

RusHydro announces 9 months 2014 RAS results

JSC RusHydro (MOEX, LSE: HYDR; OTCQX: RSHYY) announces its non-consolidated financial results under Russian accounting standards (RAS) for the nine months of 2014.

Key highlights:

- 3Q 2014 revenue – RUB 26.5 bn (-1%), 9M 2014 revenue – RUB 82 bn (+1%);
- 9M 2014 operating expenses – RUB 47 bn (+12%);
- 3Q 2014 EBITDA – RUB 12 bn (-17%), 9M 2014 EBITDA – RUB 44.6 bn (-7%);
- EBITDA margin in 3Q 2014 – 45.4% (-8.8 p.p.), in 9M 2014 – 54.5% (-4.8 p.p.);
- Reported net profit for 9M 2014 – RUB 27.3 bn (-1%), adjusted net profit – RUB 29.7 bn (-9%).

Key financials for the 3Q and 9M 2013/2014 under RAS (in RUB mn)

	9M'14	9M'13	chg	3Q'14	3Q'13	chg
Revenue	81,943	81,009	1%	26,517	26,832	-1%
Operating expenses	(46,980)	(41,798)	12%	(17,747)	(15,279)	16%
Operating profit	34,963	39,211	-11%	8,770	11,553	-24%
EBITDA ^[1]	44,621	48,055	-7%	12,035	14,530	-17%
Net profit	27,309	27,652	-1%	5,309	8,093	-34%
Net profit (adj.) ^[2]	29,692	32,324	-9%	7,464	9,022	-17%

Revenue

In the 9 months of 2014, revenue remained almost flat year-on-year (+1%) and amounted to RUB 81,943 mn as compared to RUB 81,009 mn for the same period of 2013. The underlying factors behind the change in revenue were:

- Decrease in production by hydropower plants as well as in electricity output as a result of: a) low water level during flood period in the Far East of Russia from July to September 2014 with increased water reserves in reservoirs as of the beginning of the year; b) lower than long-run average water inflow to reservoirs of the Volga-Kama cascade; c) lower than normal water levels of Siberian rivers in 3Q 2014; d) water conditions on the rivers of the South of Russia and North Caucasus in the 9 months of 2014 were close or lower than the long-run average;
- increase in electricity prices on the “day-ahead” market in the 2nd pricing zone mainly due to decrease in electricity generation by hydropower plants;
- increase in electricity sales prices on the “day-ahead” market in the 1st pricing zone due to indexation of fuel prices;
- increase in capacity prices of the competitive capacity auctions (KOM) for the hydropower plants of the first price zone due to indexation for consumer price index;
- increase in capacity prices of KOM for the hydropower plants of the second pricing zone following liberalization of hydro capacity market from May 1, 2014^[3];
- indexation of regulated electricity and capacity tariffs .

Revenue breakdown (RUB mn)

	9M'14	9M'13	chg	3Q'14	3Q'13	chg
Electricity sales	59,074	59,128	-	18,999	20,065	-5%
Capacity sales	21,929	21,454	2%	7,226	6,639	9%
Other sales	940	427	120%	292	128	128%
TOTAL	81,943	81,009	1%	26,517	26,832	-1%

Operating expenses

Operating expenses in January-September 2014 increased by 12% to RUB 46,980 mn as compared to the same period of 2013.

Operating expenses breakdown (in RUB mn)

	9M'14	9M'13	chg	3Q'14	3Q'13	chg
Purchased electricity and capacity	13,287	11,854	12%	4,844	4,592	5%
Depreciation	9,658	8,844	9%	3,265	2,976	10%
Labor expenses	5,344	3,893	37%	2,792	1,527	83%
Property tax	4,492	4,147	8%	1,495	1,385	8%
Repairs & maintenance	2,262	2,088	8%	1,009	837	21%
Services of System Operator, ATS, CFS	2,081	1,979	5%	694	693	0%
Other third-party services	1,551	1,239	25%	786	552	42%
Security expenses	1,238	1,068	16%	418	362	15%
Other taxes and fees	1,110	895	24%	418	282	48%
Contingencies	912	1,113	-18%	378	457	-17%
Insurance expenses	859	833	3%	315	301	5%
Rent expenses	818	761	7%	274	249	10%
Water tax	666	736	-10%	203	239	-15%
Leasing expenses	597	834	-28%	112	269	-58%
Other	2,105	1,514	39%	744	558	33%
TOTAL	46,980	41,798	12%	17,747	15,279	16%

Major factors of change in operating expenses were:

- increase electricity consumption by the Zagorskaya PSPP (by 461 GWh or RUB 515 mn) due to launch of the plant after scheduled outage to dismantle the temporary earthfill link in the lower reservoir of the Zagorskaya PSPP No. 2;
- increase in depreciation and property tax as a result of commissioning of new assets, including in terms of reconstruction of the Sayano-Shushenskaya HPP;
- increase in volumes of electricity purchased for resale together with growth in purchase prices;
- increase in labor expenses and related other taxes in terms of fees from the payroll budget and health insurance due to: a) indexation of salaries of employees of the Company's branches in accordance with collective agreement and sectorial tariff agreement; b) increase in operating staff headcount of the Company's branches as a result of incorporation of HPP; c) increase in operating staff headcount due to creation of groups responsible for power market support in the Company's branches; as well as due to transfer of operational dispatch management functions in relation to power system protection from SO UES; d) 10% increase in the base for insurance fees calculation; e) one-off bonus payment to the Company's employees for execution of a three-year program aimed to enhance operational excellence and returns on investments;
- increase in security expenses as a result of incorporation of three small HPPs.

Profit

The higher growth rate in operating expenses versus revenue growth in the 9 months of 2014 as compared to the 9 months of 2013 (12% versus 1% respectively) resulted in decline in operating profit by 11% as compared to the same period of the previous year.

EBITDA decreased by 7% as compared to the same period of 2013 and amounted to RUB 44,621 mn.

RusHydro's net profit for the reporting period decreased by 1% to RUB 27,309 mn. Net profit adjusted for non-cash items decreased by 9% to RUB 29,692 mn as compared to RUB 32,324 mn in the same period of the previous year.

The difference between the reported and adjusted net profit is attributed mainly to the following non-cash effects:

- mark-to-market revaluation of listed equity stakes in the amount of RUB 215 mn, of which shares of Inter RAO UES account for RUB 533 mn;
- accrued reserves in the amount of RUB 1,252 mn.

RusHydro's financial position as of September 30, 2014

The Company's total assets increased by RUB 29,582 mn as of September 30, 2014, or 4% against the similar figure as of December 31, 2013, reaching RUB 845,791 mn.

The growth in assets mainly in terms of long-term financial investments is related to acquisition of shares of JSC Ust'-Srednekanskaya HPP, a subsidiary of RusHydro, in the amount of RUB 8,288 mn, as well as shares of JSC Blagoveschenskaya TPP in the amount of RUB 6,301 mn and JSC Yakutskaya TPP No. 2 in the amount of RUB 3,735 mn, which are in trust management of RAO ES of East.

As of September 30, 2014, total liabilities stood at RUB 130,694 mn as compared to RUB 191,787 mn as of December 31, 2013. The decrease was attributed primarily to reduction of liabilities to acquirers of the Company's shares of additional issue after registration of the amendments to the Company's share capital (certificate of registration of the amendments to the Articles of Association of January 28, 2014). The Company's debt portfolio rose by 4% from the beginning of the year to RUB 106,620 mn; long-term loans make up 98% of total debt portfolio.

The Company's equity for January-September 2014 increased by 15% to RUB 715,024 mn against RUB 624,345 mn as of the beginning of the reporting year.

The full financial statements are available on the Company's website at:

<http://www.rushydro.ru/investors/reports>

The Company plans to publish its consolidated results for the 9 months of 2014 under International financial reporting standards (IFRS) on December 18, 2014.

[1] EBITDA calculated as gross profit before depreciation.

[2] Net profit adjusted for the mark-to-market revaluation of listed equity stakes, reserves for financial investment impairment, assets and potentially uncollectible accounts receivable, contingencies This indicator is not reported in the official financial statements under RAS and has been calculated and put into the press release for reference.

[3] According to the decree of the government of the Russian Federation No. 374 of April 28, 2014, "On amendments to the Regulations of wholesale electricity and capacity market in terms of special aspects of participation of genscos, owners of hydropower plants located in the 2nd pricing zone, in the wholesale market" from May 1, 2014 till December 31, 2015, 35% of capacity of the hydropower plants located in the 2nd pricing zone is sold at the regulated tariffs based on the results of the competitive capacity auctions (KOM). Actual decrease in capacity sale price of KOM is related to decrease in capacity tariff of the Sayano-Shushenskaya HPP in the 2nd half of 2013 from RUB 86,825.85 per MW to RUB 35,955.02 per MW.

About RusHydro

RusHydro Group is one of Russia's largest generating companies. RusHydro is the leading producer of renewable energy in Russia with over 70 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 37.5 GW, heat capacity – 16.2 thousand GCal/h.

Russian Federation owns 66.8% in RusHydro, the rest is held by other institutional and individual shareholders (over 360,000). The company's stock is traded on the MICEX and RTS stock exchanges, and included in MSCI EM и MSCI Russia indexes. Company's GDRs in the IOB section of LSE, ADRs – in OTCQX.

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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 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.