

## RusHydro

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- I. Key highlights & operating results
- II. Market overview
- III. Financial Results
- IV. Update





## Key figures & highlights of 1H 2020

RusHydro has managed to deliver record-high financial results benefiting from operational efficiency growth, sustainability of our business model and commissioning of new capacities

77.7

TWh
Power output in 1H'20 (1)
(+23.6%)

218.1

RUB bn Revenue in 1H'20 (+9.0%) 67.7

**RUB bn**EBITDA in 1H'20 **(+33.3%)** 

31.0%

**EBITDA** margin

114.4

RUB bn Record-high LTM EBITDA 46.8

**RUB bn**Net profit in 1H'20
(+59.4%)

110.4

RUB bn net do net financial debt of LTM EBI RusHydro Group (2)

net debt/

0.96x

Operations

2

**Investment plan** 

Operating efficiency

4

**Asset management** 

Measures taken amid COVID-19



- Total electricity output of the Group (+BoGES) in 1H'20 77.7 TWh (+23.6%) (1)
- Total hydropower output was 54.7 TWh (+29.6%) on the back of higher water inflows aided by low base effect of 1H'19





- Board of Directors approved new investment program for 2020-2025 with 4 Far East projects with quaranteed return on investment
- Commissioning of 10 MW Verkhnebalkarskaya small HPP (**DPM for renewables project.**Annual revenue contribution ~RUB 0.5 bn)



Continued focus on operational efficiency. Manageable costs in 1H were flat to last year; in 2Q'20 – 2% below 2Q'19.



- Divestment of CJSC MEK (7 HPPs with 561.4 MW) in Armenia. The Group's financial debt decreased by ~USD 56 mn. The company is **no longer subject to unhedged foreign-currency debt exposure**.
- Asset swap with SUEK Group's companies Luchegorsky coal mine and 1.5 GW coal-fired Primorskaya GRES for 41.98% stake in the share capital of PJSC DEK. Reduction of GHG emissions and increase of hydro's share in company's power balance.
- All production facilities are operating on schedule.
- Investment projects on track, no delays or cancellations



- Emergency response teams present in head office, subsidiaries and affiliated organizations constantly in cooperation with sanitary epidemiological authorities
- · No risk of loss control
- (1) including electricity output of Boguchanskaya HPP (50/50 JV with UC RUSAL)
- (2) as of June 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)

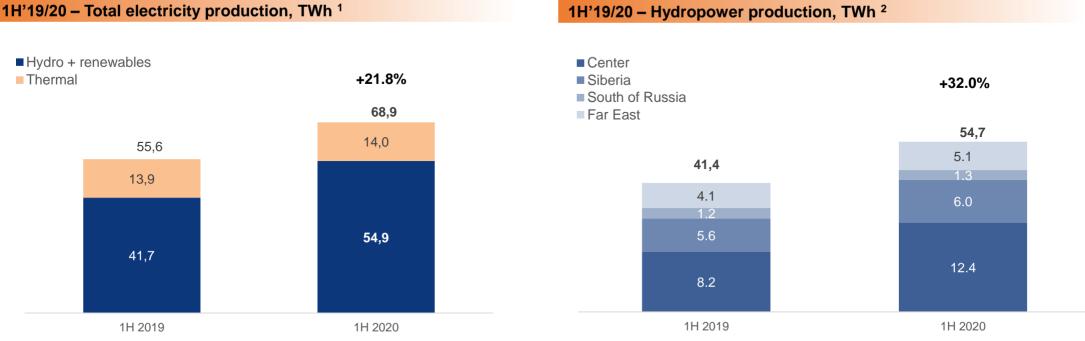




### 1H 2020 operating results Stellar performance, no volume risks foreseen

- The reservoirs of the Volga-Kama cascade were filled to the maximum level following strong water inflows
- Production in July at the normal level (please see slide 6)
- · No volume risks foreseen going forward
  - **68.9 TWh (+21.8%)** total electricity production by power plants of RusHydro Group in 1H 2020:
    - 54.7 TWh (+32.0%) total production by hydropower plants;
    - 14.0 TWh (+0.5%) electricity production by fossil fuel plants in the Far East;
    - 0.2 TWh (+2.8%) electricity production by renewables.
  - 17.0 million GCal (+1.9%) total heat output by thermal plants.
  - 8.8 TWh (+20.2%) electricity production of Boguchanskaya HPP.

