RusHydro

# RusHydro Group 9M 2020 IFRS results & market update

November 26, 2020



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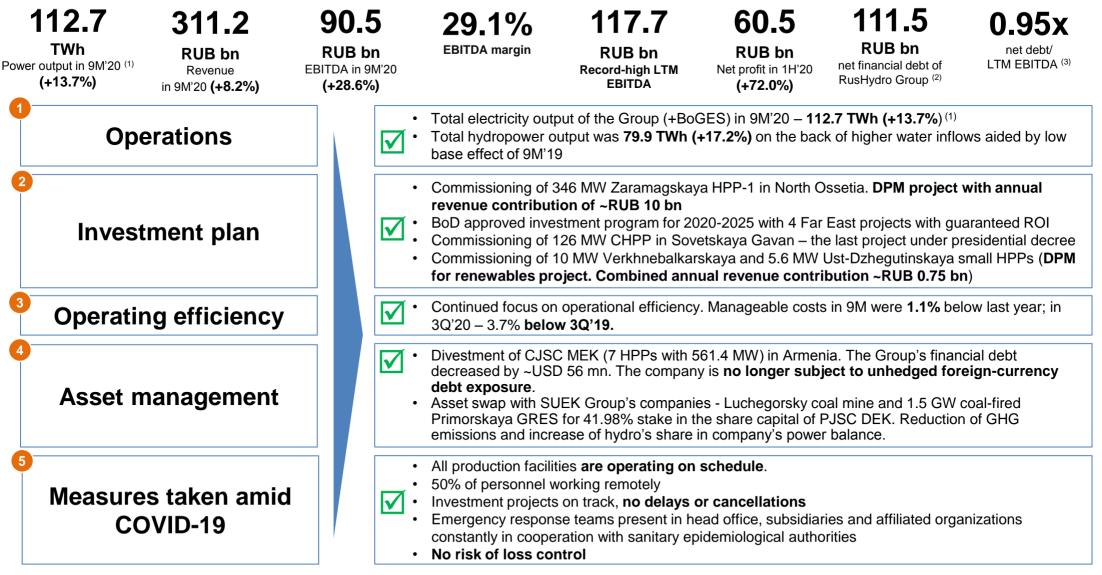
## l. Key highlights & operating results

- II. Market overview
- **III. Financial Results**
- IV. Update





Historic financial results following record electricity output, commissioning of new capacities, increase in electricity consumption in the Far East and effective management



1) including electricity output of Boguchanskaya HPP (50/50 JV with UC RUSAL)

(2) as of September 30, 2020.

(3) Net financial debt is calculated as gross financial debt minus cash and cash equivalents (including bank deposits maturing in less than one year)



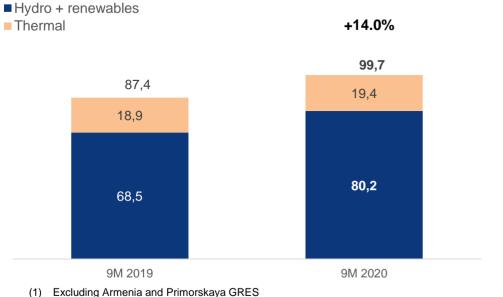
- Highest results in the company's history for the comparable period
- Solid 3Q performance with inflows above the normal level
- No volume risks foreseen in 4Q (please see slide 14)
- Strong October' 20 (please see slide 6)

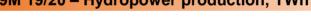
9M'19/20 – Total electricity production, TWh <sup>1</sup>

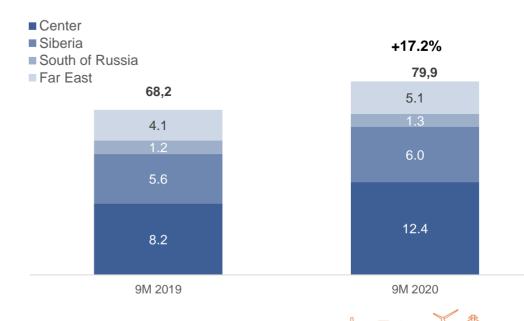
- 99.7 TWh (+14.0%) total electricity production by power plants of RusHvdro Group in 9M 2020:
  - **79.9 TWh (+17.2%)** total production by hydropower plants;
  - **19.4 TWh (+2.7%)** electricity production by fossil fuel plants in the Far East;
  - 0.3 TWh (+1.5%) electricity production by renewables.
- 19.1 million GCal (+1.7%) total heat output by thermal plants.
- 13.1 TWh (+11.1%) electricity production of Boguchanskava HPP.

