

Economics and finance

Key financial indicators¹ [103-2]

RusHydro Group's financial results reflect a decrease in electricity generation in 1H 2019 due to lower water inflow to the majority of HPP reservoirs, a drop in DAM prices in Siberia during 2H 2019, and the impairment of fixed assets reaching its peak as a result of commissioning of large hydropower plants in the Far East.

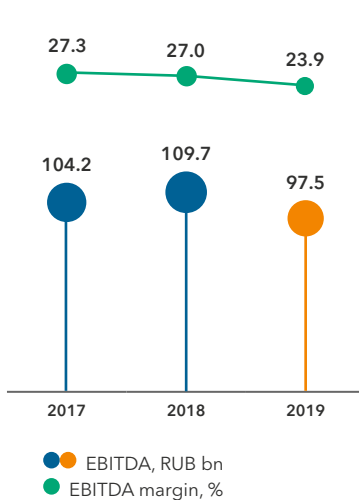
Income indicators

Metric ²	2017	2018	2019	2019-2018
EBITDA, RUB mn	104,180	109,673	97,544	-12,129
EBITDA margin, %	27.3	27.0	23.9	-3.1 p.p.
Net income, RUB mn	24,774	31,837	643	-31,194
Net margin, %	6.5	7.8	0.2	-7.6 p.p.
Earnings per share (EPS), RUB	0.0656	0.0739	0.0121	-0.0618
Return on assets (ROA), %	2.8	3.4	0.1	-3.3 p.p.
ROE, %	4.5	5.5	0.1	-5.4 p.p.
Adjusted net income, RUB mn	65,738	70,757	51,547	-19,210

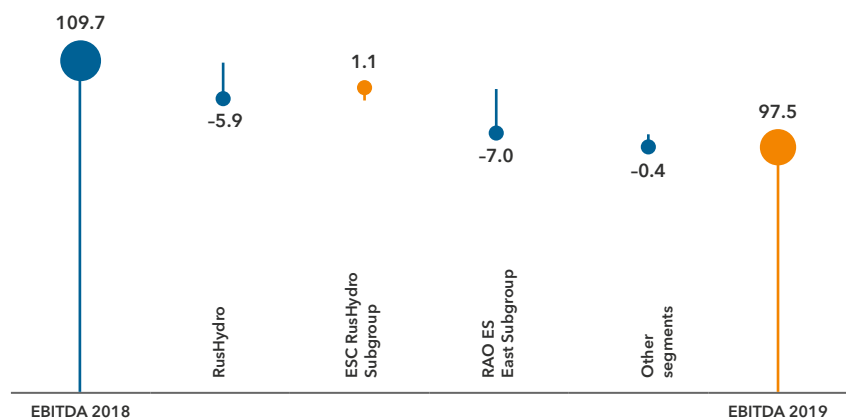
In the reporting period, EBITDA declined by 11.1% y-o-y to RUB 97.5 bn.

Net income amounted to RUB 643 mn (down by 98.0%), while adjusted net income totaled RUB 51,547 mn (down by 27.1%).

EBITDA and EBITDA margin



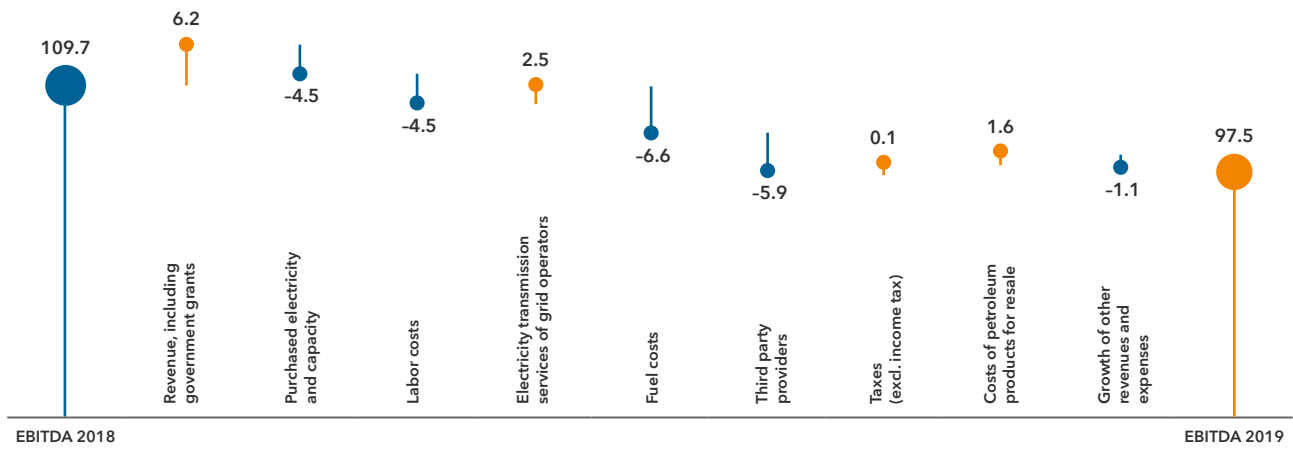
Factor analysis of EBITDA by segment, RUB bn



