

RusHydro announces 9 months 2013 IFRS results

RusHydro Group (Group, ticker symbol: MOEX, LSE: HYDR; OTCQX: RSHYY) announces its condensed consolidated interim unaudited financial information for the nine months of 2013 under International Financial Reporting Standards (IFRS).

Key highlights for the 9 months of 2013:

- Strong quarterly results on high storage levels and affluent water inflows in Siberia, cost control, favorable pricing environment;
- Operating costs increased by only 0.8%;
- EBIT – RUB 35.3 bn (+59.8%), EBITDA – RUB 52.1 bn (+28.6%);
- Net profit – RUB 14.8 bn compared to net loss of RUB 1.9 bn in the previous year; net profit adjusted for non-cash items – RUB 29.9 bn (+57.7%).

9 months of 2013/2012 financial highlights (in RUB mn) ^[1]

	9M'2013	9M'2012	chg	3Q'13	3Q'12	chg
Revenue, including	229,887	215,061	6.9%	68,018	63,906	6.4%
<i>Revenue from operations</i>	222,646	208,438	6.8%	66,198	62,636	5.7%
<i>Government grants</i>	7,241	6,623	9.3%	1,820	1,270	43.3%
Expenses	194,604	192,988	0.8%	59,892	60,366	-0.8%
EBIT ^[2]	35,283	22,073	59.8%	8,126	3,540	129.5%
EBITDA^[3]	52,079	40,496	28.6%	13,359	8,967	49.0%
Net profit	14,800	(1,906)	-	-	-	-
Net profit (adj.)^[4]	29,884	18,946	57.7%	6,883	2,283	201.5%

In the 3rd quarter of 2013, total electricity generation by power plants of RusHydro Group amounted to 28,407 GWh, an 18% increase as compared to the 3rd quarter of 2012; total power generation in the 9 months of 2013 amounted to 93,418 GWh (+15%). In the 3rd quarter of 2013, hydropower plants of RusHydro Group increased electricity generation by 26% to 22,952 GWh, generation in the 9 months of 2013 amounted to 71,409 GWh (+23%).

The underlying factors of the RusHydro Group production change in the 3rd quarter of 2013 were:

- water inflow to reservoirs of the Volga-Kama cascade lower than long-run average;
- water inflow to major reservoirs of Siberia higher than long-run average;
- substitution of thermal generation in the Far East of Russia by higher hydro output.

In the nine months of 2013, average electricity selling price on the “day-ahead” market, a key segment of wholesale electricity market, in the 1st price zone amounted to RUB 1,107/MWh (+9% compared to the same period of 2012), in the 2nd price zone electricity price was RUB 659/MWh (flat as compared to the same period of 2012). In the 3rd quarter of 2013, the average electricity selling price on the “day-ahead” market in the 1st price zone amounted to RUB 1,292/MWh (+10%), in the 2nd price zone – RUB 553/MWh (-24%).

Events in January-September 2013

- In February 2013, the Group received the following assets as payment for JSC RusHydro’s shares of additional issue:
 - 9.60% of ordinary shares of JSC RAO Energy System of East,
 - 24.54% of shares of JSC Sakhalin Energy Company,
 - 14.83% of shares of JSC Ust’-Srednekanskaya HPP,
 - 42.53% of shares of JSC Irkutsk electronetwork company.

During the pre-emptive right period JSC RusHydro placed 66,995,185,198 additional shares at RUB 1 per share; 66,006,190,950 of shares were placed in favor of the Russian Federation and the rest in favor of other shareholders exercised their pre-emptive right.

- In February 2013, RusHydro Group successfully placed 10-year non-convertible bonds of series 07 and 08 in total amount of RUB 20 bn with the coupon rate of 8.5% p.a. The bonds are subject to put option in 5 years.
- In May, the European Investment Bank approved a 12-year loan facility in the amount of RUB 4 bn to JSC RAO ES of East under a guarantee agreement with JSC RusHydro to finance the construction of the Vostochnaya combined heat and power plant in Vladivostok.
- In June, the Annual General Meeting of shareholders of JSC RusHydro approved dividend payment in the amount of RUB 0.00955606 per share, or 25% of net profit under RAS for 2012; the total dividend payment for 2012 amounted to RUB 3,676 mn, a 47% increase compared to the previous year.
- In September, the turbine room of the Zagorskaya pumped storage plant No.2 was flooded via broken expansion joints and intakes of unfinished water pipes. Immediately after the accident, restoration operations began. The construction and installation works and property, including equipment, of the plant are insured. However, the insurance payouts can be made only after the causes of the accident are analyzed by the insurers.

