

RusHydro announces full year 2018 IFRS results

March 14, 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, 2018, prepared in accordance with International Financial Reporting Standards (IFRS).

Key highlights for FY2018:

- Financial results for 2018 reflected strong operational results driven by increased water inflows to major reservoirs of the Volga-Kama cascade and increase in power demand in the Far Eastern Federal District;
- Total revenue – RUB 400,418 mn (+5.1% y-o-y);
- EBITDA increased by 5.3% in FY2018 to RUB 109,673 mn;
- Operating expenses increased by 5.1%, mainly as a result of fuel cost increase;
- Net profit – RUB 31,837 mn (+28.5% y-o-y); adjusted net profit – RUB 70,757 mn (+7.6% y-o-y);
- As of January 1, 2018 RusHydro Group has changed its accounting policy to reflect the value of property, plant and equipment measured at historic cost excluding depreciation and impairment losses. Financial results of 2017 has been restated in accordance with the new accounting policy.

FY2018/2017 highlights (in RUB mn)

	FY2018	FY2017 (restated)	chg,%
Revenue	400,418	380,864	5.1%
Operating expenses	314,850	299,662	5.1%
Other operating profit	5,452	690	-
Operating profit*	91,020	81,892	11.1%
EBITDA**	109,673	104,180	5.3%
Net profit	31,837	24,774	28.5%
Net profit (adj.)***	70,757	65,738	7.6%

Operating results

Total electricity generation by RusHydro Group’s power plants including Boguchanskaya HPP reached 34,336 GWh (-2.5%) in the fourth quarter of 2018, in 2018 – 144,225 (+2.8%) including Boguchanskaya HPP vs electricity consumption increase of only 1.5% in Russia for the same period. In 4Q of 2018 total electricity generation by RusHydro Group’s hydropower and pumped storage plants decreased by 5.4% to 21,865 GWh, by the Group’s thermal power plants – by 1.3% to 9,030 GWh, while electricity generation by renewables increased by 2.7% to 117 GWh as compared to the same period of 2017. In 2018 total electricity generation by RusHydro Group’s hydropower and pumped storage plants increased by 2.6% to 98,432 GWh, by the Group’s thermal power plants – by 3.9% to 31,752 GWh, while electricity generation by renewables decreased by 1.9% to 431 GWh as compared to 2017. Total electricity generation by Boguchanskaya hydropower plant**** in 4Q 2018 amounted to 3,324 GWh (+17.7%), in 2018 – 13,610 (+2.4%).

The underlying factors of the production change in 2018 were:

- total water inflow to the majority of reservoirs of the Volga-Kama cascade was higher than normal;

- total water inflow to hydropower plants of Siberia was at the normal level or slightly above it;
- total water inflow to the reservoirs of HPPs in the South of Russia – at the normal level;
- growth of electricity generation by thermal power plants in the Far East by 5.0% (to 34,464 GWh) following a decrease in production by HPPs operating in United Power System of the East as compared to 2017 as well as increase in consumption in the region by 3.7%.

In 2018, heat output by thermal plants of RAO ES of East decreased by 0.9% to 29,650 thousand GCal as compared to 2017. The decrease came on the back of higher temperatures in all the regions of the Far East with an exception of Kamchatka. In the fourth quarter of 2018 heat output decreased by 10.2% to 10,077 thousand GCal as a result of higher air temperatures in all the regions of the Far East with an exception of Chukotka.

In the fourth quarter of 2018, total electricity output by energy retail companies of ESC RusHydro subgroup – JSC ESC RusHydro, PJSC Krasnoyarskenergosbyt, JSC Chuvashskaya Electricity Sales Company and PJSC Ryazanenergosbyt, amounted to 5,567 GWh, a 3.8% decrease as compared to the same period of 2017. In 2018, output decreased by 2.2% as compared to the last year and amounted to 20,273 GWh.