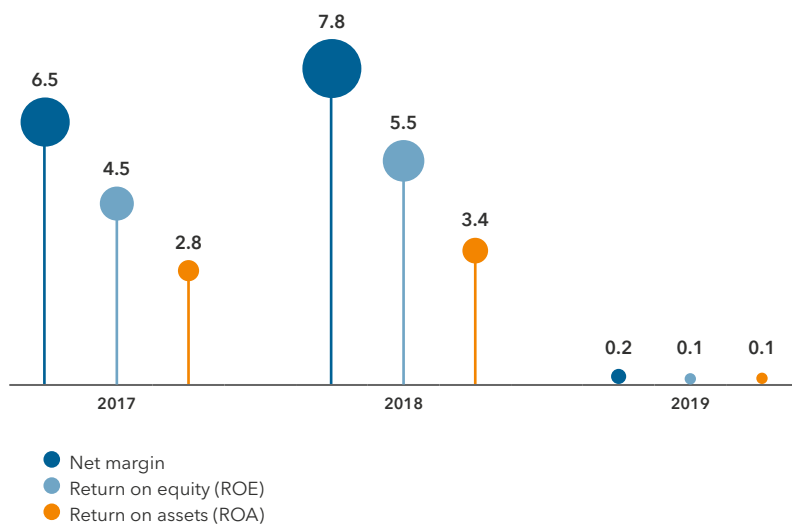
¹ This section provides data in line with RusHydro Group's 2018 and 2019 IFRS consolidated statements (unless stated otherwise) incorporating the changes in the Group's accounting policy following the adoption of IFRS 16 Leases [102-48].

² Net margin and EBITDA margin indicators factor in other operating income generated by RusHydro Group in 2017 (RUB 0.7 bn), in 2018 (RUB 5.5 bn) and in 2019 (RUB 1.2 bn) and are calculated as gain on financial assets at fair value through profit or loss, income from court rulings awarded, and dividends received.

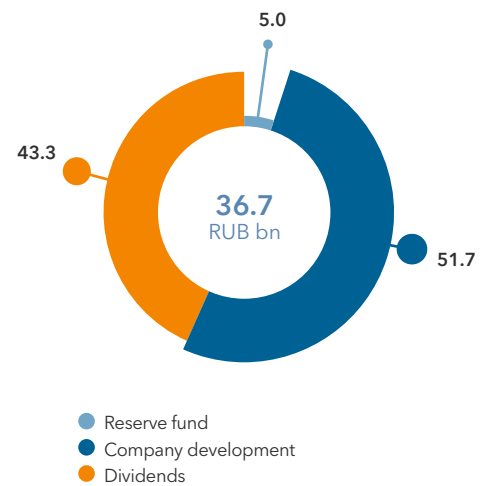
Factor analysis of EBITDA (expenses), RUB bn



Margin performance, %



Profit distribution for 2018¹, %



Detailed information on the distribution of profit allocated, inter alia, to the Company's development is available on the Company's website at <http://www.eng.rushydro.ru/>

¹ Net profit of PJSC RusHydro as per RAS.

