

RusHydro announces 2019 IFRS results

March 5, 2019. Moscow, Russia. 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, 2019, prepared in accordance with International Financial Reporting Standards (IFRS).

Key highlights for 2019:

- Consolidated financial results reflected decrease of electricity production on the back of reduced water inflows to the majority of reservoirs of the HPPs in the first half of the year, decrease of sport prices in Siberia in the second half of the year and peak impairments of property, plant and equipment following commissioning of generating facilities in the Far East;
- **RUB 406,625 mn** - total revenue (+1.6% as compared to 2018);
- **RUB 97,544 mn** - EBITDA (-11.1% as compared to 2018);
- **24%** - EBITDA margin (-3.4 p.p. as compared to 2018);
- **3.8%** - increase of manageable cash costs;
- **RUB 51,547 mn** – adjusted net profit (-27.1% y-o-y) net profit in 2019 – RUB 643 mn (-98.0% y-o-y) mostly as a result of impairment of property, plant & equipment.
- **RUB 88,718 mn** – total capital expenditures (+15.2% y-o-y);
- **RUB 925,119 mn** – RusHydro Group’s total assets (-0.7% y-o-y);
- **RUB 144,596 mn** – RusHydro Group’s total net debt (+7.9% as compared to 2018)¹;
- **1.48x** – net debt/EBITDA (1.2x in 2018).

Key highlights for 4Q 2019:

- **RUB 119,005 mn** - total revenue (+6.5% as compared to 4Q 2018);
- **RUB 27,115 mn** - EBITDA (-5.4% as compared to 4Q 2018);
- **RUB 11,705** – adjusted net profit (-40.3% as compared to 4Q 2018).

Key highlights of 2019 operational results:

- **142,840 GWh** – total electricity production (-1.0% as compared to 2018) including Boguchanskaya hydropower plant²;
- **94,525 GWh** - electricity output from hydro and pumped storage plants (-4.0% as compared to 2018);
- **31,779 GWh** - electricity output from thermal power plants (+0.1% y-o-y);
- **29,771 thousand GCal** – heat output from thermal power plants (+0.4% y-o-y) driven by lower air temperatures in most Far Eastern Federal District’s regions;
- **19,490 GWh** – sales by Group’s electricity retail companies in 2019 (-3.9% y-o-y).

2020 forecast:

- Dividend payout for 2019 will be at the average amount paid over 2017 – 2019 in accordance with the new dividend policy;
- EBITDA growth expected following commissioning of new generating facilities;
- Net debt/EBITDA not to exceed 2.0x;

- Decrease of impairment of property, plant & equipment following commissioning of major generating facilities in the Far East in 2019.

4Q and FY 2019/2018 highlights (in RUB mn)

	4Q/19	4Q/18³	chg.	2019	2018	chg.
Revenue	119,005	111,748	6.5%	406,625	400,418	1.6%
Operating expenses	99,954	89,845	11.3%	336,575	314,850	6.9%
Other operating profit	560	112	400.0%	1,174	5,452	-78.5%
Operating profit ³	19,611	22,015	-10.9%	71,224	91,020	-21.7%
EBITDA⁴	27,115	28,657	-5.4%	97,544	109,673	-11.3%
Net profit	-	-	-	643	31,837	-98.0%
Net profit (adj.) ⁵	11,705	19,606	-40.3%	51,547	70,757	-27.1%

Key events in 2019

- On February 8, 2019, PJSC RusHydro has divested its 40% share in LLC VolgaHydro, a hydropower equipment manufacturing joint venture in the Saratov region, to Voith Group for RUB 450 mn;
- On March 29, 2019, PJSC RusHydro and UC RUSAL commissioned the first stage of Boguchany aluminium smelter (BoAZ), part of Boguchanskiy Energy and Metals Complex (BEMO). Total funding of the smelter's first phase with annual operational capacity is estimated at 298 thousand tons of aluminium amounts to USD 1.69 bn. It is being financed by own funds of partners in BEMO project along with project financing from VEB.RF (formerly – Vnesheconombank);
- On April 19, 2019, The Board of Directors approved PJSC RusHydro's dividend policy, which stipulates for a base scenario of dividend payout ratio at 50% of the company's IFRS net profit. At the same time, a minimal payout level is set at the average amount of dividends paid over the last three years. The changes to the dividend policy will be in effect for three years;
- On April 29, 2019, the first phase of placement of RusHydro's additional share issue for the construction of Pevek-Bilibino 110 kV high-voltage overhead lines in light of upcoming reconstruction of the Chaun-Bilibino power system following decommissioning of the Bilibinskaya nuclear power plant took place. PJSC RusHydro has placed 7,000,092,298 shares including 7,000,000,000 shares in favor of the Russian Federation represented by the Federal Agency for State Property Management (Rosimushchestvo) at one ruble per share;
- On June 28, 2019, AGM of PJSC RusHydro elected new Board of Directors and approved 2018 dividends of RUB 0.0367388 per share in total amount of RUB 15.9 bn (50% of the Group's net profit for 2018 under IFRS, and an increase of 42% over the amount distributed in dividends for 2017);
- On July 15, 2019, RusHydro put into commission Nizhe-Bureyskaya HPP in the Amur region. The facility's installed capacity and average annual electricity output stands at 320 MW and 1.67 TWh, respectively;