Key events of 2018

- On February 7, 2018, RusHydro Group's financial debt decreased by RUB 26 bn following exclusion of guarantee obligation between PJSC RusHydro and State Corporation Vnesheconombank on PJSC Boguchanskaya HPP loan given out by the bank in 2010. The lending bank supported the termination following completion of construction and ramp-up of the hydropower plant, and taking into consideration PJSC Boguchanskaya HPP's stable financial and operational results and its ability to service the loan independently. As a result, the Group's total debt load decreased significantly;
- On February 15, 2018, PJSC RusHydro has successfully placed loan participation notes in the amount of RUB 20 bn. The LPNs will mature in 2021 and bear an interest rate of 7.4% per annum payable twice per year. The following ratings have been assigned to the issue: S&P: "BB+" / Moody's: 'Ba1' / Fitch: 'BB+' / ACRA 'AAA(RU)';
- On February 27, 2018, Standard & Poor's Global Ratings Services raised long-term corporate credit ratings on PJSC RusHydro to 'BBB-' with 'Stable' outlook. Short-term corporate credit was raised to 'A-3' respectively;
- On June 27, 2018, AGM of PJSC RusHydro elected new Board of Directors and approved 2017 dividends of RUB 0.0263335 per share in total amount of RUB 11.2 bn;
- On July 5, 2018, RusHydro Group has sold shares held in PJSC Inter RAO in the total amount of 5,131,669,622.18 representing 4.915% of authorized share capital of PJSC Inter RAO to JSC Inter RAO Capital;
- On August 1, 2018, Fitch Ratings Ltd. raised PJSC RusHydro's long-term foreign currency issuer default rating to 'BBB-' with 'Stable' outlook. Fitch quoted the Company's solid financial and operational performance, reduction of debt aided by high level of government support;

- On August 7, 2018, the Board of Directors re-elected Deputy Chairman of the Government of the Russian Federation – Plenipotentiary Representative of the President in the Far Eastern Federal District Yury Trutnev as its Chairman and elected members to the Committees of the Board of Directors;
- On October 4, 2018, the Group has adopted the new edition of its Environmental Policy approved by RusHydro’s Board of Directors in August 2018. The policy provides for increase in low-carbon power generation capacity, reduction of greenhouse gas (GHG) emissions both in absolute terms and in terms of GHG intensity and protection of biodiversity;
- On October 26, 2018, Vostochnaya combined heat and power plant (CHP) was inaugurated in Vladivostok, the first major facility in the power industry of Primorskiy Krai’s capital in 45 years. The plant’s installed electric capacity is 139.5 MW, heat output capacity - 432 Gcal/h and has project annual output of 791 GWh and 1,377 thousand Gcal, respectively;
- On November 11, 2018, the Group inaugurated a unique 900 KW wind power plant in Tiksi village of the Sakha (Yakutia) Republic. Three unique wind turbines are engineered to operate in extreme weather conditions of the Polar region;
- On November 21, 2018, PJSC RusHydro made a debut placement of dim-sum loan participation notes in the amount of CNH 1.5 bn. The LPNs will mature in 2021 and bear an interest of 6.125% p.a. payable twice per year. The following ratings have been assigned to the issue: S&P: “BB+” / Moody’s: ‘Ba1’ / Fitch: ‘BB+’ / ACRA ‘AAA(RU);
- On November 27, 2018, PJSC RusHydro has placed loan participation notes in the amount of RUB 15 bn. The LPNs will mature in 2022 and bear an interest of 8.975% p.a. payable twice per year. The following ratings have been assigned to the issue: S&P: “BB+” / Moody’s: ‘Ba1’ / Fitch: ‘BB+’ / ACRA ‘AAA(RU);
- On December 28, 2018, RusHydro Group commissioned third hydropower unit at Ust-Srednekanskaya HPP in Magadan region. The facility’s installed capacity increased by 142.5 MW and reached 310.5 MW.

