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Federal  
Grid Company



of Unified  
Energy System



2013 Operational and Financial Results

Andrey Kazachenkov  
First Deputy Chairman of the Management Board

4 April 2014

## Key Events

- On 11 November 2013 Andrey Murov was elected as a Chairman of the Management Board of Federal Grid Company.
- On 14 June 2013 the Russian government's stake in Federal Grid Company, previously held through the Federal Property Management Agency, was transferred to Russian Grids. As a result, Russian Grids now holds an 80.6% stake in Federal Grid Company.
- The Company successfully provided power supply to facilities related to the Olympic Games in Sochi and Universiade in Kazan.
- Federal Grid Company infrastructure continued to operate smoothly during flooding in Russia's Far East.
- In October 2013, Fitch Ratings assigned the Company a "BBB" credit rating (same as Sovereign).
- In 2013 Federal Grid Company successfully placed four tranches of infrastructure bonds in a total amount of RUB 100 billion.

## FY 2013 Consolidated Financial Results

- Revenues increased by 12.6% y-o-y to RUB 158.0 bn
- Adjusted EBITDA increased by 11.9% to RUB 92.6 bn, the Company's maintained a strong and stable adjusted EBITDA margin of 59%
- Adjusted profit for the period was RUB 23.4 bn
- The Company fully completed its investment plans for the year. Investment program financing in 2013 totalled RUB 149.7 bn, additions to PPE are 120% of the planned volume.
- Net Debt position increased to RUB 224.0 bn from RUB 168.0 bn as of 31 December 2012, implying leverage equal to 2.4 x as of 31 December 2013.

### Notes:

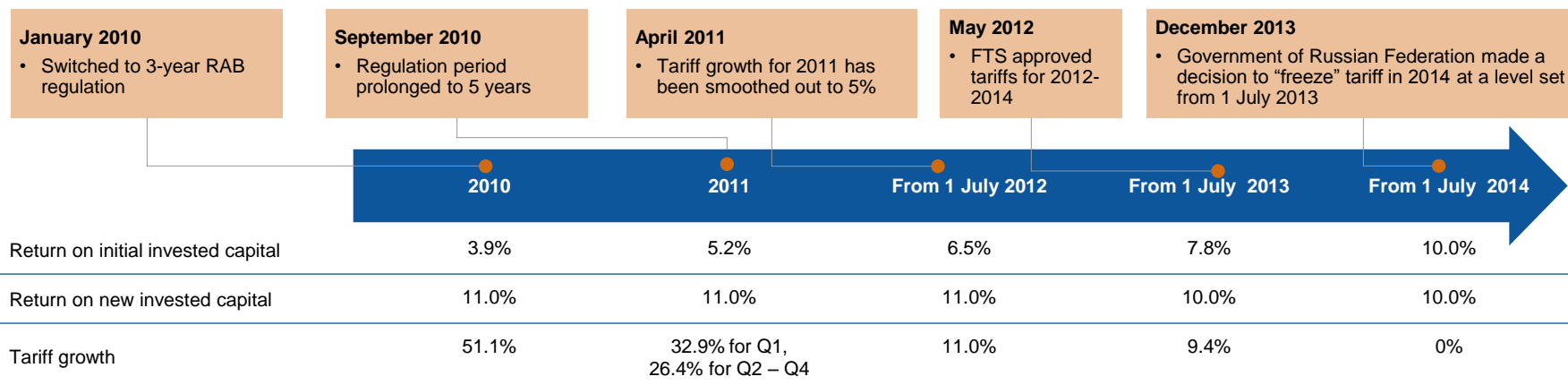
1. Federal Law "On Amendments to the Federal Law "On Electric Power Industry"



## RAB Regulation Approach in Transmission

- In May 2012, 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 30 December 2013, the Government of Russian Federation made a decision (decree #1307) that Federal Grid Company’s tariff for 2014 will remain at the same current level.

## Federal Grid’s Approved RAB Regulation Parameters<sup>(3)</sup>



\* In accordance with IFRS rules for the year ended 31 December 2013 the Company recognised a RUB 448.4 bn net decrease in the carrying value of PPE as a result of an impairment test.

Source: Company data

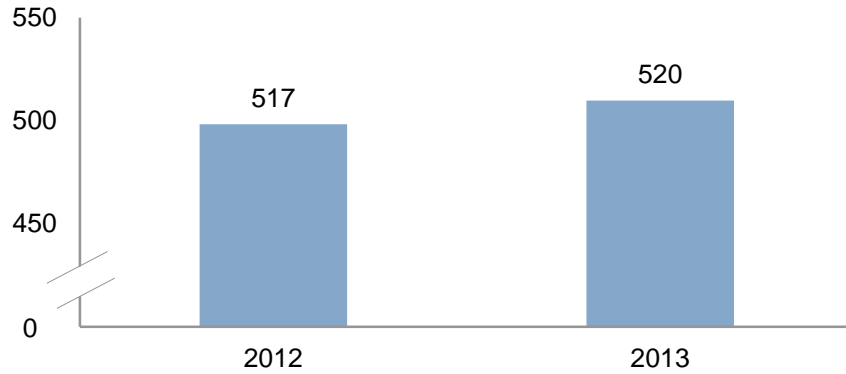
**Notes**

- 1) Simplified for illustrative purposes, detailed overview available on slide 18
- 2) Lease of property used for regulated operations (including taxes and cost of services provided by the companies, engaged in regulated activities)
- 3) Data from 1 July 2012 as approved by Federal Tariff Service on 12 May 2012. Tariff growth in 2014 – as approved by decree #1307



