



## JSC "RAO Energy System of East"

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### RAO ES EAST Group Reports a 38% decrease in EBITDA for 1Q2015

**June 25, Moscow** - "RAO Energy Systems of the East" Group (ticker symbol: VRAO; ISIN code RU000A0JPVL6) publishes its unaudited condensed consolidated interim financial information for three months of 2015, prepared in accordance with International Financial Reporting Standards (IFRS).

#### Profit

"RAO Energy Systems of the East" Group (hereinafter the Group) posted an adjusted operating profit for first three months of 2015 amounting to 3,254 million RUB, which was 53% lower than in the same period last year. EBITDA for the period decreased by 38% y-o-y, totaling 5,489 million RUB. The Group's adjusted net profit for the first quarter of 2015 totaled 1,125 million RUB or 77% less than in the last year's results. Net loss for the first quarter 2015 was 67% lower amounting to 1,549 million RUB.

#### The key factors for the Group financial performance were:

- fuel cost increase outpacing tariff growth;
- indexation of employee wages and salaries in accordance with the utilities union agreement exceeding the tariff growth y-o-y;
- rise in cost of borrowing driving the growth of financial expenses.

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

Indicator	First three months		y-o-y
	2015	2014	%
Revenues with government grants	51,421	48,068	7%
Operating expenses	(48,523)	(41,284)	18%
<b>Operating profit</b>	<b>3,678</b>	<b>6,784</b>	<b>-46%</b>
<b>Operating profit (adj.)<sup>1</sup></b>	<b>3,254</b>	<b>6,914</b>	<b>-53%</b>
<b>EBITDA</b>	<b>5,489</b>	<b>8,857</b>	<b>-38%</b>
Financial expenses, net	(1,887)	(1,212)	56%
Profit before income tax (adj.) <sup>1</sup>	1,462	5,763	-75%
<b>Profit (loss) for the period</b>	<b>1,549</b>	<b>4,661</b>	<b>-67%</b>
<b>Profit for the period (adj.)<sup>1</sup></b>	<b>1,125</b>	<b>4,791</b>	<b>-77%</b>

#### Main events

<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 income and loss on disposal of property, plant and equipment, as well as for income resulted from the sales of subsidiaries.

RAO ES EAST Group increased electricity production in the first quarter of 2015 by 17% YoY to 10,539 million kWh due to the 45% output reduction of Zeyskaya and Bureuskaya HPPs (also part of Group RusHydro) with the same level of power consumption in the region. Heat output of the Group's CHPPs and boilers in the first quarter of 2015 was down by 7% totaling 12,583 thousand Gcal due to warmer air temperature in most of the Far East cities.

March 23 and 24, 2015 the Group sold shares in two repairs and construction companies JSC Daltekhenergo and JSC Guberovskiy machinery and repair plant. The deals amounted to 210 million RUB and 25 million RUB respectively to be settled in cash. The gain on disposal of the two companies amounted to 780 million RUB taking into account the negative net assets of JSC Daltekhenergo at the time of the deal.

### Revenue

The Group total revenues for the first quarter of 2015, combined with government grants, increased by 7% amounting to 51,421 million RUB.

The main factors influencing total revenues in the first quarter of 2015 were:

- 18% increase of electricity output totaling 9,360 million kWh;
- 4% decrease of electricity volume sold at the retail market with a 14% growth of average price to 3.81 RUB per kWh;
- 7% reduction in heat sales volume down to 13,583 thousand Gcal.
- 14% reduction of other revenues down to 3,698 million RUB due to decrease of electricity transportation services to JSC "Vilyuskaya HPP-3" (new settlement scheme) and revenue reduction of JSC "Khabarovsk repairs and assembling company" from capital construction services.
- 2% reduction of government grants down to 3,048 million RUB.

### Revenue Structure (*RUB in millions*)

Revenue items	First three months		y-o-y
	2015	2014	%
Sale of electricity and capacity	30,887	26,931	15%
Heat sales	13,788	13,747	0%
Other revenue	3,698	4,290	-14%
<b>Total revenue</b>	<b>48,373</b>	<b>44,968</b>	<b>8%</b>
Government grants	3,048	3,100	-2%
<b>Revenues with government grants</b>	<b>51,421</b>	<b>48,068</b>	<b>7%</b>

### Operating expenses

In the first three months of 2015 the Group's operating expenses were up by 18% compared to the same period last year, amounting to 48,523 million RUB. Variable costs increased by 19% up to 27,647 million RUB, and fixed costs grew by 16% totaling 20,876 million RUB.

