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RusHydro announces 1H 2016 RAS results

PJSC RusHydro (MOEX, LSE: HYDR; OTCQX: RSHYY) announces its non-consolidated financial results under Russian accounting standards (RAS) for the six months of 2016¹.

Key highlights:

- 2Q 2016 revenue – RUB 30,118 mn (+9%), 1H 2016 revenue – RUB 57,211 mn (+12%);
- 1H 2016 operating expenses – RUB 26,010 mn (-9%);
- 2Q 2016 EBITDA – RUB 20,468 mn (+27%), 1H 2016 EBITDA – RUB 38,711 mn (+31%);
- EBITDA margin in 2Q 2016 – 68% (+9 p.p.), in 1H 2016 – 68% (+10 p.p.);
- Reported net profit for 1H 2015 – RUB 28,426 mn (+41%), adjusted net profit – RUB 26,444 mn (+36%).

Key financials for 1H 2015/2016 under RAS (in RUB mn)

	1H'16	1H'15	chg	2Q'16	2Q'15	chg
Revenue	57,211	51,212	12%	30,118	27,509	9%
Operating expenses	(26,010)	(28,727)	-9%	(13,401)	(14,882)	-10%
Operating profit	31,201	22,485	39%	16,717	12,627	32%
EBITDA ²	38,711	29,458	31%	20,468	16,144	27%
Net profit	28,426	20,176	41%	13,177	11,433	15%
Net profit (adj.) ³	26,444	19,426	36%	12,071	11,063	9%

Revenue

In the 1st half of 2016, revenue increased by 12% to RUB 57,211 mn as compared to RUB 51,212 mn for the same period of 2015. The underlying factors behind the change in revenue were:

- significant increase in production and electricity output by hydropower plants of PJSC RusHydro as a result of: a) higher than normal water inflow to reservoirs of the Volga-Kama cascade in the 1st half of 2016; b) water inflow to reservoirs of Siberia, HPPs of the South and the Far East of Russia – close to long-run average;
- indexation of electricity and capacity tariffs;
- increase in capacity sales following ongoing liberalization of hydro capacity market in the second price zone from May 1, 2014⁴.

Revenue breakdown (RUB mn)

	1H'16	1H'15	chg	2Q'16	2Q'15	chg
Electricity sales	38,933	34,547	13%	21,679	19,699	10%
Capacity sales	17,783	16,031	11%	8,164	7,292	12%
Other sales	495	634	-22%	275	518	-47%
TOTAL	57,211	51,212	12%	30,118	27,509	9%

Operating expenses

Operating expenses in January-June 2016 decreased by 9% to RUB 26,010 mn as compared to the same period of 2015.

Operating expenses breakdown (in RUB mn)

	1H'16	1H'15	chg	2Q'16	2Q'15	chg
Depreciation	7,510	6,973	8%	3,751	3,517	7%
Labor expenses, taxes and contributions	3,558	3,510	1%	1,744	1,533	14%
Purchased electricity and capacity	3,429	6,415	-47%	1,446	3,297	-56%
Property tax	3,361	3,294	2%	1,683	1,654	2%
Services of System Operator, ATS, CFS	1,405	1,387	1%	707	698	1%
Repairs & maintenance	1,300	1,211	7%	822	722	14%
Other third-party services	1,291	1,245	4%	879	629	40%
Security expenses	879	866	2%	474	471	1%
Insurance expenses	743	587	27%	390	309	26%
Rent	714	587	22%	373	300	24%
Water tax	614	459	34%	340	270	26%
Leasing expenses	104	152	-32%	51	70	-27%
Other	1,102	2,041	-47%	741	1,413	-48%
TOTAL	26,010	28,727	-9%	13,401	14,883	-10%

Major factors of change in operating expenses were (among the highest constituent expenses):

- decrease in purchased electricity and capacity as a result of: a) decrease in purchased electricity for sale under free bilateral agreements due to lower sales under these contracts⁵; b) decrease in price for purchased electricity;
- increase in depreciation and property tax as a result of commissioning of new fixed assets as well as reconstruction and modernization of operating assets;
- reduction of other expenses, including corporate and traveling expenses, utilities and other costs, by 48% as a result of implementation of measures aimed at restraining non-operating costs.

