



## JSC “RAO Energy System of East”

Legal address:

ul Leningradskaya, 46, Khabarovsk, Russia , 680021

Postal address:

ul . Obraztsova, 21, bld A, Moscow, Russia , 127018

tel.: 7 (495) 287 67 01 fax: 7 (495) 287 67 02

### RAO Energy System of East Reports a 10% decrease in EBITDA for 2014 down to 15.4 billion RUB

**March 19, Moscow** - RAO Energy System of East Group (ticker symbol: VRAO; ISIN code RU000A0JPVL6) publishes its audited consolidated financial statements for 2014, prepared in accordance with International Financial Reporting Standards (IFRS).

#### Profit

JSC “Energy System of East” (hereinafter the Group) posted an adjusted operating profit for 2014 amounting to 8,109 million RUB, which was 32% lower than in 2013. EBITDA for the period decreased by 10% y-o-y, totaling 15,398 million RUB. The Group's adjusted net profit for 2014 totaled 3,109 million RUB or 67% less than in the last year's results. Net loss for 2014 was 2,181 million RUB.

#### Financial Highlights (*RUB in millions*)<sup>1</sup>

Indicator	year		y-o-y
	2014	2013	%
Revenues with government grants	162,699	152,829	6%
Operating expenses	(158,198)	(140,997)	12%
<b>Operating profit</b>	2,819	7,028	-85%
<b>Operating profit (adj.)<sup>1</sup></b>	<b>8,109</b>	<b>11,858</b>	-32%
<b>EBITDA</b>	<b>15,398</b>	<b>17,031</b>	-10%
Financial expenses, net	(5,513)	(5,167)	7%
Profit before income tax (adj.) <sup>1</sup>	2,586	6,800	-62%
<b>Profit (loss) for the period</b>	<b>(2,181)</b>	<b>4,681</b>	-
<b>Profit for the period (adj.)<sup>1</sup></b>	<b>3,109</b>	<b>9,511</b>	-67%

#### Main events

JSC “Energy System of East” Group (RAO ES of East) increased electricity production in 2014 by 4% YoY to 31,155.9 million kWh due to the 7% output reduction of Zeyskaya and Bureuskaya HPPs (also part of Group RusHydro) because of low water flow to the storage reservoirs. Heat output of the Group's CHPPs and boilers in 2014 was down by 2% totaling 31,165 thousand Gcal due to warmer air temperature in most of the Far East cities.

<sup>1</sup> Operating profit, profit before income tax, and profit (loss) for the period are adjusted for the accrual of impairment for accounts receivable, by loss on disposal of property, plant and equipment, as well as for income resulted from the downward revision of pension scheme, loss on impairment of property, plant and equipment and loss on disposal group remeasurement.

JSC "FEDC", part of the RAO ES of East, failed to receive the subsidy compensating its losses in 2012-2013 from the abolishment of the "last mile" contracts. This caused the reduction in total amount of subsidies by 6% to 12,413 million RUB.

## Revenue

The Group total revenues in 2014, combined with government grants, increased by 6% amounting to 162,699 million RUB.

The main factors influencing total revenues in 2014 were:

- 4% increase of electricity production;
- 7% growth y-o-y (to 3.46 RUB / kWh ) in the average tariff on electricity sold by companies under the control of JSC "RAO ES of East" due to annual tariff indexation.
- Increase of JSC "FEDC" revenue by 3,923 mln. RUB resulted from the renewal of the "last mile contracts" in the Amurskaya oblast, and Jewish autonomous oblast.
- 6% reduction of government grants down to 12,413 million RUB.

The largest share of the Group's revenue in 2014 consists of revenue from the sale of electricity (60%) and heat output (21%). Other revenue comprised 11% of total revenue and includes such items as repair and construction services, technological connection, as well as revenue from rentals, transportation and communication services. Share of government grants reach 8% in the total Group revenue.

## Revenue Structure (*RUB in millions*)

Revenue items	Year		y-o-y
	2014	2013	%
Sale of electricity and capacity	98,397	89,839	10%
Heat sales	33,914	33,004	3%
Other revenue	17,975	16,753	8%
<b>Total revenue</b>	<b>150,286</b>	<b>139,596</b>	<b>8%</b>
Government grants	12,413	13,233	-6%
<b>Revenues with government grants</b>	<b>162,699</b>	<b>152,829</b>	<b>6%</b>

## Operating expenses

In 2014 the Group's operating expenses were up by 12% compared to 2013, amounting to 158,198 million RUB.

