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Federal  
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of Unified  
Energy System

2012 Operational and Financial Results

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First Deputy Chairman of the Management Board

23 April 2013



## Key Events

- On 11 May 2012, the Ministry of Energy of the Russian Federation approved the adjusted investment program for Federal Grid Company of RUB 505 Bn for 2012-2014
- On 31 October 2012, the extended program for 2013-2017 in the amount of RUB 776 Bn was reviewed and approved by the Ministry of Energy
- On 21 May 2012, the FTS approved tariffs for electricity transmission across the UNEG for 2012-2014
  - The tariffs were increased by 11% since on 1 July 2012 and scheduled to be further increased by 9% since 1 July 2013 and on 1 July 2014
- On 27 April 2012, the Board of Directors approved three long-term debt instrument programs:
  - Russian bonds issues of up to RUB 125 Bn
  - Stock-exchange authorised rouble bonds issue of up to RUB 100 Bn
  - Eurobonds issue of up to RUB 100 Bn
- On 22 November 2012, the President of the Russian Federation signed a decree “On Open Joint Stock Company ‘Russian Grids’”.
  - The decree stipulates that OJSC “IDGC Holding” should be renamed to OJSC “Russian Grids” and that a 79.55% stake in Federal Grid currently owned by the Russian Federation should be transferred to Russian Grids

## FY 2012 Consolidated Financial Results

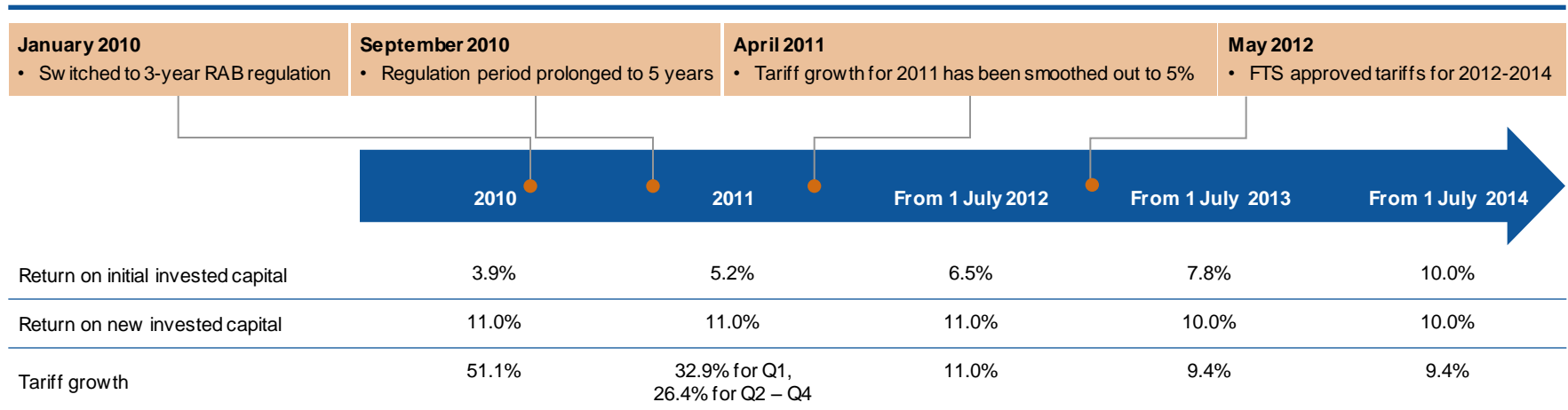
- Revenue increased to RUB 140.3 Bn mainly due to growth of tariffs for transmission services established by the the Russian Federal Tariff Service (FTS)
- Adjusted EBITDA was 82.1 Bn, adjusted EBITDA margin was 58.5%, adjusted profit for the period was RUB 30.0 Bn
- Net Debt position increased to RUB 168.0 Bn from RUB 85.2 Bn as of 31 December 2011, implying Leverage equal to 2.0x as of 31 December 2012



## Regulatory Asset Base (RAB) Regulation

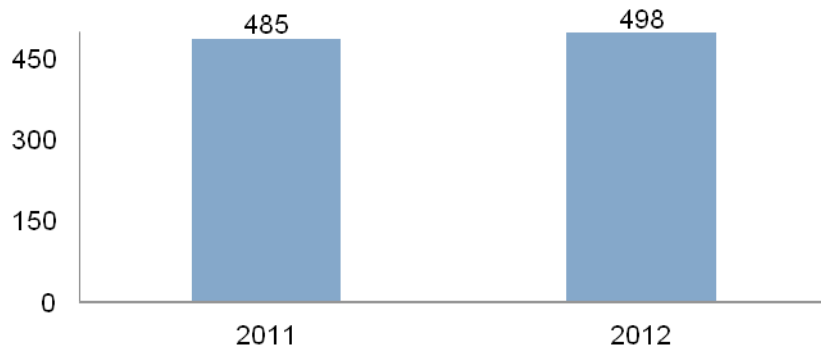
- On 12 May 2012, the Russian Federal Tariff Service approved tariffs under RAB regulation for 2012 – 2014
- Federal Grid Company tariff was increased by 11.0% starting from 1 July 2012, by 9.4% starting from 1 July 2013, and by 9.4% from 1 July 2014
- Return on initial invested capital in 2014 was raised from 9.1% to 10.0% and now equals the return on new invested capital
- RAB base is accounted for once assets are commissioned and put on the company's balance sheet

## RAB Return Calculation



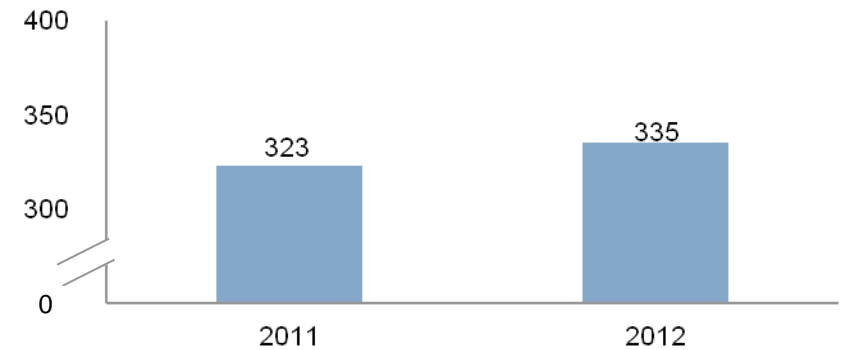
## Electricity Transmission Volume

Bn kWh (for respective period)