Profit

Operating profit for the period increased by 39% or RUB 8,716 mn to RUB 31,201 mn.

EBITDA increased by 31% as compared to the same period of 2015 and amounted to RUB 38,711 mn.

RusHydro's net profit for the reporting period increased by 41% to RUB 28,426 mn. Net profit adjusted for non-cash items increased by 36% to RUB 26,444 mn as compared to RUB 19,426 mn in the same period of the previous year.

The difference between the reported and adjusted net profit is attributed mainly to the following non-cash effects:

- gain from mark-to-market revaluation of listed equity stakes in the amount of RUB 2,883 mn;
- regained reserves on accounts receivable in the amount of RUB 711 mn;
- expenses (net) on provision for accounts receivable in the amount of RUB 1,697 mn;
- gain from reserves for impairment of assets in the amount of RUB 3 mn;
- gain from other reserves in the amount of RUB 82 mn.

RusHydro's financial position as of June 30, 2016

The Company's total assets increased by RUB 28,781 mn as of June 30, 2016, or 3% against the similar figure as of December 31, 2015, reaching RUB 921,412 mn.

As of June 30, 2016, total liabilities stood almost flat as compared to the similar figure as of December 31, 2015, increasing slightly from RUB 150,095 mn to RUB 150,451 mn.

The Company's debt portfolio dropped by 1% or RUB 1,268 mn as compared to the beginning of the year from RUB 124,010 mn to RUB 122,724 mn; long-term loans make up 96% of total debt portfolio.

The Company's equity for the 1st half of 2016 increased by 4% to RUB 770,895 mn against RUB 742,469 mn as of the beginning of the reporting year.

The full financial statements are available on the Company's website at:

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

The Company plans to publish its consolidated results for the 1st half of 2016 under International financial reporting standards (IFRS) on August 29, 2016.

¹ PJSC RusHydro, the parent company of RusHydro Group, includes 19 branches registered in the Russian Federation, including: branch Bureyskaya GES, branch Volzhskaya GES, branch Votkinskaya GES, Dagestan branch, branch Zhigulevskaya GES, branch Zagorskaya GAES, branch Zeiskaya GES, Kabardino-Balkarsky branch, branch Kamskaya GES, Karachaevo-Cherkessky branch, branch Cascade of Verkhne-Volzhsky GES, branch Cascade of Kuban GES, branch Corporate Energy University, branch Nizhegorodskaya GES, branch Novosibirskaya GES, branch Saratovskaya GES, branch Sayano-Shushenskaya GES named after P.S. Neporozhny, Severo-Osetinsky branch, branch Cheboksarskaya GES.

² EBITDA calculated as gross profit before depreciation.

³ Net profit adjusted for the mark-to-market revaluation of listed equity stakes, reserves for financial investment impairment, assets and potentially uncollectible accounts receivable, contingencies This indicator is not reported in the official financial statements under RAS and has been calculated and put into the press release for reference.

⁴ According to the decree of the government of the Russian Federation No. 374 of April 28, 2014, "On amendments to the Regulations of wholesale electricity and capacity market in terms of special aspects of participation of gencos, owners of hydropower plants located in the 2nd pricing zone, in the wholesale market" from May 1, 2014 till December 31, 2015, 35% of capacity of the hydropower plants in the 2nd pricing zone is sold at the regulated tariffs based on the results of the competitive capacity auctions (KOM). According to the capacity sales liberalization schedule, from January 1, 2016, the amount of capacity from hydropower plants in Siberia sold at regulated tariffs, is decreased to 20% of total sales under KOM, from May 1, 2016, - full liberalization of capacity sales from hydropower plants in Siberia.

⁵ In accordance with capacity market regulations, in order to fulfill obligations under bilateral agreement as well as payment liabilities for load losses and security constraints according to the contract volumes, a supplier under bilateral agreement is obliged to buy electricity in the amount equal to registered amount to be supplied under the agreement. The supplier should sign an agreement with Trading System Administrator for electricity purchase, which is called "electricity purchase agreement signed in order to fulfill obligations under bilateral agreement".

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 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.