- → Volga-Kama HPPs, Siberia and Far East: water inflows to major reservoirs above the normal level;
- **RAO ES East**: flat electricity generation following increased HPP production and consumption growth.



<sup>(2)</sup> Excluding Armenia and renewables

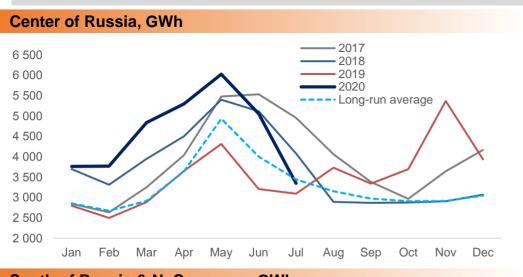


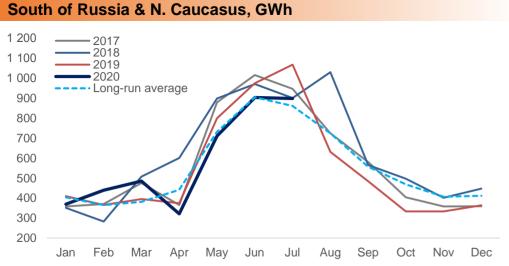
# Hydropower production trends 2017-2020 Stable production expected in 3Q'20

- Stellar operational results in 1H'20 following increase of water inflows:
  - Volga-Kama cascade inflows to Rybinskaya, Zhigulevskaya and Kamskaya HPPs at all time-high historic level
  - Far East and Siberia 30-85% above the normal level
  - South of Russia at the normal level

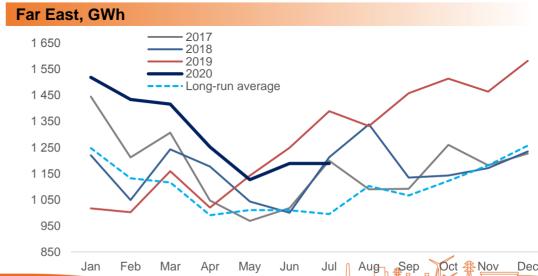
- Stable production expected in 3Q'20:
  - Far East– inflows above the normal level,
  - Volga-Kama cascade, Siberia and South inflows at the normal level.
  - As of end of August, water storage at the majority of the reservoirs is at the normal level or slightly above

#### Favorable outlook expected for 2H'20











I. Key highlights & operating results



**II. Market overview** 

III. Financial Results

IV. Update



# Market overview Stable pricing environment

#### Spot market price dynamics:

- ✓ 2019: 1st price zone 1,298 RUB/MWh (+1.0% y-o-y), 2nd price zone 774 RUB/MWh (-6.3% y-o-y)
- ✓ 1H 2020: 1st price zone 1,147 RUB/MWh (-11.6% vs. 2019), 2nd price zone 880 RUB/MWh (+13.8% vs. 2019)
- ✓ Expected decrease in price driven by hydropower production growth is mitigated by production volume growth

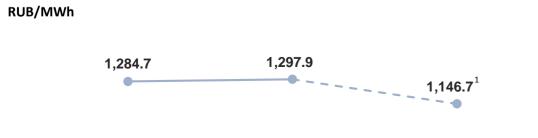
#### Capacity price dynamics:

