

Federal Grid Company

**IFRS FY2014
Operational and Financial Results**

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First Deputy Chairman
of the Management Board

April 2015



Key corporate developments in 2014 and after



Key Events in 2014

- The Company successfully provided power supply to facilities related to the Olympic Games in Sochi;
- June 2014 – pursuant to the new listing rules set by Moscow Exchange the Federal Grid Company equity securities were included into the Level 1 trading list (the highest level);
- June 2014 – General Meeting of Shareholders approved the payment of dividends for 1Q 2014 totalling RUB 436.8 million;
- The ratings of the Company upon Moody's and Fitch Ratings methodology were confirmed at Baa3 and BBB (sovereign), respectively. Standard & Poor's lowered the Company's foreign currency ratings by 1 notch to BBB- from BBB following the equivalent downgrade of Russia but still held them at the sovereign level;
- Russia's Ministry of Energy approved the Company's investment program for 2015-2019 totaling RUB 563.7 billion.
- December 2014 – Federal Grid's Board of Directors approved the long term development program for the period 2015-2019 including forecast till 2030, which was previously agreed by the government of Russian Federation.

Key Events after 2014

- At the beginning of 2015 Moody's, Fitch Ratings and Standard & Poor's downgraded the Federal Grid Company's ratings to Ba1, BBB- и BB+, respectively in consequence of the similar actions taken on Russia. Currently the Company's ratings are at the sovereign level as per 3 agencies' scales;
- The investment program adjustment for 2015 was approved by the Company's Management Board as well as the investment program for the period 2016-2020;
- The Supervisory Board of Vnesheconombank agreed to invest RUB 40 billion (pension funds) in 30-year bonds of the Company.

FY2014 Consolidated Financial Results

- Revenue increased by 9.7% y-o-y to RUB 173.4 bn.
- Total operating expenses decreased by 5.7%.
- Adjusted EBITDA increased by 16.3% y-o-y to RUB 107.7 bn, Group increased adjusted EBITDA margin by 3.5 pp y-o-y to 62.1%.
- Adjusted profit for the period increased by 74.4% y-o-y to RUB 40.8 bn, adjusted profit margin increased by 8.7 pp y-o-y to 23.5%.
- Net debt position decreased to RUB 220.1 bn from RUB 224.0 bn as of 31 December 2013, implying net debt/ adjusted EBITDA equal to 2.0x as of 31 December 2014.

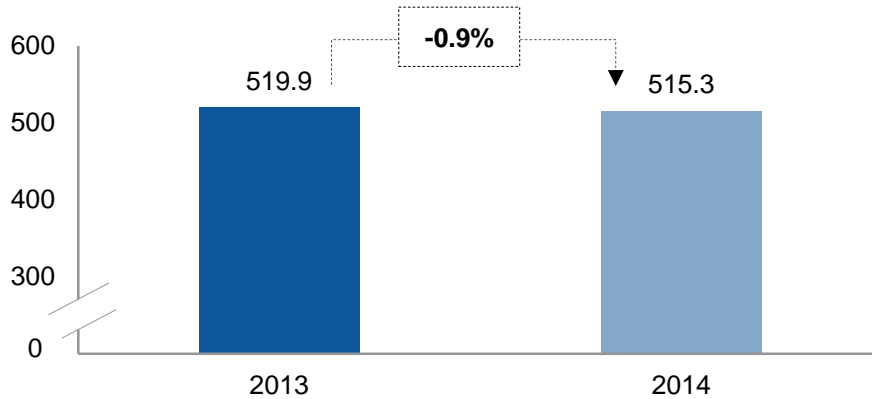
Financial performance

RUB bn	2013	2014	Y-o-Y Change
Revenue	158.0	173.4	9.7%
Operating expenses	133.8	126.1	-5.7%
EBITDA (adj.)	92.6	107.7	16.3%
Total comprehensive income/(loss) for the period	(360.4)	21.6	n/a
Operating profit (adj)	30.9	55.4	79.5%
Profit for the period (adj.)	23.4	40.8	74.4%
Net debt	224.0	220.1	-1.7%