Revenue

2018/2017 (in RUB mn)

	FY2018	FY2017	chg, %
Electricity sales	269,668	258,663	4.3%
<i>Incl. grants as per Resolution of the Russian Gov’t No. 895****</i>	26,300	17,254	52.4%
Capacity sales	43,833	40,881	7.2%
Heat and hot water sales	40,150	38,907	3.2%
Other sales	31,419	26,922	16.7%
Other government grants	15,348	15,491	-0.9%
Total revenue	400,418	380,864	5.1%

In 2018, total revenue of the Group increased by 5.1% to RUB 400,418 mn as compared to RUB 380,864 in 2017. The change is associated with the following key factors:

- increase in revenue from electricity sales (including government grants*****) of RAO ES East subgroup by RUB 9,845 mn mostly on the back of tariff and sales volume growth;
- increase in revenue from electricity sales of PJSC RusHydro by RUB 4,807 mn following increased water inflow to major reservoirs of Volga-Kama cascade in the first half of the year and to HPPs in Siberia in the second half of 2018;
- increase in capacity sales revenue by RUB 2,952 mn on the back of sales volume growth of PJSC DEK;
- increase in revenue of ESC RusHydro subgroup by RUB 1,448 mn as a result of production growth and increase in tariffs;
- increase in heat and hot water sales revenue by RUB 1,243 mn following tariff and production volume growth;
- increase in other sales revenue of RUB 4,497 mn mostly of RAO ES East subgroup as a result of increase in electricity distribution services as well as sales growth of oil products to external customers in accordance with agreements.

Following adoption of IFRS 15 standard from January 1, 2018, the Group recognizes revenue from compensation of transmission losses and expenses on power distribution under contracts with grid companies on a net basis (in 2018 – RUB 8,459 mn including RAO ES East subgroup of RUB 3,375 mn and ESC RusHydro subgroup of RUB 5,084 mn).

Operating expenses*****

2018/2017 (in RUB mn)

	FY2018	FY2017 (restated)	chg, %
Employee benefit expenses	75,876	74,390	2.0%
Fuel expenses	64,791	58,098	11.5%
Purchased electricity and capacity	41,811	40,747	2.6%
Grid company services on electricity distribution	39,463	43,482	-9.2%
Third parties services	35,088	32,638	7.5%
Depreciation	22,310	21,340	4.5%
Taxes other than on income	12,242	10,681	14.6%
Other materials	10,905	10,170	7.2%
Water usage expenses	4,018	3,370	19.2%
Purchase of oil products for sale	2,440	642	280.1%
Other expenses	5,906	4,104	43.9%
TOTAL	314,850	299,662	5.1%

Total operating expenses for the nine months of 2018 compared to the same period last year increased by 5.1% to RUB 314,850 mn as revenue increased by 5.1%, due to the following factors:

- increase in fuel expenses following increase of electricity and heat output of JSC DGK power plants, increase in purchase price of coal, increase in price of oil products in the second half of the year in PJSC Kamchatskenergo;

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- increase in employee benefit expenses following indexation of salaries in accordance with existing collective agreements;
 - increase in third party services following increase in maintenance costs in PJSC Yakutskenergo and PJSC Sakhalinenergo as well as increase in coal mining services provided by third-parties in JSC LUR;
 - increase in depreciation expense due to increase in value of property plant and equipment after commissioning new facilities (including JSC Yakutskaya GRES-2 with off-site construction in 2017 – 2018) as well as planned renovation and modernization of the PJSC RusHydro' facilities;
 - increase in taxes other than on income following increase in tax rate on grid facilities and increase in property tax after commissioning of JSC Yakutskaya GRES-2 and off-site construction;
 - increase in purchased electricity and capacity in RAO ES of East subgroup following transition to a new payment system in PJSC Kamchatskenergo;
 - increase in purchase of oil products for resale is driven by increase in sale of oil products to external customers in accordance with agreements;
 - increase in other expenses is due to change in loss from write-off of property, plant and equipment and assets under construction.

Profit

In 2018, EBITDA increased by 5.3% to RUB 109,673 mn compared to 2017.