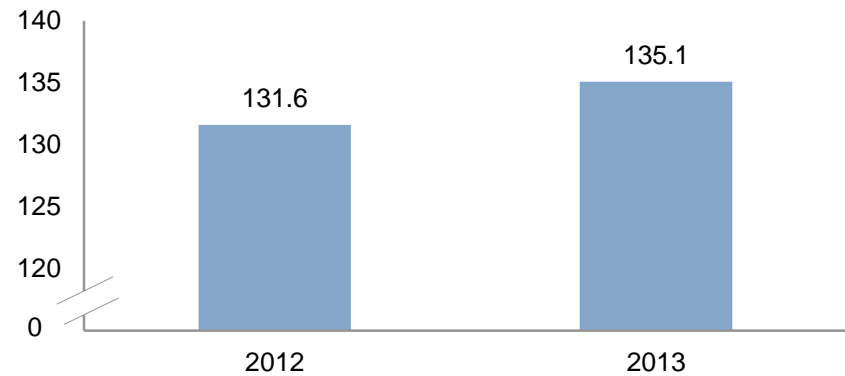
## Electricity Transmission Volume

Bn kWh (for respective period)



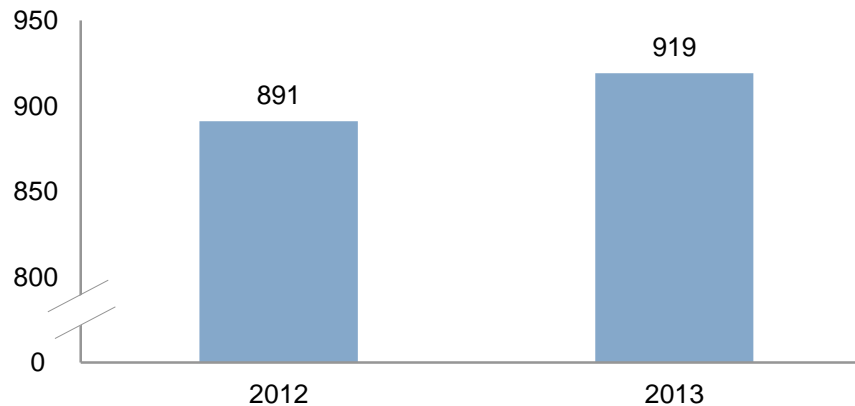
## Transmission Grid Length in Operations

'000 km (end of period)



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

Units (end of period)

