

RusHydro announces 9M 2017 IFRS results

December 18, 2017. Moscow, Russia. 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 3rd quarter and 9 months 2017 with Report on review of interim financial information.

Key highlights for 9M 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 Energy of Bashkortostan (LLC ESC Bashkortostan) in the end of 2016, effect of the forward contract with 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 3Q 2017 - RUB 81,088 mn (-4.1%), in 9M 2017 – RUB 268,742 mn (-3.6%), excluding contribution of LLC ESC Bashkortostan comparable revenue for the 3Q and 9M increased by 4.9% и 5.2%, respectively¹.
- 3Q 2017 EBITDA² – RUB 20,058 mn (-10.6%), 9M 2017 EBITDA – RUB 71,605 mn (+1.6%); excluding contribution of LLC ESC Bashkortostan comparable EBITDA decreased 7.8% in the 3Q 2017 and increased 4.6% in the 9M 2017.
- Operating expenses in 3Q 2017 increased by 0.5%, in 9M 2017 decreased by 4.7%; excluding contribution of LLC ESC Bashkortostan comparable operating expenses for the 3Q and 9M increased by 11.5% and 5.5%, respectively.
- Net profit for 9M 2017 – RUB 30,804 mn (-17.6%); net profit adjusted for non-cash items³ – RUB 40,855 mn (-5.5%).

3Q and 9M 2017/2016 highlights (in RUB mn)

	3Q/17	3Q/16	chg.	9M'17	9M'16	chg.
Revenue, including	81,088	84,518	-4.1%	268,742	278,858	-3.6%
<i>Revenue</i>	67,738	80,783	-16.1%	248,604	268,644	-7.5%
<i>Government grants</i>	13,350	3,735	257.4%	20,138	10,214	97.2%
Operating expenses	68,482	68,124	0.5%	216,218	226,954	-4.7%
EBITDA²	20,058	22,425	-10.6%	71,605	70,445	1.6%
Net profit	8,501	11,925	-28.7%	30,804	37,400	-17.6%
Net profit (adj.) ³	8,557	13,443	-36.3%	40,855	43,213	-5.5%

Comparable 3Q and 9M 2017/2016 highlights (in RUB mn), excl. LLC ESC Bashkortostan¹

	3Q/17	3Q/16	chg.	9M'17	9M'16	chg.
Revenue, including	81,088	77,282	4.9%	268,742	255,362	5.2%
<i>Revenue</i>	67,738	73,547	-7.9%	248,604	245,148	1.4%
<i>Government grants</i>	13,350	3,735	257.4%	20,138	10,214	97.2%
Operating expenses	68,482	61,415	11.5%	216,218	205,014	5.5%
EBITDA²	20,058	21,746	-7.8%	71,605	68,428	4.6%
Net profit	8,501	11,441	-25.7%	30,804	36,323	-15.2%
Net profit (adj.) ³	8,557	12,905	-33.7%	40,855	42,008	-2.7%

Operating results

Total electricity generation by power plants of RusHydro Group in 3Q 2017 amounted to 31,029 GWh (+0.1%), in 9M 2017 – 94,578 GWh (+0.5%). In 3Q 2017, total production by hydropower and pumped storage plants amounted to 24,880 GWh (-4.3%), total output by fossil fuel and geothermal plants – 6,149 GWh (+23.0%). In 9M 2017, total production by hydropower and pumped storage plants amounted to 72,853 GWh (0.0%), total output by fossil fuel and geothermal plants – 21,725 GWh (+2.1%).

Main factors, determining operating results in January-September 2017, were:

- aggregated inflows to reservoirs of the Volgo-Kama cascade in 9M 2017 slightly higher than long-run average;
- inflows to reservoirs of Siberia on the level of 2016;
- inflows to reservoirs in the South of Russia slightly higher or close to normal;
- increase in energy consumption in the Far East in 2nd and 3rd quarters.

In the 9 months 2017, heat output by thermal plants of RusHydro Group in the Far East decreased by 7.5% to 18,708 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 Eastern Federal District.