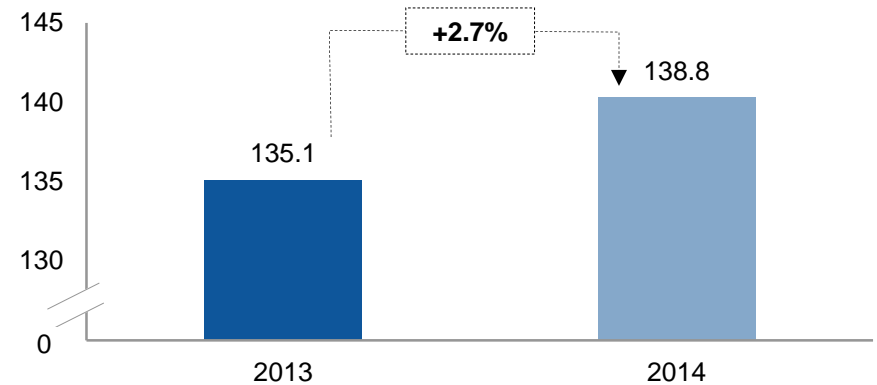
Electricity Transmission Volume

bn kWh (for respective period)



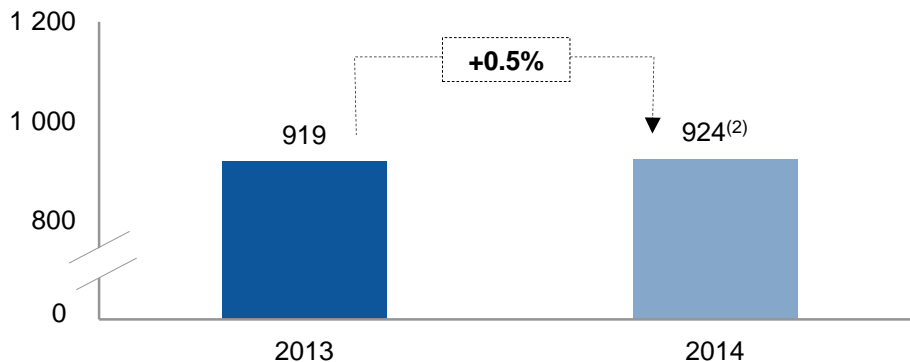
Transmission Grid Length in Operation

'ths km (end of period)



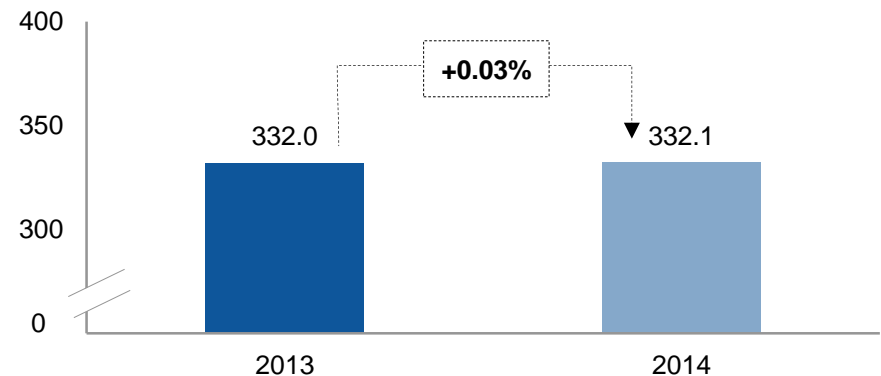
Substations in Operation⁽¹⁾

Units (end of period)



Total Transformer Capacity in Operation

GVA (end of period)



Source Company data

Notes:

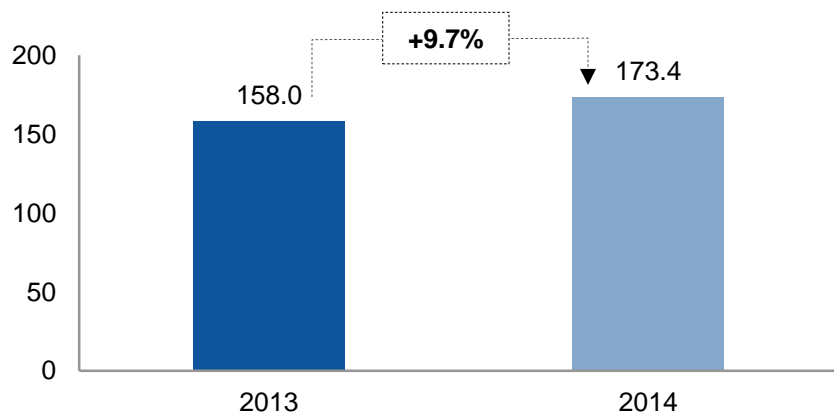
1. Including leased substations
2. Excluding leased substations of low class voltage (6-35 kV)