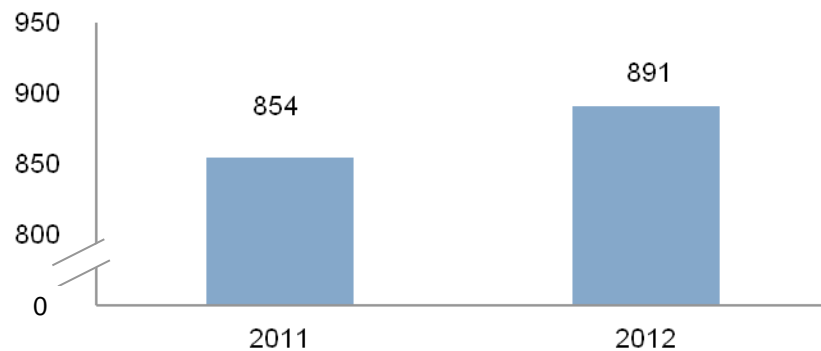
## Total Transformer Capacity in Operations

GVA (end of period)



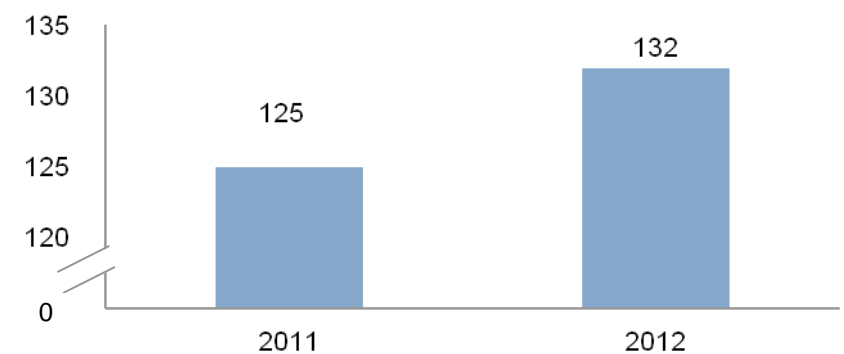
## Substations<sup>(1)</sup>

Units (end of period)



## Transmission Grid Length in Operations

'000 km (end of period)



Source Company data

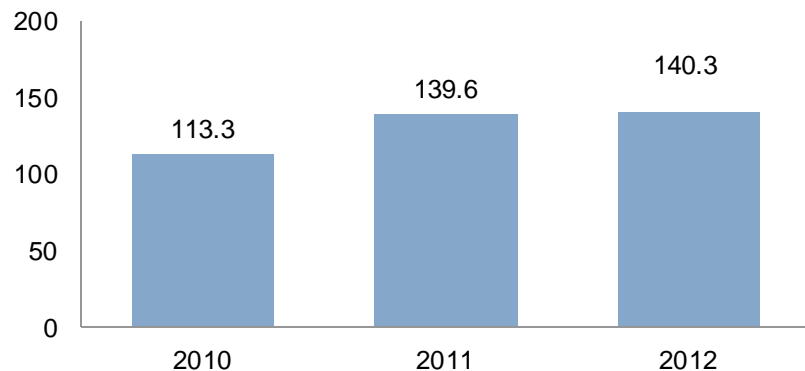
Notes:

1. Including leased substations



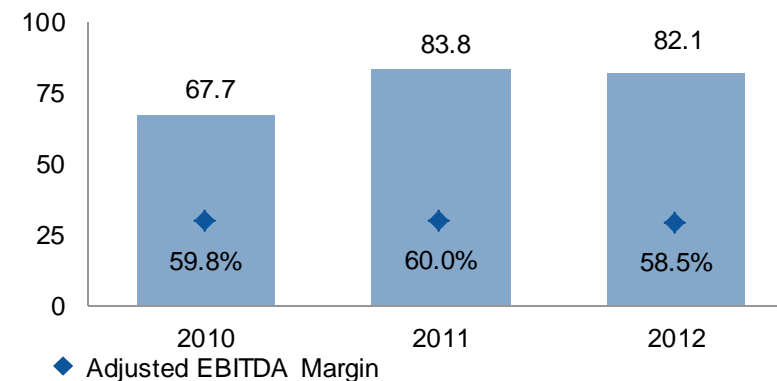
## Revenues

RUB Bn



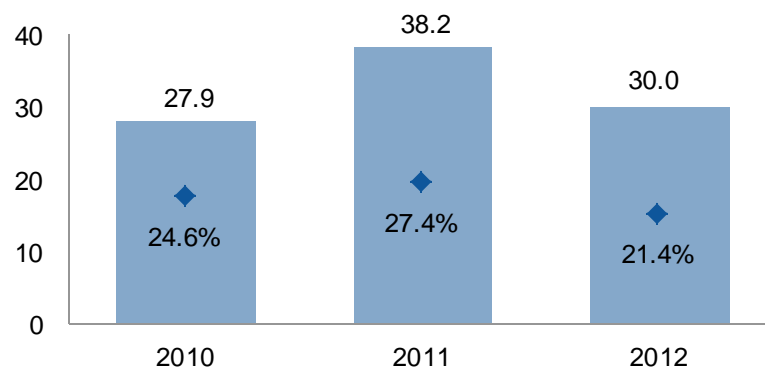
## Adjusted EBITDA

RUB Bn



## Adjusted Profit for the Period

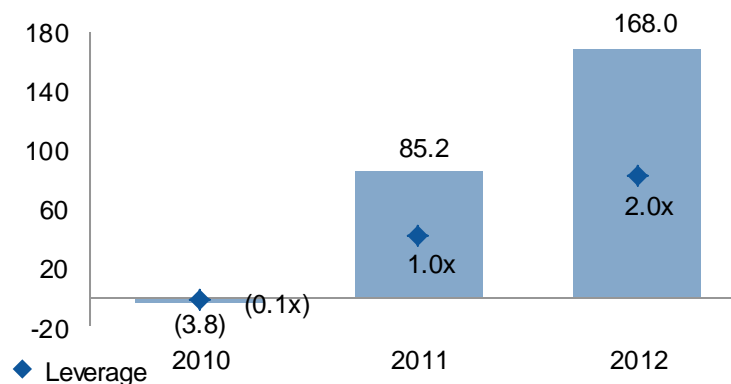
RUB Bn



◆ Adjusted Profit Margin

## Net Debt Position

RUB Bn



◆ Leverage

Source: Company IFRS financials

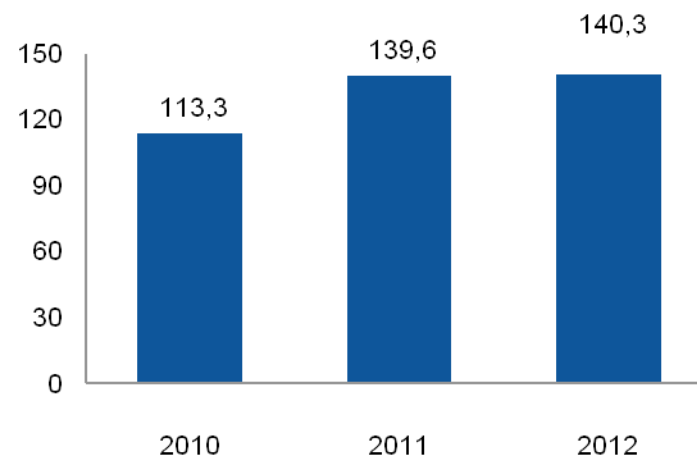
Note: Definitions for terms marked in this presentation with capital letters (including certain non-IFRS financial information) are provided at the end of this presentation



