



Federal Grid Company Announces FY 2017 IFRS Results

Moscow, 26 March 2018 – Federal Grid Company of Unified Energy System (“Federal Grid Company” or “the Company”; Moscow Exchange, LSE: FEES), part of PJSC ROSSETI Group of Companies, and the operator of the Unified National Electricity Grid (“UNEG”), announces its audited consolidated financial results for the year ended 31 December 2017 under International Financial Reporting Standards (IFRS).

The financial results relate to Federal Grid Company and its subsidiaries (“the Group of Companies” or “the Group”).

Key financial results:

Financial indicator, RUB billion	Year ended 31 December 2016	Year ended 31 December 2017	Change
Revenues	255.6	242.2	(5.2%)
Adjusted EBITDA ⁽¹⁾	116.7	126.4	8.3%
Profit for the period	68.4	72.7	6.3%
Adjusted profit for the period ⁽²⁾	47.5	64.5	35.8%
Revenue from connection services	39.1	19.4	(50.4%)
Total comprehensive income	124.4	93.6	(24.8%)

(1) Adjusted EBITDA is calculated as EBITDA (earnings before tax, financial income and expenses, depreciation and amortisation) adjusted to exclude net loss from impairment and revaluation loss of property, plant and equipment, revenue from connection services, accrual of doubtful debtors allowance, (loss) / gain on derecognition of subsidiary, and including financial income (excluding amortisation of discount in financial income).

(2) Adjusted profit for the period is calculated as profit for the period adjusted for impairment and revaluation loss on property, plant and equipment, (loss) / gain on derecognition of subsidiary, revenue from connection services, including respective deferred income tax (excluding deferred income tax on revenue from connection services).

Operational performance highlights⁽³⁾:

Operational indicator	Year ended 31 December 2016	Year ended 31 December 2017	Change
Electricity supply from UNEG to consumers, billion kWh	540.5	547.4	1.3%
Total transformer capacity ⁽⁴⁾ : GVA	336.4	345.1	2.6%
Transmission grid length ⁽⁴⁾ , thousand km	140.3	142.4	1.5%
Number of UNEG substations ⁽⁴⁾	939	944	0.5%

(3) PJSC Federal Grid Company of Unified Energy System

(4) Including rented transmission lines and substations

Significant developments in 2017 and after the reporting period:

Financial:

- In accordance with the decision of the Federal Tariff Service (№ 1892/16 dated 27.12.2016 by the Federal Anti-monopoly Service) with regard to Federal Grid Company, starting from 1 July 2017, the tariff for electricity transmission on the UNEG was increased by 5.5% compared to the previous level of tariffs in force until 30 June 2017;
- In February 2018 Standard & Poor's upgraded the Company's credit rating as well as the sovereign credit rating to investment grade of BBB- with stable outlook;
- The Company received ACRA's national rating of AAA (RU) with stable outlook, international rating agencies confirmed their ratings in accordance with the sovereign credit rating (Fitch Ratings – BBB- with positive outlook, Moody's rating – Ba1 with stable outlook);
- In June 2017 at the Annual General Meeting, shareholders voted in support of a dividend payment for 2016 amounting to RUB 18.2 billion and for 1Q of 2017 amounting to RUB 1.4 billion;
- The Russian Ministry of Energy approved Federal Grid Company's revised investment programme for 2016-2020 (decree numbered №31@, dated 27 December 2017);
- During 2017, the Company executed scheduled put dates on previously issued bonds using its own funds, which altogether amounted to RUB 23.4 billion.
- The average cost of debt decreased to 5.77% (as of 31.12.2017)

Operational:

- Completed construction of the power facilities to supply electricity to Bystrinsky Mining and Processing Plant (part of Norilsk Nickel) and Polyus Krasnoyarsk using co-financing schemes. These facilities are now on the balance sheet of FSK UES;
- Completed a significant part of the macroproject aimed at enhancing power connectivity of the Unified Energy System for the Northwestern and Central regions;
- Implemented a project for power output to the Nizhne-Bureyskaya Hydro-Electric Power Station.

Commenting on the Group's results for 2017, Chairman of the Management Board of Federal Grid Company Andrey Murov said:

"The results we are reporting today are some of the best in the industry. Maintaining these leadership positions is a key challenge, because every year we compete first and foremost with ourselves: to become more efficient, to improve the quality of our services and to be more attractive to investors.

"FSK UES completed 2017 with higher profit year-on-year (by 6.3%, to RUB 72.7 billion), and also higher adjusted EBITDA (by 8.3%, to RUB 126.4 billion).

"In 2017, we were successful in reducing our operating expenses by RUB 3.8 billion (by 2.4%) year-on-year (in absolute figures). We also met the targets set out in the Strategy for Developing the Electrical Grid Sector by reducing unit costs against the base year of 2012. On a preliminary basis, over the past five years we have managed to decrease unit CAPEX costs by 30% and unit OPEX costs by 46% (compared to our 30% target reduction).

"Together with record low debt leverage (2.0x EBITDA), we are in a position to comfortably focus our efforts on developing the grid, implementing new technologies and, of course, enhancing the reliability of power supply to our customers."

FY 2017 financial results

The Group's profit for 2017 amounted to RUB 72.7 billion, which was 6.3% higher than in the previous year. Total comprehensive income amounted to RUB 93.6 billion (a -24.8% decrease year-on-year), and was greatly impacted by non-cash operations.