Key Financial Results



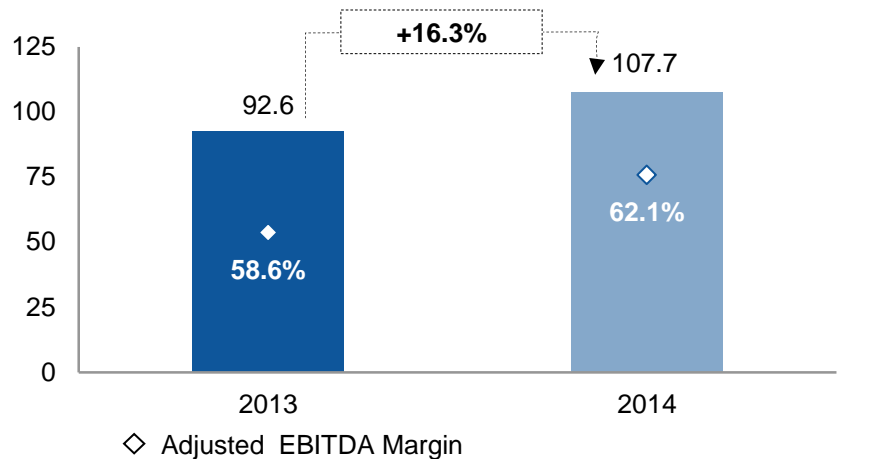
Revenue

RUB bn



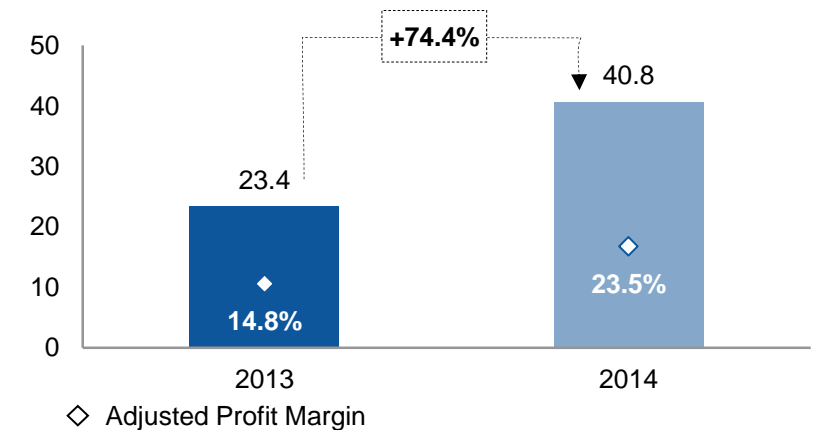
Adjusted EBITDA

RUB bn



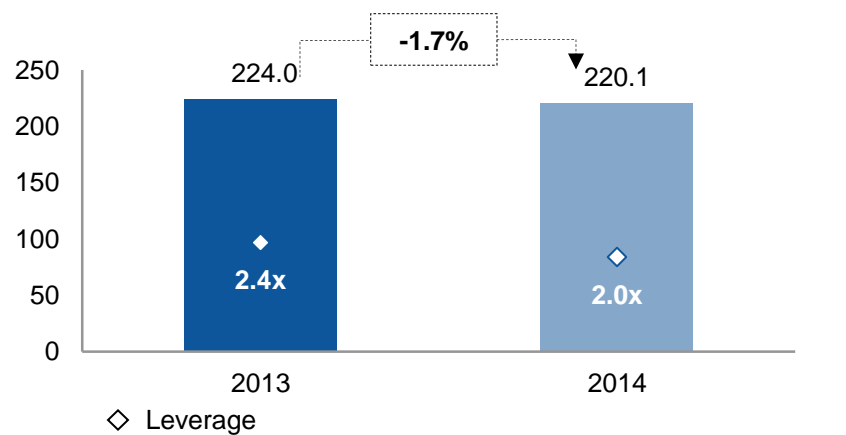
Adjusted Profit for the Period

RUB bn



Net Debt Position

RUB bn



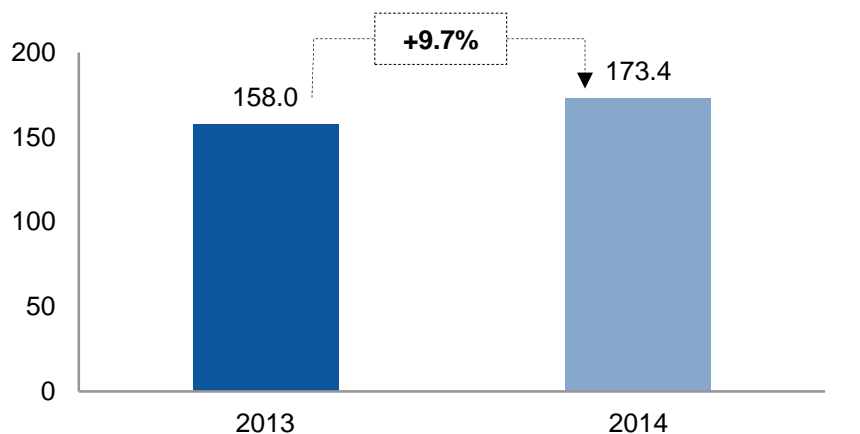
Source: Company IFRS financials

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



Comments

- The Group's revenue from electricity transmission increased by RUB 7.4 bn, or 4.8% year-on-year (as a result of the 9.4% tariff increase from 1 July 2013).
- The Group's revenue from electricity sales grew 52.6% year-on-year, or by RUB 1.9 bn that is mostly explained by the tariff growth for electricity sales and increase in actual volume of electricity sales.
- Other revenue grew year-on-year by RUB 6.1 bn, by almost 4.2 times greater, primarily due to increase in revenue from connection services.

Revenue structure

RUB bn	2013	2014	Y-o-Y Change
Transmission fee	152.4	159.8	4.8%
Electricity sales	3.7	5.6	52.6%
Other revenue	1.9	8.0	4.2x
Total revenue	158.0	173.4	9.7%

Operating Cost Structure (1)



	2013 RUB bn	% of Total Operating Costs	2014 RUB bn	% of Total Operating Costs	Y-o-Y Change
Depreciation of PPE and amortization of IA	57.6	43.0%	47.1	37.4%	-18.2%
