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Stock Exchange

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STANDARD  
DEPOSITARY RECEIPTS

**Federal  
Grid Company**



**of Unified  
Energy System**

# H1 2012 Operational and Financial Results

15 November 2012



## Key Events

- On 27 April 2012, the Board of Directors of Federal Grid Company approved three long-term debt instrument programmes
  - Russian bonds issues of up to RUB 125 Bn
  - Stock-exchange authorised rouble bonds issues of up to RUB 100 Bn
  - Eurobonds issues of up to RUB 100 Bn
- On 11 May 2012, the Ministry of Energy of the Russian Federation approved the adjusted investment program for Federal Grid Company of RUB 505 Bn for 2012-2014
- On 12 May 2012, the Russian Government issued a directive to transfer the power of the sole executive body of Holding MRSK to Federal Grid Company
  - On 30 June 2012, the agreement on executive body was approved by the Board of Directors of Holding MRSK, and on 9 July 2012, it was approved by the Board of Directors of Federal Grid Company
- On 21 May 2012, FTS approved tariffs for electricity transmission across the UNEG for 2012-2014
  - The tariffs were increased by 11% beginning on 1 July 2012 and scheduled to be further increased by 9% beginning on 1 July 2013 and on 1 July 2014

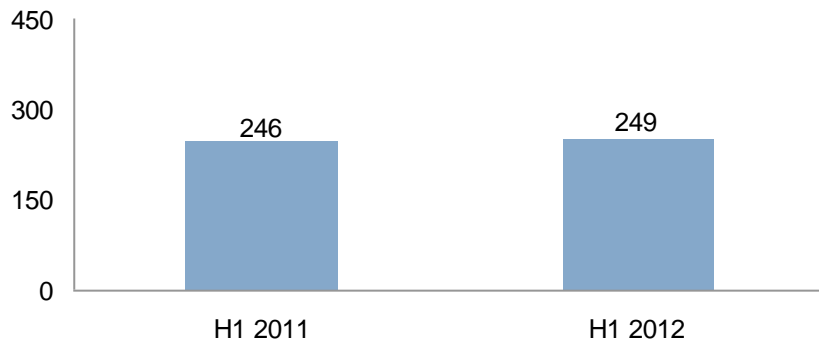
## H1 2012 Consolidated Financial Results

- Revenue was down by 6.0% y-o-y to RUB 66.9 Bn mainly due to a decrease in tariffs set by FTS from 1 April 2011 through 30 June 2012
- Following revenue decrease Adjusted EBITDA decreased by 16.9% to RUB 37.8 Bn resulting in Adjusted EBITDA Margin decrease from 63.8% in H1 2011 to 56.4% in H1 2012
- Net Debt position increased to RUB 106.8 Bn from RUB 85.3 Bn as of 31 December 2011, implying Leverage equal to 1.4x as of 30 June 2012



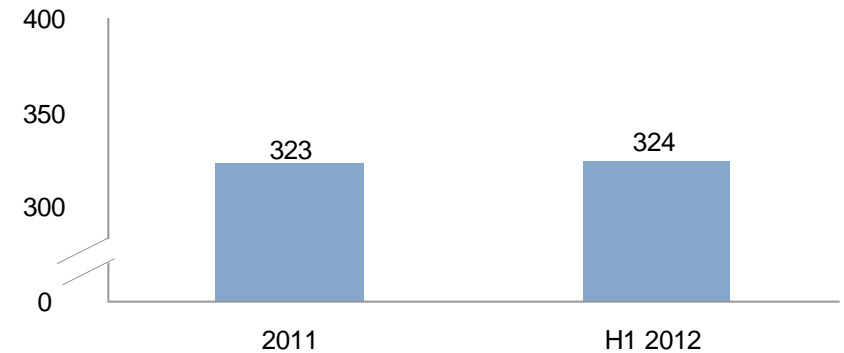
## Electricity Transmission Volume

Bn kWh (for respective period)



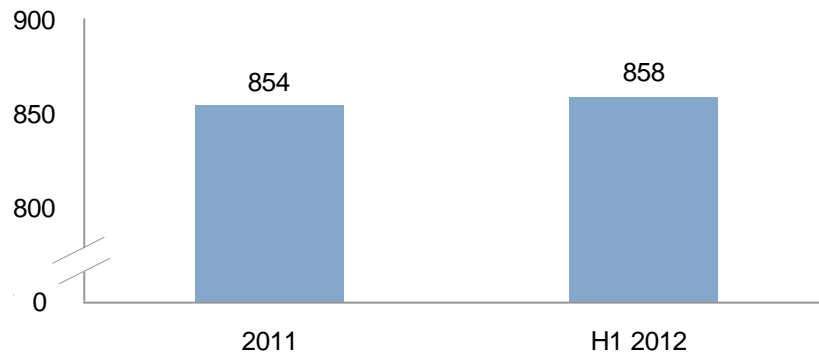
## Total Transformer Capacity in Operations

