

ROSSETI Achieves Record IFRS Results in 2016

PJSC ROSSETI (LSE: RSTI), the management company of Russia's largest and the world's third largest power grid, hereby announces the consolidated IFRS results of ROSSETI Group, which exceed the results of all previous periods.

The Group's 2016 consolidated revenue was RUB 904 billion, up 17.9% y-o-y. The Group also achieved a record net profit of RUB 98.3 billion, up 20.5% y-o-y. Adjusted net profit¹ increased to RUB 144.8 billion (up 43.5% y-o-y).

Adjusted net profit margin reached 16%, a 2.8 p.p. increase y-o-y

2016 EBITDA was RUB 265.2 billion, with adjusted EBITDA² at RUB 323.3 billion, up 6.5% and 18.4% y-o-y, respectively.

The net debt to EBITDA ratio decreased from 2x in 2015 to 1.8x in 2016.

These figures were the result of measures implemented to improve the efficiency of management and operations of subsidiaries and ensure the financial stability and loss-free operations of all Group companies.

"ROSSETI works for its consumers and shareholders, improving the reliability and availability of power supply, and securing financial stability and profitability across the Group. Introduction of new management tools, the cost cutting policy and comprehensive approach in engaging federal and regional authorities allowed the Group to achieve record results of all times in 2016. In 2017, we will continue our efforts to improve the operating and financial performance", Oksana Shatokina, Deputy Director General for Economic Affairs, commented on the IFRS statements.

ROSSETI is currently expecting guidelines from federal authorities regarding the amount of dividends to be paid for 2016.

Key performance indicators and highlights in 2016

Key operating results:

- Electricity transmission: 742.7 billion kWh (2015: 720.5 billion kWh)
- Network connection: 16,780 MW (2015: 19,705 MW)
- Electricity sales: 2,195 billion kWh (2015: 1,541 billion kWh)

¹Adjusted net profit is calculated as net profit for the period excluding losses from impairment of fixed assets, impairment of investments, impairment of accounts receivable and deferred income tax expense related to them.

²Adjusted EBITDA is calculated as EBITDA (earnings before interest, tax, depreciation, and amortization for the reporting period) excluding losses from impairment of fixed assets, impairment of financial investments and impairment of accounts receivable.

Key IFRS financial results:

Indicator	2016	2015	Change
	RUB billion	RUB billion	%
Revenue, including:	904.0	766.8	17.9
– Electricity transmission:	725.5	650.4	11.5
– Electricity and capacity sales	74.7	55.9	33.6
Operating expenses	788.3	652.5	20.8
Operating expenses (net of impairment of fixed assets and accounts receivable)	730.2	628.8	16.1
EBITDA	265.2	248.9	6.5
Adjusted EBITDA	323.3	273.1	18.4
Adjusted EBITDA margin	35.8%	35.6%	0.2 p.p.
Net profit	98.3	81.6	20.5
Adjusted net profit	144.8	100.9	43.5
Adjusted net profit margin	16.0%	13.2%	2.8 p. p.
Net cash flow from operations	175.6	156.7	18.9

In 2016, ROSSETI's revenue increased by RUB 137.2 billion, or 17.9% y-o-y, to RUB 904.0 billion. Revenue from electricity transmission increase by 11.5%, to RUB 725.5 billion. Revenue from electricity and capacity sales increased by 33.6%, to RUB 74.7 billion, which is mainly the result of increased sales by FGC UES Group (part of ROSSETI Group).