Revenue

Revenue breakdown for 9 months of 2013/2012 (in RUB mn)

	9M'13	9M'12	chg	3Q'13	3Q'12	chg
Electricity sales	168,235	158,254	6.3%	52,004	49,346	5.4%
Heat and hot water sales	21,987	21,036	4.5%	2,659	2,594	2.5%
Capacity sales	18,646	17,214	8.3%	5,938	6,132	-3.2%
Other sales	13,778	11,934	15.5%	5,597	4,564	22.6%
Revenue from operations, total	222,646	208,438	6.8%	66,198	62,636	5.7%
Government grants (RAO ES of the East Group)	7,241	6,623	9.3%	1,820	1,270	43.3%
Total revenue	229,887	215,061	6.9%	68,018	63,906	6.4%

In the nine months of 2013, total revenue of the Group increased by 6.9% to RUB 229,887 mn. The change is associated with the following factors:

- increase in electricity generation by hydropower plants of JSC RusHydro by 24% as compared to the same period of 2012;
- increase in electricity sales volumes and prices on the “day-ahead” market;
- increase in capacity prices of the competitive capacity auctions for the HPP’s of the first pricing zone;
- indexation of regulated electricity and capacity tariffs in 2013;
- increase in revenues of general contractor companies of RAO ES of East Group from construction and repair services to external companies.

Operating expenses

Operating expenses in 9 months of 2013/2012 (in RUB mn)

	9M'13	9M'12	chg	3Q'13	3Q'12	chg
Purchased electricity and capacity	40,368	42,623	-5.3%	12,266	13,956	-12.1%
Employee benefit expenses	37,763	36,008	4.9%	12,222	11,900	2.7%
Fuel expenses	31,273	32,045	-2.4%	6,941	7,061	-1.7%
Electricity distribution expenses	29,479	30,014	-1.8%	9,243	9,547	-3.2%
Other third-party services	18,822	17,566	7.2%	6,522	6,533	-0.2%
Depreciation	13,872	13,596	2.0%	4,668	4,372	6.8%
Taxes other than on income	7,416	5,464	35.7%	2,094	1,877	11.6%
Other materials	6,963	6,757	3.1%	3,091	2,668	15.9%
Accrual of impairment of accounts receivable, net	2,401	4,681	-48.7%	405	983	-58.8%
Water usage expenses	2,037	1,877	8.5%	631	578	9.2%
Social charges	1,602	837	91.4%	766	411	86.4%
Loss on disposal of property, plant and equipment, net	523	146	258.2%	160	72	122.2%
Other expenses	2,085	1,374	51.8%	883	408	116.4%
TOTAL	194,604	192,988	0.8%	59,892	60,366	-0.8%

Total operating expenses increased by 0.8% from RUB 192,988 mn to RUB 194,604 mn.

Major factors affecting expenses:

- reduction in costs for purchased power and capacity by power plants of the price zones to provide supplies under free and regulated contracts;
- fuel expenses reduction by 2.4% following the decrease of heat and power generation by thermal power plants, as well as switch to natural gas;
- reduction in costs for electricity distribution by distribution companies of the Group;
- growth of labor expenses by 4.9% as a result of indexation of salaries;
- increase in costs for third-party services, mainly due to use of subcontractors by contracting companies of RAO ES of East Group for construction and repair services for new and operating facilities;
- growth of tax expenses, except income tax, due to accounting of estimated property tax liabilities of JSC RusHydro;
- impairment of accounts receivable, mainly for liabilities of JSC Far-Eastern energy company as well as for households supplied by JSC Kamchatskenergo, a subsidiary of JSC RAO ES of East, and debts of power retail companies, including those from now defunct Energostream Group;
- increase in social charges and impairment of disposal of property.

Profit

In the reporting period, EBITDA increased by 28.6% to RUB 52,079 mn compared to RUB 40,496 mn for the same period of previous year. EBITDA growth is related to increase in electricity output by hydropower plants, growth in prices on the day-ahead market, decrease in fuel and electricity and capacity purchase expenses.