	2011 RUB Bn	2012 RUB Bn	Y-o-Y Change %
Transmission fee	134.754	136.559	1.3
Electricity sales	2.246	2.251	0.2
Other revenues	2.571	1.503	(41.5)
<b>Total revenues</b>	<b>139.571</b>	<b>140.313</b>	<b>0.5</b>

- The Group's revenues from electricity transmission services increased by RUB 1,805 million, or 1.3%, from RUB 134,754 million for the year ended 31 December 2011 to RUB 136,559 million for the year ended 31 December 2012, primarily as a result of an increase in tariffs for transmission services established by the FTS from 1 July 2012, which was partially compensated by a decrease in revenues from compensation of normative technologic electricity losses.
- The Group's revenue from electricity sales slightly increased by RUB 5 million, or 0.2%, from RUB 2,246 million for the year ended 31 December 2011 to RUB 2,251 million for the year ended 31 December 2012.
- Other revenues include revenues from connection services and grid repair and maintenance services. The Group's other revenues decreased by RUB 1,068 million, or 41.5%, from RUB 2,571 million for the year ended 31 December 2011 to RUB 1,503 million for the year ended 31 December 2012.

## Total Revenue RUB Bn



# Operating Cost Structure <sup>(1)</sup>

	2011 RUB Bn	% of Total Operating Costs	2012 RUB Bn	% of Total Operating Costs	Y-o-Y Change %
D&A <sup>(2)</sup>	34.1	33.8	44.5	40.2	30.6
Personnel Related Expenses	24.0	23.9	26.3	23.8	9.4
Purchased electricity	13.8	13.7	13.3	12.0	-3.3
Materials, Repairs and Maintenance	6.0	5.9	6.2	5.6	2.8
Accrual / (reversal) of allowance for doubtful debtors	4.3	4.3	-1.4	-1.3	-132.6
Other expenses	18.6	18.4	21.8	19.7	17.2
<b>Total operating expenses*</b>	<b>66.7</b>	<b>100.0</b>	<b>66.2</b>	<b>100.0</b>	<b>(0.8)</b>

\*Excluding depreciation of property, plant, equipment and amortisation of intangible assets

- Excluding depreciation of property, plant and equipment and amortisation of intangible assets, operating expenses amounted to RUB 66,151 million in 2012, a decline of 0.8%, compared with Russian inflation of 6.6% for the same period.
- D&A increased by 30.6% following the implementation of investment program and commissioning of new fixed assets into operations.
- Personnel Related Expenses increased by 9.4%. The growth was primarily explained by an increase in the average number of employees by 4.4% and an increase in average salaries due to indexation of remuneration.
- Decrease in purchased electricity expenses of 3.3% was due to reduction of actual volumes of electricity losses during transmission owing to increased UNEG efficiency as well as a result of decreased wholesale electricity prices.
- Reversal of allowance for doubtful debtors was primarily related to a reversal of the previously impaired receivables from OJSC "IDGC of Siberia".

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 0.9 Bn in 2011 and RUB 0.6 Bn in 2012

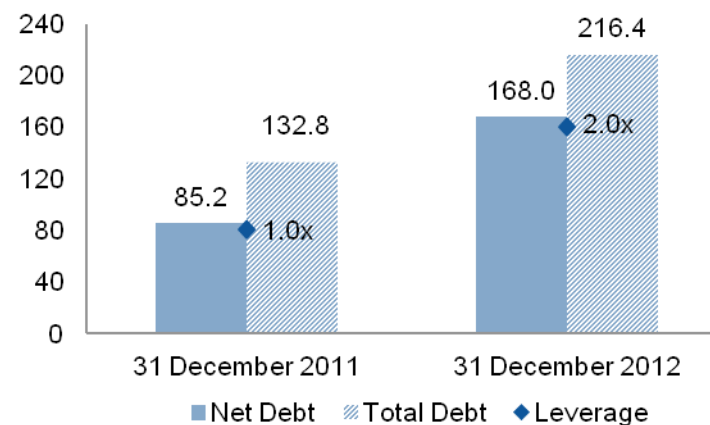




- Total debt amounted to RUB 216.4 Bn as of 31 December 2012
  - 75% of total debt is RUB bonds, 8% is eurobonds and the remaining part is primarily bank loans
- 100% of total debt is unsecured and rouble denominated
- Net debt position of RUB 168.0 Bn as of 31 December 2012 implied a Leverage of 2.0x
- Credit Ratings:
  - S&P: BBB stable (same as Sovereign)
  - Moody's: Baa3 stable (two notches below Sovereign)

