



JSC “RAO Energy System of East”

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RAO Energy System of East Reports a 29% Increase in EBITDA for 6m 2014 up to 8.7 billion RUB

August 26, Moscow - RAO Energy System of East Group (ticker symbol: VRAO; ISIN code RU000A0JPVL6) publishes its unaudited consolidated financial statements for first six months of 2014, prepared in accordance with International Financial Reporting Standards (IFRS).

Profit

In the first six months of 2014 JSC “Energy System of East” (hereinafter the Group) posted an adjusted operating profit amounting to 4,923 million RUB, which was 15.1% higher than in the same period of 2013. The reason for the improvement of operational results was the increase in operational efficiency of the power grid segment (JSC “FEDC”) resulted from the renewal of “the last mile” contracts.

EBITDA for the period increased by 29.3% y-o-y, totaling 8,688 million RUB. The Group's adjusted net profit in accordance with IFRS amounted to 1,959 million RUB or 14.3% more than in the same period last year. Net profit and The Group's total comprehensive income for the period was 1,263 million RUB and 1,435 million RUB respectively.

Financial Highlights (*RUB in millions*)¹

	6m 2014	6m 2013	% Change y-o-y
Revenues with government grants	80,661	75,841	6.4%
Operating expenses	(76,434)	(70,598)	8.3%
Operating profit	4,227	5,243	-19.4%
Operating profit (adj)¹	4,923	4,277	15.1%
EBITDA	8,688	6,721	29.3%
Profit before income tax (adj.) ¹	2,137	2,071	3.2%
Profit for the period	1,263	2,680	-52.9%

¹ Operating profit, profit before income tax, and profit for the period are adjusted for the accrual of impairment for accounts receivable amounting to 618 mln RUB in 6m of 2014 and 592 mln in 6m 2013, and by loss on disposal of property, plant and equipment amounting to 78 mln RUB in 6m 2014 and 51 mln RUB in 6m 2013, as well as for income resulted from the downward revision of pension scheme in 6m 2013 amounting to 1,609 mln RUB.

Profit for the period (adj.)¹	1,959	1,714	14.3%
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Main events

JSC "Energy System of East" Group (RAO ES of East) decreased electricity production in the first six months of 2014 by 6.4% YoY to 15,283.8 million kWh. Around 70% of the electricity generated was done so JSC "Far-East Generating Company" (FEGC), which cut down production by 7.9% mostly due to the 7.4% output growth of Zeyskaya and Bureuskaya HPPs (also part of Group RusHydro) and due to consumption decrease by 1.6% y-o-y. Heat output of the Group's CHPPs and boilers was down by 5.9% totaling 18,128.1 thousand Gcal due to warmer air temperature in most of the Far East cities.

Revenue

The Group revenues in the first six months of 2014, combined with government grants, increased by 6.4% amounting to 80,661 million RUB.

The main factors influencing the revenue in the first six months were:

- 7.8% growth y-o-y (to 3.29 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 2,258 mln. RUB resulted from the renewal of the "last mile contracts" in the Amurskaya oblast, and Jewish autonomous oblast.
- 3.7% growth of government subsidies up to 5,607 million RUB.

The largest share of the Group's revenue in the first six months of 2014 consists of revenue from the sale of electricity (63%) and heat output (29%). 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.

Revenue Structure (RUB in millions)

	6m 2014	6m 2013	% Change y-o-y
Sale of electricity and capacity	47,289	44,369	6.6%
Heat sales	19,543	19,244	1.6%
Other revenue	8,222	6,820	20.6%
Total revenue	75,054	70,433	6.6%
Government grants	5,607	5,408	3.7%
Revenues with government grants	80,661	75,841	6.4%

Operating expenses

In the first six months of 2014 the Group's operating expenses were up by 8.3%, amounting to 76,434 million RUB.

