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**Federal
Grid Company**



**of Unified
Energy System**

1H2014 Operational and Financial Results

Andrey Kazachenkov
First Deputy Chairman of the Management Board

28 August 2014



Key Events

- The Company successfully provided power supply to facilities related to the Olympic Games in Sochi.
- 20 February 2014 – new share issue completed, increasing total shares of the Company in issue by 0.59% and raising the equity funding by RUB 3.8 bn.
- 9 June 2014 – Moscow Exchange moves Federal Grid Company shares into Level 1 trading list.
- 27 June 2014 – General Meeting of Shareholders approves the payment of dividends for 1Q 2014 totalling RUB 436.8 million and a new Board of Directors is elected.
- Moody's and Fitch Ratings confirmed Federal Grid Company's ratings at Baa3 and BBB, respectively. Standard & Poor's downgraded the Company's rating by one notch to BBB-. The Company keeps strong its position with the investment category by all three international rating agencies. Two agencies rank the Federal Grid Company at the country's level.

1H2014 Consolidated Financial Results

- Revenue increased by 12.6% y-o-y to RUB 85.4 bn.
- Total operating expenses excluding allowance for doubtful debtors, provision for legal claims decreased by 10.5%.
- Operating expenses excluding D&A, taxes, other than on income, allowance for doubtful debtors, provision for legal claims, decreased by 5.4%.
- Adjusted EBITDA increased by 23.3% y-o-y to RUB 49.9 bn, the Company's increased adjusted EBITDA margin by 5.1 pp y-o-y to 58.4%.
- Adjusted profit for the period increased by 146.0% y-o-y to RUB 19.4 bn, adjusted profit margin increased by 12.3 pp y-o-y to 22.7%.
- Net debt position decreased to RUB 209.8 bn from RUB 224.0 bn as of 31 December 2013, implying net debt/ adjusted EBITDA equal to 2.0x as of 30 June 2014.

Notes:

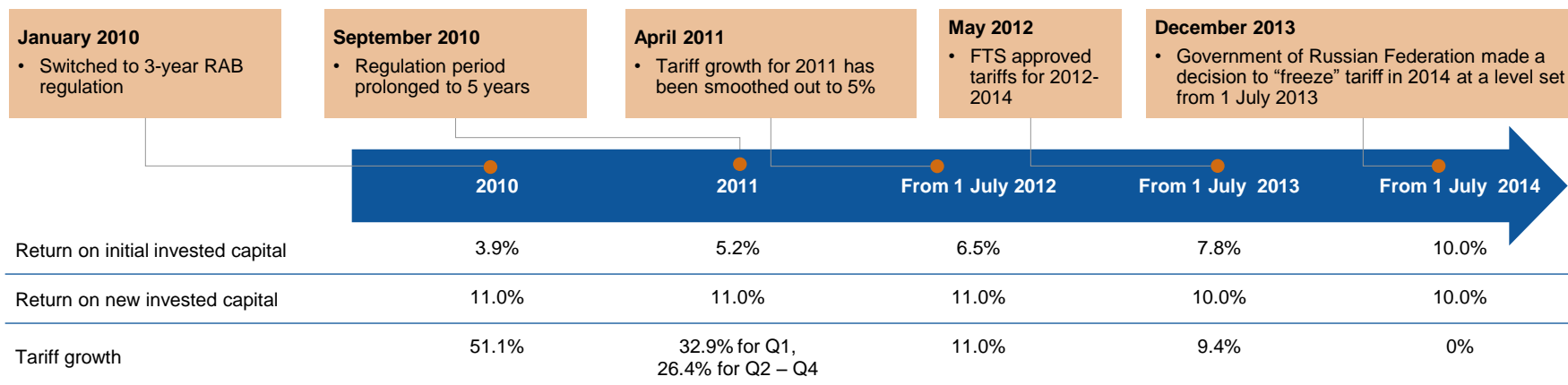
1. Federal Law "On Amendments to the Federal Law "On Electric Power Industry"