Fuel expenses in 2014 grew by 5% amounting to 46,606 million RUB. This was due to a 4% power output increase, accompanied by the growth in fuel costs. The average cost of specific reference fuel in 2014 grew by 3% to 3,187 RUB due to price increase of "Sakhalin gas". The reduction of the specific reference fuel consumption (SRFC) for the Group power production was down by 3 g/kWh to 380 g/kWh caused by the reduction of the Sakhalin energy system SRFC by 41 g/kWh due to the launch of the new 4<sup>th</sup>

power unit of Yuzhno-Sakhalinskaya CHPP-1. As the result, the fuel consumption in 2014 measured in tones of reference fuel was 2% lower totaling 14,622 thousand tones.

14% rise in employee benefit expenses amounting to 45,756 million RUB can be explained by the indexation of employee wages and salaries within the Group.

41% hike in depreciation of property, plant and equipment for 2014 is caused by the renewal of depreciation of the JSC "FEDC" property, plant and equipment beginning from January 1, 2014 due to its declassification from the disposal group classified as held for sale.

20% increase of purchased electricity and capacity is caused by the acquired electricity from JSC "Vilyuiskaya HPP-3" for resale by JSC AK "Yakutskenergo as a guaranteed supplier.

### **Key expenses** (*RUB in millions*)

<b>Indicator</b>	<b>Year</b>		<b>y-o-y</b>
	<b>2014</b>	<b>2013</b>	<b>%</b>
Fuel expenses	46,606	44,460	5%
Employee benefit expenses (including payroll taxes and pension benefit expenses)	45,756	40,309	14%
Expenses for electricity distribution	14,374	12,894	11%
Purchase of electricity and capacity	11,592	9,635	20%
Other materials	7,571	7,059	5%
Depreciation of property, plant and equipment	7,289	5,174	41%
Purchase and transmission of heat	2,878	2,699	7%
Repairs and maintenance	2,481	2,382	4%
Services of subcontracting companies	1,605	3,364	-52%
Accrual of impairment for accounts receivable, net	3,635	1,778	104%
Taxes other than income tax	2,063	1,618	28%
Loss/ (income) on disposal of property, plant and equipment, net	474	(143)	-
Curtailement of pension payments and pension plans	(501)	(1,609)	-69%
Other expenses	12,375	11,377	9%
<b>Total Expenses</b>	<b>158,198</b>	<b>140,997</b>	<b>12%</b>

### **Financial position**

As of December 31, 2014, the Group's total assets increased by 10% to 150,821 million RUB compared to 137,678 million RUB on 31 December 2013. The increase of assets is the result of the 7% growth of property, plant and equipment to 90 890 million RUB, as well as the following current assets changes:

- 66% growth of cash and cash equivalents up to 12,572 million RUB;
- 2% increase of inventories up to 19,384 million RUB;
- 1% rise in accounts receivable and prepayments up to 23,137 million RUB.

The Group's equity as of December 31, 2014 decreased by 4% down to 27,088 million RUB compared to December 31, 2013, which is mostly the result of the 3% increase in retained losses to 13,214 million RUB.

The Group's total liabilities as of December 31, 2014 increased by 13% compared to December 31, 2013 and totaled 123,733 million RUB. This was provided by:

- The financial debt (total of short-term and long-term debt) increase by 21% up to 77,994 million RUB;
- Net debt (financial debt minus cash and cash equivalent) grew by 15% to 65,422 million RUB;
- the non-current debt decreased by 9% up to 45,524 million RUB;
- The current debt increased by 121% to 32,470 million RUB due to the proximation of the non-current debt maturity dates;
- The accounts payable and accruals decreased by 1% to 29,592 million RUB.

By the end of 2014 due to the rise in MosPrime interest rate to 24.6% the average cost of borrowings of the Group totaled 13.18%

## **CAPEX**

The amount of financing of the investment program in 2014 was up by 24% amounting to 16,722 million RUB (excluding VAT) compared to 2013. The amount of capital expenditure increased by 16% to 19,486 million RUB.

