



Bashkirenergo publishes its Q2 2012 IFRS financial results

September 4, 2012, Ufa (Russian Federation, Republic of Bashkortostan) – OJSC "Bashkirenergo" (MICEX, RTS: BEGY, ISIN: RU0009044242) – publishes consolidated financial statements for 6M 2012 prepared in accordance with IFRS.

For the purpose to comply with the Russian legislation on June 27, 2012 the Extraordinary General Meeting of Shareholders of OJSC "Bashkirenergo" made a decision on company's reorganization in the form of a spin-off resulting in the establishment of two companies: generating company called Open Joint-Stock Company "Bashenergoactiv" (JSC Bashenergoactiv) which will obtain the shares of LLC "Bashkir Generation Company", LLC "Bashkir Heat Distribution Grid", and LLC "CCGT CHPP-5", and power grid company called Joint Stock Company "Bashkirian Power Grid Company" (JSC "BPGC"). As a result of reorganization all property, rights and duties of OJSC "Bashkirenergo" will be transferred to JSC "Bashenergoactiv" and JSC "BPGC" in accordance with the dividing balance sheet. All organizational arrangements and corporate actions related with company's reorganization shall be executed till the end of 2012.

In connection with the above matter and in accordance with the rules of IFRS compilation, financial results of the generating sector for 6 months 2012 were presented separately as results of the discontinuing operation.

KEY FINANCIAL RESULTS 6 MONTHS OF 2012:

- **The revenue** from continuing operations (do not account result of generating sector) for 6M 2012 declined by 4.88% compared to the similar period of the previous year and was RUB 5,672 million. The revenue for Q2 2012 amounted to RUB 2,767 million, down 0.65% QoQ.
- **Operating profit** (do not account result of generating sector) for 6M 2012 grew 31.76% as compared to 6M 2011 and reached RUB 1,539 million. Q2 2012 operating profit increased by 27.35% YoY to RUB 908 million.
- **OIBDA** from continuing operations (do not account result of generating sector) for 6M 2012 was **RUB 2,218 million** or 26% higher than similar of the previous year. The Q2 2012 OIBDA amounted to RUB 1,245 million, up 23% YoY.
- **Profit from continuing operations**(do not account result of generating sector) for 6M 2012 grew 30% versus 6M 2011 and reached RUB 1,216 million, at the same time profit in Q2 2012 amounted to RUB.

- **OIBDA margin** (do not account result of generating sector) for 6M 2012 grew from **30% to 39% YoY**.
- **Profit and comprehensive income** representing financial result of both generating and grid segments for 6M 2012 decreased by 49% YoY and amounted to RUB 1,706 million.
- As at June 30, 2012 the financial debt of generating business amounted to RUB 2,268 mln. The total Company's **debt/OIBDA** ratio was at the level of 0.6.

KEY OPERATING RESULTS FOR 6 MONTHS OF 2012:

- **Total power generation** of OJSC "Bashkirenergo" for 6M 2012 reduced by 4% compared with the similar of the previous year to 11,012 mln kWh.
- **The capacity factor** of OJSC "Bashkirenergo" power stations was at a level of 59.49% (decrease of 2.52 p.p. compared to 6M 2011).
- **Heat output** of the Company amounted to 13,217 thousand Gcal for 6M 2012, down by 5.3% YoY.
- **The specific consumption** of equivalent fuel for 6M 2012 decreased by 0.1 g/kWh for electricity generation to 316.6 g/kWh, and by 1 kg/Gcal for heat output to 141.8 kg/Gcal compared to the similar period of the previous year.
- The **transmitted electricity losses** in the transmission grids reduced to 1.46% versus 1.49% for 6M 2012, distribution grid losses reduced from 9.47% to 8.45% YoY.

