



RAO ES EAST. PJSC

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RAO ES EAST Group Reports a 52% decrease in EBITDA for 6m 2015

August 25, Moscow - "RAO Energy Systems of the East" Group (ticker symbol: VRAO; ISIN code RU000A0JPVL6) publishes its unaudited condensed consolidated interim financial information for six and three months ended June 30, 2015, 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 six months of 2015 amounting to 106 million RUB, which was 98% lower than in the same period last year. The 2015 second quarter adjusted operating loss increased by 58% to -3,148 million RUB against the second quarter of 2014. EBITDA for the 6 months 2105 decreased by 52% y-o-y, totaling 4,178 million RUB. The second quarter 2015 EBITDA was in red totaling -1,311 million RUB, while the loss in EBITDA in the second quarter of 2014 was 169 million RUB.

The Group's adjusted net loss for the first six months of 2015 totaled -4,169 million RUB instead of 1,959 million RUB adjusted net profit a year earlier. The second quarter of 2015 adjusted net loss was 87% higher than in the same period last year. Net loss for the first six months of 2015 was -4,807 million RUB compared to 1,263 net profit for the same period last year. Net loss for the second quarter of 2015 was 87% higher last year's second quarter result amounting to -6,356 million RUB.

The key factors for the Group financial performance were:

- Increased load factor of lossmaking power stations of JSC "FEGC" resulted from the lower water inflows and decreased HPPs power production;
- price increase of consumed average ton of reference fuel by 7% up to 3,486 RUB mostly driven by "Sakhalin-1" gas price hike;
- indexation of employee wages and salaries exceeding the tariff growth y-o-y in accordance with the utilities union agreement, as well as introduced by the Labor code additional benefits for harmful and dangerous working conditions;
- rise in cost of borrowing driving the growth of financial expenses.

Financial Highlights (*RUB in millions*)¹

Indicator	Six months		y-o-y	Second quarter		y-o-y
	2015	2014	%	2015	2014	%
Revenues with government grants	86,672	80,661	7%	35,251	32,593	8%

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 for income resulted from the sales of subsidiaries.

Operating expenses	(87,692)	(76,434)	15%	(39,169)	(35,150)	11%
Operating (loss) profit	(532)	4,227	-113%	(4,210)	(2,557)	65%
Operating profit (Loss) profit (adj.)¹	106	4,923	-98%	(3,148)	(1,991)	58%
EBITDA²	4,178	8,688	-52%	(1,311)	(169)	676%
Financial expenses, net	(4,235)	(2,895)	46%	(2,348)	(1,683)	40%
(Loss) profit before income tax (adj.) ¹	(4,013)	2,137	-	(5,475)	(3,626)	51%
(Loss) profit for the period	(4,807)	1,263	-	(6,356)	(3,398)	87%
Loss) profit for the period (adj.)¹	(4,169)	1,959	-	(5,294)	(2,832)	87%

Main events

RAO ES EAST Group increased electricity production in the first six months of 2015 by 17% YoY to 17,820 million kWh due to the 33% output reduction of Zeyskaya and Bureyskaya HPPs (also part of Group RusHydro) with the same level of power consumption in the region. Power consumption in UES of the East increased by 1.7% compared to six months of 2014 (from 16,307 to 16,586 million kWh) with total exports decreasing by 12% (from 1,676 to 1,472 million kWh). However export sales of JSC "FEGC" increased by 12% to 1,201 million kWh. Second quarter production in 2015 was 16% higher than in the same period of 2014 totalling 7,283 million kWh.

Heat output of the Group's CHPPs and boilers in the first six months of 2015 was down by 3% totaling 17,527 thousand Gcal due to warmer air temperature in most of the Far East cities in the first quarter of 2015. Heat output of the Group's CHPPs and boilers in the second quarter of 2015 was up by 6% y-o-y totaling 4,943 thousand Gcal.

March 23 and 24, 2015 the Group sold shares in two repairs and construction companies JSC Daltekhenergo and JSC Guberovskiy machinery and repair plant. The deals amounted to 210 million RUB and 25 million RUB respectively.

In the end of second quarter of 2015 the Group's Management took a decision to put for sale at an open auction shares of JSC "Khabarovsk Repairs and Construction Company" and JSC "SK Agroenergo", which were classified as assets held for sale.

Revenue

The Group total revenues for the six months of 2015, combined with government grants, increased by 7% amounting to 86,872 million RUB. The same indicator for the second quarter of 2015 rose by 8% y-o-y to 35,251 million RUB mostly due to increased sales of power and capacity by 14%.

