



JSC “RAO Energy System of East”

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RAO Energy System of East Reports a 37% Increase in IFRS EBITDA for 2013 up to 17,032 million RUB

March 17, Moscow - RAO Energy System of East Group (ticker symbol: VRAO; ISIN code RU000A0JPVL6) publishes its audited consolidated financial statements for 2013, prepared in accordance with International Financial Reporting Standards (IFRS). The Group’s net profit for 2013 amounted to 4,681 million RUB against 4,824 million losses a year earlier. EBITDA increased by 37% to 17,032 million RUB.

Financial Highlights (*RUB in millions*)¹

	2013	2012	% Change y-o-y
Revenues with government grants	152,829	142,080	8%
Operating expenses	(140,997)	(137,647)	2%
Operating profit(adj)	12,001	7,566	59%
EBITDA	17,032	12,416	37%
Profit before income tax (adj.)	6,943	2,824	146%
Profit for the period (adj.)	9 654	4 569	111%
Profit/ (Loss) for the period	4,681	(4,824)	n.a.
Total comprehensive income for the period	4,200	(6,807)	n.a.

Main events

JSC “Energy System of East” Group (RAO ES of East) decreased electricity production in 2013 by 4.9% YoY to 30,002 million kWh. 73% of the electricity generated was done so JSC “Far-East Generating Company” (FEGC), which cut down production by 4.6% mostly due to the output growth of Zeyskaya and Bureuskaya HPPs (also part of Group RusHydro). Exported power to China increased by 36% or by 911 million kWh.

¹ Operating profit, Losses before income tax, and Loss for the period for 2013 and 2012 are adjusted for the effects of impairment of the Group's property, plant and equipment in the amount of 4,804 mln RUB and respectively, by accrual of impairment for accounts receivable amounting to 1778 mln RUB, and by income resulted from the downward revision of pension scheme in 2013 amounting to 1,609 mln RUB.

The changes to the Federal Law "On Electric Power Industry" and article 81 of Federal Law "On Joint Stock Companies" were made on 7 November 2013. According with changes lease of OJSC Federal Grid Company's grids is prolonged till 1 July 2029 for territorial grid companies in the number of regions of the Russian Federation including the Amur Region and Jewish Autonomous Region where OJSC DRSK operates. These changes to the Federal Law could compensate shortfall in income which has arisen due to withdrawal of some consumers from "the last mile" agreements. Eventually the upward evaluation of OJSC DRSK has resulted in a revision of plans to sell OJSC DRSK.

A number of standard acts were adopted to enable the compensation of OJSC DRSK losses for 2011 from the abolishment of the "last mile" contracts. In December 2013 the Ministry of Energy of Russia signed the agreements with the administrations of Amurskaya oblast and Evreyskaya autonomous oblast on the subsidy allocation. In according with the abovementioned agreements OJSC DRSK received subsidies amounting to 2,313 million RUB compensating revenue reductions from the abolishment of the "last mile" contracts in 2011. The company in 2014 will continue its efforts aimed at receiving subsidies compensating the revenue shortfall from the seized "last mile" contracts in 2012-2013 within the federal budget item to eliminate cross-subsidies in the utilities sector.

RAO ES of East has ended tender procedures for coal supply to its power stations in 2014. The tender procedures resulted in a significant 3% decrease of prices for the coal to be purchased next year.

Revenue

The Group revenues in 2013, combined with government grants, increased by 8% amounting to 152,829 million RUB, compared to 142,080 million RUB during the previous year.

The main factors influencing the revenue in 2013 were:

- 23% growth of government subsidies up to 13,233 million RUB.
- 7% growth y-o-y (to 3.23 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 in the isolated zones.
- 36% y-o-y growth in power provided for exports to China against 2012, reaching 3,423 million kWh, in accordance with the long-term contract.
- 11% increase in other revenues due to increase in constructions works of JSC "Khabarovsk repairs and installation company" under external contracts amounting to 1,041 mln RUB, and also as the result of fuel resale to the companies from outside RAO ES of East by JSC "VOSTEK" amounting to 836 mln. RUB.
- Growth in average heating tariffs the powers stations and boilers.

The largest share of the Group's revenue in 2013 consists of revenue from the sale of electricity (64%) and heat output (24%) which showed a 5.8% and 5.3% growth respectively. Other revenue (12%) 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*)

	2013	2012	% Change y-o-y
Sale of electricity and capacity	89,839	84,890	6%
Heat sales	33,004	31,347	5%
Other revenue	16,753	15,047	11%
Total revenue	139,596	131,284	6%
Government grants	13,233	10,796	23%
Revenues with government grants	152,829	142,080	8%

Operating expenses

In 2013 the Group's operating expenses were up by 2%, amounting to 140,997 million RUB compared to 137,647 million RUB in 2012.