Operating expenses:

Indicator	2016	Share in total expenses	2015	Share in total expenses	Change, y-o-y
	RUB billion		RUB billion		
Uncontrollable expenses, including	524.4	66.5%	407.0	62.4%	28.8%
Electricity transmission services	131.0	16.6%	119.3	18.3%	9.8%
Electricity for compensation of losses	111.5	14.1%	101.2	15.5%	10.2%
Electricity for sale	46.0	5.8%	31.2	4.8%	47.4%
Depreciation and amortization	113.8	14.4%	100.5	15.4%	13.2%
Taxes and charges, other than income tax	20.8	2.6%	17.6	2.7%	18.2%
Impairment of fixed assets	38.5	4.9%	-5.1	-0.8%	
Impairment of accounts receivable	19.6	2.5%	28.8	4.4%	-31.9%
Provisions	9.6	1.2%	3.9	0.6%	146.2%
Other	33.6	4.3%	9.6	1.5%	250.1%
Controllable expenses, including	263.9	33.5%	245.5	37.6%	7.5%
Payroll expenses	173.6	22.0%	162.9	25.0%	6.6%
Other	90.3	11.5%	82.6	12.7%	9.3%
Total operating expenses	788.3		652.5		20.8%
Total operating expenses excl. impairment of fixed assets and accounts receivable	730.2		628.8		16.1%



The Group posted RUB 788.3 billion in operating expenses in 2016, up 20.8% y-o-y (2015: RUB 652.5 billion). Below is the analysis of the key factors.

The Group's 2016 uncontrollable expenses increased by RUB 117.4 billion, or 28.8%, particularly due to the following factors:

- Electricity transmission services increased by RUB 11.7 billion, or 9.8%, due to the increased cost of services provided by certain territorial grid organizations.
- Expenses for purchasing electricity to compensate for losses rose by RUB 10.3 billion, or 10.2% y-o-y, driven by the increased cost of purchased electricity.
- Expenses for purchasing electricity for sale grew by RUB 14.8 billion, or 47.4%, due to changes in the operation mode of the power grid and increased electricity sales.
- Amortization charges grew by RUB 13.3 billion, or 13.2%, due to the commissioning of new fixed assets as part of the Capex program.
- Taxes and charges increased by RUB 3.2 billion, or 18.2%, in the reporting period, driven by a phase-out of property tax benefits for power grid facilities.
- Losses from the impairment of fixed assets in 2016 were recognized at RUB 38.5 billion following the reduction of estimated future cash flows from the use of grid assets.
- Provisions rose by RUB 5.7 billion due to the recognition of estimated liabilities related to litigations against third-party territorial grid organizations regarding electricity transmission and against utility companies regarding the purchase of electricity to compensate for electricity losses.
- Other expenses increased by RUB 24 billion, driven mainly by cost of services provided by subcontractors and material expenses under construction contracts, as well as by increased fuel costs for mobile and gas-turbine substations.

The Group's controllable expenses rose in 2016 by RUB 18.4 billion, or 7.5%, mainly due to the growth in payroll expenses by RUB 10.7 billion, or 6.6%, driven by the indexation of wages for production staff in accordance with the Sectoral Wage Rate Agreement.

Corporate highlights:

- In accordance with the resolution of the Annual General Meeting of PJSC ROSSETI, a significant amount of dividend was paid for the first time for Q1 2016, in the amount of RUB 1.785 million, and dividends on ordinary shares were paid for the first time in the Company's dividend history.
- The Board of Directors approved the Development Plans of Subsidiaries.
- The Group placed bonds in the amount of RUB 10 billion in favour of Vnesheconombank with a 10year maturity and a 9.15% coupon rate.
- ROSSETI's corporate governance practice was recognised by the Open Government as one of the top three. The Russian Institute of Directors assigned to PJSC ROSSETI a rating of 7++ Developed Corporate Governance Practice.
- PJSC ROSSETI became one of the three most transparent companies with a government-owned interest in the procurement sphere. Expert RA rating agency, after analysing the quality of procurement management, raised the rating of the Group's companies to RKZ 9.
- The Board of Directors highly appreciated the performance of ROSSETI Group's Common Treasury and acknowledged its efficiency for PJSC ROSSETI and the Group.

Events after the reporting date:



- Ordinary shares of PJSC ROSSETI were reclassified as first-level on the Moscow Exchange quotation list
- PJSC ROSSETI was recognised the best company in terms of reliability of its internal control system
- PJSC ROSSETI approved its Power Grid Environmental Policy
- PJSC ROSSETI was recognised one of the top 10 environmentally friendly companies in Russia

2017 Forecast

In order to ensure the financial stability of its subsidiaries and create conditions for their further development, the Group will continue to implement the Development Plans in 2017 to ensure that the key financial and economic indicators of ROSSETI Group are on a positive trend and the operations of its subsidiaries are loss-free.

