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RAO Energy System of East Reports a 5% increase in revenues for 9m 2012 IFRS

December 25, Moscow - RAO Energy System of East Group (ticker symbol: VRAO; ISIN code RU000A0JPVL6) announces its unaudited consolidated financial results for the nine months ended September 30th, 2012, prepared in accordance with International Financial Reporting Standards (IFRS). The Group's consolidated revenues with the government grants during the period January to September of 2012 rose by 5% to 97,470 million RUB.

Financial Highlights (*RUB in millions*)

	9m 2012	9m 2011	% Change y-o-y
Revenues with government grants	97,470	92,560	5%
Operating expenses	(101,265)	(89,560)	13%
Impairment of property, plant and equipment ⁽ⁱ⁾	(4,872)	(17,927)	-73%
EBITDA ⁽ⁱⁱ⁾	2,510	5,381	-53%
Adjusted operating profit/(loss) ⁽ⁱⁱⁱ⁾	(3,795)	3,000	n.a.
Loss for the period	(11,037)	(14,050)	-21%
Total comprehensive income for the period	(11,829)	6,690	n.a.

Main events

August 27th, 2012 - JSC "FEGC" (part of the Group "RAO Energy System of East") concluded a loan agreement with JSC "RusHydro" in accordance with which it is credited 8,000 million rubles in order to increase its current liquidity. The loan maturity date is September 15, 2021, and the rate was set at 8.83%, with an option of adjusting the rate to MosPrime +3.09%.

September 7th, 2012 - The Board of Directors adopted a decision to increase the number of board members from 7 to 10. The expansion, which added a Chief Engineer, Deputy Director of Resource Management, and Deputy Director of Security, is

aimed at increasing the level of expertise on the board and improving the quality of governance. The decision will not lead to an increase in financial compensation for management.

September 8th, 2012 – JSC “RAO Energy System of East and JSC “Mechel Mining”, within the framework of the APEC 2012 Summit, signed an agreement regarding the sale and delivery of coal from the Elga deposit. According to the document, RAO ES of East is planning a pilot coal burning project, using coal from the Elga coal complex at power plants under the control of JSC “Far East Generation Company.” “Mechel Mining,” on their part, will supply the fuel to power plants of JSC “FEGC” at a price no higher than the current market price.

Revenue

The Group revenues through nine months of 2012, combined with government grants compensating for low electricity tariffs, increased by 5% amounting to 97,470 million RUB, compared to 92,560 million RUB during the previous year.

The main factors influencing revenue growth in nine months of 2012 were:

- An increase in power consumption by 5% in the Unified Power System of the East, in the Republic of Sakha (Yakutia) by 4%, in the Magadan oblast by 5%, in the Sakhalin oblast by 4%.
- A 2% y-o-y reduction (to 2.97 RUB / kWh) in the average tariff on electricity sold by companies under the control of JSC “RAO Energy System of East.” This was due to changes in transmission prices on the regulated market by Unified Power System of the East
- A 95% y-o-y growth in exports to China against 2011, reaching 1,805.8 million kWh, as a result of the commissioning of the first line of a high voltage 500 kW overhead grid from Zeyskaya HPP to the Amur border.

The largest share of the Group's revenue consists of revenue from the sale of electricity (66%) and heat output (20%). Other revenue (13%) 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*)

	9m 2012	9m 2011	% Change y-o-y
Sale of electricity	59,966	58,015	3%
Heat sales	18,009	17,403	3%
Sale of capacity	951	728	31%
Other revenue	11,924	10,653	12%
Total revenue	90,850	86,799	5%

Operating expenses

In nine months of 2012 the Group's operating expenses were up 13%, amounting to 101,265 million RUB compared to 89,560 million RUB in the previous year.

Fuel expenses, which make up 32% of total expenses, increased by 16% to 32,045 million RUB. This was on account of a 7% increase in generation, accompanied by an increase in the equivalent specific fuel consumption on less efficient power plants as well as the increased consumption of fuel oil resulting from interruptions to the gas supplies because of so called "hydration" blockages.

A 5% rise in employee compensation (28% of total expenses) amounting to 27,885 can be explained by the indexation of employee wages and salaries within the Group, as well as staff increases due to the acquisition of the local utility business at JSC "Kamchatskenergo", and the creation of the new Sakhalin office for the repair and maintenance company JSC "Daltechenergo".

