



## **Bashkirenergo publishes financial results for 6 months of 2011**

**September 6, 2011, Ufa (Russian Federation, Republic of Bashkortostan) – OJSC "Bashkirenergo" (MICEX, RTS: BEGY, ISIN: RU0009044242) – publishes consolidated financial statements for six month ended 30 June, 2011 prepared in accordance with IFRS.**

Following the decision approved by the Board of Directors of OJSC "Bashkirenergo" to sell electricity retail business, all operations of LLC ESKB were presented in a separate line of the consolidated statement of comprehensive income "Profit from the discontinued operations" in compliance with IFRS. As a result, operations of sales and purchases of electricity and capacity between the companies of the Group and LLC ESKB were reflected in revenue and operational expenses in the consolidated financial statements. Considering the fact that before January 1, 2011 OJSC "Bashkirenergo" had the status of the guaranteeing provider (retail company) with LLC ESKB acting only as an agent, revenue and operational expenses for 2010 became incomparable with 2011 results after reclassification of the LLC ESKB results.

### **KEY FINANCIAL RESULTS:**

- The Company's **revenue** for the first six months of 2011 is decreased by 6% to **29,385 mln RUR (1,027 mln USD)** compared to the same period of 2010.
- Operating profit increased **24%** year-over-year reaching **3,892 mln RUR (136 mln USD)**.
- **OIBDA** was **5,627 mln RUR (197 mln USD)** or 16% higher comparing the same period last year.
- **Net profit from continuing operations** increased by 28% to **3,001 mln RUR (105 mln USD)** compared to 2010 results.
- **Net profit for the period** amounted to **3,332 mln RUR (116 mln USD)** increased by 40%.
- **OIBDA margin** changed from **16%** to **19%**.
- As at June 30, 2011 the Company's **financial debt** amounted to **2,433 mln RUR**, with **debt/OIBDA** ratio at the level of **0.43**.

### **KEY OPERATING RESULTS:**

- OJSC "Bashkirenergo" total power generation in the first six months of 2011 was 11,476 mln kWh, gaining 4.3% year-over-year.
- The capacity factor of OJSC "Bashkirenergo" power stations rose to 62% (an increase of 5.6 b.p. compared to first six months of 2010).
- Heat output of the Company amounted to 13,956 thousand Gcal matching the results of 2010.

- The specific consumption of equivalent fuel decreased by 2.5 g/kWh for electricity generation to 316.7 g/kWh, and by 1 kg/Gcal for heat output to 142.8 kg/Gcal compared to the same period last year.
- The transmitted electricity losses in the first six months of 2011 increased from 1.45% to 1.49% in the transmission grid, with distribution grid losses increasing from 9.14% to 9.47%.

Andrey Makarov, CEO of OJSC “Bashkirenergo” commenting the financial results of the first six months of 2011 has stated: “OJSC “Bashkirenergo” both in the second quarter and in the first six months of 2011 demonstrated strong financial and operational results. Despite this year solid financial performance of LLC ESKB the management and main shareholders of OJSC “Bashkirenergo” forecast that electricity and heat generation and transmission businesses are to become the Company’s main profit making activities. This position was declared in the Company’s Strategy, adopted by the Board of Directors on August 31, 2011. I also consider the adopted in the Strategy measures of making the heat business profitable by 2013 will make a positive contribution to financial results and the Company’s value in the nearest future.”

## **RESULTS OVERVIEW**

The second quarter of 2011 brought substantial increase of the OJSC “Bashkirenergo” power output with an 8% growth of power generation to the same period last year, providing for a 4% rise of power output in the first six months of 2011. The Unified Power System of the Russian Federation in the first half of the year increased its power generation by only 1,8% with OJSC “Bashkirenergo” share in the total Russian power output reaching 2,19%.

The rise in power prices at the Karmanovskaya GRES delivery point of the wholesale electricity market as well as the hike in power output by Pavlovskaya hydroplant due to the water inflow at the Pavlovskaya water reservoir were the main reasons for the growth in electricity production.

Within the scope of government-backed measures to reduce electricity prices for ultimate consumers the State tariffs committee of the Republic of Bashkortostan retroactively revised the tariffs for electricity transmission in 2011. However the tariffs revision had little if any effect on the Company’s financial results for the six months of 2011.

