



RAO ES EAST, PJSC

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RAO ES EAST Group doubles its 6 months 2016 EBITDA up to 8.5 bln RUB

August 24, Moscow - "RAO Energy Systems of the East" Group (part of RusHydro Group, MOEX, LSE: HYDR) publishes its unaudited condensed consolidated interim financial information for three and six months of ended on June 30, 2016, prepared in accordance with International Financial Reporting Standards (IFRS).

Financial Highlights (*RUB in millions*)¹

Indicator	Six months		y-o-y	Second quarter		y-o-y
	2016	2015	%	2016	2015	%
Revenues with government grants	94,389	86,672	9%	38,350	35,251	9%
Operating expenses	91,435	87,692	4%	41,022	39,169	5%
Operating (loss) profit	2,473	(532)	-	(2,980)	(4,210)	-29%
Operating profit (loss) profit (adj.)¹	4,542	106	4185%	(1,717)	(3,148)	-45%
EBITDA²	8,540	4,178	104%	300	(1,311)	-
Financial expenses, net	(4,543)	(4,235)	7%	(2,297)	(2,348)	-2%
Share of (loss)/income of associates	(2)	116	-102%	5	21	-76%
(Loss) before income tax (adj.)¹	(3)	(4,013)	-100%	(4,009)	(5,475)	-27%
Total income tax expense	(740)	(156)	374%	(110)	181	-161%
(Loss) for the period	(2,812)	(4,807)	-42%	(5,382)	(6,356)	-15%
(Loss) for the period (adj.)¹	(743)	(4,169)	-82%	(4,119)	(5,294)	-22%

The key factors for the Group financial performance were:

- 9% rise of average selling electricity price to retail consumers up to 4.01 RUB due to tariff indexation;
- 4% power production decrease of less efficient power units of JSC "FEGC" with output substitution by the Bureyskaya HPP (part of PJSC "RusHydro").
- 4% growth of heat output accompanied by 7-10% increase of heating tariffs;
- 6% increase of average fuel price up to 3,673 Rub per reference fuel ton driven by gas prices of "Sakhalin-1" consortium.

Main events

¹ Operating profit, profit before income tax, and profit (loss) for the period are adjusted for the accrual of impairment for accounts receivable, by income and loss on disposal of property, plant and equipment, as well as by the Impairment of property, plant and equipment and other operating income.

² Earnings before interest, taxes, depreciation and amortization is calculated by summing up the adjusted operating profit with the cash income of 235 million RUB resulted from asset sale in the first quarter of 2015.

RAO ES EAST Group cut down electricity production in the first six months of 2016 by 3.5% YoY to 17,195 million kWh due to the 31% output increase of Bureuskaya HPPs (also part of Group RusHydro) with the power consumption in the United Energy System of the East growing 2.6% y-o-y. Export sales to China were 18% less than in the same period last year. Heat output of the Group's CHPPs and boilers in the first six months of 2016 was up by 4% totaling 18,259 thousand Gcal.

On March 31, 2016 RusHydro Group upon repurchasing of more than 10% and consolidating over 95% of RAO ES East, PJSC within voluntary tender offer forwarded to the rest of ordinary and preference shareholders of RAO ES East, PJSC the claim for compulsory repurchase of the shares. All settlements were completed on June 08, 2016.

Revenue

The Group total revenues for the first six months of 2016, combined with government grants, increased by 9% amounting to 94,389 million RUB.

The main factors influencing total revenues in the first six months of 2016 were:

- 9% rise of average selling electricity price to retail consumers up to 4.01 RUB due to tariff indexation;
- 4% decrease of electricity output down to 15,235 million RUB due to higher loading of RusHydro HPPs;
- 6% growth in heat sales coupled with the 7-10% tariff growth y-o-y.
- 12% increase of other revenues due to new settlement scheme of between PJSC "Yakutskenergo" and JSC "Vilyuiskaya HPP-3".
- 17% growth of government grants for reduced tariffs to consumers due to additional compensation from price increases of goods and services, including fuel and personnel costs.