- ↗ Volga-Kama HPPs, Siberia and Far East: water inflows to major reservoirs above the normal level:
- **RAO ES East:** single digit electricity generation 7 growth following increased HPP production in 1H'20 aided by consumption growth in the region.

#### 9M'19/20 – Hydropower production, TWh<sup>2</sup>







(2) Excluding Armenia and renewables



## Hydropower production trends 2017-2020 Stable production expected in 4Q'20

- All-time high 9M operating results following increase of water inflows:
  - Volga-Kama cascade, Far East and Siberia above the normal level
  - Electricity output at Sayano-Shushenskaya HPP in Sept'20 +15.5% against high base effect of Sept'19
  - · South of Russia at the normal level

4Q'20 outlook:

Siberia, GWh

1 350

1 250

1 1 5 0

1 0 5 0

950

850

Jan

Feb

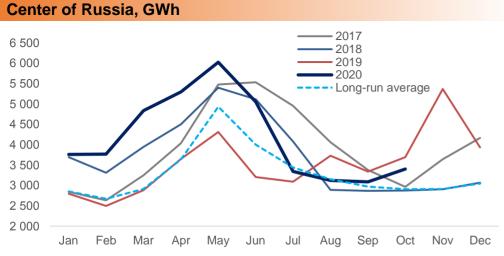
Mar

Apr

Mav

- October production above LY level in Siberia and the Far East and above the normal level in the Center of Russia
- Volga-Kama cascade, Siberia and the Far East inflows at the normal level or slightly above in 4Q

#### Favorable outlook expected for 4Q'20



#### 4 500 2017 2018 2019 4 000 2020 Long-run average 3 500 3 000 2 500 2 0 0 0 1 500 1 000 Jan Feb Aug Mar Apr Mav Jun Jul Sep Oct Nov Dec Far East, GWh 2017 1 7 5 0 2018 2019 1 6 5 0 2020 Long-run average 1 550 1 4 5 0