Employee benefit expenses and payroll taxes	27.9	20.9%	26.6	21.1%	-4.7%
Purchased electricity	14.2	10.6%	14.0	11.1%	-1.4%
Taxes, other than on income	4.3	3.2%	7.1	5.6%	66.2%
Allowance for doubtful debtors	1.6	1.2%	2.9	2.3%	81.3%
Repair and maintenance services	3.1	2.3%	2.8	2.2%	-9.7%
Other	25.1	18.8%	25.6	20.3%	2.0%
Total operating expenses	133.8	100.0%	126.1	100.0%	-5.7%

- Total operating expenses amounted to RUB 126.1 bn in 2014 illustrated a year-on-year decline of 5.7%. This was primarily due to the Company's on-going cost management programmes
- In 2014 Federal Grid Company successfully lowered controllable costs:
 - personnel-related expenses declined by 4.7% year-on-year to RUB 26.6 bn;
 - repair, maintenance services cost were down by 9.7% to RUB 2.8 bn;
- Depreciation and amortization decreased by 18.2% year-on-year and amounted to RUB 47.1 bn primarily due to the impairment of property, plant and equipment
- Tax expenses (other than income tax) grew significantly in 2014, up 66.2%, year-on-year due to higher property tax expenses;
- Purchases of electricity amounted to RUB 14.0 bn for the reporting period and showed a decrease of 1.4% compared to 2013.

Source: Company IFRS financials

Notes:

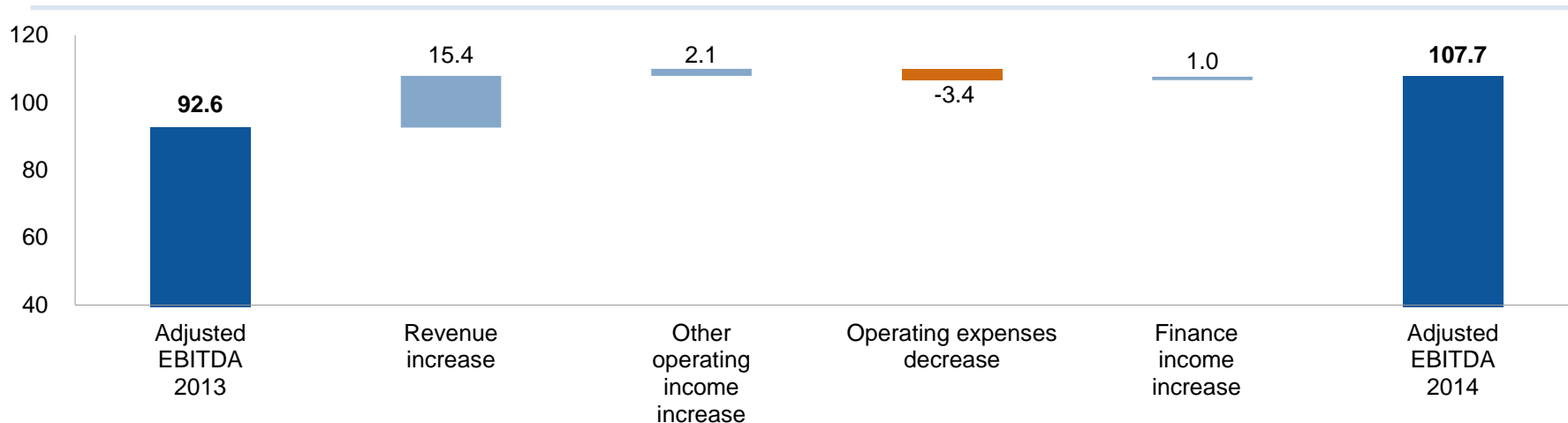
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Earnings Analysis