Total revenue

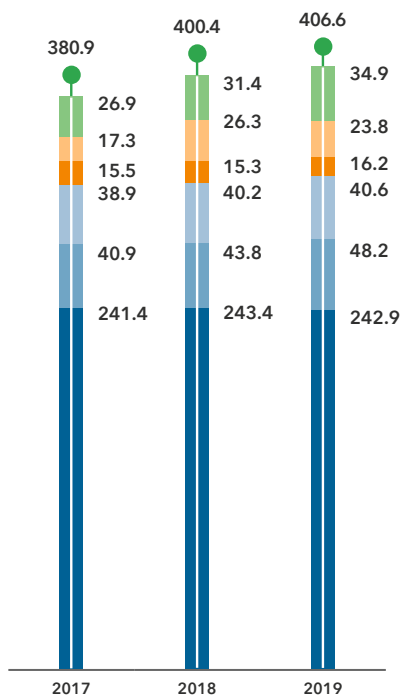
The Group's total revenue (including government grants) in 2019 increased by 1.6% y-o-y to RUB 406.6 bn against RUB 400.4 bn in the previous reporting period.

Revenue

Key drivers behind the change in revenue include:

- a 0.2% decrease in total revenue from electricity sales associated with lower power generation by RusHydro's HPPs (down by 4.4%);

Total revenue performance and breakdown, RUB bn



- Electricity sales
- Capacity sales
- Heat and hot water sales
- Government grants (regional)
- Government grants (tariff adjustment)
- Other revenue
- Total revenue

- growth in revenue from electricity sales by RAO ES East Subgroup by 4.7% as a result of higher average sales prices and volumes;
- a 1.9% increase in ESC RusHydro Subgroup revenue from the sale of electricity following the conclusion of new contracts with customers and due to higher average sales prices;
- growth in revenue from capacity sales by 9.9% on the back of higher actual prices and volumes;
- growth in revenue from heat and hot water sales by 1.2%, mainly attributable to increased heat tariffs and net supply;
- an 11.1% increase in other revenue due to substantial revenue growth on the back of the utility connection to the grids of Far Eastern Distribution Company (DRSK). At the same time, revenue from resale of petroleum products to VOSTEC and electricity transmission to Yakutskenergo dropped considerably.

Government grants [201-4]

In accordance with applicable laws of Russian regions, some companies of the Group received government grants to fund the costs for difference between the approved electricity and heat tariffs and tariffs in the economic feasibility study, as well as the costs for fuel and purchased electricity.

In 2019, RusHydro Group received RUB 39,983 mn in government grants.

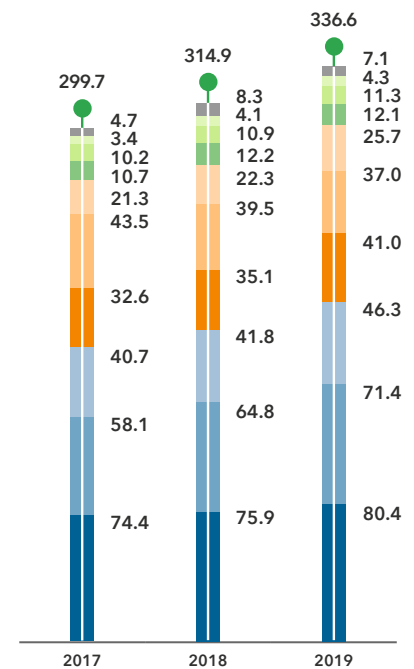
The total grants received by the Group's guaranteed suppliers under the Russian Government's Resolution No. 895 On the Establishment of Base Electricity (Capacity) Rates (Tariffs) for in the Far Eastern Federal District dated July 28, 2017 amounted to RUB 23,794 mn in 2019.

The amount of regional government grants received by RusHydro Group in 2019 totaled RUB 16,189 mn. The grants were provided to companies in the following regions: Kamchatka Territory, Republic of Sakha (Yakutia), Magadan Region, Chukotka Autonomous Area, and the Sakhalin Region.

Operating expenses

In 2019, total operating costs increased by 6.9% year-o-year, from RUB 314.9 bn to RUB 336.6 bn.

Operating costs by year and type, RUB bn



- Labor costs
- Fuel costs
- Purchased electricity and capacity
- Third party services
- Grid companies' services
- Depreciation and amortization
- Taxes (excl. income tax)
- Other materials
- Water use costs
- Other costs
- Total costs

The change in operating costs was driven by:

- a 5.9% increase in labor costs due to indexation of rates and salaries according to the effective collective bargaining agreements;
- a 10.3% rise in fuel costs resulting from higher fuel prices following procurement procedures at DGK, and the growth of purchase prices for petroleum products and their increased use due to imposed restrictions on the use of gas at Kamchatskenergo;
- a 10.8% increase in costs of purchased electricity and capacity (covered by incremental revenue) at RAO ES East Subgroup following a change in

volumes and tariffs (as a result of, inter alia, Yakutskenergo entering the WECM);