Jun

Aug-

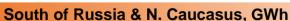
Sep

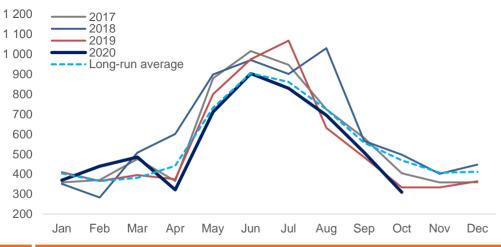
Oct

Jul

Dec

Nov





6



I. Key highlights & operating results



II. Market overview

**III. Financial Results** 

IV. Update

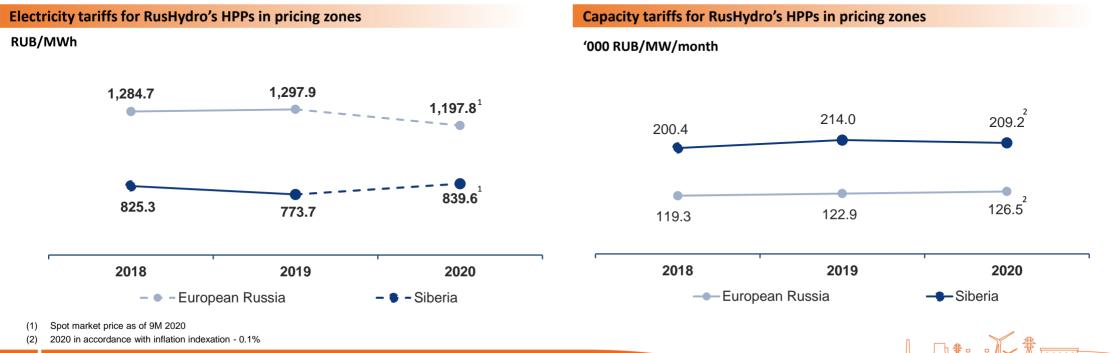




- Spot market price dynamics:
  - ✓ 2019: 1<sup>st</sup> price zone 1,298 RUB/MWh (+1.0% y-o-y), 2<sup>nd</sup> price zone 774 RUB/MWh (-6.3% y-o-y)
  - ✓ 9M 2020: 1<sup>st</sup> price zone 1,198 RUB/MWh (-10.2% y-o-y; -7.7% vs. 2019), 2<sup>nd</sup> price zone 840 RUB/MWh (+9.2% y-o-y; +8.5% vs. 2019)
  - ✓ Expected decrease in price driven by hydropower production growth is mitigated by production volume growth
- Capacity price dynamics:
  - 2019: 1st price zone 123k RUB/MW/month (+2.9% y-o-y), 2nd price zone 214k RUB/MW/month (+6.3% y-o-y)
  - ✓ 2020: 1<sup>st</sup> price zone 127k RUB/MW/month (+2.9% y-o-y), 2<sup>nd</sup> price zone 209k RUB/MW/month (-2.2% y-o-y)
  - ✓ KOM prices are expected to **show stable performance until 2025** with indexation (LY inflation less 0.1%)

#### HPPs under DPM projects:

- ✓ 2019: average selling capacity price 1,740k RUB/MW/month
- ✓ 9M 2020: average selling capacity price 2,285k RUB/MW/month
- Following the launch of Zaramagskaya HPP-1, Verkhnebalkarskaya and Ust-Dzhegutinskaya small HPPs, 2020 average selling capacity price is expected to increase by 34% and bring in additional annual revenue of RUB 10.75 bn.





I. Key highlights & operating results

II. Market overview



IV. Update



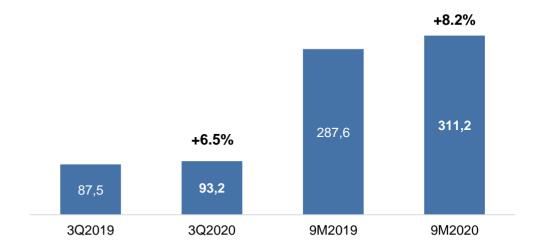


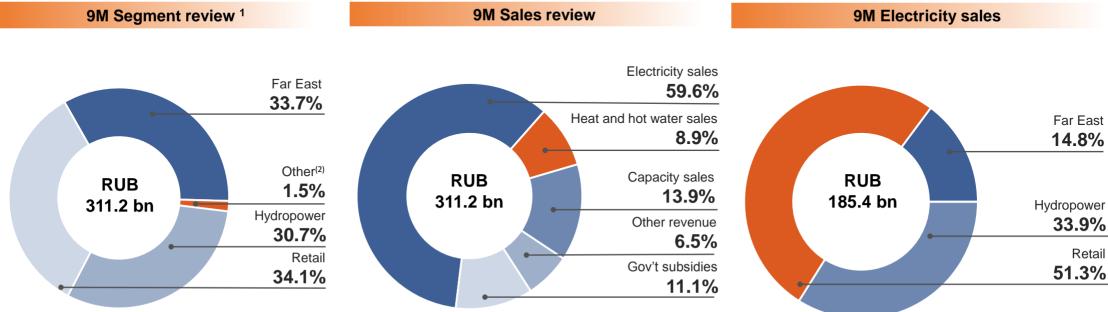
### 3Q and 9M 2020 Revenue Increase of water inflows and diversified asset base

#### Key highlights of 3Q and 9M 2020

- Revenue in 3Q'20 and 9M'20 increased by 6.5% and 8.2% to RUB 93.2 and RUB 311.2 bn, respectively, following hydropower production growth on the back of increased water inflows
- 73% of revenues in 9M 2020 came from electricity and capacity sales by Hydropower and Retail segments.
- Revenue from electricity increased mainly on the back of record-high sales volume growth

#### 3Q and 9M Revenue dynamics





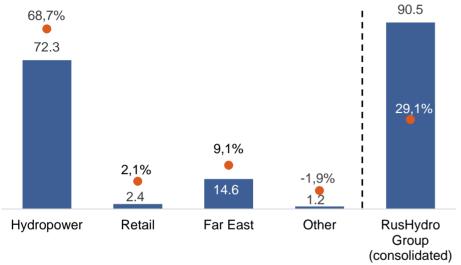
- (1) Segment structure according to Note 3 of the financial statements for additional information
- (2) Excluding intercompany operations

