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RusHydro announces 9M 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 nine months of 2016.

Key highlights for 9M 2016:

- Financial results reflected a significant increase in electricity generation by hydropower plants in the nine months of 2016, liberalization of hydro capacity market in Siberia 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 9M 2016 – 10.1%, in 3Q 2016 – 9.8%;
- 3Q 2016 EBITDA¹ – RUB 22,425 mn (+61.2%), 9M 2016 EBITDA – RUB 70,445 mn (+48.1%);
- Operating expenses in 3Q 2016 decreased by 4.7%, in 9M 2016 increased by 0.4% mainly due to growth of electricity distribution expenses, depreciation of property, plant and equipment and intangible assets, as well as expenses on other materials;
- Net profit for 9M 2016 – RUB 37,400 mn (+55.2%); net profit adjusted² for non-cash items – RUB 43,214 mn (+53.2%).

9M 2016/2015 highlights (in RUB mn)

	3Q'16	3Q'15	chg	9M'16	9M'15	chg
Revenue, including	84,518	76,963	9.8%	278,858	253,271	10.1%
<i>Revenue</i>	80,783	74,295	8.7%	268,644	245,083	9.6%
<i>Government grants</i>	3,735	2,668	40.0%	10,214	8,188	24.7%
Operating expenses	68,124	71,500	-4.7%	226,954	226,069	0.4%
EBITDA¹	22,425	13,910	61.2%	70,445	47,577	48.1%
Net profit	11,925	5,516	116.2%	37,400	24,098	55.2%
Net profit (adj.)²	13,444	8,148	65.0%	43,214	28,214	53.2%

Operating results

In the 3rd quarter of 2016, total electricity generation by power plants of RusHydro Group amounted to 31,007 GWh, a 17.3% increase as compared to the same period of 2015, total power generation in the 9 months of 2016 amounted to 94,117 GWh (a 12.6% growth as compared to the same period of 2015). In the 3rd quarter of 2016, hydropower (HPPs) and pumped storage power plants (PSPPs) of RusHydro Group increased electricity generation by 28.4% to 26,009 GWh, in the 9 months of 2016 generation increased by 20.3% to 72,844 GWh, output by thermal (TPPs) and geothermal plants located in the Far East of Russia in the 3rd quarter of 2016 decreased by 19.1% to 4,998 GWh, in the 9 months of 2016 – by 7.8% to 21,273 GWh.

The underlying factors of the production change in January-September 2016 were:

- total water inflow to reservoirs of the Volga-Kama cascade in the 3rd quarter of 2016 was somewhat lower than normal (-7%), in the 9 months of 2016 – slightly higher than long-run average (+5%);
- water inflow to major reservoirs of Siberia in the 9 months of 2016 was close to normal;
- increased electricity generation by hydropower plants of the South of Russia against the backdrop of water levels close to long-run average and launch of 100 MW Gotsatlinskaya HPP in 2015;

- decrease in electricity generation by TPPs of RAO ES East Holding due to higher electricity generation by hydropower plants of the Far East.

Events in January – September 2016

- PJSC RusHydro successfully closed a bid book for the exchange-traded bonds of series BO-P04 in total amount of RUB 15 bn, maturing in 3 years from the date of placement. The coupon rate was set at 10.35% per annum – the lowest coupon rate among corporate marketable securities since June 2014.
- 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.
- In June, RusHydro Group completed a mandatory squeeze-out procedure in respect of the remaining shares of PJSC RAO ES East, the final stage of full consolidation of PJSC RAO ES East by RusHydro Group. Earlier, the trading of ordinary and preferred shares of PJSC RAO ES East on Moscow Exchange (MOEX) was terminated from May 16, 2016.
- PJSC RusHydro paid the dividend for 2015 in total amount of RUB 15 bn (50% of PJSC RusHydro net profit for 2015 calculated under RAS).
- The Board of Directors 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 September, RusHydro Group signed a number of agreements with Japanese companies – Mitsui, Sojitz Corporation and Japan Bank of International Cooperation (JBIC) at the Eastern Economic Forum in Vladivostok.