RAB Regulation Approach in Transmission

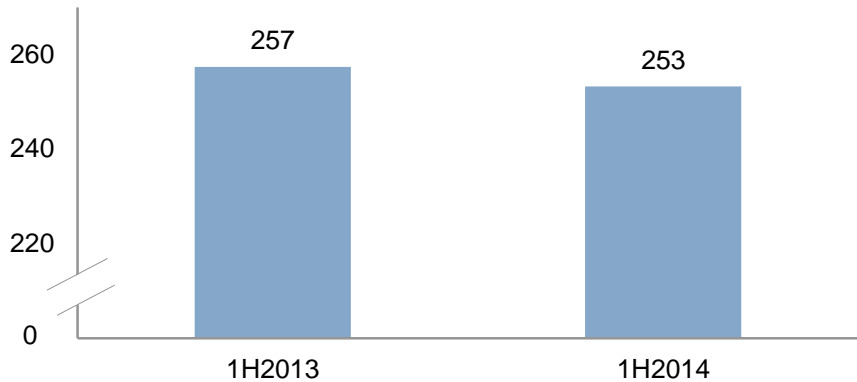
- In May 2012, the Federal Tariff Service approved Federal Grid's RAB tariffs for 2012–2014:
- Federal Grid Company tariffs increased by 11.0% starting from 1 July 2012 and by 9.4% from 1 July 2013
- Return on initial invested capital in 2014 has been raised to 10.0%, and now equals the return on new invested capital
- RAB base is accounted for once assets are commissioned and placed on the Company's balance sheet
- 2014 tariff "freeze": On 26 March 2014, the Federal Tariff Service made a decision (decree #69-e/1) that Federal Grid Company's tariff for 2014 will remain unchanged from the current level

Federal Grid's Approved RAB Regulation Parameters⁽¹⁾



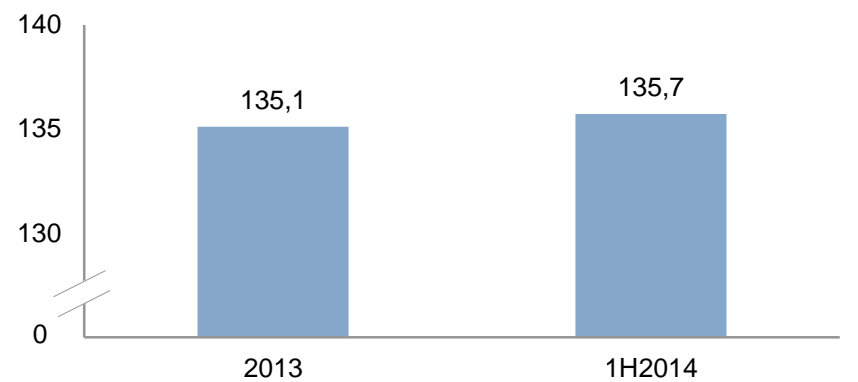
Electricity Transmission Volume

bn kWh (for respective period)



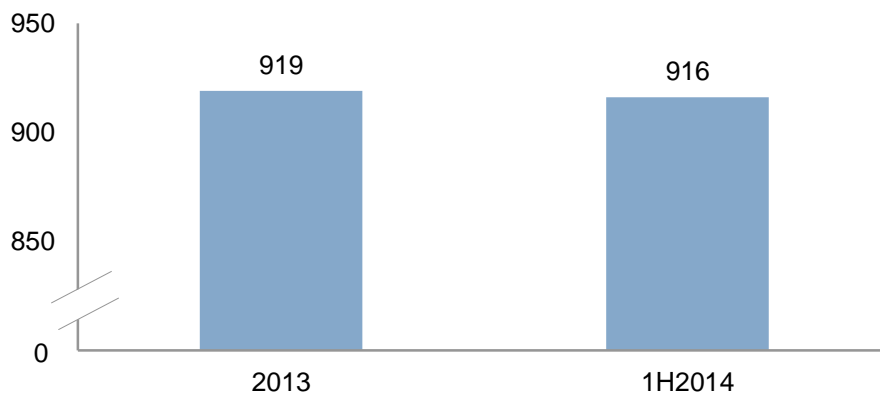
Transmission Grid Length in Operation⁽¹⁾

'000 km (end of period)



