



**Joint Stock Company  
"RAO Energy System of East"**

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**JSC "RAO Energy System of East" posts a 6% increase in revenue for the 2012 Fiscal Year (IFRS)**

**April 2, Moscow** - RAO Energy System of East Group (ticker symbol: VRAO; ISIN code RU000A0JPVL6) announces its audited consolidated financial results for the fiscal year ending December 31st, 2012, prepared in accordance with the International Financial Reporting Standards (IFRS). The Group's consolidated revenues, combined with government grants, increased by 6% to 142,080 million RUB during the 2012 fiscal year.

**Financial Highlights** (*in millions of RUB*)

| <b>Key Financial Indicators</b>   | <b>FY 2012</b>   | <b>FY 2011</b>   | <b>% Change<br/>y-o-y</b> |
|---|------------------|------------------|---------------------------|
| <b>Revenues plus government grants</b>  | <b>142,080</b>   | <b>133,822</b>   | <b>6%</b>                 |
| <b>Operating expenses</b>   | <b>(137,684)</b> | <b>(126,569)</b> | <b>9%</b>                 |
| Loss on disposal group remeasurement and impairment of property, plant and equipment <sup>1</sup> | (5,784)          | (20,262)         | -71%                      |
| <b>EBITDA<sup>2</sup></b>   | <b>12,379</b>    | <b>12,507</b>    | <b>-1%</b>                |
| Adjusted operating profit/(loss) <sup>3</sup>   | 4,396            | 7,253            | -39%                      |
| <b>Loss for the period</b>  | <b>(4,920)</b>   | <b>(16,698)</b>  | <b>-71%</b>               |
| <b>Total comprehensive income for the period</b>  | <b>(8,459)</b>   | <b>3,839</b>     | <b>n.a.</b>               |

**Main Events**

<sup>1</sup> The Group's management analyzed the current economic situation and concluded that at the end of the reporting period there are indications of a net impairment effect totaling 5,784 million rubles.

<sup>2</sup> EBITDA calculated as operating profit less depreciation and impairment of PPE and other non-cash income and losses.

<sup>3</sup> Operating profit was adjusted for the effects of impairment of the Group's property, plant and equipment.

In 2012, RAO Energy System of East began the active implementation of several major investment projects. In November, as part of the JSC "RusHydro" capitalization, President Vladimir Putin signed a presidential decree allocating 50 billion rubles from the federal budget to fund the construction of 4 new generating facilities: the Sovetskaya Gavan TPP, Sakhalin GRES-2 power plant (phase 1), Yakutia GRES-2 power plant (phase 1), and phase 2 of the Blagoveshchensk TPP.

Moreover, the 5th unit of Yuzhno-Sakhalinsk CHP plant-1 (91.2 MW) was successfully launched in August 2012, becoming the first newly implemented construction project within the Sakhalin energy system in 30 years.

In Vladivostok, JSC "Energy System of East" began construction on the "Vostochnaya TPP", with 139 MW of electrical capacity and 420 Gcal/hr of heat output. On 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."

## Revenue

The Group's revenues from current operations, combined with government grants compensating for tariff growth for subsidized consumers and eliminating interregional cross-subsidies, increased by 6% during the 2012 fiscal year. Revenues plus grants increased to 142,080 million RUB, from 133,822 million RUB during the previous year.

The main factors influencing revenue growth in the 2012 fiscal year were:

- A 3.2% increase in power consumption in the Far East region of Russia including the isolated zones.
- A 2% y-o-y reduction (to 3 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 an increase in the net supply of electricity and to changes in transmission prices on the regulated market by the Unified Power System of the East
- A 112% y-o-y growth in exports to China, 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 is generated from the sale of electricity and capacity (65%) and heat output (24%). Other revenue (11%), includes such items as revenue from the transportation of electricity and heat, repair and construction services, technological connection, the resale of goods, rentals and communication services.

### Revenue Structure *(in millions of RUB)*

| Revenue indicators               | FY 2012        | FY 2011        | % Change y-o-y |
|----------------------------------|----------------|----------------|----------------|
| Sale of electricity and capacity | 84,890         | 81,698         | 4%             |
| Heat sales                       | 31,347         | 30,672         | 2%             |
| Other revenue                    | 15,047         | 12,322         | 22%            |
| <b>Total revenue</b>             | <b>131,284</b> | <b>124,692</b> | <b>5%</b>      |

## Operating Expenses

In the 2012 fiscal year, the Group's operating expenses were up 9% to 137,684 million RUB, compared to 126,569 million RUB in the previous year.