On June 15, 2011 OJSC “Bashkirenergo” and OJSC “Power Machines” signed an agreement to cease all the mutual legal claims in accordance with which OJSC “Bashkirenergo” settled all the payments amounting to 2,113 mln RUR for the gas-turbine, steam-gas, and generator equipment produced for SGU CHP-5 in Ufa.

The Annual General Shareholders Meeting of OJSC “Bashkirenergo”, assembled on June 24, 2011 decided to distribute 1,085 mln RUR in form of dividends, and 472 mln RUR to transfer for investment projects. OJSC “Bashkirenergo” fully met its obligation by paying all the dividends in due course of 0.944 RUR per ordinary share and 2.01 RUR per one preference share.

The AGM also elected the new Board of Directors with 8 members representing JSFC “Sistema”, three members representing INTER RAO UES, one member from the Ministry of Energy of Russia, and one member from minority shareholders.

### Key Financial Performance Indicators, in mln RUR

Indicator	2 <sup>nd</sup> quarter		Change. %	6 months		Change %
	2011	2010		2011	2010	
Revenue	12,537	12,725	-1%	29,385	31,302	-6%
Operating expenses	(11,489)	(12,147)	-5%	(25,493)	(28,168)	-9%
<b>Operating Profit</b>	<b>1,048</b>	<b>578</b>	<b>81%</b>	<b>3,892</b>	<b>3,134</b>	<b>24%</b>
<b>Profit before income tax</b>	<b>1,032</b>	<b>568</b>	<b>82%</b>	<b>3,864</b>	<b>3,115</b>	<b>24%</b>
Income tax expenses	(253)	(234)	8%	(863)	(771)	12%
<b>Profit from continuing operations</b>	<b>779</b>	<b>334</b>	<b>133%</b>	<b>3,001</b>	<b>2,344</b>	<b>28%</b>
(Expenses)/ profit from discontinued operations	(187)	7	-2771%	331	40	728%
<b>Profit for the period</b>	<b>592</b>	<b>341</b>	<b>74%</b>	<b>3,332</b>	<b>2,384</b>	<b>40%</b>
<b>OIBDA</b>	<b>1,869</b>	<b>1,428</b>	<b>31%</b>	<b>5,627</b>	<b>4,847</b>	<b>16%</b>
OIBDA margin	15%	11%	4 b.p.	19%	16%	3 b.p.
EBIT margin	8%	5%	3 b.p.	13%	10%	3 b.p.
Net margin	5%	3%	2 b.p.	11%	8%	3 b.p.

### Key Operating Results

Indicator	2 <sup>nd</sup> quarter		Change %	6 months		Change %
	2011	2010		2011	2010	
Installed electric capacity, MW (average)	4,267	4,456	-0,6%	4,261	4,489	- 0.6%
Installed heat capacity, Gcal/h (average)	13,275	13,630	-2,6%	13,275	13,630	-2.6%
Electricity generation, mln kWh	5,099	4,699	9%	11,476	11,005	4%
Heat output, thousand Gcal	4,207	4,137	2%	13,956	13,964	0%
Electric capacity factor, %	55%	48%	6,5 b.p.	62%	56,4%	5.6 b.p.
Specific consumption of equivalent fuel for electricity generation, g/kWh	326	330	-4%	317	319	- 1 %
Specific consumption of equivalent fuel for heat output, kg/Gcal	146	147	-1%	143	144	-1%
Distribution grid losses, %	6.21%	5.99%	0,22 b.p.	9.47%	9.14%	0,34 b.p.
Transmission grid losses, %	1.42%	1.43%	- 0,01 b.p.	1.49%	1.45%	0,04 b.p.

## **REVENUE**

Revenue reduction in the statements for the six months of 2011 is result of reclassification of all operations of LLC ESKB into the separate line "Profit from the discontinued operations" due to the decision made to sell the retail company.

The financial result of 2011 became incomparable with 2011 even with reclassification of LLC ESKB results since before January 1, 2011 OJSC "Bashkirenergo" had the status of a guaranteeing provider (retail company) with LLC ESKB acting as a retail agent.

## **OPERATING EXPENSES**

The decision to sell the retail company mostly impacted amount of purchased electricity and capacity which decreased by 70% to 1,992 mln RUR (70 mln USD), and the electricity transmission costs showing a 119% growth to 1,137 mln RUR (40 mln USD).

Fuel costs for 6 months of 2011 representing 54% of total operating expenses increased 12% to 13,783 mln RUR (482 mln USD) and were driven by a 15% gas price indexation, as well as by a 4% rise in power output by thermal power plants. The slower growth pace of fuel costs compared to gas price hike is explained by the reduction in specific consumption of equivalent fuel.