- growth in costs for third party services by 16.8% as a result of a rise in costs of utility connection to the grids of DRSK (covered by revenue) and repair and maintenance expenses at Yakutskenergo amid the lowering of lease costs (due to the adoption of IFRS 16 Leases starting January 1, 2019) and heat purchase and transportation costs;
- a 6.4% decrease in costs of electricity transmission services of grid operators, mainly at Yakutskenergo, on the back of lowered costs of electricity transmission to Far East Energy

Management Company (as its grids became part of the Unified National Electric Grid starting January 1, 2019 and were transferred to FGC UES, resulting in a substantial reduction in the transmission tariff);

- a 15.1% rise in depreciation and amortization costs due to the commissioning of Vostochnaya CHPP and off-site facilities of Sakhalinskaya GRES-2 in 2H 2018, the launch of Nizhne-Bureyskaya HPP in 2H 2019, and the adoption of IFRS 16 Leases starting January 1, 2019, and depreciation of right-of-use assets;
- a 15.0% decrease in other expenses, including at VOSTEC as a result of reduced costs of petroleum products for resale.

Direct economic value generated and distributed ^[201-1]

Metrics, RUB bn	2017	2018	2019
Economic value generated	383.6	402.1	405.6
Operating profit	342.2	353.4	362.2
Interest income and dividends received	32.7	8.9	7.1
Losses/gains from sale of assets and indemnity payments	9.6	(1.8)	(1.6)
Government grants	(0.9)	41.6	37.9
Economic value distributed	300.8	316.6	335.7
Operating costs	190.5	201.3	215.2
Salaries, allowances and other benefits	74.4	75.9	80.4
Payments to capital providers	10.4	11.9	11.7
Payments to government	23.7	26.1	26.9
Investments in communities	1.8	1.4	1.5
Economic value retained	82.8	85.5	69.9

Assets and liabilities

As at December 31, 2019, RusHydro Group's assets declined by 0.7% (RUB 6.8 bn) y-o-y to RUB 925.1 bn.

The change in assets is mainly driven by:

- an increase in the cost of fixed assets due to the implementation of the Group's investment program (including impairment);
- an increase in other current assets due to a larger share of funds placed on deposits with maturities of over 90 days (amid a decrease in cash equivalents);
- a decline in receivables and advances paid as a result of payments under agreements on the sale of Inter RAO shares and the offset of advance payments for the utility connection of FGC UES to DRSK.

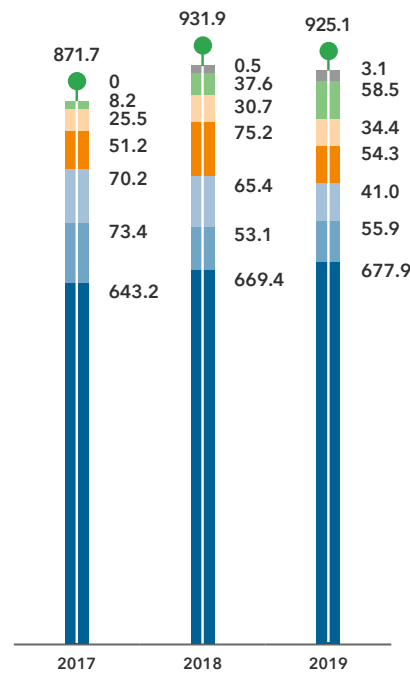
As at the end of the reporting period, the Group's liabilities grew by 2.8% (RUB 9.5 bn) y-o-y to RUB 355.2 bn.

The ratio of own and borrowed funds in 2019 amounted 62.3%.

In November 2019, RusHydro Group placed Eurobonds issued by special purpose entity RusHydro Capital Markets Eurobonds DAC. The issue size totaled RUB 15.0 bn. The Eurobonds have a maturity of five years and a coupon rate of 6.8% per annum.

