

FINANCIAL CAPITAL FORMATION

ANALYSIS OF REVENUES AND EXPENSES

FY2016 revenues totaled 65,452 million (+ RUB 4,917 million or 8% YoY), with transmission revenues amounting to RUB 63,703 million (+ RUB 5,476 million YoY). Revenues gained due to grown average tariff, reduced load loss prices and changes in consumer structure (voltage classes). Expenses plus administrative costs reached RUB 60,388 million (+ RUB 4,319 million or 8% YoY). The hike is mainly driven by grown non-controllable expenses (payments to other grid operators and FSK), increased expenses on loss compensations and depreciation and amortization. Pre-tax profit totaled RUB 4,809 million (+ RUB 1,604 million YoY). FY2016 net income of the Company amounted to RUB

3,306 million (+ RUB 840 million YoY). The rise of net income is accounted for by increased transmission revenues and additional financial asset revaluation surplus.

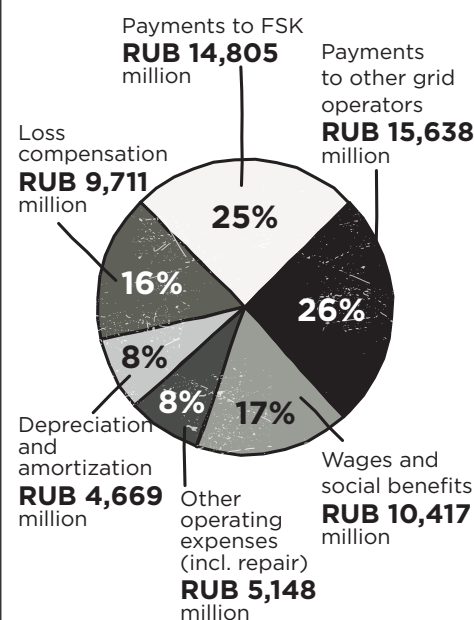
To improve its performance during 2016 the Company implemented a package of measures to stabilize operations of its Chelyabenergo branch. Setting of uniform ("pie") economically justified tariffs for electricity transmission and individual tariff for settlements between two holders of the regional tariff "pie" (AES Invest and Chelyabenergo branch) provided Chelyabenergo's breakeven in electricity transmission.

Key financial and economic metrics, RUB million

	FY 2016	FY 2015	FY 2014
Total revenues, comprising:	65,452	60,535	59,608
Revenues from electricity transmission	63,703	58,227	57,481
Revenues from connection	1,336	1,862	1,720
Revenues from electricity sales	0	0	0
Other revenues	413	446	407
Total expenses	-59,338	-55,115	-54,499
Gross profit	6,114	5,421	5,109
Administrative costs	-1,050	-955	-854
Commercial costs	0	0	0
Profit (loss) from sales	5,064	4,466	4,255
Interest receivable	158	291	174
Interest payable	-969	-870	-942
Income from shareholdings	314	161	96
Other revenues	6,461	5,864	5,888
Other expenses	-6,219	-6,707	-7,120
Pre-tax profit	4,809	3,205	2,351
Income tax and other payments	-1,503	-739	-344
Net income (loss)	3,306	2,466	2,007
EBITDA*	10,447	8,453	7,409

* EBITDA = pre-tax profit - interest payable + depreciation and amortization

FY2016 expense breakdown (plus administrative and commercial expenses)



FY2016 expenses (plus administrative and commercial costs) totaled RUB 60,388 million (+ RUB 4,319 million or 8% YoY). The hike is mainly driven by grown non-controllable expenses (payments to other grid operators and FSK), increased expenses on loss compensations and depreciation and amortization. FY2016 expenses on loss compensation amounted to RUB 9,711 million and contributed 16% to total expenses. Absolute YoY increase of RUB 976 million was impacted by grown unregulated loss compensation price. Payments to FSK totaled RUB 14,805 million and contributed 25% to total expenses. Absolute YoY gain of RUB 901 million was driven by grown use-of-system charge and reduced load loss costs. FY2016 payments to other grid operators reached RUB 15,638 million and contributed 26% to total expenses. YoY upsurge of RUB 1,235 million was primarily affected by increase in tariffs since 01.07.2016.

Depreciation and amortization of property, plant and equipment and intangible assets grew RUB 292 million on 2015 due to commissioning of new facilities and completion of the Company's investment program. FY2016 personnel expenses totaled RUB 10,417 million and contributed

17% to total expenses (+6% or RUB 586 million YoY). The hike was driven by indexation of production personnel wages impacted by the grown minimal monthly tariff rate. Other expenses totaled RUB 5,148 million (8% of total expenses) consisting of tangible costs, production-related works and ser-

vices, property rentals and insurance, third-party services and other expenses. Absolute YoY increase of RUB 330 million (7%) was due to grown property tax affected by rate revisions and grown expenses on grid rentals affected by new rental contracts.