The annual efforts to reduce the operating expenses of ROSSETI Group have led to the optimization of their size and structure. In order to identify the potential of further cost optimization, the Group carried out an independent audit of the costs of ROSSETI subsidiaries in 2016, which also confirmed the achievement of 2016 targets to reduce specific operating expenses, determined by the Strategy for Development of the Power-Grid Complex of the Russian Federation and Russian Government Directives.

Based on the independent cost audit, the Board of Directors developed and approved the Cost Optimization Action Plan of PJSC ROSSETI and Subsidiaries for 2017–2022, the implementation of which in future periods will ensure the retention of the positive trend of ROSSETI Group's operating performance taking into account the unconditional reliability of electricity transmission and the quality and availability of electricity supply to consumers.

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Public Joint-Stock Company ROSSETI (PJSC ROSSETI) is one of the largest electric companies in the world. The company maintains 2.31 million km of power transmission lines, 496,000 substations with transformer capacity of more than 773 GW. The number of employees of the Rosseti Group of Companies is 216,000 people.

The asset portfolio of PJSC ROSSETI includes 37 subsidiaries and affiliates, including 14 interregional and a main network company. The controlling shareholder of the company is the state represented by the Federal Agency for State Property Management of the Russian Federation, which owns 87.9% of the share capital.

Some of the information in this press release may contain projections or other forward-looking statements regarding future events or the future financial performance of PJSC ROSSETI. You can



identify forward looking statements by terms such as "expect," "believe," "anticipate," "estimate," "intend," "will," "could," "may" or "might" the negative of such terms or other similar expressions. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. We do not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, general economic conditions, our competitive environment, risks associated with operating in Russia, rapid technological and market change in our industry, as well as many other risks specifically related to PJSC ROSSETI and its operations.

	<u>Notes</u>	<u>Year ended 31 December 2016</u>	<u>Year ended 31 December 2015</u>
Revenue	8	903,981	766,812
Operating expenses	10	(788,324)	(652,538)
Other income, net	9	27,800	22,069
		143,457	136,343
Results from operating activities		13,915	16,238
Finance income	12	(37,187)	(38,865)
Finance costs	12	(23,272)	(22,627)
Net finance costs			
Share of loss of associates and joint ventures (net of income tax)		(343)	(4)
		119,842	113,712
Profit before income tax			
Income tax expense	13	(21,501)	(32,110)
		98,341	81,602
Profit for the year			
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in fair value of available-for-sale financial assets	16	53,153	7,825
		(204)	(151)
Allowance for foreign currency translation differences			
Income tax related to items that may be reclassified subsequently to profit or loss	17	(10,628)	(1,565)
Total items that may be reclassified subsequently to profit or loss		42,321	6,109
<i>Items that will never be reclassified subsequently to profit or loss</i>			
Remeasurements of the defined benefit liability	24	1,936	(5,186)
Income tax related to items that will never be reclassified subsequently to profit or loss	17	(129)	998
Total items that will not be reclassified subsequently to profit or loss		1,807	(4,188)
Other comprehensive income for the year, net of income tax		44,128	1,921
Total comprehensive income for the year		142,469	83,523
Profit attributable to:			
Owners of the Company		74,615	64,036
Non-controlling interest		23,726	17,566
Total comprehensive income attributable to:			
Owners of the Company		109,880	65,917
Non-controlling interest		32,589	17,606
Earnings per share			
Basic and diluted earnings per ordinary share (in RUB)	22	0.39	0.40