Revenue Structure (*RUB in millions*)

Revenue Item	Six months		y-o-y	Second quarter		y-o-y
	2016	2015	%	2016	2015	%
Sale of electricity and capacity	57,448	54,167	6%	24,478	23,280	5%
Heat sales	22,727	20,062	13%	6,999	6,274	12%
Other revenue	7,773	6,938	12%	3,714	3,240	15%
Total revenue	87,948	81,167	8%	35,191	32,794	7%
Government grants	6,441	5,505	17%	3,159	2,457	29%
Revenues with government grants	94,389	86,672	9%	38,350	35,251	9%

Operating expenses

In the first six months of 2016 the Group's operating expenses were up by 4% compared to the same period last year, amounting to 91,435 million RUB. In the second quarter of 2016 operating expenses grew by 5%. Variable costs for the six and three

months ended on June 30, 2016 increased by 4% and 3% respectively. Fixed costs for the same periods grew by 4% and 6% respectively.

Fuel expenses in the first six months of 2016 grew by 5% amounting to 30,228 million RUB. This was due to the 6% growth in the average cost of specific reference fuel, 4% heat output increase coupled with 3.5% reduction of power production. The average cost of specific reference fuel in first six months of 2016 was up by 6% to 3,766 RUB per reference fuel ton due to price increase of the gas from "Sakhalin-1" consortium. The average price of specific reference fuel in the second quarter of 2016 increased by 9% up to 3,518 RUB per reference fuel. The specific reference fuel consumption (SRFC) for the Group power production was up by 0.9 g/kWh to 378 g/kWh resulted from the shift to coal fired generation for economic reasons. SRFC in the second quarter increased by 3.1 g/kWh to 394 g/kWh. As the result, the fuel consumption in the first six months of 2016 measured in tones of reference fuel decreased by 1% to 8,229 thousand tones with this year's second quarter reference fuel consumption decreased by 3% down to 3,074 thousand tons.

18% decrease of purchased electricity and capacity is caused by the termination of the electricity purchase contracts from JSC "Vilyuiskaya HPP-3" now that starting from January 1, 2016 the sales of electricity from Vilyuiskaya HPP-3 are proceeded without the resale scheme through JSC AK "Yakutskenergo as a guaranteed supplier.

Employee benefit expenses in six and three months ended June 30, 2016 increased by 5% and 3% due to the indexation of employee wages and salaries in 2015 and January 1, 2016 driven by the growth of CPI (basic salary of worker of the utilities sector is indexed by the actual CPI).

Operating expenses (*RUB in millions*)

Expense items	Six months		y-o-y	Second quarter		y-o-y
	2016	2015		2016	2015	
Fuel expenses	30,228	28,732	5%	10,814	10,253	5%
Expenses for electricity distribution	8,037	7,200	12%	3,540	3,281	8%
Purchase of electricity and capacity	5,518	6,762	-18%	2,472	3,024	-18%
Purchase and transmission of heat	1,792	1,590	13%	754	628	20%
Water usage expenses	975	932	5%	479	444	8%
Purchase of oil products for sale	157	141	11%	80	80	0%
Transportation costs	677	298	127%	245	146	68%
Accrual of impairment for accounts receivable, net	1,437	1,146	25%	810	767	6%
Total Variable Expenses	48,821	46 801	4%	19,194	18,623	3%
Employee benefit expenses (including payroll taxes and pension benefit expenses)	27,223	26,042	5%	13,097	12,696	3%
Other materials	2,787	2,954	-6%	1,620	1,634	-1%
Depreciation of property, plant and equipment	3,992	3,837	4%	2,017	1,837	10%
Repairs and maintenance	1,190	1,097	8%	851	775	10%

Rent	686	690	-1%	344	377	-9%
Security expenses	701	666	5%	357	337	6%
Services of SO-CDU, NP Council Market, CFS	363	365	-1%	178	179	-1%
Services of subcontracting companies	289	388	-26%	240	156	54%
Consulting, legal and information expenses	269	315	-16%	162	174	-8%
Insurance cost	151	182	-17%	73	101	-28%
Other third parties services	2,190	1,886	16%	1,198	961	25%
Taxes other than on income	1,199	1,211	-1%	597	586	2%
Social charges	323	364	-11%	263	225	17%
Business travel	196	198	-1%	118	116	2%
Insurance indemnity	(13)	(49)	-73%	(10)	(15)	-33%
Other expenses	917	761	20%	578	402	44%
Loss (Profit) on disposal of property, plant and equipment, net	151	(20)	-	145	3	4733%
Total Fixed Expenses	42,614	40,891	4%	21,828	20,546	6%
Total Expenses	91,435	87,692	4%	41,022	39,169	5%