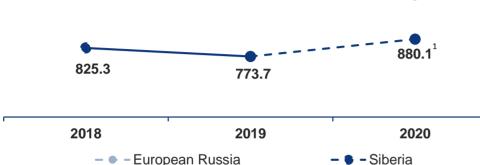
- ✓ 2019: 1st price zone 123k RUB/MW/month (+2.9% y-o-y), 2nd price zone 214k RUB/MW/month (+6.3% y-o-y)
- ✓ 2020: 1st price zone 127k RUB/MW/month (+2.9% y-o-y), 2nd price zone 209k RUB/MW/month (-2.2% y-o-y)
- ✓ KOM prices are expected to **show stable performance until 2025** with indexation (LY inflation less 0.1%)

#### HPPs under DPM projects:

**Electricity tariffs for RusHydro's HPPs in pricing zones** 

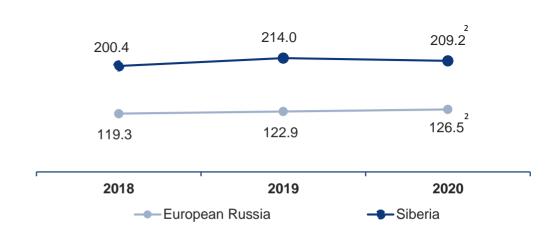
- ✓ 2019: average selling capacity price 1,740k RUB/MW/month
- ✓ 1H 2020: average selling capacity price 2,279k RUB/MW/month
- ✓ Following the launch of Zaramagskaya HPP-1 and Verkhnebalkarskaya small HPP, 2020 average selling capacity price is expected to increase by 33% and bring in additional annual revenue of RUB 10.5 bn.





#### Capacity tariffs for RusHydro's HPPs in pricing zones

'000 RUB/MW/month



Spot market price as of 1H 2020

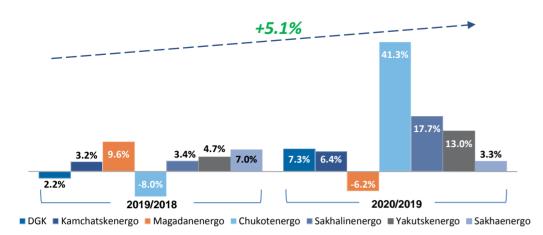
<sup>(2) 2020</sup> in accordance with inflation indexation - 0.1%

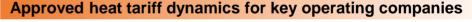


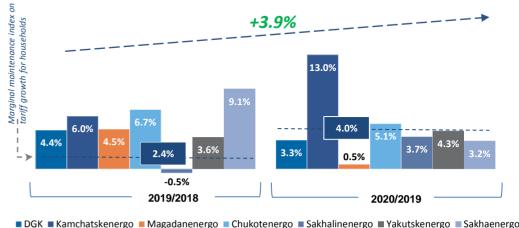
## Market overview: RAO ES East tariff regulation Improvement of financial shape

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

#### Approved electricity tariff dynamics for key operating companies 1







#### **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 at 2019 level

#### **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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**III. Financial Results** 

