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RAO Energy System of East Reports a 3% increase in revenues for 6m 2012 IFRS

October 18, Moscow - RAO Energy System of East Group (ticker symbol: VRAO; ISIN code RU000A0JPVL6) announces its unaudited consolidated financial results for the six months ended June 30, 2012, prepared in accordance with International Financial Reporting Standards (IFRS). The Group's consolidated revenues in the first half of 2012 rose by 3% to 67,190 million RUB.

Financial Highlights (*RUB in millions*)

	6m 2012	6m 2011	% Change y-o-y
Revenues with government grants	72,557	69,095	5%
Operating expenses	(72,201)	(61,785)	17%
Impairment of property, plant and equipment ⁽ⁱ⁾	(4,953)	(17,999)	-72%
EBITDA ⁽ⁱⁱ⁾	5,663	8,651	-35%
Operating loss	(4,597)	(10,689)	-57%
Adjusted operating profit ⁽ⁱⁱⁱ⁾	356	7,310	-95%
Loss for the period	(5,839)	(9,425)	-38%
Total comprehensive income /(loss) for the period	(6,684)	11,560	n.a.

Main events

The Annual General Shareholder Meeting of JSC "RAO Energy System of East" on June 6, 2012 approved the annual report, financial statements of the company for 2011 and the profit and loss report.

Considering that the Company's loss amounted to 6,120 million RUB, in accordance with Russian accounting standards, and was primarily due to the decrease in the market value of its affiliated companies, shareholders decided against paying dividends on the shares of the Company in all categories.

Revenue

The Group revenues through six months of 2012, combined with government grants compensating for low electricity tariffs, increased by 5% amounting to 72,557 million RUB, compared to 69,095 million RUB during the previous year.

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

- An increase in power consumption by 3.8% in the Unified Power System of the East, compared to the first six months of 2011, was mostly due to increased industrial demand and from Russian Railways;
- Growth in exports to China (a 57% increase against the first six months of 2011) as a result of the commissioning of the first line of a high voltage 500 kV overhead grid from Zeyskaya HPP to the Amur border. The commissioning of the second line by the end of 2012 should offer a maximum export capacity of over 4.5 billion kWh a year.

The largest share of the Group's revenue consists of revenue from the sale of electricity (63%) and heat output (24%). 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*)

	6m 2012	6m 2011	% Change y-o-y
Sale of electricity	42,489	41,522	2%
Heat sales	16,282	16,084	1%
Sale of capacity	576	528	9%
Other revenue	7,843	6,814	15%
Total revenue	67,190	64,948	3%

Operating expenses

In the first half of 2012 the Group's operating expenses were up 17% amounting to 72,201 million RUB compared to 61,785 million RUB in the previous year.

Fuel expenses, which make up 34% of total expenses, increased by 15% to 24,548 million RUB. This was mostly due to an 8.4% rise in power generation, combined with a 49% growth in oil consumption and a 9.4% growth in coal consumption caused by problems with the gas supply.

A 7% rise in employee benefit expenses (26% of total expenses) amounting to 19,067 can be mostly explained by the growth in social benefits payments, 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".

Key expenses (*RUB in millions*)

	6m 2012	6m 2011	% Change y.o.y.,
Fuel expenses	24,548	21,383	15%
Employee benefit expenses (including payroll taxes and pension benefit expenses)	19,067	17,752	7%
Expenses for electricity distribution	6,312	5,958	6%
Purchase of electricity and capacity	4,212	4,240	-0.7%
Depreciation of property, plant and equipment	2,399	3,401	-29%
(Reversal)/Accrual of impairment for accounts receivable, net	2,908	(2,059)	n.a.

Through the first six months of 2012 the Group posted an operating profit amounting to 356 million RUB, compared to a 7,310 million RUB¹ operating profit during the same period last year.

EBITDA for the period decreased by 35%, totaling 5,663 million RUB.

The Group's loss for the first half of 2012 amounted to 5,839 million RUB against the net loss of 9,425 million RUB a year earlier. The Group showed a total comprehensive loss for the period totaling 6,684 million RUB, compared to an 11,560 million RUB profit in the same period of 2011.

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

As of 30 June 2012, the Group's total assets decreased by 1% to 129,287 million RUB compared to 130,311 million RUB on 31 December 2011. The JSC "DRSK" assets classified as held for sale to FGC (JSC) decreased by 3% to 27,176 million RUB.

As of 30 June 2012 the non-current assets increased by 2% to 53,691 RUB against 52,422 million RUB as of 31 December 2011.

The increase of non-current assets by 2% was mostly driven by the 55% increase in construction in progress of property, plant and equipment to 10,931 million RUB.

The Group's equity as of 30 June 2012 decreased by 20% to 23,208 million RUB compared to 29,167 million RUB as of 31 December 2011, which is the result of the increase in retained losses to 17,389 million.

The Group's total liabilities as of 30 June 2012 were 106,079 million RUB, up from 101,144 million RUB as of 31 December 2011, a 5% increase.

- The financial debt in the first six months of 2012 increased by 11% to 57,733 million RUB.
- Non-current debt decreased by 35% to 22,007 million RUB accompanied by a 98% increase in current debt to 35,726 million RUB.

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

- Accounts payable and accruals decreased by 4% to 17,259 million RUB.

CAPEX

The amount of capital expenditure in the first half of 2012 was 7,608 million RUB (excluding VAT) falling 17% compared to the same period last year. The overall investments by the end of the year are expected to rise in the second half of the year due to the implementation of new construction projects in Yakutsk (Yakutskaya TPP-2, 170 MW, 160 Gcal/h) and Vladivostok (Vostochnaya CHPP, 139.5 MW, 420 Gcal/h). The 5th unit at Yuzhno-Sakhalinsk CHP plant-1, 91.2 MW (project cost 3.3 billion) was successfully launched on August 29, 2012 becoming the first newly implemented construction project in the Far East in 30 years.

Subsequent events

On 27 August 2012 the Group "RAO Energy System of East" (represented by JSC "FEGC") signed a loan agreement with JSC RusHydro (parent company) for the total amount of 8,000 million RUB. The loan bears interest of 8.83%, with the possibility to change to MOSPRIME+3.09% and is repayable on 15 September 2021. The funds raised are planned to be used for covering the Group's liquidity shortage by restructuring its current debt portfolio.

On 8 October 2012 JSC "RAO Energy System of East" made an obligatory ordinary share purchase offer to the non-controlling shareholders of JSC AK "Yakutskenergo" in accordance with the Russian federal law "On Joint-Stock Companies". The offer was made as a consequence of the registration of an additional share issue of JSC RusHydro, providing the Group RusHydro together with JSC "RAO Energy System of East" control of over 75% of JSC AK "Yakutskenergo". The maximum possible buyout comprises 15.68% of the total JSC AK "Yakutskenergo" issued shares at a price which could not be less than the average-weighted market price of the shares for the preceding six months period.

The unaudited Consolidated Financial Statements for the first six months of 2012 are available at the 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 on July 1, 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 9,038 MW of electrical power and 17,720 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 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] The Group considered the current economic situation and indicators of impairment of property, plant and equipment. As a result of this analysis as of the reporting date it was not revealed any indicators of significant changes of management's assumptions used to determine the recoverable amounts of cash-generating units as at 31 December 2011.

As a result, the Group recognized impairment loss in the amount of RUB 1,881 million for the six months ended 30 June 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.