Fixed costs which represent 33% of total operating expenses amounted to 8,299 mln RUR (290 mln USD). During the six months ended 30 June, 2011 it decreased by 3% mostly due reduction of provisions for tax and legal contingencies and allowances for doubtful receivables.

Staff costs being the largest item of fixed costs (17% of total operating expenses) rose by 7% against the first six months of 2010 to 4,210 mln RUR (147 mln USD).

Repair and maintenance together with costs of materials and spare parts (6% of operating expenses) were 1% lower than in the same period last year amounting to 1,441 mln RUR (50 mln USD) mostly due to a 34% cut in expenditure on material and spare parts.

Other operating expenses dropped by 51% to 570 mln RUR (20 mln USD).

## **FINANCIAL POSITION**

As of the balance sheet date, the total assets of OJSC "Bashkirenergo" amounted to 63,162 mln RUR (2,250 mln USD).

The share of non-current assets exceeded 84% of total assets and amounted 53,060 mln RUR (1,890 mln USD), while the share of current assets was 16% or 10,103 mln RUR (360 mln USD). During the first six months of non-current assets increased by 3% as a result of 7% increase in property, plant and equipment due to new commissioning and increase of construction in-progress. The expected disposal of LLC ESKB would lead to the reduction of current assets by 2,453 mln RUR (87 mln USD) and current liabilities by 1,474 mln RUR (52 mln USD).

Capital and reserves made up 82% of the total equity and liabilities amounting to 52,091 mln RUR (1,855 mln USD). By the end of the six months of 2011 the Company's financial debt increased to 2,433 mln RUR (87 mln USD) mainly due to a three-year loan

for the construction of a new power station SGU CHP-5 obtained from Sberbank. As at December 31, 2011 financial debt of the Company amounted to 160 mln RUR.

The free cash flow dropped by 28% to 2,442 mln RUR (85 mln USD) mostly due to CAPEX increase by 179%. It is also worth mentioning a 1,211 mln RUR (86 mln USD) increase of trade and other payables positively impacting the FCF.

## **CAPITAL EXPENDITURE**

Investment programs in the first six months of 2011 increased by 179% and amounted to 3,735 mln RUR, compared to the same period last year.

On April 27, 2011 Zauralskaya CHP saw the commissioning of a GTES-16PA (on the basis of a jet engine) a 16 MW power unit with a water-heating boiler-utilizer 19.5 Gcal/h of heat capacity.

On April 29 the Board of Directors approved the decision to resume the construction of the SGU CHP-5 in Ufa (440 MW, 290 Gcal/h) with the total project cost of 14 bln RUR. The commissioning of the new capacities is planned in 2013.

June 23, 2011 saw a successful completion of comprehensive testing of the new SGU-60 unit at CHP-2 of Ufa which resulted in the permission to launch the unit into production. With this commissioning the electric capacity of the CHP-2 of Ufa will increase by 47 MW, and the heat capacity will rise by 35 Gcal/h. From September 1, 2011 the new unit started the power and capacity supply to the Wholesale electricity and capacity market.

## **EVENTS AFTER THE REPORTING DATE**

The Russian Government by its decision from 18.08.2011 set up the price-cap for capacity price at the Competitive selection of capacity for 2012 at the level of 2011.

On September 2, 2011 the Board of Directors of JSC "RusHydro" summed up the negotiation process by deciding to approve the deal of purchasing the LLC "Energeticheskaya Sbytovaya Kompaniya Bashkortostana" part of the Group OJSC "Bashkirenergo". The deal is expected to be finalized in September 2011.

The sale of the retail company of the Bashkirenergo Holding is mostly dictated by the legislation requirement obliging to separate generation, distribution and retail businesses. Moreover, shareholders and the Company management having considered the limited growth potential of the retail business in the environment where major power consumers gain access to the wholesale electricity and capacity market decided to concentrate its efforts to develop with electricity and heat generation and transmission businesses.

## **OUTLOOKS**

According to the management forecast the OJSC "Bashkirenergo" 2011 financial results beat last year's results, subject to high of electricity prices at OREM.

The sale of retail business would not seriously influence the profits of the Company since not if it is generated by the sales of power and capacity to OREM along with its transportation. In the liberalized electricity market financial and operational results of this activities are not dependent on the control over retail business.