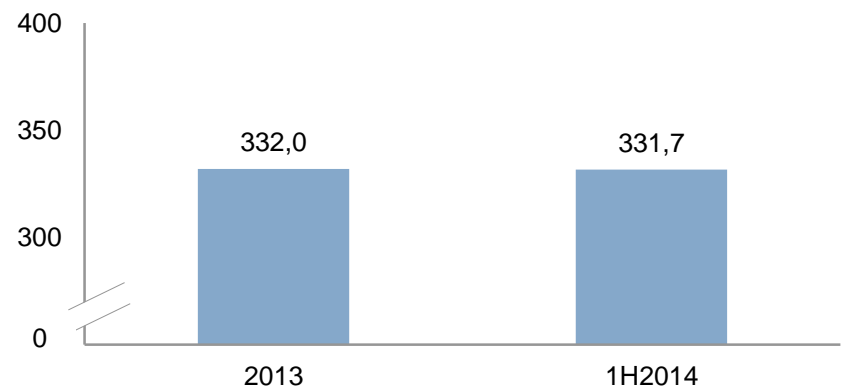
Substations in Operation⁽¹⁾

Units (end of period)



Total Transformer Capacity in Operation⁽¹⁾

GVA (end of period)



Source Company data

Notes:

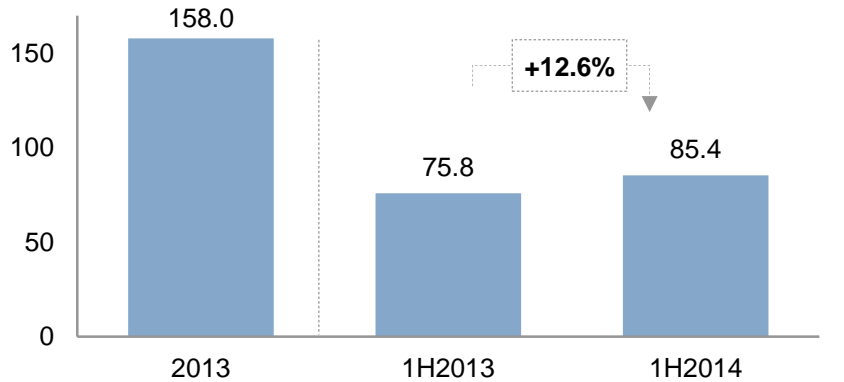
1. Including leased substations



Key Financial Results

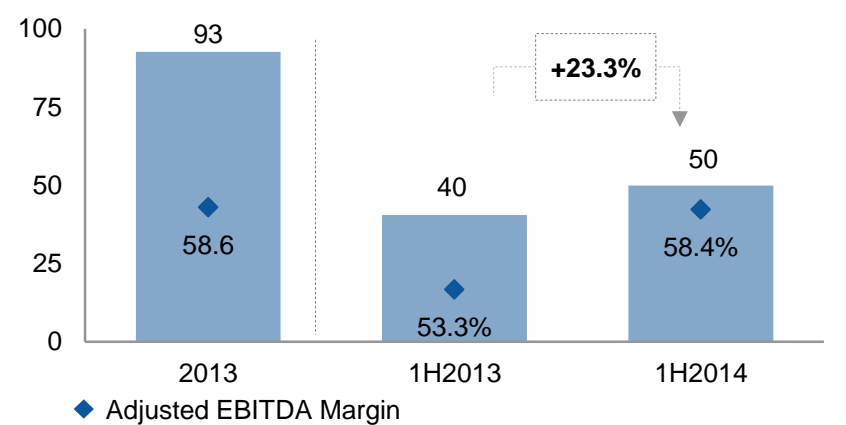
Revenue

RUB bn



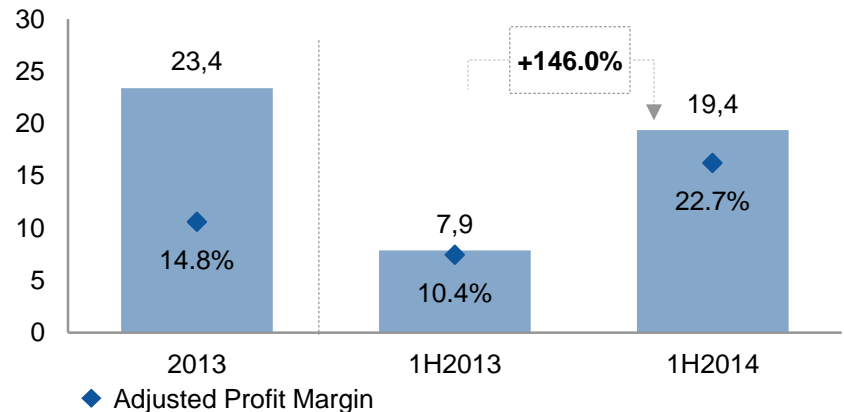
Adjusted EBITDA

RUB bn



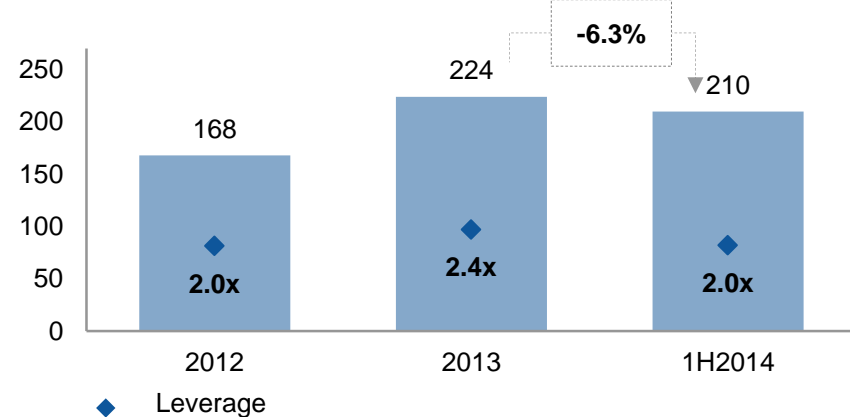
Adjusted Profit for the Period

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

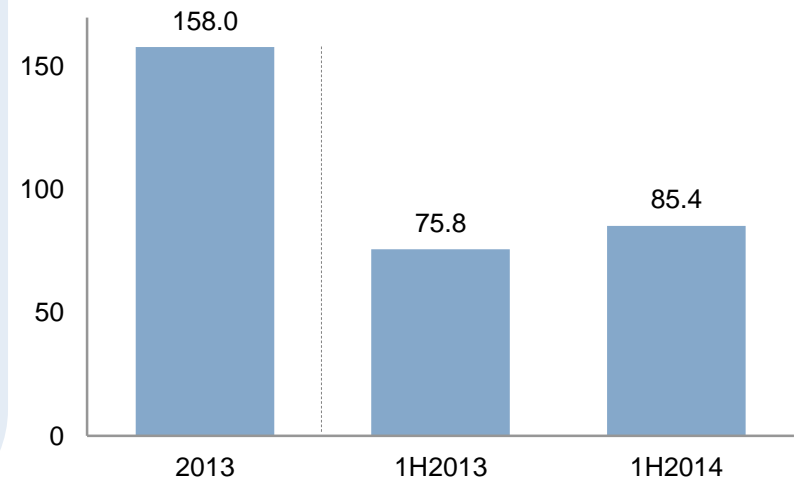


	1H2013 RUB bn	1H2014 RUB bn	Y-o-Y Change %
Transmission fee	73.913	79.465	7.5
Electricity sales	1.357	2.117	56.0
Other revenue	0.556	3.778	579.5
Total revenue	75.826	85.360	12.6

- The Group's revenue from electricity transmission increased by RUB 5,552 million, or 7.5% year-on-year (as a result of the 9.4% tariff increase from 1 July 2013).
- The Group's revenue from electricity sales grew 56% year-on-year, or by RUB 760 million 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 3,222 million, by almost seven times greater, primarily due to increase in tariffs for connection services.

Total Revenue

RUB bn



Operating Cost Structure ⁽¹⁾

	1H2013 RUB bn	% of Total Operating Costs ⁽³⁾	1H2014 RUB bn	% of Total Operating Costs ⁽³⁾	Y-o-Y Change %
Personnel related expenses	14.656	23.4	13.651	24.4	-6.9
Purchased electricity	7.009	11.2	7.125	12.7	1.7
Repair, maintenance & materials	2.189	3.5	1.973	3.5	-9.9
Other expenses	8.528	13.6	7.875	14.1	-7.7
Operating expenses, excluding D&A⁽²⁾, taxes, other than on income, allowance for doubtful debtors, provision for legal claims	32.382	51.8	30.624	54.7	-5.4
D&A ⁽²⁾	27.844	44.5	21.907	39.2	-21.3
Taxes, other than on income	2.287	3.7	3.417	6.1	49.4
Total operating expenses⁽³⁾	62.513	100.0	55.948	100.0	-10.5