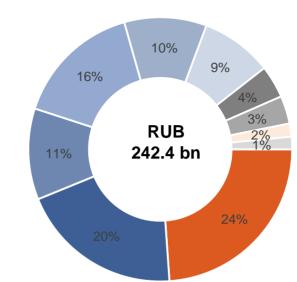


## 3Q and 9M 2020 EBITDA and profitability Solid hydropower performance, improvement in Far East

#### Key highlights of 3Q and 9M

- EBITDA increased by 16.5% and 28.6% in 3Q and 9m reaching RUB 22.9 bn and RUB 90.5 bn, respectively with EBITDA margins of 24.6% and 29.1% driven by solid production growth and additional contribution from newly launched Zaramagskaya HPP-1 (DPM), and Verhknebalkarskaya small-HPP (DPM for renewables)
- Manageable operating expenses (59% of total operating expenses) decreased by 3.7% and 1.1% in 3Q and 9M respectively
- Hydropower segment contributed **79.8%** of total EBITDA with segment EBITDA margin of **68.7%** in 9M'20
- Far East segment's performance improved with EBITDA margin of 9.1% in 9M'20 (vs. 7.3% in 9M'19)
- Highly profitable hydro generation reflects significantly lower production costs as compared to fossil fuel producers
   9M EBITDA & EBITDA margin dynamics <sup>1</sup>





#### **3Q and 9M EBITDA & EBITDA margin dynamics**



9M Operating expenses

Employee benefits

- Fuel costs
- Grid company services on electricity distribution
- Purchased electricity & capacity
- Third party services
- Depreciation
- Taxes
- Other materials
- Water usage
- Other expenses

■EBITDA ●EBITDA margin

(1) Other segments includes intercompany operations. Segment structure has changed. Please see Note 3 of the financial statements for additional information



I. Key highlights & operating results

II. Market overview

**III.** Financial Results







## Debt profile <sup>(1)</sup> Solid financial position. Ruble-denominated debt

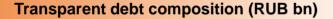
#### Key highlights

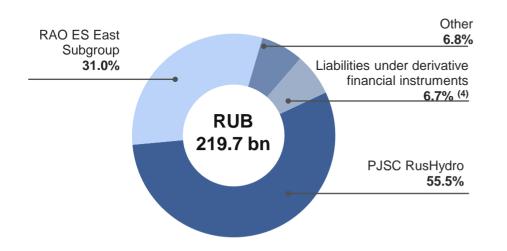
#### Debt repayment profile <sup>(3)</sup> (RUB bn)

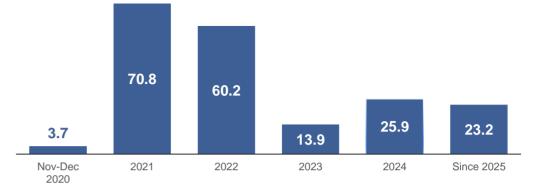
- Total financial debt as of October 31, 2020: RUB 219.7 bn
- Total debt is 100% ruble-denominated
- Low leverage with a Net Financial Debt / EBITDA at 0.95x <sup>(2)</sup>
- Average RUB interest rate of 6.7% p.a.<sup>(3)</sup> and comfortable weighted-average maturity of debt at 2.0 years
- Reduction of key rate has a direct effect on decrease of funding cost and consequently on weighted average cost of capital
- In light of Fitch's upgrade in November 2020, RusHydro's level long-term corporate credit ratings from the leading international credit rating agencies (S&P/Moody's/Fitch) are now at sovereign investment grade and the highest grade according to the scale of the national rating agency ACRA

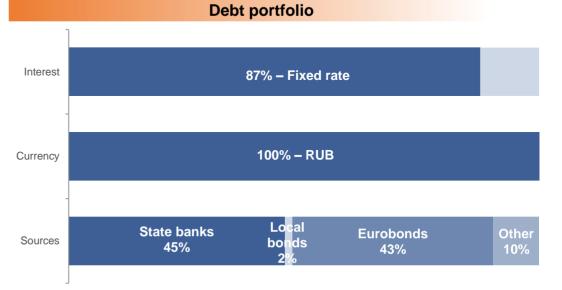
#### Current RusHydro Group's credit ratings

S&P	Moody's	Fitch	ACRA
BBB- (stable)	Baa3 (stable)	BBB (stable)	AAA(RU) (stable)









(1) As of October 31, 2020

(2) In accordance with the latest RusHydro Group's IFRS results as of 30 September 2020. LTM EBITDA is used towards EBITDA calculation (EBITDA for the previous 12 month period calculated as EBITDA for the 9 months ended 30 September 2020, plus EBITDA for the full year 2019, minus EBITDA for the 9 months ended 30 September 2019).