## Net Debt Position

RUB Bn



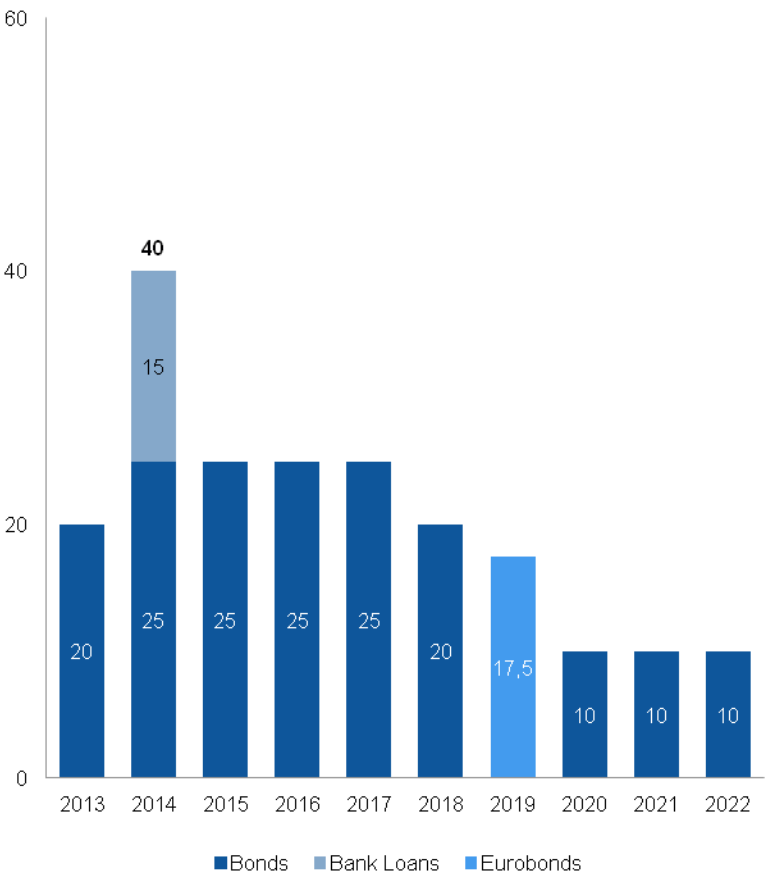
## Key Credit Ratios

	2010	2011	2012
Total Debt, RUB Bn	57.5	132.8	216.4
Net Debt, RUB Bn	(3.8)	85.2	168.0
Total Debt / Adjusted EBITDA	0.8x	1.6x	2.6x
Net Debt / Adjusted EBITDA	(0.1x)	1.0x	2.0x





## Debt Maturity profile as of 16.04.2013 RUB Bn



## Events after the reporting date

- In January 2013, the Group placed 7-year 10 billion local bond issue with the coupon of 8.0%.
- In January and March 2013, the Group made a full early repayment of two loans issued by OJSC “Gazprombank” in the amount of RUB 10 billion each.

## Key prospective in debt financing

- The Supervisory Board of Vnesheconombank (VEB) has approved the possibility to invest pension funds, managing by VEB, into the infrastructure bonds of Federal Grid Company in the amount of up to RUB 100 billion and maturity of up to 35 years

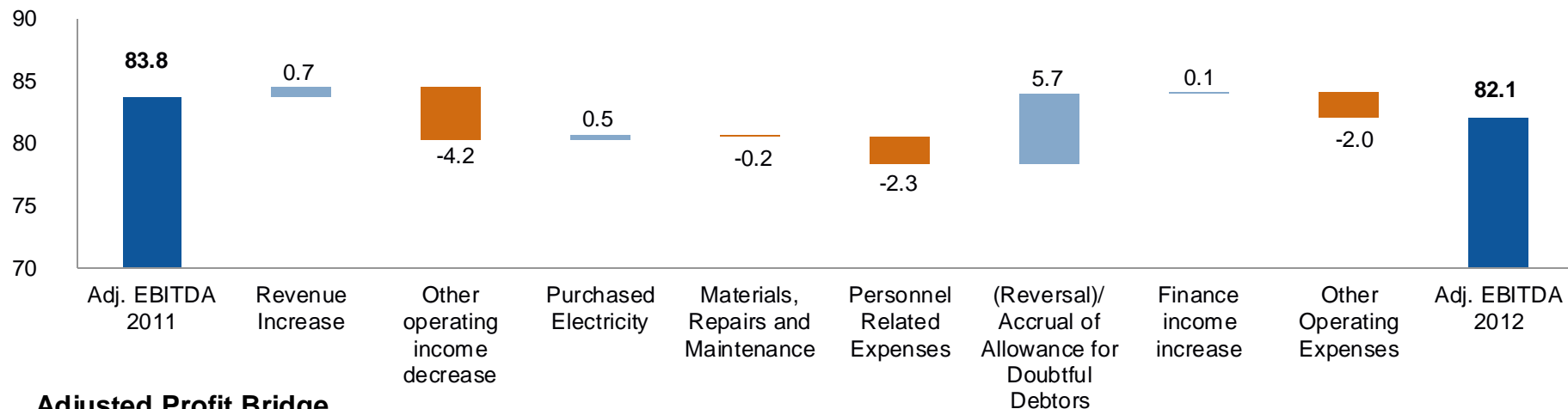
**As of 16.04.2013:**  
**Weighted average cost of ruble-denominated debt financing: 8.3%**  
**100% of the credit portfolio is unsecured debt**