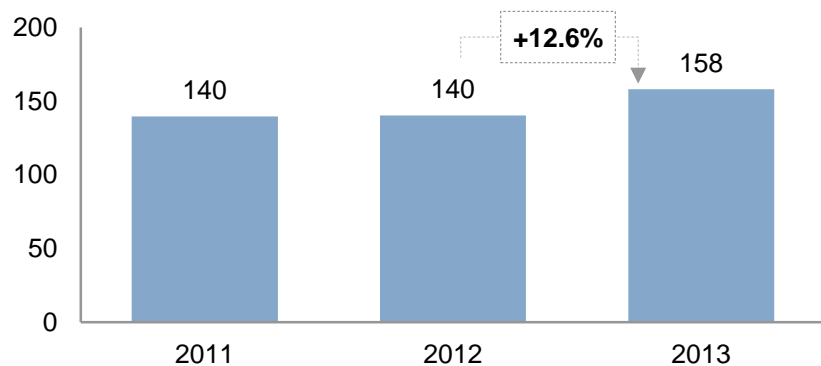


Source Company data  
Notes:  
1. Including leased substations



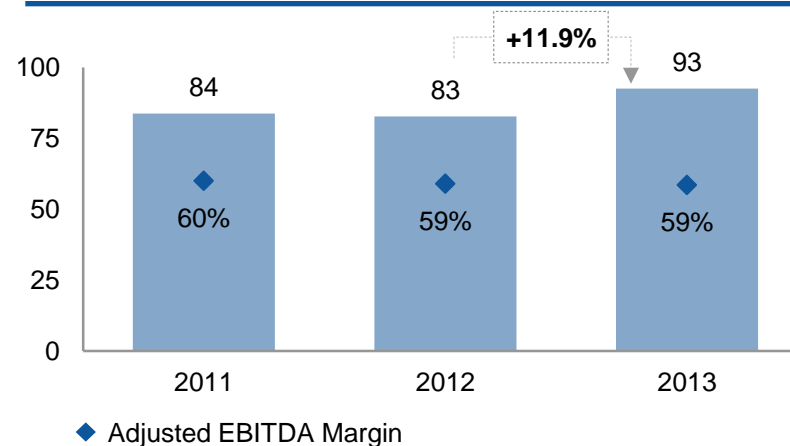
## Revenues

RUB Bn



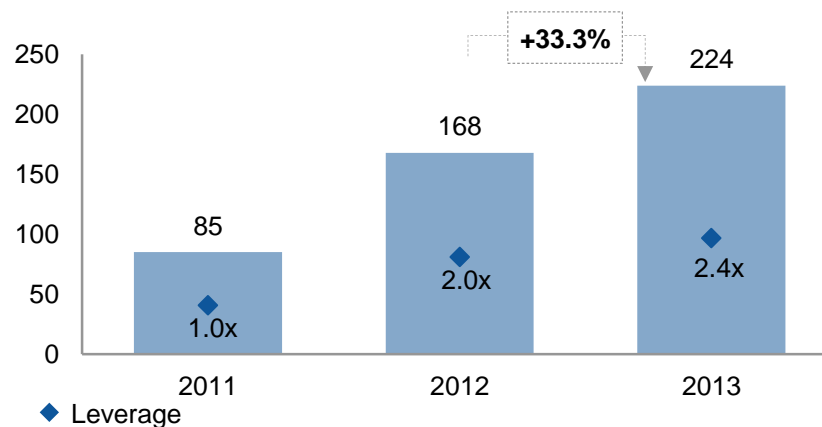
## Adjusted EBITDA

RUB Bn



## Net Debt Position

RUB Bn

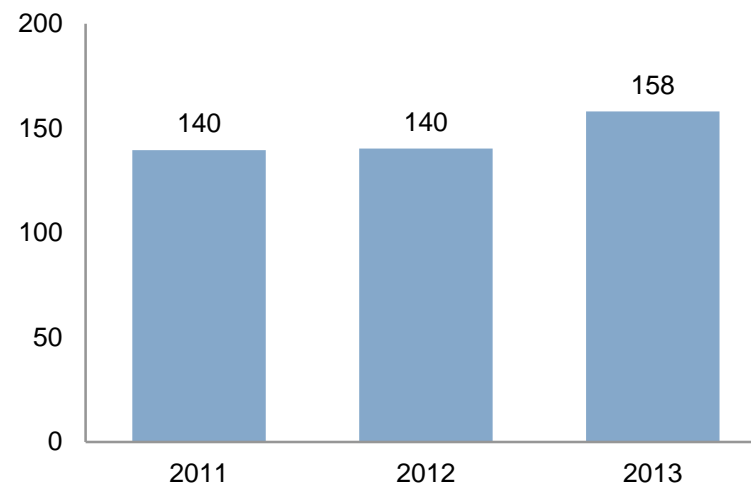


	2012 RUB Bn	2013 RUB Bn	Y-o-Y Change %
Transmission fee	136.559	152.430	11.6
Electricity sales	2.251	3.665	62.8
Other revenues	1.503	1.875	24.8
<b>Total revenues</b>	<b>140.313</b>	<b>157.970</b>	<b>12.6</b>

- The Group's revenues from electricity transmission services increased by RUB 15.871 bn, or 11.6%, from RUB 136.559 bn for the year ended 31 December 2012 to RUB 152.430 bn for the year ended 31 December 2013.
- The Group's revenue from electricity sales increased by RUB 1.414 bn, or 62.8%, from RUB 2.251 bn for the year ended 31 December 2012 to RUB 3.665 bn for the year ended 31 December 2013 primarily as a result of an increase in tariffs for electricity sales of OJSC "Nurenergo" and OJSC "Mobile gas-turbine electricity plants".
- Other revenues include revenues from connection services and grid repair and maintenance services. The Group's other revenues increased by RUB 372 million, or 24.8%, from RUB 1.503 bn for the year ended 31 December 2012 to RUB 1.875 bn for the year ended 31 December 2013 due to increase in revenue from grids repair and maintenance services.

## Total Revenue

RUB Bn





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

	2012 RUB bn	% of Total Operating Costs	2013 RUB bn	% of Total Operating Costs	Y-o-Y Change %
Personnel related expenses	25.713	23.1	27.939	21.1	8.7
Purchased electricity	13.320	12.1	14.151	10.6	6.2
Repairs & maintenance and materials	6.161	5.5	5.955	4.5	-3.3
Other expenses	19.883	17.8	20.829	23.1	4.8
<b>Operating expenses, excluding D&amp;A, taxes, other than on income, relocation of MGTES to Sochi <sup>(3)</sup></b>	<b>65.077</b>	<b>58.4</b>	<b>68.874</b>	<b>52.1</b>	<b>5.8</b>
D&A <sup>(2)</sup>	44.479	39.9	57.636	43.6	29.6
Taxes, other than on income	1.880	1.7	4.302	3.3	128.8
Relocation of MGTES to Sochi	0.000	0.0	1.426	1.1	N/A
<b>Total operating expenses<sup>(3)</sup></b>	<b>111.436</b>	<b>100.0</b>	<b>132.238</b>	<b>100.0</b>	<b>18.7</b>

- Excluding depreciation of property, plant and equipment, and amortisation of intangible assets, taxes other than on income and costs of relocation of MGTES to Sochi operating expenses amounted to RUB 68.874 bn in 2013, an increase of 5.8%.
- D&A increased by 29.6% following the implementation of investment program and commissioning of new fixed assets into operations.
- Personnel Related Expenses increased by 8.7%. The growth was primarily explained by an increase in the average number of employees by 2.7% and an increase in average salaries due to indexation of remuneration.
- Increase in purchased electricity expenses of 6.2% was due to increased actual volumes of electricity transmission and its losses.
- Taxes, other than on income increased almost by 130%, or RUB 2.422 bn, mainly because of property taxes.

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

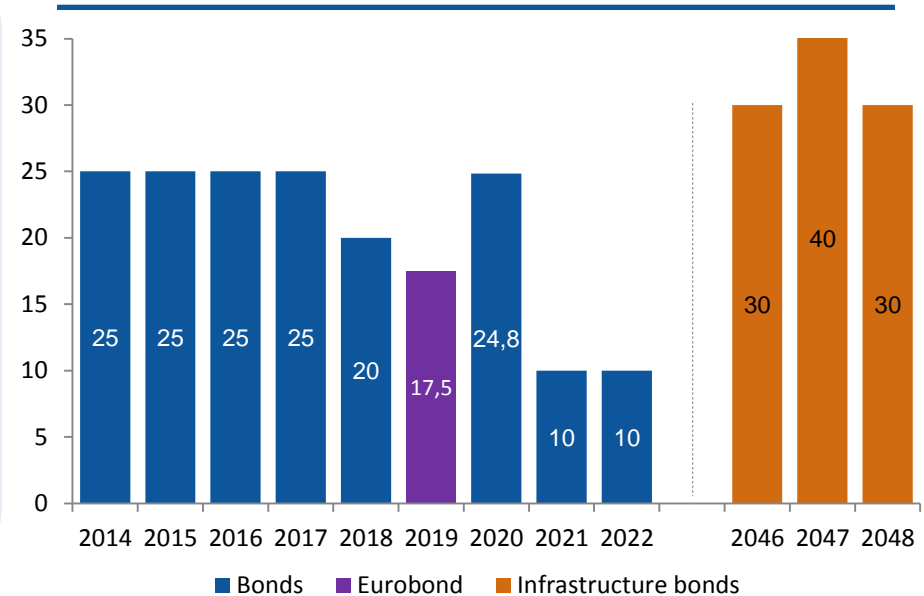
2. Includes amortisation of intangible assets of RUB 0.6 bn in 2012 and RUB 0.9 bn in 2013

