



JSC "RAO Energy System of East"

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RAO Energy System of East Reports a 9% Increase in EBITDA for 9m 2014 up to 6.3 billion RUB

December 15, Moscow - RAO Energy System of East Group (ticker symbol: VRAO; ISIN code RU000A0JPVL6) publishes its unaudited condensed consolidated interim financial information for nine months of 2014, prepared in accordance with International Financial Reporting Standards (IFRS).

Profit

In the nine months of 2014 JSC "Energy System of East" (hereinafter the Group) posted an adjusted operating profit amounting to 792 million RUB, which was 62% lower than in the same period of 2013. The reason for the profit reduction is in the increase of employee benefit expenses resulted from the indexation of employee wages and salaries within the Group as well as in the depreciation growth.

EBITDA for the period increased by 9% y-o-y, totaling 6,265 million RUB. The Group's adjusted net loss in accordance with IFRS amounted to 3,675 million RUB or 138% more than in the same period last year. Net loss for the period was 4,211 million RUB.

Financial Highlights (*RUB in millions*)¹

Indicator	Third quarter		y-o-y %	9 months		y-o-y %
	2014	2013		2014	2013	
Revenues with government grants	29,113	28,080	4%	109,774	103,921	6%
Operating expenses	(33,084)	(29,955)	10%	(109,518)	(100,553)	9%
Operating profit	(3,971)	(2,649)	50%	256	2 594	-90%
Operating profit (Loss) (adj.)¹	(4,131)	(2,199)	88%	792	2,078	-62%
EBITDA	(2,423)	(955)	154%	6,265	5,766	9%
Financial expenses, net	(1,634)	(1,302)	25%	(4,529)	(3,597)	26%
Loss before income tax (adj.) ¹	(5,824)	(3,607)	61%	(3,687)	(1,536)	140%
Loss for the period	(5,474)	(3,707)	48%	(4,211)	(1,027)	310%
Loss for the period (adj.)¹	(5,634)	(3,257)	73%	(3,675)	(1,543)	138%

Main events

JSC "Energy System of East" Group (RAO ES of East) increased electricity production in the third quarter of 2014 by 9% YoY to 5,792 million kWh due to the output reduction

¹ Operating profit (loss), loss before income tax, and loss for the period are adjusted for the accrual of impairment for accounts receivable, by loss on disposal of property, plant and equipment, as well as for income resulted from the downward revision of pension scheme and loss on disposal group remeasurement in 2013.

of Zeyskaya and Bureuskaya HPPs (also part of Group RusHydro) because of low water flow to the storage reservoirs. However the total 9 months power output of the Group was down 3% to 21,076 million kWh caused by higher HPP output in the first half of the year. Heat output of the Group's CHPPs and boilers was down by 5% totaling 20,086 thousand Gcal due to warmer air temperature in most of the Far East cities.

Revenue

The Group revenues in the nine months of 2014, combined with government grants, increased by 6% amounting to 109,774 million RUB. The same indicator in the third quarter of 2014 showed an increase of 4% up to 29,113 million RUB mostly due to the 7% increase of electricity and capacity sales

The main factors influencing the revenue in the nine months of 2014 were:

- 6% growth y-o-y (to 3.34 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 3,789 mln. RUB resulted from the renewal of the "last mile contracts" in the Amurskaya oblast, and Jewish autonomous oblast.
- 8% growth of government subsidies up to 7,824 million RUB.

The largest share of the Group's revenue in the nine months of 2014 consists of revenue from the sale of electricity (62%) and heat output (20%). 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*)

Показатели выручки	Third quarter		y-o-y %	9 months		y-o-y %
	2014	2013		2014	2013	
Sale of electricity and capacity	20 775	19 432	7%	68 064	63 801	7%
Heat sales	2 590	2 647	-2%	22 133	21 891	1%
Other revenue	3 531	4 183	-16%	11 753	11 003	7%
Total revenue	26 896	26 262	2%	101 950	96 695	5%
Government grants	2 217	1 818	22%	7 824	7 226	8%
Revenues with government grants	29 113	28 080	4%	109 774	103 921	6%

Operating expenses

In the nine months of 2014 the Group's operating expenses were up by 9%, amounting to 109,518 million RUB. This year's third quarter operating expenses are up by 10%.

