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RusHydro announces full year 2015 IFRS results

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, 2015, prepared in accordance with International Financial Reporting Standards (IFRS).

Key highlights for FY 2015:

- Good 4Q 2015 financial results on the back of increased output by hydropower plants of the Group, revenue growth twice as large as growth of operating expenses, favorable pricing environment;
- Increase in revenue in 4Q 2015 – 7.6%, in 2015 – 5.8%;
- 4Q 2015 EBITDA – RUB 25,806 mn (+18.7%), 2015 EBITDA – RUB 73,383 mn (+0.2%);
- Operating expenses in 2015 increased by 8.3% (lower than inflation), in 4Q 2015 – by 3.8%;
- Net profit for 2015 – RUB 27,159 mn (+12.5%); net profit adjusted for non-cash items – RUB 47,368 mn (+19.1%);
- Weighted-average EPS for FY 2015 – RUB 0.0865 (+25.5%);

Nikolay Shulginov, Chairman of the Management Board – General Director of PJSC RusHydro, commented: “In 2015, RusHydro Group demonstrated good results that reflected not only the improved generation by hydropower plants in the 2nd half of the year, but in a large part management’s efforts aimed at optimization of operating costs and maintaining financial stability of the Group. For example, other expenses related to the headquarters in PJSC RusHydro decreased by RUB 811 mn, employee benefit expenses in PJSC RusHydro were down by RUB 251 mn as a result of headcount optimization. Our plans for 2016 are even more ambitious, as we intend to reduce operating expenses by more than 9% adjusted for inflation expectations that will allow to reduce a number of costs in real terms or keep them at the level of 2015. In order to improve our capital expenses, the investment plan of RusHydro Group for 2016 and the following years has also been amended. Thus, we plan to smooth the funding schedule of rehabilitation and modernization works for hydropower plants, extend the implementation schedule of certain works within comprehensive rehabilitation and modernization program and set the limit of capital allocations for such works at the level of up to RUB 30 bn per year. In 2016, the effect from optimization of funding of modernization works will amount to RUB 6 bn as compared to the previously planned amount. It is important to note, that delivering strong financial results going forward will only be possible providing that economically justified tariffs are set for the Far Eastern TPPs and HPPs that are currently under construction, and the problem of tariff regulation of RAO ES East holding is solved. Also, in order to further improve the Group’s financial resilience, the management, together with the federal offices, will continue implementation of measures to refinance debt portfolio of RAO ES East holding.”

2015/2014 highlights (in RUB mn)

	2015	2014	chg	4Q'15	4Q'14	chg
Revenue, including	361,826	341,988	5.8%	108,555	100,847	7.6%
<i>Revenue</i>	347,512	329,560	5.4%	102,429	96,252	6.4%
<i>Government grants</i>	14,314	12,428	15.2%	6,126	4,595	33.3%
Operating expenses	315,103	290,838	8.3%	89,034	85,749	3.8%
EBITDA¹	73,383	73,249	0.2%	25,806	21,742	18.7%
Net profit	27,159	24,131	12.5%	-	-	-
Net profit (adj.) ²	47,368	39,777	19.1%	19,154	13,331	43.7%

Operating results

In the 4th quarter of 2015, total electricity generation by power plants of RusHydro Group amounted to 30,651 GWh, a 13.6% increase as compared to the same period of 2014, total power generation in 2015 amounted to 114,265 GWh (a 0.6% increase as compared to 2014). In the 4th quarter of 2015, hydropower (HPPs) and pumped storage power plants (PSPPs) of RusHydro Group increased electricity generation by 22.8% to 21,532 GWh, in 2015 generation decreased by 2.4% to 82,079 GWh, output by thermal (TPPs) and geothermal plants located in the Far East of Russia in the 4th quarter of 2015 decreased by 3.6% to 9,119 GWh, in 2015 – increased by 9.2% to 32,186 GWh.

The key factors of the production change in 2015 were:

- total water inflow to reservoirs of the Volga-Kama cascade in the 4th quarter of 2015 was higher than normal, in 2015 - slightly lower than long-run average;
- water inflow to major reservoirs of Siberia in the 4th quarter of 2015 was higher or close to normal;
- low water inflow to reservoirs of HPPs of the South of Russia and North Caucasus in the 4th quarter of 2015;
- increase in electricity generation by TPPs of the Far East due to lower hydro production in the unified power system of the Far East as well as growth in electricity consumption.