Depreciation decreased by 33% due to the seize of depreciation charge of JSC "Far East Grid Company" (FEGC) fixed assets in light of the classification of this Company as held for sale.

Key expenses (*RUB in millions*)

	9m 2012	9m 2011	% Change y.o.y.,
Fuel expenses	32,045	27,647	16%
Employee benefit expenses (including payroll taxes and pension benefit expenses)	27,885	26,596	5%
Expenses for electricity distribution	9,139	8,418	9%
Purchase of electricity and capacity	6,400	6,346	1%
Depreciation of property, plant and equipment	3,232	4,805	-33%
(Reversal)/Accrual of impairment for accounts receivable, net	3,208	(2,083)	n.a.
Income on disposal of property, plant and equipment, net	(135)	(341)	-60%

Through the first nine months of 2012 the Group posted an operating loss amounting to 3,795 million RUB, compared to a 3,000 million RUB¹ operating profit during the same period last year.

EBITDA for the period decreased by 53%, totaling 2,510 million RUB.

The Group's loss for nine months of 2012 amounted to 11,037 million RUB against the net loss of 14,050 million RUB a year earlier. The Group showed a total comprehensive loss for the period totaling 11,829 million RUB, compared to a 6,690 million RUB profit in the same period of 2011.

Key indicators of the Group's financial position as of 30 September 2012

As of 30 September 2012, the Group's total assets increased by 4% to 135,358 million RUB compared to 130,311 million RUB on 31 December 2011.

¹ Adjusted for the effects of impairment of the Group's property, plant and equipment

As of 30 September 2012, the non-current assets increased by 8% to 56,721 RUB against 52,422 million RUB as of 31 December 2011. The increase in non-current assets by 8% was mostly driven by a 9 % increase in property, plant and equipment to 54,180 million RUB.

The Group's equity as of 30 September 2012 decreased by 38% to 18,225 million RUB compared to 29,167 million RUB as of 31 December 2011, which is the result of the increase in retained losses to 20,753 million.

The Group's total liabilities as of 30 September 2012 were 117,133 million RUB, up from 101,144 million RUB as of 31 December 2011, a 16% increase.

- Financial debt in the first nine months of 2012 increased by 25% to 65,125 million RUB.
- Non-current debt decreased by 43% to 19,378 million RUB accompanied by a 153% increase in current debt to 45,747 million RUB.
- Accounts payable and accruals increased by 13% to 20,367 million RUB.

CAPEX

The amount of capital expenditure in nine months of 2012 was 12,506 million RUB (excluding VAT) remaining at the same level as the previous year. The 5th unit at Yuzhno-Sakhalinsk CHP plant-1, 91.2 MW (at a project cost of 3.3 billion) was successfully launched on August 29, 2012, becoming the first newly implemented construction project in the Sakhalin energy system in 30 years.

Subsequent events

November 30th, 2012 – JSC “RusHydro” acting on behalf of RAO “Energy System of East” and JSC “NK Rosneft” signed an agreement regarding the sale and delivery of natural gas and oil to power plants in the Russian Far East Federal District. Additionally, in order to implement its own gas transportation system, “Rosneft” has agreed to acquire gas pipelines, which are currently on the balance sheet of JSC “RAO ES of East.”

December 5th, 2012 – JSC “RAO Energy System of East” and the European Bank of Reconstruction and Development (EBRD) signed a loan agreement in the amount of 4 billion RUB over 12 years for the construction of the CHPP “Vostok,” as well as refinancing the existing debt of the Group “RAO ES of East.”

The press release and presentation will be posted on the website of JSC "RAO Energy System of East" at: <http://en.rao-esv.ru/finansovaya-otchetnost-po-msfo>

Note:

JSC «RAO Energy System of East» (JSC “RAO ESE”) 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 9,138 MW of electrical power and 17,943 Gcal of thermal power. The length of the power grid of all voltage classes is more than 96 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.

[i] The Group considered 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 recognized in the amount of RUB 4,872 million for the nine months ended 30 September 2012 in respect to additions of property, plant and equipment related to cash-generating units impaired in previous periods.

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

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