



РОССТЕИ

# IFRS CONSOLIDATED FINANCIAL RESULTS OF THE ROSSETI GROUP FOR 6 MONTHS of 2019

August 29, 2019

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**РОССТЕИ**

# ROSSETI AS THE MAINSTAY OF RUSSIA'S ELECTRIC GRID SECTOR

**507** thousand substations

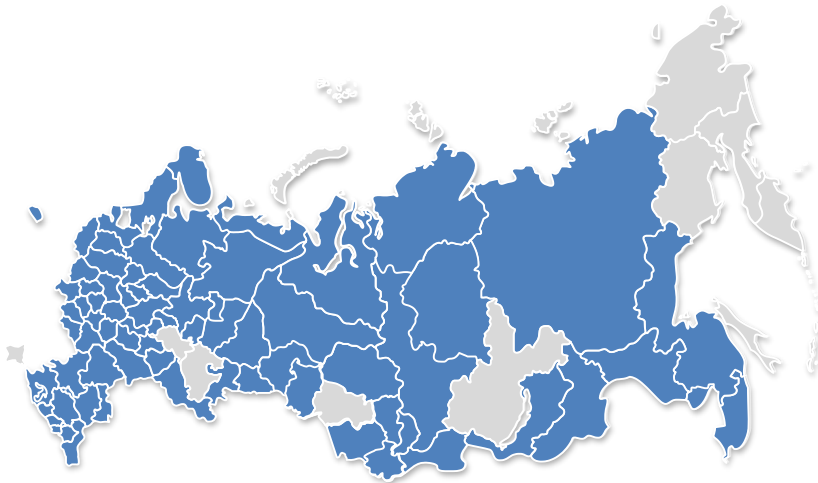
**2.35** million kilometers of power lines

**792** thousand MVA of transformer capacity

**217** thousand employees of grid subsidiaries

**80** regions of operations

**16** grid subsidiaries



Activity	Description
Distribution grids	15 subsidiaries (interregional and regional distribution grid companies) operate electric grids rated 110 kV and below
Transmission grids	FGC UES manages the Unified National (All-Russian) Electric Grid rated 220 kV and above
Other	Electricity retail companies and noncore assets (R&D and design companies, service and construction organizations, real property holders)

- ROSSETI is an electric utility holding company, one of the largest in the world in terms of the length of networks and installed transformer capacity
- The Russian Government holds an 88.04% stake in ROSSETI



Indicator	6M2019 bn RUB	6M2018 <sup>1</sup> bn RUB	Change	
			bn RUB	%
Revenue	500.1	485.3	14.8	3.0
Operating expenses	(414.0)	(400.2)	(13.8)	3.4
Provision for expected credit losses	(10.0)	(15.3)	5.3	(34.6)
Other income	18.7	12.8	5.9	46.1
EBITDA	167.7	146.7	21.0	14.3
EBITDA margin, %	33.5	30.2	3.3 pp	-
Net profit	67.9	59.1	8.8	14.9
Net profit margin, %	13.6	12.2	1.4 pp	-
Net cash flows from operating activities	103.0	106.8	(3.8)	(3.6)
Net debt <sup>3</sup>	402.9	432.2 <sup>2</sup>	(29.3)	(6.8)

■ Implementing the **Digital Transformation Concept**, ROSSETI:

- approved a list of pilot projects
- developed and approved uniform standards for smart substations and smart grids and introduced them into the rehabilitation and construction of all facilities
- launched several pilot projects

■ Enhancing its **appeal for investors**, ROSSETI:

- approved interim dividends of 5.02 billion rubles for 1Q2019
- had the credit ratings of ROSSETI and FGC UES upgraded by Moody's to investment grade of Baa3
- had the credit rating of LENENERGO upgraded by ACRA to AAA(RU)
- had the credit ratings of MOESK and IDGC of Centre upgraded by Standard & Poor's to BB+
- had the ROSSETI Group's uniform brand architecture approved by the Board of Directors

<sup>1</sup> Source: IFRS financial statements of the ROSSETI Group for 6 months of 2019