- On July 17, 2019, the government of the Russian Federation approved all projects submitted by RusHydro for construction and modernization of thermal power plants in the Far East: construction of Artyomovskaya CHP-2, Khabarovskaya CHP-4, second phase of Yakutskaya GRES-2 and modernization of turbines 1, 2 and 3 and boilers 1-8 at Vladivostokskaya CHP-2. Return on the projects will be guaranteed by the mechanism stipulated in the government's program on thermal power modernization;
- On November 18, 2019, PJSC RusHydro has placed loan participation notes issued by RusHydro Capital Markets DAC in the amount of RUB 15 bn. The LPNs will mature in 2024 and bear an interest of 6.8% p.a. payable twice per year;
- On November 21, 2019, PJSC RusHydro and PJSC VTB Bank signed a supplementary agreement to improve the terms of the forward contract. The supplemental agreement provides for lowering the forward rate by 0.5% p.a. and extension of the agreement for three years through 2025 allowing sourcing a strategic investor and jointly working on increasing RusHydro's share price;
- On November 22, 2019, PJSC RusHydro inaugurated Sakhalinskaya GRES-2 in the Sakhalin region of the Far East to replace the obsolete Sakhalinskaya GRES. The power plant's installed capacity and long run electricity output stands at 120 MW and 0.84 TWh, respectively;
- On December 5, 2019, a share sale agreement was signed with PJSC Hrazdan Energy Company (HrazTES), to divest 90% of CJSC MEK shares for RUB 173 mn. According to the agreement the shares will be transferred in the first half of 2020 upon fulfillment of CJSC MEK's obligations before European Bank for Reconstruction and Development and Asian Development Bank and cancellation of RusHydro's guarantees on the loans before the above mentioned banks;
- On December 13, 2019, in North Ossetia RusHydro has completed construction of Zaramagskaya HPP-1 and received authorization to commission the facility. It is the largest hydropower plant in the region and the third most powerful in Northern Caucasus with installed capacity of 346 MW and annual average electricity output is 0.84 TWh. The facility is built under Capacity Supply Agreement (DPM).

Revenue

Revenue breakdown in 4Q and FY 2019/2018 (in RUB mn)

	4Q'19	4Q'18	chg	FY'19	FY'18	chg
Electricity sales	72,404	70,799	2.3%	266,713	269,668	-1.1%
<i>Incl. grants as per Resolution of the Russian Gov't No. 895 (premium to the price translated to the budgets of the regions of Far Eastern Federal District) ⁶</i>	5,531	6,506	-15.0%	23,794	26,300	-9.5%
Capacity sales	13,180	11,743	12.2%	48,177	43,833	9.9%
Heat and hot water sales	13,532	13,152	2.9%	40,645	40,150	1.2%
Other sales	14,773	10,527	40.3%	34,901	31,419	11.1%
Other government grants	5,116	5,527	-7.4%	16,189	15,348	5.5%

Total revenue	119,005	111,748	6.5%	406,625	400,418	1.6%
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In 2019, total revenue of the Group amounted to RUB 406,625 mn as compared to RUB 400,418 in the 2018. The change is associated with the following key factors:

- decrease in revenue from electricity sales of PJSC RusHydro by RUB 6,485 mn on the back of record-high production growth in 2018 compounded by lower water inflows to the reservoirs of the Volga-Kama cascade in the first half of the year(production decline of 4.4%) as well as decrease of spot market prices in the second price zone;
- increase in capacity sales revenue by RUB 4,344 mn mainly on the back of sales volume growth of PJSC DEK;
- increase in other sales revenue by RUB 3,482 mn is mainly driven by increase in revenue in JSC DGK (by RUB 6,882 mn) from grid connection services to PJSC Gazprom’s facilities and LLC Albinsky Rudnik, compounded by decrease in revenue from electricity distribution services in PJSC Yakutskenergo and decrease of claims from fuel purchasers at JSC VOSTEK
- increase in revenue from electricity of RAO ES East subgroup (incl. government subsidies) by RUB 2,361 mn on the back of tariff and sales volume growth;
- increase in revenue from electricity sales in ESC Rushydro subgroup by RUB 1,072 mn following new supply agreements, increase of tariffs on electricity sales as well as electricity sales volume growth on the wholesale market;
- increase in heat and hot water sales revenue by RUB 495 mn following tariff growth.

Operating expenses⁷

Operating expenses in 4Q and FY 2019/2018 (in RUB mn)

	4Q'19	4Q'18	chg	2019	2018	chg
Employee benefit expenses	22,993	20,693	11.1%	80,376	75,876	5.9%
Fuel expenses	21,528	19,889	8.2%	71,433	64,791	10.3%
Purchased electricity and capacity	12,353	12,675	-2.5%	46,310	41,811	10.8%
Third parties services	15,948	9,933	60.6%	40,991	35,088	16.8%
Grid company services on electricity distribution	9,407	10,214	-7.9%	36,955	39,463	-6.4%
Depreciation	6,792	5,553	22.3%	25,686	22,310	15.1%
Taxes other than on income	3,446	3,111	10.8%	12,133	12,242	-0.9%
Other materials	3,472	3,725	-6.8%	11,260	10,905	3.3%
Water usage expenses	1,168	997	17.2%	4,333	4,018	7.8%
Other expenses	2,847	3,055	-6.8%	7,098	8,346	-15.0%
TOTAL	99,954	89,845	11.3%	336,575	314,850	6.9%

Total operating expenses in the 2019 amounted to RUB 336,575 mn as compared 314,850 mn in the 2018 due to the following factors:

- increase of third party expenses by RUB 5,903 mn mainly in RAO ES East Subgroup as a result of technical connection expenses in the amount of RUB 7,010 mn (supported by revenue) as well as repairs and maintenance;
- increase in employee benefit expenses by RUB 4,500 in accordance with existing collective agreements;
- increase in purchased electricity and capacity by RUB 4,499 mn partially covered by additional revenue mostly at RAO ES East Subgroup following change in volume and tariff increase;
- increase in fuel expenses mainly in JSC DGK by RUB 3,800 mn as a result of fuel purchase price increase following procurement results and in PJSC Kamchatskenergo by RUB 1,099 mn or as a result of purchase price increase of heating oil and its increased consumption due to restrictions in consumption of other types of fuel (gas, coal);
- increase in depreciation expense following commissioning of CHP Vostochnaya and off-site construction of Sakhalinskaya GRES-2 in the 2H'18, commissioning of Sakhalinskaya GRES-2 and Nizhne-Bureyskaya HPP in 2H'19, and adoption of IFRS 16, Leases since 01.01.2019.

Profit

In the 2019, EBITDA decreased by 11.1% to RUB 97,544 mn as compared to RUB 109,673 mn in the same period of 2018.

The Group's net profit decreased by 98.0% to RUB 643 mn. Adjusted net profit in the reporting period amounted to RUB 51,547 – a 27.1% decrease as compared to the same period last year.

The difference between the reported and adjusted profit is attributed mainly to the following non-cash effects (before income tax) and recognition of change in fair value of the derivative financial instrument:

- impairment of property, plant & equipment and unfinished construction in the amount of RUB 53,532 million following commissioning in Nizhne-Bureyskaya HPP and Sakhalinskaya GRES-2 in 2019;
- impairment of financial assets in the amount of RUB 4,491 mn resulting from measuring expected credit losses of receivables;
- impairment of other assets in the amount of RUB 2,045 mn.

Key indicators of financial position

As of December 31, 2019, the Group's assets decreased by RUB 6,812 mn or 0.7% to RUB 925,119 mn against RUB 931,931 as of December 31, 2018. Change in assets is primarily attributable to:

- decrease of accounts receivable;
- increase in property, plant & equipment (following execution of the Group's investment program);
- increase in inventories.

As at the end of the reporting period, the Group's liabilities increased by RUB 9,532 mn or 2.8% to RUB 355,244 mn as compared to RUB 345,712 as of December 31, 2018. The structure of liabilities has changed accordingly: long-term liabilities increased by RUB 3,025 mn and short-term liabilities increased by RUB 6,507 mn mainly due to increase of accounts payable on issued shares, current debt and current portion of non-current debt.