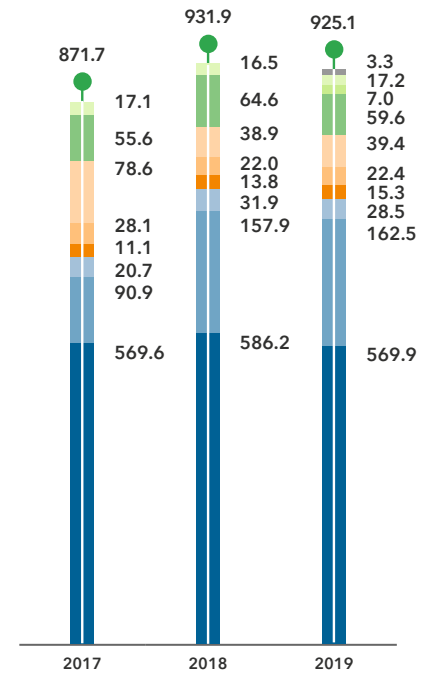
As at December 31, 2019, the Group recorded a liability of RUB 7.0 bn associated with the issue of additional shares registered by the Bank of Russia on August 27, 2018. In April–May 2019, as part of the pre-emptive right exercise, RusHydro

Assets, RUB bn



- Fixed assets
- Non-current assets other than fixed assets
- Cash and cash equivalents
- Receivables and advances paid
- Inventory
- Other current assets
- Non-current assets and assets of disposal group classified as held for sale
- Total assets

Equity and Liabilities, RUB bn



- Equity
- Long-term borrowings
- Non-deliverable forward for shares
- Deferred tax liabilities
- Other non-current liabilities
- Short-term borrowings
- Payables and other accruals
- Issued shares payables
- Tax payables
- Liabilities of disposal group classified as held for sale
- Total equity and liabilities

placed 7,000,092,298 additional shares among its shareholders (49.95% of the additional offering) with a par value of RUB 1,0 per share.

In December 2019, RusHydro Group signed an agreement on the sale of 90% of MEK shares to RazTES for consideration of RUB 173 mn. In accordance

with the agreement, the shares were transferred to the buyer in March 2020 after MEK refinanced its obligations to the European Bank for Reconstruction and Development and Asian Development Bank and after RusHydro's surety contracts with respect to these obligations were terminated in full¹. After the closure of the deal, RusHydro Group's financial debt went down by RUB 4 bn² and the Group's loan

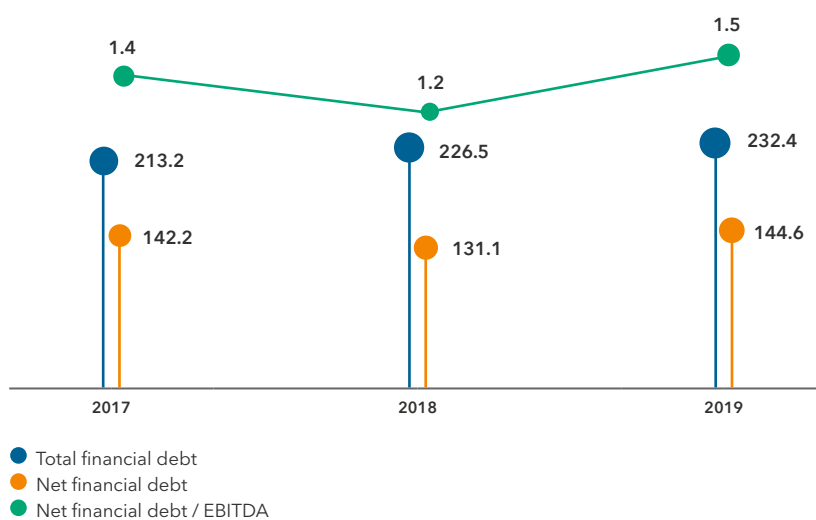
portfolio was no longer exposed to currency risks.

The fair value of the non-deliverable forward transaction for RusHydro's shares recognized in the Company's liabilities went down from RUB 31,986 mn (as at December 31, 2018) to RUB 28,510 mn (as at December 31, 2019), which helped to reduce RusHydro's leverage. The change in fair

value of the non-deliverable forward is mainly attributable to improvement in RusHydro's share price throughout the reporting period. Should the Company's share price continue on its upward trend, a further reduction in forward transaction liabilities is expected, with gains from the forward contract recognized in RusHydro Group's financial statements under the IFRS.

Debt portfolio management ^[103-2]

Total and net financial debt, RUB bn, and leverage



RusHydro Group continues to maintain a balanced debt profile. In 2019, short-term debt remained almost flat y-o-y (an increase of 1.4%), while long-term debt went up by 2.9%. At the end of 2019, RusHydro Group's total and net financial debt³ stood at RUB 232.4 bn and RUB 144.6 bn respectively.

