



RAO ES EAST. PJSC

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 ES EAST Group Reports a 56% decrease in EBITDA losses in 3Q2015

December 10, 2015 Moscow - "RAO Energy Systems of the East" Group (ticker symbol: VRAO; ISIN code RU000A0JPVL6) publishes its unaudited condensed consolidated interim financial information for nine and three months ended September 30, 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 loss for first nine months of 2015 amounting to 2,984 million RUB compared to adjusted operating profit of 792 million RUB in the same period last year. The 2015 third quarter adjusted operating loss is 25% lower than in the third quarter of 2014 amounting to 3,090 million RUB. EBITDA for the 9 months 2105 decreased by 50% y-o-y, totaling 3,113 million RUB. The third quarter 2015 EBITDA totaled 1,065 million RUB, which is 56% less than the loss in EBITDA in the third quarter of 2014.

The Group's adjusted net loss for the first nine months of 2015 totaled 9,448 million RUB instead of 3,675 million RUB adjusted net loss a year earlier. The third quarter of 2015 adjusted net loss was 6% lower than in the same period last year amounting to 5,279 million RUB. Net loss for the first nine months of 2015 was 10,498 million RUB compared to net loss of 4,211 million RUB in the same period last year. Net loss for the third quarter of 2015 was 4% higher last year's third quarter loss amounting to 5,691 million RUB.

The key factors for the Group financial performance were:

- Increased load factor of a number of cost-inefficient power stations of JSC "FEGC" resulted from the lower water inflows and decreased HPPs power production;
- an increase in average fuel prices of 9% to 3,439 RUB mostly driven by "Sakhalin-1" gas price hike;
- indexation of employee wages and salaries in accordance with the utilities union agreement, as well as introduced by the Labor code additional benefits for harmful and dangerous working conditions;
- rise in cost of borrowing driving the growth of financial expenses.

Financial Highlights (*RUB in millions*)¹

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 for income resulted from the sales of subsidiaries.

Indicator	Nine months		y-o-y	Third quarter		y-o-y
	2015	2014	%	2015	2014	%
Revenues with government grants	120,625	109,774	10%	33,953	29,113	17%
Operating expenses	(124,566)	(109,518)	14%	(36,874)	(33,084)	11%
Operating (loss) profit	(4,034)	256	-	(3,502)	(3,971)	-12%
Operating profit (Loss) profit (adj.)¹	(2,984)	792	-	(3,090)	(4,131)	-25%
EBITDA²	3,113	6,265	-50%	(1,065)	(2,423)	-56%
Financial expenses, net	(6,257)	(4,529)	38%	(2,022)	(1,634)	24%
(Loss) before income tax (adj.) ¹	(9,185)	(3,687)	149%	(5,172)	(5,824)	-11%
(Loss) for the period	(10,498)	(4,211)	149%	(5,691)	(5,474)	4%
(Loss) for the period (adj.)¹	(9,448)	(3,675)	157%	(5,279)	(5,634)	-6%

Main events

RAO ES EAST Group increased electricity production in the first nine months of 2015 by 15% YoY to 24,242 million kWh due to the 13% output reduction of Zeyskaya and Bureyskaya HPPs (also part of Group RusHydro). Power consumption in UES of the East increased by 1.4% compared to nine months of 2014 to 31,4 TWh with total exports decreasing by 5%. However export sales of JSC "FEGC" increased by 9% to 1,852 million kWh. Third quarter production in 2015 was 11% higher than in the same period of 2014 totalling 6,422 million kWh.

Heat output of the Group's CHPPs and boilers in the first nine months of 2015 was down by 3% totaling 19,487 thousand Gcal due to warmer air temperature in most of the Far East cities in the first quarter of 2015. Heat output of the Group's CHPPs and boilers in the third quarter of 2015 stayed at approximately the same level as last year of 1,960 thousand Gcal.

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.

In the end of second quarter of 2015 the Group's Management took a decision to put for sale at an open auction shares of JSC "Khabarovsk Repairs and Construction Company" and JSC "SK Agroenergo", which were classified as assets held for sale.

In the third quarter several a loan agreements entered into force between RAO ES EAST, PJSC and such Russian banks as VTB Bank, Sberbank, Rosbank and Gazprombank. The credit limits under the loan agreements has amounted to 14 billion RUB with interest rates ranging from 12.15% to 12.6%.

Revenue

The Group total revenues for the nine months of 2015, combined with government grants, increased by 10% amounting to 120,625 million RUB. The same indicator for

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.

the third quarter of 2015 rose by 17% y-o-y to 33,953 million RUB mostly due to increased sales of power and capacity by 15%.