Revenue

Revenue breakdown 9M 2016/2015 (in RUB mn)

	3Q'16	3Q'15	chg	9M'16	9M'15	chg
Electricity sales	61,084	56,165	8.8%	198,200	180,347	9.9%
Capacity sales	9,954	8,418	18.2%	27,177	24,223	12.2%
Heat and hot water sales	2,869	2,839	1.1%	25,688	22,981	11.8%
Other sales	6,876	6,873	-	17,579	17,532	0.3%
Revenue from operations, total	80,783	74,295	8.7%	268,644	245,083	9.6%
Government grants	3,735	2,668	40.0%	10,214	8,188	24.7%
Total revenue	84,518	76,963	9.8%	278,858	253,271	10.1%

In the nine months of 2016, total revenue of the Group increased by 10.1% to RUB 278,858 mn. The change is associated with the following key factors:

- significant increase in electricity generation and output by hydropower plants due to: a) increased water inflow to reservoirs of the Volgo-Kama cascade; b) water inflow to reservoirs in Siberia, HPPs of the South and the Far East of Russia – close to long-run average;
- increase in revenue from electricity sales of RAO ES East subgroup segment as a result of growth of electric and thermal power tariffs and increase in heat output;
- 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;

- 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 with the growth of portion of capacity sold under KOM tariffs from 65% to 80%³ from January 1, 2016, and from 80% to 100% from May 1, 2016;
- indexation of regulated electricity and capacity tariffs.

Operating expenses⁴

Operating expenses in 9M 2016/2015 (in RUB mn)

	3Q'16	3Q'15	chg	9M'16	9M'15	chg
Employee benefit expenses	16,549	16,672	-0.7%	52,535	52,571	-0.1%
Purchased electricity and capacity	12,333	12,235	0.8%	41,698	42,720	-2.4%
Electricity distribution expenses	10,835	9,514	13.9%	33,435	30,238	10.6%
Third parties services	7,725	8,550	-9.7%	22,923	23,301	-1.6%
Fuel expenses	7,506	9,051	-17.1%	37,768	37,811	-0.1%
Depreciation	6,173	5,826	6.0%	18,234	16,983	7.4%
Other materials	2,883	2,256	27.8%	6,401	5,966	7.3%
Taxes other than on income	2,463	2,452	0.4%	7,505	7,306	2.7%
Water usage expenses	781	633	23.4%	2,390	2,042	17.0%
Other expenses	876	4,311	-79.7%	4,065	7,131	-43.0%
TOTAL	68,124	71,500	-4.7%	226,954	226,069	0.4%

Total operating expenses in the nine months of 2016 compared to the same period of 2015 increased by 0.4% from RUB 226,069 mn to RUB 226,954 mn.

Major factors affecting expenses:

- increase in electricity distribution expenses, due to growth of electricity transmission tariffs, as well as increase in electricity output;
- increase in depreciation of property, plant and equipment following commissioning of new assets of PJSC RusHydro;
- growth of expenses for other materials of RAO ES East subgroup segment, due to repair of equipment and heat network;
- decrease in third-party services expenses, as a result of reduction of subcontractors', consulting, legal and information services costs;
- decrease in employee benefit expenses, due to ongoing headcount optimization, as well as continuing overhaul of employees' and top management' incentive systems.

Profit

In the reporting period, EBITDA increased by 48.1% to RUB 70,445 mn compared to RUB 47,577 mn for the same period of previous year.

In the nine months of 2016, the Group's net profit increased by 55.2% to RUB 37,400 mn compared to RUB 24,098 mn for the same period of previous year. Adjusted net profit in the reporting period amounted to RUB 43,214 mn, 53.2% 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):

- impairment of accounts receivable in the amount of RUB 4,244 mn resulting from analysis of past due receivables and estimation of their collectability, including in

PJSC RusHydro (RUB 1,343 mn), RAO ES East subgroup segment (RUB 1,604 mn), ESC RusHydro subgroup segment (RUB 1,285 mn) and other segments (RUB 12 mn);

- impairment of property, plant and equipment in the amount of RUB 2,983 mn.