3. Excluding allowance for doubtful debtors



- As of 31 December 2013 total debt amounted to RUB 287.6 bn: 59% of total debt are local bonds, 35% - infrastructure bonds, 6% are eurobonds
- In 2013 Federal Grid Company successfully placed four tranches of infrastructure bonds<sup>(1)</sup> in a total amount of RUB 100 billion with maturity 33-35 years and CPI+1% coupon rate
- 100% of total debt is unsecured and rouble nominated
- Net debt position of RUB 224.0 bn as of 31 December 2014, implying leverage of 2.4x
- Credit Ratings:
  - Fitch: BBB Negative (same as Sovereign)
  - S&P: BBB Negative (same as Sovereign)
  - Moody's: Baa3 stable (two notches below Sovereign)

## Debt maturity profile, RUB Bn



## Key Credit Ratios

	2011	2012 (restated)	2013
Total Debt, RUB bn	132.8	216.4	287.6
Net Debt, RUB bn	85.2	168.0	224.0
Net Debt / Adjusted EBITDA	1.0x	2.0x	2.4x

Source: Company IFRS financials

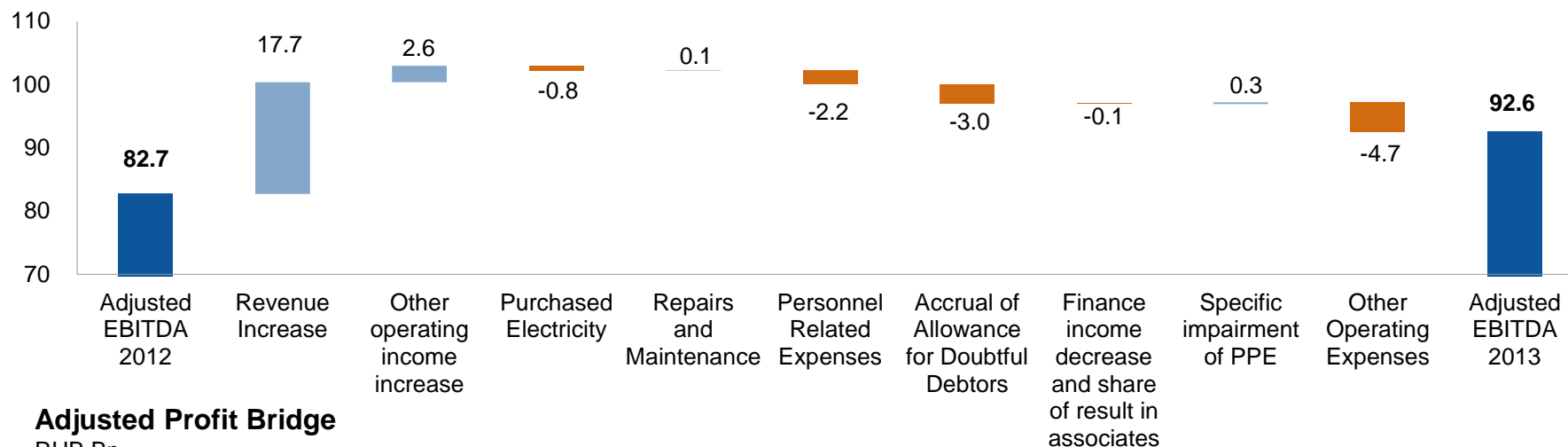
Notes: 1. The Supervisory Board of Vnesheconombank (VEB) approved investing of pension savings in 2013, managed by VEB, into infrastructure bonds of Federal Grid with a limit of RUB 100bn and a maturity up to 35 years