Fuel expenses in 9 months of 2014 stayed at the same level as the year earlier amounting to 31,188 million RUB. This was due to a 3% power output cut down,

accompanied by the price reduction of purchased coal. The average cost of specific reference fuel for the 9 months of 2014 grew by 4% due to price increase of "Sakhalin gas". The reduction of the specific reference fuel consumption (SRFC) for the Group power production was down by 3 g/kWh to 388 g/kWh caused by the reduction of the Sakhalin energy system SRFC by 49 g/kWh due to the launch of the new 4th power unit of Yuzhno-Sakhalinskaya CHPP-1. As the result, the fuel consumption in the nine months of 2014 measured in tones of reference fuel was 4% lower totaling 9,875 thousand tones.

A 13% rise in employee benefit expenses amounting to 33,720 million RUB can be explained by the indexation of employee wages and salaries within the Group.

A 48% hike in depreciation of property, plant and equipment for the 9 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*)

Indicator	Third quarter		y-o-y	9 months		y-o-y
	2014	2013	%	2014	2013	%
Employee benefit expenses (including payroll taxes and pension benefit expenses)	10,678	9,513	12%	33,720	29,808	13%
Fuel expenses	7,114	6,914	3%	31,188	31,246	0,2%
Expenses for electricity distribution	3,060	2,899	6%	10,381	9,345	11%
Purchase of electricity and capacity	2,432	2,251	8%	7,047	7,017	0%
Depreciation of property, plant and equipment	2,718	2,482	10%	5,771	5,739	1%
Other materials	1,708	1,244	37%	5,473	3,688	48%
Purchase and transmission of heat	519	730	-29%	1,000	1,982	-50%
Repairs and maintenance	545	472	15%	2,055	1,948	5%
Taxes other than income tax	910	742	23%	1,676	1,546	8%
Accrual of impairment for accounts receivable, net	(134)	(219)	-39%	484	373	30%
Loss on disposal of property, plant and equipment, net	(26)	(105)	-75%	52	(54)	-196%
Curtailment in pension plan	-	-	-	-	(1,609)	-100%
Other expenses	3,560	3,032	17%	10,671	9,524	12%
Total Expenses	33,084	29,955	10%	109,518	100,553	9%

Financial position

As of September 30, 2014, the Group's total assets increased by 11% to 152,336 million RUB compared to 137,678 million RUB on 31 December 2013. The increase of assets is the result of the 3% growth of property, plant and equipment to 87 562 million RUB, as well as the following current assets changes:

- 65% growth of cash and cash equivalents up to 12,467 million RUB;
- 17% increase of inventories up to 22 188 million RUB;
- 11% rise in accounts receivable and prepayments up to 25,367 million RUB.

The Group's equity as of September 30, 2014 decreased by 14% down to 24,245 million RUB compared to December 31, 2013, which is mostly the result of the 21% increase in retained losses to 15,434 million RUB.

The Group's total liabilities as of September 30, 2014 increased by 17% compared to December 31, 2013 and totaled 128,091 million RUB. This was provided by:

- The financial debt (total of short-term and long-term debt) increase by 33% up to 86,108 million RUB;
- the growth of non-current debt by 16% up to 57 895 million RUB;
- The current debt increased by 92% to 28,213 million RUB due to the proximation of the non-current debt maturity dates;
- The accounts payable and accruals decreased by 5% to 28,456 million RUB.

In the third quarter the Group has concluded loan agreements (including those on credit lines) with commercial banks. The agreements were concluded with OJSC AKB Rosbank, JSC "Sberbank", JSC Gazprombank, ZAO Raiffeisenbank. The average interest rate of the new loans in the third quarter was 10.8%. The resulted average cost of borrowing totaled 10.2%

CAPEX

The amount of financing of the investment program in the nine months of 2014 was up by 37% to 10,872 million RUB (excluding VAT) compared to nine months of 2013. The amount of capital expenditure increased by 26% to 11,328 million RUB.

One of the sources to finance the current investment program were the proceeds from sale of property, plant and equipment amounting to 2,401 million RUB mostly related to the construction of four thermal power stations implemented by JSC "RusHydro".

A number of separate investment programmes was changed in November 2014. According to the changes the Group has to invest 78,047 million RUB for the period 2014-2016. Capital commitments of the Group, taking into consideration changes made and actual finance up to 30 September 2014, are 63,521 million RUB, including:

- 4 quarter of 2014 –7,300 million RUB;
- 2015 year –34,073 million RUB;

- 2016 year –22,148 million RUB.

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

The financial information in full, press release and presentation are 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.

The total installed power capacity of the Far Eastern energy companies under JSC "RAO Energy System of East" is 8,982 MW of electrical power and 17,947 Gcah/l 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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