Key indicators of financial position

As of September 30, 2016, the Group's assets increased by RUB 44,756 mn or 4.8% to RUB 982,893 mn against the comparable figure as at December 31, 2015. Change in assets is primarily attributable to:

- increase in fixed assets of the Group (as a result of implementation of RusHydro Group's investment program);
- increase in value of assets available-for-sale;
- decrease in short-term deposits value with simultaneous increase in cash equivalents;
- increased fuel reserves of RAO ES East subgroup segment companies as of September 30, 2016, as compared to December 31, 2015, due to seasonal nature of their activities.

As at the end of the reporting period the Group's liabilities increased by RUB 9,369 mn or 2.9% from December 31, 2015, to RUB 333,587 mn. Change in the liabilities was mainly a result of placement of non-convertible exchange traded bonds of series BO-P04 by PJSC RusHydro in April 2016, in total amount of RUB 15 bn; securing of loans by JSC DGK from PJSC VTB Bank in the amount of RUB 7 bn, PJSC Sberbank in the amount of RUB 6.6 bn and PJSC ROSBANK in the amount of RUB 5.5 bn; reduction in liabilities as a result of buy back of bonds of series 01 and 02 worth a total of RUB 14,8 bn by PJSC RusHydro, and decrease in accounts payable.

As of September 30, 2016, assets and liabilities of LLC ESC Bashkortostan, a subsidiary of RusHydro Group and a part of ESC RusHydro subgroup segment, are reflected as assets and liabilities of disposal group available-for-sale. As of the date of publication of condensed consolidated interim financial information for the nine months of 2016, LLC ESC Bashkortostan was sold (see Events after the reporting date).

Events after the reporting date

- In November, RusHydro Group completed sale of dams of the Angara cascade to EuroSibEnergogroup, the transaction amount was RUB 10,95 bn (incl. VAT).
- In December, RusHydro Group completed sale of 100% share in LLC ESC Bashkortostan to companies of Inter RAO Group for RUB 4.1 bn.
- The Board of Directors approved the structure and sequence of transactions aimed at refinancing debt of RAO ES East Group, which envisages raising RUB 55 bn to repay loans of RAO ES East subgroup segment companies. The Board of Directors resolved to increase PJSC RusHydro's share capital through an open placement of additionally issued shares in the amount of 40,429,000,000 with par value of RUB 1 per share and approved sale of 15 bn treasury shares for RUB 1 per share.
- The Board of Directors approved costs optimization action plan based on findings of external independent audit and commissioned RusHydro's management to submit for the Board's review within one month the timeline for implementation of the plan and the effect from implementation broken down by years, as well as to develop business-plans of the Company and its subsidiaries for 2017-2021 period with incorporation of the measures, provided by the cost optimization action plan.

- The Ministry of Housing of Khabarovsk region provided JSC DGK with grant in the amount of RUB 2 bn to compensate gas purchase costs from Sakhalin-1 consortium.

¹ EBITDA is calculated as operating profit / loss excluding insurance indemnity, depreciation of property, plant and equipment and intangible assets, impairment of property, plant and equipment, accounts receivable, loss on disposal of property, plant and equipment, and other non-cash items of operating income and expenses.

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

³ According to the decree of the government of the Russian Federation No. 374 of April 28, 2014, "On amendments to the volumes of capacity trading on the wholesale electricity and capacity market" from May 1, 2014, to December 31, 2015, 35% of capacity from hydropower plants of the 2nd pricing zone selected at the competitive capacity auction (KOM) was sold at regulated prices; from January 1, 2016, 20% of capacity was sold at regulated prices. 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 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 38.6 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 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.