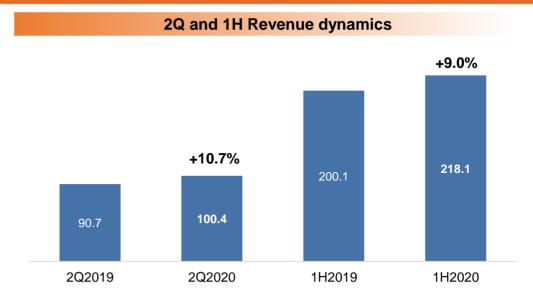
IV. Update

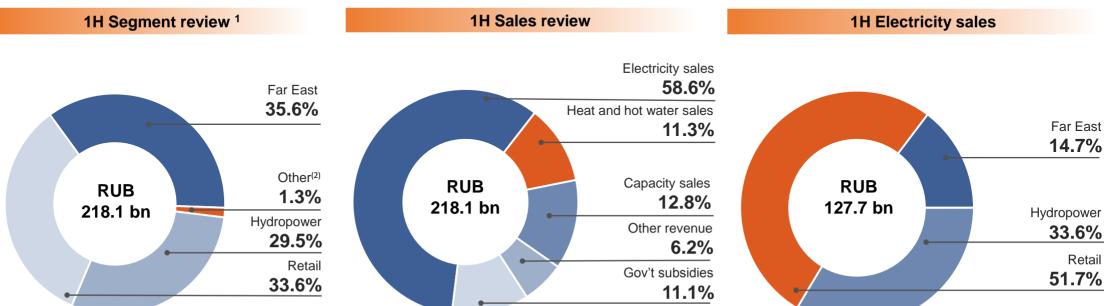


## 2Q and 1H 2020 Revenue Increase of water inflows and diversified asset base

#### Key highlights of 2Q and 1H 2020

- Revenue in 2Q'20 and 1H'20 increased by 10.7% and 9.0% to RUB 100.4 and RUB 218.1 bn, respectively, following hydropower production growth on the back of increased water inflows
- 71% of revenues in 1H 2020 came from electricity and capacity sales by Hydropower and Far East segments.
- Revenue from electricity increased mainly on the back of record-high sales volume growth





<sup>(1)</sup> Segment structure according to Note 3 of the financial statements for additional information



<sup>(2)</sup> Excluding intercompany operations



# 2Q and 1H 2020 EBITDA and profitability Solid hydropower performance, improvement in Far East

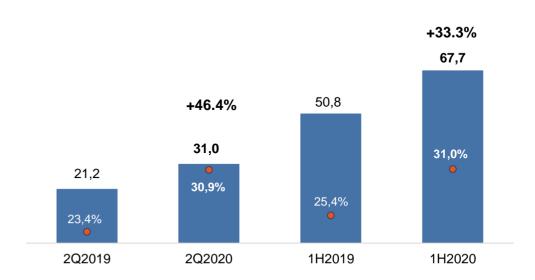
#### Key highlights of 2Q and 1H

- EBITDA increased by 46.4% and 33.3% in 2Q and 1H reaching RUB 31.0 bn and RUB 67.7 bn, respectively with EBITDA margins of 30.9% and 31.0% driven by solid production growth and additional contribution from newly launched Zaramagskaya HPP-1 (DPM) and Verhknebalkarskaya smaller-HPP (DPM for renewables)
- Manageable operating expenses (60% of total operating expenses) increased insignificantly in 1H (+0.04% y-o-y, below inflation) and decreased by 2.0% in 2Q
- Hydropower segment contributed 73.4% of total EBITDA with segment EBITDA margin of 70.1% in 1H'20 (71.1% in 2Q 2020)
- Far East segment's performance improved with EBITDA margin of **13.2%** in 1H'20 (vs. 10.4% in 1H'19)
- Highly profitable hydro generation reflects significantly lower production costs as compared to fossil fuel producers

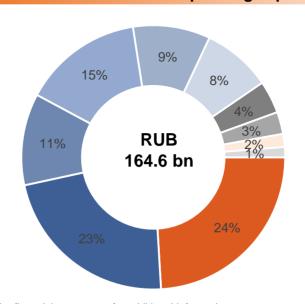
#### 1H EBITDA & EBITDA margin dynamics 1



#### **2Q and 1H EBITDA & EBITDA margin dynamics**



#### 1H 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



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



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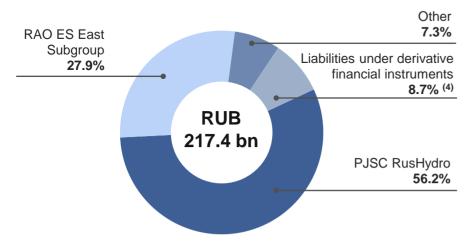
# Debt profile <sup>(1)</sup> Solid financial position. Ruble-denominated debt