Commenting the Company's results for 6 months and second quarter of 2012 Andrey Makarov, the General Director of OJSC "Bashkirenergo", noted: "First half of 2012 became a pretty tough period for the power sector which faced a number of unfavorable factors. Postponed tariff escalation from January to June, decrease of prices on the wholesale market, warmer winter and early termination of heating season in some regions brought indicators of the sector and OJSC "Bashkirenergo" in particular under pressure. Nevertheless the Company continues to work on improvement of its business efficiency. The Company terminated servicing rented heat network and other equipment located in Ufa, Sterlimak and Kumertau in the second quarter. Implementation of projects aimed at modernization and improvement of efficiency of the Company's assets continued, as well as work on such common for the sector issue as collection of debt for heat and hot water. At the same time OJSC "Bashkirenergo" expended its efforts to settle corporate issues related with reorganization for the purpose to comply with the legal requirements, preparation and holding the general meetings of shareholders. The Company has managed to carry out the assigned tasks. The Annual general meeting of shareholders took place on June 20, where the Company's annual report has been approved and new membership of the Board of directors has been elected. And on July 27th the extraordinary general meeting of shareholders made a decision on Company's reorganization. Activities carried out on Company's reorganization are already reflected in IFRS report for 6 months of 2012. Now, financial results of the generating sector were represented separately as discontinuing operation."

RESULTS OVERVIEW

In Q2 2012 the Company's power plants produced 7.8% less of electric power than during similar period of the previous year due to decrease of prices on the wholesale market and lower inflow of water to the water storage of HPP. The 6M 2012 power output was 11,012.57 mln kWh or 4% less similar of the previous year.

The total power output in Russia since the beginning of 2012 was 533.4bln kWh or 1.6% more than January-June of 2011, and at the Urals united power system increased by 1.3% and totaled to 129.9 bln kWh in H1 2012. Thus, share of Bashkirenergo's output was 8.47% in UPS Urals and 2.06% in Russia as a whole.

Heat output in Q2 2012 reduced by 16.3% comparing with the similar period of the previous year to 3,522 Gcal. Warm weather made it possible to terminate heating season ahead of schedule. Reduction of heat output was also conditioned by termination of servicing rented property by "BashRES" LLC, decline of demand from a large customer and decline in output of heat and hot water due to weather warmer than previous year. The Company's total heat output for H1 2012 was 13,217.75 or 5.3% less than similar indicator of the previous year.

Key Financial Performance Indicators, in mln RUR

In accordance with the rules of IFRS compilation, financial results of the generating sector for 6 months 2012 were presented separately as results of the **discontinuing operation**.

Indicator	Q2		Change %	6 months		Change %
	2012	2011		2012	2011	
Revenue	2 767	2 785	-0.65%	5 672	5 963	-4.88%
Operating expenses	(1 859)	(2 072)	-10.28%	(4 133)	(4 795)	-13.15%
Operating Profit	908	713	27.35%	1 539	1 168	31.76%
Profit before income tax	906	712	27.25%	1 536	1 165	31.85%
Income tax expenses	(227)	(115)	97.39%	(320)	(229)	39.74%
Profit from continuing operations	679	597	13.74%	1 216	936	29.92%
Profit /(loss) from discontinuing operations	(336)	(8)	-4 100%	490	2 396	-79.55%
Profit and Comprehensive income	343	589	-41.77%	1 706	3 332	-48.80%
OIBDA	1 245	1 016	22.54%	2 218	1 764	25.74%
OIBDA margin	45%	36%	9 p.p.	39%	30%	9 p.p.
EBIT margin	33%	26%	7 p.p.	27%	20%	7 p.p.
Net margin	25%	21%	4 p.p.	21%	16%	5 p.p.

Key Operating Results

Operating indicators	Q2		Change	6 months		Change
	2012	2011	%	2012	2011	%
Installed electric capacity, MW (average)	4 255	4 267	-0.3%	4 279	4 261	0.42%
Installed heat capacity, Gcal/h (average)	12 454	13 275	-6.2%	12 768	13 275	-3.8%
Electricity generation, mln kWh	4 701	5 099	-7.8%	11 012	11 475	-4%
Heat output, thousand Gcal	3 522	4 207	-16.3%	13 217	13 956	-5.3%
Electric capacity factor, %	50.9	54.7	-3.8 p.p.	59.49	62.01	-2.52 p.p.
Specific consumption of equivalent fuel for electricity generation, g/kWh	330.2	325.9	1.3%	316.6	316.7	0%
Specific consumption of equivalent fuel for heat output, kg/Gcal	145.5	145.5	0%	141.8	142.8	-0.7%
Distribution grid losses, %	5.22%	6.28%	-1.06 p.p.	8.45%	9.47%	-1.02 p.p.
Transmission grid losses, %	1.43%	1.42%	+0.01 p.p.	1.46%	1.49%	-0.03 p.p.