<sup>2</sup> As of December 31, 2018

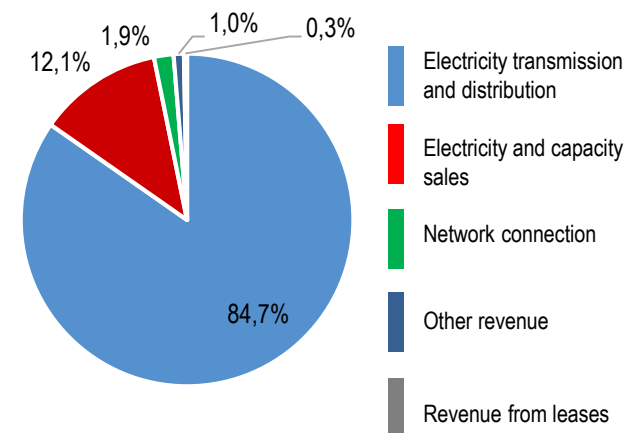
<sup>3</sup> Net of lease liabilities



# POCETM REVENUE STRUCTURE ANALYSIS

Indicator	6M2019 bn RUB	6M2018 <sup>1</sup> bn RUB	Change	
			bn RUB	%
Electricity transmission and distribution	423.6	413.3	10.3	2.5
Electricity and capacity sales	60.3	52.2	8.1	15.5
Network connection	9.5	8.3	1.2	14.5
Other revenue	5.3	10.0	(4.7)	(47.0)
Revenue from leases	1.4	1.5	(0.1)	(6.7)
<b>Total</b>	<b>500.1</b>	<b>485.3</b>	<b>14.8</b>	<b>3.0</b>

## REVENUE STRUCTURE IN 6M2019



- Revenue from electricity transmission and distribution grew due to tariff indexation
- Electricity and capacity sales increased due to higher sales resulting from taking on the supplier of last resort functions
- Revenue from network connection services increased due to compliance with the services schedules depending on customers
- Other revenue decreased largely due to the completion of the main construction project stages under general contract agreements of the FGC UES Group

<sup>1</sup> Source: IFRS financial statements of the ROSSETI Group for 6 months of 2019