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



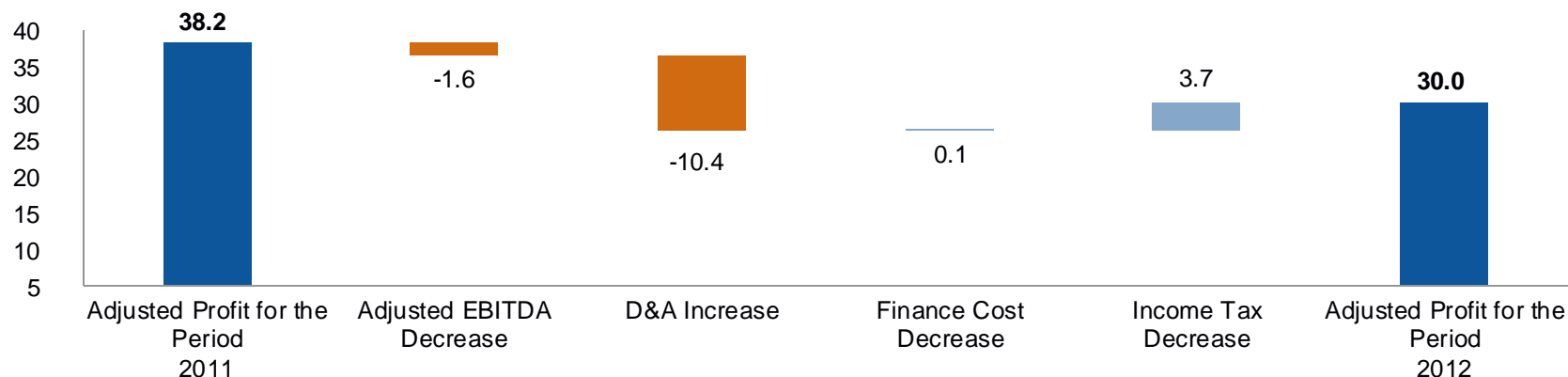
## Adjusted EBITDA Bridge

RUB Bn



## Adjusted Profit Bridge

RUB Bn



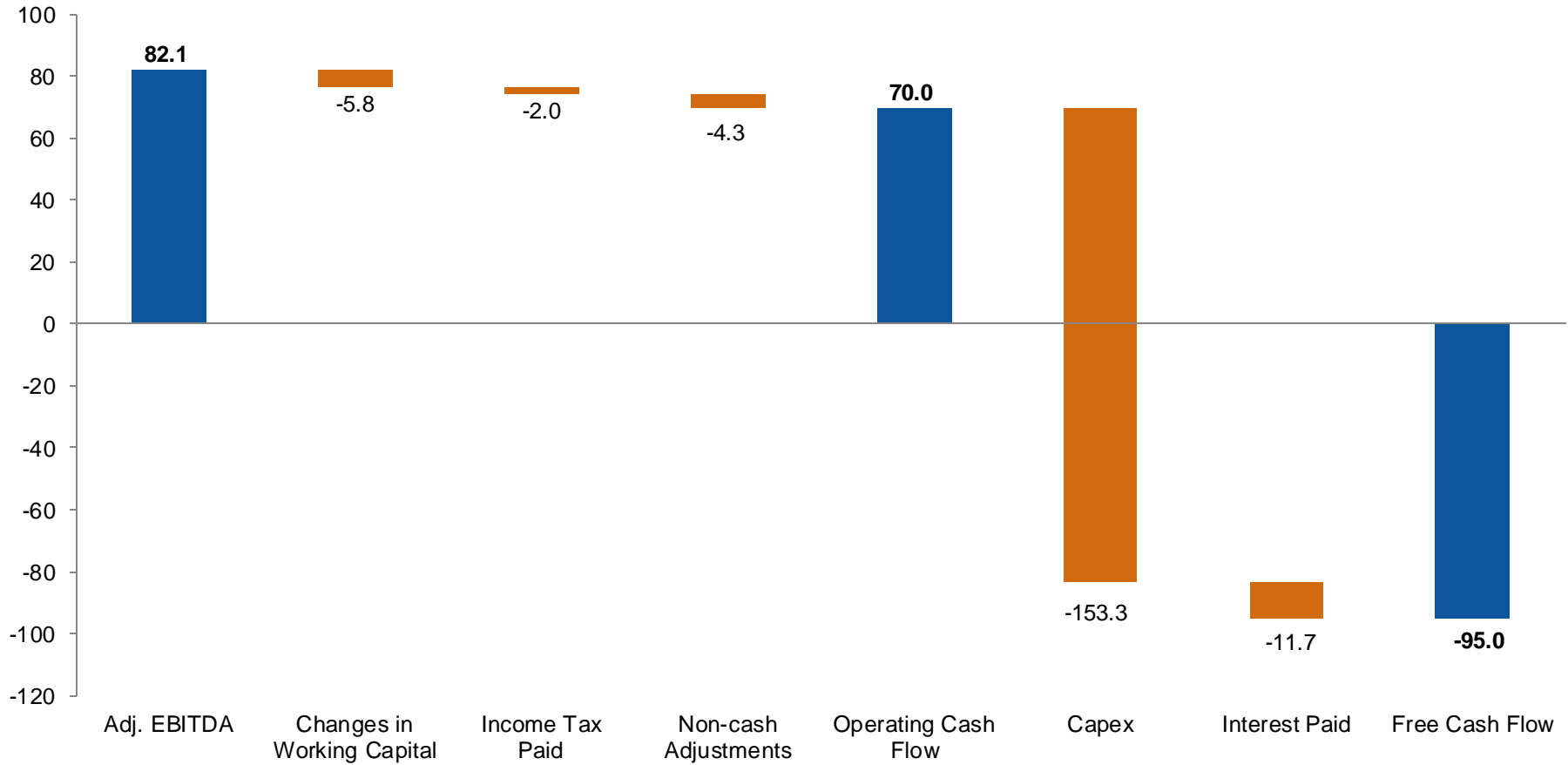
Source: Company IFRS financials

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



## Free Cash Flow in 2012

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



- On 22 November 2012 the President of the Russian Federation signed a decree outlining the following restructuring steps in Russian electricity transmission and distribution sector:
  - OJSC “IDGC Holding” to be renamed to OJSC “Russian Grids”
  - Transfer all but one share of Federal Grid owned directly by the Russian Federation into Russian Grids
  - The Russian Federation and Russian Grids to enter into a shareholder agreement in order to retain required government control over Federal Grid
  - The Russian Federation has to retain effective ultimate ownership in Federal Grid of at least 50% plus one share

## Transaction Rationale

- Operational and administrative synergies by combining complementary managerial functions, assets and businesses
- Improvement of strategic sector manageability through coordination between distribution companies and National transmission grid operator
- Establishment of one of the largest electricity grid companies in the world in terms of network spread, transmission volumes and number of customers
- Enhancement of investment efficiency by both companies through a systematic and unified approach to grids infrastructure development
- Assure efficient delivery of research and development programs and systemic implementation of innovative technologies across the industry

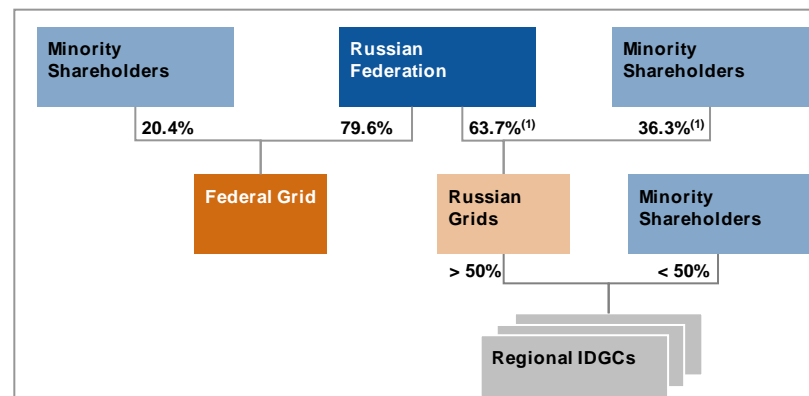


- On 5 April 2013 Board of Directors of Russian Grids approved key parameters for the new common share issue by Russian Grids and proposed those for extraordinary shareholder meeting approval, scheduled on 6 May 2013

