



Federal Grid Company

**1H2015 Operational
and Financial Results**

August 2015



London
Stock Exchange

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Key Events in 1H2015

- In June the Company held its AGM, where shareholders approved the payment of dividends for 2014 totalling RUB 847.4 million;
- At the beginning of 2015 Moody's, Fitch Ratings and Standard & Poor's downgraded Federal Grid Company's ratings to Ba1, BBB- and BB+, respectively, following similar changes to Russia's sovereign rating. The Company's ratings remain at the sovereign level with each of these 3 agencies;
- The Management Board approved updates to the Company's investment program for 2015 and also for the period between 2016 and 2020.
- Federal Grid issued infrastructure bonds at the amount of 40 billion with the put date in 30 years.
- All financial obligations are fully met.

Key Events after the reporting period

- Federal Grid fully met its obligations on dividends for 2014

1H2015 Consolidated Financial Results

- Revenue decreased by 3.3% y-o-y to RUB 82.5 bn.
- Total operating expenses excluding allowance for doubtful debtors and legal claims decreased by 0.5%.
- Adjusted EBITDA decreased by 7.5% y-o-y to RUB 46.2 bn, adjusted EBITDA margin decreased by 2.4 pp y-o-y to 56.0%.
- Net debt position increased to RUB 222.8 bn from RUB 220.1 bn as of 31 December 2014, implying net debt / adjusted EBITDA LTM equal to 2.1x as of 30 June 2015.

Financial performance

RUB bn	1H2014	1H2015	Y-o-Y Change
Revenue	85.4	82.5	-3.3%
Operating expenses ⁽¹⁾	55.9	55.7	-0.5%
EBITDA (adj.)	49.9	46.2	-7.5%
Total comprehensive income for the period	18.5	23.9	29.1%
Profit for the period	18.6	17.3	-6.9%
Net debt	220.1	222.8	1.2%

Source: Company IFRS financials

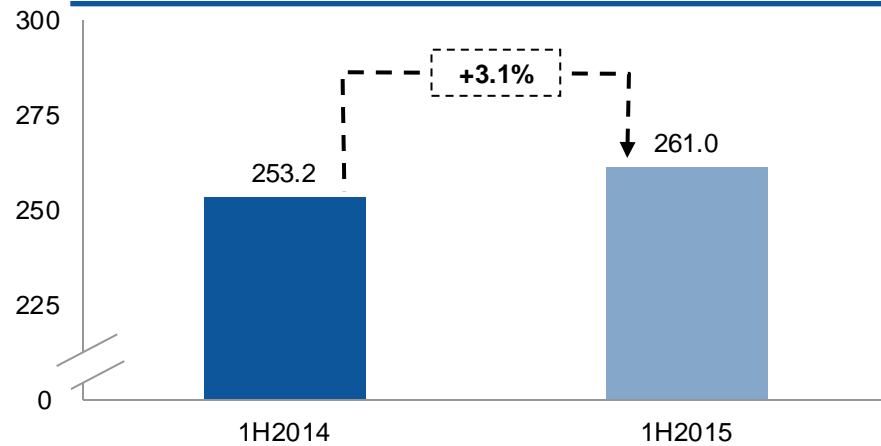
Notes:

1. Excluding allowance for doubtful debtors and legal claims



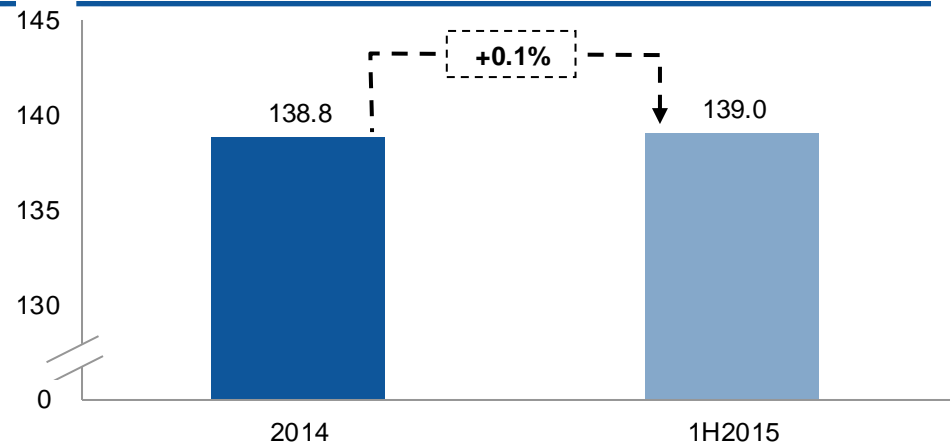
Electricity Transmission Volume

bn kWh (for respective period)