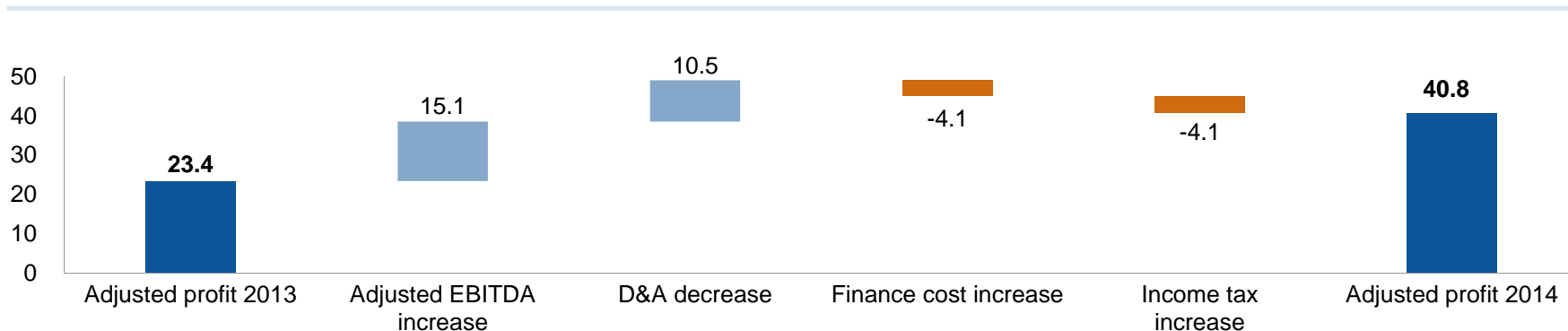
Adjusted EBITDA Bridge

RUB bn



Adjusted Profit Bridge

RUB bn



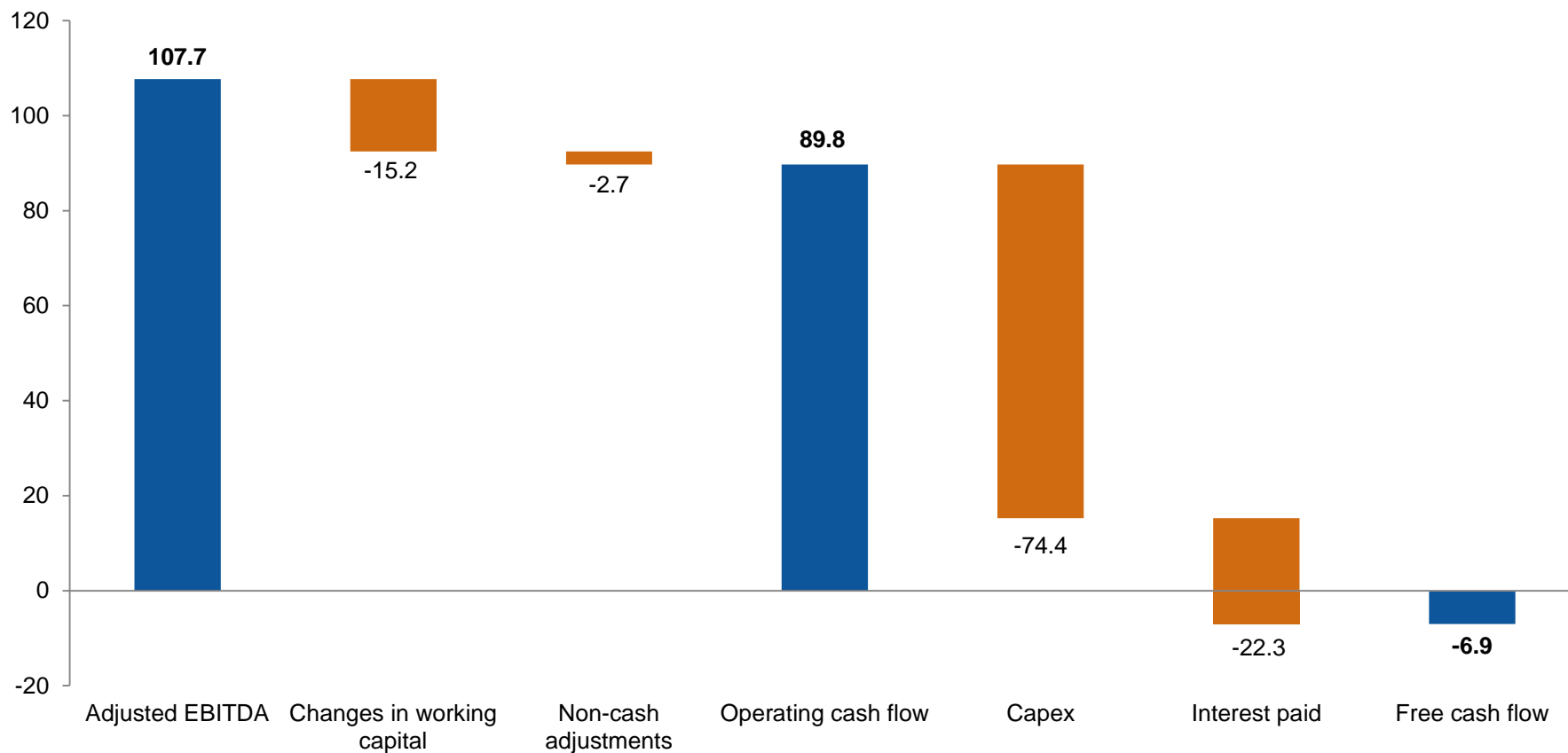
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Free Cash Flow in 2014

RUB Bn



Source: Company IFRS financials

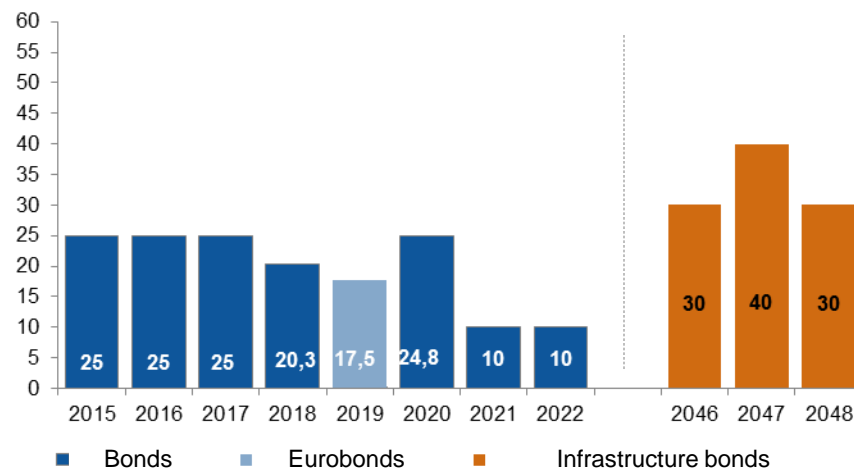
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Results of financial activities in 2014

- Decrease value of debt portfolio by 25 bn. RUB to 257,8 bn. RUB (or 9%).
- Retained optimal structure and value of debt portfolio:
 - Flat repayment schedule
 - 100% of total debt is unsecured and rouble-denominated. No currency risk
 - Average debt maturity: 14,8 years
 - Debt service cost on average: 8,65%

Debt maturity profile RUB bn



Credit Ratings

Credit Ratings on sovereign level:

FitchRatings

BBB- Negative

STANDARD & POOR'S

BB+ Negative

MOODY'S INVESTORS SERVICE

Ba1 Negative

Key Credit Ratios

	2013	2014
Total debt, RUB bn	287.6	263.0
Net debt, RUB bn	224.0	220.1
Net debt / Adjusted EBITDA	2.4x	2.0x



- Internal efficiency enhancement.
- Operational expenses optimization.
- Capital expenditures optimization.
- Investment programme implementation upon the confirmed sources of financing.
- Well-balanced company's financial policy.
- New sources of financing (inter alia, project financing).
- Dividend payout.