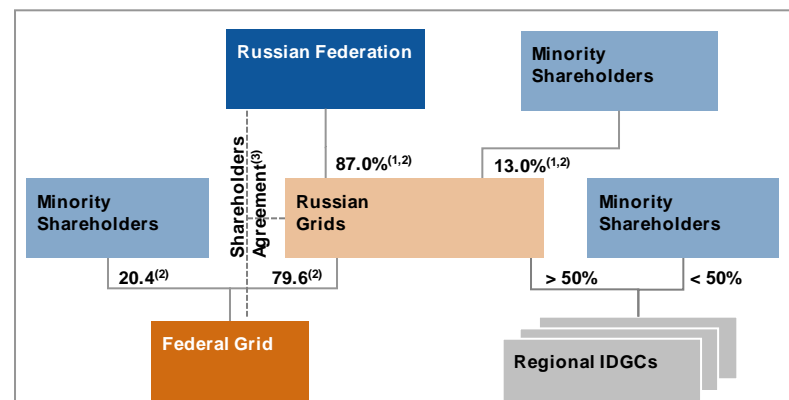
## Key Transaction Parameters

- New Russian Grids common shares could be paid either by cash or Federal Grid shares
- For the purpose of new common share issue one Russian Grids common share were valued at 2.79 RUB
- For the purpose of a payment for newly issued Russian Grids common shares, one Federal Grid share were valued at 0.2836 RUB
- Existing shareholders of Russian Grids will have a pre-emption right to participate in the new common share issue, pro-rata to their existing stakes in Russian Grids
- No minority buyout rules are triggered in either Federal Grid or Russian Grids
- In accordance with the laws of the Russian Federation, an independent appraiser (Ernst & Young) was engaged by Russian Grids to estimate the offer price per common share. In addition, the Company engaged the international investment banks Morgan Stanley and VTB Capital to provide fairness opinions to the Board of Directors in relation to the Federal Grid share to Russian Grids common share exchange ratio
- Upon shareholder approval on 6 May 2013, the Russian Federation is expected to exchange substantially its entire stake in Federal Grid into newly issued common shares of Russian Grids by 30 June 2013

## Current Structure



## Target Structure



### Notes

- Represents ownership structure of common shares
- Assuming only the Russian Federation converts its shares in the Transaction; exact ownership will depend on number of minorities that will exchange their shares in the Transaction
- According to the President decree, the Russian Federation, Federal Grid and Russian Grids should sign a shareholders agreement, which will govern the participation of Russian Grids' representatives in Federal Grid management to ensure the sufficient Russian Federation control over Federal Grid