#### **Key highlights**

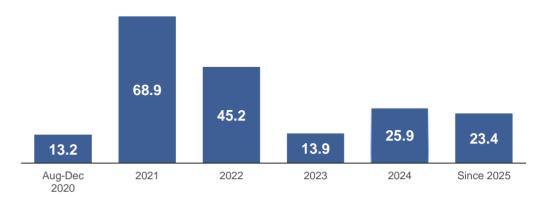
- Total financial debt as of July 31, 2020: RUB 217.4 bn
- Total debt is 100% ruble-denominated following successful divestment of PJSC MFK
- Low leverage with a Net Financial Debt / EBITDA at 0.96x (2)
- Average RUB interest rate of 7.0% p.a.<sup>(3)</sup> and comfortable weighted-average maturity of debt at 2.2 years
- Reduction of key rate has a direct effect on decrease of funding cost and consequently on weighted average cost of capital
- The investment grades from the leading international rating agencies S&P/Moody's/Fitch and the highest grade according to the scale of the national rating agency ACRA

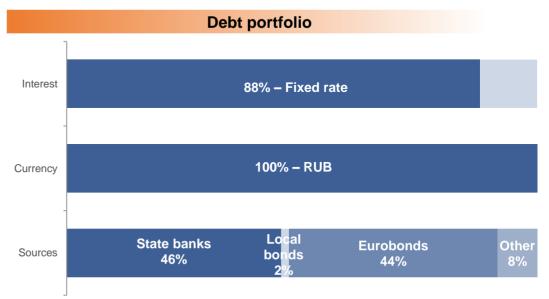
S&P	Moody's	Fitch	ACRA
BBB- (stable)	Baa3 (stable)	BBB- (stable)	AAA(RU) (stable)

#### **Transparent debt composition (RUB bn)**



#### Debt repayment profile (3) (RUB bn)





<sup>(1)</sup> As of July 31, 2020

<sup>(2)</sup> In accordance with the latest RusHydro Group's IFRS results as of 30 June 2020. LTM EBITDA is used towards EBITDA for the previous 12 month period calculated as EBITDA for the 6 months ended 30 June 2020, plus EBITDA for the full year 2019, minus EBITDA for the 6 months ended 30 June 2019).

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

<sup>(4)</sup> Liabilities under derivative financial instruments recorded at fair value in RusHydro Group's IFRS as of June 30, 2020 (forward contract with VTB in the amount of RUB 18.836 bn)



### 2020 outlook and key drivers of financial performance

Operations

- RusHydro maintains solid operational outlook through 2H'2020
- Increase in production following launch of Nizhne-Bureyskaya HPP, Zaramagaskaya HPP-1 and Sakhalinskaya GRES-2

Financial performance

• Following commissioning of new generating facilities RusHydro Group expects solid revenue growth with **EBITDA margin** in the range of **25-30**%

Dividends

- 2020 dividends protected by the new policy (2019 IFRS net profit RUB 643 mn). Not less than the last 3-year average.
- 2021-2022 will be impairment free as no major projects are planned for completion. Solid dividend growth expected in the midterm

Far East business

- 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.
- 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

Capacity additions

• Increase of installed capacity **by 508 MW in 2020**: Zaramagskaya HPP-1 (346 MW); CHP in Sovetskaya Gavan (126 MW), 3 smaller HPPs in the North Caucasus (21 MW) and modernization (15 MW)

