**JSC “RAO Energy System of East”**

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**RAO Energy System of East Reports a 126% Increase in EBITDA for 9m 2013 IFRS**

**December 16, Moscow** - RAO Energy System of East Group (ticker symbol: VRAO; ISIN code RU000A0JPVL6) publishes its unaudited consolidated financial results for the 9 months of 2013, prepared in accordance with International Financial Reporting Standards (IFRS). The Group’s net loss for the 9 months ended September 30, 2013 amounted to 1,027 mln RUB against a 10,965 mln loss a year earlier. EBITDA increased by 126% to 5,766 mln RUB.

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

|  |  |  |  |
| --- | --- | --- | --- |
|  | **9 months ended September 30, 2013** | **9 months ended September 30, 2012** | % Change  y-o-y |
| Revenues with government grants | 103,921 | 97,470 | 7% |
| Operating expenses | (100,553) | (101,226) | -1% |
| **Operating profit(adj)** | 2,132[[1]](#footnote-2) | (548)[[2]](#footnote-3) | n.a. |
| **EBITDA** | **5,766** | **2,549** | **126%** |
| Profit before income tax (adj.) | (1,482)1 | (3,961)2 | -63% |
| **(Loss) for the period (adj.)** | **(1,489)1** | **(2,409)2** | **-38%** |
| **(Loss) for the period** | **(1,027)** | **(10,965)** | **-91%** |
| **Total comprehensive income for the period** | **(860)** | **(9 870)** | **-91%** |

**Main events**

JSC “Energy System of East” Holding (JSC “RAO ES of East”) decreased electricity production after 9 months of 2013 by 5.2% YoY to 21,673.8 mil kWh. 74% of the electricity generated (15,996 mil kWh) was done so JSC “Far-East Generating Company” (FEGC), which cut down production by 5.4%. The FEGC third quarter of 2013 power production decreased by 10.7% mostly compensated by the 14.5% output growth of Zeyskaya and Bureuskaya HPPs (also part of Group RusHydro).

The work of the new 5th power unit of Yuzhno-Sakhalinskaya CHPP of JSC “Sakhalinenergo” led to the reduction of the specific reference fuel consumption (SRFC) for power production by 53.6 g/kWh from to 400.5 g/kWh. Effectively, the total SRFC of the Holding decreased by 3.3 g/kWh down to 391 g/kWh. As the result, the fuel consumption for power production in the 9 months of 2013 measured in tones of reference fuel was 5% lower amounting to 6,934 thousand tones

**Revenue**

The Group revenues through first 9 months of 2013, combined with government grants, increased by 7% amounting to 103,921 million RUB, compared to 97,470 million RUB during the previous year.

The main factors influencing the revenue in the first 9 months of 2013 were:

* 5% growth y-o-y (to 3.14 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.
* 62% y-o-y growth in power provided for exports to China against the 9 months of 2012, reaching 2,733.5 million kWh, in accordance with the long-term contract.
* 22% increase in other revenues due to increase in constructions works of JSC “Khabarovsk repairs and installation company” and JSC “Khabarovsk repairs and construction company” under the contracts amounting to 964 mln RUB and 274 mln RUB respectively with non RAO companies, and also as the result of fuel resale to external companies bu JSC “VOSTEK” amounting to 817 mln. RUB.
* 11.6% growth in the average electricity tariffs of the power stations.
* 4.3% growth in average heating tariffs the powers stations and boilers.

The largest share of the Group's revenue for the 9 months of 2013 consists of revenue from the sale of electricity (66%) and heat output (23%) which showed a 5% growth. Other revenue (11%) includes such items as repair and construction services, technological connection, as well as revenue from rentals, transportation and communication services. Government grants showed a 9% increase.

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

|  |  |  |  |
| --- | --- | --- | --- |
|  | **9 months ended September 30, 2013** | **9 months ended September 30, 2012** | % Change  y-o-y |
| Sale of electricity and capacity | 63,801 | 60,917 | 5% |
| Heat sales | 21,891 | 20,948 | 5% |
| Other revenue | 11,003 | 8,985 | 22% |
| **Total revenue** | **96,695** | **90,850** | **6%** |
| Government grants | 7,226 | 6,620 | 9% |
| **Revenues with government grants** | **103,921** | **97,470** | **7%** |

**Operating expenses**

In 9 months of 2013 the Group’s operating expenses were down by 1%, amounting to 100,553 million RUB compared to 101,226 million RUB in the previous year.

Fuel expenses, which make up 31% of total expenses, decreased by 2% to 31,246 million RUB. This was on account of a 5.2% power output cut down, accompanied by an increase in power output in combined heat and power mode.

A 7% rise in employee compensation (30% of total expenses) amounting to 29,808 million RUB can be explained by the indexation of employee wages and salaries within the Group.

A 56% growth in services of subcontracting companies 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.