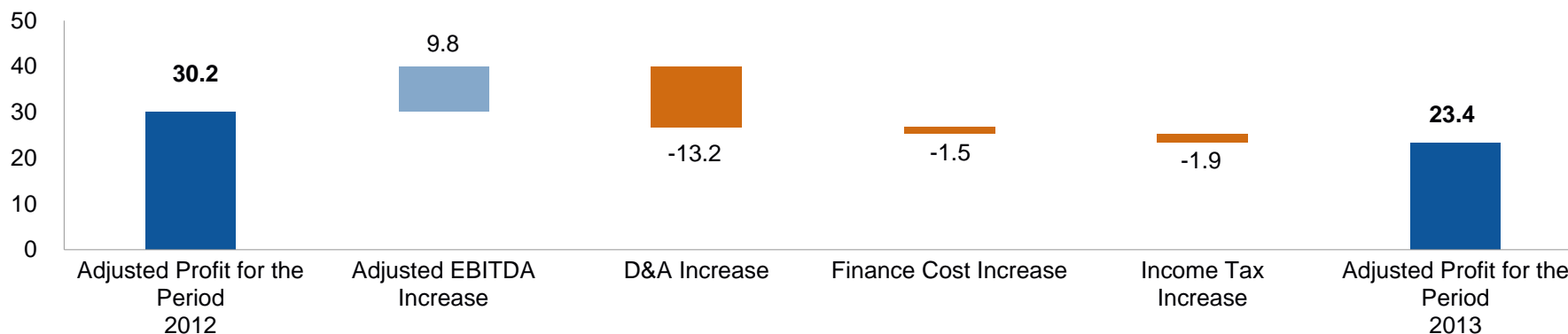
## Adjusted EBITDA Bridge

RUB Bn



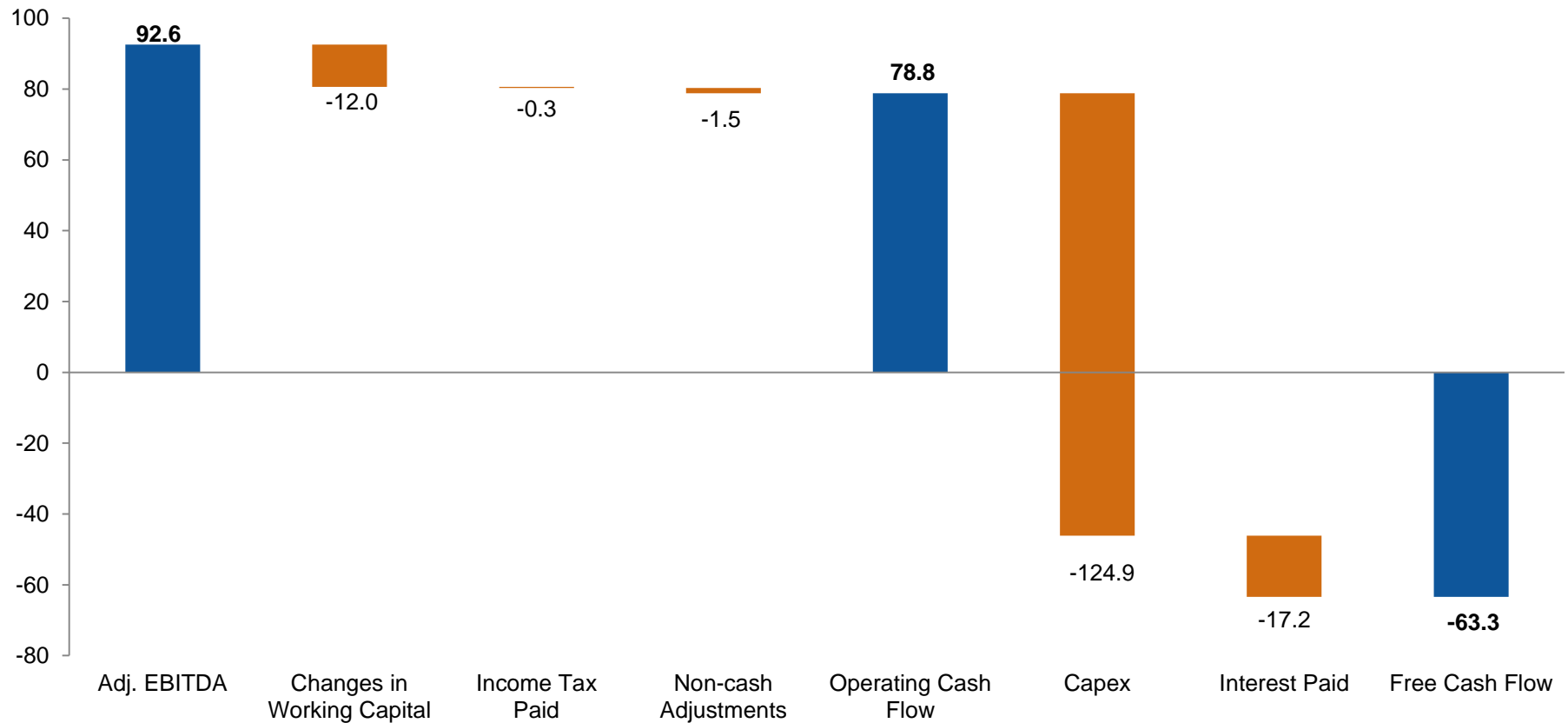
## Adjusted Profit Bridge

RUB Bn



## Free Cash Flow in 2013

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



Thank you





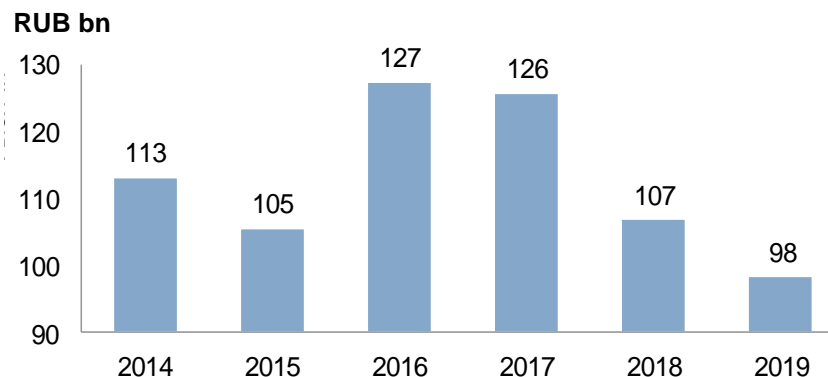
# Appendix



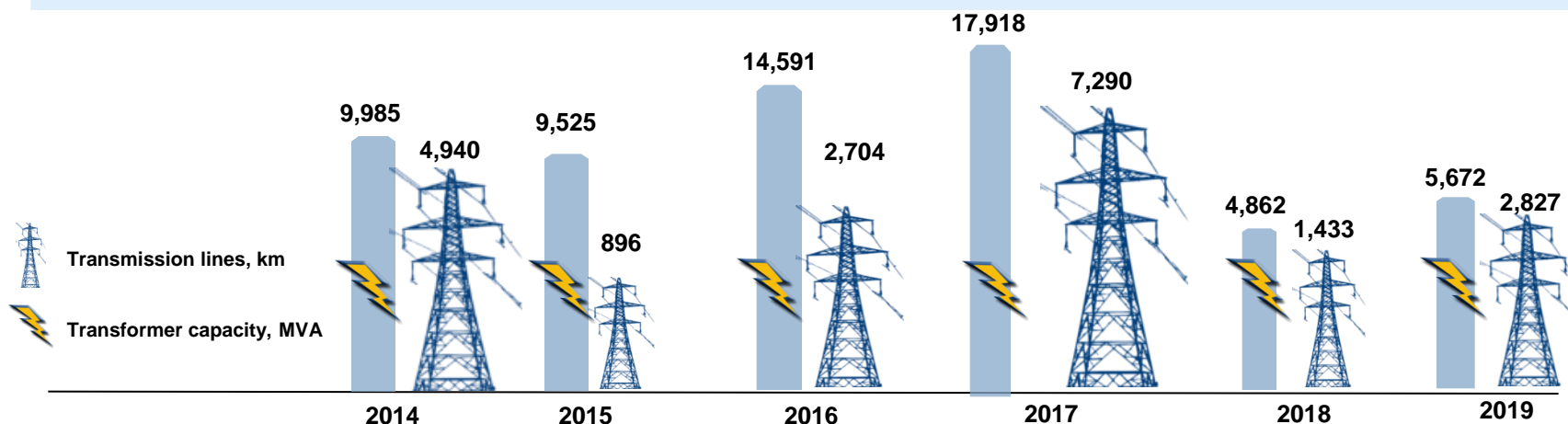
## Commentary

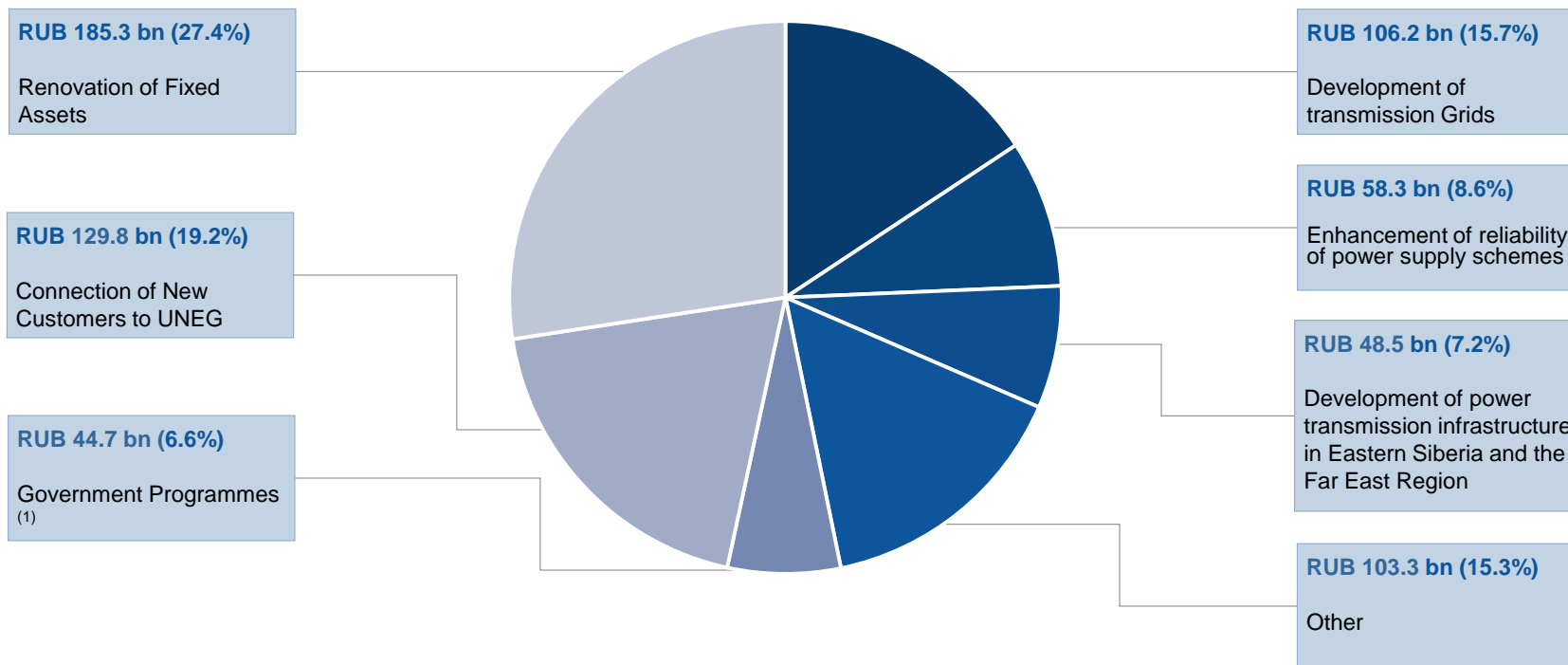
- On 24 January 2014 Federal Grid Company approved investment programme project for 2014 – 2019
- The approved plan entails investments totalling RUB 675.9 bn (including VAT) into the commissioning of 62,643 MVA of new transformer capacity and 19,443 kilometres of new transmission lines
- In 2013 Federal Grid Company invested RUB 149.7 bn (including VAT)**

## Investment programme: Breakdown by year<sup>(1)</sup>



## New construction 2014 – 2019





**Total Volume over 2014 – 2019:**

Projected investment:	RUB 675.9 bn
Capacity to be commissioned:	62,643 MVA
Grids to be commissioned:	19,443 km