The level of leverage confirms RusHydro Group's strong financial position. At the end of the reporting period, net financial debt / EBITDA stood at 1.48x, which is more than comfortable for RusHydro Group given the internal limit of 2.0x.

2019 saw a y-o-y decrease in long-term borrowings (down by 36%), mainly due to a reduction in the Group's activities in international capital markets following the peak year of 2018, when RusHydro completed three issues of Eurobonds for RUB 35 bn and 1.5 bn offshore Chinese renminbi, compared to just one issue of Eurobonds for RUB 15 bn in 2019.

Short-term debt demonstrated a slight increase (of 1.4%). In 2019, RusHydro Group honored all its obligations under coupon payments, loan agreements, and debt securities redemption. In April 2019, the Company fully redeemed its series BO-P04 exchange bonds for a total of RUB 15 bn.

During 2019, companies RusHydro Group worked on refinancing more expensive debt. The weighted average rate of ruble-denominated borrowings at the end of the year stood at about 7.6% per annum, compared to 8% per annum at the end of 2018.

¹ As at December 31, 2019, assets and liabilities of MEK are recognized as assets and liabilities of disposal group classified as held for sale.

² Based on the USD exchange rate as at the closure date (March 11, 2020).

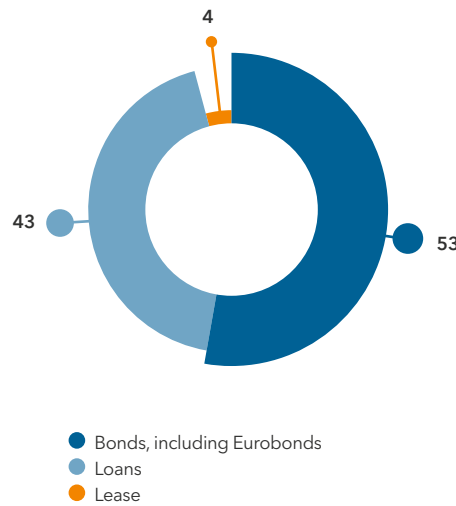
³ Net financial debt is calculated as financial debt less cash and cash equivalents (including bank deposits for up to one year) under the Group's IFRS financial statements at the end of the reporting year. Financial debt includes long-term and short-term liabilities (less accrued interest payable), including liabilities of disposal group, liabilities under the non-deliverable forward for shares, and cross currency swap liabilities in accordance with the Group's financial statements under the IFRS at the end of the reporting year.

In terms of currency and stability of the interest rate, the Group's financial debt (excluding liabilities on the non-deliverable forward for shares, cross currency swap, and lease obligations) as at December 31, 2019 had the following structure: 98% was represented by ruble-denominated debt¹, with 90% comprised by fixed-rate debt, which indicates minimum levels of currency and interest rate risks for RusHydro Group's financial debt².

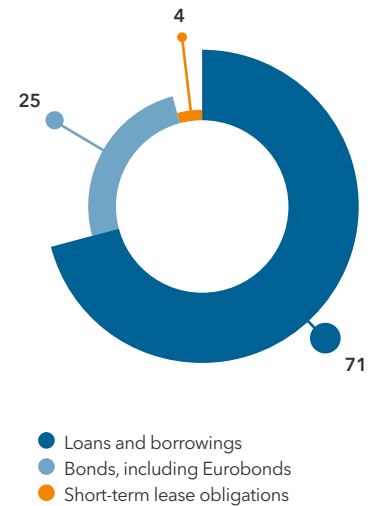
In 2019, the long-term part of the Group's borrowings increased by RUB 4.6 bn (2.9%) to RUB 162.5 bn, mainly driven by long-term financing raised through a ruble-denominated Eurobond issue in 2019.

At the end of the reporting period, the short-term part of the Group's borrowings was virtually flat y-o-y and amounted to RUB 39.4 bn (an increase of RUB 536 mn, or less than 1.4%). The Group has a balanced debt repayment schedule, including

Structure of the long-term debt to be redeemed after twelve months from the reporting date, %



Structure of the short-term debt to be redeemed within twelve months from the reporting date, %



debt due in 2020. Current short-term liabilities reflect maturing long-term loans and bonds (including local bonds totaling RUB 10 bn). As the remaining drawdown for the Group's current

loan agreements amounted to more than RUB 206 bn at the end of 2019 and substantially exceeds the need for short-term debt refinancing, financial risks are considered insignificant.