However the decision of the Government of to imply a zero growth of capacity price for 2012 might have a negative impact on expected financial results next year. Though the price on capacity in the Ural zone, not being the zone with the price-cap set up by the Government, is still to be determined by the Competitive selection of capacity for 2012.

**OJSC BASHKIRENERGO AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT 30 JUNE 2011 (UNAUDITED)**  
*IN MILLIONS OF RUSSIAN ROUBLES*

	30/06/2011	31/12/2010
<b>ASSETS</b>		
<i><b>Non-current assets</b></i>		
Property, plant and equipment	50,826	47,675
Advances paid for acquisition of property, plant and equipment	1,996	3,450
Inventories	168	183
Trade and other receivables	13	121
Other non-current assets	57	59
	<b>53,060</b>	<b>51,488</b>
<i><b>Current assets</b></i>		
Inventories	1,522	1,169
Trade and other receivables	2,576	2,658
Advances paid and prepaid expenses	381	427
Investments	28	42
Income tax prepaid	142	181
VAT recoverable and other taxes prepaid	1,726	1,272
Cash and cash equivalents	1,275	569
Assets classified as held for sale	2,453	-
	<b>10,103</b>	<b>6,318</b>
<b>TOTAL ASSETS</b>	<b>63,163</b>	<b>57,806</b>
<b>EQUITY AND LIABILITIES</b>		
<i><b>Capital and reserves</b></i>		
Share capital	1,093	1,093
Treasury shares	(282)	(282)
Retained earnings	51,281	49,023
<b>Equity attributable to owners of the parent company</b>	<b>52,092</b>	<b>49,834</b>
Non-controlling interests	-	285
<b>TOTAL EQUITY</b>	<b>52,092</b>	<b>50,119</b>
<i><b>Non-current liabilities</b></i>		
Loans and borrowings	2,201	-
Employee benefit obligations	586	584
Deferred tax liabilities	1,418	1,549
Other non-current liabilities	249	81
	<b>4,454</b>	<b>2,214</b>
<i><b>Current liabilities</b></i>		
Loans and borrowings	232	160
Trade and other payables	2,414	1,203
Advances received from customers	1,026	2,230
Accrued expenses and provisions	458	935
Income tax payable	23	108
Other taxes payable	990	837
Liabilities directly associated with assets classified as held for sale	1,474	-

	<u>6,617</u>	<u>5,473</u>
<b>TOTAL LIABILITIES</b>	<u>11,071</u>	<u>7,687</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u><u>63,163</u></u>	<u><u>57,806</u></u>



# OJSC BASHKIRENERGO AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

IN MILLIONS OF RUSSIAN ROUBLES

	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
<b>Revenue</b>				
Electricity and capacity	9,901	10,016	21,240	22,659
Heat energy	1,886	1,767	6,653	6,369
Other revenue	750	942	1,492	2,274
	<b>12,537</b>	<b>12,725</b>	<b>29,385</b>	<b>31,302</b>
<b>Operating expenses</b>				
Fuel	(5,489)	(4,677)	(13,783)	(12,292)
Purchase of electricity	(869)	(2,732)	(1,992)	(6,632)
Staff costs	(2,092)	(1,988)	(4,210)	(3,920)
Depreciation	(821)	(850)	(1,735)	(1,713)
Materials and spare parts	(231)	(385)	(424)	(644)
Repair and maintenance	(665)	(538)	(1,017)	(812)
Transmission of electricity	(532)	(255)	(1,137)	(518)
Charity	(64)	(207)	(159)	(303)
Water usage	(134)	(118)	(282)	(192)
Taxes, other than income tax	(100)	(102)	(199)	(203)
Rent	2	46	72	12
Loss on disposal of property, plant and equipment	17	29	82	520
Change in provision for tax and legal contingencies	(33)	(29)	(70)	(52)
Change in allowance for doubtful receivables	(87)	90	(46)	(272)
Impairment of advances paid	(3)	9	(23)	22
Other operating expenses	(388)	(440)	(570)	(1,169)
<b>Operating profit</b>	<b>1,048</b>	<b>578</b>	<b>3,892</b>	<b>3,134</b>
Finance income	1	-	1	-
Finance cost	(17)	(10)	(29)	(19)
<b>Profit before income tax</b>	<b>1,032</b>	<b>568</b>	<b>3,864</b>	<b>3,115</b>
Income tax	(253)	(234)	(863)	(771)
<b>Profit from continuing operations</b>	<b>779</b>	<b>334</b>	<b>3,001</b>	<b>2,344</b>
<b>(Losses)/ Profit from discontinued operations</b>	<b>(187)</b>	<b>7</b>	<b>331</b>	<b>40</b>
<b>PROFIT FOR THE PERIOD</b>	<b>592</b>	<b>341</b>	<b>3,332</b>	<b>2,384</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>592</b>	<b>341</b>	<b>3,332</b>	<b>2,384</b>
Attributable to:				
Owners of the parent company	592	326	3,332	2,373
Non-controlling interests	-	15	-	11
<b>EARNINGS PER SHARE FROM CONTINUING AND DISCONTINUED OPERATIONS</b>				
Basic earnings per share (in Roubles)	0.55	0.29	3.18	2.23
Diluted earnings per share (in Roubles)	0.55	0.29	3.18	2.23