Profit

"RAO Energy Systems of the East" Group (hereinafter the Group) posted an adjusted operating profit for first six months of 2016 amounting to 4,542 million RUB, compared to 106 million a year earlier. The second quarter adjusted operating loss decreased by 45% y-o-y down to 1,717 million RUB. EBITDA for the 6 months of 2016 increased by 104% y-o-y, totaling 8,540 million RUB with the second quarter of 2016 EBITDA reaching 300 million RUB compared to 1,311 EBITDA loss in the second quarter of 2015.

The Group's adjusted net loss for the six months of 2016 totaled 743 million RUB compared to 4,169 million RUB loss a year earlier. The adjusted net loss in the second quarter of 2016 amounted to 4,119 million RUB or 22% less than in the same period last year. Net loss for the first six months of 2016 totaled 2,812 million RUB with the net loss of the same period last year totaling 4,807 million RUB. The second quarter of 2016 amounted to 5,382 million RUB, or 15% less than the last year's results.

Financial position

As of June 30, 2016, the Group's total assets increased by 3% up to 167,285 million RUB mostly driven by the 3% increase in property, plant and equipment. There were certain changes in the current assets structure:

- 17% decrease of cash and cash equivalents down to 9,085 million RUB
- 4% reduction of inventories down to 19,496 million RUB typical for the end of June;
- 8% rise in accounts receivable and prepayments up to 28,117 million RUB;

The Group's equity as of June 30, 2016 decreased by 18% down to 13,340 million RUB compared to December 31, 2015, which is mostly the result of the 24% decrease of the non-controlling interest and 9% increase of retained losses to 18,960 million RUB.

The Group's total liabilities as of June 30, 2016 increased by 5% compared to December 31, 2015 and totaled 153,945 million RUB. This was provided by:

- The financial debt (total of short-term and long-term debt) increase by 14% up to 104,509 million RUB;
- Net debt (financial debt minus cash and cash equivalent and current deposits) grew by 18% to 95,424 million RUB;
- the non-current debt increased by 31% down to 63,158 million RUB;
- The current debt decreased by 5% to 41,351 million RUB.
- The accounts payable and accruals decreased by 10% to 31,345 million RUB.

The Group's main creditors are its parent company RusHydro (25% of total financial debt) and PJSC Sberbank (24% of total financial debt).

CAPEX

The amount of capital expenditure in the first six months of 2016 increased by 22% to 8,283 million RUB y-o-y. The amount of financing of the investment program was up by 24% amounting to 6,714 million RUB (excluding VAT) compared to the same period last year.

Future capital expenditures are mainly related to reconstruction of existed equipment of power plants and grid.

Subsequent events

After the end of the reporting period the Group has concluded loan agreements (including those on credit lines) with commercial banks. The agreements were concluded with PJSC Sberbank in total amount of 12,855 million RUB with annual interest rates of 10.45-11.00 percent; Bank GPB (JSC) in total amount of 1,830 million RUB with annual interest rates of 11.09% - 11.61%. Bank «RRDB» (JSC) in total amount of 500 million RUB with annual interest rates of 10.64%.

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

Note:

Public Joint Stock Company "RAO Energy Systems of the 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"; "FEEC", PJSC; PJSC "Yakutskenergo"; PJSC "Magadanenergo", PJSC "Kamchatskenergo", JSC

"Sakhalinenergo", PJSC "Peredvizhnaya Energetika" (Mobile Energy), as well as a number of non-core companies.

The main activity of RAO ES EAST, PJSC 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 RAO ES EAST, PJSC is 9,046 MW of electrical power and 18,213 Gcal/h of thermal power. The length of the power grid of all voltage classes is more than 104 thousand km.

The majority shareholder is PJSC "RusHydro".

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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.