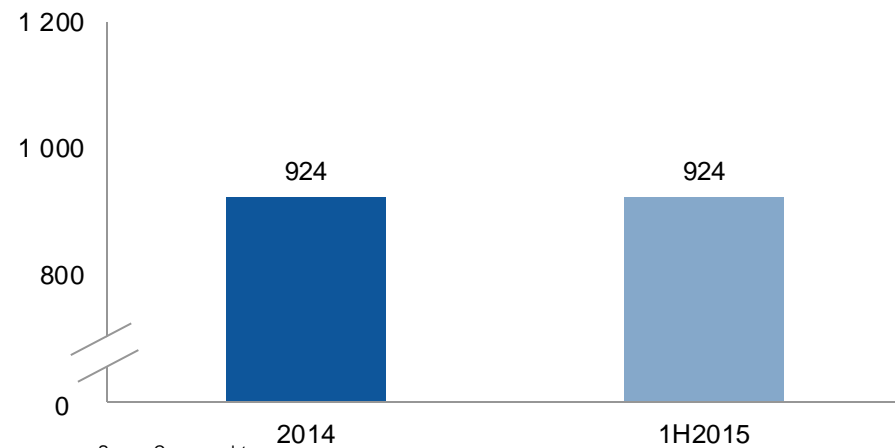
Transmission Grid Length in Operation

'ths km (end of period)



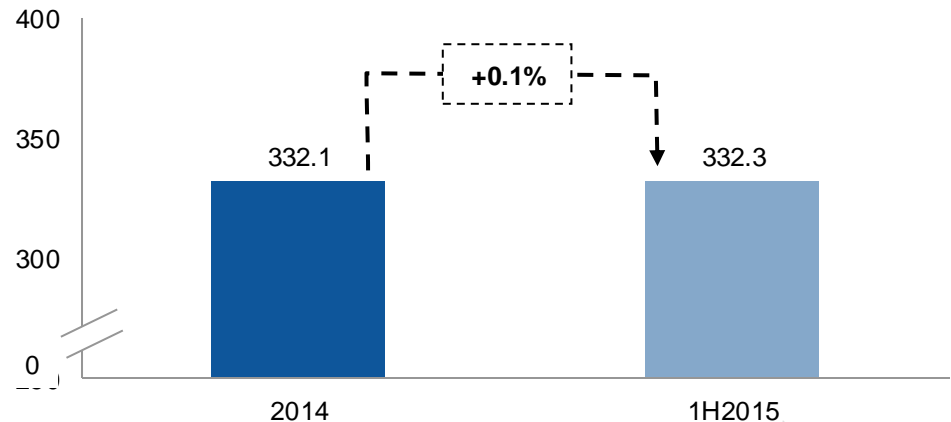
Substations in Operation⁽¹⁾

Units (end of period)



Total Transformer Capacity in Operation

GVA (end of period)



Source: Company data

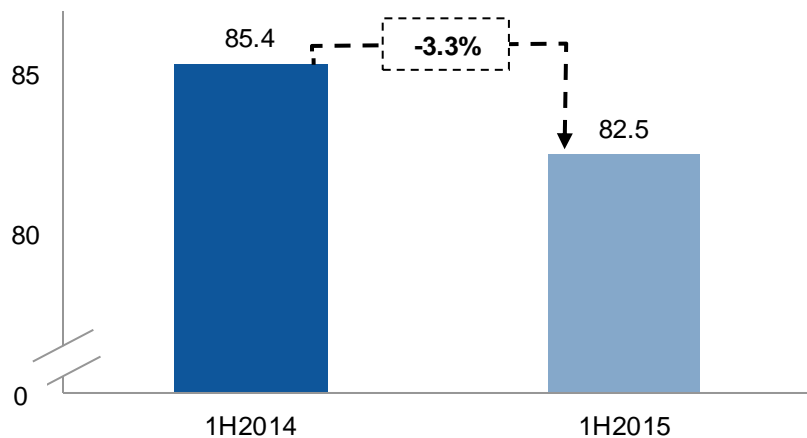
Notes:

1. Including leased substations

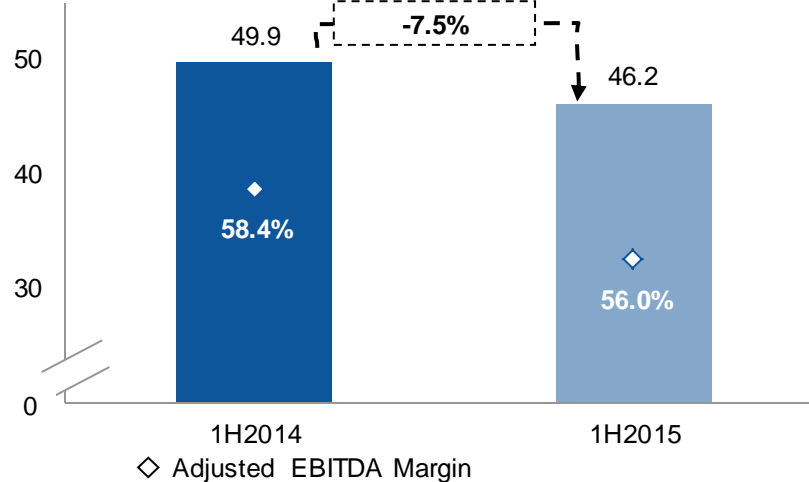
Key Financial Results



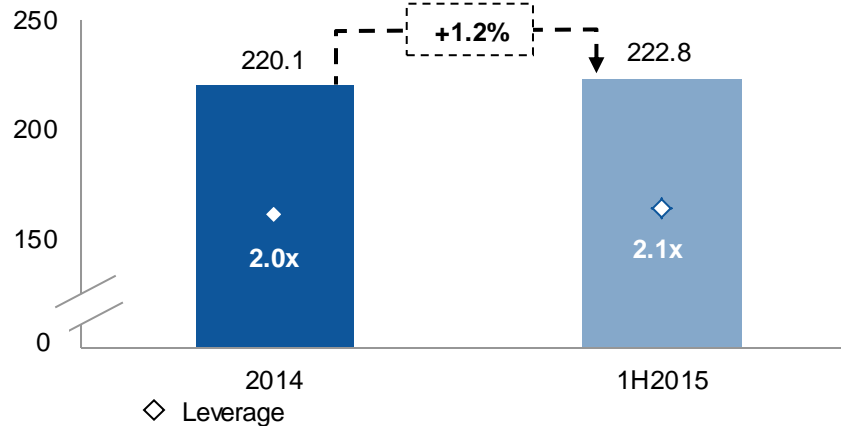
Revenue RUB bn



Adjusted EBITDA RUB bn



Net Debt Position RUB bn



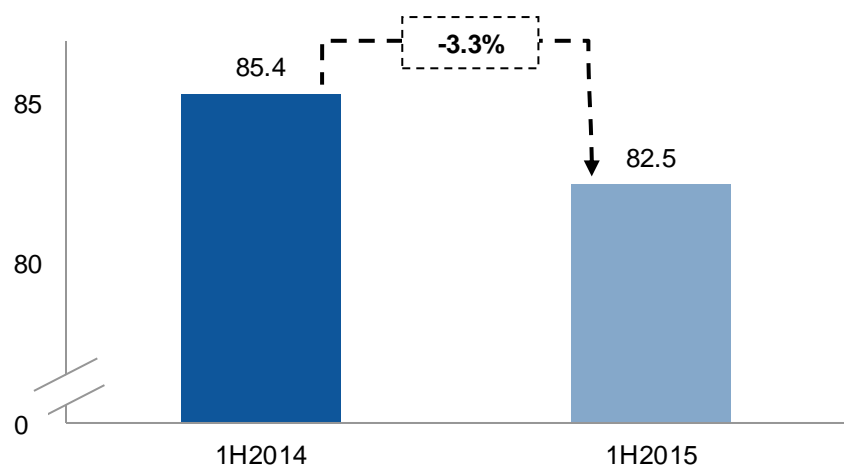
Source: Company IFRS financials

Note: Definitions for terms marked in this presentation with capital letters (including certain non-IFRS financial information) are provided at the end of this presentation