The major “non-cash” factors which influenced the expenses were the revision of the terms of the private pension scheme for the employees of the JSC “FEGC” leading to the income of 1,609 mln RUB, and the reduction by 88% of the impairment for accounts receivable down to 373 mln RUB.

**Key expenses** (*RUB in millions*)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **9 months ended September 30, 2013** | **9 months ended September 30, 2012** | % Change y.o.y., |
| Fuel expenses | 31,246 | 32,045 | -2% |
| Employee benefit expenses (including payroll taxes and pension benefit expenses) | 29,808 | 27,851 | 7% |
| Expenses for electricity distribution | 9,345 | 8,909 | 5% |
| Purchase of electricity and capacity | 7,017 | 6,400 | 10% |
| Other materials | 5,739 | 5,137 | 12% |
| Depreciation of property, plant and equipment | 3,688 | 3,232 | 14% |
| Services of subcontracting companies | 1,982 | 1,270 | 56% |
| Purchase and transmission of heat | 1,948 | 1,853 | 5% |
| Repairs and maintenance | 1,546 | 1,877 | -18% |
| Accrual of impairment for accounts receivable, net | 373 | 3,208 | -88% |
| Income/ (reversal) on disposal of property, plant and equipment, net | (54) | (135) | -60% |
| Income resulted from the downward revision of pension scheme | (1,609) | - |  |
| Other expenses | 9,524 | 9,579 | -1% |
| **Total Expenses** | **100,553** | **101,226** | **-1%** |

**Profit**

Through the nine months of 2013 the Group posted an adjusted operating profit amounting to 2,132 million RUB, compared to an adjusted operating loss of 548 mln RUB during the same period last year. The reason for the improvement of operational results were in growing electricity and heat sales tariffs starting from July 1, 2013 over fuel prices.

EBITDA for the period increased by 126%, totaling 5,766 million RUB due to the growth of electricity and heat sales margins resulted from the tariff growth outpacing fuel prices..

The Group's adjusted net loss in accordance with IFRS for the 9 months of 2013 amounted to 1,489 million RUB or 38% less than in the period a year earlier. The Group’s total comprehensive loss for the period totaled 860 million RUB, compared to a loss of 9,870 million RUB in the 9 months of 2012.

**Financial position**

As of 30 September 2013, the Group's total assets increased by 7% to 139,828 million RUB compared to 130,524 million RUB on 31 December 2012. The increase of property, plant and equipment by 9% by 4,774 mln RUB as well as growth in inventories by 18% or by 3,188 mln RUB due to preparation to the autumn-winter season were the main reasons of the total asset growth.

The Group's equity as of 30 September 2013 decreased by 4% to 23,220 million RUB compared to 24,084 million RUB as of 31 December 2012, which is mostly the result of the 3% increase in retained losses to 16,195 million RUB.

The Group's total liabilities as of 30 September 2013 increased by 10% to 116,608 million RUB, from 106,440 million RUB as of 31 December 2012. This was provided by:

* The growth of financial debt (total of short-term and long-term debt) by 27% to 66,682 million RUB mostly due to new loans issued by EBRD and Sberbank;
* The non-current debt increased by 51% to 36,996 million RUB;
* The current debt increased by 5% to 29,686 million RUB;
* The accounts payable and accruals decreased by 4% to 22,173 million RUB.

**CAPEX**

The amount of capital expenditure in the 9 months of 2013 was 7,871 million RUB (excluding VAT) decreasing 37% from the level of the same period last year. The amount of capital expenditure (commissioning of new property, plant and equipment) decreased by 19% to 8,983 mln RUB. The reduction in financing 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 9 months of 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.

**Subsequent events**

The Federal law N267 dated 30.09.2013 was published on October 4, 2013 “On the changes to the first and second part of the Taxation Code of the Russian Federation regarding the stimulus to implementing regional investment projects in the territories of the Far-Eastern Federal District and other subjects of the Russian Federation”. In accordance with this bill starting from 2014 companies, which implement investment projects in the Far East will be given opportunity to reduce their income taxes.

The changes to the Federal Law “On Electric Power Industry" and article 81 of Federal Law “On Joint Stock Companies” were made on 6 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. This changes to the Federal Law could compensate shortfall in income which has arisen due to withdrawal of some consumers from “the last mile” agreements.

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.

The press release and presentation will 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.*

1. Operating profit, Losses before income tax, and Loss for the period for the 9 months ended June 30, 2013 are adjusted for the effects of impairment of the Group's property, plant and equipment in the amount of 774 mln RUB, by accrual of impairment for accounts receivable amounting to 373 mln RUB, and by income resulted from the downward revision of pension scheme amounting to 1,609 mln RUB. [↑](#footnote-ref-2)
2. Operating profit, Losses before income tax, and Loss for the period for the 9 months ended June 30, 2013 are adjusted for the effects of impairment of the Group's property, plant and equipment in the amount of 5,348 mln RUB, and by accrual of impairment for accounts receivable amounting to 3,208 mln RUB. [↑](#footnote-ref-3)