Leverage

• 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

Pandemic risks. Limited exposure

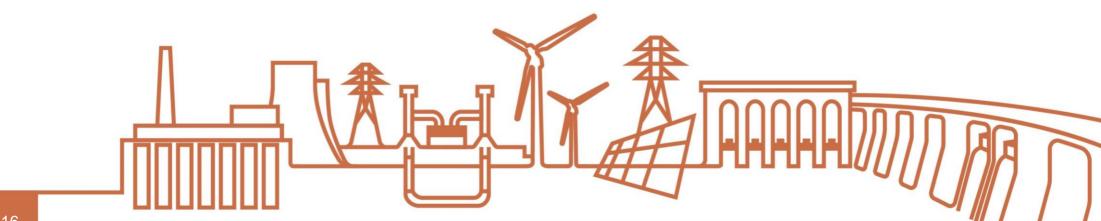
- Delay of payments affects mostly retail and Far East segments. Both businesses represent a small share in company's EBITDA.
  - Wholesale market no change y-o-y.
  - Retail segment less than 1%.
  - Far East segment less than 1%.
- Increase of accounts receivable in the Far Eastern segment will be partially mitigated by the tariff-smoothing mechanism

Record half-year results create the backbone for positive medium-term growth outlook with a solid focus on delivering shareholder value





## **Appendix**



## Capex: investment plan 2020-2025 Well-balance in terms of financing sources

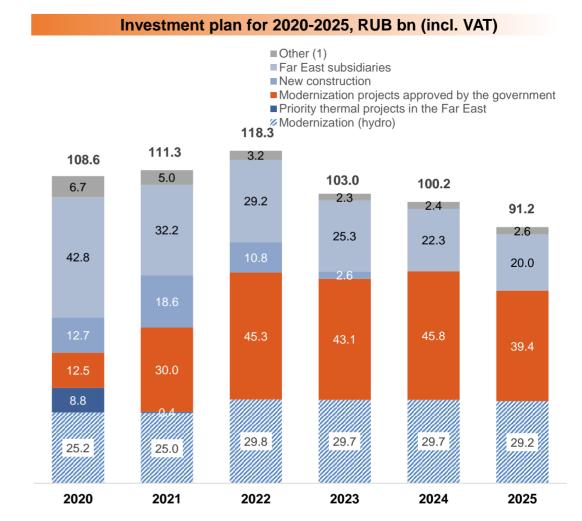
### On March 26, 2020 the Board of Directors approved RusHydro's new investment program for RUB 632 bn<sup>2</sup>.

#### 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**

- Over 1.6 GW of new electric capacity and 2,402 Gcal/h of heat capacity
- Construction and modernization of over 161 km of heat and 7.8 thousand km of power lines
- CHPP in Sovetskaya Gavan remains the last legacy project for commissioning in 2020
- No major projects for 2021-2022
- 4 new projects with guaranteed return on investment (please see slide 19 in Appendix)
- <u>CAPEX forecast based on highest capped figures</u>, and management seeks to optimize annual spending to ensure stable financial position of the Group
- Investment program is balanced in terms of financing sources.
- Modernization program is carried out according to the schedule



<sup>(1)</sup> Investment plans of retail subsidiaries, other subsidiaries and R&D

<sup>(2)</sup> Excluding Boguchanskaya HPP

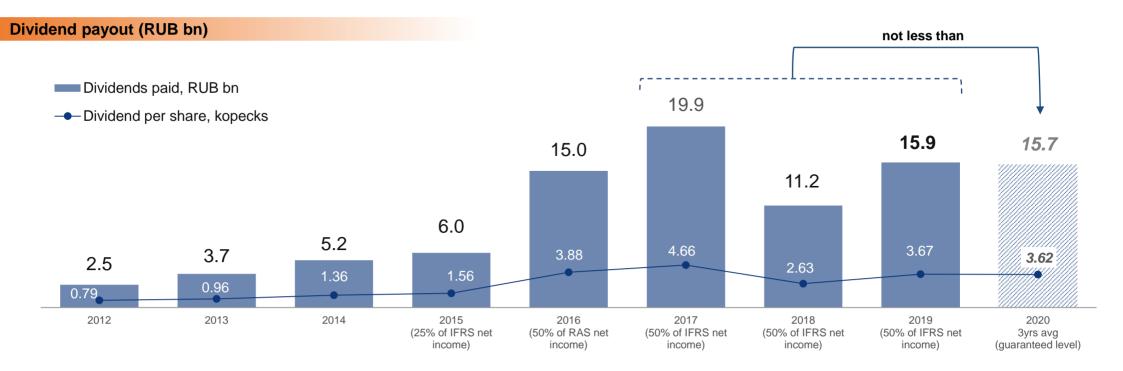
## Dividends New policy ensures guaranteed payout

