



**Joint Stock Company
"RAO Energy System of East"**

28 Shevchenko Street, Blagoveshchensk, 675000, Russia
 POST: 46 Leningradskaya Street, Khabarovsk, 680021, Russia
 telephone: +7 (495) 26-44-03, fax: +7 (4212) 26-44-02
 21, Bld.A, Obratsova Street, Moscow, 127018, Russia
 telephone: +7 (495) 287-67-01, fax: +7 (495) 287-67-02
www.rao-esv.ru, e-mail: rao-esv@rao-esv.ru
 ОКПО 85115294, ОГРН 1087760000052, ИНН/КПП 2801133630/280101001

RAO Energy System of East Reports a 6% increase comprehensive income in 2011 to 3.8 bln RUR

RAO Energy System of East Group (ticker symbol: VRAO; ISIN code RU000A0JPVL6) announces its audited consolidated financial results for the year ended December 31, 2011, prepared in accordance with International Financial Reporting Standards (IFRS) with a 9% rise in revenues to 124.6 bln RUR and a 6% increase of comprehensive income for the year to 3.8 bln RUR.

Financial Highlights (RUR mln)

	2011	2010	Change y.o.y, %
Revenues	124,692	114,752	9%
Government grants	9,130	8,364	9%
Operating expenses	(126,569)	(116,347)	9%
Impairment of property, plant and equipment ^[i]	(20,262)	(4,282)	373%
EBITDA ^[iii]	12,682	13,010	-2,5%
Adjusted operating profit ^[ii]	7,253	6,769	7%
Adjusted net profit ^[iv]	3,564	3,407	5%
(Loss)/profit for the year	(16,698)	5,192	n.a.
Total comprehensive income for the year	3,839	3,609	6%

Main eventsThe change of controlling shareholders of JSC "RAO Energy System of East" from the Russian Federation to the state-owned JSC "RusHydro" became the most significant corporate event in 2011. The transfer was regulated by the Russian Government decision, No. 1174-p dated 07 July 2011 in accordance with which the Government made an additional contribution to the share capital of JSC "RusHydro" by shares of the RAO Energy System of East, JSC DEC, JSC Yakutskenergo, JSC SEK. As the result, JSC "RusHydro" gained control over 69.28% of the JSC "RAO Energy System of East" and 30.72% is owned by non-controlling shareholders.

At the Extraordinary General Shareholder Meeting held on November 30, 2011 Sergey Tolstoguzov was appointed as the new chief executive officer of JSC "RAO Energy System of East" starting from December 1, 2011. The same General Shareholder Meeting elected new Members of the Board of Directors with 5 representatives of RusHydro, one member from Gazprom Energy Holding, one representative of the Amur region, one independent Member of the Board, as well as the Company CEO.

Revenue

The Group 2011 revenues coupled with the government subsidies, compensating for the low electricity tariffs, increased by 8.7% amounting to 133,822 mln RUR, compared to 123,116 mln RUR last year.

The main factors of revenue growth in 2011 were:

- Increase in power generation by 7% up to 30,367.5 mln KWH;
- Growth of heat output of the thermal generating capacities by 2.9% amounting to 31,045 thousand Gcal;
- A 5% average tariff growth on power output to RAO Energy Systems of East consumers";
- Increase of government grants by 9% from 8,364 mln RUR to 9,130 mln RUR.

The largest share of the Group's revenue is represented by revenue from sales of electricity and capacity (66%), heat and hot water sales (25%). Other revenue (10%) includes such items as repair and construction services, technological connection, as well as revenue from rentals, transportation and communication services.

Revenue structure

(mln RUR)

	2011	2010	Change y.o.y, %
Sales of electricity and capacity	81,698	76,283	7%
Heat and hot water sales	30,672	25,340	21%
Other revenue	12,322	13,129	-6%
Total revenue	124,692	114,752	9%

Operating expenses

In 2011 the Group operating expenses increased by 9% amounting to 126,569 mln. RUR compared to 116,347 a year earlier.

Fuel expenses which make up 36% of total expenses increased by 20% up to 45,145 mln RUR mostly due to a 7% rise in power generation coupled with a 5% growth in oil consumption and a 6% growth in coal consumption caused by problems with gas supply. A rise in employee benefit expenses (27% of total expenses) can be mostly explained by the growth in social benefits payments, as well as staff increases due to acquisition of the local utility business at JSC "Kamchatskenergo", and creation of the new Sakhalin office of the repairs and maintenance company JSC "Daltechenergo".

Key expenses (mln. RUR)

	2011	2010	Change y.o.y., %
Fuel expenses	45,145	37,601	20%
Employee benefit expenses (including payroll taxes and pension benefit expenses)	33,774	28,425	19%
Expenses for electricity distribution	11,501	11,960	-4%
Purchase of electricity and capacity	8,646	8,954	-3%
Depreciation of property, plant and equipment	6,726	3,949	70%

In 2011 the Group showed an operating loss amounting to 13,009 mln RUR, compared to a 2,487 mln RUR of the previous year. The decrease in operating profit was driven by impairment loss on the Group's property, plant and equipment¹ in the amount of 20,262 mln RUR booked in 2011. EBITDA for the year decreased by 2.5% totaling 12,682 mln RUR. The adjusted for the effects of impairment of Group's property, plant and equipment operating profit was 7,253 mln, up by 7% year over year.

