

IR-release

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9M2018 RAS results

Yekaterinburg (Ural Federal District, Russia) – OAO IDGC of Urals (MOEX: MRKU) reports its 9M2018 RAS results

9M2018 revenues totaled RUB 61,424.5 million (+RUB 9,894.6 million or 19.2%YoY), the increase being impacted by grown revenues from electricity transmission, revenues from sales, as the company became the provider of the last resort in the Sverdlovsk and Chelyabinsk regions on 01.04.2018 and 01.07.2018, respectively, and changes in contractual relations with RGOs in the Chelyabinsk region.

9M 2018 expenses (plus commercial and administrative costs) amounted to RUB 54,496.6 million (+ RUB 8,143.9 million or 17.6% YoY), the rise being affected by increased payments to FSK and other grid operators as well as PoLR-related costs.

9M 2018 net profit of the Company reached RUB 1,080.6 million. A RUB 2,759.6 million YoY decrease was due to the bad debt reserve created to cover the debt of AO Roskommunenergo, PAO Chelyabenergosbyt and OOO NUESK, as they ceased to be providers of the last resort in line with Ministry of Energy enactments.

Table 1. 9M2017 and 2018 highlights of the Company, RUB thousand.

Item	9M2018	9M2017
Total revenues	61,424,502	51,529,919
Total expenses (plus commercial and administrative costs)	54,496,585	46,352,650
Sales profit	6,927,917	5,177,269
<i>Operating margin</i>	<i>11.3%</i>	<i>10.0%</i>
Pre-tax profit	1,416,488	4,880,888
Net income	1,080,554	3,840,198
<i>Net margin</i>	<i>1.8%</i>	<i>7.5%</i>

To view 9M2018 accounting statements prepared under Russian Accounting Standards (RAS), please, visit our corporate web-site (Financial Statements section).

OAO IDGC of Urals, est. in February 2005, is a grid operator responsible for energy transmission and connection of consumers to electric networks in the Sverdlovsk, Chelyabinsk and Perm regions. FY2017 RAS revenues totaled RUB 71.1 bln, net profit reached RUB 4.6 bln. Common shares are traded on MOEX (Level 2 Quotation List). Moody's ratings: Ba1 (CFR) and Ba1-PD (PDR), Stable Outlook. For additional information on the Company, please, visit our corporate web-site at www.mrsk-ural.ru and our web-page in Interfax newswire system.

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Revenues and expenses overview

9M2018 total revenues amounted to RUB 61,424.5 million (+RUB 9,894.6 million or 19.2%YoY).

Table 2. 9M2017 and 2018 revenues breakdown, RUB thousand:

	9M2018	Share, %	9M2017	Share, %	Changes, %
Total revenues	61,424,502	100.0	51,529,919	100.0	19.2
<i>Electricity transmission</i>	<i>54,921,581</i>	<i>89.4</i>	<i>50,734,120</i>	<i>98.5</i>	<i>8.3</i>
<i>Connection</i>	<i>427,733</i>	<i>0.7</i>	<i>542,028</i>	<i>1.0</i>	<i>-21.1</i>
<i>Electricity sales</i>	<i>5,790,916</i>	<i>9.4</i>	<i>0</i>	<i>0.0</i>	<i>100.0</i>
<i>Other revenues</i>	<i>284,272</i>	<i>0.5</i>	<i>253,771</i>	<i>0.5</i>	<i>12.0</i>

9M2018 revenues from electricity transmission totaled RUB 54,921.6 million, contributing 89.4% to the total revenues (+8.3% YoY). Absolute increase is RUB 4,187.5 million, affected by changes in net supply structure, increased YoY tariffs, statutory exclusion of load losses since Aug. 01, 2017 and revision of the tariff "pie" scheme in the Chelyabinsk region due to cancellation of individual transmission tariffs for OOO AES Invest by the Chelyabinsk Tariff Regulation and Energy Authority's enactment.

9M2018 connection revenues totaled RUB 427.7 million, contributing 0.7% to the total revenues (-RUB 114.3 million or -21.1% YoY), decrease impacted by changes in connection contract structure.

9M2018 revenues from electricity sales totaled RUB 5,790.9 million.

9M2018 other revenues reached RUB 284.3 million, contributing 0.5% to the total revenues (+12.0% YoY).

9M2018 total expenses (plus commercial and administrative costs) totaled RUB 54,496.6 million (+17.6% YoY). The breakdown of expenses is presented in the figure below:

Table 3. 9M2017 and 2018 expense breakdown, RUB thous.

	9M2018	Share, %	9M2017	Share, %
Total expenses	53,407,725	100.0	45,509,003	100.0
Material costs:	13,641,751	25.5	8,544,557	18.8
<i>Purchased energy to compensate losses</i>	<i>6,894,840</i>	<i>12.9</i>	<i>7,102,806</i>	<i>15.6</i>
<i>Purchased energy for sales</i>	<i>5,150,841</i>	<i>9.6</i>	<i>0</i>	<i>0.0</i>
<i>Purchased energy for production and economic needs</i>	<i>164,840</i>	<i>0.3</i>	<i>162,702</i>	<i>0.4</i>
<i>Raw materials</i>	<i>1,431,230</i>	<i>2.7</i>	<i>1,279,049</i>	<i>2.8</i>
Production-related works and services:	26,726,699	50.0	24,078,997	52.9
<i>Outsourced repair and maintenance</i>	<i>345,685</i>	<i>0.6</i>	<i>345,651</i>	<i>0.8</i>
<i>Transmission services rendered by other grid operators, namely:</i>	<i>26,320,787</i>	<i>49.3</i>	<i>23,685,762</i>	<i>52.0</i>
<i>- PAO FSK UES</i>	<i>12,371,057</i>	<i>23.2</i>	<i>11,718,884</i>	<i>25.8</i>
<i>- Other grid operators</i>	<i>13,949,730</i>	<i>26.1</i>	<i>11,966,878</i>	<i>26.3</i>
<i>Other production-related services</i>	<i>60,227</i>	<i>0.1</i>	<i>47,584</i>	<i>0.1</i>
Wages and social benefits	7,304,150	13.7	7,472,108	16.4
Depreciation and amortization	3,924,293	7.3	3,662,934	8.0
Other expenses	1,810,832	3.5	1,750,407	3.8
Commercial costs	326,772	0.6	0	0.0
Administrative costs	762,088	1.0	843,647	2.0

