



JSC “RAO Energy System of East”

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RAO ES EAST Group Reports a 50% increase in EBITDA for 1Q2016

June 20, Moscow - “RAO Energy Systems of the East” Group (part of RusHydro Group, MOEX, LSE: HYDR) publishes its unaudited condensed consolidated interim financial information for three months of 2016, prepared in accordance with International Financial Reporting Standards (IFRS).

Profit

“RAO Energy Systems of the East” Group (hereinafter the Group) posted an adjusted operating profit for first three months of 2016 amounting to 6,259 million RUB, which was 92% higher than in the same period last year. EBITDA for the period increased by 50% y-o-y, totaling 8,240 million RUB.

Net profit for the first quarter 2016 was 66% higher than in the last year’s results amounting to 2,570 million RUB. The Group’s adjusted net profit for the first quarter of 2016 totaled 3,376 million RUB or three times higher than in the first quarter of 2015.

The key factors for the Group financial performance were:

- Power production decrease of less efficient power units of JSC “FEGC” with output substitution by the Bureyskaya HPP (part of PJSC “RusHydro”).
- 8% rise of average selling electricity price to retail consumers up to 4.12 RUB due to tariff indexation;
- 6% growth of heat output accompanied by 7-10% increase of heating tariffs;
- 5% increase of average fuel price up to 3,766 Rub per reference fuel ton driven by gas prices of “Sakhalin-1” consortium.

Financial Highlights (*RUB in millions*)¹

Indicator	First three months		y-o-y
	2016	2015	%
Revenues with government grants	56,039	51,421	9%
Operating expenses	(50,413)	(48,523)	4%
Operating profit	5,453	3,678	48%
Operating profit (adj.)¹	6,259	3,254	92%
EBITDA	8,240	5,489	50%
Financial expenses, net	(2,246)	(1,887)	19%
Profit before income tax (adj.) ¹	4,006	1,462	174%

¹ Operating profit, profit before income tax, and profit (loss) for the period are adjusted for the accrual of impairment for accounts receivable, by income and loss on disposal of property, plant and equipment, as well as by the Impairment of property, plant and equipment and other operating income.

Profit (loss) for the period	2,570	1,549	66%
Profit for the period (adj.)¹	3,376	1,125	200%

Main events

RAO ES EAST Group cut down electricity production in the first quarter of 2016 by 3% YoY to 10,539 million kWh due to the 48% output increase of Bureuskaya HPPs (also part of Group RusHydro) with the power consumption in the United Energy System of the East growing 3.5% y-o-y. Export sales to China of JSC "FEGC" in accordance with bilateral contracts with INTER RAO were 22% less than in the same period last year. Heat output of the Group's CHPPs and boilers in the first quarter of 2016 was up by 6% totaling 13,325 thousand Gcal.

LLC Vostok-Finance subsidiary of the Company on 03 November 2015 in accordance with decision of Board of Directors PJSC RusHydro sent a voluntary tender offer to PJSC RAO Energy System of East to purchase shares of the Company. The Group has reflected the obligation to own shares purchase payable amounted RR 2,482 million as at 31 December 2015, the amount of obligation to own shares purchase in Group's equity comprised RR 2,460 million. As part of the voluntary offer the shareholders of the Company could have chosen between the sales of common and preferred shares of the Company owned by them or their exchange for ordinary shares of PJSC RusHydro. By February 2016 under the terms of voluntary tender offer LLC Vostok-Finance acquired 4 707 075 thousand ordinary shared and 341 829 thousand preference shared or 11.11% of the RAO ES EASTm PJSC charter capital. As at 31 March 2016 after Company's share purchase by LLC Vostok-Finance obligation to own shares purchase reduced to RR 385 million and the amount of obligation to own shares purchase in Group's equity reduced to RR 377 million.

On January 28, 2016 RAO ES EAST, PJSC also acquired bought-out shares from the shareholders voting against the approval of major deals or abstaining from voting at the EGM of RAO ES EAST, PJSC held on November 12, 2015. The number of the bought-out ordinary and preference shares amounted to 22,282,264 and 3,608,736 respectively.

Revenue

The Group total revenues for the first quarter of 2016, combined with government grants, increased by 9% amounting to 56,039 million RUB.

The main factors influencing total revenues in the first quarter of 2016 were:

- 8% rise of average selling electricity price to retail consumers up to 4.12 RUB due to tariff indexation;
- 3% decrease of electricity output down to 9,055 million RUB due to higher loading of RusHydro HPPs;
- 6% growth in heat sales coupled with the 7-10% tariff growth y-o-y.
- 8% growth of government grants.

Revenue Structure (*RUB in millions*)

Revenue items	First three months		y-o-y
	2016	2015	%
Sale of electricity and capacity	32,970	30,887	7%
Heat sales	15,728	13,788	14%
Other revenue	4,059	3,698	10%
Total revenue	52,757	48,373	9%
Government grants	3,282	3,048	8%
Revenues with government grants	56,039	51,421	9%

Operating expenses

In the first three months of 2016 the Group's operating expenses were up by 4% compared to the same period last year, amounting to 50,413 million RUB. Variable costs increased by 5% up to 29,627 million RUB, and fixed costs grew by 2% totaling 20 786 million RUB.

Fuel expenses in the first quarter of 2016 grew by 5% amounting to 19,414 million RUB. This was due to the 5% growth in the average cost of specific reference fuel in first quarter of 2016 up to 3,766 RUB per reference fuel ton due to price increase of the gas from "Sakhalin-1" consortium. The specific reference fuel consumption (SRFC) for the Group power production was down by 0.6 g/kWh to 367.8 g/kWh. As the result, the fuel consumption in the first quarter of 2016 measured in tones of reference fuel stayed at the same level as in first quarter of 2015 totaling 5,155 thousand tones.