(3) Debt excluding interest payments, lease liabilities and obligations under derivative financial instruments (forward contract with VTB)

(4) Liabilities under derivative financial instruments recorded at fair value in RusHydro Group's IFRS as of Septemebr 30, 2020 (forward contract with VTB in the amount of RUB 14.654 bn)



Operations	<ul> <li>RusHydro maintains solid operational outlook through 4Q'2020</li> <li>Increase in production following launch of Nizhne-Bureyskaya HPP, Zaramagaskaya HPP-1 and Sakhalinskaya GRES-2</li> </ul>
2 Financial performance	<ul> <li>Following commissioning of new generating facilities RusHydro Group expects solid revenue growth with EBITDA margin in the range of 25-30%</li> </ul>
3 Dividends	<ul> <li>2021-2022 impairment free, no major projects are planned for completion. Solid dividend growth expected in the mid-term</li> <li>Dividend policy maintains 50% of IFRS net profit as base case but not less than the average of last three years</li> </ul>
Far East business	<ul> <li>Completion of feasibility studies and approval of guaranteed rate of return regarding 4 projects in the Far East included in the framework of the government's program for modernization of thermal capacity: Vladivostokskaya CHP-2, Artyomovskaya CHP-2, Khabarovskaya CHP-4 and Yakutskaya GRES-2 – all facilities will be natural gas powered.</li> <li>Roll-out of final regulation and approval of tariffs for non-price zones of the Russian Far East, incl. approval of compensation of prior tariff losses</li> </ul>
5 Capacity additions	<ul> <li>Increase of installed capacity by 508 MW in 2020: Zaramagskaya HPP-1 (346 MW); CHP in Sovetskaya Gavan (126 MW), 3 small HPPs in the North Caucasus (21 MW) and modernization (15 MW)</li> </ul>
6 Leverage	<ul> <li>Notwithstanding commissioning of new generating facilities, the Group's Net Debt/EBITDA is expected to be below 2x on the back of revenue growth, cost optimization and flexible schedule of financing its investment program</li> </ul>
Pandemic risks. Limited exposure	<ul> <li>Delay of payments – affects mostly Retail segment, which represents a small share in company's EBITDA.</li> <li>Wholesale market – less than 1%.</li> <li>Retail segment – 1.6%.</li> <li>Far East segment – less than 1%.</li> <li>Increase of accounts receivable in the Far Eastern segment will be partially mitigated by the tariff-smoothing mechanism</li> </ul>

Record 9M results create lay foundation for positive medium-term growth outlook with a solid focus on delivering shareholder value



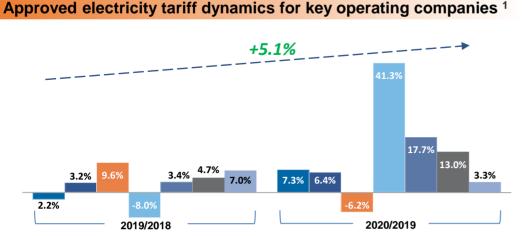
## Appendix





## Market overview: RAO ES East tariff regulation Improvement of financial shape

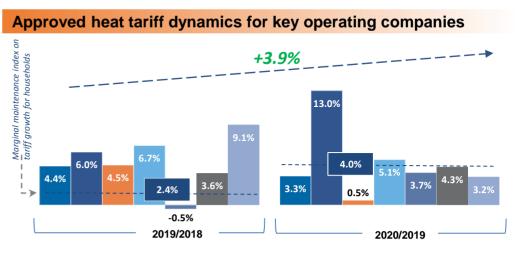
In 2020 average growth of electricity and heat tariffs in the Far Eastern Federal District amounted to 5.1% and 3.9% respectively



■ DGK ■ Kamchatskenergo ■ Magadanenergo ■ Chukotenergo ■ Sakhalinenergo ■ Yakutskenergo ■ Sakhaenergo

#### **RAO ES East subsidies**

- ✓ 2020 Price surcharge (tariff smoothing mechanism) is expected at RUB 29.0 bn (+22.0%)
- ✓ Other government subsides (incl. fuel cost) are expected slightly above 2019 level



DGK Kamchatskenergo Agadanenergo Chukotenergo Sakhalinenergo Yakutskenergo Sakhaenergo

#### **Key priorities**

- ✓ Extension of tariff smoothing mechanism until 2028 (order of the President of the Russian Federation)
- ✓ Introduction of long-term (5 years) tariff regulation in the Far East (starting 01.01.2021) on the basis of necessary gross revenue indexation in non-price and isolated zones. Adjustment of indexed expenses will allow gross revenue and tariffs for electricity generation to reach more economically justified levels
- ✓ Conversion of Artemovskaya CHPP-2 to natural gas focus on ESG strategy

Tariff growth including subsidies for RAO ES East companies, in line or higher than inflation aided by increase in consumption above the country-average level contributes to improvement of financial performance

(1) In accordance with tariff smoothing mechanism



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### On March 26, 2020 the Board of Directors approved RusHydro's new investment program for RUB 632 bn<sup>2</sup>.