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

- 16% increase of electricity output totaling 21,622 million kWh;
- Wholesale price increase on the non-price UES of the East resulted by the 13% slump in production of Zeyskaya and Bureyskaya HPPs due to lower water levels, as well as by the increased bilateral agreement sales of JSC "FEGC" to INTER RAO, PJSC for export resale.
- 12% growth of average retail sales of PJSC "FEEC" caused by wholesale power price increase.

Revenue Structure (*RUB in millions*)

Revenue Item	Nine months		y-o-y	Third quarter		y-o-y
	2015	2014	%	2015	2014	%
Sale of electricity and capacity	78,067	68,064	15%	23,900	20,775	15%
Heat sales	22,888	22,133	3%	2,826	2,590	9%
Other revenue	11,511	11,753	-2%	4,573	3,531	30%
Total revenue	112,466	101,950	10%	31,299	26,896	16%
Government grants	5,505	5,607	-2%	2,654	2,217	20%
Revenues with government grants	120,625	109,774	10%	33,953	29,113	17%

Operating expenses

In the first nine months of 2015 the Group's operating expenses were up by 14% compared to the same period last year, amounting to 124,566 million RUB. In the third quarter of 2015 operating expenses grew by 11%. Variable costs in nine and third quarter of 2015 increased by 18% and 20% respectively. Fixed costs for the same period increased by 10% and 5% respectively.

Fuel expenses in the first nine months of 2015 grew by 21% amounting to 37,774 million RUB. This was due to a 16% power production increase, accompanied by the growth in fuel costs and average reference fuel consumption. The increase in average fuel prices in first nine months of 2015 grew by 9% to 3,439 RUB per reference fuel ton mostly due to price increase of the gas from "Sakhalin-1" consortium. The price for consumed average reference fuel ton in the third quarter of 2015 increased by 15% up to 3,396 RUB per ton. The specific reference fuel consumption (SRFC) in nine months of 2015 for the Group power production was up by 4 g/kWh to 392 g/kWh caused by the rise of the load factor of the less effective power units. In the third quarter of 2015 the SRFC was 3.7 g/kWh higher than in the same period last year. As the result, the fuel consumption in the first nine months 2015 was 11% higher totaling 10,984 thousand

tons of reference fuel, while in the third quarter of 2015 the fuel consumption increased by 10% up to 2,662 thousand tones.

Purchased electricity and capacity in nine and three months ended September 30, 2015 were up by 37% and 19% respectively 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 Chukotenergo power purchase increases from the Bilibino NPP resulted by the tariff hike

Employee benefit expenses increased in nine and three months ended September 30, 2015 up to 12% and 11% respectively can be explained by the growth of CPI (basic salary of worker of the utilities sector is indexed by the actual CPI) as well as by the additional benefits for harmful and dangerous working conditions introduced on June 1, 2014 by the Labor code.

Key expenses (*RUB in millions*)

Expense items	Nine months		y-o-y	Third quarter		y-o-y
	2015	2014	%	2015	2015	2014
Fuel expenses	37,774	31,188	21%	9,042	7,114	27%
Expenses for electricity distribution	10,483	10,381	1%	3,283	3,060	7%
Purchase of electricity and capacity	9,651	7,047	37%	2,889	2,432	19%
Purchase and transmission of heat	2,170	2,055	6%	580	545	6%
Water usage expenses	1,328	1,372	-3%	396	483	-18%
Purchase of oil products for sale	549	569	-4%	408	37	1003%
Total Variable Expenses	61,955	52,612	18%	16,598	13 671	21%
Employee benefit expenses (including payroll taxes and pension benefit expenses)	37,781	33,720	12%	11,739	10,678	10%
Other materials	4,726	5,771	-18%	1,772	2,718	-35%
Depreciation of property, plant and equipment	5,862	5,473	7%	2,025	1,708	19%
Repairs and maintenance	2,335	1,676	39%	1,238	910	36%
Services of subcontracting companies	1,132	1,000	13%	744	519	43%
Security expenses	996	946	5%	330	368	-10%
Rent	1,042	866	20%	352	283	24%
Social charges	525	569	-8%	161	210	-23%
Consulting, legal and information expenses	463	704	-34%	148	308	-52%
Transportation expenses	573	955	-40%	275	556	-51%
Other third parties services	2,673	2,132	25%	787	632	25%
Services of SO-CDU, NP Council Market, CFS	549	533	3%	184	173	6%
Insurance cost	242	260	-7%	60	105	-43%
Taxes other than on income	1,785	1,530	17%	574	502	14%
Insurance indemnity	(251)	(39)	544%	(202)	(11)	1736%

