



JSC ROSSETI

ROSSETI ANNOUNCES FULL YEAR 2014 IFRS RESULTS

24 April 2015, Moscow, Russia – JSC ROSSETI (LSE: RSTI) (“ROSSETI” or the “Company”), the largest electricity transmission and distribution grid company in Russia, today announces its condensed consolidated IFRS results for the 12 months ended 31 December 2014.

Key financial indicators:

- Revenue: RUB 759.6 bn (2013: RUB 755.8 bn)
- EBITDA: RUB 131.8 bn (2013: RUB (58.6) bn)
- Adjusted EBITDA¹: RUB 249.0 bn (2013: RUB 233.2 bn)
- Net loss: RUB (24.3) bn (2013: RUB (159.4) bn)
- Adjusted net profit²: RUB 69.5 bn (2013: RUB 74.0 bn)
- Net cash flows generated by operating activities: RUB 160.7 bn (2013: RUB 148.9 bn)

Key operational indicators:

- Electricity transmission: 715 bn kWh (2013: 714 bn kWh)
- Technological connection: 17,771 MW (2013: 30,622 MW)
- Sales of electricity: 13.158 mn kWh (2013: RUB 34.765 mn kWh)

Key corporate highlights:

- The Company’s global depository receipts were admitted to trading on Moscow Exchange.
- Memorandum of cooperation signed with State Grid Corporation of China.
- The Board of Directors of ROSSETI approved the Regulations for Key Performance Indicators (KPI) of ROSSETI and Technique for Calculating and Evaluating the KPI of the Director General of ROSSETI for 2014.
- The Board of Directors approved ROSSETI’s long-term development programme.

Events subsequent to the reporting period:

- The Board of Directors of ROSSETI approved ROSSETI’s membership in Technical Customer Center, a joint-stock company to be established jointly with Rostec, with the aim of optimising execution of the investment programmes of both the Group and Rostec.
- The Board of Directors of ROSSETI approved the Action Plan (Road Map) for introducing the Corporate Governance Code into the activities of ROSSETI.

¹ *Adjusted EBITDA* is calculated as EBITDA excluding losses from impairment of assets, available-for-sale investments, promissory notes, accounts receivable and advances paid;

² *Adjusted net profit* is calculated as net profit for the period excluding losses from impairment of assets, available-for-sale investments, promissory notes, accounts receivable, advances paid and deferred income tax expense related to them.

Commenting on the 2014 financial results, Andrey Demin, First Deputy Director General for Economic Affairs and Finance of ROSSETI, said:

“The past year was characterised by slower economic growth and volatility on the foreign exchange and capital markets, which resulted in higher borrowing costs for Russian companies. Against this backdrop, ROSSETI notably improved its financial performance, including, growth in EBITDA and operating cash flow. The Group significantly reduced its operating expenses, partly due to execution of our strategy, which is aimed at enhancing operating efficiency and optimising expenses.

“In 2015, the deteriorating economic situation will continue to have a negative impact on the electrical grid sector. In such an environment, we will prioritise the further optimisation of the Group’s investment programme, control of payment discipline and accounts receivable dynamics, cost management, as well as diversification of sources of long-term financing. By implementing our strategic initiatives we will improve the profitability and sustainability of ROSSETI’s business in the long run”.

FINANCIAL PERFORMANCE

Indicators	2014	2013	Change
	RUB bn	RUB bn	%
Revenue	759.6	755.8	0.5
Operating expenses	(759.8)	(912.6)	(16.7)
incl. depreciation of fixed assets	(81.7)	(239.4)	(65.9)
Other income, net	14.3	7.9	81.0
Operating profit	14.1	(148.8)	-
EBITDA	131.8	(58.6)	-
Adjusted EBITDA	249.0	233.2	6.8
Net loss	(24.3)	(159.4)	(84.8)
Adjusted net profit	69.5	74.0	(6.1)
Net cash flows from operating activities	160.7	148.9	7.9

In 2014, the Company’s revenue increased slightly by 0.5% y-o-y to RUB 759.6 bn (2013: RUB 755.8 bn). At the same time, revenue from electricity transmission rose by 6.8% driven by growth of the average electricity transmission tariffs. Group revenues from the sale of electricity decreased by 31.9% as certain ROSSETI subsidiaries, in accordance with the resolution of the Russian Ministry of Energy in 2014, transferred the function of guaranteed supplier to external companies that had won guaranteed supplier tenders.