The main factors influencing total revenues in the first six months of 2015 were:

- 18% increase of electricity output totaling 15,855 million kWh;
- Wholesale price increase on the non-price UES of the East resulted by the 33% slump in production of Zeyskaya and Bureyskaya HPPs due to lower water

² Earnings before interest, taxes, depreciation and amortization is calculated by summing up the adjusted operating profit with the cash income of 235 million RUB resulted from asset sale in the first quarter of 2015.

levels, as well as by the increased bilateral agreement sales of JSC "FEGC" to INTER RAO, PJSC for export resale.

- 12% growth of average retail sales of PJSC "FEEC" caused by wholesale power price increase.
- 16% reduction of other revenues down to 6,938 million RUB due to decrease of electricity transportation services to JSC "Vilyuskaya HPP-3"³ and revenue reduction of JSC "Khabarovsk repairs and assembling company" from capital construction services (resulted from crisis effects starting from late 2014).

Revenue Structure (*RUB in millions*)

Revenue Item	Six months		y-o-y	Second quarter		y-o-y
	2015	2014	%	2015	2014	%
Sale of electricity and capacity	54,167	47,289	15%	23,280	20,358	14%
Heat sales	20,062	19,543	3%	6,274	5,796	8%
Other revenue	6,938	8,222	-16%	3,240	3,932	-18%
Total revenue	81,167	75,054	8%	32,794	30,086	9%
Government grants	5,505	5,607	-2%	2,457	2,507	-2%
Revenues with government grants	86,672	80,661	7%	35,251	32,593	8%

Operating expenses

In the first six months of 2015 the Group's operating expenses were up by 15% compared to the same period last year, amounting to 87,692 million RUB. The second quarter of 2015 operating expenses grew by 12%. Variable costs in six and three months of 2015 increased by 17% and 15% respectively. Fixed costs for the same period increased by 12% and 8% respectively.

Fuel expenses in the first six months of 2015 grew by 19% amounting to 28,732 million RUB. This was due to a 17% power production increase, accompanied by the growth in fuel costs and average reference fuel consumption. The average cost of specific reference fuel ton in first six months of 2015 grew by 7% to 3,452 RUB mostly due to price increase of the gas from "Sakhalin-1" consortium. The price for consumed average reference fuel ton in the second quarter of 2015 increased by only 1% up to 3,240 RUB per ton. The specific reference fuel consumption (SRFC) in six months of 2015 for the Group power production was up by 6 g/kWh to 378 g/kWh caused by the rise of the load factor of the less effective power units. In the second quarter of 2015 the SRFC was 2 g/kWh lower than in the same period last year. As the result, the fuel consumption in the first six months 2015 was 12% higher totaling 8,324 thousand tons

³ As the result of the new settlement scheme revenues from transportation of the JSC "Vilyuskaya HPP-3" is reflected in the total revenues from electricity sales of PJSC "Yakutskenergo".

of reference fuel, while in the second quarter of 2015 the fuel consumption increased by 13% up to 3,164 thousand tones.

Purchased electricity and capacity in six and three months ended June 30, 2015 were up by 47% and 49% respectively caused by the acquired electricity from JSC "Vilyuiskaya HPP-3" for resale by JSC AK "Yakutskenergo as a guaranteed supplier as well as due to Chukotenergo power purchase increases from the Bilibino NPP resulted by the tariff hike

Employee benefit expense increases in six and three months ended June 30, 2015 up to 13% and 10% respectively can be explained by the growth of CPI (basic salary of worker of the utilities sector is indexed by the actual CPI) as well as by the additional benefits for harmful and dangerous working conditions introduced on June 1, 2014 by the Labor code.

Key expenses (*RUB in millions*)