- Federal Grid Company's operating expenses, excluding allowance for doubtful debtors, provision for legal claims amounted to RUB 55,948 million in 1H 2014, a decline of 10.5% year-on-year. This decrease was primarily due to the Company's on-going cost management programmes. In 1H 2014 Federal Grid Company successfully lowered controllable costs: personnel-related expenses declined by 6.9% year-on-year to RUB 13,651 million, while repair, maintenance & materials costs were down by 9.9% to RUB 1,973 million.
- Depreciation and amortisation decreased by 21.3% year-on-year and amounted to RUB 21,907 million for the first half of 2014, primarily due to the impairment of fixed assets recognised in 2013.
- Tax expenses (other than income tax) grew significantly in 1H 2014, up RUB 1,130 million, or 49.4%, year-on-year due to higher property tax expenses.
- Purchases of electricity amounted to RUB 7,125 million for the reporting period, an increase of 1.7% compared to 1H 2013.
- Other costs, which amounted to 14.1% of total operating expenses⁽³⁾, reduced by 7.7% to RUB 7,875 million as a result of the Company's cost cutting policy.

Source: Company IFRS financials



Notes:

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

2. Includes amortisation of intangible assets of RUB 0.41 bn in 1H2013 and RUB 0.45 bn in 1H2014

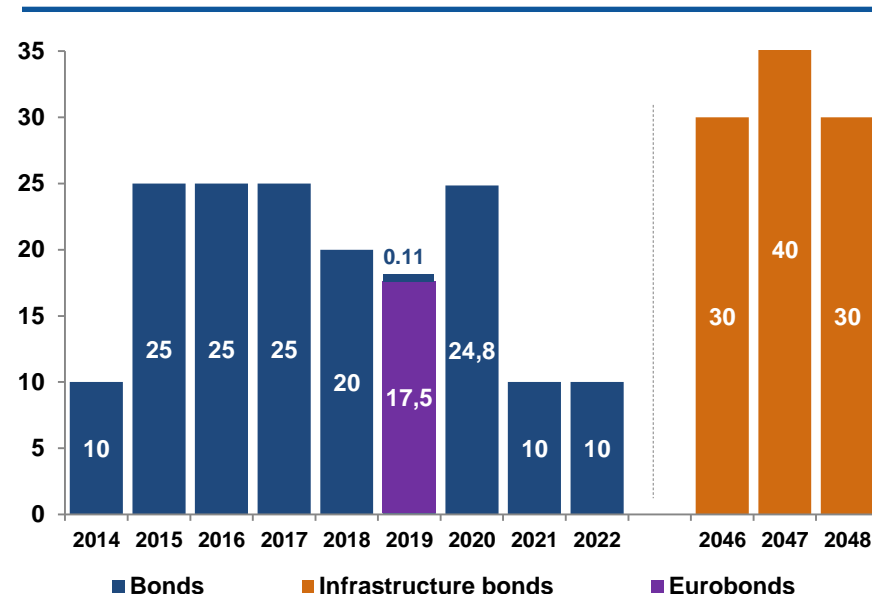
3. Excluding allowance for doubtful debtors and provision for legal claims



- As of 30 June 2014 the principal amount of the Company's debt has amounted at RUB 267.5 bn: 56% of total debt are local bonds, 37% - infrastructure bonds, 7% are eurobonds
- Successful put option totaling the principal at RUB 14.89 bn.
- 100% of total debt is unsecured and rouble-denominated
- Net debt position of RUB 209.8 bn as of 30 June 2014, implying leverage of 2.0x
- Credit Ratings:
 - Fitch: BBB Negative 
 - S&P: BBB- Negative 
 - Moody's: Baa3 Negative