Key differences vs. prior investment program

- Term of the program 6 years vs. 5 years for the prior investment program
- New investment program includes 4 DPM-2 projects (funding of RUB 216 bn incl. VAT)

Key highlights		Investment	plan for 202	<mark>0-2025,</mark> RUE	<mark>8 bn (incl.</mark> V/	AT)
Over <b>1.6 GW of new electric capacity</b> and 2,402 Gcal/h of heat capacity			Nev	East subsidiaries		he government
Construction and modernization of <b>over 161 km of heat and 7.8</b> thousand km of power lines		<ul> <li>Modernization projects approved by the government</li> <li>Priority thermal projects in the Far East</li> <li>Modernization (hydro)</li> <li>118.3</li> </ul>				
	108.6	111.3	3.2			
CHPP in Sovetskaya Gavan remains the last legacy project for commissioning in 2020	6.7	5.0	29.2	103.0 2.3	100.2 2.4	91.2
No major projects for 2021-2022	42.8	32.2	40.0	25.3	22.3	2.6
4 new projects with <b>guaranteed return on investment</b> ( <i>please see slide 19 in Appendix</i> )	42.0	18.6	10.8	2.6		20.0
<b><u>CAPEX forecast based on highest capped figures</u></b> , and management seeks to optimize annual spending to ensure stable financial position of the Group	12.7	30.0	45.3	43.1	45.8	39.4
Investment program is <b>balanced in terms of financing sources</b> .	8.8					
Modernization program is carried out according to the schedule	25.2	25.0	29.8	29.7	29.7	29.2
	2020	2021	2022	2023	2024	2025
<ol> <li>Investment plans of retail subsidiaries, other subsidiaries and R&amp;D</li> <li>Evaluting Regulational LPD</li> </ol>						1

(2) Excluding Boguchanskaya HPP

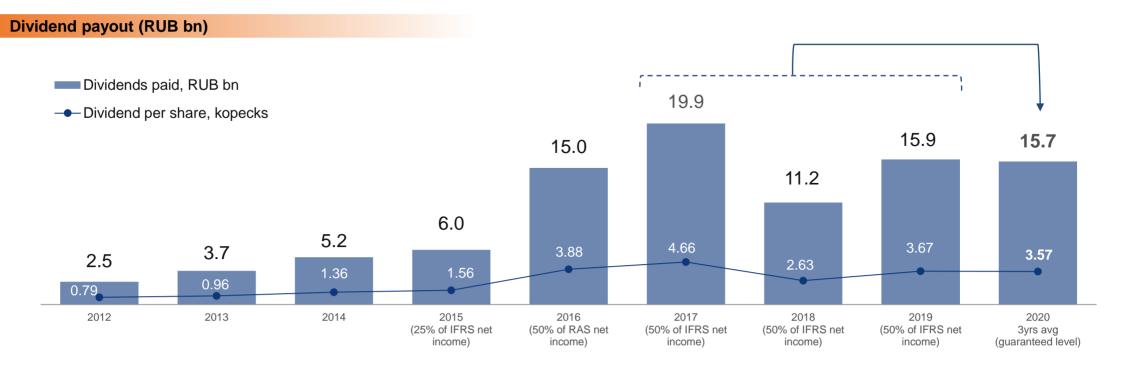


#### Key highlights

 To improve predictability and consistency of forecasting dividend payments Board of Directors approved an amended 3year dividend policy setting a minimum dividend threshold at average dividend paid over the previous three years:

$$Div_{min} = (Div_{-3year} + Div_{-2year} + Div_{-1year}) / 3$$

- The new dividend policy maintains 50% of IFRS net profit as base case.
- Dividend policy is approved for three-year period.