# POCCEM OPEX STRUCTURE ANALYSIS

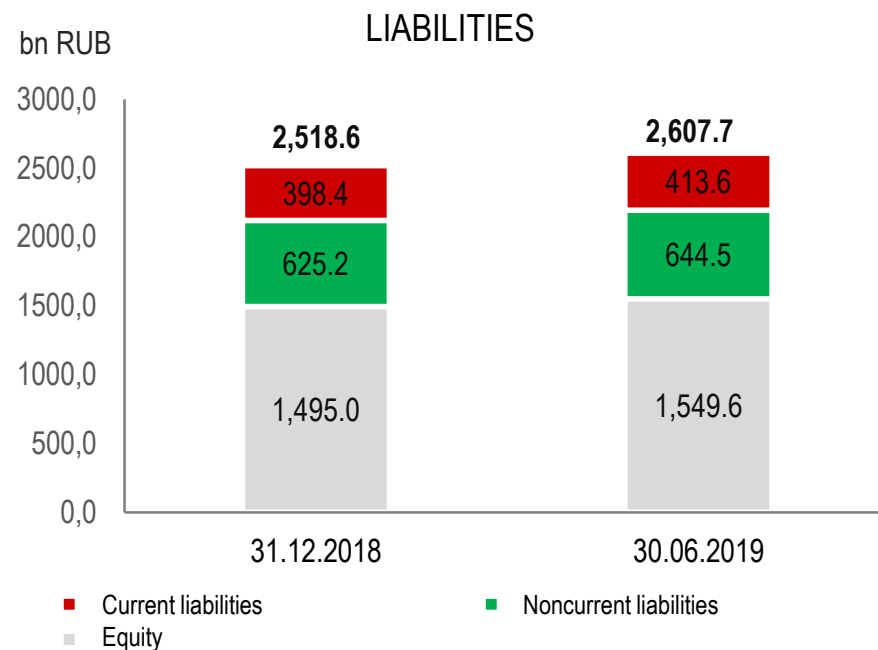
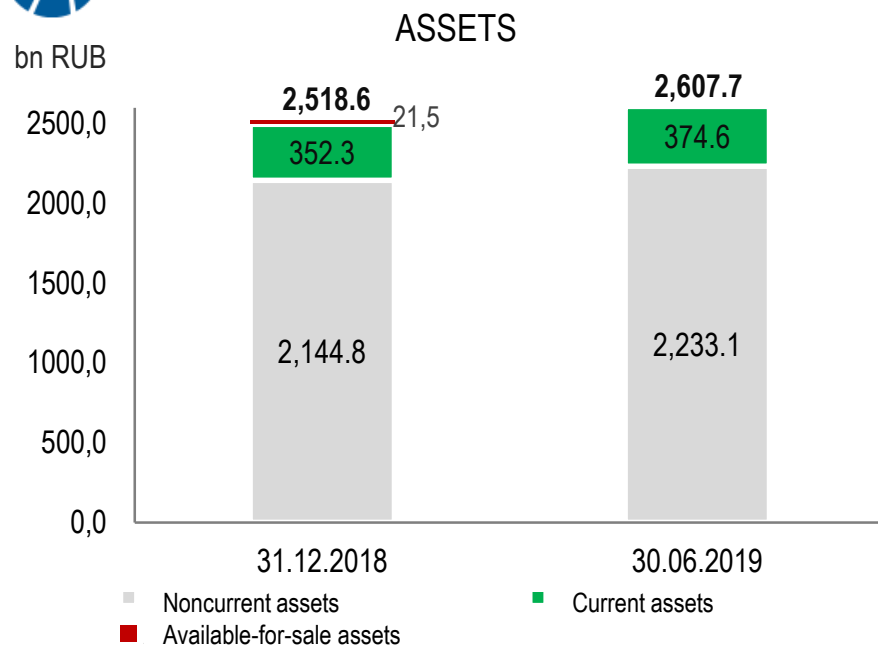
Indicator	6M2019 bn RUB	6M2018 <sup>1</sup> bn RUB	Change	
			bn RUB	%
Electricity transmission and distribution services	77.4	74.7	2.7	3.6
Electricity purchased for compensation for electricity network losses	75.0	72.3	2.7	3.7
Electricity purchased for resale	36.5	28.6	7.9	27.6
Depreciation and amortization	63.3	56.6	6.7	11.8
Taxes and levies except profit tax	13.6	15.7	(2.1)	(13.4)
Employee benefits	96.2	91.9	4.3	4.7
Other	52.0	60.4	(8.4)	(13.9)
<b>Total</b>	<b>414.0</b>	<b>400.2</b>	<b>13.8</b>	<b>3.4</b>
Provision for expected credit losses (impairment of receivables)	10.0	15.3	(5.3)	(34.6)

- Expenses associated with electricity distribution services grew due to tariff indexation for other territorial grid organizations
- Expenses associated with electricity purchased for compensation for electricity network losses increased due to higher weighted average prices of purchased electricity, while electricity losses decreased
- Expenses associated with electricity purchased for resale increased due to higher electricity sales in the reporting period as a result of taking on the supplier of last resort functions
- Depreciation and amortization grew due to putting into operation new fixed assets under the capex program
- Tax payments decreased due to changes in tax legislation whereby movable property ceased to be taxable, while property tax benefits related to power lines were abolished
- Employee benefits increased due to wage indexation for production personnel in accordance with the Sectoral Wage Rate Agreement, adjusted for changes in the consumer price index, and an increase in personnel due to taking on the supplier of last resort functions
- The provision for expected credit losses decreased largely because of provisioning in 2018 due to the supplier of last resort status lost by retail companies

<sup>1</sup> Source: IFRS financial statements of the ROSSETI Group for 6 months of 2019



# POSCETI KEY BALANCE SHEET INDICATORS



### Key factors contributing to changes in the value of noncurrent assets:

- increased fixed assets due to the commissioning of new facilities under the capex program
- increased right-of-use assets (in accordance with IFRS 16 Leases, effective from January 1, 2019)

### Key factors contributing to changes in the value of current assets:

- increased cash balance and short-term bank deposits

### Key factors contributing to changes in the structure of equity:

- net profit received in the reporting period

### Key factors contributing to changes in current liabilities:

- increased short-term loans and borrowings (including due to reclassifying long-term loans and borrowings by maturity)

