



Bashkirenergo publishes its Q1 2012 IFRS financial results

May 29, 2012, Ufa (Russian Federation, Republic of Bashkortostan) – OJSC “Bashkirenergo” (MICEX, RTS: BEGY, ISIN: RU0009044242) – publishes consolidated financial statements for Q1 2012 prepared in accordance with IFRS.

For the purpose to comply with the Russian legislation on March 26, 2012 the Company’s Board of Directors had a meeting where the main terms and conditions of OJSC “Bashkirenergo” reorganization were accepted for further approval at the extraordinary General meeting of shareholders which will take place on June 20, 2012.

Shareholders are proposed to make a decision on reorganization of OJSC “Bashkirenergo” 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”).

Simultaneously with the spin-off, JSC Bashenergoactiv is to be merged with Open Joint Stock Company “INTER RAO UES” (JSC “INTER RAO UES”).

In connection with the above matter and in accordance with the rules of IFRS compilation, financial results of the generating sector for Q1 2012 were presented separately as results of the discontinuing operation.

KEY FINANCIAL RESULTS:

- **The revenue** from continuing operations declined by 8.5% to RUB 2,905 million compared to Q1 2011.
- **Operating profit** was **RUB 631 million**, up 38.7% YoY.
- **OIBDA** from continuing operations was **RUB 973 million** or 30% higher than similar of the previous year.
- **Profit and comprehensive income** for 3 months of 2012 decreased by 50% YoY and amounted to RUB 1,363 million mostly due to reduction of profit from the discontinuing operation.
- **Profit from continuing operations**, showing the result of power grids, grew 58% YoY and reached RUB 537 million in Q1 2012. **Profit from discontinuing operation**, representing the result of power generation, reduced by 65.5% YoY to 826 mln RUR.
- The Company’s **debt/OIBDA** ratio was at the level of **0.9** as of April 31, 2011.

KEY OPERATING RESULTS:

- OJSC “Bashkirenergo” **total power generation** reduced by 1% YoY to 6,310.81 mln kWh.
- **The capacity factor** of OJSC “Bashkirenergo” power stations was at a level of 68.68% (decrease of 0.72 p.p. compared to Q1 2011).
- **Heat output** of the Company amounted to 9,694.8 thousand Gcal, insignificantly reduces by 0.6% YoY.
- In Q1 2012 the **specific consumption** of equivalent fuel decreased by 2.8 g/kWh for electricity generation to 306.8 g/kWh, and by 1.3 kg/Gcal for heat output to 140.4 kg/Gcal compared to the similar period of the previous year.
- The **transmitted electricity losses** in the transmission grids reduced to 1.43% versus 1.54% in Q1 2011, distribution grid losses reduced from 12.01% to 10.99% YoY.

Andrey Makarov, CEO of OJSC “Bashkirenergo” commented the Company’s activity in Q1 2012: «The first quarter of 2012 was pretty tough for the power sector, as well as for OJSC “Bashkirenergo”. Decrease of prices on the wholesale market for electricity and capacity which started at the beginning of 2012 on the back of measures taken by the government aimed at stabilization of electricity prices brought the Company’s financial indicators under pressure. Present situation issues challenge for the Company on improvement of operating and financial efficiency, which the Company meets pretty successful. At the present time OJSC “Bashkirenergo” also keeps working on its reorganization and resolves related issues. The Company stayed vertically-integrated for a long time possessing generating assets, distribution and transmission grids. Activities carried out on Company’s reorganization are already reflected in IFRS report for the 1st quarter. Thus, financial results of the generating sector were represented separately as discontinuing operation. The final decision on the Company’s spin-off resulting in the establishment of separate generating and grid businesses, as well on general parameters of the reorganization will be taken by the General Shareholders’ Meeting on June 20».

RESULTS OVERVIEW

Price cutting on the wholesale market for electricity and power which started at the beginning of 2012 year affected the power output of “Bashkirenergo”. In the first quarter of 2012 the Company’s power plants produced 1% less of electric power than during similar period of the previous year. In the meantime level of transmitted electricity losses reduced significantly, by 102 b.p. in distribution grids and by 11 b.p in transmission grids. Such decline resulted from applying system approach to planning and implementation of activities aimed at losses reduction.

