



RAO ES EAST. PJSC

Legal address:

Khabarovsk, Russia , 680021

Postal address:

ul . Obraztsova, 21, bld A, Moscow, Russia , 127018

tel.: 7 (495) 287 67 01 fax: 7 (495) 287 67 02

RAO ES EAST Group Reports a 17% decrease in EBITDA in 2015 to 12.8 bln RUB

March 18, 2015 Moscow - "RAO Energy Systems of the East" Group (ticker symbol: VRAO; ISIN code RU000A0JPVL6) publishes its audited consolidated financial report for the year ended December 31, 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 in 2015 amounting to 4,930 million RUB which was 39% lower last year's adjusted operating profit. The 2015 fourth quarter adjusted operating profit showed an improvement of 8% reaching 7,914 million RUB. EBITDA for 2015 decreased by 17% y-o-y, totaling 12,797 million RUB. The fourth quarter 2015 EBITDA totaled 9,683 million RUB, which is 6% higher the result of the same period of 2014.

The Group's adjusted net loss of 2015 totaled 4,214 million RUB instead of adjusted net profit 3,109 million RUB a year earlier. The fourth quarter of 2015 adjusted net profit was 23% lower than in the same period last year amounting to 5,234 million RUB. Net loss for the first nine months of 2015 was 10,498 million RUB compared to net loss of 4,211 million RUB in the same period last year. Net loss for 2015 amounted to 7 518 million RUB, while the net loss of 2014 amounted to 2,181 million RUB. The net profit of the fourth quarter of 2015 however was 47% higher last year's fourth quarter profit amounting to 2,980 million RUB.

The key factors for the Group financial performance were:

- decrease of profit from power production due to lower load in cogeneration cycle of inefficient JSC "FEGC" power stations due to warmer air temperature throughout the year, decreased water inflows causing lower HPPs power production;
- an increase in average fuel prices of 8% to 3,456 RUB mostly driven by "Sakhalin-1" gas price hike;
- indexation of employee wages and salaries in accordance with the utilities union agreement exceeding the forecasted wages growth put in the tariffs;
- rise in cost of borrowing driving the growth of financial expenses;

Financial Highlights (*RUB in millions*)¹

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 on curtailment of pension payments and pension plans.

Indicator	12 months		y-o-y	Fourth quarter		y-o-y
	2015	2014	%	2015	2014	%
Revenues with government grants	176,981	162,699	9%	56,356	52,925	6%
Operating expenses	(174,296)	(158,198)	10%	(49,730)	(48,680)	2%
Operating (loss) profit	1,626	2,819	-42%	5,660	2,563	121%
Operating profit (Loss) profit (adj.)¹	4,930	8,109	-39%	7,914	7,317	8%
EBITDA²	12,797	15,398	-17%	9,683	9,134	6%
Financial expenses, net	(8,655)	(5,513)	57%	(2,398)	(984)	144%
(Loss) before income tax (adj.) ¹	(3,648)	2,586	-241%	5,537	6,273	-12%
(Loss) for the period	(7,518)	(2,181)	245%	2,980	2,030	47%
(Loss) for the period (adj.)¹	(4,214)	3,109	-	5,234	6,784	-23%

Main events

RAO ES EAST Group increased electricity production in 2015 by 9% YoY to 33,970 million kWh due to the 19% output reduction of Zeyskaya and Bureyskaya HPPs (also part of Group RusHydro). Power consumption in UES of the East increased by 1.3% compared to 2014. Export sales of JSC "FEGC" in accordance with bilateral agreement with INTER RAO totaled 2,468 million kWh.

Heat output of the Group's CHPPs and boilers in 2015 was down by 2% totaling 30,389 thousand Gcal due to warmer air temperature in most of the Far East cities throughout the year.

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 October 2015 the Group sold shares of its repairs subsidiary JSC Kamchatsjenergoremont for 8 million RUB.

In 2015 several a loan agreements entered into force in accordance with the State Program of project financing in the Russian Federation. 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.

On November 3, 2015 Vostok-Finance Limited (part of RAO ES EAST Group) announced the voluntary tender offer to purchase ordinary and preferred shares of RAO ES EAST, PJSC. In accordance with the terms of the voluntary tender offer the shareholders were entitled to exchange RAO ES East, PJSC ordinary and preferred shares into ordinary shares of PJSC RusHydro or sell them by cash. This resulted in the liabilities in conjunction with the tender offer as at 31 December, 2015 amounting to 2,482 million RUB. These liabilities are reflected in the Group's equity amounting to 2,460 million RUB with 22 million RUB reflected in the consolidated income statement as losses from reassessment.