One of the sources to finance the current investment program were the proceeds from sale of property, plant and equipment amounting to 2,827 million RUB mostly related to the construction of four thermal power stations implemented by JSC "RusHydro".

## **Subsequent events**

The Group's companies received the approved tariff decisions for electricity and heat in 2015. The reduction of retained earnings in the tariff calculations for the JSC "FEGC" power plants resulted in the average tariff growth slightly below 1%. The growth of electricity tariffs of other subsidiaries ranges from 6% for JSC "Magadanenergo" to 12% for JSC "Sakhalinenergo". Heat tariffs of JSC "FEGC" regional entities increase from 3%

in the Amur oblast to 11% in Promorskiy krai. Heat tariff increase for other companies of the RAO ES of East Group ranges from 3% for JSC "Magadaenergo" to 10% for JSC "SEGK".

### Average electricity tariffs 2014-2015 (RUB/KWH)

	2014			2015			Changes 2014
	First 6 months	Second 6 months	Year	First 6 months	Second 6 months	Year	%
JSC "FEGC"*	1.85	1.98	<b>1.91</b>	1.80	2.06	<b>1.92</b>	<b>1%</b>
JSC AK "Yakutskenergo"	4.60	4.80	<b>4.70</b>	4.70	5.39	<b>5.02</b>	<b>7%</b>
JSC "Sakhaenergo"	29.39	29.41	<b>29.40</b>	29.48	34.11	<b>31.63</b>	<b>8%</b>
JSC "Kamchatskenergo"	4.44	4.98	<b>4.70</b>	5.04	5.40	<b>5.22</b>	<b>11%</b>
JSC "SEGK"	22.29	19.05	<b>20.75</b>	21.46	23.44	<b>22.42</b>	<b>8%</b>
JSC "Magadanenergo"	3.42	3.74	<b>3.59</b>	3.53	4.05	<b>3.79</b>	<b>6%</b>
JSC "Chukotenergo"	8.02	9.02	<b>8.49</b>	9.00	9.14	<b>9.07</b>	<b>7%</b>
JSC "Sakhalinenergo"	4.21	4.70	<b>4.44</b>	4.65	5.32	<b>4.96</b>	<b>12%</b>

\*Excluding distribution and retail tariffs

In January 2015 the Group concluded sales agreements of 100% of JSC "Daltechenergo" and JSC "GRMZ" (repairs and construction companies) for 210 million RUB and 25 million respectively. As at January 31, 2014 the Group classified JSC "Daltechenergo" and JSC "GRMZ" as disposal group held for sale.

The financial information in full, press release and presentation are posted on the website of JSC "RAO Energy System of East" at: <http://www.rao-esv.ru/en/shareholders-and-investors/companys-reports/annual-financial-report/>

#### Note:

JSC «RAO Energy System of East» was founded on July 01, 2008, as a result of the reorganization of JSC "RAO UES of Russia". The holding includes Russian Far-East energy companies such as: JSC «FEDC», JSC "FEGC", JSC "FEEC", JSC AK "Yakutskenergo", JSC "Magadanenergo", JSC "Kamchatskenergo", JSC "Sakhalinenergo", JSC "Peredvizhnaya Energetika" (Mobile Energy), as well as a number of non-core companies.

The main activity of JSC "RAO Energy System of East" is to manage generating companies in an efficient and quality manner in order to meet the requirements for electricity and thermal energy of the Far East Federal District.

The total installed power capacity of the Far Eastern energy companies under JSC "RAO Energy System of East" is 8,982 MW of electrical power and 17,947 Gcah/l of thermal power. The length of the power grid of all voltage classes is more than 101 thousand km.

The majority shareholder is JSC "RusHydro".

For more information call:

**IR**

Max Kochetkov

+7(495) 287-67-03 ext. 6062

E-mail: [kochetkov-mm@rao-esv.ru](mailto:kochetkov-mm@rao-esv.ru)

*The information in this press release may contain projections or other forward-looking statements regarding future events or the future financial performance of RAO Energy System of East. You can identify forward looking statements by terms such as "expect," "believe," "anticipate," "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 conditions, our competitive environment, risks associated with operating in Russia, rapid technological and market change in our industries, as well as many other risks specifically related to RAO Energy System of East and its operations.*

---