Fuel expenses, which make up 31% of total expenses, decreased by 1.1% to 24,074 million RUB. This was due to a 6.4% power output cut down, accompanied by the price increase of "Sakhalin gas" caused by ruble depreciation. The reduction of the specific reference fuel consumption (SRFC) for power production in the Sakhalin energy system by 40.7 g/kWh from to 338.8 g/kWh and in JSC AK "Yakutskenergo" by 20.1 g/kWh to 358.8 g/kWh. lowered down the total SRFC of the Group by 5 g/kWh down to 357 g/kWh. As the result, the fuel consumption in the first six months of 2014 measured in tones of reference fuel was 6.9% lower amounting to 7,438 thousand tones.

A 13.5% rise in employee benefit expenses (30% of total expenses) amounting to 23,042 million RUB can be explained by the indexation of employee wages and salaries within the Group.

A 54.1% hike in depreciation of property, plant and equipment for the six months period of 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.

Key expenses (*RUB in millions*)

	6m 2014	6m 2013	% Change y.o.y.,
Fuel expenses	24,074	24,332	-1.1%
Employee benefit expenses (including payroll taxes and pension benefit expenses)	23,042	20,295	13.5%
Expenses for electricity distribution	7,321	6,446	13.6%
Purchase of electricity and capacity	4,615	4,766	-3.2%
Depreciation of property, plant and equipment	3,765	2,444	54.1%
Other materials	3,053	3,257	-6.3%
Purchase and transmission of heat	1,510	1,476	2.3%
Repairs and maintenance	766	804	-4.7%
Taxes other than income tax	1,028	932	10.3%
Accrual of impairment for accounts receivable, net	618	592	4.4%
Loss on disposal of property, plant and equipment, net	78	51	52.9%
Curtailment in pension plan	-	-1,609	-
Other expenses	6,564	6,812	-3.6%
Total Expenses	76,434	70,598	8.3%

Financial position

As of June 30, 2014, the Group's total assets increased by 6.9% to 147,115 million RUB compared to 137,678 million RUB on 31 December 2013. The increase of assets is the result of the growing amount of accounts receivable and prepayments by 31.1% up to 29,887 million RUB.

The Group's equity as of June 30, 2014 increased by 5.1% to 29,716 million RUB compared to December 31, 2013, which is mostly the result of the 7.3% decrease in retained losses down to 11,887 million RUB.

The Group's total liabilities as of June 30, 2014 had no significant changes compared to December 31, 2013 and totaled 117,399 million RUB. This was provided by:

- The financial debt (total of short-term and long-term debt) increase by 5% up to 77,471 million RUB
- the growth of non-current debt by 8.5% up to 54 211 million RUB;
- The current debt increased by 58% to 23,260 million RUB;
- The accounts payable and accruals decreased by 14.8% to 25,521 million RUB.

CAPEX

The amount of financing of the investment program in the first six months of 2014 was down by 3.9% to 4,941 million RUB (excluding VAT) compared to first six months of 2013. The amount of capital expenditure increased by 8.8% to 5,706 million RUB.

The Group's financing of the reconstruction and new construction projects in 2014-2016 is to be 64,670 million RUB (77 243 million RUB in 2013-2015) in accordance with the adopted investment programs of the Group. Future capital expenditure is mostly linked with reconstruction of equipment of the existing power stations and power grid. Capital commitments of the Group as at June 30, 2014 are as follows: 2014 year – RUB 17,108 million, 2015 year – RUB 21,198 million, 2016 year – RUB 17,741 million. 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 OJSC AKB Rosbank in total amount of RR 3,649 million with annual interest rates of 9.80-11.10 percent; OJSC Gazprombank in total amount of RR 2,191 million with annual interest rates of 11.00-11.20 percent; OJSC Sberbank in total amount of RR 860 million with annual interest rate of 10.40-11.06 percent.

The press release and presentation are be 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 and its cross-border regions.

The total installed power capacity of the Far Eastern energy companies under JSC "RAO Energy System of East" is 9,082.8 MW of electrical power and 17,944.8 Gcal 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".

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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.
