



ROSSETI Announces IFRS Financial Results for 1H2016

August 26, Moscow, Russia – PJSC ROSSETI (LSE: RSTI) (“ROSSETI” or the “Company”), the largest electricity transmission and distribution grid company in Russia, today announces its consolidated IFRS results for the companies of Rosseti Group (the “Group”) for the 6 months ended 30 June 2016.

Financial results:

- Revenue: 415.5 billion rubles (1H2015: 351.9 billion rubles)
- EBITDA: 139.4 billion rubles (1H2015: 106.1 billion rubles)
- Adjusted EBITDA:¹ 143.3 billion rubles (1H2015: 114.5 billion rubles)
- Net profit: 53.8 billion rubles (1H2015: 24.1 billion rubles)
- Adjusted net profit:² 56.9 billion rubles (1H2015: 30.8 billion rubles)

Corporate highlights:

- ROSSETI completed an additional share placement.
- The Annual General Meeting of Shareholders approved a dividend payment for 1Q2016 in the amount of 1.785 billion rubles.
- ROSSETI and the State Grid Corporation of China signed a JV agreement to upgrade the Russian electric grid sector’s infrastructure and to build new power facilities in Russia and, in due course, other countries.
- The Board of Directors approved the development plans of ROSSETI’s subsidiaries.

Events after the reporting period:

- Based on the analysis of ROSSETI’s and its subsidiaries’ procurement management quality, Expert RA upgraded the rating of the Group to RKZ 9.

Commenting on the 1H2016 financial results, Oksana Shatokhina, Deputy Director General for Economic Affairs of ROSSETI, said:

“Our efforts to ensure the financial stability of our key subsidiaries and payment discipline from our counterparties contributed to our strong results for the first half of the 2016, in line with our expectations.

Measures to improve operating efficiency and reduce expenses allowed us to increase our operating margin by 3.4 percentage points in the first half of 2016.”

Financial results

¹ *Adjusted EBITDA* is calculated as EBITDA (earnings before interest, tax, depreciation, and amortization for the reporting period) less impairment of financial investments and impairment of receivables.

² *Adjusted Net Profit* for the reporting period is calculated as the period’s net profit less impairment of financial investments, impairment of receivables, and related deferred profit tax liabilities.

Indicator	1H2016	1H2015	Change
	billion rubles	billion rubles	%
Revenue, including:	415.5	351.9	18.1
- Electricity transmission and distribution	348.5	309.9	12.5
- Electricity and capacity sales	37.3	28.3	31.8
Operating expenses	(357.4)	(313.1)	14.1
EBITDA	139.4	106.1	31.4
Adjusted EBITDA	143.3	114.5	25.2
EBITDA margin	33.6%	30.2%	3.4 pp
Adjusted EBITDA margin	34.5%	32.5%	2.0 pp
Net profit/(loss)	53.8	24.1	123.2
Adjusted net profit	56.9	30.8	84.7

In the 1st half of 2016, the Group's revenue grew by 18.1% to 415.5 billion rubles (1H2015: 351.9 billion rubles) with an increase across all sources of revenue. For example, revenue from electricity transmission and distribution grew by 12.5% (to 348.5 billion rubles), while electricity and capacity sales increased by 31.8% in the first half of 2016 compared with the corresponding period last year. The growth was largely due to tariff indexation, effective from July 1, 2015, and due to increased sales revenue from FGC UES Group's services.

Other revenue increased due to the performance of services under construction project contracts for electric grid facilities.