The Group's revenue amounted to RUB 242.2 billion, including:

- electricity transmission services amounted to RUB 192.2 billion, an increase of 12.9% (RUB 22.0 billion) year-on-year, though tariffs rose by just 7.5% from 1 July 2016 and by another 5.5% from 1 July 2017, thanks to higher volumes for direct customers;
- revenue from technological connection services amounted to RUB 19.4 billion, down twofold (RUB 19.7 billion) year-on-year due to the service schedule, which is dependent on customer orders;
- revenue from services rendered under general contractor agreements of Federal Grid Company subsidiaries was RUB 19.1 billion, a decrease for 10.3% (RUB 2.2 billion) year-on-year, due to the completion of major project phases in previous reporting periods;
- revenue from electricity sales amounted to RUB 8.2 billion, a decline of 2.7x (by RUB 13.9 billion) in connection with the termination of electricity sales by one of Federal Grid Company's subsidiaries.

Operating expenses⁽⁵⁾

<i>(RUB billion, or %)</i>	2016	% of total operating expenses	2017	% of total operating expenses	Change
Depreciation and amortisation	40.7	30.0%	46.0	34.4%	13.0%
Personnel-related expenses	26.8	19.8%	28.4	21.3%	6.0%
Electricity purchases for operational use	26.0	19.2%	24.3	18.2%	(6.5%)
Property tax	9.1	6.7%	10.8	8.1%	18.7%
Fuel for mobile gas-turbine electricity plants	7.8	5.8%	6.4	4.8%	(17.9%)
Materials, repairs and technical maintenance	4.1	3.0%	4.8	3.6%	17.1%
Electricity transit	2.3	1.7%	1.1	0.8%	(52.2%)
Reversal/accrual of provision for accounts receivable	2.7	2.0%	(3.8)	(2.8%)	(240.7%)
Other operation expenses	16.1	11.8%	15.6	11.6%	(3.1%)
Total operating expenses	135.6	100%	133.6	100%	(1.5%)

(5) excluding expenses for general contractor services rendered by subsidiaries.

At the end of the reporting period, the Group's operating expenses⁽⁵⁾ amounted to RUB 133.6 billion, a decrease of 1.5% year-on-year.

Depreciation and amortisation expenses increased by 13.0%. This was caused by the revaluation increase recognised in respect of Buildings and Substations as a result of revaluation of property, plant and equipment held as at 31 December 2016.

Property tax growth is connected with the gradual abolition of tax benefit for power transmission grids.

Personnel-related expenses grew by 6.0% to RUB 28.4 billion, primarily as result of salary indexation and updated actuarial calculations on salary-based pension plans.

Expenses for electricity purchases decreased by 6.5% due to changes in the grid operating schedule and a decrease in volumes of electricity sold.

Growth in expenses for materials, repairs and technical maintenance amounted to 17.1% and is explained by an accelerated maintenance work schedule as compared to 2016.

During the reporting period electricity transit costs decreased twofold, due to a lower exchange rate for the Kazakh tenge and reduced electricity transmission through other countries.

During the reporting period the Group recorded a reversal of allowances for accounts receivable due to restructuring of accounts receivable and completed payments from certain counterparties.

Selected balance sheet items

(RUB billions)	31 December 2016	31 December 2017	Change, %
ASSETS			
Non-current assets	978.7	1,079.6	10.3%
Current assets	118.4	104.2	(12.0%)
Total assets	1,097.1	1,183.8	7.9%
EQUITY AND LIABILITIES			
Non-current liabilities	269.3	293.3	8.9%
Current liabilities	99.4	88.7	(10.8%)
Total liabilities	368.7	382.1	3.6%
Equity attributable to shareholders of PJSC "FGC UES"	726.6	801.1	10.3%
Non-controlling interest	1.8	0.7	(63.0%)
Total equity	728.4	801.8	10.1%
Total equity and liabilities	1,097.1	1,183.8	7.9%

Over the course of 2017, the Group's total assets grew by RUB 86.7 billion (7.9%) and at the end of the reporting period amounted to RUB 1,183.8 billion. The share of the non-current assets was RUB 1,079.6 billion and the share of current assets amounted to RUB 104.2 billion.

The Group's total liabilities increased by 3.6% year-on-year and amounted to RUB 382.1 billion.

The debt of the Group at the end of 2017 had decreased by RUB 8.8 billion (by 3.3%) year-on-year, in connection with the successful put on the Group's series 9, 11 and 21 bonds, and amounted to RUB 257.9 billion (including accrued interest).

Audited consolidated IFRS financial statements of Federal Grid Company for 2017 are available on the corporate website:

http://www.fsk-ees.ru/shareholders_and_investors/financial_information/reporting_under_ifrs/

Conference call and webcast

The Company will hold a conference call and webcast for investors and analysts on 26 March 2018 at 14:00 Moscow time (12:00 p.m. London time).

Advance registration and viewing of the webcast will be made available at the following link, which will be opened to participants 15 minutes prior to the start of the conference call (in Russian):

<http://event.on24.com/wcc/r/1638511-1/112D0D0BB9FC4DD75F889528EADB794C?partnerref=rss-events>

Dial-in details:

	For Russian-speaking participants:	For English-speaking participants:
Conference call access code (Conference ID)	30082286#	84769315#
Toll-free numbers by country*:		
Russia	+7 4952216523	

United Kingdom	+44 2030432440
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Conference call replay will be available until 23 June 2018 using the following dial-in details:

	For Russian-speaking participants:	For English-speaking participants:
Conference call access code (Conference ID)	312401#	312403#
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