The Group reduced operating expenses by 16.7% to RUB 759.8 bn (2013: RUB 912.6 bn), primarily as a result of reducing recognized impairment losses on fixed assets by 65.9% to RUB 81.7 bn (2013: RUB 239.4 bn). In addition, the dynamics of operating expenses excluding depreciation of fixed assets and impairment of accounts receivable were significantly impacted by higher amortisation (due to the introduction of new facilities as part of the investment programme), growth in accrued reserves for estimated liabilities (in connection with litigation from territorial grid companies relating to electricity transmission and power distribution companies relating to electricity sales to compensate for technological losses), reducing cost of electricity for resale (following the transfer of guaranteed supplier functions from ROSSETI subsidiaries to third parties), reducing the cost of electricity purchases to compensate for technological losses (due to changes in the price of technological losses). At the same time, under the framework of the implementation of the Russian Government Directive and in the implementation of measures to improve operating efficiency of Group companies in 2014, administrative expenses were reduced by more than 15% of 2013 levels. Personnel costs increased by 3.3% y-o-y, but this was significantly less than the rate of inflation in

2014, and primarily due to salary indexation for industrial personnel in accordance with the Industry Agreement and also increased headcount at sites as part of the implementation of the investment programme.

Implementation of measures to improve operating efficiency and reduce operating expenses as part of the Company's performance management programme enabled ROSSETI to increase its Adjusted EBITDA to RUB 249.0 bn, which is higher than the previous year by RUB 15.8 bn, or 6.8% (2013 : RUB 233.2 bn).

The Group's net loss for the year amounted to RUB 24.3 bn (2013: RUB 159.4 bn). At the same time Adjusted net profit in 2014 decreased by RUB 6.1 bn, or 8.1% y-o-y, amounting to RUB 69.5 bn.

At the end of 2014 the Group's assets increased by 2.0% to RUB 1,984.1 bn (At the end of 2013: RUB 1,946.0 bn), which was primarily due to an increase in fixed assets following the commissioning of new facilities as part of the investment programme and an increase in the amount of cash and cash equivalents due to the placement of temporary free funds in bank deposits with a maturity of less than three months.

The Group's net debt as at 31 December 2014 amounted to RUB 496.1 bn (at December 31, 2013: RUB 488.1 bn). The rise in net debt was due to an increase in the Company's loan portfolio through borrowings to finance the investment programme.

Outlook

The Group's Business plans for 2015-2019 have been developed factoring in the difficult current macroeconomic environment, the trend of reduced electricity consumption, a CPI forecast in line with the forecasted socio-economic development of Russia in 2015-2017, limitations on debt financing and higher borrowing costs, deterioration in payment discipline of counterparties, as well as higher costs for imported and domestic equipment and services.

Nonetheless, improving the efficiency of the Group remains a key priority for 2015. In order to fulfill this task, the Group's companies have developed a plan of measures to improve the efficiency and financial sustainability of the integrated power grid system under current macroeconomic conditions, while at the same time achieving all of the targets outline in the Development Strategy of Russia's integrated power grid.

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The Company will hold a conference call for investors and analysts on 24 April 2015 at 1:00 PM Moscow (11:00 AM London / 6:00 AM New York).

Participant Dial-in:

United Kingdom:	+44 (0) 20 3427 1918
Russia:	+7 (495) 705 9450
United States:	+1 (212) 444 0481
Conference ID:	Russian-language call: 9262911 English-language call: 2185579

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

A replay facility will be available for 7 days (until 1 May 2015), 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: 1866 932 5017
Replay passcode:	Russian-language call: 9262911 English-language call: 2185579

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JSC ROSSETI is the largest electricity transmission and distribution grid company in Russia. It is also one of the largest electricity transmission and distribution grid companies in the world by length of electricity lines and installed transformer capacity. JSC ROSSETI holds interests in and manages 16 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 750.9 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 JSC 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 JSC ROSSETI and its operations.

	Year ended 31 December 2014	Year ended 31 December 2013 (restated)
Revenue	759,608	755,806
Operating expenses	(759,805)	(912,566)
Other income, net	14,309	7,939
Results from operating activities	14,112	(148,821)
Finance income	10,712	9,049
Finance costs	(42,863)	(50,618)
Net finance costs	(32,151)	(41,569)
Share of loss of equity accounted investees (net of income tax)	(10)	(11)
Loss before income tax	(18,049)	(190,401)
Income tax expense/(benefit)	(6,208)	31,012
Loss for the year	(24,257)	(159,389)
Other comprehensive income		
<i>Items that are or may be reclassified subsequently to profit or loss</i>		
Net change in fair value of available-for-sale financial assets	125	(123)
Foreign currency translation differences	650	26
Related income tax	(22)	25
Total items that are or may be reclassified subsequently to profit or loss	753	(72)
<i>Items that will never be reclassified to profit or loss</i>		
Remeasurements of the defined benefit liability	3,023	(3,879)
Related income tax	(499)	752
Total items that will not be reclassified to profit or loss	2,524	(3,127)
Other comprehensive loss for the year, net of income tax	3,277	(3,199)
Total comprehensive loss for the year	(20,980)	(162,588)
Loss attributable to:		
Owners of the Company	(15,355)	(132,113)
Non-controlling interest	(8,902)	(27,276)
Total comprehensive loss attributable to:		
Owners of the Company	(13,071)	(134,332)
Non-controlling interest	(7,909)	(28,256)
Loss per share		
Basic and diluted loss per ordinary share (in RUB)	(0.096)	(0.832)