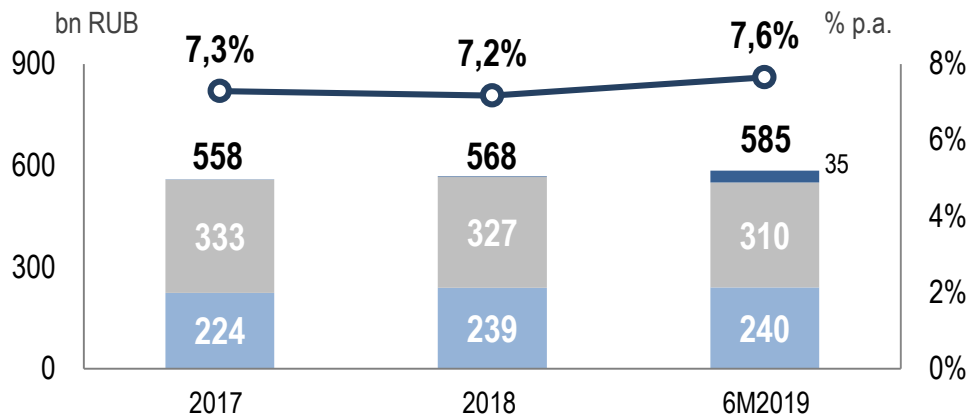
### Key factors contributing to changes in noncurrent liabilities:





- lease obligations recognized on balance sheet in accordance with IFRS 16 Leases, effective from January 1, 2019
- increased deferred tax liabilities (including due to the asset swap deal with FEEMC)



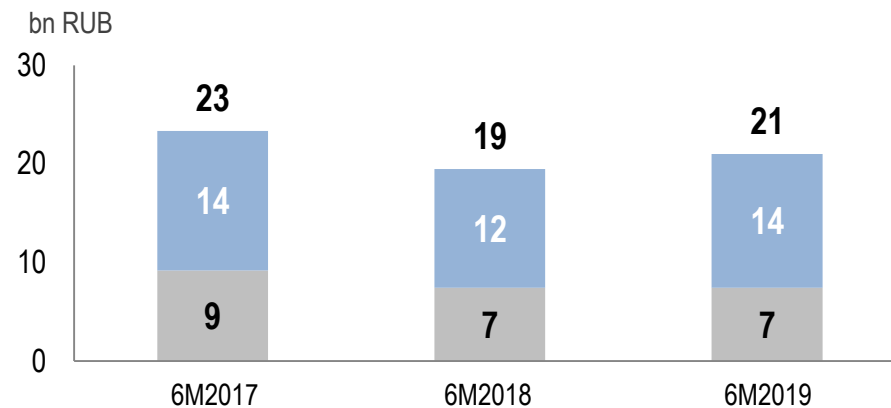
# POCETI ROSSETI GROUP BORROWINGS



## FINANCIAL DEBT



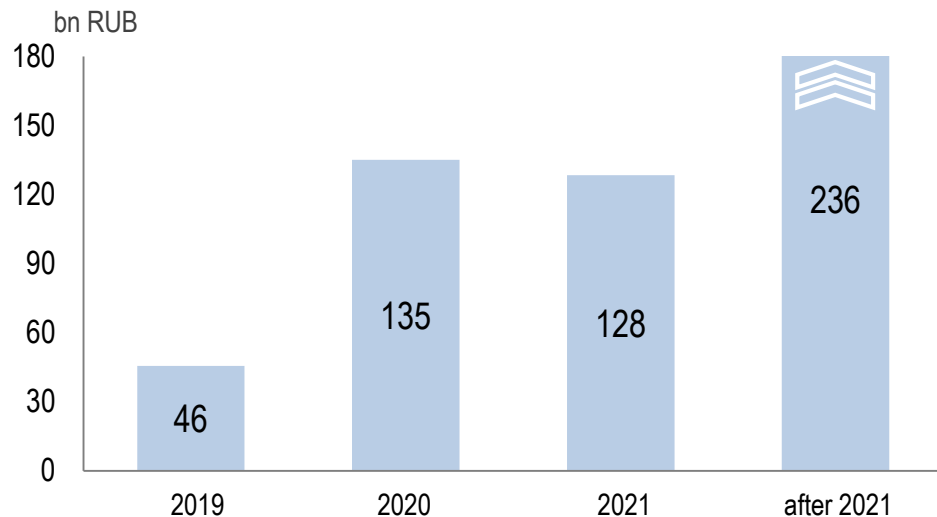
-  Lease obligations
-  Public debt offerings (bond loans)
-  Loans and other financial obligations
-  Weighted average interest rate for the Group at period end