GVA (end of period)



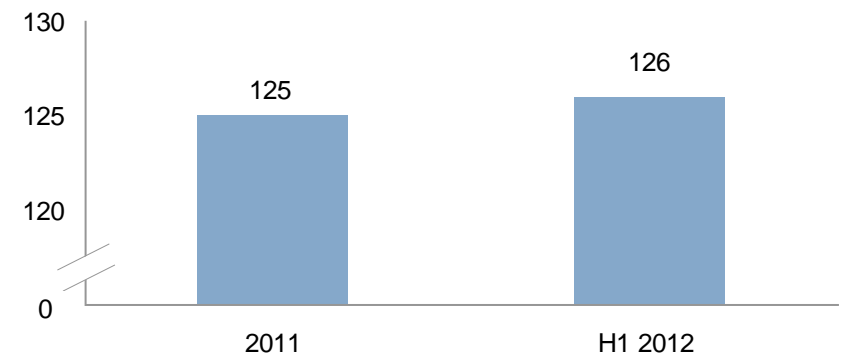
## Substations<sup>(1)</sup>

Units (end of period)



## Transmission Grid Length in Operations

'000 km (end of period)



Source Company data

Notes:

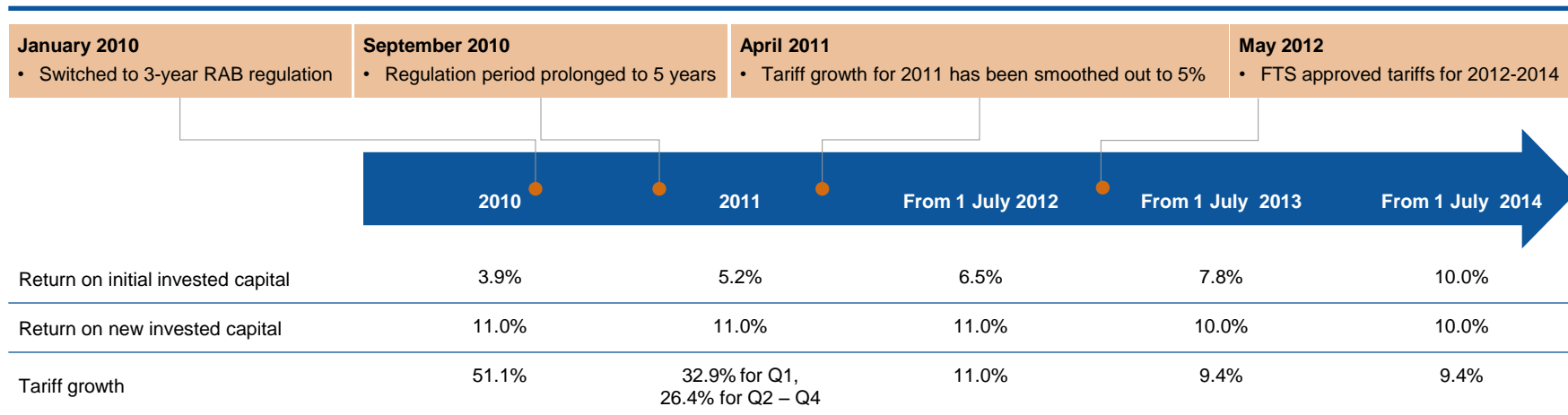
1. Including leased substations



## Regulatory Asset Base (RAB) Regulation

- On 12 May 2012, Russia's Federal Tariff Service approved tariffs under RAB regulation for 2012 – 2014
- Federal Grid Company tariff was increased by 11.0% starting from 1 July 2012, by 9.4% starting from 1 July 2013, and by 9.4% from 1 July 2014
- Return on initial invested capital in 2014 was raised from 9.1% to 10.0% and now equals the return on new invested capital
- RAB base is accounted for once assets are commissioned and put on the company's balance sheet