In the nine months of 2013, the Group's net profit amounted to RUB 14,800 mn compared to net loss of RUB 1,906 mn in the same period last year. Adjusted net profit in the nine months of 2013 amounted to RUB 29,884 mn, a 57.7% 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 shares of OJSC Inter RAO UES in the amount of RUB 7,030 mn due to significant and prolonged decline in their market value;
- impairment of core assets of the JSC Boguchanskaya HPP in the amount of RUB 2,762 mn, as a result of decline in revenue expectations for 2013-2014;
- impairment of non-interest-bearing promissory notes of JSC Boguchansky aluminium plant in the amount of RUB 1,594 mn due to changes in assessment of their recoverable amount as a result of prolonged decline in aluminum prices and USD to RUB rate increase, and postponement of start of production from September 2013 to mid-2014;
- impairment of accounts receivable in the amount of RUB 2,401 mn resulting from analysis of past due receivables and estimation of their collectability;
- curtailment gain in the amount of RUB 1,609 mn from cancellation of pension plan of JSC Far East Generation Company, part of RAO ES of East Group.

Key indicators of RusHydro Group's financial position

As of September 30, 2013, the Group's assets increased by RUB 49,779 mn to RUB 904,046 mn against the comparable figure as at December 31, 2012. The increase in assets is primarily attributable to additions to the Group's fixed assets, investments in associates and joint ventures after receiving 42.53% of shares of JSC Irkutsk electonetwork company and shares of JSC Sakhalin energy company as payment for JSC RusHydro's shares of additional issue, and other operating assets due to increase in deposits for a period of over 3 months from funds received from bonds placement in the amount of RUB 20 bn.

As at the end of the reporting period the Group's liabilities rose by RUB 48,841 mn from December 31, 2012, to RUB 362,703 mn. The increase in the liabilities was mainly a result of funds raised through bonds placement by JSC RusHydro in the amount of RUB 20 bn and increase in accounts payable for placed shares of additional issue.

Events after the reporting date

- In October, JSC RusHydro sold 33.54% of JSC Trust Gidromontazh shares for a total price of RUR 1,663,174,970.
- In November, results of the research of causes of the accident at the Zagorskaya pumped storage plant No. 2 were announced. According to the preliminary data the erosion of the foundation soil of the Zagorskaya PSPP-2 was caused by inefficient performance of impervious system of the plant. Currently, RusHydro prepares the necessary documents for the insurance companies.
- In December, the open subscription to the Company's shares of additional issue has been completed. The number of issued shares totaled 68,617,944,796 priced at RUB 1 per share, or 62.38% of the total approved amount.
- In December, Sberbank CIB arranged a 5-year loan in the amount of RUR 10.6 bn for RusHydro Group. The facility will be used to refinance liabilities of RAO ES of East Holding (part of RusHydro Group).
- In December, JSC RusHydro signed a 12-year loan agreement with European Bank for Reconstruction and Development (EBRD) in the amount of RUR 4.4 bn to finance reconstruction and modernization of power infrastructure in the Far East of Russia, suffered from massive floods in 2013 caused by ample rainfalls.
- In November the changes to the Federal Law "On Electric Power Industry" and article 81 of Federal Law "On Joint Stock Companies" were made. According with changes lease of OJSC Federal Grid Company's grids is prolonged till 1 July 2029 for territorial grid companies in the number of regions of the Russian Federation including the Amur Region and Jewish Autonomous Region where OJSC DRSK operates. This changes to the Federal Law could compensate shortfall in income which has arisen due to withdrawal of some consumers from "the last mile" agreements.

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 36.5 GW, heat capacity – 16.2 thousand GCal/h.

Russian Federation owns 67.1% in RusHydro, the rest is held by other institutional and individual shareholders (over 360,000). The company's stock is traded on the MICEX and RTS stock exchanges, 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. One 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 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 the company includes quarterly figures that are not reported in the official financial statements, they have been calculated and put into the press release for reference.

[2] EBIT is calculated as total revenue less operating expenses.

[3] EBITDA is calculated as EBIT before depreciation and amortisation and non-cash charges

[4] Net profit is adjusted for the effects of impairment of the Group's available-for-sale financial assets, accounts receivable, promissory notes, property, plant and equipment, investments in associates, property, plant and equipment of joint ventures, loss on disposal of property, plant and equipment, loss from remeasurement of the net assets of OJSC DRSK, classified as a discontinued operation to fair value less costs to sell, gain from cancellation of pension plan of Far East Generation Company.