The Group's net profit increased by 28.5% to RUB 31,837 mn. Adjusted net profit in the reporting period amounted to RUB 70,757 – an increase of 7.6% 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:

- gain arising on financial assets at fair value through profit or loss in the amount of RUB 3,845 mn (mostly PJSC Inter RAO shares);
- impairment of property, plant & equipment in the amount of RUB 24,221 primarily in relation to third hydropower unit at Ust-Srednekanskaya HPP and TPP Vostochnaya;
- financial expense in the amount of RUB 13,993 mn as a result of change in fair value of non-deliverable forward contract following decrease of market price of PJSC RusHydro's shares in the reporting period;
- impairment of accounts receivable in the amount of RUB 5,379 mn resulting from analysis of expected losses.

Key indicators of financial position

As of December 31, 2018, the Group's assets increased by RUB 60,228 mn or 6.9% to RUB 931,931 mn against the comparable figure as at December 31, 2017. Change in assets is primarily attributable to:

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- increase in property, plant & equipment (following execution of the Group's investment program);
 - increase in other current assets following increase in cash on bank deposits over 90 days;
 - increase in advances for rendering services for connections to the grid to PJSC FEES's (in JSC DRSK).

As at the end of the year, the Group's liabilities increased by RUB 43,617 mn or 14.4% to RUB 345,712 mn as compared to December 31, 2017. The structure of liabilities has changed accordingly: long-term liabilities increased by RUB 74,787 mn following increase of non-current debt and short-term liabilities decreased by RUB 31,170 mn mainly due to decrease of current debt and current portion of non-current debt.

Structure of the liabilities of the Group underwent the following changes:

- in February 2018, the Group has placed Eurobonds in the amount of RUB 20,000 mn with a maturity of 3 years and a coupon rate of 7.4% p.a. The proceeds of the issue were used to refinance the Group's current loan portfolio;
- in February 2018, the Group partially redeemed bonds issued in February 2013 for a total amount of RUB 20,000 mn;
- in March 2018, the Group has repaid long-term loan from PJSC Sberbank in the amount of RUB 10,613 mn;
- in July 2018, the Group raised RUB 20,000 in accordance with loan agreement with PJSC VTB Bank for 7 years with an interest rate of 7.5% p.a.;
- in July 2018, the Group redeemed bonds issued in July 2015 for a total amount of RUB 15,000 mn;
- in November 2018, the Group had two placements of Eurobonds: in renminbi in the amount of CNH 1,500 mn (RUB 14,190 mn) and in rubles in the amount of RUB 15,000.

The fair value of the non-deliverable forward contract, recognized under the terms of transaction with PJSC VTB Bank, increased from RUB 20,716 mn (as of December 31, 2017) to RUB 31,896 mn (as of December 31, 2018). The main reason of the change in fair value of the forward contract is the local dynamics in the change of market price of RusHydro's shares for 2018.

Events after the reporting date

- On February 8, 2019, PJSC RusHydro has divested its 40% share in VolgaHydro, a hydropower equipment manufacturing joint venture in the Saratov region, to Voith for RUB 450 mn.

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

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

**EBITDA is calculated as operating profit/loss excluding depreciation of property, plant and equipment, amortization of intangible assets, income arising from the change in fair value of financial assets measured through profit or loss, impairment of property, plant and equipment, impairment of accounts receivable, profit / loss on disposal of property and subsidiaries and other non-cash items of operating income and expenses.

*** 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 accounts receivable, profit / loss on disposal of property, plant and equipment, as well as other operating income arising from the change in fair value of financial assets measured through profit or loss.

**** 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.

***** 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.

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

About RusHydro

RusHydro Group is one of Russia's largest generating companies. RusHydro is the leading producer of renewable energy in Russia with over 400 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 39.4 GW, heat capacity – 18.9 thousand GCal/h.

Russian Federation owns 60.56% 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 (MOEX). 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.