Operating expenses:

(billion rubles except where %)	1H2016	% of Total Operating Expenses	1H2015	% of Total Operating Expenses	YoY Change
Employee benefits	85.3	23.9%	82.6	26.4%	3.3%
Electricity transmission and distribution services	64.6	18.1%	56.3	18.0%	14.7%
Electricity purchased for compensation for electricity network losses	54.8	15.3%	45.4	14.5%	20.7%
Depreciation and amortization	57.3	16.0%	56.3	18.0%	1.8%
Electricity purchased for resale	21.0	5.9%	16.0	5.1%	31.3%
Taxes and levies except profit tax	11.1	3.1%	8.7	2.8%	27.6%
Rent	3.4	1.0%	3.1	1.0%	9.7%
Other third-party services	10.7	3.0%	11.5	3.7%	(7.0)%
Impairment of receivables	3.8	1.1%	8.1	2.6%	(53.1)%

Provisions	3.1	0.9%	4.5	1.4%	(31.1)%
Other	42.3	11.8%	20.6	6.6%	105.3%
Total operating expenses	357.4	100%	313.1	100%	14.1%

The Group's operating expenses went up by 14.1% to 357.4 billion rubles in the first half of 2016 (1H2015: 313.1 billion rubles). The key drivers are analyzed below.

- Employee benefits increased by 3.3%. The increase was due to wage indexation for production personnel in accordance with the Sectoral Wage Rate Agreement and was partly offset by a reduction in administrative expenses.
- Electricity distribution services grew by 8.3 billion rubles, or 14.7%, due to higher service prices charged by certain territorial grid organizations.
- Expenses associated with electricity purchased for compensation for electricity network losses increased by 9.4 billion rubles, or 20.7%, from the corresponding period in 2015 due to higher prices of purchased electricity.
- Expenses associated with electricity purchased for resale increased by 5.0 billion rubles, or 31.3%, due to higher electricity sales.
- Tax payments increased by 2.4 billion rubles in the reporting period due to gradually abolished property tax benefits in relation to electric grid facilities.
- Expenses associated with provisioning for impairment of receivables decreased by 4.3 billion rubles as a result of increased payments made by counterparties to discharge their current obligations and because of the reversal of some provisions due to entering into receivables restructuring agreements.
- Expenses associated with other third-party services (insurance; consulting, legal, and audit, services; software costs and servicing; communication services; security services; transportation; etc.) decreased by 7% due to the systematic implementation of comprehensive measures to reduce the Group's expenses.
- Other operating expenses increased by 21.7 billion rubles mainly due to expenses associated with subcontractor services and because of costs related to construction contracts amounting to 11.2 billion rubles (the FGC UES Group; no equivalent expenses in the comparable period) and due to an increase in fuel expenses for mobile gas turbine plants.

EBITDA was 139.4 billion rubles, or 31.4% higher compared with the corresponding period in 2015 (1H2015: 106.1 billion rubles). EBITDA margin increased from 30.2% in the first half of 2015 to 33.6% in 2016. Adjusted EBITDA margin was 34.5%.

The Group's net profit in the reporting period was 53.8 billion rubles (1H2015: 24.1 billion rubles). In addition to ROSSETI's measures to improve operating efficiency and reduce expenses, the financial result was affected by the fact that, in the first half of 2016, a subsidiary (NURENERGO) was recognized as no longer belonging to the Group.

In the first half of 2016, the Group's assets increased by 1.7% to 2,182.8 billion rubles (December 31, 2015: 2,145.8 billion rubles), mainly due to new facilities put into operation under the capex program and because of a rise in the value of long-term financial assets.

The Group's debt decreased by 4.3% and was 559.4 billion rubles as at June 30, 2016, compared to 584.3 billion rubles as at December 31, 2015. The Group's net debt decreased by 6.3% in the same period to 456.5 billion rubles as at June 30, 2016 (December 31, 2015: 487.2 billion rubles).

ROSSETI's credit rating assigned by Standard & Poor's corresponds to the sovereign rating, which proves the Group's high financial stability.

Forecast for the second half of 2016

The Group plans to carry out measures to maintain an upward trend in operating profitability and efficiency in 2016. The Group's priorities continue to include improving operating efficiency by achieving its targets to reduce specific operating expenses earlier than specified in the Strategy for Development of the Electric Grid Sector and directives of the Russian Government. Measures to improve the Group's operating efficiency were developed and approved by the boards of directors of the Group's entities under the programs to improve the operating efficiency and reduce expenses for 2016–2020.