Business travel	299	323	-7%	101	132	-23%
Accrual of impairment for accounts receivable, net	965	484	99%	(181)	(134)	35%
Loss (Profit) on disposal of property, plant and equipment, net	(8)	52	-	12	(26)	-
Other expenses	922	240	284%	157	(217)	-
Total Fixed Expenses	62,611	57,195	9%	20,276	19,414	4%
Total Expenses	124,566	109,518	14%	36,874	33,084	11%

Financial position

As of September 30, 2015, the Group's total assets increased by 6% from the beginning of the year totaling 159,999 million RUB. There were certain changes in the current assets structure:

- 18% decrease of cash and cash equivalents down to 9,681 million RUB;
- 17% increase of inventories up to 22,726 million RUB resulted from the fuel storage preparation for the heating season;
- 4% rise in accounts receivable and prepayments up to 24,090 million RUB.

The Group's equity as of September 30, 2015 decreased by 41% down to 15,922 million RUB compared to December 31, 2014, which is mostly the result of the 39% increase of retained losses up to 18,408 million RUB.

The Group's total liabilities as of September 30, 2015 increased by 16% compared to December 31, 2014 and totaled 144,077 million RUB. This was provided by:

- The financial debt (total of short-term and long-term debt) increase by 24% up to 96,956 million RUB;
- Net debt (financial debt minus cash and cash equivalent and current deposits) grew by 33% to 86,686 million RUB;
- the non-current debt decreased by 1.5% down to 46,216 million RUB;
- The current debt increased by 56% to 50,742 million RUB due to the proximation of the non-current debt maturity dates;
- The accounts payable and accruals increased by 2% to 30,317 million RUB.

The Group's main creditors are its parent company RusHydro (24% of total financial debt) and PJSC Sberbank (32% of total financial debt).

CAPEX

The amount of capital expenditure in the first nine months of 2015 increased by 10% to 12,508 million RUB. The amount of financing of the investment program was down by 4% amounting to 10,463 million RUB (excluding VAT) compared to the same period last year.

Capital expenditure commitments in accordance with separate investment programs of subsidiaries the Group as at September 30, 2015 totals RUB 56,691 million including VAT:

- From 30.09.2015 – 17,987 million RUB;
- 2016 – 22,153 million RUB;
- 2017 – 16,551 million RUB.

Future capital expenditures are mainly reconstruction project of existed equipment of power plants and grid as well the off-the-site infrastructure projects related to the 4 new power plant construction of the PJSC RusHydro.

Subsequent events

On November 3, 2015 Vostok-Finance Limited (part of RAO ES EAST Group) announced the voluntary tender offer to purchase ordinary and preferred shares of RAO ES EAST, PJSC. The tender offer is effective from November 3, 2015 through January 18, 2016. The tender offer is made to all of the company's shareholders (over 310 thousand) which means that 5,609,602,111 of ordinary shares and 658,653,832 of preferred shares might be bought-out which is around 13% of RAO ES EAST charter capital.

In accordance with the terms of the voluntary tender offer the shareholders are entitled to:

1. Exchange RAO ES EAST, PJSC ordinary and preferred shares for the ordinary shares of PJSC RusHydro at a price of RUB 0,5768 per share (calculated as a weighted average price for the past six months prior to tender offer announcement). (The resulting conversion ratios are: 0.6068 shares of PJSC RusHydro for 1 ordinary share of RAO ES EAST, PJSC; 0.3814 shares of PJSC RusHydro for 1 preferred share of RAO ES EAST, PJSC).
2. Sell RAO ES EAST, PJSC ordinary shares at a price of RUB 0.35 per share; and preferred shares at a price of RUB 0.22 per share.

The tender offer was approved by the Board of Directors of PJSC "RusHydro" on October 7, 2015 and is part of the measures to consolidate 100% of RAO EA EAST charter capital within the RusHydro Group, as one of the goals of Long-term development program of the hydropower holding.

The financial information in full, press release and presentation are posted on the website of RAO ES East, PJSC 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"; PJSC "Magadanenergo", PJSC "Kamchatskenergo", JSC "Sakhalinenergo", JSC "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 8,968 MW of electrical power and 17,975 Gcal/h of thermal power. The length of the power grid of all voltage classes is more than 103 thousand km.

The majority shareholder is PJSC RusHydro.

For more information call:

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Max Kochetkov

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

E-mail: 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.