## DEBT SERVICE EXPENSES



-  Accrued interest included in expenses
-  Accrued interest capitalized in fixed asset value

## DEBT REPAYMENT SCHEDULE<sup>1</sup>



- Financial debt grew due to lease obligations included in “Loans and borrowings” in accordance with IFRS 16 Leases.
- The Group’s debt remained below the market average (according to the Bank of Russia, the average lending rate for maturities of 1-3 years was 10.1% p.a. in June 2019).
- The interest rate for the Group’s debt portfolio grew after the end of 2018, primarily due to increased coupons of FGC UES’s CPI-linked bonds.
- The Group’s debt portfolio is dominated by long-term borrowings, with a weighted average maturity exceeding 8 years.

<sup>1</sup> Principal debt less accrued but unpaid interest





# POCETM RESULTS IN CAPITAL MARKETS IN 6M2019

## CAPITAL MARKETS

- FGC UES redeemed eurobonds totaling 17.5 billion rubles in March 2019
- MOESK placed bonds totaling 8 billion rubles with a coupon rate of 8.45% in April 2019
- ROSSETI redeemed early its bonds totaling 10 billion rubles in August 2019

## CREDIT RATINGS

- Following the upgrading of the sovereign rating of the Russian Federation, Moody's raised the long-term credit ratings of ROSSETI and FGC UES to investment grade of Baa3 on February 12, 2019
- ACRA upgraded the long-term credit rating of LENENERGO to AAA(RU) on March 26, 2019
- Standard & Poor's upgraded the long-term credit ratings of ROSSETI's subsidiaries MOESK and IDGC of Centre to BB+ on July 22, 2019

## CREDIT RATINGS OF THE GROUP'S ENTITIES

Rating Agency	S&P	Moody's	Fitch	ACRA	Expert RA
Rating Scale	International		National		
POCETM	BBB-	Baa3	-	AAA(RU)	-
FGC UES	BBB-	Baa3	BBB-	AAA(RU)	-
MOESK	BB+	Ba1	BB+	AAA(RU)	-
LENENERGO	-	Ba1	-	AAA(RU)	-
IDGC of Centre	BB+	-	-	-	ruAA
IDGC of Volga	-	Ba1	-	AA+(RU)	-
IDGC of North-West	-	-	-	AA+(RU)	-
IDGC of Center and Volga Region	-	Ba1	-	-	ruAA
IDGC of Urals	-	Ba1	-	-	ruAA
Tyumenenergo	-	-	-	-	ruAA

## APPENDICES



Indicator	June 30, 2019 mn RUB	December 31, 2018 <sup>1</sup> mn RUB	Change	
			mn RUB	%
<b>Non-current assets:</b>				
Property, plant and equipment	2,040,343	1,983,874	56,469	2.8
Intangible assets	18,340	19,145	(805)	(4.2)
Right-of-use assets	33,674	–	33,674	–
Investments in associates and joint ventures	1,186	1,401	(215)	(15.3)
Trade and other receivables	71,856	78,068	(6,212)	(8.0)
Assets related to employee benefits plans	5,927	6,216	(289)	(4.6)
Financial investments	44,787	41,562	3,225	7.8
Deferred tax assets	10,939	10,090	849	8.4
Advances given and other non-current assets	6,100	4,453	1,647	37.0
<b>Total non-current assets</b>	<b>2,233,152</b>	<b>2,144,809</b>	<b>88,343</b>	<b>4.1</b>
<b>Current assets:</b>				
Inventories	41,773	37,109	4,664	12.6
Financial investments	56,247	47,192	9,055	19.2
Income tax prepayments	5,386	3,380	2,006	59.3
Trade and other receivables	164,684	161,465	3,219	2.0
Cash and cash equivalents	87,366	84,056	3,310	3.9
Advances given and other current assets	19,115	19,154	(39)	(0.2)
<b>Total current assets</b>	<b>374,571</b>	<b>352,356</b>	<b>22,215</b>	<b>6.3</b>
Assets held for sale	–	21,467	(21,467)	–
<b>Total assets</b>	<b>2,607,723</b>	<b>2,518,632</b>	<b>89,091</b>	<b>3.5</b>