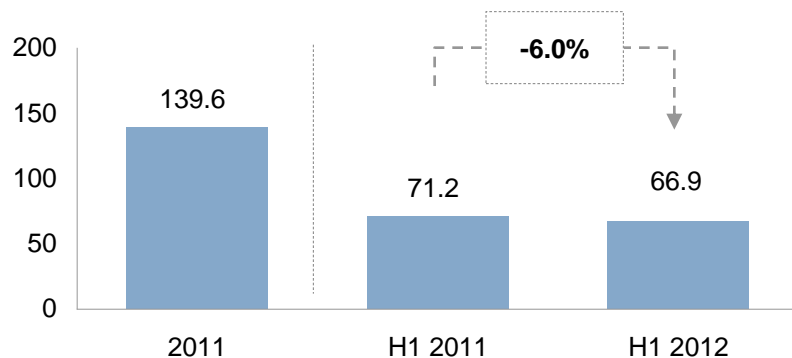
## RAB Return Calculation



# Key Financial Results

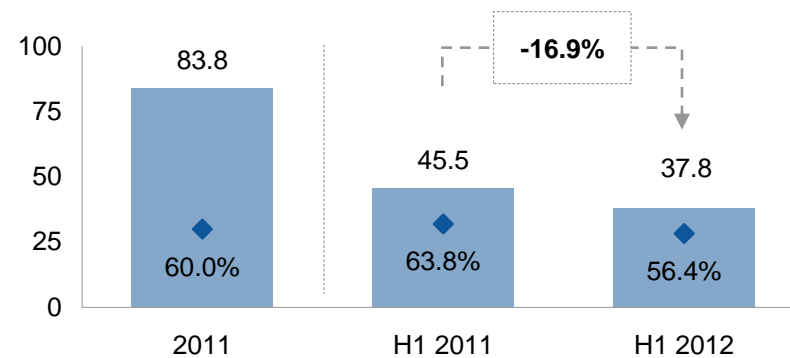
## Revenue

RUB Bn



## Adjusted EBITDA

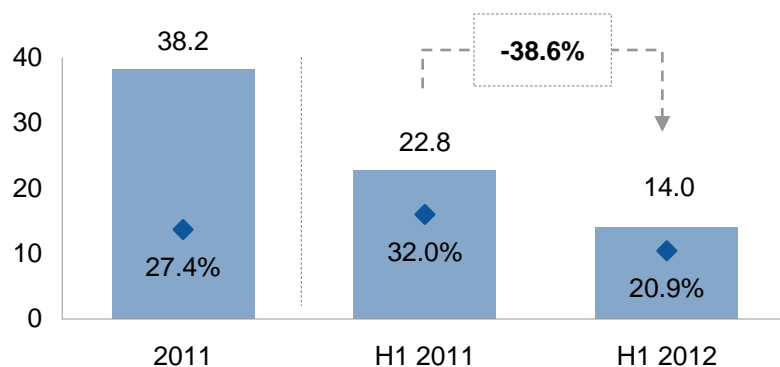
RUB Bn



◆ Adjusted EBITDA Margin

## Adjusted Profit for the Period

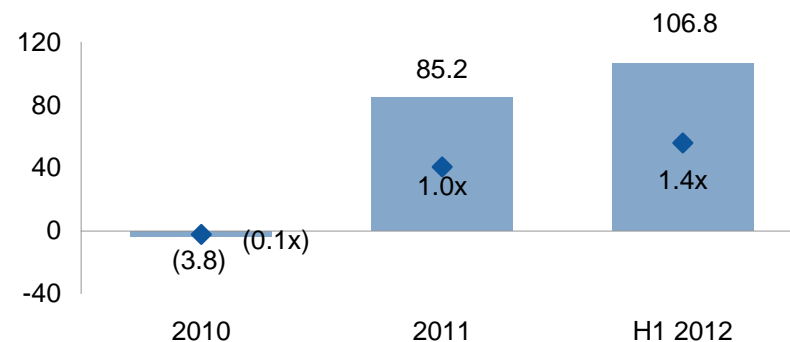
RUB Bn



◆ Adjusted Profit Margin

## Net Debt Position

RUB Bn



◆ Leverage

Source: Company IFRS financials

Note: Definitions for terms marked in this presentation with capital letters (including certain non-IFRS financial information) are provided at the end of this presentation