Additionally, to achieve the goal of improving operating efficiency, the Group formulated the action plan to enhance grid companies' operating efficiency and ensure their financial stability in the current macroeconomic situation with the aim of meeting all targets contained in the Strategy for Development of the Electric Grid Sector of the Russian Federation. In order to ensure the financial stability of subsidiaries and create the conditions for their further development, the development plans of subsidiaries were formulated and approved by the Board of Directors for 2016–2018.

* * *

A conference call for investors and analysts will take place at 3:00 p.m. Moscow (1:00 p.m. London/8:00 a.m. New York) on August 26, 2016.

Participant dial-in numbers:

UK dial-in number:	+44 (0) 20 7136 2056
Russia dial-in number:	+7 (495) 213 0977
US dial-in number:	+1 (646) 254 3366
Confirmation codes:	Russian version: 5009012 English version: 8189572

Participants are advised to dial in 5-10 minutes prior to the start time.

A replay facility will be available for 7 days, and can be accessed using the following details:

United Kingdom:	+44 (0) 20 3427 0598 Toll free: 0800 358 77 35
Russia:	+7 (495) 705 9453 Toll free: 810 800 2870 1012
United States:	+1 (347) 366 9565 Toll free: +1 866 932 5017
Replay passcode:	Russian-language call: 5009012 English-language call: 8189572

* * *

For further information:

PJSC ROSSETI

Maria Stepanova, Head of IR
Yulia Martynova, IR

+7(495) 995 5333 (ext. 3961)
+7(495) 995 5333 (ext. 3834)

EM

Thomas Kiehn
Irina Logutenkova

+7 (495) 363 2846
+7 (495) 363 2433

PJSC ROSSETI holds interests in and manages 15 distribution grid companies and transmission grid company in Russia. The Company together with its subsidiaries owns and operates 2.3 million kilometers of electricity transmission and distribution lines with a total installed transformer capacity of 761 GVA. The Company operates in 78 regions of Russia.

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.

	Six months ended 30 June 2016	Six months ended 30 June 2015
	<u>Unaudited</u>	<u>Unaudited</u>
Revenue	415,481	351,895
Operating expenses	(357,370)	(313,088)
Other income, net	18,309	4,476
Results from operating activities	76,420	43,283
Finance income	7,580	8,510
Finance costs	(19,046)	(18,629)
Net finance costs	(11,466)	(10,119)
Share of (loss)/profit of associates and joint ventures		
(net of income tax)	(73)	9
Profit before income tax	64,881	33,173
Income tax expense	(11,077)	(9,081)
Profit for the period	53,804	24,092
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	27,462	9,943
Allowance for foreign currency translation differences	(3)	(322)
Income tax related to items that may be reclassified		
subsequently to profit or loss	(5,492)	(1,985)
Total items that may be reclassified subsequently to profit or loss	21,967	7,636
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Remeasurements of the defined benefit liability	(2,811)	(2,196)
Income tax related to items that will never be reclassified subsequently to profit or loss	396	81
Total items that will not be reclassified subsequently to loss or profit	(2,415)	(2,115)
Other comprehensive income for the period, net of income tax	19,552	5,521
Total comprehensive income for the period	73,356	29,613
Profit attributable to:		
Owners of the Company	42,334	18,127
Non-controlling interest	11,470	5,965
Total comprehensive income attributable to:		
Owners of the Company	58,356	22,720
Non-controlling interest	15,000	6,893
Earnings per share		
Basic and diluted earnings per ordinary share (in RUB)	0.22	0.11

