

August 29, 2014

## RusHydro announces 1H 2014 IFRS results

RusHydro Group (hereinafter referred to as the “Group”, ticker symbol: MOEX, LSE: HYDR; OTCQX: RSHYY) announces its reviewed, non-audited condensed consolidated interim financial information prepared in accordance with International Financial Reporting Standards (IFRS) for the 1<sup>st</sup> half of 2014.

### Key highlights for 1H 2014:

- Strong quarterly and half-year results due to costs optimization, favorable wholesale electricity market prices, other revenue growth;
- 2Q 2014 EBITDA – RUB 15,891 mn (+1.3%), 1H 2014 EBITDA – RUB 41,382 mn (+5.9%);
- Operating expenses in 2Q 2014 increased by only 1.7%, in 1H 2014 – by 3.9%;
- Net profit for 1H 2014 – RUB 21,336 mn (+97.2%); net profit adjusted for non-cash items – RUB 24,334 mn (+5.6%).

1H 2014/2013 highlights (in RUB mn)<sup>[1]</sup>

	2Q'14	2Q'13	chg	1H'14	1H'13	chg
<b>Revenue, including</b>	<b>76,200</b>	<b>74,387</b>	<b>2.4%</b>	<b>170,916</b>	<b>163,701</b>	<b>4.4%</b>
<i>Revenue</i>	73,693	71,742	2.7%	165,309	158,280	4.4%
<i>Government grants</i>	2,507	2,645	-5.2%	5,607	5,421	3.4%
Operating expenses	66,343	65,228	1.7%	141,414	136,150	3.9%
<b>EBITDA<sup>[2]</sup></b>	<b>15,891</b>	<b>15,687</b>	<b>1.3%</b>	<b>41,382</b>	<b>39,080</b>	<b>5.9%</b>
Net profit	-	-	-	21,336	10,818	97.2%
<b>Net profit (adj.)<sup>[3]</sup></b>	<b>8,452</b>	<b>8,480</b>	<b>-0.3%</b>	<b>24,334</b>	<b>23,033</b>	<b>5.6%</b>

### Operating results

In the 2<sup>nd</sup> quarter of 2014, total electricity generation by power plants of RusHydro Group amounted to 29,819 GWh, a 11.8% decrease as compared to the same period of 2013, total power generation in the 1<sup>st</sup> half of 2014 amounted to 60,939 GWh (-6.3%). In the 2<sup>nd</sup> quarter of 2014, hydropower (HPPs) and pumped storage power plants (PSPPs) of RusHydro Group decreased electricity generation by 13.3% to 23,781 GWh, in the 1<sup>st</sup> half of 2014 – by 6.1% to 46,526 GWh, output by thermal (TPPs) and geothermal plants located in the Far East of Russia in the 2<sup>nd</sup> quarter of 2014 decreased by 5.2% to 6,038 GWh, in the 1<sup>st</sup> half of 2014 output decreased by 6.6% to 14,412 GWh.

The underlying factors of the production change in January-June of 2014 were:

- lower than long-run average water inflow to reservoirs of the Volga-Kama cascade;
- water inflow to major reservoirs of Siberia was in line with long-run average level;
- decrease in electricity generation by TPPs of the Far East due to increased hydro production in the unified power system of the Far East and decrease in electricity consumption;
- launch of the eighth hydropower unit at the Sayano-Shushenskaya HPP in May of 2014.

### Events in January-June 2014

- In March, RusHydro secured two credit facilities in total amount of EUR 190 mn arranged by ING Bank and Crédit Agricole Corporate & Investment Bank Deutschland for modernization of the Saratovskaya HPP.
- In March, the Board of Directors approved the amended Regulations on the dividend policy. In accordance with the amended dividend policy the Company takes into consideration consolidated net profit of the Group calculated under IFRS to determine the amount of dividends.
- In April, Sberbank has arranged an 8-year loan in the amount of RUB 2,776 mn for the Group to refinance current liabilities of the Company.
- In May, a new hydropower unit No.4 has been commissioned at the Company's Sayano-Shushenskaya hydropower plant, adding another 640 MW to 7 hydropower units in operation.