	<u>Notes</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
ASSETS			
Non-current assets			
Property, plant and equipment	14	1,798,568	1,734,044
Intangible assets	15	16,804	18,532
Investments in associates and joint ventures		936	1,489
Non-current accounts receivable	19	51,262	16,572
Other investments and financial assets	16	85,351	31,928
Deferred tax assets	17	7,069	8,579
Total non-current assets		1,959,990	1,811,144
Current assets			
Inventories	18	33,143	33,921
Other investments and financial assets	16	12,620	36,777
Current income tax prepayments		6,339	4,201
Trade and other receivables	19	167,616	162,624
Cash and cash equivalents	20	86,970	97,090
Total current assets		306,688	334,613
Total assets		2,266,678	2,145,757

	Notes	31 December 2016	31 December 2015
EQUITY AND LIABILITIES			
Equity	21		
Share capital		198,071	163,154
Share premium		212,978	212,978
Treasury shares		(2,702)	(2,713)
Reserve for issue of shares		1,678	33,473
Other reserves		33,165	(2,100)
Retained earnings		521,300	448,120
Total equity attributable to equity holders of the Company		964,490	852,912
Non-controlling interest		340,149	315,983
Total equity		1,304,639	1,168,895
Non-current liabilities			
Loans and borrowings	23	472,057	465,439
Trade and other payables	25	23,698	22,075
Employee benefits	24	28,425	29,473
Deferred tax liabilities	17	66,835	60,155
Total non-current liabilities		591,015	577,142
Current liabilities			
Loans and borrowings	23	86,829	118,832
Trade and other payables	25	261,754	267,972
Provisions	26	14,305	11,421
Current income tax liabilities		8,136	1,495
Total current liabilities		371,024	399,720
Total liabilities		962,039	976,862
Total equity and liabilities		2,266,678	2,145,757

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
OPERATING ACTIVITIES			
Profit for the year		98,341	81,602
<i>Adjustments for:</i>			
Depreciation and amortization of property, plant and equipment and intangible assets	10	113,766	100,529
Impairment of property, plant and equipment	14	38,503	(5,090)
Finance costs	12	37,187	38,865
Finance income	12	(13,915)	(16,238)
Loss on disposal of property, plant and equipment		751	2,773
Share of loss of associates and joint ventures, net of income tax		343	4
Impairment of accounts receivable	10	19,562	28,778
Proceeds from subsidiary disposal	9	(12,318)	(12,410)
Bad debt write-off		387	381
Non-cash receipt of property, plant and equipment		(5,650)	(7,687)
Non-cash settlement of technological connection agreements		(1,973)	(954)
Other non-cash transactions		(2,513)	177
Income tax expense		21,501	32,110
Operating profit before changes in working capital		293,972	242,840
Change in trade and other receivables (before impairment)		(65,734)	(25,118)
Change in inventories (before impairment)		919	(6,414)
Change in trade and other payables		23,842	25,510
Change in employee benefit liabilities		(1,611)	(3,965)
Change in provisions		2,884	(7,136)
Other		(91)	(65)
Cash flows from operating activities before income tax and interest paid		254,181	225,652
Income tax paid		(20,247)	(6,196)
Interest paid		(58,370)	(62,768)
Net cash flows from operating activities		175,564	156,688

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(196,178)	(174,052)
Proceeds from the sale of property, plant and equipment		5,692	2,265
Acquisition of investments and placement of bank deposits		(34,636)	(188,769)
Proceeds from disposal of investments and withdrawal of bank deposits		59,239	169,110
Dividends received		348	44
Interest received		11,603	15,662
Acquisition of subsidiaries		-	1,221
Net cash flows used in investing activities		(153,932)	(174,519)
FINANCING ACTIVITIES			
Proceeds from loans and borrowings		302,878	153,716
Repayment of loans and borrowings		(327,288)	(152,154)
Proceeds from share premium		3,122	33,473
Acquisition of non-controlling interest in subsidiaries		-	(413)
Dividends paid		(10,275)	(2,032)
Repayment of finance lease liabilities		(189)	(245)
Net cash flows from financing activities		(31,752)	32,345
Net increase in cash and cash equivalents		(10,120)	14,514
Cash and cash equivalents at the beginning of year		97,090	82,576
Cash and cash equivalents at the end of year	20	86,970	97,090