The total Russian power output comprised 298.2 bln kWh in Q1 2012 up 2.9% YoY, and the UPS Urals total power output increased by 1.8% amounting to 71.2 bln kWh. The OJSC “Bashkirenergo” share in All-Russian power output reached 2.11% and in the UPS Urals amounted to 8.86%.

Heat output for 3 months of 2012 reduced to 9,694.8 Gcal or by 0.6% comparing with the similar period of the previous year due to a decrease in demand from a large consumer and increase of the outside air average temperature by 2.2 °C.

Decrease in specific consumption of equivalent fuel for electricity generation (-2.8 g/kWh YoY) and heat output (-1.3 kg/Gcal YoY), as well as control over the fixed costs substantially contributed to the financial results of OJSC "Bashkirenergo". Decline of fuel consumption rate was conditioned by measures aimed at improvement of energy efficiency and integration of modern and energy conserving equipment.

Key Financial Performance Indicators, in mln RUR

Indicator			Change
	3M 2012	3M 2011	%
Revenue	2 905	3 178	-9%
Operating expenses	(2 274)	(2 723)	-16%
Operating Profit	631	455	39%
Profit before income tax	630	453	39%
Income tax expenses	(93)	(114)	-18%
Profit/(losses) from continuing operations	537	339	58%
Profit from discontinuing operations	826	2 404	-66%
PROFIT AND COMPREHANSIVE INCOME	1 363	2 743	-50%
OIBDA	973	748	30%
OIBDA margin	22,5%	16%	6,5 п.п.

Key Operating Results

Indicator			Change.
	3M 2011	3M 2010	%
Installed electric capacity, MW (average)	4 303	4 266	0,9%
Installed heat capacity, Gcal/h (average)	13 111	13 281	-1,3%
Electricity generation, mln kWh	6 310,81	6 376,86	-1%
Heat output, thousand Gcal	9 694,8	9 749	-0,6%
Electric capacity factor, %	68,68	69,5	-0,82%
Specific consumption of equivalent fuel for electricity generation, g/kWh	306,8	309,6	-2,8
Specific consumption of equivalent fuel for heat output, kg/Gcal	140,4	141,7	-1,3
Distribution grid losses, %	10,99%	12,01%	1,02 п.п.
Transmission grid losses, %	1,43%	1,54%	-0,11 п.п.

REVENUE

Revenue declined by 8.5% from RUB 3,178 million in Q1 2011 to RUB 2,905 million in Q1 2012. The main factors affected revenue were price cutting on the wholesale market for electricity and power, reduction of electricity generation and decline of electric power sales on retail market.

OPERATING EXPENSES

The structure of operating expenses in Q1 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". Thus, compensation of losses to a guaranteeing supplier representing 36% of expenses reduced by 26% YoY and amounted to RUB 816 million owing to decline of prices for electric power losses. Staff costs (34.78% of operating expenses) rose by 1.4% YoY to RUB 791 million. Depreciation grew 16.7% YoY and reached RUB 342 million (15% of operating expenses). Other operating expenses (14% of operating expenses) were cut down by 40% YoY to RUB 325 million.

Therefore, profit before tax grew by 39% YoY and reached RUB 630 million as a result of power grid operating expenses decline by 16.5% YoY (to 2,274 mln RUR).

PROFIT FROM DISCONTINUING OPERATION

Profit from discontinuing operation, representing result of power generating, was RUB 826 mln as of March 31, 2012 or 65% less than the similar of the previous year. Such change was caused by decrease in sales and price cutting on the wholesale market for electricity and power, decline of heat output related with the higher temperature of the outside air in comparison with the previous year and decrease in demand from a large consumer.

FINANCIAL POSITION

As of the balance sheet date, the total assets of OJSC "Bashkirenergo" amounted to RUB 70,129 million increasing by 7.8% 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 Q1 2012 IFRS report.

Hence, share of non-current assets reduced to 26% and amounted to RUB 18,126 million, while share of current assets grew to 74% comprising RUB 52,003 million.

The 50% decline to RUB 1,752 million in trade and other receivables was mainly driven by receipt of payment for power provided in 2011.

Capital and reserves as of March 31, 2012 made up 81.3% of the total equity and liabilities amounting to RUB 57,076 million, up 3% from the beginning of the year. Liabilities of discontinuing operation became the largest liability (RUB 9,027 million), along with deferred tax liabilities (RUB 970 million) and trade and other payables (RUB 970 million), comprising 12.8%, 1.4% and 1.4% of capital and liabilities respectively.