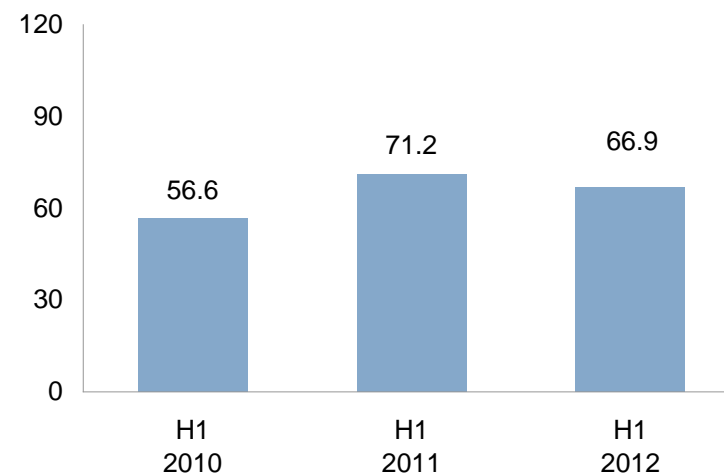


|                               | H1 2011<br>RUB Bn | H1 2012<br>RUB Bn | Y-o-Y Change % |
|-------------------------------|-------------------|-------------------|----------------|
| Transmission fee              | 69.4              | 65.3              | (5.8)          |
| Electricity sales             | 1.1               | 0.9               | (15.7)         |
| Other revenues                | 0.8               | 0.7               | (13.0)         |
| <b>Total Revenue</b>          | <b>71.2</b>       | <b>66.9</b>       | <b>(6.0)</b>   |
| <b>Other Operating Income</b> | <b>1.6</b>        | <b>1.4</b>        | <b>(8.8)</b>   |

- The Group's electricity transmission fee decreased by RUB 4.1 Bn or 5.8%. It was mainly driven by decrease in tariffs for electricity transmission (by 2.5% as the average) and for compensation of normative technologic electricity losses (by 25.6% as the average) set by FTS from 1 April 2011 through 30 June 2012
- Other revenues decreased by approximately RUB 0.1 Bn. This decrease mainly related to reduction of revenue from rendering services on connection to the UNEG for the period
- Other operating income decreased by 8.8% primarily due to lower income from research and development services rendered by OJSC "Dalenergosetproject", the Group's subsidiary, and reduction of insurance proceeds (in H1 2011 Federal Grid Company received one-off insurance compensation of the Chagino accident)

## Total Revenue

RUB Bn



# Operating Cost Structure <sup>(1)</sup>

|  | H1 2011<br>RUB Bn | % of Total<br>Operating<br>Costs | H1 2012<br>RUB Bn | % of Total<br>Operating<br>Costs | Y-o-Y<br>Change % |
|--|-------------------|----------------------------------|-------------------|----------------------------------|-------------------|
| D&A <sup>(2)</sup>                                   | 16.1              | 35.2                             | 20.5              | 38.2                             | 27.0              |
| Personnel Related Expenses                           | 12.9              | 28.2                             | 13.0              | 24.3                             | 1.4               |
| Purchased electricity                                | 6.8               | 14.9                             | 6.4               | 12.0                             | (4.7)             |
| Materials, Repairs and Maintenance                   | 2.2               | 4.8                              | 2.4               | 4.6                              | 8.2               |
| (Reversal)/accrual of allowance for doubtful debtors | (0.1)             | 0                                | 1.9               | 4.0                              | n/a               |
| Other operating expenses                             | 7.8               | 16.9                             | 9.4               | 17.1                             | 18.8              |
| <b>Total Operating expenses</b>                      | <b>45.7</b>       | <b>100.0</b>                     | <b>53.6</b>       | <b>100.0</b>                     | <b>17.4</b>       |

- Operating expenses for the six months ended 30 June 2012 increased by 17.4%. This increase was mainly due to higher D&A expenses and an accrual of allowance for doubtful debtors
- D&A increased by 27% following the implementation of investment programme and commissioning of new fixed assets into operations
- Personnel Related Expenses increased by 1.4%.
- Decrease in purchased electricity expenses of 4.7% was due to reduction of actual volumes of electricity losses during transmission owing to increased UNEG efficiency as well as a result of decreased wholesale electricity prices
- An accrual of allowance for doubtful debtors includes mainly allowances for receivables from OJSC "IDGC of Siberia" and OJSC "Lenenergo" (subsidiaries of MRSK Holding)

Source: Company IFRS financials

Notes:

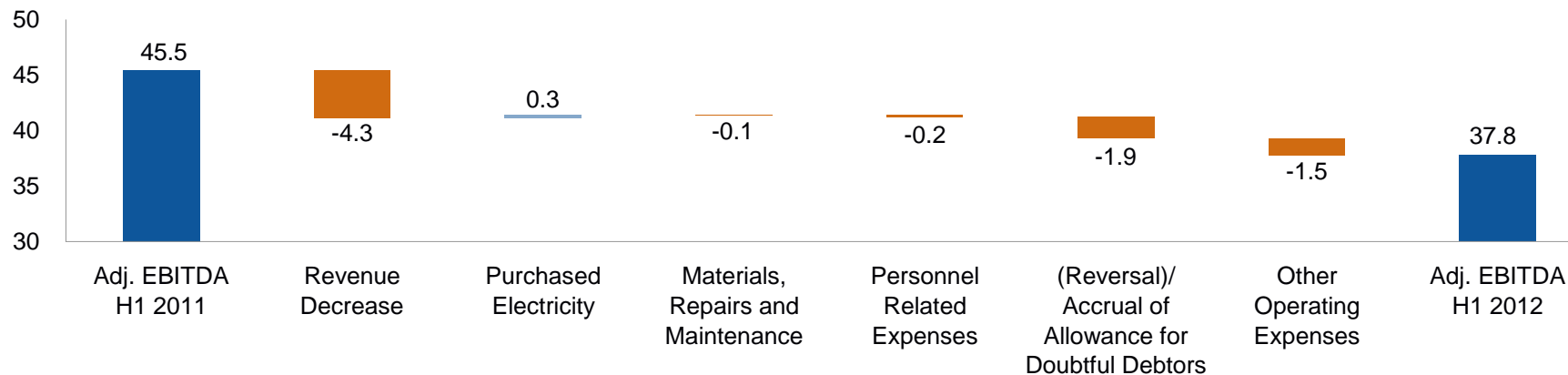
1. Definitions for terms marked in this presentation with capital letters (including certain non-IFRS financial information) are provided at the end of this presentation