REVENUE

Revenue for Q2 2012 amounted to RUB 2,767 million remaining almost the same with the similar of the previous year (down 0,65% from RUB 2,785 million). It should be noted that in published IFRS report the revenue represents result of the grid segment while result of the generating segment accounted in the separate line "Profit from the discontinuing operation".

OPERATING EXPENSES

The structure of operating expenses in Q2 2012 IFRS report do not include power generating activity due to the fact that result of this segment is accounted in a separate line "profit from the discontinuing operation".

Staff costs being the largest item of fixed costs (37% of total operating expenses) rose by 1% against 6 months of 2011 to 1,540mln RUR.

Subsequent to deconsolidation of guaranteeing supplier (retail company) LLC "ESKB" in 2011 the "BashRES" LLC and "BSK" LLC (the subsidiaries of OJSC "Bashkirenergo") do not account normative losses in their operating expenses in such amount as guaranteeing supplier LLC "ESKB" do not include them in its sales amount for the purpose to comply with the wholesale market rules. Due to this fact, compensation of losses to a guaranteeing supplier representing major item of expenses reduced by 28% YoY and amounted to RUB 1,093 million.

Total operating expenses for 6M 2012 decreased by 13.8% YoY to RUB 4,133 million supporting 31.76% growth of operating profit YoY to RUB 1,539 million.

PROFIT FROM DISCONTINUING OPERATION

Profit from discontinuing operation, representing result of power generating for 6M 2012 was RUB 490 million. The losses amounting to RUB 336 million for Q2 2012 were caused by price cutting on the wholesale market for electricity and power on the back of high price for energy carriers, decline of heat output related with the higher temperature of the outside air and by customers' weak payment discipline.

FINANCIAL POSITION

As of the balance sheet date, the total assets of OJSC "Bashkirenergo" amounted RUB 69,590 million increasing by 7% from the beginning of the year. Power generating assets were recorded in a separate line "assets from discontinuing operation" which influenced the structure of assets in H1 2012 IFRS report.

The share of non-current assets comprised 26% of total assets and amounted RUB 18,267 million, while the share of current assets was 74% or RUB 51,323 million.

Capital and reserves as of June 30, 2012 made up 83% of the total equity and liabilities amounting to RUB 57,420 million. Liabilities of discontinuing operation became the largest liability, along with deferred tax liabilities and trade and other payables, comprising 12%, 1.3% and 1% of capital and liabilities respectively.

CAPITAL EXPENDITURE

Investment program of H1 2012 amounted to RUB 1,433 million.

LLC "Bashkir Electricity Distribution Grid" (LLL BashRES – subsidiary of OJSC "Bashkirenergo") commissioned a new 110 kV cable line "Sipaylovo-Ishimskaya" in Ufa city in Q2 2012. The line was constructed applying cable with insulation made of cross-linked polyethylene (CLP) and has total two-way length of 4,926 meters. The new line underlay at a safe depth under the ground. The investment value of "Sipaylovo-Ishimskaya" cable line construction amounted to RUB 340 mln.

OJSC "Bashkirenergo" started reconstruction of equipment at the largest boiler-house of Ufa city - BH-1. In the course of modernization the present pipeline with diameter of 700 mm will be replaced by a modern pipeline with diameter of 800 mm. Isolation valves, mud filter and other equipment necessary for work of the modernized pipeline will be also replaced. The estimate cost of the pipeline's diameter enlargement is RUB 7 million.

Replacement of 110 kV oil break switches to electro gas at substations of the Bashkir grid company continues as part of the program of modernization of OJSC "BSK" switching equipment scheduled till 2016. By 2012 15 oil break switchers will be replaced by 5 electro gas switchers at 5 substations. It is planned to install 189 switchers of 6 /10kV, 26 switchers of 35kV and 47 switchers of 110kV at facilities of BashRES LLC this year.