	30 June 2016	31 December
	Unaudited	2015
ASSETS		
Non-current assets		
Property, plant and equipment	1,745,854	1,734,044
Intangible assets	17,031	18,532
Investments in associates and joint ventures	1,413	1,489
Non-current accounts receivable	16,945	16,572
Other investments and financial assets	59,625	31,928
Deferred tax assets	8,895	8,579
Total non-current assets	1,849,763	1,811,144
Current assets		
Inventories	37,033	33,921
Other investments and financial assets	23,688	36,777
Current income tax prepayments	8,945	4,201
Trade and other receivables	160,509	162,624
Cash and cash equivalents	102,816	97,090
Total current assets	332,991	334,613
Total assets	2,182,754	2,145,757
EQUITY AND LIABILITIES		
Equity		
Share capital	163,154	163,154
Share premium	212,978	212,978
Treasury shares	(2,713)	(2,713)
Reserve for issue of shares	34,917	33,473
Other reserves	13,922	(2,100)
Retained earnings	489,136	448,120
Total equity attributable to equity holders of the Company	911,394	852,912
Non-controlling interest	322,246	315,983
Total equity	1,233,640	1,168,895
Non-current liabilities		
Loans and borrowings	448,589	465,439
Trade and other payables	25,244	22,075
Employee benefits	32,868	29,473
Deferred tax liabilities	66,899	60,155
Total non-current liabilities	573,600	577,142
Current liabilities		
Loans and borrowings	110,763	118,832
Trade and other payables	252,560	267,972
Provisions	11,196	11,421
Current income tax liabilities	995	1,495
Total current liabilities	375,514	399,720
Total liabilities	949,114	976,862
Total equity and liabilities	2,182,754	2,145,757

	Six months ended 30 June 2016 Unaudited	Six months ended 30 June 2015 Unaudited
OPERATING ACTIVITIES		
Profit for the period	53,804	24,092
<i>Adjustments for:</i>		
Depreciation and amortization of property, plant and equipment and intangible assets	57,307	56,267
Finance costs	19,046	18,629
Finance income	(7,580)	(8,510)
(Profit)/loss on disposal of property, plant and equipment	(387)	337
Share of loss/(profit) of associates and joint ventures, net of income tax	73	(9)
Impairment of accounts receivable	3,849	8,132
Proceeds from subsidiary disposal	(12,613)	-
Non-cash receipt of property, plant and equipment	(1,121)	(861)
Non-cash settlement of technical connection agreements	(685)	(462)
Other non-cash transactions	(462)	89
Income tax expense	11,077	9,081
Operating profit before changes in working capital	122,308	106,785
Change in trade and other receivables (net of allowance for impairment)	(4,319)	3,361
Change in inventories (net of allowance for impairment)	(3,147)	(5,202)
Change in trade and other payables	10,051	7,957
Change in employee benefit liabilities	(713)	(844)
Change in provisions	(224)	556
Change in financial assets related to employee benefit fund	(295)	69
Cash flows from operating activities before income tax and interest paid	123,661	112,682
Income taxes paid	(15,075)	(6,639)
Interest paid	(32,175)	(27,960)
Net cash flows from operating activities	76,411	78,083
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(71,774)	(85,374)
Proceeds from sale of property, plant and equipment	2,868	1,697
Acquisition of investments and placement of bank deposits	(18,955)	(50,816)
Proceeds from sale of investments and withdrawal of bank deposits	32,197	27,354
Interest received	6,522	8,319
Dividends received	248	22
Net cash flows used in investing activities	(48,894)	(98,798)
FINANCING ACTIVITIES		
Proceeds from loans and borrowings	81,824	76,272
Repayment of loans and borrowings	(104,913)	(44,694)
Proceeds from share premium	1,444	-
Dividends paid	(48)	(8)
Payment of finance lease liabilities	(98)	(175)
Net cash flows from financing activities	(21,791)	31,395
Net increase in cash and cash equivalents	5,726	10,680
Cash and cash equivalents at the beginning of the period	97,090	82,576
Cash and cash equivalents at the end of the period	102,816	93,256