Expense items	Six months		Y-o-y	Second quarter		Y-o-y
	2015	2014	%	2015	2015	2014
Fuel expenses	28,732	24,074	19%	10,253	8,980	14%
Expenses for electricity distribution	7,200	7,321	-2%	3,281	3,259	1%
Purchase of electricity and capacity	6,762	4,615	47%	3,024	2,028	49%
Purchase and transmission of heat	1,590	1,510	5%	628	633	-1%
Water usage expenses	932	889	5%	444	439	1%
Purchase of oil products for sale	141	243	-42%	80	17	371%
Total Variable Expenses	45,357	38,652	17%	17,710	15,356	15%
Employee benefit expenses (including payroll taxes and pension benefit expenses)	26,042	23,042	13%	12,696	11,541	10%
Other materials	2,954	3,053	-3%	1,634	1,778	-8%
Depreciation of property, plant and equipment	3,837	3,765	2%	1,837	1,822	1%
Repairs and maintenance	1,097	766	43%	775	533	45%
Services of subcontracting companies	388	481	-19%	156	269	-42%
Security expenses	666	578	15%	337	271	24%
Rent	690	583	18%	377	275	37%
Insurance cost	182	155	17%	101	90	12%
Transportation expenses	298	399	-25%	146	239	-39%
Social charges	364	359	1%	225	267	-16%
Consulting, legal and information expenses	315	396	-20%	174	166	5%
Services of SO-CDU, NP Council Market, CFS	365	360	1%	179	177	1%
Other third parties services	1,886	1,500	26%	961	735	31%
Taxes other than on income	1,211	1,028	18%	586	524	12%
Insurance indemnity	(49)	(28)	75%	(15)	(8)	88%

Accrual of impairment for accounts receivable, net	1,146	618	85%	767	574	34%
Loss (Profit) on disposal of property, plant and equipment, net	(20)	78	-126%	3	(8)	-138%
Other expenses	963	649	48%	520	549	-5%
Total Fixed Expenses	42,335	37,782	12%	21,640	19,794	8%
Total Expenses	87,692	76,434	15%	39,169	35,150	11%

Financial position

As of June 30, 2015, the Group's total assets increased by 1% from the beginning of the year totaling 152,016 million RUB. There were certain changes in the current assets structure:

- 23% decrease of cash and cash equivalents down to 9,681 million RUB;
- 9% reduction of inventories down to 17,563 million RUB resulted from the utilization of the fuel stored for heating season;
- 10% rise in accounts receivable and prepayments up to 25,494 million RUB.

The Group's equity as of June 30, 2015 decreased by 20% down to 21,604 million RUB compared to December 31, 2014, which is mostly the result of the 17% increase of retained losses up to 15,507 million RUB.

The Group's total liabilities as of June 30, 2015 increased by 5% compared to December 31, 2014 and totaled 130,412 million RUB. This was provided by:

- The financial debt (total of short-term and long-term debt) increase by 8% up to 84,196 million RUB;
- Net debt (financial debt minus cash and cash equivalent and current deposits) grew by 14% to 74,515 million RUB;
- the non-current debt decreased by 11% down to 40,438 million RUB;
- The current debt increased by 35% to 43,758 million RUB due to the proximation of the non-current debt maturity dates;
- The accounts payable and accruals decreased by 2% to 28,933 million RUB.

The Group's main creditors are its parent company RusHydro (28% of total financial debt) and PJSC Sberbank (25% of total financial debt).

CAPEX

The amount of capital expenditure in the first six months of 2015 increased by 19% to 6,809 million RUB. The amount of financing of the investment program was up by 9% amounting to 5,400 million RUB (excluding VAT) compared to the same period last year.

Capital expenditure commitments in accordance with separate investment programmes of subsidiaries the Group as at June 30, 2015 totals RUB 61,929 million including VAT:

- 6 months 2015 – 24,442 million RUB;
- 2016 – 21,573 million RUB;
- 2017 – 15,914 million RUB.

Future capital expenditures are mainly reconstruction project of existed equipment of power plants and grid as well the off-the-site infrastructure projects related to the 4 new power plant construction of the PJSC RusHydro.

Subsequent events

After the reported period a loan agreement between RAO ES EAST, PJSC entered into force amounting to 6.6 billion RUB to finance off-the-site projects of the Yakutskaya CHPP-2. The credit limits under the loan agreement will be opening by phases throughout the two consecutive years. Interest payments are to be made quarterly after the launch of the project and to last for 10 years. The interest rate in accordance to the agreement will be equal to the special Central bank instrument plus 2.5 per cent.

Moreover after June 30, 2015 the Group concluded several other loan agreements with PJSC Sberbank, PJSC ROSBANK, and Gazprombank with interest rates ranging from 12% to 12.6%.

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:

Joint Stock Company "RAO Energy Systems 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"; "FEEC", JSC; PJSC "Yakutskenergo"; PJSC "Magadanenergo", PJSC "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 8,988 MW of electrical power and 17,981 Gcah/l of thermal power. The length of the power grid of all voltage classes is more than 102 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.