2. Includes amortization of intangible assets of RUB 0.5 Bn in 2011 and RUB 0.3 Bn in H1 2012



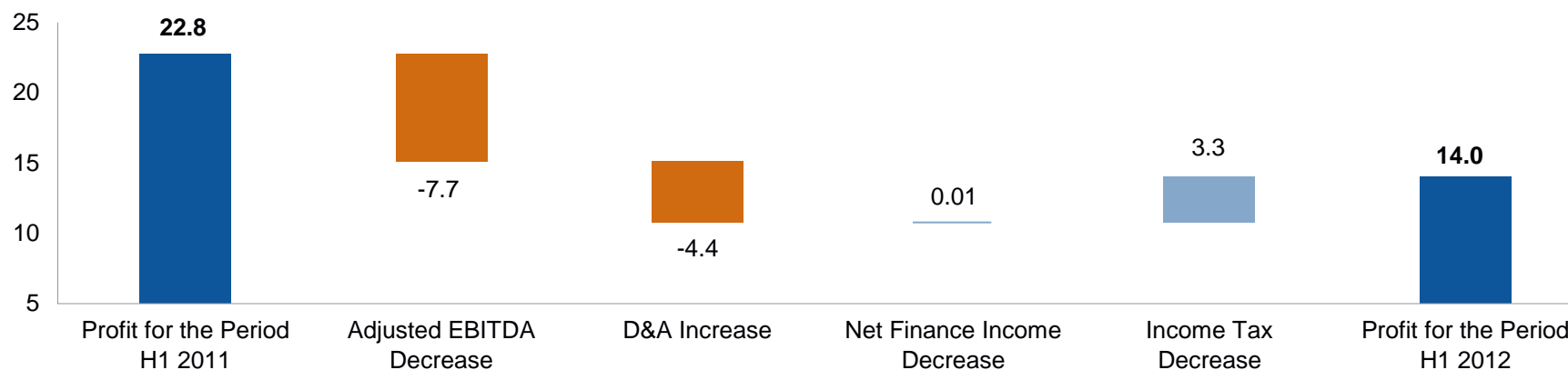
## Adjusted EBITDA Bridge

RUB Bn



## Adjusted Profit Bridge

RUB Bn



Source: Company IFRS financials

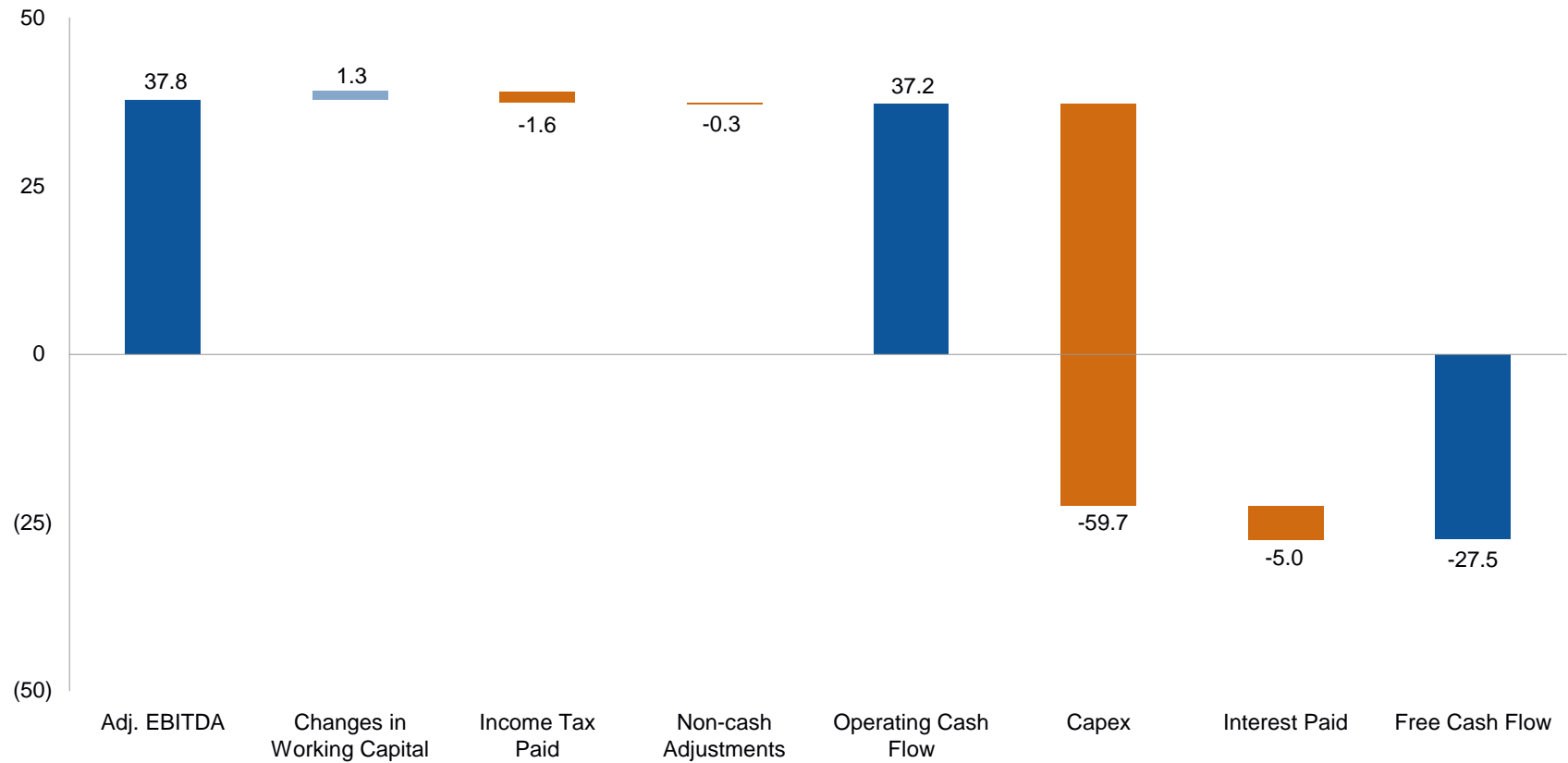
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## Free Cash Flow in H1 2012

RUB Bn



Source: Company IFRS financials

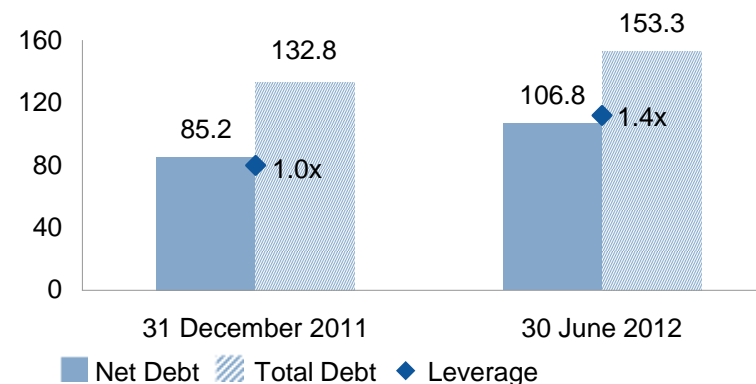
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- Total debt amounted to RUB 153.3 Bn as of 30 June 2012
  - 77% of total debt are RUB bonds and the remaining are primarily bank loans
- 100% of total debt are unsecured and rouble nominated
- Net debt position of RUB 106.8 Bn as of 30 June 2012 implied a relatively low Leverage of 1.4x
- Credit Ratings:
  - S&P: BBB stable (same as Sovereign)
  - Moody's: Baa2 stable (one notch below Sovereign)