#### **Key highlights**

• To improve predictability and consistency of forecasting dividend payments Board of Directors approved an amended 3-year 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**

- 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**





## Selected consolidated financial information

Consolidated income statement	6 months ended 30 June	
RUB mn	2020	2019
Revenue	193,866	180,890
Government grants	24,191	19,244
Other operating income	861	470
Expenses (excl. impairment)	(164,613)	(162,403)
Impairment	(3,778)	(5,783)
Operating profit	50,527	32,418
Finance income	13,098	9,939
Finance costs	(6,327)	(4,990)
Share of results of associates and JVs	106	463
Profit before income tax	57,404	37,830
Income tax expense	(10,579)	(8,445)
Profit for the period	46,825	29,385
Consolidated statement of cash flows	6 months ended 30 June	
RUB mn	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:	'	
Profit before income tax	57,404	37,830
D&A	13,919	12,460
Other adjustments	(3,579)	308
Operating cash flows	67,744	50,598
Working capital and other changes	(5,090)	(8,432)
Income tax paid	(9,071)	(8,788)
Net cash generated by operating activities	53,583	33,378
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(22,998)	(33,200)
Changes in bank deposits and other investments	(3,532)	5,688
Interest and dividends received	2,733	3,848
Other investing cash flows	56	27
Net cash used in investing activities	(23,741)	(23,637)
CASH FLOWS FROM FINANCING ACTIVITIES		, , ,
Prepayment on forward contract	(1,299)	(2,493)
Proceeds from share issue	6,000	7,000
Proceeds from current debt	17,589	25,001
Proceeds from non-current debt	18,499	14,438
Repayment of debt	(44,005)	(49,703)
Interest paid	(7,091)	(6,962)
Dividends paid	(216)	-
Other financing cash flows	(495)	(612)
Net cash used in financing activities	(11,018)	(13,331)
Effect of forex	(29)	(2)
(Decrease)/Increase in cash and cash equivalents	18,795	(3,592)

Consolidated statement of financial position	As at 30.06.2020	As at 31.12.2019
RUB mn		
ASSETS		
Non-current assets		
Property, plant and equipment	685,341	677,862
Investments in associates and JVs	16,155	16,396
Deferred income tax assets	19,671	19,259
Other non-current assets	23,136	20,271
Total non-current assets	743,773	733,788
Current assets		
Cash and cash equivalents	59,842	41,047
Income tax receivable	2,100	2,558
Accounts receivable and prepayments	58,604	54,251
Inventories	30,372	34,386
Other current assets	57,817	59,089
Total current assets	208,735	191,331
TOTAL ASSETS	953,038	925,119
EQUITY AND LIABILITIES		
Equity		
Share capital	426,289	426,289
Treasury shares	(4,613)	(4,613)
Share premium	39,202	39,202
Retained earnings and other reserves	144,472	104,786
Non-controlling interest	6,073	4,211
TOTAL EQUITY	611,424	569,875
Non-current liabilities		
Deferred income tax liabilities	16,930	15,255
Non-current debt	139,950	162,528
Non-deliverable forward contract	18,336	28,510
Other non-current liabilities	26,448	22,366
Total non-current liabilities	202,164	228,659
Current liabilities		
Current debt	56,057	39,435
Accounts payable and accruals	52,772	59,645
Accounts payable in respect of share issue	13,000	7,000
Current income tax payable	341	785
Other taxes payable	17,280	16,439
Total current liabilities	139,450	126,585
TOTAL LIABILITIES	341,614	355,244
TOTAL EQUITY AND LIABILITIES	953,038	925,119





## Thank you for your attention

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