² Earnings before interest, taxes, depreciation and amortization is calculated by summing up the adjusted operating profit with the cash income of 243 million RUB resulted from asset sale in the 2015.

Revenue

The Group total revenues in 2015, combined with government grants, increased by 9% amounting to 176,981 million RUB. The same indicator for the fourth quarter of 2015 rose by 6% y-o-y mostly due to increased sales of power and capacity by 10%.

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

- 10% increase of electricity output totaling 30,263 million kWh;
- Wholesale price increase on the non-price UES of the East resulted by the slump in production of Zeyskaya and Bureyskaya HPPs due to lower water levels as well as by indexation of indicative output price.
- 12% growth of average retail sales of PJSC "FEEC" caused by wholesale power price increase.

Revenue Structure (*RUB in millions*)

Revenue Item	12 months		y-o-y	Fourth quarter		y-o-y
	2015	2014	%	2015	2014	%
Sale of electricity and capacity	111,290	98,397	13%	33,223	30,333	10%
Heat sales	35,229	33,914	4%	12,341	11,781	5%
Other revenue	16,194	17,975	-10%	4,683	6,222	-25%
Total revenue	162,713	150,286	8%	50,247	48,336	4%
Government grants	14,268	12,413	15%	6,109	4,589	33%
Revenues with government grants	176,981	162,699	9%	56,356	52,925	6%

Operating expenses

In 2015 the Group's operating expenses were up by 10% amounting to 174,296 million RUB. In the fourth quarter of 2015 operating expenses grew by 2%. Variable costs in 2015 increased by 13% but decreased by 3% in the fourth quarter compared to the same period last year. Fixed costs in 2015 increased by 7% and by 1% in the fourth quarter.

Fuel expenses in 2015 grew by 16% amounting to 54,043 million RUB. This was due to a 9% power production increase, 3% heat output decrease, accompanied by the growth in fuel costs and average reference fuel consumption. The increase in average fuel prices in 2015 grew by 8% to 3,456 RUB per reference fuel ton mostly due to price increase of the gas from "Sakhalin-1" consortium. The price for consumed average reference fuel ton in the fourth quarter of 2015 increased by 8% up to 3,396 RUB per ton. The specific reference fuel consumption (SRFC) in 2015 for the Group power production was up by 4.9 g/kWh to 385 g/kWh caused by the rise of the load factor in the condensed cycle due to lower heat output and switch from gas to coal at the JSC "FEGC" power plants for economic reasons. In the fourth quarter of 2015 the SRFC was 3.9 g/kWh higher than in the same period last year up to 371 g/kWh. As the result, the

fuel consumption in 2015 was 7% higher totaling 15,640 thousand tons of reference fuel, while in the fourth quarter of 2015 the fuel consumption decreased by 2% down to 4,656 thousand tones.

Purchased electricity and capacity in 2015 were up by 19% 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. The decreased of electricity purchases in the fourth quarter can be explained by lower power consumption in Yakutia and Chukotka isolated zones/

Employee benefit expenses increased in 2015 by 12% and 14% in the fourth quarter due to the growth of CPI (basic salary of worker of the utilities sector is indexed by the actual CPI).

Key expenses (*RUB in millions*)

Expense items	12 months		y-o-y	Fourth quarter		y-o-y
	2015	2014	%	2015	2015	2014
Fuel expenses	54,043	46,606	16%	16,269	15,418	6%
Expenses for electricity distribution	14,610	14,374	2%	4,127	3,993	3%
Purchase of electricity and capacity	13,787	11,592	19%	4,136	4,545	-9%
Purchase and transmission of heat	3,102	2,878	8%	932	823	13%
Water usage expenses	1,871	1,789	5%	543	417	30%
Purchase of oil products for sale	673	425	58%	124	145	-14%
Total Variable Expenses	88,086	77,664	13%	26,131	25,341	3%
Employee benefit expenses (including payroll taxes and pension benefit expenses)	51,460	45,756	12%	13,679	12,036	14%
Other materials	7,041	7,571	-7%	2,315	1,800	29%
Depreciation of property, plant and equipment	7,624	7,289	5%	1,762	1,816	-3%
Repairs and maintenance	3,519	2,481	42%	1,184	805	47%
Services of subcontracting companies	1,435	1,605	-11%	303	605	-50%
Rent	1,417	1,267	12%	375	401	-6%
Security expenses	1,361	1,274	7%	365	328	11%
Services of SO-CDU, NP Council Market, CFS	744	717	4%	195	184	6%
Consulting, legal and information expenses	649	985	-34%	186	281	-34%
Transportation expenses	791	656	21%	218	299	-173%
Other third parties services	3 566	3 428	4%	893	1,296	-31%