Total Revenue

RUB bn



Revenue structure

RUB bn	1H2014	1H2015	Y-o-Y Change
Transmission fee	79.5	77.2	-2.9%
Electricity sales	2.1	4.7	120.1%
Connection services	3.4	0.4	-87.5%
Other revenue	0.33	0.26	- 21.5%
Total revenue	85.4	82.5	-3.3%

Tariffs in the 2nd RAB-period

	1th July 2014 г.	1th July 2015 г.	1th July 2016 г.	2017-2019
Return on invested capital	10%	10%	10%	10%
Tariff growth	0%	7.5%	5.5%	4.5%
Tariff rate (RUB/Mwe a month)	134 589.17	144 686.52	152 648.99	159 516.24

- The Total Group's revenue decreased by 3.3%.
Main factors were:
 - Postponement of work acceptance specified in service contracts on technological connection (- RUB ~3 bn)
 - Changes in calculations of revenue with direct consumers (on the basis of actual capacity) (- RUB 2.3 bn)
 - Electricity sales grew up to RUB 2.6 bn, primarily due to changes to capacity tariffs and increased volumes of sales from subsidiaries.

Operating Cost Structure



	1H2014 RUB bn	% of Total Operating Costs	1H2015 RUB bn	% of Total Operating Costs	Y-o-Y Change
Personnel Related Expenses	13.7	24.4%	13.9	25.0%	1.8%
Purchased electricity	7.1	12.7%	6.7	12.1%	-5.8%
Repairs & Maintenance and Materials	2.0	3.5%	1.5	2.6%	-26.0%
Electricity transit	1.4	2.5%	3.6	6.4%	158.0%
Other operating expenses	6.5	11.6%	5.5	9.9%	- 15.0%
D&A	21.9	39.2%	20.4	36.6%	- 6.9%
Taxes, other than on income	3.4	6.1%	4.1	7.4%	21.2%
Total operating expenses (excluding allowance for doubtful debtors and legal claims)	55.9	100.0%	55.7	100.0%	-0.5%

- Total operating expenses excluding allowance for doubtful debtors and legal claims amounted to RUB 55.7 bn in 1H2015 illustrated a year-on-year decline of 0.5%. This is the result of the ongoing Company's program to enhance efficiency and its cost cutting policy.
- Repair, maintenance and materials cost were down by 26.0% to RUB 1.5 bn due to lower volumes and cost of work carried out by third party contractors;
- Depreciation and amortization decreased by 6.9% year-on-year and amounted to RUB 20.4 bn.
- Personnel-related expenses grew by 1.8% to RUB 13.9 bn in connection with salary indexation for operations personnel in accordance with the Energy Industry Tariff Agreement.
- Tax expenses (other than income tax) grew in 1H2015 up 21.2% year-on-year due to higher property tax expenses;
- Purchases of electricity amounted to RUB 6.7 bn for the reporting period and showed a decrease of 5.8% compared to 1H2014 in connection with lower electricity losses on the grid;
- Other expenses on electricity transit increased by 158.0% due to higher exchange rates of foreign currency to the ruble.