<sup>1</sup> Source: IFRS financial statements of the ROSSETI Group for 6 months of 2019



Indicator	June 30, 2019 mn RUB	December 31, 2018 <sup>1</sup> mn RUB	Change	
			mn RUB	%
<b>Equity:</b>				
Share capital	200,903	200,903	–	–
Share premium	213,098	213,098	–	–
Treasury shares	(109)	(109)	–	–
Other reserves	16,212	15,322	890	5.8
Retained earnings	732,144	687,786	44,358	6.4
<b>Total equity attributable to owners of the Company</b>	<b>1,162,248</b>	<b>1,117,000</b>	<b>45,248</b>	<b>4.1</b>
Non-controlling interest	387,390	377,962	9,428	2.5
<b>Total equity</b>	<b>1,549,638</b>	<b>1,494,962</b>	<b>54,676</b>	<b>3.7</b>
<b>Non-current liabilities:</b>				
Loans and borrowings	467,761	480,989	(13,228)	(2.8)
Trade and other payables	22,637	17,825	4,812	27.0
Advances from customers	37,212	26,221	10,991	41.9
Employee benefits	25,765	23,592	2,173	9.2
Deferred tax liabilities	91,088	76,640	14,448	18.9
<b>Total non-current liabilities</b>	<b>644,463</b>	<b>625,267</b>	<b>19,196</b>	<b>3.1</b>
<b>Current liabilities:</b>				
Loans and borrowings	117,687	87,268	30,419	34.9
Trade and other payables	216,022	226,292	(10,270)	(4.5)
Advances from customers	66,400	68,832	(2,432)	(3.5)
Provisions	13,258	10,901	2,357	21.6
Current tax liabilities	255	5,110	(4,855)	(95.0)
<b>Total current liabilities</b>	<b>413,622</b>	<b>398,403</b>	<b>15,219</b>	<b>3.8</b>
<b>Total liabilities</b>	<b>1,058,085</b>	<b>1,023,670</b>	<b>34,415</b>	<b>3.4</b>
<b>Total equity and liabilities</b>	<b>2,607,723</b>	<b>2,518,632</b>	<b>89,091</b>	<b>3.5</b>

<sup>1</sup> Source: IFRS financial statements of the ROSSETI Group for 6 months of 2019



# POCETI CONSOLIDATED STATEMENT OF PROFIT AND LOSS

Indicator	6M2019 mn RUB	6M2018 <sup>1</sup> mn RUB	Change	
			mn RUB	%
Revenue	500,052	485,336	14,716	3.0
Operating expenses	(413,970)	(400,172)	(13,798)	3.4
Provision for expected credit losses	(10,019)	(15,261)	5,242	(34.3)
Other income	18,678	12,842	5,836	45.4
Other expenses	(224)	(80)	(144)	180.0
<b>Results from operating activities</b>	<b>94,517</b>	<b>82,665</b>	<b>11,852</b>	<b>14.3</b>
Finance income	11,245	8,893	2,352	26.4
Finance costs	(16,634)	(13,865)	(2,769)	20.0
Net finance costs	(5,389)	(4,972)	(417)	8.4
Share of profit/(loss) of associates and joint ventures (net of income tax)	64	234	(170)	(72.6)
Profit before income tax	89,192	77,927	11,265	14.5
Income tax expense	(21,248)	(18,789)	(2,459)	13.1
<b>Profit for the period</b>	<b>67,944</b>	<b>59,138</b>	<b>8,806</b>	<b>14.9</b>
Profit attributable to:				
<b>Owners of the Company</b>	<b>48,645</b>	<b>42,059</b>	<b>6,586</b>	<b>15.7</b>
Non-controlling interest	19,299	17,079	2,220	13.0

<sup>1</sup> Source: IFRS financial statements of the ROSSETI Group for 6 months of 2019