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**RAO Energy System of East Reports a 2.5 bln Profit for 1Q 2012 IFRS**

**August 1, Moscow** - RAO Energy System of East Group (ticker symbol: VRAO; ISIN code RU000A0JPVL6) announces its unaudited consolidated financial results for the three months ended March 31, 2012, prepared in accordance with International Financial Reporting Standards (IFRS). The Group consolidated revenues in the first quarter of 2012 rose by 6% to 42.6 bln RUR, with comprehensive income for the period reaching 2.6 bln. RUR.

**Financial Highlights** (RUR mln)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **3m 2012** | **3m 2011** | **Change y.o.y, %** |
| **Revenues** | 42,582 | 40,050 | 6% |
| **Government grants** | 2,579 | 1,860 | 39% |
| **Operating expenses**  | (40,704) | (33,159) | 23% |
| **Impairment of property, plant and equipment**[[i]](http://www.eng.rushydro.ru/press/news/14492.html#_edn1) | - | (21,327) | -100% |
| **EBITDA**[[iii]](http://www.eng.rushydro.ru/press/news/14492.html%22%20%5Cl%20%22_edn3%22%20%5Co%20%22) | 6,984 | 7,626 | -8% |
| **Adjusted operating profit**[[ii]](http://www.eng.rushydro.ru/press/news/14492.html%22%20%5Cl%20%22_edn2%22%20%5Co%20%22) | 4,457 | 8,751 | -49% |
| **Adjusted profit** **before income tax**[[iv]](http://www.eng.rushydro.ru/press/news/14492.html#_edn4) | 3,385 | 8,100 | -58% |
| **Profit/(Loss) for the period** | 2,513 | (8,124) | n.a. |
| **Total comprehensive income for the year** | 2,573 | 19,432 | -87% |

**Main events**

On March 9 the Extraordinary General Shareholders Meeting of JSC DEC (a major subsidiary of JSC “RAO ES of East”) approved the deal to sell a 100% stake at JSC DRSK (the grid company) to the Federal Grid Company (FGC, JSC). Currently the talks on the terms of the deal with FGC, JSC are still in progress. The DRSK sale is expected to take place later this year.

The acquired cash from the disposal of JSC DRSK is expected to be allocated to the funding of Ussuriskaya CHP Plant (Promorskiy krai).

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 1,159 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 the technological connection of the cell phone base stations along the Chita-Khabarovsk section of the “Amur” highway.

**Revenue**

The Group revenues after three months of 2012 coupled with the government grants, compensating for the low electricity tariffs, increased by 7.8% amounting to 45.161 mln RUR, compared to 41,910 mln RUR a year earlier.

The main factors of revenue growth in the first quarter of 2012 were:

* Increase in power generation by 8.4% up to 17,025.4 mln KWH due to increase of industrial consumers demand, and growth of export to China;
* Growth of heat output of the thermal generating capacities by 4.7% amounting to 19,053.8 thousand Gcal caused by this year’s lower air temperature;
* Increase of government grants by 39% from 1,860 mln RUR to 2,579 mln RUR.

The largest share of the Group's revenue is represented by revenue from sales of electricity (54%), heat output (28%). 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**

(mln RUR)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **3м 2012** | **3м 2011** | Change y.o.y, % |
| Sales of electricity  | 24,378 | 23,359 | 4% |
| Sales of capacity | 303 | 312 | -3% |
| Heat sales | 12,579 | 11,866 | 6% |
| Other revenue  | 5,322 | 4,513 | 18% |
| **Total revenue** | 42,582 | 40,050 | 6% |

**Operating expenses**

In the first quarter of 2012 the Group operating expenses were up by 23% amounting to 40,704 mln. RUR compared to 33,159 mln RUR a year earlier.

Fuel expenses which make up 41% of total expenses increased by 18% up to 16,568 mln RUR mostly due to a 8.4% rise in power generation coupled with a 49% growth in oil consumption and a 9.4% growth in coal consumption caused by problems with gas supply.