Insurance cost	323	286	13%	81	26	212%
Social charges	739	787	-6%	214	218	-2%
Taxes other than on income	2,360	2,063	14%	575	533	8%
Insurance indemnity	(255)	(290)	-12%	(4)	(251)	-98%
Business travel	421	442	-5%	122	119	3%
Accrual of impairment for accounts receivable, net	3,021	3,635	-17%	2,056	3,151	-35%
Loss (Profit) on disposal of property, plant and equipment, net	(59)	474	-112%	(51)	422	-112%
Curtailment of pension payments and pension plans	(717)	(501)	43%	(717)	(501)	43%
Other expenses	770	609	26%	(152)	369	-141%
Total Fixed Expenses	86,210	80,534	7%	23,599	23,339	1%
Total Expenses	174,296	158,198	10%	49,730	48,680	2%

Financial position

As of December 31, 2015, the Group's total assets increased by 8% from the beginning of the year totaling 162,511 million RUB mostly due to property, plant and equipment increase. There were certain changes in the current assets structure:

- 13% decrease of cash and cash equivalents down to 10,970 million RUB;
- 5% increase of inventories up to 20,287 million RUB;
- 13% rise in accounts receivable and prepayments up to 26,086 million RUB.

The Group's equity as of December 31, 2015 decreased by 40% down to 16,225 million RUB compared to December 31, 2014, which is mostly the result of the 31% increase of retained losses up to 17,409 million RUB as well as reflection of liabilities from the tender offer amounting to 2,460 million RUB.

The Group's total liabilities as of December 31, 2015 increased by 18% compared to December 31, 2014 and totaled 146,286 million RUB. This was provided by:

- The financial debt (total of short-term and long-term debt) increase by 18% up to 91,656 million RUB;
- Net debt (financial debt minus cash and cash equivalent and current deposits) grew by 23% to 80,686 million RUB;
- the non-current debt increased by 6% down to 48,312 million RUB;
- The current debt increased by 33% to 43,344 million RUB due to the proximation of the non-current debt maturity dates;
- The accounts payable and accruals increased by 18% to 34,923 million RUB.

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

CAPEX

The amount of capital expenditure in 2015 and the amount of financing of the investment program stayed at the level of 2014 amounting to 19,554 million RUB and 16,693 (excluding VAT).

Capital expenditure commitments in accordance with separate investment programs of subsidiaries the Group as at December 31, 2015 totals RUB 80,462 million including VAT:

- 2016 – 33,984 million RUB;
- 2017 – 26,452 million RUB
- 2018 – 20,026 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

On January 2016 the Vostok-Finance Limited (100% subsidiary of RAO ES East, PJSC) concluded of the procedure of receiving requests submitted under the terms of the voluntary tender offer. RAO ES EAST shareholders from January 19, 2016 to February 2, 2016 transferred shares amounting to 11.11% of the total share capital. The acquisition of over 10% of total shares of RAO ES EAST, PJSC by the tender offer makes the RusHydro control over 95% of the total shares. This gives RusHydro Group the right to forward the request for the compulsory acquisition (squeeze-out) of all the ordinary and preferred shares within six months upon the termination of the tender offer

On January 21, 2016 the Director General of the Group Sergey Tolstoguzov held a meeting with the CEOs of its subsidiaries and the leader of the trade union "Russian Power Union" in the Far East. The meeting resulted in a decision to adapt social liabilities to the current financial situation by refraining from personnel layoffs but preserving salaries of 2016 at the level of 2015.

The financial information in full, press release and presentation are posted on the website of RAO ES East, PJSC 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 8,924 MW of electrical power and 17,973 Gcal/h of thermal power. The length of the power grid of all voltage classes is more than 103 thousand km.

The majority shareholder is PJSC RusHydro.

For more information call:

IR

Max Kochetkov

+7(495) 287-67-03 ext. 6062

E-mail: kochetkov-mm@rao-esv.ru

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.