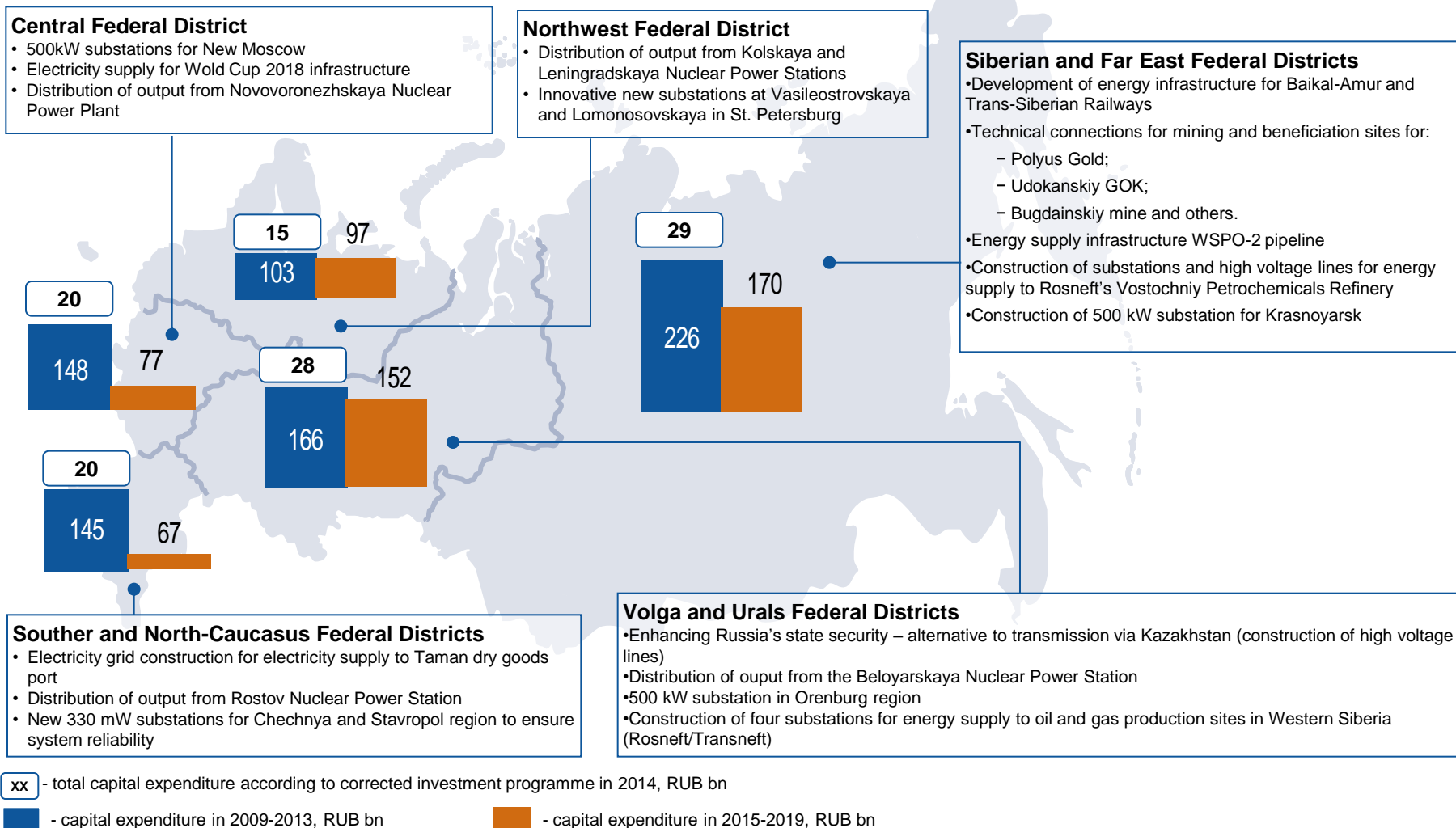
Notes:  
1. Federal target programs





# Key Federal Grid Company investment projects: 2014-2019

## Investment programme expenditures, RUB bn<sup>1)</sup>



Notes:  
1) including VAT



# Statement of Financial Position

Consolidated Interim Statement of Financial Position		
RUB MM	31 December 2013	31 December 2012 (Restated)
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	749,710	1,096,535
Intangible assets	11,228	9,319
Investments in associates	1,440	1,403
Available-for-sale investments	20,442	50,617
Long-term promissory notes	874	1,457
Deferred income tax assets	7,162	-
Other non-current assets	5,294	4,498
<b>Total non-current assets</b>	<b>796,150</b>	<b>1,163,829</b>
<b>Current assets</b>		
Cash and cash equivalents	21,627	24,056
Bank deposits	39,070	980
Short-term promissory notes	2,896	23,380
Loans given	59	38
Accounts receivable and prepayments	48,694	38,808
Income tax prepayments	2,016	2,143
Inventories	7,990	7,007
<b>Total current assets</b>	<b>122,352</b>	<b>96,412</b>
<b>TOTAL ASSETS</b>	<b>918,502</b>	<b>1,260,241</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital: Ordinary shares	633,571	630,193
Treasury shares	(4,725)	(4,917)
Share premium	10,501	10,501
Reserves	184,916	311,784
Accumulated deficit	(275,024)	(43,125)
<b>Equity attributable to shareholders of FGC UES</b>	<b>549,239</b>	<b>904,436</b>
Non-controlling interest	(942)	733
<b>Total equity</b>	<b>548,297</b>	<b>905,169</b>
<b>Non-current liabilities</b>		
Deferred income tax liabilities	512	80,185
Non-current debt	257,964	193,200
Retirement benefit obligations	7,912	7,294
<b>Total non-current liabilities</b>	<b>266,388</b>	<b>280,679</b>
<b>Current liabilities</b>		
Accounts payable to shareholders of FGC UES	3,773	3,257
Current debt and current portion of non-current debt	29,624	23,218
Accounts payable and accrued charges	70,376	47,743
Income tax payable	44	175
<b>Total current liabilities</b>	<b>103,817</b>	<b>74,393</b>
<b>Total liabilities</b>	<b>370,205</b>	<b>355,072</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>918,502</b>	<b>1,260,241</b>