Construction of CCGT CHPP-5 with capacity of 440 MW and 290 Gcal/h remains one of the largest projects. The expected term of CHPP-5 putting into operation is 2014 year.

EVENTS AFTER THE REPORTING DATE

The Extraordinary General Meeting of Shareholders of OJSC "Bashkirenergo" took place on June 27, 2012. Decision on company's reorganization in the form of a spin-off resulting in the establishment of two companies: generating company called Open Joint-Stock Company "Bashenergoactiv" (JSC "Bashenergoactiv"), and power grid company called Joint Stock Company «Bashkirian Power Grid Company» (JSC "BPGC") was adopted on the meeting.

As a result of reorganization all property, rights and duties of OJSC “Bashkirenergo” will be transferred to JSC “Bashenergoactiv” and JSC “BPGC” in accordance with the dividing balance sheet.

OUTLOOKS TILL THE END OF 2012

Readjustment of tariffs started from July 1, 2012. The Federal Tariff Service stipulated 6% growth of tariffs for population (or 3% year average) and 15% for other consumers (or 7.5% year average). Rise in tariffs should support power sector indicators in H2 2012.

It is expected revenue decline in 2012 against target indicators due to retirement of property rented by LLC “BashRTS” and changes in regulations of the wholesale market. At the same time it should positively impact on profitability of the Company’s generating business.

OJSC BASHKIRENERGO AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2012 AND DECEMBER 31, 2011 (UNAUDITED)
in millions of Russian Roubles

	<u>30 June 2012</u>	<u>31 December 2011</u>
ASSETS		
<i>Non-current assets</i>		
Fixed assets	18,124	52,213
Advances paid for acquisition of property	95	1,332
Inventories	-	156
Trade and other receivables	1	9
Other non-current assets	47	59
	<u>18,267</u>	<u>53,769</u>
<i>Current assets</i>		
Inventories	311	1,300
Trade and other receivables	1,845	3,531
Advances paid and prepaid expenses	1,452	270
Investments	-	2,006
Income tax prepaid	770	244
VAT recoverable and other taxes prepaid	229	960
Cash and cash equivalents	555	2,953
Assets on discontinuing operation	46,161	-
	<u>51,323</u>	<u>11,264</u>
TOTAL ASSETS	<u>69,590</u>	<u>65,033</u>
EQUITY AND LIABILITIES		
<i>Capital and reserves</i>		
Share capital	1,093	1,093
Shares brought back from shareholders	(282)	(282)
Retained earnings	56,609	54,902
Equity attributable to owners of the parent company	<u>57,420</u>	<u>55,713</u>
Non-controlling interests	-	-
TOTAL EQUITY	<u>57,420</u>	<u>55,713</u>
<i>Non-current liabilities</i>		
Loans and borrowings	-	2,265
Employee benefit obligations	240	625
Deferred tax liabilities	1,016	918
Other non-current liabilities	305	241
	<u>1,561</u>	<u>4,049</u>
<i>Current liabilities</i>		
Loans and borrowings	-	3
Trade and other payables	884	2,312
Advances received from customers	745	1,036
Accrued expenses and provisions	309	847
Income tax payable	-	29
Other taxes payable	460	1,044
Liabilities on discontinuing operation	8,211	-
	<u>10,609</u>	<u>5,271</u>
TOTAL LIABILITIES	<u>12,170</u>	<u>9,320</u>
TOTAL EQUITY AND LIABILITIES	<u>69,590</u>	<u>65,033</u>

OJSC BASHKIRENERGO AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS AND SECOND QUARTER ENDED JUNE 30, 2012 AND 2011 (UNAUDITED) *in millions of Russian Roubles*