Events in January – December 2015

- In April, PJSC RusHydro successfully placed its bonds of series 09 with par value of RUB 1,000 per bond and total par value of RUB 10 bn. The coupon rate was set at 12.75% per annum;
- RusHydro's largest hydroelectric power plant – Sayano-Shushenskaya – increased its maximum capacity output to 5,100 MW following the modernization of automatic reliability system installed at the station;
- Reservoir of the Boguchanskaya hydropower plant (a 50/50 JV of RusHydro and UC RUSAL) has been filled to its design level of 208 m (above sea level) allowing the plant to reach its full capacity of 2,997 MW and produce 17.6 TWh of electricity per year;
- The Board of Directors elected Yuri Trutnev, Deputy Prime Minister and Presidential Plenipotentiary Envoy to the Far Eastern Federal District, as Chairman of the Board;
- In July 2015, PJSC RusHydro placed three issues of exchange traded bonds in total amount of RUB 15 bn with coupon rate of 11.85% per annum;

- PJSC RusHydro paid the dividend for 2014 in total amount of RUB 6 bn. On June 26, 2015, the AGM resolved to pay dividends for 2014 in the amount of RUB 0.0156 per share;
- On September 14, 2015, Nikolay Shulginov was appointed Chairman of the Management Board, General Director of PJSC RusHydro;
- Gotsatlinskaya HPP in Dagestan with 100 MW of installed capacity was launched;
- In October RusHydro fully redeemed its Eurobond issue in total amount of RUB 20 bn;
- In December 120 MW and 188 GCal/h were launched at Blagoveshenskaya TPP.

Revenue

Revenue breakdown 2015/2014 (in RUB mn)

	2015	2014	chg	4Q'15	4Q'14	chg
Electricity sales	254,518	239,543	6.3%	74,171	67,217	10.3%
Heat and hot water sales	35,381	34,059	3.9%	12,400	11,835	4.8%
Capacity sales	33,038	28,012	17.9%	8,815	7,878	11.9%
Other sales	24,575	27,946	-12.1%	7,043	9,322	-24.4%
Revenue from operations, total	347,512	329,560	5.4%	102,429	96,252	6.4%
Government grants	14,314	12,428	15.2%	6,126	4,595	33.3%
Total revenue	361,826	341,988	5.8%	108,555	100,847	7.6%

In 2015, total revenue of the Group increased by 5.8% to RUB 361,826 mn. The change is associated with the following key factors:

- increase in revenue from electricity sales of RAO ES East subgroup segment following both increase in output and growth of tariffs, as well as increase in electricity sales under bilateral agreements;
- increase in revenue from electricity sales of ESC RusHydro subgroup segment following an increase in electricity output, planned tariff growth, as well as increase in electricity consumption and new consumers acquisition;
- increase in capacity prices of the competitive capacity auctions (KOM) for the hydropower plants of the second pricing zone following partial liberalization of hydro capacity market of Siberia from May 1, 2014;
- indexation of regulated capacity tariffs.

Operating expenses³

Operating expenses in 2015/2014 (in RUB mn)

	2015	2014	chg	4Q'15	4Q'14	chg
Employee benefit expenses	72,871	65,504	11.2%	20,300	17,676	14.8%
Purchased electricity and capacity	60,805	57,504	5.7%	18,085	18,340	-1.4%
Fuel expenses	54,087	46,639	16.0%	16,276	15,411	5.6%
Electricity distribution expenses	42,663	41,282	3.3%	12,425	11,455	8.5%
Other third-party services	32,345	29,811	8.5%	9,412	8,849	6.4%
Depreciation of property, plant and equipment and intangible	22,477	21,340	5.3%	5,494	5,856	-6.2%

assets						
Taxes other than on income	9,792	9,008	8.7%	2,486	2,337	6.4%
Other materials	9,202	9,786	-6.0%	3,236	2,397	35.0%
Loss on disposal of property, plant and equipment, net	3,366	1,288	161.3%	903	1,353	-33.3%
Water usage expenses	2,844	2,656	7.1%	802	594	35.0%
Purchase of oil products for sale	673	425	58.4%	124	145	-14.5%
Loss / (gain) on disposal of subsidiaries and associates	240	(28)	-	44	(64)	-
Curtailment in pension payment and pension plan	(717)	(501)	43.1%	(717)	(501)	43.1%
Other expenses	4,455	6,124	-27.3%	164	1,901	-91.4%
TOTAL	315,103	290,838	8.3%	89,034	85,749	3.8%

Total operating expenses in 2015 compared to 2014 increased by 8.3% from RUB 290,838 mn to RUB 315,103 mn.