Bonds

Local bonds

As at December 31, 2019, the outstanding bonds of RusHydro include six issues for a total of RUB 55.0 bn (the aggregate value of outstanding bonds is RUB 13.2 bn).

Eurobonds

As at December 31, 2019, the outstanding bonds of RusHydro include five issues of Eurobonds for a total of RUB 70 bn and 1.5 bn offshore Chinese renminbi placed by RusHydro Capital Markets

Eurobonds DAC company on the Irish Stock Exchange under Reg S. All issues have confirmed long-term ratings from at least two leading international rating agencies and ACRA aligned with RusHydro's credit rating.

¹ Including hedging FX liabilities to issue Eurobonds denominated in offshore Chinese renminbi

² Following the sale of the Group's 90% stake in MEK in March 2020, RusHydro's loan portfolio is no longer exposed to currency risks.

Key parameters of RusHydro's bond issues

Issue parameters			Series 01 and 02 bonds	Series 07 and 08 bonds	Series 09 bonds	Series BO-P05 exchange bonds
Bond type	Non-convertible certificated interest-bearing bearer bonds with mandatory centralised custody	State registration number	4-01-55038-E 4-02-55038-E	4-07-55038-E 4-08-55038-E	4-09-55038-E	4B02-05-55038-E-001P
Face value	RUB 1,000	Registration date	23.09.2010	27.12.2012	27.12.2012	09.06.2017
Nominal amount of each issue	Series 01 – RUB 10 bn Series 02 – RUB 5 bn Series 07, 08, 09 – RUB 10 bn each Series BO-P05 – RUB 10 bn	Placement date /	25.04.2011	14.02.2013	28.04.2015	16.06.2017
		Offer date /	22.04.2016	13.02.2018	27.10.2017 21.04.2023	
		Maturity date	12.04.2021	02.02.2023	15.04.2025	12.06.2020
Offering price	100%	Coupon rate	Coupons 1-10 – 8.0% p.a. Coupons 11-20 – 9.5% p.a.	Coupons 1-10 – 8.5% p.a. Coupons 11-20 – 0.1% p.a.	Coupons 1-5 – 12.75% p.a. Coupons 6-16 – 7.5% p.a. Coupons 17-20 – coupon rate to be determined by the issuer	Coupons 1-6 – 8.2% p.a.
Form of offering	Open subscription, bookbuilding	Yield	8.16%	8.68%	13.16%	8.37%
Coupon payments	Semi-annual	Last trade yield as at December 31, 2019	Series 01 – 7.85% Series 02 – 5.12%	Series 07 – 4.12% Series 08 – 4.45%	Series 09 – 6.47%	Series BO-P05 – 5.80%

Key parameters of Eurobond issues

Offering date	Maturity date	Issue currency	Amount, bn	Coupon rate, % p. a.	Coupon payments	ISIN
28.09.2017	28.09.2022	RUB	20.0	8.125	Semi-annual	XS1691350455
15.02.2018	15.02.2021	RUB	20.0	7.40	Semi-annual	XS1769724755
21.11.2018	21.11.2021	CNH	1.5	6.125	Semi-annual	XS1912655054
27.11.2018	27.01.2022	RUB	15.0	8.975	Semi-annual	XS1912654677
25.11.2019	25.11.2024	RUB	15.0	6.80	Semi-annual	XS2082937967

Cash flows

As at December 31, 2019, RusHydro Group's cash and cash equivalents amounted to RUB 41.0 bn (compared to 65.4 bn as at December 31, 2018).

In 2019, RusHydro Group's key sources to finance its investing activities were income, depreciation charges, VAT refunds, other own funds of the Company, borrowings, and the federal budget.

In 2019, cash flow from operating activities decreased by RUB 8.9 bn, or 10.5% y-o-y. The Group's cash flows from operating activities before changes in working capital declined by RUB 12.2 bn, or 11.1%, as a result of a lower operating income.

In 2018, RusHydro Group sold its 4.9% stake in PJSC Inter RAO to Inter RAO Group for RUB 17.2 bn. RusHydro Group received the cash in several tranches: RUB 2.2 bn

in 2018 and RUB 15.0 bn in 2019. The amounts were used to finance the Group's investing activities. As a result of these proceeds, total cash outflows in investing activities in 2019 decreased by RUB 11.4 bn, or 13.2%, y-o-y.