- In May, the President of the Russian Federation has signed a decree on further development of JSC RusHydro allowing the Company to issue additional shares providing that the government's ownership in the share capital of the Company should not be less than 60.5%. The amount of potential issue of additional shares will be determined after the Board of Directors approves the increase of the Company's share capital.
- On June 27, 2014, the AGM resolved to pay dividends for 2013 in the amount of RUB 0.0136 per share in the total amount of RUB 5,248 mn.

## Revenue

*Revenue breakdown 1H 2014/2013 (in RUB mn)*

	2Q'14	2Q'13	chg	1H'14	1H'13	chg
Electricity sales	55,096	54,790	0.6%	119,902	116,069	3.3%
Heat and hot water sales	5,814	5,811	0.1%	19,620	19,327	1.5%
Capacity sales	6,385	6,017	6.1%	13,223	12,870	2.7%
Other sales	6,398	5,124	24.9%	12,564	10,014	25.5%
<b>Revenue from operations, total</b>	<b>73,693</b>	<b>71,742</b>	<b>2.7%</b>	<b>165,309</b>	<b>158,280</b>	<b>4.4%</b>
Government grants	2,507	2,645	-5.2%	5,607	5,421	3.4%
<b>Total revenue</b>	<b>76,200</b>	<b>74,387</b>	<b>2.4%</b>	<b>170,916</b>	<b>163,701</b>	<b>4.4%</b>

In the 1<sup>st</sup> half of 2014, total revenue of the Group increased by 4.4% to RUB 170,916 mn. The change is associated with the following factors:

- increase in electricity sales volumes and prices on the “day-ahead” market in the first pricing zone following indexation of fuel tariffs for industrial consumers from the 2<sup>nd</sup> half of 2013;
- increase in capacity prices of the competitive capacity auctions for the HPP's of the first pricing zone;
- growth of revenue from capacity sales of JSC Far Eastern Energy Company (DEC) in the 1<sup>st</sup> half of 2014 as compared to the same period of 2013 as a result of increase in capacity sales volumes by 22% as well as growth of capacity prices by 5%;
- increase in JSC DRSK revenue for electricity transmission as a result of extension of ‘last mile’ agreements in the Amur region and Jewish Autonomous region.

## Operating expenses

*Operating expenses in 1H 2014/2013 (in RUB mn)*

	2Q'14	2Q'13	chg	1H'14	1H'13	chg
Employee benefit expenses	16,411	14,468	13.4%	31,711	27,956	13.4%
Purchased electricity and capacity	11,917	12,704	-6.2%	26,816	28,102	-4.6%
Electricity distribution expenses	9,376	8,164	14.8%	21,145	18,731	12.9%
Fuel expenses	8,994	8,813	2.1%	24,100	24,332	-1.0%
Other third-party services	6,739	6,897	-2.3%	12,861	12,602	2.1%
Depreciation	5,202	4,609	12.9%	10,407	9,204	13.1%
Other materials	2,744	2,250	22.0%	4,612	4,056	13.7%
Taxes other than on income	2,252	3,431	-34.4%	4,436	5,390	-17.7%
Accrual of impairment of accounts receivable, net	934	1,545	-39.5%	1,446	1,964	-26.4%
Water usage expenses	685	721	-5.0%	1,368	1,406	-2.7%
Social expenses	554	696	-20.4%	729	840	-13.2%
Other expenses	535	930	-42.5%	1,783	1,567	13.8%
<b>TOTAL</b>	<b>66,343</b>	<b>65,228</b>	<b>1.7%</b>	<b>141,414</b>	<b>136,150</b>	<b>3.9%</b>

Total operating expenses increased by 3.9% from RUB 136,150 mn to RUB 141,414 mn.