Appendices

Priority Investment Projects: assimilation of capital investments in 2014



Central Federal District

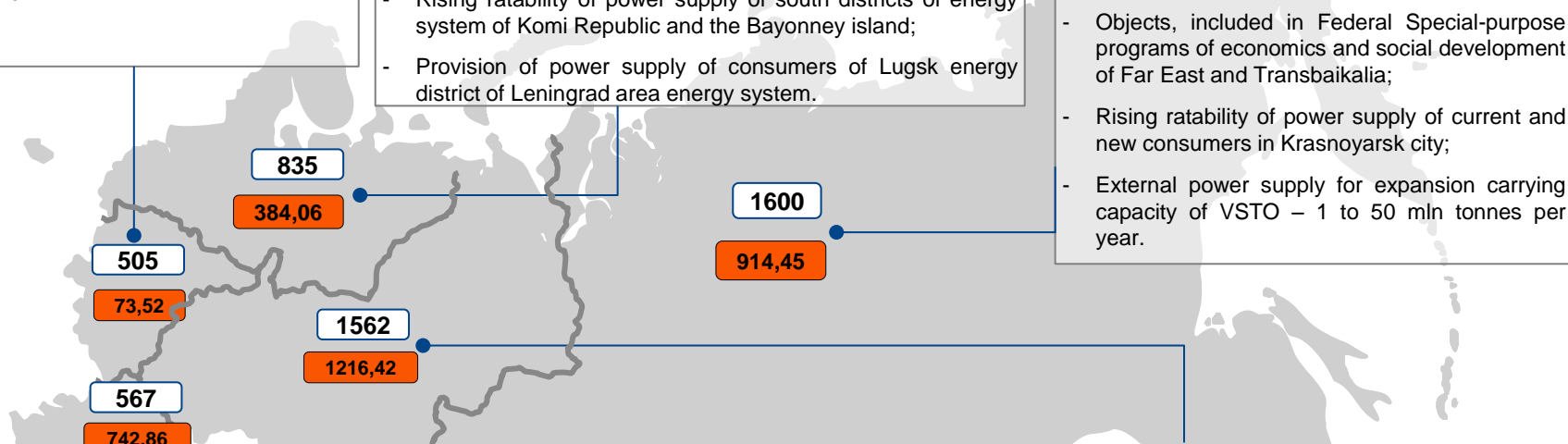
- Provision of power generated by heat electropower station located – 2 (230 MW) located in Vladimir;
- power supply of innovation center Skolkovo.

Northwest Federal District

- Reliability assurance of power supply of new connected consumers DK Port and «Noviy Gorod» LLC;
- Provision of power generated by Leningrad Nuclear Plant (Block №1 1170 MW);
- Rising ratability of power supply of south districts of energy system of Komi Republic and the Bayonney island;
- Provision of power supply of consumers of Lugsk energy district of Leningrad area energy system.

Siberian and Far East Federal Districts

- Provision of «lock up» power generated by Sayano-Shushinskoy hydro power, and Rising ratability of power supply of Sayanogrodskiy and Hakassian aluminum production plants;
- Objects, included in Federal Special-purpose programs of economics and social development of Far East and Transbaikalia;
- Rising ratability of power supply of current and new consumers in Krasnoyarsk city;
- External power supply for expansion carrying capacity of VSTO – 1 to 50 mln tonnes per year.



Southern and North-Caucasus Federal Districts

- Provision of power generated by Rostov Nuclear Plant (Block №3)
- expansion carrying capacity of inter-system connection Center – South, rising ratability of power supply Rostov – Taganrog districts
- expansion carrying capacity of grid 330 kW between Dagestan energy system and other part of unified energy system of South. Connection of substation 330 kW «Artem» to energy system. Rising ratability of export energy to Azerbaijan;
- Provision of power generated by Djubginskaya thermal power station

Volga and Ural Federal Districts

- Provision of «lock up» power generated by Saratov hydro power and Balaklava Nuclear Plant, reinforcement of inter-system cut sets middle Volga –Ural;
- Provision of power generated by Beloyarskaya Nuclear Plant – 2 (Block №4 (888 megawatt));
- Power supply of Vankorskoe oilfield;
- Provision of power generated by Urengoy thermal station (450 megawatt)