Thank you





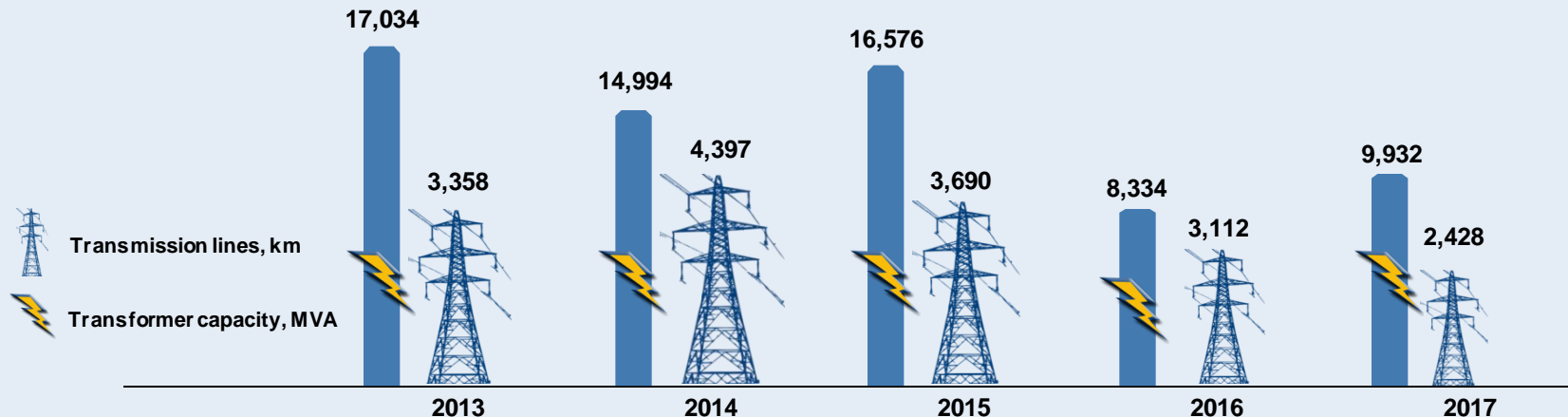
# Appendix

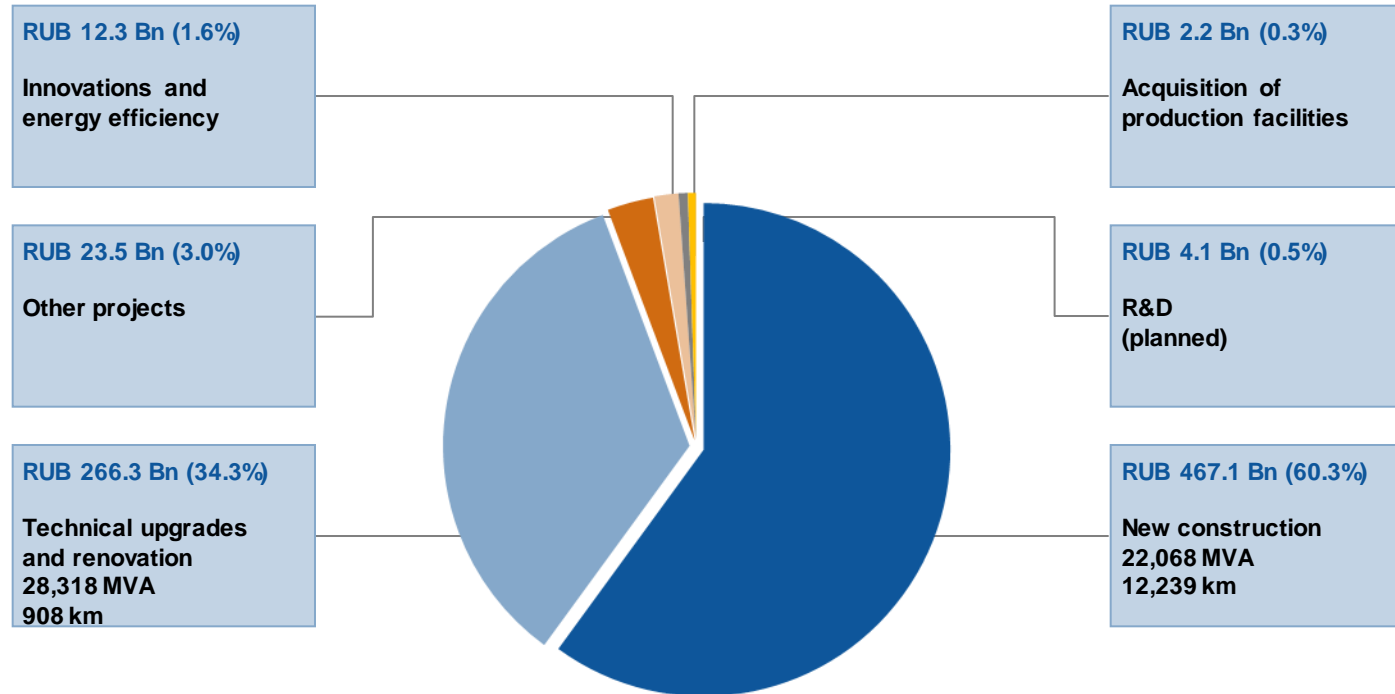




- On 31 October 2012, the Ministry of Energy approved Federal Grid Company's investment program for 2013 – 2017
- The approved plan entails investments totalling RUB 776 Bn (including VAT) into the commissioning of 66,870 MVA of new transformer capacity and 16,985 kilometres of new transmission lines

## New construction 2013 – 2017



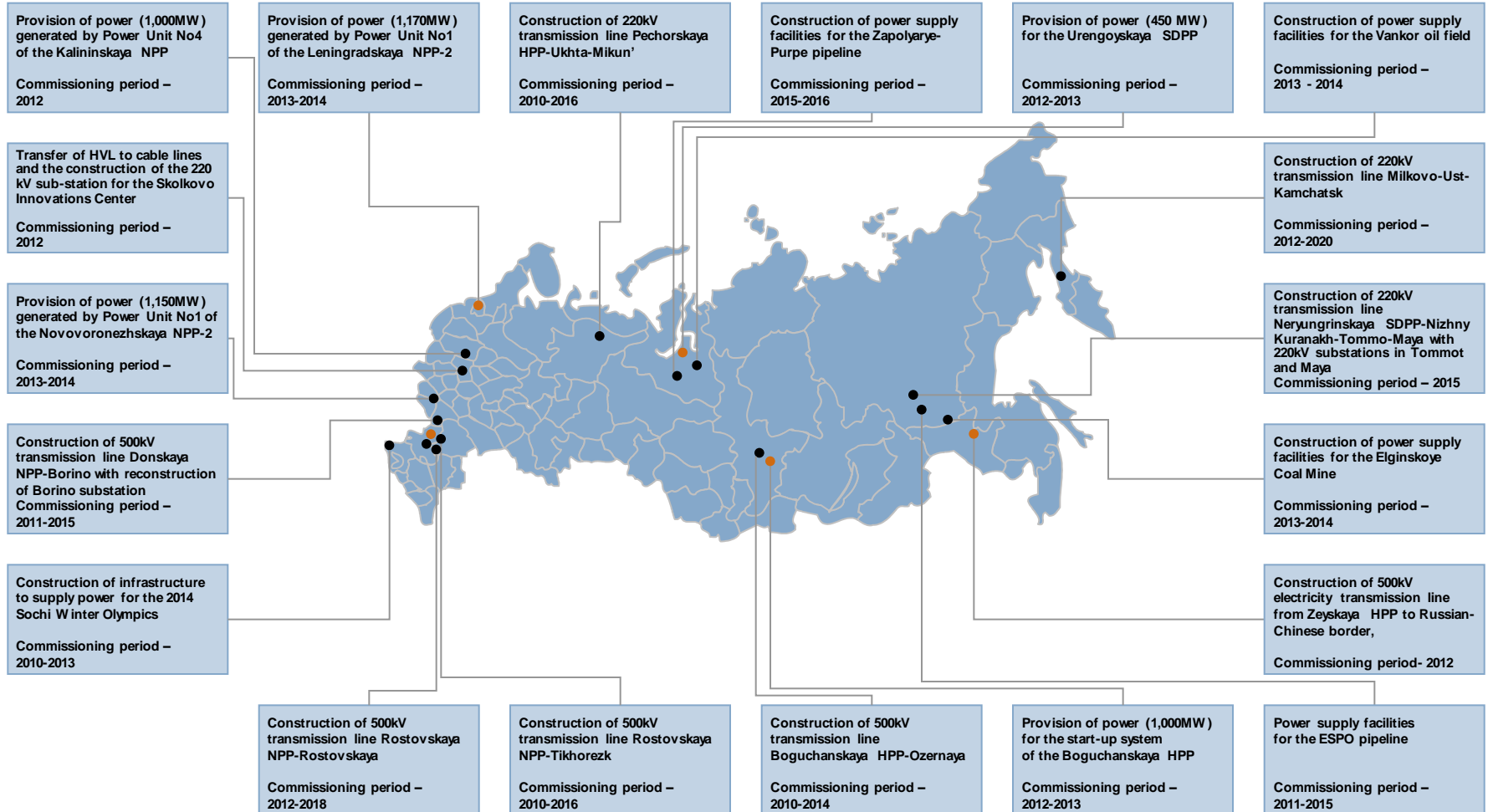


**Total Volume over 2013 – 2017:**

Projected investment:	RUB 775.5 Bn
Capacity to be commissioned:	66,870 MVA
Grids to be commissioned:	16,985 km



# Key Investment Projects 2013-2017



● Electricity transmission lines (220 kV, 330 kV, 500k kV and 750 kV) ● Electricity transmission lines and sub-stations



## Consolidated Interim Statement of Financial Position

RUB MM

	31 December 2012	31 December 2011
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	1,096,53€	980,677
Intangible assets	9,31€	6,97€
Investments in associates	1,40€	91€
Available-for-sale investments	50,617	69,97€
Long-term promissory notes	1,457	14,92€
Other non-current assets	4,49€	1,03€
<b>Total non-current assets</b>	<b>1,163,82€</b>	<b>1,074,50€</b>
<b>Current assets</b>		
Cash and cash equivalents	24,05€	25,627
Bank deposits	98€	1,18€
Short-term promissory notes	23,38€	20,737
Loans given	3€	44€
Accounts receivable and prepayments	38,80€	32,94€
Income tax prepayments	2,14€	1,911
Inventories	7,007	6,32€
<b>Total current assets</b>	<b>96,41€</b>	<b>89,171</b>
<b>TOTAL ASSETS</b>	<b>1,260,241</b>	<b>1,163,677</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital: Ordinary shares	630,19€	627,97€
Treasury shares	(4,917)	(5,522)
Share premium	10,501	10,501
Reserves	313,117	314,32€
Accumulated deficit	(41,831)	(49,962)
<b>Equity attributable to shareholders of FGC UES</b>	<b>907,06€</b>	<b>897,314</b>
Non-controlling interest	73€	79€
<b>Total equity</b>	<b>907,79€</b>	<b>898,107</b>
<b>Non-current liabilities</b>		
Deferred income tax liabilities	80,61€	80,57€
Non-current debt	193,20€	130,77€
Retirement benefit obligations	5,16€	4,68€
<b>Total non-current liabilities</b>	<b>278,97€</b>	<b>216,03€</b>
<b>Current liabilities</b>		
Accounts payable to shareholders of FGC UES	3,257	2,27€
Current debt and current portion of non-current debt	23,21€	2,00€
Accounts payable and accrued charges	46,81€	44,97€
Income tax payable	17€	28€
<b>Total current liabilities</b>	<b>73,46€</b>	<b>49,53€</b>
<b>Total liabilities</b>	<b>352,44€</b>	<b>265,57€</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,260,241</b>	<b>1,163,677</b>