In July 2019 the Government approved all 4 projects submitted by RusHydro for modernization

#### **Characteristics**

19

- Long-term plan for capacity renewal and development of the Group's assets will run through 2027
- Decommissioning of thermal capacity: 1.6 GW
- Commissioning of capacity under the modernization plan: 1.3 GW
- Guaranteed return on invested capital given the projects are financed by all consumers of the wholesale market (DPM-2)
- All 4 projects will be natural-gas powered

#### Approved projects for modernization



Yakutskaya GRES-1 Decommissioning of 368 MW Commissioning of 154 MW (2<sup>nd</sup> phase) on Yakutskaya



Khabarovskava CHP-1 Decommissioning of 435 MW Commissioning of Khabarovskava CHP-4



Artyomovskaya CHP Decommissioning of 400 MW Commissioning of Artvomovskava CHP-2



Vladivostokskaya CHP-2 Modernization of 360 MW (increase of installed capacity





## Selected consolidated financial information

Consolidated income statement	9 months ended	30 September	
RUB mn	2020	2019	
Revenue	276,767	258,284	
Government grants	34,466	29,336	
Other operating income	911	614	
Expenses (excl. impairment)	(242,395)	(236,621)	
Impairment	(4,091)	(5,962)	
Operating profit	69,749	51,613	
Finance income	20,754	8,867	
Finance costs	(11,399)	(7,022)	
Share of results of associates and JVs	(198)	505	
Profit before income tax	74,815	48,001	
Income tax expense	(14,344)	(12,844)	
Profit for the period	60,471	35,157	
Consolidated statement of cash flows	9 months ended 3	9 months ended 30 September	
RUB mn	2020	2019	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax	74,815	48,001	
D&A	21,235	18,894	
Other adjustments	(5,116)	3,431	
Operating cash flows	90,934	70,326	
Working capital and other changes	(8,194)	(14,329)	
Income tax paid	(13,997)	(10,628)	
Net cash generated by operating activities	68,743	45,369	
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	(37,007)	(51,320)	
Changes in bank deposits and other investments	5,817	8,752	
Interest and dividends received	4,322	5,745	
Other investing cash flows	(1,007)	450	
Net cash used in investing activities	(23,878)	(36,373)	
CASH FLOWS FROM FINANCING ACTIVITIES			
Prepayment on forward contract	(2,072)	(3,731)	
Proceeds from share issue	6,000	7,000	
Proceeds from current debt	30,636	38,381	
Proceeds from non-current debt	32,885	45,705	
Repayment of debt	(63,079)	(83,57)	
Interest paid	(10,996)	(11,348)	
Dividends paid	(10,000)	(15,905)	
	(908)	(755)	
Other financing cash flows Net cash used in financing activities	(7,775)	(24,230)	
Effect of forex	(24)	( <b>24</b> , <b>230</b> ) 14	
(Decrease)/Increase in cash and cash equivalents	33,066	(15,220))	

Consolidated statement of financial position	As at 30.09.2020	As at 31.12.2019
RUB mn		
ASSETS		
Non-current assets		
Property, plant and equipment	692,297	677,862
Investments in associates and JVs	16,662	16,396
Deferred income tax assets	18,865	19,259
Other non-current assets	25,654	20,27
Total non-current assets	753,478	733,78
Current assets		
Cash and cash equivalents	74,113	41,04
Income tax receivable	4,230	2,558
Accounts receivable and prepayments	56,582	54,25
Inventories	39,052	34,380
Other current assets	47,937	59,08
Total current assets	221,914	191,33
TOTAL ASSETS	975,392	925,11
EQUITY AND LIABILITIES		
Equity		
Share capital	439,289	426,28
Treasury shares	(4,613)	(4,613
Share premium	39,202	39,20
Retained earnings and other reserves	142,821	104,78
Non-controlling interest	5,282	4,21
TOTAL EQUITY	621,981	569,87
Non-current liabilities		
Deferred income tax liabilities	17,050	15,25
Non-current debt	148,685	162,52
Non-deliverable forward contract	14,654	28,51
Other non-current liabilities	26,787	22,36
Total non-current liabilities	207,176	228,65
Current liabilities		
Current debt	57,603	39,43
Accounts payable and accruals	69,692	59,64
Accounts payable in respect of share issue	-	7,00
Current income tax payable	383	78
Other taxes payable	18,287	16,43
Total current liabilities	146,235	126,58
TOTAL LIABILITIES	353,411	355,24
TOTAL EQUITY AND LIABILITIES	975,392	925,119



## Thank you for your attention

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