□ - volume of deployment capacities in 2014, MVA

■ - volume of deployment grids in 2014, ths' km



General

- The Unified National Electric Grid – the UNEG
- JSC “Federal Grid Company of Unified Energy System” – Federal Grid Company
- JSC “FGC UES” and its subsidiaries – the Group
- OJSC “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 non-specific impairment of property, plant and equipment, impairment of available-for-sale investments, revaluation loss of property, plant and equipment, reversal of impairment of property, plant and equipment and to include finance income
- Adjusted EBITDA Margin – ratio of Adjusted EBITDA to revenue
- Adjusted Profit for the period – profit for the period adjusted for such items as: non-specific impairment of property, plant and equipment, impairment of available-for-sale investments, revaluation loss of property, plant and equipment, reversal of impairment of property, plant and equipment, and related deferred income tax effects
- 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

Investor Relations Contacts



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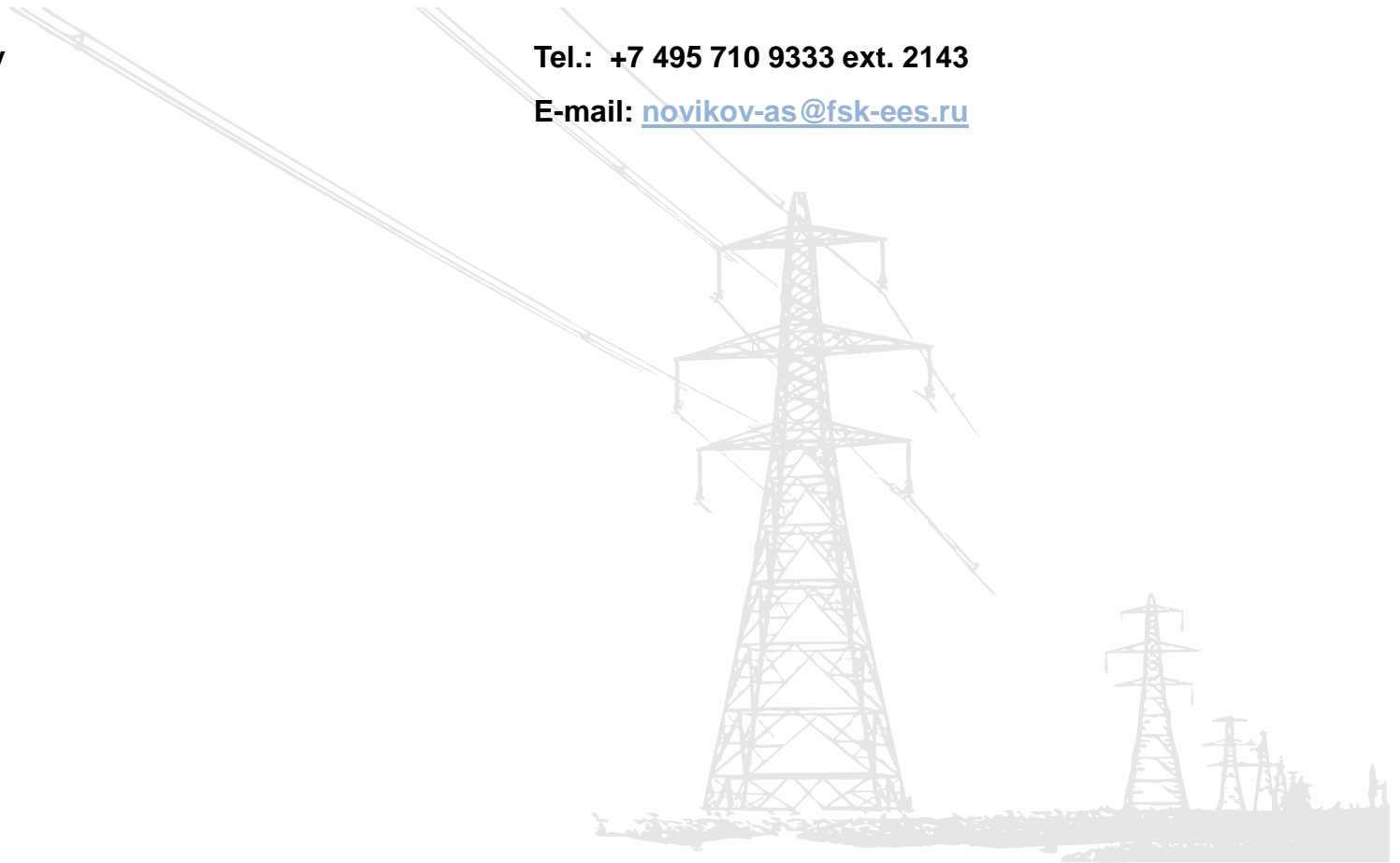
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