## Net Debt Position

RUB Bn



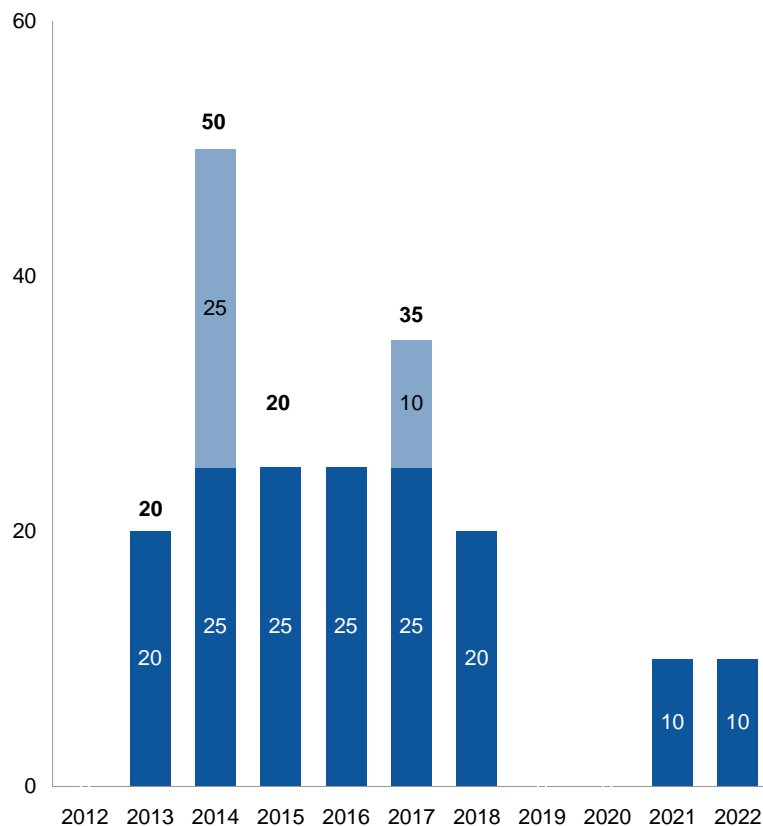
## Key Credit Ratios

|                                  | 2010   | 2011  | H1 2012 |
|----------------------------------|--------|-------|---------|
| Total Debt, RUB Bn               | 57.5   | 132.8 | 153.3   |
| Net Debt, RUB Bn                 | (3.8)  | 85.2  | 106.8   |
| Total Debt / Adjusted EBITDA LTM | 0.8x   | 1.6x  | 2.0x    |
| Net Debt / Adjusted EBITDA LTM   | (0.1x) | 1.0x  | 1.4x    |
| Adjusted EBITDA / Gross interest | 35.5x  | 14.2x | 6.7x    |
| FFO LTM / Net Debt               | NM     | 85%   | 64%     |



## Debt Maturity profile as of 15.11.2012

RUB Bn



## Events after the reporting date

- In August 2012 Federal Grid placed 10-year RUB 10 billion local bond issue with CPI-linked coupon <sup>(1)</sup>
- In October 2012 Federal Grid successfully placed 3 bond issues: 4-year RUB 15 Bn, 4.5-year RUB 10 Bn local bond issues and 2.5 year RUB 10 Bn stock-exchange authorized bonds. The coupon rates were set at 8.6%, 8.75% and 8.1% respectively

## Key prospective in debt financing

- The Company negotiates the possibility to create the mechanisms for issuing of infrastructure bonds in Russian Federation

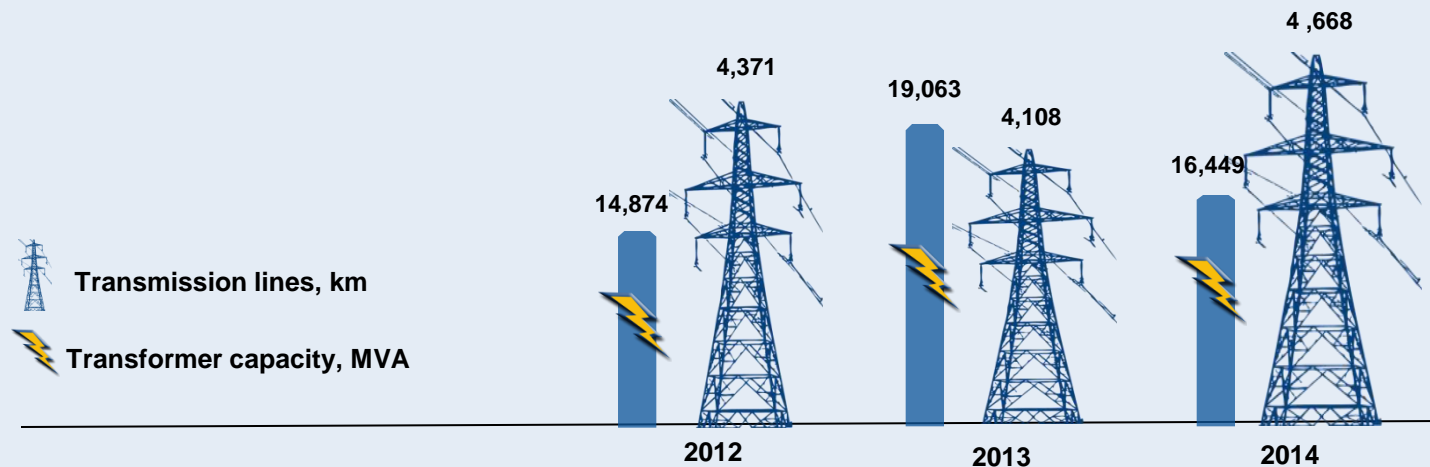
**As of 15.11.2012:**  
**Weighted average cost of ruble-denominated debt financing: 8.4%**  
**100% of the credit portfolio is unsecured debt**