A 15% rise in employee benefit expenses (23% 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)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **3м 2012** | **3м 2011** | **Change y.o.y., %** |
| Fuel expenses | 16,568 | 14,017 | 18% |
| Employee benefit expenses (including payroll taxes and pension benefit expenses)  | 9,449 | 8,248 | 15% |
| Expenses for electricity distribution | 3,738 | 3,281 | 14% |
| Purchase of electricity and capacity | 2,245 | 2,659 | -16% |
| Depreciation of property, plant and equipment | 1,283 | 1,840 | -30% |

After the first three months of 2012 the Group showed an operating profit amounting to 4,457 mln RUR, compared to a 8,751 mln RUR[[1]](#footnote-1) operating profit of the same period last year. EBITDA for the period decreased by 8% totaling 6,984 mln RUR.

The Group's profit for the first quarter of 2012 amounted to 2,513 mln RUR against the net loss of 8,124 mln RUR a year earlier. The Group’s total comprehensive income for the period amounted to 2,573 mln RUR or 87% less than in the first quarter of 2011.

**Key indicators of the Group financial position as at 31 March 2012**

As at 31 March 2012 the Group's total assets increased by 3% up to 134,494 mln. RUR compared to  130,311 mln RUR on 31 December 2011.

As at 31 March 2012 the non-current assets increased by 2% to 53,427 RUR against 52,422 mln RUR as at 31 December 2011. The JSC “DRSK” non-current assets classified as held for sale to FGC (JSC) increased by 3% to 28,655 mln RUR

The increase of non-current assets by 2% was mostly driven by a 26% increase in construction in progress resulted from the transition to a more active implementation of the investment program.

The Group's equity as at 31 March 2012 increased by 11% totaling 32,481 mln RUR compared to 29,167 mln RUR as at 31 December 2011 resulted from a 5% increase in the Charter capital.

The Group's total liabilities as at 31 March 2012 were 102,013 mln RUR staying at the same level as at 31 December 2011. The financial debt in the first three months of 2012 was reduced by 1% to 51,516 mln RUR. At the same time:

* the non-current debt decreased by 11% to 30,300 mln RUR accompanied by a 17% increase of current debt to 21,216 mln resulted;
* the accounts payable and accruals decreased by 12% to 15,895 mln RUR.

**CAPEX**

The amount capital expenditure in the first quarter of 2012 reached 2,667 mln RUR (excluding VAT) rising 22% compared to the same period last year. The growth of capital expenditure was caused by the 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 other modernization projects.

**Subsequent events**

On May 5, 2012 the Ministry of energy of the Russian Federation approved the investment program of JSC RAO Energy System of East, along with its subsidiaries. In accordance with the approved programs the financing of the Holding investment projects will amount to 20.1 bln RUR in 2012, 28.5 bln RUR in 2013, 25.8 bln in 2014 (the figures include VAT).

The unaudited Consolidated Financial Statements for the first three months of 2012 are available at Company's web-site: <http://en.rao-esv.ru/finansovaya-otchetnost-po-msfo>

**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 8,772.5 MW; installed heat capacity – 17,720 Gkal/h, length of electric energy grids more than 96,000 km

The majority shareholder - JSC RusHydro

For more information call:

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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 Systems 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 Systems of East and its operations.*

[[i]](http://www.eng.rushydro.ru/press/news/14492.html%22%20%5Cl%20%22_ednref1%22%20%5Co%20%22) 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]](http://www.eng.rushydro.ru/press/news/14492.html%22%20%5Cl%20%22_ednref2%22%20%5Co%20%22) Operating profit was adjusted for the effects of impairment of the Group's property, plant and equipment

[[iii]](http://www.eng.rushydro.ru/press/news/14492.html%22%20%5Cl%20%22_ednref3%22%20%5Co%20%22) EBITDA calculated as operating profit less depreciation and impairment of PPE and other non-cash income and losses.

[[iv]](http://www.eng.rushydro.ru/press/news/14492.html%22%20%5Cl%20%22_ednref4%22%20%5Co%20%22) Profit before income tax was adjusted for the effects of impairment of the Group's property, plant and equipment.

1. Adjusted for the effects of impairment of the Group's property, plant and equipment [↑](#footnote-ref-1)