**EARNINGS PER SHARE FROM CONTINUING OPERATIONS**

Basic earnings per share (in Roubles)	0.73	0.28	2.86	2.14
Diluted earnings per share (in Roubles)	0.73	0.28	2.86	2.14

# OJSC BASHKIRENERGO AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2011 (UNAUDITED)

IN MILLIONS OF RUSSIAN ROUBLES

	Six months ended June 30, 2011	Six months ended June 30, 2010
<b>OPERATING ACTIVITIES</b>		
<b>Profit before income tax</b>	<b>4,195</b>	<b>3,155</b>
Adjustments for:		
Depreciation	1,735	1,713
Change in provision for tax and legal contingencies	(82)	(520)
Change in provision for unused vacations and bonuses	(219)	23
Loss on disposal of property, plant and equipment	(72)	(12)
Change in allowance for doubtful receivables	44	272
Change in employee benefits	(21)	24
Finance costs	(1)	-
Finance income	32	19
Other adjustments	23	(22)
<b>Operating cash flow before movements in working capital</b>	<b>5,634</b>	<b>4,652</b>
Change in inventories	(439)	(10)
Change in trade and other receivables	(1,477)	(669)
Change in advances paid and prepaid expenses	(184)	(920)
Change in taxes receivable, other than income tax	(619)	508
Change in trade and other payables	2,165	935
Change in advances received from customers	(248)	(685)
Change in taxes payable, other than income tax	220	120
<b>Net cash provided by operations</b>	<b>5,052</b>	<b>3,931</b>
Income tax paid	(1,244)	(656)
Interest paid	(20)	(34)
<b>Net cash generated from operating activities</b>	<b>3,788</b>	<b>3,241</b>
<b>INVESTING ACTIVITIES</b>		
Disposal of Special Purpose Entities	(158)	-
Purchase of property, plant and equipment	(3,735)	(1,338)
Proceeds from disposal of property, plant and equipment	278	205
Purchase of investments	(32)	(374)
Proceeds from disposal of investments	34	406
Withdrawal of deposits	-	-
Dividends and interest received	(1)	-
<b>Net cash generated from/(used in) investing activities</b>	<b>(3,614)</b>	<b>(1,101)</b>
<b>FINANCING ACTIVITIES</b>		
Dividends paid	(1,075)	(1,237)
Repurchase of ordinary shares	-	(282)
Proceeds from loans and borrowings	6,149	9,781
Principal repayments on loans and borrowings	(3,876)	(10,414)

<b>Net cash used in financing activities</b>	<b>1,198</b>	<b>(2,152)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,372</b>	<b>(12)</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>569</b>	<b>598</b>
<b>Cash and cash equivalents of the disposal group</b>	<b>(666)</b>	<b>-</b>
<b>Cash and cash equivalents at end of the period</b>	<b>1,275</b>	<b>586</b>

**OJSC “Bashkirenergo”** – is a major regional utility company in Russia, ranked 5 by installed electric capacity and 7 by installed heat capacity among the Russian territorial generating companies. By the amount of heat output OJSC “Bashkirenergo” is among the 10 major heat producing companies in the world. OJSC “Bashkirenergo” has a dominating position at the electricity and heat market of the Republic of Bashkortostan, which is one of the top-ten developed regions of Russia. The OJSC “Bashkirenergo” owns companies which produce electricity and heat, conduct their transmission to consumers and organize sales. The Installed electric capacity is 4,265 MW, the installed heat capacity is 13,273 Gcal/h.

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