In the 9 months of 2017, total electricity output by RusHydro Group's electricity retail companies, operating in Chuvashia, Ryazan and Krasnoyarsk regions (ESC RusHydro subgroup), amounted to 14,908 GWh, a 4.3% decrease as compared to the same period of 2016. The decrease in output is driven by a number of consumers switching to wholesale electricity purchases (primarily in Krasnoyarsk region), higher temperatures and other factors.

Events in January – September 2017

- 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.
- On 11 May 2017, the placement of the Company's ordinary shares of 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.

All the proceeds from capital raising were used to repay debt of companies of RAO ES East Subgroup.

- As of April 1, 2017 the management structure of Group’s subsidiary – PJSC RAO ES of East has changed. Headquarters of PJSC RusHydro and PJSC RAO ES East have been integrated; Far East Division has been established within PJSC RusHydro.
- 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 (calculated as 50% of RusHydro Group net profit for 2016 under IFRS).
- As of July 1, 2017, management authority of PJSC Far-Eastern Energy Company (PJSC DEK), part of PJSC 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.
- On August 10, 2017 the Board of Directors re-elected Yury Trutnev, Deputy Chairman of the Government of the Russian Federation — Plenipotentiary Representative of the President in the Far Eastern Federal District, as a Chairman of the Board of Directors of PJSC RusHydro.
- 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 should be 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 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 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.

Revenue

Revenue breakdown in 3Q and 9M 2017/2016 (in RUB mn)

	3Q/17	3Q/16	chg.	9M'17	9M'16	chg.
Electricity sales	48,110	61,084	-21.2%	174,818	198,200	-11.8%
Capacity sales	9,923	9,954	-0.3%	29,763	27,177	9.5%
Heat and hot water sales	2,786	2,869	-2.9%	25,453	25,688	-0.9%
Other sales	6,919	6,876	0.6%	18,570	17,579	5.6%
Revenue from operations, total	67,738	80,783	-16.1%	248,604	268,644	-7.5%
Government grants	13,350	3,735	257.4%	20,138	10,214	97.2%
Total revenue	81,088	84,518	-4.1%	268,742	278,858	-3.6%

Comparable 3Q and 9M 2017/2016 revenue (in RUB mn), excl. LLC ESC Bashkortostan¹

	3Q/17	3Q/16	chg.	9M'17	9M'16	chg.
Electricity sales	48,110	53,879	-10.7%	174,818	174,795	0.0%
Capacity sales	9,923	9,954	-0.3%	29,763	27,177	9.5%
Heat and hot water sales	2,786	2,869	-2.9%	25,453	25,688	-0.9%
Other sales	6,919	6,845	1.1%	18,570	17,488	6.2%
Revenue from operations, total	67,738	73,547	-7.9%	248,604	245,148	1.4%
Government grants	13,350	3,735	257.4%	20,138	10,214	97.2%
Total revenue	81,088	77,282	4.9%	268,742	255,362	5.2%

In the 9 months of 2017, total revenue of the Group decreased by 3.6%, 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 5.2%. 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 revenue of JSC DRSK (RAO ES East subgroup) as a result of growth of tariffs in Khabarovsk region, Primorsky Krai, Evreysky autonomous region and South of Yakutia, as well as increase in electricity output.

Operating expenses⁴

Operating expenses in 3Q and 9M 2017/2016 (in RUB mn)

	3Q/17	3Q/16	chg.	9M'17	9M'16	chg.
Employee benefit expenses	17,040	16,549	3.0%	53,417	52,535	1.7%
Fuel expenses	9,654	7,506	28.6%	39,623	37,768	4.9%
Electricity distribution expenses	9,630	10,835	-11.1%	30,871	33,435	-7.7%
Purchased electricity and capacity	9,480	12,333	-23.1%	29,386	41,698	-29.5%
Third parties services	8,230	7,787	5.7%	23,453	23,059	1.7%
Depreciation	6,967	6,173	12.9%	18,375	18,234	0.8%
Taxes other than on income	2,653	2,463	7.7%	8,062	7,505	7.4%
Other materials	2,780	2,883	-3.6%	7,090	6,401	10.8%
Water usage expenses	800	781	2.4%	2,478	2,390	3.7%
Other expenses	1,248	814	53.3%	3,463	3,929	-11.9%
TOTAL	68,482	68,124	0.5%	216,218	226,954	-4.7%