Debt maturity profile

RUB bn



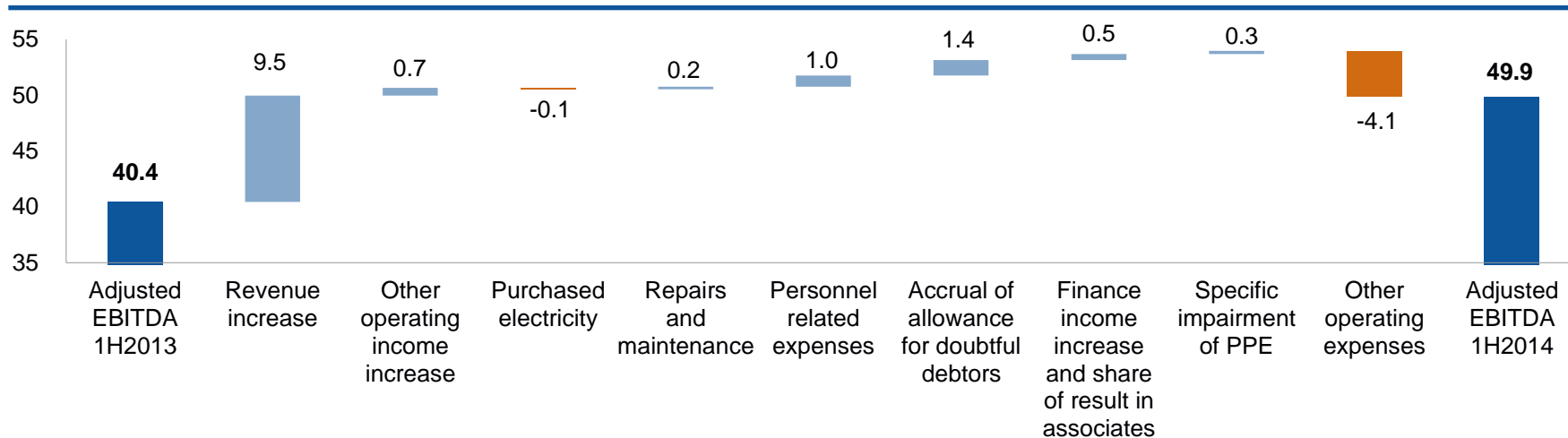
Key Credit Ratios

	2012	2013	1H 2014
Total debt, RUB bn	216.4	287.6	273.0
Net debt, RUB bn	168.0	224.0	209.8
Net debt / Adjusted EBITDA	2.0x	2.4x	2.0x