CAPITAL EXPENDITURE

Investment program of Q1 2012 reduced by 31% in comparison with the previous year and amounted to RUB 546 million.

Nevertheless, construction of CCGT CHPP-5 with capacity of 440 MW and 290 Gcal/h continued. The expected term of CHPP-5 putting into operation is 2014 year.

The activity on efficiency improvement of all business segments is also continued.

Implementation of automation system of centralized control (ASCC) in Bashkir distribution grids continued. LLC "BashRTS" has putted into use ASCC in 11 large central heating units of Ufa. The ASCC was also implemented in 2 large heating units of Neftekamsk. This project will make it possible to cut operation expenses, improve economic indicators of heating units, minimize human factor in technological processes and improve equipment reliability.

Renovation of heat production facilities on OJSC Bashkirenergo enterprises was in progress in Q1 2012 as well.

LLC "BsshRES" extensively implements large project on installation of automated system of energy accounting, and as a result 6,312 wathour meters were installed in dozens of settlements by the beginning of April. Only in February of 2012 economic benefit from new metering devices on the retail market was RUB 1,247 thousands.

EVENTS AFTER THE REPORTING DATE

On April 27, 2012 the Board of directors of OJSC Bashkirenergo recommended the Annual General Meeting of Shareholders to distribute the Company's net profit in accordance with the FY2011 results amounting to RUB 6,664,990 thousand (less previously paid interim dividends for 9M results amounting to RUB 1,005,310 thousand). Total dividend payout by the FY 2011 results on A type preferred shares was recommended in amount of RUR 382,967 thousand, so dividends on each A type preferred share will comprise RUR 8.57. Taking into account previously paid interim dividends by 9M results in amount of RUR 0.92 per each share, the final payment will comprise RUR 7.65 per each A type preferred share.

OUTLOOKS

It is expected that growing rates of electricity prices shall be materially lower than in 2011. Readjustment of tariffs will start 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). The set KOM prices for the 2012 capacity being 4% lower than in this year makes the management take even more cost cutting measures of the fixed costs in order to maintain the generation business margins.

On December 30, 2012 the State Committee on tariffs of RB determined long-term regulation characteristics and established tariffs 5-year ahead for OJSC "BSK" This will make it possible to forecast financial results with high degree of reliability.

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 beginning of 2012 five of six power-generating units at Karmanovskaya hydro electric power plant (branch of OJSC "Bashkirenergo") were elected by the System Operator of the Unified Power System in the competitive procedure and got the right to participate in the standard primary frequency control. This will make it possible to improve profitability of operations in the wholesale market for electricity and power for both power plant and Company as the whole.

OJSC BASHKIRENERGO AND SUBSIDIARIES**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF MARCH 31, 2012 AND DECEMBER 31, 2011 (UNAUDITED)
IN MILLIONS OF RUSSIAN ROUBLES**

	31/03/2012	31/03/2011
ASSETS		
<i>Non-current assets</i>		
Fixed assets	18,039	52,213
Advances paid for acquisition of property, plant and equipment	62	1,332
Inventories	-	156
Trade and other receivables	3	9
Other non-current assets	22	59
	18,126	53,769
<i>Current assets</i>		
Inventories	303	1,300
Trade and other receivables	1,749	3,531
Advances paid and prepaid expenses	1,443	270
Investments	-	2,006
Income tax prepaid	808	244
VAT recoverable and other taxes prepaid	207	960
Cash and cash equivalents	171	2,953
Assets on discontinuing operation	47,322	-
	52,003	11,264
TOTAL ASSETS	70,129	65,033
EQUITY AND LIABILITIES		
<i>Capital and reserves</i>		
Share capital	1,093	1,093
Treasury shares	(282)	(282)
Retained earnings	56,265	54,902
Equity attributable to owners of the parent company	57,076	55,713
Non-controlling interests	-	-
TOTAL EQUITY	57,076	55,713
<i>Non-current liabilities</i>		
Loans and borrowings	-	2,265
Employee benefit obligations	236	625
Deferred tax liabilities	970	918
Other non-current liabilities	292	241
	1,498	4,049
<i>Current liabilities</i>		
Loans and borrowings	-	3
Trade and other payables	970	2,312
Advances received from customers	640	1,036
Accrued expenses and provisions	453	847
Income tax payable	-	29
Other taxes payable	465	1,044
Liabilities on discontinuing operation	9,027	-
	11,555	5,271
TOTAL LIABILITIES	13,053	9,320
TOTAL EQUITY AND LIABILITIES	70,129	65,033