16% decrease of purchased electricity and capacity is caused by the termination of the electricity purchase contracts from JSC "Vilyuiskaya HPP-3" now that starting from January 1, 2016 the sales of electricity from Vilyuiskaya HPP-3 are proceeded without the resale scheme through JSC AK "Yakutskenergo as a guaranteed supplier.

6% rise in employee benefit expenses can be explained by the indexation of employee wages and salaries in 2015 and January 1, 2016 driven by the growth of CPI (basic salary of worker of the utilities sector is indexed by the actual CPI).

Key expenses (*RUB in millions*)

Статьи расходов	First quarter		y-o-y.
	2016	2015	%
Fuel expenses	19,414	18,479	5%
Expenses for electricity distribution	4,497	3,919	15%
Purchase of electricity and capacity	3,046	3,738	-19%
Purchase and transmission of heat	1,038	962	8%
Water usage expenses	496	488	2%
Purchase of oil products for sale	77	61	26%
Transportation expenses	432	152	184%
Accrual of impairment for accounts receivable, net	627	379	65%

Total Variable Expenses	29,627	28,178	5%
Employee benefit expenses (including payroll taxes and pension benefit expenses)	14,126	13,346	6%
Depreciation of property, plant and equipment	1,975	2,000	-1%
Other materials	1,167	1,320	-12%
Security expenses	344	329	5%
Rent	342	313	9%
Repairs and maintenance	339	322	5%
Services of SO-CDU, NP Council Market, CFS	185	186	-1%
Consulting, legal and information expenses	107	143	-25%
Insurance cost	78	81	-4%
Services of subcontracting companies	49	232	-79%
Other third parties services	992	925	7%
Taxes other than on income	602	625	-4%
Business travel	78	82	-5%
Social charges	60	139	-57%
Insurance indemnity	(3)	(34)	-91%
Other expenses	339	359	-6%
Loss (Profit) on disposal of property, plant and equipment, net	6	(23)	-126%
Total Fixed Expenses	20,786	20,345	2%
Total Expenses	50,413	48,523	4%

Financial position

As of March 31, 2016, the Group's total assets increased by 1% up to 163,777 million RUB mostly driven by the 1% increase in property, plant and equipment. There were certain changes in the current assets structure:

- 13% reduction of inventories down to 17,693 million RUB resulted from the utilization of the fuel stored for heating season;
- 13% rise in accounts receivable and prepayments up to 29,419 million RUB;
- 4% decrease of cash and cash equivalents down to 10,578 million RUB.

The Group's equity as of March 31, 2016 increased by 17% up to 18,986 million RUB compared to December 31, 2015, which is mostly the result of the 9% decrease of retained losses to 15,757 million RUB.

The Group's total liabilities as of March 31, 2016 decreased by 1% compared to December 31, 2015 and totaled 144,791 million RUB. This was provided by:

- The financial debt (total of short-term and long-term debt) increase by 1% up to 92,383 million RUB;

- Net debt (financial debt minus cash and cash equivalent and current deposits) grew by 1% to 81,805 million RUB;
- the non-current debt increased by 7% down to 51,754 million RUB;
- The current debt decreased by 6% to 40,629 million RUB.
- The accounts payable and accruals decreased by 4% to 33,387 million RUB.

The Group's main creditors are its parent company RusHydro (26% of total financial debt) and PJSC Sberbank (37% of total financial debt).

CAPEX

The amount of capital expenditure in the first quarter of 2016 decreased by 9% to 3,450 million RUB y-o-y. The amount of financing of the investment program was down 6% amounting to 2,015 million RUB (excluding VAT) compared to the same period last year.

Capital commitments of the Group in accordance with separate investment programmes for reconstruction of the existing and construction of capacities of subsidiaries as at 31 March 2016 were RR 76,887 million, including 2016 year – RUB 30,491 million, 2017 year – RUB 26,371 million, 2018 year – RUB 20,025 million.

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

Subsequent events

According to current Russian legislation repurchase of more than 10 percent and consolidation of more than 95 percent of RAO ES East, PJSC within voluntary tender offer to acquire shares allowed to RusHydro Group to send to the rest of ordinary and preference shareholders of RAO ES East, PJSC the claim for compulsory repurchase of the shares.

Compulsory repurchase of RAO ES of East shares finished in June 2016 after LLC Vostok-Finance (100% subsidiary of RAO ES of East) has repurchased 887 234 thousand ordinary shares and 312 688 thousand preference shares. All settlements were completed on 08 June 2016. This marked the end of the 100% consolidation process of RAO ES EAST, PJSC into the RusHydro Group initiated 8 months ago and resulted in the acquisition of over 13.8% of RAO ES EAST, PJSC charter capital from over 300 thousand individual and professional shareholders.

Also after the end of the reporting period the Group has concluded loan agreements (including those on credit lines) with commercial banks. The agreements were concluded with PJSC Bank VTB in total amount of RUB 9,530 million with annual interest rates of 10.86-11.50%; PJSC ROSBANK in total amount of RR 1,750 million with annual interest rates of 11.10%; Bank GPB (JSC) in total amount of RUB 580 million with annual interest rate of 12.20%.

The financial information in full, press release and presentation are posted on the website of Joint Stock Company "RAO Energy Systems of East" at: <http://www.rao-esv.ru/en/shareholders-and-investors/companys-reports/annual-financial-report/>

Note:

Public Joint Stock Company "RAO Energy Systems of the 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"; "FEEC", JSC; PJSC "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 RAO ES EAST, PJSC 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 RAO ES EAST, PJSC is 8,929 MW of electrical power and 18,012 Gcal/h of thermal power. The length of the power grid of all voltage classes is more than 104 thousand km.

The majority shareholder is PJSC "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.