The Group's loss for the year amounted to 16,698 mln RUR against the net profit of 5,192 mln RUR a year earlier. The adjusted profit for 2011 increased by 5% to 3,564 mln. The Group's total comprehensive income for the year amounted to 3,839 mln RUR increasing 6% compared to 2010.

Sergey Tolstoguzov, the CEO of RAO Energy Systems of the East commented the results: "The growth of revenues in 2011 by 9% was the result of major increase in power generation, heat output and the growth of government subsidies. However RAO Energy Systems needs to do more in order to increase productivity, and control the growth of fixed cost. The key to success is management ability to implement these changes with the support of the controlling shareholder and the Government itself".

Key indicators of the Group financial position as at 31 December 2011

As at 31 December 2011 the Group's total assets increased by 28% up to 130,311 mln. RUR compared to 101,774 mln RUR a year earlier.

As at 31 December 2011 the non-current assets decreased increased by 12% to 52,422 RUR against 59,619 mln RUR as at 31 December 2010. However with the JSC "DRSK" non-current assets classified as held for sale to FGC (JSC) the amount of non-current assets increased by 33% to 79,376 mln RUR

The increase was driven primarily by:

- A 34% increase in property, plant and equipment, including the JSC "DRSK", up to 76,513 mln RUR, as a result of the revaluation undertaken as at 01 January 2011 the Group's revaluation reserve on property plant and equipment increased by 34,430 mln RUR;

- increase in investments in associates from 38 mln RUR to 947 mln RUR.

The Group's equity increased by 15% totaling 29,167 mln RUR compared to 25,357 mln RUR as at 31 December 2010.

The increase was driven primarily by:

- revaluation of property, plant and equipment of 10,394 mln RUR ;
- Non-controlling interest increase resulted from revaluation by 42% up to 11,637 mln RUR.

The Group's total liabilities as at 31 December 2011 were 101,144 mln RUR against 76,417 mln RUR as at 31 December 2010.

The increase was driven primarily by:

- increase of non-current debt by 68% to 34,102 mln RUR accompanied by a 24% decreased of current debt to 18,061 mln resulted from the restructuring of loans and borrowings portfolio;
- the 9% rise of accounts payable and accruals up to 18,059 mln RUR.

CAPEX

The amount capital expenditure in 2011 increased by 59% up to 17,685 mln RUR (excluding VAT). The growth of capital expenditure is caused by the construction of the CHP plant at Sovyetskaya Gavan 120 MW, 200 Gcal/h (project cost 19.5 bln RUR, commissioning date 2018), construction of the 5th unit at CHP plant-1 in Yuzhno-Sakhalinsk, 91.2 MW (project cost 3.3 bln, commissioning date 2012), as well as many other smaller projects.

Subsequent events

On 7 February 2012 2,317,068,930 ordinary shares were placed, including 1,492,472,400 ordinary shares acquired by the Russian Federation, represented by the Federal Agency for State Property Management. The 748 million RUR of funds were received by the Group RAO Energy Systems of East as a result of the placement of shares to finance construction costs of thermal power plant in Sovetskaya Gavan and other key investment projects of the Company.

Note:

JSC RAO Energy System of East (JSC RAO ESE) was founded July 1, 2008 as a result of reorganization of JSC RAO UES of Russia.

The Group includes energy companies, operating in the Far East Federal District such as: JSC DRSK, JSC DGK, JSC DEC, JSC Yakutskenergo, JSC Magadanenergo, JSC Kamchatskenergo, JSC Sakhalinenergo, JSC Mobile energy and a number of non-core companies.

Installed capacity of all Far East energy companies is 8,819.74 MW; installed heat capacity – 16,168 Gcal/h, length of electric energy grids more than 96,000 km

The majority shareholder - JSC RusHydro

The Consolidated Financial Statements for the year 2011 are available at Company's web-site: <http://en.rao-esv.ru/finansovaya-otchetnost-po-msfo>

For more information call:

IR

Max Kochetkov
+7(495) 287-67-03 ext. 6062
E-mail: kochetkov-mm@rao-esv.ru

PR

Nadezhda Rukina
+7 (985) 2115948
E-mail: rukina-nv@rao-esv.ru

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[i] The Group analysed the current economic situation and indicators of impairment of property, plant and equipment. Due to the deterioration in expectations for the achievable sales prices and volumes in the new market conditions, for a number of cash-generating units in the Far East region an additional impairment loss was recognised in the amount of RUR 20,262 mln as at 31 December 2011.

[ii] Operating profit was adjusted for the effects of impairment of the Group's property, plant and equipment

[iii] EBITDA calculated as operating profit less depreciation and impairment of PPE and other non-cash income and losses.

[iv] Net profit was adjusted for the effects of impairment of the Group's property, plant and equipment and property, plant and equipment, and profits from discontinued operations.