Fuel expenses in the first quarter of 2015 grew by 22% amounting to 18,478 million RUB. This was due to a 17% power production increase, accompanied by the growth in fuel costs and average reference fuel consumption. The average cost of specific reference fuel in first quarter of 2015 grew by 10% to 3,581 RUB due to price increase of the gas from "Sakhalin-1" consortium. The specific reference fuel consumption (SRFC) for the Group power production was up by 10 g/kWh to 368 g/kWh caused by the rise of the load factor of the less effective power units. As the result, the fuel consumption in the first quarter of 2015 measured in tones of reference fuel was 11% higher totaling 5,160 thousand tones.

16% rise in employee benefit expenses amounting to 13,346 million RUB can be explained by the indexation of employee wages and salaries within the Group.

44% 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 as well as due to the increase by 348 million RUB of Chukotenergo power purchase from the Bilibino NPP resulted by the tariff hike.

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

<b>Indicator</b>	<b>First three months</b>		<b>y-o-y</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>
Fuel expenses	18,479	15,094	22%
Employee benefit expenses (including payroll taxes and pension benefit expenses)	13,346	11,501	16%
Expenses for electricity distribution	3,919	4,062	-4%
Purchase of electricity and capacity	3,738	2,587	44%
Other materials	1,320	1,275	4%
Depreciation of property, plant and equipment	2,000	1,943	3%
Purchase and transmission of heat	962	877	10%
Repairs and maintenance	322	233	38%
Services of subcontracting companies	232	212	9%
Security expenses	329	307	7%
Rent	313	308	2%

Other third party services	1,485	1,403	6%
Accrual of impairment for accounts receivable, net	379	44	761%
(Income)/ loss on disposal of property, plant and equipment, net	(23)	86	-127%
Other expenses	1,722	1,352	27%
<b>Total Expenses</b>	<b>48,523</b>	<b>41,284</b>	<b>18%</b>

## Financial position

As of March 31, 2015, the Group's total assets stayed at the same level as in the beginning of the year totaling 151,179 million RUB. There were certain changes in the current assets structure:

- 35% decrease of cash and cash equivalents down to 8,195 million RUB partially due to moving 2,407 million RUB to current deposits ;
- 18% reduction of inventories down to 15,859 million RUB resulted from the utilization of the fuel stored for heating season;
- 19% rise in accounts receivable and prepayments up to 27,600 million RUB.

The Group's equity as of March 31, 2015 increased by 6% up to 28,637 million RUB compared to December 31, 2014, which is mostly the result of the 6% decrease of retained losses to 11,686 million RUB.

The Group's total liabilities as of March 31, 2015 decreased by 1% compared to December 31, 2014 and totaled 122,542 million RUB. This was provided by:

- The financial debt (total of short-term and long-term debt) decrease by 1% down to 77,368 million RUB;
- Net debt (financial debt minus cash and cash equivalent and current deposits) grew by 6% to 66,766 million RUB;
- the non-current debt decreased by 5% down to 43,452 million RUB;
- The current debt increased by 4% to 33,916 million RUB due to the proximation of the non-current debt maturity dates;
- The accounts payable and accruals decreased by 4% to 28,265 million RUB.

## CAPEX

The amount of capital expenditure in the first quarter of 2015 increased by 72% to 3,450 million RUB. The amount of financing of the investment program was up by 37% amounting to 2,155 million RUB (excluding VAT) compared to the same period last year.

## Subsequent events

At June 18, 2015 annual general meeting of shareholders of JSC "RAO Energy System of East" took place. In accordance with the recommendations of the Board of Directors it was decided not to pay dividends for the year ended December 31, 2014. The AGM also approved the 2014 annual report which was disclosed on the company web-site following this link <http://ar2014.rao-esv.ru/#/>.

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

**Note:**

Joint Stock Company "RAO Energy Systems 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"; "FEEC", JSC; PJSC "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 ES of East" is 8,968 MW of electrical power and 17,975 Gcah/l of thermal power. The length of the power grid of all voltage classes is more than 102 thousand km.

The majority shareholder is JSC "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.*

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