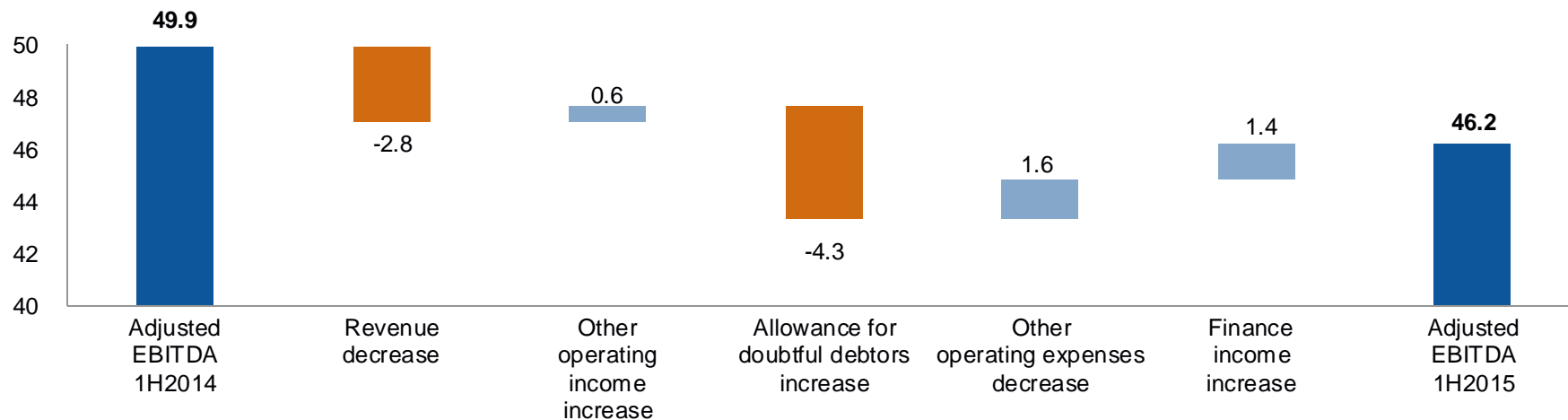
Source: Company IFRS financials

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Adjusted EBITDA Bridge

RUB bn



- EBITDA decreased mostly due to revenue decrease (see slide # 5) and increase of allowance for doubtful debtors (mainly MRSK consumers).
- Approved tariff growth in the second half of the year will improve the EBITDA and other margin indicators.

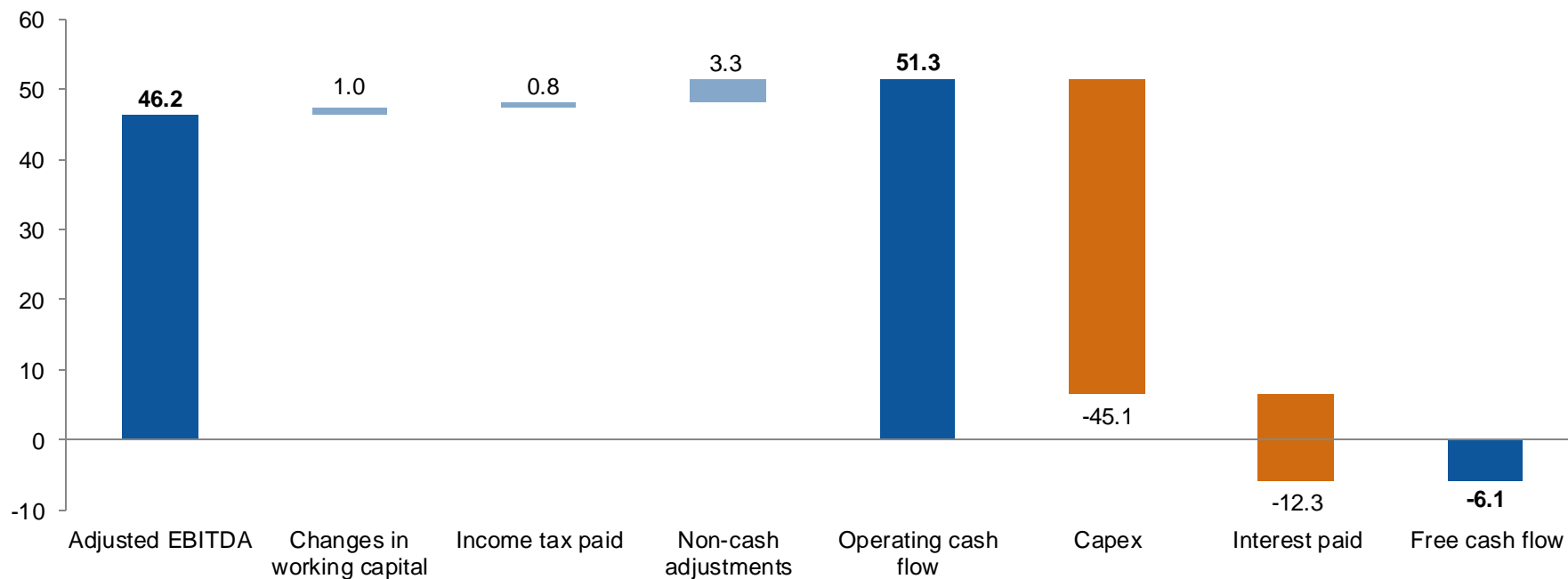
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Free Cash Flow in 1H2015

RUB Bn



- Outflow for the period was covered by company's available financial sources:
 - Cash and cash equivalents and bank deposits at the beginning of the year – RUB 42.2 bn
 - Cash received from infrastructure bond issue in May 2015.