Major factors affecting operating expenses:

- growth of employee benefit expenses as a result of indexation of tariff rates and salaries of personnel of RAO ES East subgroup's subsidiaries, as well salaries of operating personnel of PJSC RusHydro branches (in accordance with utilities employees' union agreement);
- 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 and decrease in heat generation;
- increase in purchased electricity and capacity expenses as a result of: a) growth of expenses of PJSC Yakutskenergo (RAO ES East subgroup) due to start of electricity purchase from OJSC Vilyuiskaya HPP-3 (ALROSA group); b) growth of purchased electricity and capacity expenses of JSC ESC RusHydro due to increase in electricity purchases for new customers; c) growth of purchased electricity and capacity expenses of PJSC Krasnoyarskenergosbyt mainly due to increase in electricity prices on the "day-ahead" market, as well as increase in the amount of capacity purchased under capacity supply agreements and free agreements; d) growth of expenses following acquisition of new consumers;
- increase in depreciation following commissioning of new assets of PJSC RusHydro;
- growth of the third-party services expenses, as a result of engagement of sub-contractors in the repair of the equipment of RAO ES East subgroup.

Profit

In the reporting period, EBITDA increased by 0.2% to RUB 73,383 mn compared to RUB 73,249 mn for the same period of previous year.

In 2015, the Group's net profit increased by 12.5% to RUB 27,159 mn compared to RUB 24,131 mn for the previous year. Adjusted net profit in the reporting period amounted to RUB 47,368 mn, a 19.1% 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 fixed assets in the amount of RUB 12,593 mn;
- accrual of impairment of accounts receivable in the amount of RUB 4,011 mn resulting from analysis of past due receivables and estimation of their collectability;
- accrual of impairment of other non-current assets in the amount of RUB 3,220 mn;
- accrual of impairment of goodwill of subsidiary in the amount of RUB 448 mn.

Key indicators of financial position

As of December 31, 2015, the Group's assets increased by RUB 54,367 mn to RUB 938,137 mn against the comparable figure as at December 31, 2014. Change in assets is primarily attributable to:

- increase in fixed assets of the Group;
- increase in value of available-for-sale financial assets;
- increase in cash equivalents;
- increase in accounts receivable;
- decrease in short-term deposits value.

As at the end of the reporting period the Group's liabilities increased by RUB 35,599 mn from December 31, 2014, to RUB 324,218 mn. Change in the liabilities was mainly a result of placement of non-convertible interest bearing bonds in total amount of RUB 25,000 mn; securing short-term loans from PJSC Sberbank by PJSC DEK in the amount of RUB 5,530 mn and from PJSC ROSBANK in the amount of RUB 2,800 mn; securing short-term loans from PJSC Sberbank by JSC DGK in the amount of RUB 8,600 mn and PJSC ROSBANK in the amount of RUB 1,836 mn. Increase in the liabilities was also a result of accrual of liabilities related to the voluntary tender offer for purchase shares of PJSC RAO ES East in the amount of RUB 2,108 mn.

Events after the reporting date

- As a result of the voluntary offer from Vostok-Finance LLC (100% subsidiary of PJSC RAO ES East) for purchase of PJSC RAO ES East shares, Vostok-Finance LLC acquired ordinary and preferred shares comprising in aggregate 11.11% of PJSC RAO ES East voting shares. Thus, RusHydro Group share in share capital of PJSC RAO ES East exceeded 95%, which enables RusHydro Group to initiate a squeeze-out for the remaining shares and consolidate 100% of its Far Eastern subsidiary in accordance with Russian legislation.
- In the end of January of 2016, PJSC RAO ES East management agreed with the regional labor union organizations of the Far East to keep the payroll in all companies of the subgroup in 2016 at the level of 2015, as well as to adjust the amount of social obligations to current financial resources.
- PJSC RusHydro and Voith Hydro approved the preliminary terms of cost optimization of Saratovskaya HPP modernization project providing for a decrease of modernization contract of more than RUB 7 bn.
- In February, the Board of Directors elected Andrey Kazachenkov, First Deputy General Director, as a member of the Management Board of PJSC RusHydro.

- In 2016 RusHydro Group aims to reduce its operating expenses by RUB 8.96 bn or 9.2% adjusted for inflation expectations as compared to 2015 as a part of cost optimization program.

The consolidated financial statements of the Group are available at:

<http://www.eng.rushydro.ru/investors/reports/>

The presentation of the results is available at:

http://www.eng.rushydro.ru/investors/presentations/results_presentations/

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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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 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, impairment of other non-current assets, impairment of goodwill, impairment of available-for-sale financial assets, accounts receivable, long-term promissory notes, loss on disposal of property, plant and equipment, loss on remeasurement of net assets of subsidiary acquired exclusively with a view for resale, curtailment in pension payment and pension plan and other non-monetary items of operating expenses..

² Net profit is adjusted for the effects of impairment of fixed assets, loss on impairment of non-current assets, impairment of goodwill of subsidiary, impairment of available-for-sale financial assets, accounts receivable, long-term promissory notes, loss on disposal of subsidiaries and associates, gain from curtailment in pension plan and pension payment, loss on disposal of property, plant and equipment.

³ Here and hereinafter the operating expenses do not include impairment loss.