Comparable 3Q and 9M 2017/2016 operating expenses (in RUB mn), excl. LLC ESC Bashkortostan¹

	3Q/17	3Q/16	chg.	9M'17	9M'16	chg.
Employee benefit expenses	17,040	16,366	4.1%	53,417	51,985	2,8%
Fuel expenses	9,654	7,506	28.6%	39,623	37,768	4,9%
Electricity distribution expenses	9,630	8,679	11.0%	30,871	26,588	16,1%
Purchased electricity and capacity	9,480	8,166	16.1%	29,386	27,940	5,2%
Third parties services	8,230	7,723	6.6%	23,453	22,866	2,6%
Depreciation	6,967	6,022	15.7%	18,375	17,780	3,3%
Taxes other than on income	2,653	2,460	7.8%	8,062	7,498	7,5%
Other materials	2,780	2,875	-3.3%	7,090	6,378	11,2%
Water usage expenses	800	781	2.4%	2,478	2,390	3,7%
Other expenses	1,248	837	49.1%	3,463	3,821	-9,4%
TOTAL	68,482	61,415	11.5%	216,218	205,014	5,5%

Total operating expenses in the 9 months 2017 compared to the same period of 2016 decreased by 4.7% to RUB 216,218 mn, which was mostly a result of divestment of LLC ESC Bashkortostan in December 2016 with total operating expenses in the 9 months of 2016 of RUB 21,940 mn. Comparable operating expenses excluding the effect of LLC ESC Bashkortostan sale were up 5.5% 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;
- increase in fuel expenses mostly due to fuel cost increase of JSC DGK and increase in electricity output of RAO ES East subgroup in the 9 months 2017 compared to 9 months 2016;
- increase in purchased electricity and capacity expenses related mostly to subsidiaries of RAO ES East subgroup;
- increase in employee benefit expenses as a result of indexation of remuneration of the operating personnel in compliance with collective agreements.

Profit

In the reporting period, EBITDA increased by 1.6% to RUB 71,605 mn compared to the same period of previous year.

In the 9 months 2017, the Group's net profit decreased by 17.6% to RUB 30,804 mn. Adjusted net profit in the reporting period amounted to RUB 40,855 – 5.5% 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 income tax) and recognition of change in fair value of the derivative financial instrument:

- financial expense in the amount of RUB 5,787 mn as a result of change in fair value of non-deliverable forward contract;
- impairment of accounts receivable in the amount of RUB 2,949 mn resulting from analysis of overdue receivables and estimation of their collectability;
- impairment of property, plant and equipment in the amount of RUB 2,040 mn.

Key indicators of financial position

As of September 30, 2017, the Group's assets increased by RUB 67,139 mn or 6.8% to RUB 1,050,585 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 value of cash and cash equivalent;
- increase in accounts receivable and inventories.

As at the end of the reporting period the Group's liabilities increased by RUB 11,651 mn or 3.5% to RUB 344,165 mn against the comparable figure as at December 31, 2016.

Increase in liabilities was primarily a result of increase of short-term debt and short-term part of long-term debt by RUB 22,785 mn with simultaneous reduction of long-term debt by RUB 35,097 mn.

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;
- in accordance with conditions of non-deliverable forward contract with VTB Bank, the Group recognized liabilities under the contract, recorded as a long-term derivative financial instrument at fair value through profit or loss.

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.

Changes in the fair value of the forward in the reporting period is disclosed below:

	<i>RUB mn</i>
As at initial recognition date (March 3, 2017), RUB mn	10,013
<i>Increase in fair value of non-deliverable forward contract</i>	5,787
<i>Interim payments</i>	(3,243)
As at September 30, 2017	12,557

Changes in the fair value of the forward in the reporting period were mainly driven by reduction of market price of RusHydro's shares.

Events after the reporting date

- The Directive of the Russian Government No. 2527-p 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 4.30 / kWh, the total amount of premium (surcharge) – at RUB 35,032 mn. 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 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.

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 60.6% 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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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.

¹ 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.

² 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.

³ 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.

⁴ Here and hereinafter the operating expenses do not include impairment loss.