Fuel expenses, which make up 32% of total expenses, decreased by 2% to 44,460 million RUB. This was on account of a 4.9% power output cut down, accompanied by an increase in power output in combined heat and power mode. The work of the new 5th power unit of Yuzhno-Sakhalinskaya CHPP-1 along with the launch of the 4th unit handed over to JSC "Sakhalinenergo" for operation led to the reduction of the specific reference fuel consumption (SRFC) for power production by 45.6 g/kWh from to 387.8 g/kWh. Effectively, the total SRFC of the Holding decreased by 3.9 g/kWh down to 383 g/kWh. As the result, the fuel consumption for power production in 2013 measured in tones of reference fuel was 5% lower amounting to 14 336 thousand tones.

A 8% rise in employee compensation (30% of total expenses) amounting to 40,309 million RUB can be explained by the indexation of employee wages and salaries within the Group.

A 82% growth in services of subcontracting companies up to 3 364 million RUB is the result of the increase in works JSC "Khabarovsk repairs and installation company" under the construction contracts with the Urgalugol company, and the Khabarovsk oil refinery.

Key expenses (*RUB in millions*)

	2013	2012	% Change y.o.y.,
Fuel expenses	44,460	45,202	-2%
Employee benefit expenses (including payroll taxes and pension benefit expenses)	40,309	37,465	8%
Expenses for electricity distribution	12,894	11,613	11%
Purchase of electricity and capacity	9,635	8,955	8%
Other materials	7,059	7,128	-1%

Depreciation of property, plant and equipment	5,174	4,374	18%
Services of subcontracting companies	3,364	1,845	82%
Purchase and transmission of heat	2,699	2,572	5%
Repairs and maintenance	2,382	2,556	-7%
Accrual of impairment for accounts receivable, net	1,778	3,133	-43%
Income/ (reversal) on disposal of property, plant and equipment, net	(143)	476	n.a.
Income resulted from the downward revision of pension scheme	(1,609)	-	
Other expenses	12,995	12,328	5%
Total Expenses	140,997	137,647	2%

Profit

In 2013 the Group posted an adjusted operating profit amounting to 12,001 million RUB, which was 59% higher than in 2012. The reasons for the improvement of operational results were in growth in government subsidies by 23% coupled with the increase in operational efficiency.

EBITDA for the period increased by 37%, totaling 17,032 million RUB due to the compensation of the revenue shortfall from the seized "last mile" contracts in 2011 along with the growth of electricity and heat sales margins resulted from the tariff growth outpacing fuel costs.

The Group's adjusted net profit in accordance with IFRS in 2013 amounted to 9,654 million RUB or 111% more than in 2012. Net profit in 2013 was 4,681 million RUB compared to 4,824 million of losses in 2012.

The Group's total comprehensive income for the period totaled 4,200 million RUB, compared to a loss of 6,807 million RUB in 2012.

Financial position

As of December 31, 2013, the Group's total assets increased by 5% to 137,678 million RUB compared to 130,524 million RUB on 31 December 2012. The increase of assets is the result of the growth in property, plant and equipment due to the increase in construction in progress by 5,901 million RUB.

The Group's equity as of December 31, 2013 increased by 17% to 28,280 million RUB compared to 24,084 million RUB as of 31 December 2012, which is mostly the result of the 19% decrease in retained losses down to 12,775 million RUB.

The Group's total liabilities as of December 31, 2013 increased by 3% to 109,398 million RUB, from 106,440 million RUB as of December 31, 2012. This was provided by:

- The growth of financial debt (total of short-term and long-term debt) by 23% to 64,674 million RUB mostly due to the reclassification of the liabilities if the disposal group to be included in the total amount of financial debt of the Group;

- The non-current debt increased by 104% to 49,950 million RUB resulting from loans received from JSC "RusHydro", EBRD and JSC "VTB" ;
- The current debt increased by 48% down to 14,724 million RUB;
- The accounts payable and accruals increased by 29% to 29,953 million RUB.

CAPEX

The amount of financing of the investment program in 2013 was down by 23% to 13,497 million RUB (excluding VAT) decreasing 23% from the level of the same period last year. The amount of capital expenditure (commissioning of new property, plant and equipment and construction in progress in accordance with RAS) increased by 9% to 16,821 mln RUB. The reduction in financing in 2013 is the result of the commissioning of several major investment projects in 2012, including the 5th power unit of Yuzhno-Sakhalinsk CHPP-1, and also major grid facilities built in preparation for the 2012 APEC Summit. Moreover the reduction in financing of the investment program in 2013 is the result of implementation of design works of 4 power stations listed in President's decree No 1564 dated 22.11.2012 and the commencement of infrastructural projects servicing the new plants.

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. The liabilities of the Group related to capital expenditure as at December 31, 2013 are to be as follows: 2014 – 25,731 million RUB, 2015 – 21,198 million RUB, 2016 – 17,741 million RUB.

Subsequent events

The Group signed a loan agreement with JSC "Sberbank" amounting to 1,100 million RUB with maturity date not later than April 26, 2016 having interest rate of 8.02% per annum, and also with JSC "Gazprombank" amounting to 620 million RUB, with maturity date not later than January 29, 2016, having interest rate of 8.65% per annum.

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 9,070.5 MW of electrical power and 17,911 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.