Source: Company IFRS financials

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Debt Capital Structure



Debt profile as of 01/08/2015

- Debt principal amount: RUB 287.97 bn
- Debt service cost on average: 12.91%
- Average debt maturity: 16.8 years
- Flat repayment schedule
- 100% of total debt is unsecured and ruble-denominated
- No currency risk
- Increase in loan portfolio at the amount of RUB 40 bn by issuing the bonds fully acquired by VEB (pension funds)

Credit Ratings

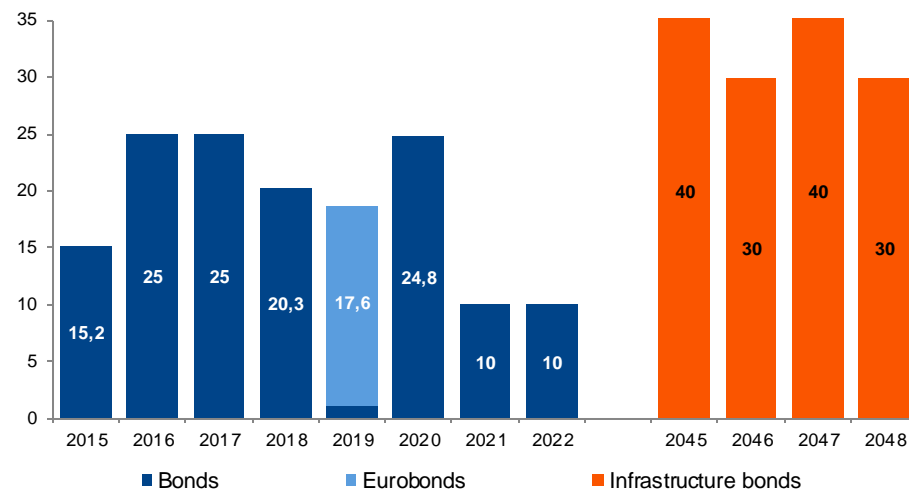
Company's credit ratings are at the sovereign level as per 3 leading ratings' scales

FitchRatings BBB- Negative

STANDARD & POOR'S BB+ Negative

MOODY'S INVESTORS SERVICE Ba1 Negative

Debt repayment structure bn RUB



Financial leverage indicators

Indicators	end of 2014	end of 1H2015
Total debt, bn. RUB	263.0	295.0
Net debt, bn. RUB	220.1	222.8
Net debt / Adjusted EBITDA	2.0x	2.1x



Appendices



General

- The Unified National Electric Grid – the UNEG
- PJSC “Federal Grid Company of Unified Energy System” – Federal Grid Company
- PJSC “FGC UES” and its subsidiaries – the Group
- PJSC “Russian Grids” – Russian Grids
- The Russian Federal Tariff Service – the FTS

Financial Metrics

- Adjusted EBITDA – profit for the period before income tax, finance income and costs, depreciation and amortisation, adjusted to exclude impairment of available-for-sale investments and to include finance income
- Adjusted EBITDA Margin – ratio of Adjusted EBITDA to revenue
- Total Debt – current and non-current debt (includes bonds, bank and non-bank loans and finance lease liabilities)
- Net Debt –total debt less cash and cash equivalents, short-term promissory notes and short-term bank deposits
- Capex – cash spent during the reporting period for purchase of property, plant and equipment and intangible assets
- Leverage – ratio of net debt as at the end of the reporting period to adjusted EBITDA for the last twelve months before the end of that period
- Personnel Related Expenses – employee benefit expenses and payroll taxes
- Materials, Maintenance & Repairs costs – sum of expenses for repairs and maintenance of equipment (by contractors) and materials for repair
- D&A – depreciation of property, plant and equipment and amortisation of intangible assets



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