Major factors affecting expenses:

- growth of labor expenses as a result of indexation of salaries of personnel of JSC RusHydro branches as well as annual indexation of salaries of personnel of subsidiaries and associates of RusHydro Group; the major part of increase of personnel remuneration relates to companies of RAO ES of East subgroup segment;
- increase in electricity distribution expenses due to growth of tariff for electricity distribution services for power retail companies of the Group, as well as due to inclusion of volumes of ‘last mile’ volumes of DRSK in the Amur region and Jewish Autonomous region;
- increase in expenses for depreciation of fixed assets due to termination of classification of DRSK as a subsidiary acquired exclusively with a view for resale in the end of 2013;
- decrease in purchased electricity and capacity expenses as a result of reduction of costs of Bashkiria and Krasnoyarsk power retail companies and RAO ES of East subgroup due to decrease in electricity output;
- fuel expenses reduction following the decrease of heat and power generation by Far-Eastern generating company, as well as due to switching of the main equipment of Kamchatskenergo and Sakhalienenergo to natural gas.

### **Profit**

In the reporting period, EBITDA increased by 5.9% to RUB 41,382 mn compared to RUB 39,080 mn for the same period of previous year. EBITDA growth is related to moderate growth of operating expenses, favorable pricing conditions on the “day-ahead” market, improvement of DRSK financial results due to extension of ‘last mile’ agreements.

In the 1<sup>st</sup> half of 2014, the Group’s net profit increased by 97.2% to RUB 21,336 mn compared to RUB 10,818 mn for the same period of the previous year. Adjusted net profit in the reporting period amounted to RUB 24,334 mn, a 5.6% 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 1,696 mn;
- accrual of impairment of accounts receivable in the amount of RUB 1,446 mn resulting from analysis of past due receivables and estimation of their collectability;
- impairment of financial assets available for sale in the amount of RUB 450 mn, including shares of JSC INTER RAO UES in the amount of RUB 257 mn due to decline in their market value.

### **Key indicators of RusHydro Group’s financial position**

As of June 30, 2014, the Group's assets increased by RUB 31,368 mn to RUB 883,414 mn against the comparable figure as at December 31, 2013. Change in assets is primarily attributable to increase in fixed assets of the Group increase in cash and cash equivalents on the banks accounts, decrease in short-term deposits value and increase in accounts receivable.

As a result of acquisition of 3.39% of the Company’s own shares via a swap for 25% minus 1 share stake in JSC Krasnoyarskaya HPP between JSC Hydroinvest, 100% subsidiary of RusHydro, and JSC Eurosibenergo, investment in an associate JSC Krasnoyarskaya HPP as of June 30, 2014, has been reclassified to non-current assets classified as held for sale. The transaction was closed in July 2014.

As at the end of the reporting period the Group's liabilities increased by RUB 14,954 mn from December 31, 2013, to RUB 270,293 mn. Change in the liabilities was mainly a result of obtaining a long-term loan from European Bank for Reconstruction and Development (EBRD) in the amount of RUB 3,530 mn in January 2014, and a long-term loan in the amount of RUB 2,776 mn secured from Sberbank in April, 2014, to finance current operating, financial and investment activities of the Company, and a short-term loans secured from Gazprombank, Sberbank. VTB Bank and Alfa-bank.

### **Events after the reporting date**

- In July RusHydro Group acquired 3.39% of its own shares. The stake was obtained by JSC Hydroinvest, 100% subsidiary of RusHydro, via a swap for 25% minus 1 share stake in JSC Krasnoyarskaya HPP with JSC Eurosibenergo. No cash was involved in the transaction.
- In August the Company’s Board of Directors elected Mikhail Poluboyarinov as Chairman of the Board, Viktor Danilov-Danilyan as Deputy Chairman of the Board and formed new composition of the Board’s committees.

*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/](http://www.eng.rushydro.ru/investors/presentations/results_presentations/)

[1] Here and henceforth figures for 2013 were represented and reported as if JSC DRSK was classified as continuing operations due to termination of classification of DRSK as a subsidiary acquired exclusively with a view for resale in the end of 2013.

[2] EBITDA is calculated as operating profit / loss excluding depreciation of property, plant and equipment and intangible assets, impairment of property, plant and equipment, impairment of available-for-sale financial assets, accounts receivable, long-term promissory notes, loss on disposal of property, plant and equipment, and income from pension plan reduction.

[3] Net profit is adjusted for the effects of impairment of the Group's available-for-sale financial assets, accounts receivable, loss on disposal of property, plant and equipment.

## **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 37.5 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 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.

### **For more information:**

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## **DISCLAIMER**

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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.*