	<u>31 December 2014</u>	<u>31 December 2013</u>
ASSETS		
Non-current assets		
Property, plant and equipment	1,643,586	1,595,862
Intangible assets	14,300	16,557
Investments in associates and joint ventures	1,627	1,202
Non-current accounts receivable	6,971	7,442
Other investments and financial assets	22,952	27,309
Deferred tax assets	7,117	9,012
Total non-current assets	<u>1,696,553</u>	<u>1,657,384</u>
Current assets		
Inventories	26,630	23,920
Other investments and financial assets	17,908	53,306
Current income tax prepayments	4,636	5,568
Trade and other receivables	155,776	143,944
Cash and cash equivalents	82,576	61,917
Total current assets	<u>287,526</u>	<u>288,655</u>
Total assets	<u><u>1,984,079</u></u>	<u><u>1,946,039</u></u>

	31 December 2014	31 December 2013
EQUITY AND LIABILITIES		
Equity		
Share capital	163,154	163,154
Share premium	212,978	212,978
Treasury shares	(2,725)	(2,819)
Other reserves	(3,981)	(6,265)
Retained earnings	383,554	398,711
Total equity attributable to equity holders of the Company	752,980	765,759
Non-controlling interest	285,824	295,932
Total equity	1,038,804	1,061,691
Non-current liabilities		
Loans and borrowings	485,409	492,229
Trade and other payables	17,851	14,487
Employee benefits	25,512	28,971
Deferred tax liabilities	34,389	38,715
Total non-current liabilities	563,161	574,402
Current liabilities		
Loans and borrowings	93,227	57,808
Trade and other payables	268,469	241,266
Provisions	18,871	10,397
Current tax liabilities	1,547	475
Total current liabilities	382,114	309,946
Total liabilities	945,275	884,348
Total equity and liabilities	1,984,079	1,946,039

	Year ended 31 December 2014	Year ended 31 December 2013
OPERATING ACTIVITIES		
Loss for the year	(24,257)	(159,389)
<i>Adjustments for:</i>		
Depreciation and amortization	125,910	115,942
Impairment of property, plant and equipment	81,690	239,446
Finance costs	42,863	50,618
Finance income	(10,712)	(9,049)
Loss on disposal of property, plant and equipment	148	3,245
Share of loss of an associate and a joint venture	10	11
Impairment of accounts receivable and inventory	18,711	19,847
Bad debt write-off	200	430
Non-cash receipt of property, plant and equipment	(4,427)	(2,281)
Non-cash settlement of technological connection agreements	(926)	(613)
Other non-cash transactions	175	1,029
Income tax expense/(benefit)	6,208	(31,012)
Operating profit before changes in working capital	235,593	228,224
Change in trade and other receivables (before impairment)	(30,019)	(40,577)
Change in inventories (before impairment)	(2,151)	(2,996)
Change in trade and other payables	5,134	15,823
Change in employee benefit liabilities	(2,470)	(869)
Change in provisions	8,381	(4,169)
Other	480	5
Cash flows from operating activities before income tax and interest paid	214,948	195,441
Income tax paid	(7,322)	(9,050)
Interest paid	(46,950)	(37,448)
Net cash flows from operating activities	160,676	148,943

	Year ended 31 December 2014	Year ended 31 December 2013
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(204,193)	(266,415)
Proceeds from the sale of property, plant and equipment	4,702	1,507
Acquisition of investments and placement of bank deposits	(120,533)	(97,447)
Proceeds from disposal of investments and withdrawal of bank deposits	144,904	101,904
Dividends received	31	47
Interest received	8,799	7,290
Net cash flows used in investing activities	(166,290)	(253,114)
FINANCING ACTIVITIES		
Proceeds from loans and borrowings	118,482	293,076
Repayment of loans and borrowings	(89,592)	(185,484)
Proceeds from shares issued	-	4,295
Acquisition of non-controlling interest in subsidiaries	-	(764)
Dividends paid	(2,020)	(3,469)
Repayment of finance lease liabilities	(597)	(1,381)
Net cash flows from financing activities	26,273	106,273
Net increase in cash and cash equivalents	20,659	2,102
Cash and cash equivalents at the beginning of year	61,917	59,815
Cash and cash equivalents at the end of year	82,576	61,917