Total liabilities under current and non-current debt increased by RUB 5,116 mn in 2019 or 2.6% following increase of debt on bank loans at RAO ES East Subgroup (primarily JSC DGK) as well as inclusion of operational leases since 01.01 2019 in accordance with the adoption of IFRS 16. (As of December 31, 2019 the liability on issued shares in the amount of RUB 7,000 mn is reflected, as additional share issue in the course of implementation of preemptive right, under which PJSC RusHydro placed 7,000,092,298 shares among shareholders, was not completed.

The fair value of the non-deliverable forward contract, recognized under the terms of transaction with PJSC VTB Bank, decreased from RUB 31,896 mn (as of December 31, 2018) to RUB 28,510 mn (as of December 31, 2019) following increase of market price of RusHydro's shares in 2019.

Events after the reporting date

- On February 11, 2020, for the first time in Russia a power purchase agreement was signed in an isolated price zone. PJSC Kolymaenergo, a subsidiary of PJSC RusHydro and JSC Polyus Magadan (PJSC Polyus Group) have signed a five-year bilateral power purchase agreement for 5 years. Electricity supply will start in 2020 for a total of 310 GWh.

The full financial statements are available on the Company's website at: <http://www.eng.rushydro.ru/investors/reports>

¹ Total net debt at the end of reporting period is calculated as the difference between financial debt and cash & cash equivalents (including bank deposits maturing in one year). Financial debt includes current debt, non-current debt (excluding interest payable), non-deliverable forward contract and cross-currency and interest rate swap.

² The Boguchanskaya hydropower plant is part of the Boguchanskiy Energy and Metals Complex (BEMO), a joint venture (JV) between RusHydro and UC RUSAL, and is not part of RusHydro Group. According to RusHydro's shareholding in the JV (50%), the results of the plant are reported in the official financial statements in "Share of results of associates and jointly controlled entities". Operations of the HPP have been put into the press-release for general reference

³ Operating profit is calculated as the difference between revenue, other operating profit and operating expenses

⁴ EBITDA is calculated as operating profit / loss excluding depreciation of property, plant and equipment, gains on changes in the carrying value of financial assets at fair value through profit or loss, impairment of property, plant and equipment, impairment of other assets, impairment of financial assets, loss on disposal of property, plant and equipment, loss on disposal of other non-current assets and other non-monetary items of operating income and expenses.

⁵ Net profit is adjusted for the effects of recognition of financial income/expense arising from the change in fair value of non-deliverable forward contract, impairment of fixed assets, impairment of other assets, impairment of financial assets, profit / loss on disposal of property, plant and equipment, loss on disposal of other non-current assets as well as other operating income arising from the change in fair value of financial assets measured through profit or loss

⁶ In July 2017, the Resolution of the Russian Government No. 895 "On reaching basic rates (tariffs) for electric power (capacity) in the territories of the Far East Federal region (the "Far East")" became effective, under



which rates for consumers in the territories of the Far East should be reduced starting from 1 January 2017 to the basic level of RUB 4.00 / kWh, from 1 January 2018 to RUB 4.30 / kWh. According to the Resolution of the Russian Government No. 1614-r of 28 July 2017, PJSC RusHydro was appointed as the recipient of a premium to the price for capacity provided by the Company in the price zones of the wholesale market under CCS agreements. The premium to the price for capacity is set in order to achieve the basic level of rates (tariffs) for electricity (capacity) planned for the next regulation period in the Far East constituent regions. Within the amounts defined by Resolution No. 1615-r of the Russian Government dated 28 July 2017, the Company translates the collected amounts of margin in the form of free-of-charge targeted contributions to the budgets of the respective regions. The Group companies being guaranteeing suppliers will receive compensation for the shortage of income related to the reduction of rates, through subsidies from the Far East constituent regions

⁷ Here and hereinafter the operating expenses do not include impairment loss.

About RusHydro

RusHydro Group is the leading producer of renewable energy in Russia. It is Russia's largest generating company and is among the top-5 in the world with over 400 generating facilities in Russia and abroad. The Group's total electricity generation capacity including Boguchanskaya HPP is 40.0 GW.

Russian Federation owns 61.20% in RusHydro, the rest is held by other institutional and individual shareholders (over 360,000). The company's stock is traded on the Moscow stock exchange. 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," "plan", "aim", "target", "forecast", "project", "should", "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 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.