# Statement of Comprehensive Income

Consolidated Interim Statement of Comprehensive Income		
RUB MM	31 December 2013	31 December 2012 (Restated)
Revenues	157,970	140,313
Other operating income	6,155	3,543
Operating expenses	(133,811)	(110,031)
(Impairment) / Reversal of impairment of property, plant and equipment, net	(292,860)	53
<b>Operating profit</b>	<b>(262,546)</b>	<b>33,878</b>
Finance income	4,027	4,113
Finance costs	(2,109)	(621)
Impairment of available-for-sale investments	(28,757)	(18,941)
Impairment of promissory notes	(540)	(9,772)
Reversal of impairment of investments in associates	-	313
Share of result of associates	11	21
<b>Profit before income tax</b>	<b>(289,914)</b>	<b>8,991</b>
Income tax benefit / (expense)	55,143	(1,753)
<b>(Loss) / profit for the period</b>	<b>(234,771)</b>	<b>7,238</b>
<b>Other comprehensive income</b>		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Change in revaluation reserve for property, plant and equipment	(155,532)	-
Remeasurements of retirement benefit obligations	(176)	(2,000)
Change in revaluation reserve for property, plant and equipment in associates	-	209
Income tax relating to items that will not be reclassified	31,150	255
<b>Total items that will not be reclassified to profit or loss</b>	<b>(124,558)</b>	<b>(1,536)</b>
<i>Items that may be reclassified subsequently to profit or loss</i>		
Change in fair value of available-for-sale investments	(30,175)	(19,362)
Impairment of available-for-sale investments recycled to profit or loss	28,757	18,941
Foreign currency translation difference	26	(50)
Income tax relating to items that may be reclassified	284	84
<b>Total items that may be reclassified to profit or loss</b>	<b>(1,108)</b>	<b>(387)</b>
<b>Other comprehensive loss for the year, net of income tax</b>	<b>(125,666)</b>	<b>(1,923)</b>
<b>Total comprehensive income for the year</b>	<b>(360,437)</b>	<b>5,315</b>
<b>Profit / (loss) attributable to:</b>		
Shareholders of FGC UES	(233,101)	7,298
Non-controlling interest	(1,670)	(60)
<b>Total comprehensive income / (loss) attributable to:</b>		
Shareholders of FGC UES	(358,767)	5,375
Non-controlling interest	(1,670)	(60)
<b>(Loss) / earning per ordinary share for profit attributable to shareholders of FGC UES – basic and diluted (in Russian Roubles)</b>	<b>(0.186)</b>	<b>0.006</b>



# Cash Flow Statement

Consolidated Interim Statement of Cash Flows, RUB MM	31 December 2013	31 December 2012 (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
<b>Profit before income tax</b>	<b>(289,914)</b>	<b>8,991</b>
Adjustments to reconcile profit / (loss) before income tax to net cash provided by operations		
Depreciation of property, plant and equipment	56,758	43,908
Loss on disposal of property, plant and equipment	1,295	1,210
Amortisation of intangible assets	878	571
Impairment / (reversal of impairment) of property, plant and equipment, net	292,860	(53)
Impairment of available-for-sale investments	28,757	18,941
Impairment of promissory notes	540	9,772
Reversal of impairment of investments in associates	-	(313)
Share of result of associates	(11)	(21)
Accrual / (reversal) of allowance for doubtful debtors	1,573	(1,405)
Write-off of accounts payable	-	(51)
Share-based compensation	192	605
Finance income	(4,027)	(4,113)
Finance costs	2,109	621
Other non-cash operating expense	10	13
<b>Operating cash flows before working capital changes and income tax paid</b>	<b>91,020</b>	<b>78,676</b>
Working capital changes:		
Increase in accounts receivable and prepayments	(12,952)	(8,293)
Increase in inventories	(995)	(689)
Decrease /(increase) in other non-current assets	264	(288)
Increase in accounts payable and accrued charges	1,799	2,987
Decrease in retirement benefit obligations	(71)	(117)
Income tax paid	(273)	(1,970)
<b>Net cash generated by operating activities</b>	<b>78,792</b>	<b>70,306</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(122,143)	(150,431)
Proceeds from disposal of property, plant and equipment	623	1,309
Purchase of intangible assets	(2,787)	(2,917)
Purchase of promissory notes	(26,879)	(52,000)
Redemption of promissory notes	48,403	55,535
Investment in bank deposits	(40,374)	(3,520)
Redemption of bank deposits	2,612	3,724
Dividends received	23	20
Interest received	3,064	2,569
<b>Net cash used in investing activities</b>	<b>(137,458)</b>	<b>(145,711)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from share issuance	3,762	3,247
Proceeds from non-current borrowings	110,000	82,500
Repayment of non-current borrowings	(40,151)	-
Repayment of current borrowings	-	(105)
Repayment of lease	(150)	(150)
Interest paid	(17,224)	(11,658)
<b>Net cash generated by financing activities</b>	<b>56,237</b>	<b>73,834</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(2,429)</b>	<b>(1,571)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>24,056</b>	<b>25,627</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>21,627</b>	<b>24,056</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 “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, impairment of promissory notes, reversal of impairment of investments in associates (only for the year ended 31 December 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: non-specific impairment of property, plant and equipment, impairment of available-for-sale investments, impairment of promissory notes, reversal of impairment of investments in associates (only for the year ended 31 December 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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