants	4,580	3,303	38.7%	3,303	38.7%	
Total Revenue	103,359	107,707	-4.0%	98,442	5.0%	

In the 1st quarter of 2017, total revenue of the Group decreased by 4.0% to RUB 103,359 mn against RUB 107,707 mn for same period last year. The change is associated with the following key factors:

- decrease in revenue from electricity sales of ESC RusHydro subgroup due to sale of LLC ESC Bashkortostan and decrease revenue of PJSC Krasnoyarskenergosbyt following reduced output to customers;
- decrease in revenue from electricity and capacity sales of PJSC RusHydro on back of insignificant output reduction (-3.3%);
- 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 in the 1st quarter of 2017 against the same period of 2016 due to higher capacity auction price for hydropower plants in the 2nd price zone on the back of redistribution of volumes of capacity sold between capacity auctions and free bilateral agreements and following 100% liberalization of hydropower capacity market in Siberia as of May 1, 2016;
- increase in revenue from electricity sales of RAO ES East subgroup segment following tariff growth and increased electricity output to customers.

Operating expenses⁴

Operating expenses in 1Q 2017/2016 (in RUB mn)

	1Q'17	1Q'16	chg.	Comparable data (excl. LLC ESC Bashkortostan) ¹ 1Q'16	chg.
Employee benefit expenses	18,662	18,287	2.1%	18,118	3.0%
Fuel expenses	17,900	19,432	-7.9%	19,432	-7.9%
Purchased electricity and capacity	11,622	17,290	-32.8%	11,773	-1.3%
Electricity distribution expenses	11,802	12,684	-7.0%	10,049	17.4%
Third parties services	7,209	7,192	0.2%	7,126	1.2%
Depreciation and amortization	5,683	6,194	-8.2%	6,043	-6.0%
Taxes other than on income	2,680	2,475	8.3%	2,474	8.3%
Other materials	1,812	1,465	23.7%	1,462	23.9%
Water usage expenses	797	781	2.0%	781	2.0%
Other expenses	702	1,151	-39.0%	1,115	-37.0%
TOTAL	78,869	86,951	-9.3%	78,373	0.6%

Total operating expenses (excluding losses on impairment) in the 1st quarter of 2017 decreased by 9.3% to RUB 78,869 mn against RUB 86,951 mn in the same period of 2016.

Major factors affecting expenses:

- implementation of program aimed at improving operating and investment efficiency and reducing costs 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;
- disposal of LLC ESC Bashkortostan in the end of 2016;
- increase in electricity distribution expenses due to growth of electricity transmission tariff, as well as increase in electricity output;
- decrease of fuel expenses mainly as a result of decreased electricity and heat output of JSC DGK and increase in fuel purchase from the Group companies;
- 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 11.1% to RUB 30,234 mn compared to RUB 27,212 mn for the same period of previous year.

In the 1st quarter of 2017, the Group's net profit increased by 25.0% to RUB 18,806 mn compared to RUB 15,047 mn for the previous year.

Adjusted net profit in the reporting period increased by 21.0% against RUB 16,854 mn for the same period of the previous year and amounted to RUB 20,390 mn. The difference between the reported and adjusted profit is attributed mainly to the following non-cash effects:

- accrual of impairment of property, plants and equipment in the amount of RUB 871 mn;
- accrual of impairment of accounts receivable in the amount of RUB 975 mn resulting from analysis of past due receivables and estimation of their collectability;
- loss on sale of property, plant and equipment in the amount of RUB 61 mn.

Key indicators of financial position

As of March 31, 2017, the Group's assets increased by RUB 22,721 mn (+2.3%) to RUB 1,006,167 mn against the comparable figure as at December 31, 2016. Change in assets is primarily attributable to:

- increase in property, plant and equipment due to implementation of investment program by the Group;
- increase in cash equivalents and deposits;
- increase in accounts receivable.

As at the end of the reporting period, the Group's liabilities decreased by RUB 1,508 mn (-0.5%) from December 31, 2016, to RUB 331,006 mn.

Change in the liabilities was mainly a result of decrease of accounts payable. Structure of the liabilities of the Group underwent significant changes:

- in the result of additional share issue in 2016-2017 the Group recognized liabilities on shares issued in the amount of RUB 40,033 mn;
- proceeds from the share issue were fully allocated to redemption of loans of RAO ES East subgroup, leading to reduction of liabilities under loans of the Group by RUB 49,405 mn;
- the Group recognized liabilities under non-deliverable forward contract on own shares with PJSC VTB Bank in the amount of RUB 10,013 mn.

Non-deliverable forward contract for shares

In March 2017, the Company entered into a non-deliverable forward transaction for 55 bn of shares with PJSC Bank VTB (the "Bank") for 5 years.

According to the forward contract, the forward value is determined as the purchase consideration paid by the Bank for the shares plus the accrued interest for the accounting period. The contract provides for quarterly prepayments of the forward value over its effective period. In addition, the forward value of shares and the amount of prepayment are determined excluding the amounts equivalent to dividends received by the Bank over the effective period of the forward contract.

At 31 March 2017, the liability under the forward contract is recorded as a long-term derivative financial instrument at fair value through profit or loss in the amount of RUB 9,609 mn. The fair value of the forward contract at the initial recognition of the instrument was RUB 10,013 mn and it was recorded within equity as the result of the shareholder transaction. Subsequent changes in the fair value of the non-deliverable forward contract is recorded within profit or loss.

In the consolidated financial statements of RusHydro Group, the fair value of the forward contract is decreased by the bank fee of RUB 275 mn, which is charged to profit or loss in proportion to the term of the forward contract.

Events after the reporting date

- As of April 1, 2017 the management structure of Group's subsidiary – PJSC RAO ES of East has changed. Management authority for subsidiaries of RAO ES East subgroup has been transferred to Far East Division established within headquarters of PJSC RusHydro.
- On 11 May 2017, the placement of the Company's ordinary shares under additional share issue 2016–2017 was completed. 40,033,348,661 shares were placed as a result of the additional issue, which represents 99.02% of the additional issue's total number of securities. The placed securities were paid by cash.
- In May 2017, the Board of Directors recommended the AGM dividend payment in the amount of RUB 0.0466245 per share. Total amount of dividends will reach RUB 19,875 mn or 50% of net profit for 2016 under IFRS.

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 38.9 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.

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DISCLAIMER

The information in this press release may contain projections or other forward-looking statements regarding future events or the future financial performance of RusHydro. One can identify forward-looking statements by terms such as "expect," "believe," "anticipate," "plan", "aim", "target", "forecast", "project", "should", "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 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.

¹ Here and henceforth comparable data for 2016 excluding contribution of LLC ESC Bashkortostan, sold in the end of 2016, are based on management accounting and are given only for indicative purposes.

² EBITDA is calculated as operating profit / loss excluding depreciation of PPE and amortization of intangible assets, and non-cash items of operating expenses.

³ Net profit is adjusted for the effects of impairment of PP&E, accounts receivable, loss on disposal of PP&E.

⁴ Here and henceforth operating expenses do not include losses from impairment.