Material costs:

9M2018 expenses on loss compensation totaled RUB 6,894.8 million, contributing 12.9% to the total expenses (-2.9% YoY), RUB 208.0 million decrease influenced by lowered losses due to loss-reduction activities.

9M2018 expenses on purchased energy for sales totaled RUB 5,150.8 million.

9M2018 expenses on energy for production and economic needs totaled RUB 164.8 million, contributing 0.3% to the total expenses (+1.3%YoY), RUB 2.1 million increase affected by grown tariff.

9M2018 expenses on raw materials totaled RUB 1,431.2 million, contributing 2.7% to the total expenses (+11.9% YoY), RUB 152.2 million hike impacted by increased repair and maintenance scope.

Production-related works and services:

9M2018 outsourced repair and maintenance costs totaled RUB 345.6 million, contributing 0.6% to the total expenses (+ RUB 34.0 million YoY).

9M2018 expenses on other grid operators totaled RUB 26,320.8 million, contributing 49.3% to the total expenses (+11.1% YoY), RUB 2,635.0 million increase impacted by tariff increase, statutory exclusion of load losses since Aug 01, 2017 as well as cancellation of individual transmission tariffs for OOO AES Invest and changes in tariff "pie" scheme in the Chelyabinsk region.

9M2018 other production-related services totaled RUB 60.2 million, contributing 0.1% to the total expenses (+RUB 12.6 million YoY), affected by commercial metering expenses incurred due to the PoLR status.

9M2018 wages and social benefits reached RUB 7,304.2 million, contributing 13.7% to the total expenses (-2.3% YoY), RUB 168.0 million decrease affected by changes in the Company's accounting policy with regard to provision of the annual performance remuneration.

9M2018 depreciation and amortization reached RUB 3,924.3 million, contributing 7.3% to the total expenses (+7.1% YoY), RUB 261.4 million increase affected by new launches under the investment program.

9M2018 other expenses reached RUB 1,810.8 million, contributing 3.5% to the total expenses (+3.5% YoY), RUB 60.4 million increase affected by grown property tax, triggered by increase of privileged property tax.

Commercial costs are incurred in the course of energy sales operations. 9M2018 commercial costs totaled RUB 326.8 million.

9M2018 administrative costs reached RUB 762.1 million (-9.7% YoY).

Loans and borrowings of the Company as of 30.09.2018 totaled RUB 13,981.9 million.

Table 4. Debt portfolio of the company as of 30.09.2018 and 30.09.2017, RUB thousand.

	As of 30.09.2018	As of 30.09.2017
Short-term loans and borrowings, incl.	0	0
<i>bonds</i>	0	0
Long-terms loans and borrowings, incl.	13,981,864	9,600,000
<i>bonds</i>	6,600,000	6,600,000
Interest arrears	113,746	113,067
TOTAL:	14,095,610	9,713,067

As of 30.09.2018 long-term loans and borrowings totaled RUB 13,981.9 million (+45.6% YoY or RUB 4,381.9 million).

As of 30.09.2018 the Company has RUB 1.6 billion series BO-02 exchange-traded bearer bonds (10-year maturity, 7-year put option or 4-year put option upon consent of the holders) and RUB 5.0 billion series BO-05 exchange-traded bearer bonds (10-year maturity, 3-year or 5-year put option upon consent of the holders).

Table 5. Debt indicators as of 30.09.2018 and 30.09.2017.

	As of 30.09.2018	As of 30.09.2017
Debt*, RUB thousand	14,095,610	9,713,067
Net Debt, RUB thousand	12,557,988	8,086,551
EBITDA, RUB thousand	8,228,777	13,167,435
Debt/ EBITDA	1.71	0.74
Net Debt/ EBITDA	1.53	0.61
Debt/ Equity	0.35	0.24
Equity/ Assets	0.58	0.62

*principal debt and interest arrears (line 1410 + 1510 of the RAS balance sheet)

Debt as of 30.09.2018 totaled RUB 14,095.6 million (+45.1% YoY). Absolute increase is RUB 4,382.5 million, affected by increased loans and borrowings due to the grown debt of the energy sales companies.

Net Debt as of 30.09.2018 totaled RUB 12,558.0 million (+55.3% YoY). Absolute increase is RUB 4,471.4 million, affected by increased loans and borrowings.

EBITDA as of 30.09.2018 totaled RUB 8,228.7 million (-37.5% YoY). EBITDA decrease totaled RUB 4,938.7 million.

Debt / EBITDA and Net Debt / EBITDA as of 30.09.2018 totaled 1.71 and 1.53 (+131.1% YoY or +0.97 and +150.8% YoY or 0.92, respectively) due to increased loans and borrowings and decreased net profit.

Debt / Equity as of 30.09.2018 totaled 0.35 (+45.8% YoY or 0.11) due to increased loans and borrowings.

Equity / Assets as of 30.09.2018 totaled 0.58 (-6.5% YoY or 0.04) due to a hike in assets.