Fuel expenses, which made up 33% of total expenses, increased by 9% to 45,202 million RUB. This was on account of a 4% increase in generation, as well as an increase in the cost of fuel associated with rising tariffs on railway traffic.

A 5% rise in employee compensation (27% of total expenses), totaling 37,504 in 2012, can be explained by the acquisition of the local utility business at JSC "Kamchatskenergo", the expansion of the repair business, the opening of the Okhotsk and Aldan branches of JSC "Teploenergосervice", staff increases due to the creation of the new Sakhalin office for the repair and maintenance company JSC "Daltechenergo", as well as by the indexation of employee wages and salaries within the Group.

The depreciation of fixed assets fell by 35% due to the size of the 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 (In millions of RUB)

| Key operating expenses   | FY 2012 | FY 2011 | % Change y.o.y., |
|--|---------|---------|------------------|
| Fuel expenses  | 45,202  | 41,329  | 9%               |
| Employee benefit expenses (including payroll taxes and pension benefit expenses) | 37,504  | 35,695  | 5%               |
| Expenses for electricity distribution  | 11,613  | 11,193  | 4%               |
| Purchase of electricity and capacity   | 8,955   | 8,646   | 4%               |
| Depreciation of property, plant and equipment                                    | 4,374   | 6,726   | -35%             |
| (Reversal)/Accrual of impairment for accounts receivable, net                    | 3,133   | (1,297) | n.a.             |
| Loss / (Income) on disposal of property, plant and equipment, net                | 476     | (175)   | n.a.             |

Through the end of the 2012 fiscal year, the Group posted an adjusted operating profit of 4,396 million RUB (excluding the impairment of fixed assets), a 39% decrease from the previous year.

EBITDA for the year decreased by 1%, to 12,379 million RUB.

The Group's loss for 2012 was 4,920 million RUB, down 71% from 16,698 million RUB in the previous year. The Group posted a total comprehensive loss for the year totaling 8,459 million RUB, compared to a 3,839 million RUB profit in 2011.

### Key Indicators of the Group's Financial Position as of 31 December 2012

Through the end of 2012, the Group's total assets increased by 1% to 130,993 million RUB, compared to 130,311 million RUB on 31 December 2011. The increase in the Group's total assets was mainly driven by the growth in property, plant & equipment along with inventories. As of 31 December 2012, non-current assets increased by 5% to 55,189 RUB against 52,422 million RUB at the close of 2011, with property, plant & equipment increasing 5% up to 52,364 million rubles.

The Group's equity at the end of 2012 decreased by 26% to 21,495 million RUB, compared to 29,167 million RUB as of 31 December 2011. This is the result of the increase in retained losses to 17,098 million.

The Group's total liabilities as of 31 December 2012 totaled 109,498 million RUB, up from 101,144 million RUB at the end of 2011, an 8% increase.

- There was a 1% increase in financial debt in 2012, to 52,636 million RUB.
- Non-current debt decreased 28% to 24,488 million RUB, accompanied by a 56% increase in current debt to 28,148 million RUB.
- Accounts payable and accruals increased 28% to 23,187 million RUB, the result of a 76% increase in retained losses to 6,161 million RUB.

## **CAPEX**

The amount of capital expenditure in 2012 was 17,487 million RUB (excluding VAT), a slight decrease from the previous year. Beside the implementation of major projects, JSC "Energy System of East" carried out the reconstruction of power grid infrastructure in Vladivostok in conjunction with the APEC-2012 Summit. It also successfully converted to natural gas power units of Yuzhno-Sakhalinsk TPP-1 (JSC "Sakhalinenergo"), Kamchatka TPP-1 (JSC "Kamchatskenergo"), Vladivostok TPP-1, Vladivostok TPP-2, TPP "Severnaya" (JSC "Far Eastern Generation Company").

## **Subsequent Events**

As a result of the execution of pre-emptive right to acquire shares of additional issue, the validity of which ended on February 26th, 2013, the Russian Federation contributed ordinary shares of JSC "RAO Energy System of East" at the price of 0.35 RUB per share. This resulted in RusHydro controlling of more than 75% of the ordinary shares in JSC "RAO Energy System 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 9,071 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.*