# Profit and Loss Statement

## Consolidated Interim Statement of Comprehensive Income

RUB MM

	31 December 2012	31 December 2011
Revenues	140,313	139,571
Other operating income	3,543	7,793
Operating expenses	(110,630)	(100,750)
Gain on disposal of available-for-sale investments	-	31,115
Loss on re-measurement of assets held for sale	-	(4,718)
Reversal of impairment of property, plant and equipment, net	53	(1,174)
<b>Operating profit</b>	<b>33,279</b>	<b>71,837</b>
Finance income	4,113	3,957
Finance costs	(214)	(278)
Impairment of available-for-sale investments	(18,941)	(12,661)
Impairment of promissory notes, net	(9,772)	-
Reversal of impairment of investments in associates	313	-
Share of result of associates	21	8
<b>Profit before income tax</b>	<b>8,799</b>	<b>62,863</b>
Income tax	(1,756)	(13,875)
<b>Profit for the period</b>	<b>7,043</b>	<b>48,988</b>
<b>Other comprehensive income</b>		
Change in fair value of available-for-sale investments	(19,362)	(24,952)
Accumulated gain on available-for-sale investments recycled to profit or loss	-	(31,115)
Impairment of available-for-sale investments recycled to profit or loss	18,941	12,661
Change in revaluation reserve for property, plant and equipment in associates	209	-
Foreign currency translation difference	(50)	66
Income tax recorded directly in other comprehensive income	84	8,372
<b>Other comprehensive loss for the year, net of income tax</b>	<b>(178)</b>	<b>(34,968)</b>
<b>Total comprehensive income for the year</b>	<b>6,865</b>	<b>14,020</b>
<b>Profit / (loss) attributable to:</b>		
Shareholders of FGC UES	7,103	49,139
Non-controlling interest	(60)	(151)
<b>Total comprehensive income / (loss) attributable to:</b>		
Shareholders of FGC UES	6,925	14,171
Non-controlling interest	(60)	(151)
<b>Earning per ordinary share for profit attributable to shareholders of FGC UES – basic and diluted (in Russian Roubles)</b>	<b>0.006</b>	<b>0.039</b>



# Cash Flow Statement

## Consolidated Interim Statement of Cash Flows

RUB MM

<b>Profit before income tax</b>	<b>8,799</b>	<b>62,863</b>
Adjustments to reconcile profit before income tax to net cash provided by operations		
Depreciation of property, plant and equipment	43,908	33,187
Loss / (gain) on disposal of property, plant and equipment	1,210	(617)
Amortisation of intangible assets	571	865
(Reversal of impairment) / impairment of property, plant and equipment, net	(53)	1,174
Impairment of available-for-sale investments	18,941	12,661
Impairment of promissory notes, net	9,772	-
Reversal of impairment of investments in associates	(313)	-
Gain on disposal of available-for-sale investments	-	(31,115)
Loss on re-measurement of assets held for sale	-	4,718
Share of result of associates	(21)	(8)
(Reversal) / accrual of allowance for doubtful debtors	(1,405)	4,305
Write-off of accounts payable	(51)	(2,753)
Share-based compensation	605	1,342
Finance income	(4,113)	(3,957)
Finance costs	214	278
Other non-cash operating expense	14	69
<b>Operating cash flows before working capital changes and income tax paid</b>	<b>78,078</b>	<b>83,012</b>
Working capital changes:		
Increase in accounts receivable and prepayments	(8,293)	(6,828)
Increase in inventories	(689)	(753)
Increase in other non-current assets	(288)	(12)
Increase in accounts payable and accrued charges	2,951	2,662
Increase in retirement benefit obligations	517	447
Income tax paid	(1,970)	(9,883)
<b>Net cash generated by operating activities</b>	<b>70,306</b>	<b>68,645</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
<b>Purchase of property, plant and equipment</b>	<b>(150,431)</b>	<b>(153,471)</b>
Proceeds from disposal of property, plant and equipment	1,309	1,431
Purchase of intangible assets	(2,917)	(1,649)
Purchase of promissory notes	(52,000)	(52,300)
Redemption of promissory notes	55,535	75,098
Investment in bank deposits	(3,520)	(6,386)
Redemption of bank deposits	3,724	9,808
Dividends received	20	45
Interest received	2,569	2,681
<b>Net cash used in investing activities</b>	<b>(145,711)</b>	<b>(124,743)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
<b>Proceeds from share issuance</b>	<b>3,247</b>	<b>2,220</b>
Proceeds from non-current borrowings	82,500	80,000
Proceeds from current borrowings	-	105
Repayment of current borrowings	(105)	(6,505)
Repayment of lease	(150)	(126)
Dividends paid	-	(2,543)
Interest paid	(11,658)	(4,999)
<b>Net cash generated by financing activities</b>	<b>73,834</b>	<b>68,152</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(1,571)</b>	<b>12,054</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>25,627</b>	<b>13,573</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>24,056</b>	<b>25,627</b>



## 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 “Interregional Distribution Grid Companies Holding” – IDGC Holding
- 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 such items as: gain on disposal of available-for-sale investments (only in 2011), loss on re-measurement of assets held for sale (only in 2011), non-specific impairment of property, plant and equipment, impairment of available-for-sale investments, impairment of promissory notes (only in 2012), reversal of impairment of investments in associates (only in 2012), 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: gain on disposal of available-for-sale investments (only in 2011), loss on re-measurement of assets held for sale (only in 2011), non-specific impairment of property, plant and equipment, impairment of available-for-sale investments, impairment of promissory notes (only in 2012), reversal of impairment of investments in associates (only in 2012), 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, Repairs and Maintenance 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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