OJSC BASHKIRENERGO AND SUBSIDIARIES**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2011 (UNAUDITED)**

IN MILLIONS OF RUSSIAN ROUBLES

	3 months ended	
	March 31, 2012	March 31, 2011
Revenue		
Electricity and capacity	2,831	3,104
Heat energy	-	-
Other revenue	74	74
	2,905	3,178
Operating expenses		
Compensation of losses to quarantining supplier	(816)	(1,106)
Staff costs	(791)	(780)
Depreciation	(342)	(293)
Repair and maintenance of equipment and grid	(136)	(230)
Materials and spare parts	(44)	(59)
Purchase of electricity and heat	(35)	(28)
Fuel	(21)	(23)
Taxes, other than income tax	(9)	(6)
Rent	(7)	(8)
Change in provision for tax and legal contingencies	26	4
Change in provision for doubtful debts	-	(1)
Charity	-	(95)
Loss on disposal of property, plant and equipment	-	-
Other operating expenses	(99)	(98)
	(2,274)	(2,723)
Operating profit	631	455
Finance income	4	2
Finance cost	(5)	(4)
	630	453
Profit before income tax	630	453
Income tax	(93)	(114)
	537	339
Profit from continuing operations	537	339
Profit from discontinuing operations	826	2,404
TOTAL PROFIT AND COMPREHENSIVE INCOME FOR THE PERIOD	1,363	2,743
Attributable to:		
Owners of the parent company	1,363	2,743
Non-controlling interests	-	-
EARNINGS PER SHARE FROM CONTINUING AND DISCONTINUING OPERATIONS		
Basic and diluted earnings per share (in Roubles)	1.29	2.57
EARNINGS PER SHARE FROM CONTINUING OPERATIONS		
Basic and diluted earnings per share (in Roubles)	0.49	0.25

OJSC BASHKIRENERGO AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED MARCH 31, 2012 (UNAUDITED)

IN MILLIONS OF RUSSIAN ROUBLES

	<u>3 months ended March 31, 2012</u>	<u>3 months ended March 31, 2011</u>
OPERATING ACTIVITIES		
Profit before income tax	1,746	3,483
Adjustments for:		
Depreciation	913	917
Change in provision for tax and legal contingencies	(28)	(64)
Change in provision for unused vacations and bonuses	9	49
Loss/(income) on disposal of property, plant and equipment	2	(70)
Change in allowance for doubtful receivables	(50)	233
Income from the disposal of a subsidiary	13	11
Finance income	(40)	(5)
Finance losses	1	10
Other adjustments		
Operating cash flow before movements in working capital	2,566	4,564
Change in inventories	(320)	(223)
Change in trade and other receivables	(1,164)	(4,772)
Change in advances paid and prepaid expenses	(1,236)	(133)
Change in taxes receivable, other than income tax	(28)	(330)
Change in trade and other payables	(717)	2,561
Change in advances received from customers	1,420	(528)
Change in taxes payable, other than income tax	159	1,075
Net cash provided by operations	680	2,214
Income tax paid	(368)	(844)
Interest paid	-	(8)
Net cash generated from operating activities	312	1,362
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(546)	(790)
Proceeds from disposal of property, plant and equipment	-	269
Disposal of Special Purpose Entities	-	(158)
Purchase of investments	-	(37)
Proceeds from disposal of investments	-	38
Interest on deposits	40	5
Net cash used in investing activities	(506)	(673)
FINANCING ACTIVITIES		
Dividends paid	-	-
Buy-back of ordinary shares	-	-
Proceeds from loans and borrowings	-	2,790
Principal repayments on loans and borrowings	-	(2,950)
Net cash received from (used in) financing activities	-	(160)
Net increase/(decrease) in cash and cash equivalents	(194)	529
Cash and cash equivalents at beginning of the period	2,953	569
Cash and cash equivalents classified as disposal group	(2,588)	-
Cash and cash equivalents at end of the period	171	1,098

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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