The ten-fold y-o-y increase in cash used in financing activities in 2019 (by RUB 22.2 bn) was mainly due to a decrease in long-term borrowings and higher dividend payments.

● Cash flow from operating, investing and financing activities, RUB bn

Cash flows	2017	2018	2019
Cash flows from operating activities	78.1	84.6	75.7
Cash flows used in investing activities	(60.0)	(87.0)	(75.6)
Cash flows used in financing activities	(15.1)	(2.3)	(24.4)

Tax payments

RusHydro Group is one of the main taxpayers in the regions of its operation. In 2019, tax payments

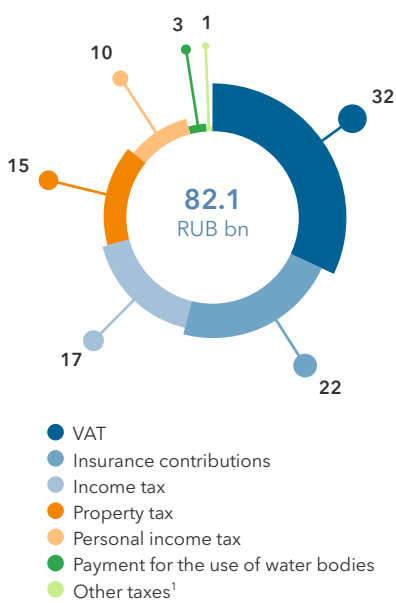
to budgets of all levels totaled RUB 82.1 bn, including RUB 35.1 bn to regional budgets.

In 2019, RusHydro Group paid taxes to regional and local budgets in 43 Russian regions.

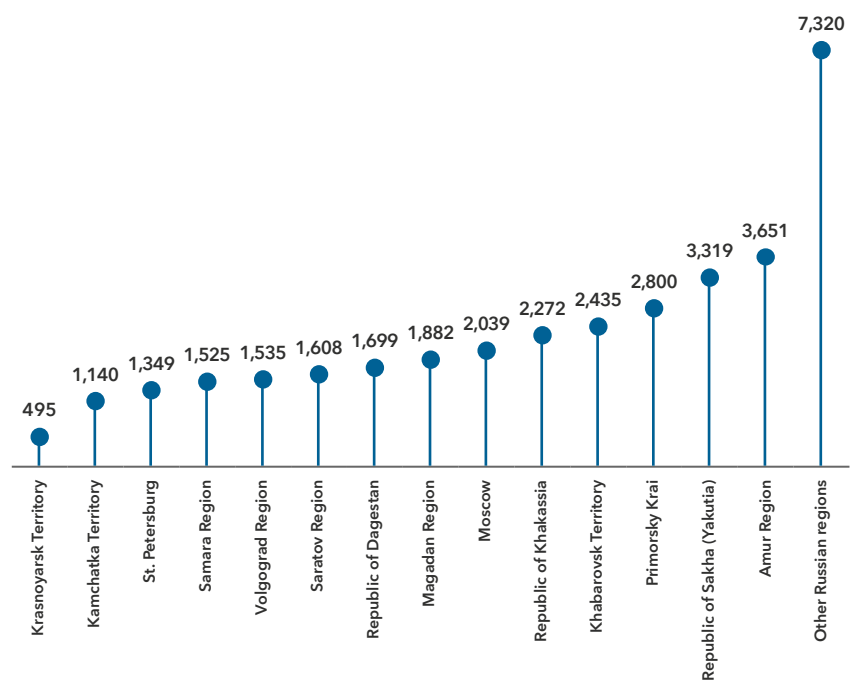
Tax payments to budgets of different levels, RUB mn

Level of budget, RUB mn	2017	2018	2019
Federal	42,904	46,168	46,458
including insurance contributions	15,963	16,864	18,043
Regional	33,653	34,275	35,069
Local	788	733	594
Total	77,345	81,176	82,121

Tax payments by RusHydro Group in 2019, %



Tax payments to regional budgets in 2019, RUB mn



For more information on taxes paid to regional and local budgets with a breakdown by Russian region, see [Appendix No. 22](#).

¹ Other taxes include:

- tax on income received by Russian entities from Russian and foreign agents;
- mineral extraction tax;
- water tax;
- transport tax;
- land tax;
- pollution charge;
- land rent.