	Q2		Six months	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
Revenue				
Electricity and capacity	2,689	2,679	5,520	5,783
Heat energy	-	-	-	-
Other revenue	78	106	152	180
	2,767	2,785	5,672	5,963
Operating expenses				
Staff costs	(749)	(742)	(1,540)	(1,522)
Compensation of losses to quarantining supplier	(277)	(446)	(1,093)	(1,552)
Depreciation	(337)	(303)	(679)	(596)
Repair and maintenance of equipment and grid	(198)	(274)	(334)	(504)
Materials and spare parts	(47)	(65)	(91)	(124)
Fuel	(24)	(28)	(45)	(51)
Purchase of electricity and heat	(6)	(11)	(41)	(39)
Taxes, other than income tax	(8)	(7)	(17)	(13)
Rent	(9)	(6)	(16)	(14)
Change in provision for tax and legal contingencies	(7)	(1)	19	3
Change in provision for doubtful debts	(50)	(1)	(50)	(2)
Charity	-	(64)	-	(159)
Loss on disposal of property, plant and equipment	(9)	(1)	(9)	(1)
Other operating expenses	(138)	(123)	(237)	(221)
	(1,859)	(2,072)	(4,133)	(4,795)
Operating profit	908	713	1,539	1,168
Finance income	3	2	7	4
Finance cost	(5)	(3)	(10)	(7)
Profit before income tax	906	712	1,536	1,165
Income tax	(227)	(115)	(320)	(229)
Profit from continuing operations	679	597	1,216	936
Profit/(loss) from discontinuing operations	(336)	(8)	490	2,396
TOTAL PROFIT AND COMPREHENSIVE INCOME FOR THE PERIOD	343	589	1,706	3,332
Attributable to:				
Owners of the parent company	343	589	1,706	3,332
Non-controlling interests	-	-	-	-
EARNINGS PER SHARE FROM CONTINUING AND DISCONTINUING OPERATIONS				
Basic and diluted earnings per share (in Roubles)	0.31	0.52	1.60	3.10
EARNINGS PER SHARE FROM CONTINUING OPERATIONS				
Basic and diluted earnings per share (in Roubles)	0.63	0.53	1.13	0.78

OJSC BASHKIRENERGO AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR 6 MONTHS ENDED JUNE 30, 2012 AND 2011 (UNAUDITED) *in millions of Russian Roubles*

	<u>30 June 2012</u>	<u>30 июня 2011</u>
OPERATING ACTIVITIES		
Profit before income tax	2,235	4,195
Adjustments for:		
Depreciation	1,815	1,735
Change in provision for tax and legal contingencies	50	(82)
Change in provision for unused vacations and bonuses	14	(219)
Loss/(income) on disposal of property, plant and equipment	16	(72)
Change in allowance for doubtful receivables	214	44
Finance losses	193	32
Finance income	(180)	(1)
Other adjustments	(80)	2
Operating cash flow before movements in working capital	4,277	5,634
Change in inventories	(504)	(439)
Change in trade and other receivables	(1,511)	(1,477)
Change in advances paid and prepaid expenses	110	(184)
Change in taxes receivable, other than income tax	(174)	(619)
Change in trade and other payables	(42)	2,165
Change in advances received from customers	200	(248)
Change in taxes payable, other than income tax	(85)	220
Net cash provided by operations	2,253	5,052
Income tax paid	(45)	(1,244)
Interest paid	(79)	(20)
Net cash generated from operating activities	2,147	3,788
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,433)	(3,735)
Proceeds from disposal of property, plant and equipment	8	278
Disposal of Special Purpose Entities	-	(158)
Purchase of investments	(2,089)	(32)
Proceeds from disposal of investments	2,012	34
Interest on deposits	180	(1)
Net cash used in investing activities	(1,322)	(3,614)
FINANCING ACTIVITIES		
Dividends paid	-	(1,075)
Buy-back of ordinary shares	-	-
Proceeds from loans and borrowings	-	6,149
Principal repayments on loans and borrowings	-	(3,876)
Net cash received from (used in) financing activities	-	1,198
Net increase/(decrease) in cash and cash equivalents	826	1,372
Cash and cash equivalents at beginning of the period	2,953	569
Cash and cash equivalents classified as disposal group	(3,224)	(666)
Cash and cash equivalents at end of the period	555	1,275

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. The Installed electric capacity is 4,295 MW, the installed heat capacity is 13,141 Gcal/h.

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