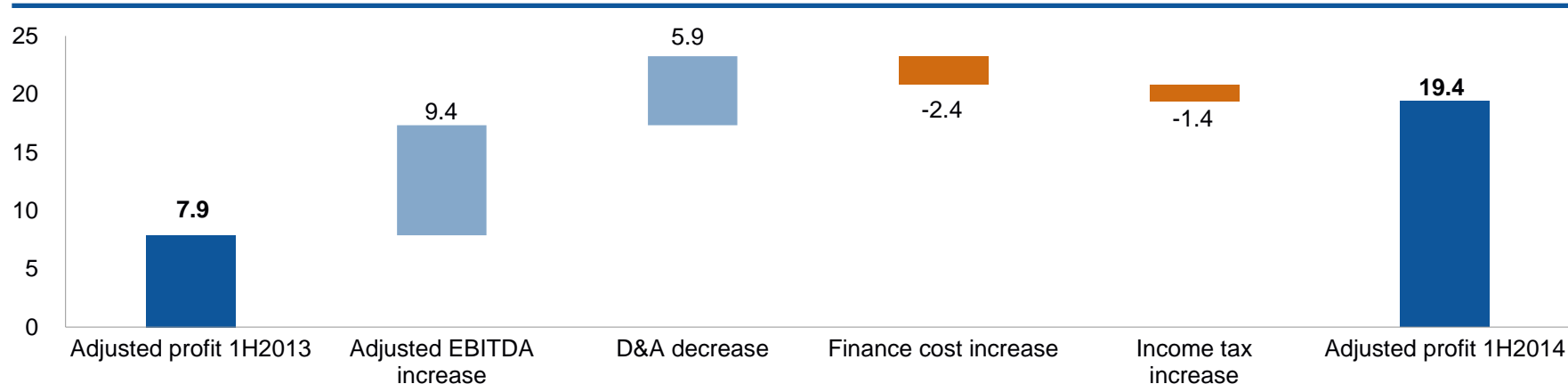
Adjusted EBITDA Bridge

RUB bn



Adjusted Profit Bridge

RUB bn



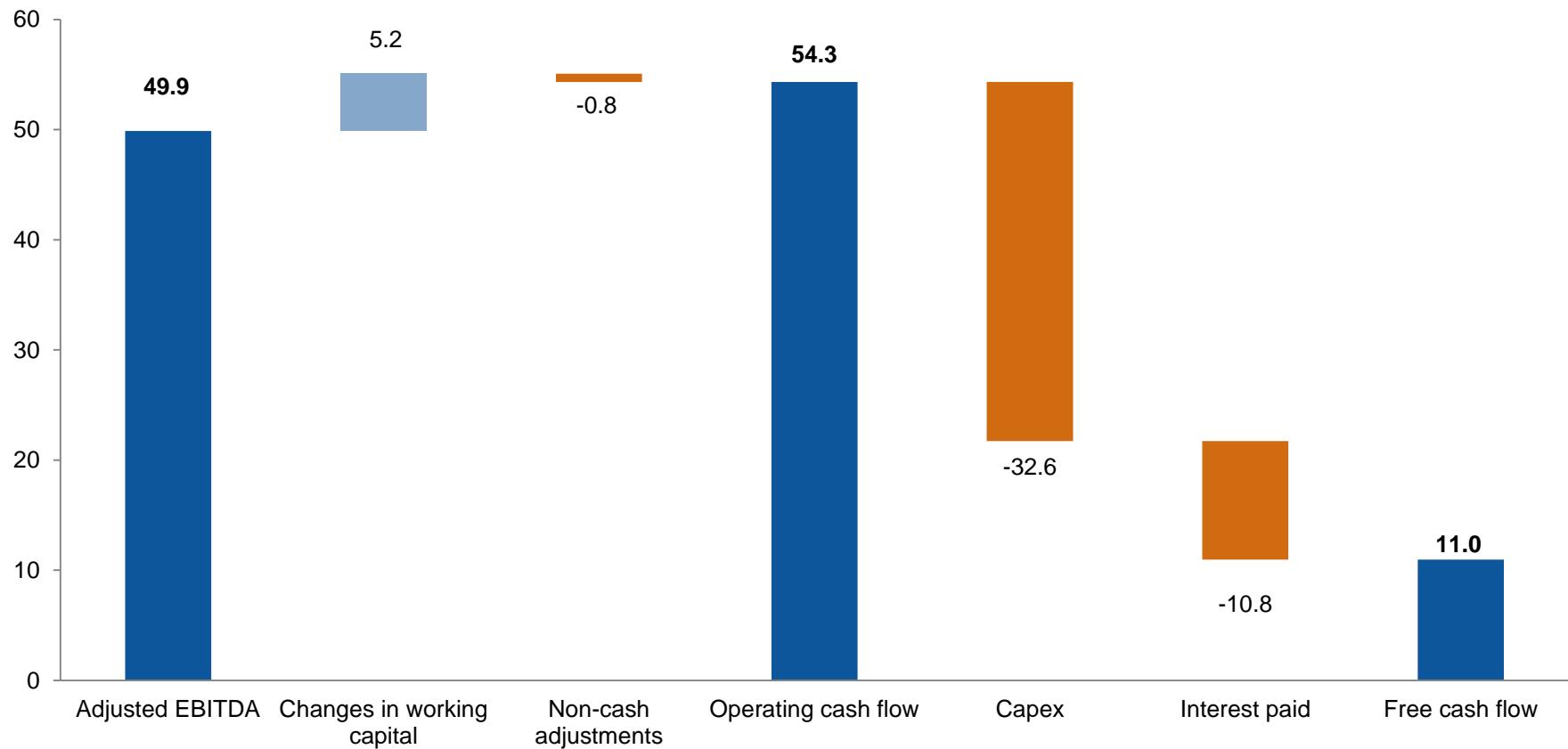
Source: Company IFRS financials

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Free Cash Flow in 1H2014

RUB Bn



Source: Company IFRS financials

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Thank you





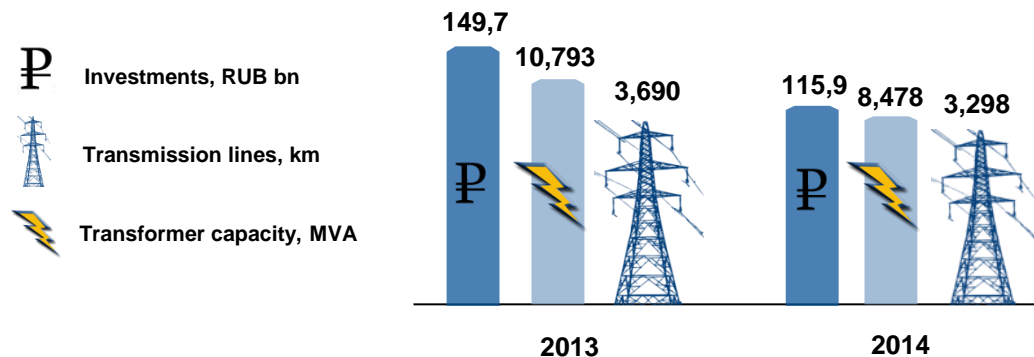
Appendix



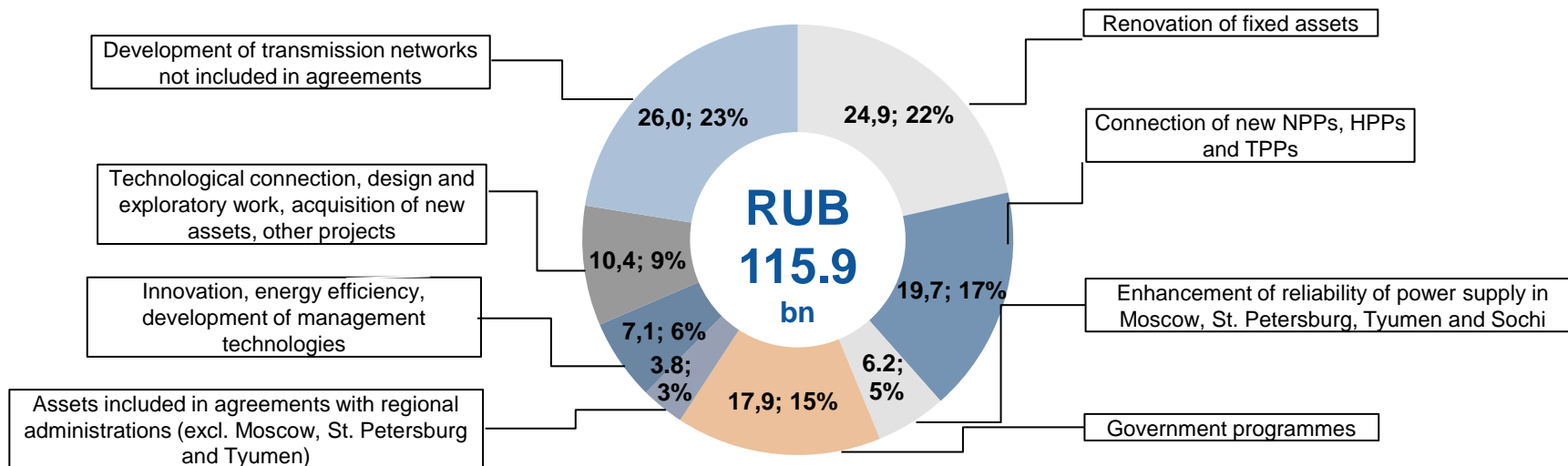
Commentary

The revisions to the 2014 investment programme approved in January 2014 was confirmed by the RF Ministry of Energy in August 2014 at the level of RUB 115.94 bn

Investment programme ⁽¹⁾, new construction



Investment Programme 2014 Breakdown



Federal Grid Company Priority Investment Projects for 2014-2019

Central Federal District

- Beloberezhskaya and Obninskaya 500 kV substations
- Electricity supply to 2018 Football World Cup infrastructure
- Provision of power generated by the Novovoronezhskiy Nuclear Power Plant

Northwest Federal District

- Ensuring reliability of the Northwest Unified Energy System, despite separate from Baltic country energy systems and changes to the BRELL* system
- Provision of power generated by the Kolskaya and Leningradskaya Nuclear Power Plants
- Vasiliyostrovskaya and Lomonosovskaya innovative substations in St. Petersburg

Siberian and Far East Federal Districts

- Development of the BAM and Trans-Siberian railway energy systems
- Technical connection of mining and processing enterprises (Polyus Zoloto, Udokanskiy GOK)
- Construction of substations and power lines for provision of electricity to Rosneft's Eastern Petrochemicals complex

Southern and North-Caucasus Federal Districts

- Improve reliability of electricity supply to Chechnya, Dagestan and North Ossetia
- Provision of power from the Rostovskaya Nuclear Power Plant

Volga and Ural Federal Districts

- Ensuring Russian Federation energy security – alternative to transmission via the Republic of Kazakhstan (construction of overhead powerlines 500 kV)
- Provision of power from the Beloyarskaya Nuclear Power Plant
- Substations for electricity supply to oil and gas enterprises in Western Siberia (Rosneft and Transneft)

Priority areas:

- Development of infrastructure in the Russian Far East and Zabaikalya regions
- Connecting nuclear power stations as quickly as possible

- Belorussia – Russia – Estonia – Latvia – Lithuania
- Excluding additional financing requirements for ARK, BRELL, BAM and Trans-Siberian



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 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 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



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