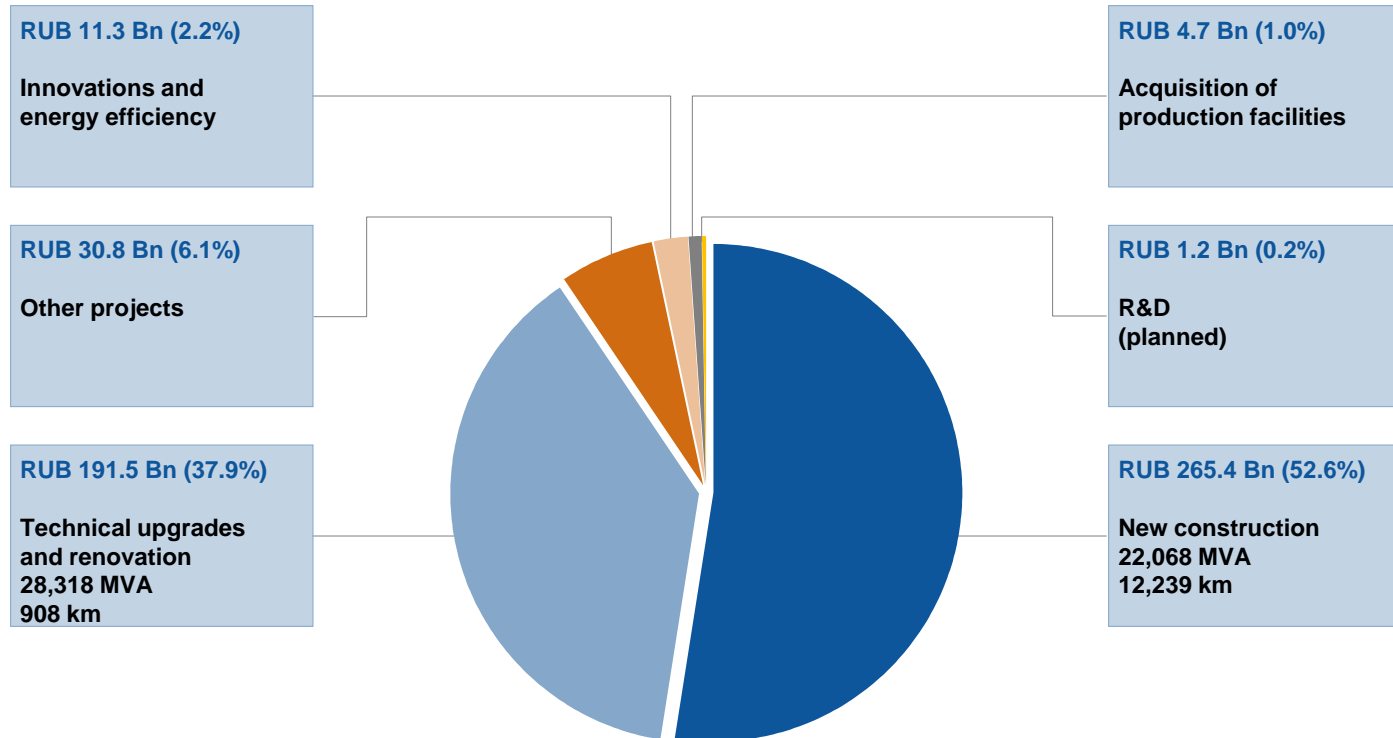
**Notes:**  
 1. The first two coupons are set at 9% p.a., which provides a fixed level of income for the first year of the bond's tenor. The floating rate used for subsequent coupons (until the put option) will be calculated based on the consumer price index plus 2.5%.



- On 11 May 2012 the Ministry of Energy approved Federal Grid Company's investment programme for 2012 – 2014
- The approved plan entails investments totalling RUR 505 billion into the commissioning of 50,386 MVA of new transformer capacity and 13,147 kilometres of new transmission lines
- In 2012 Federal Grid Company plans to invest RUR 196 billion (including VAT)

## New construction 2012 – 2014



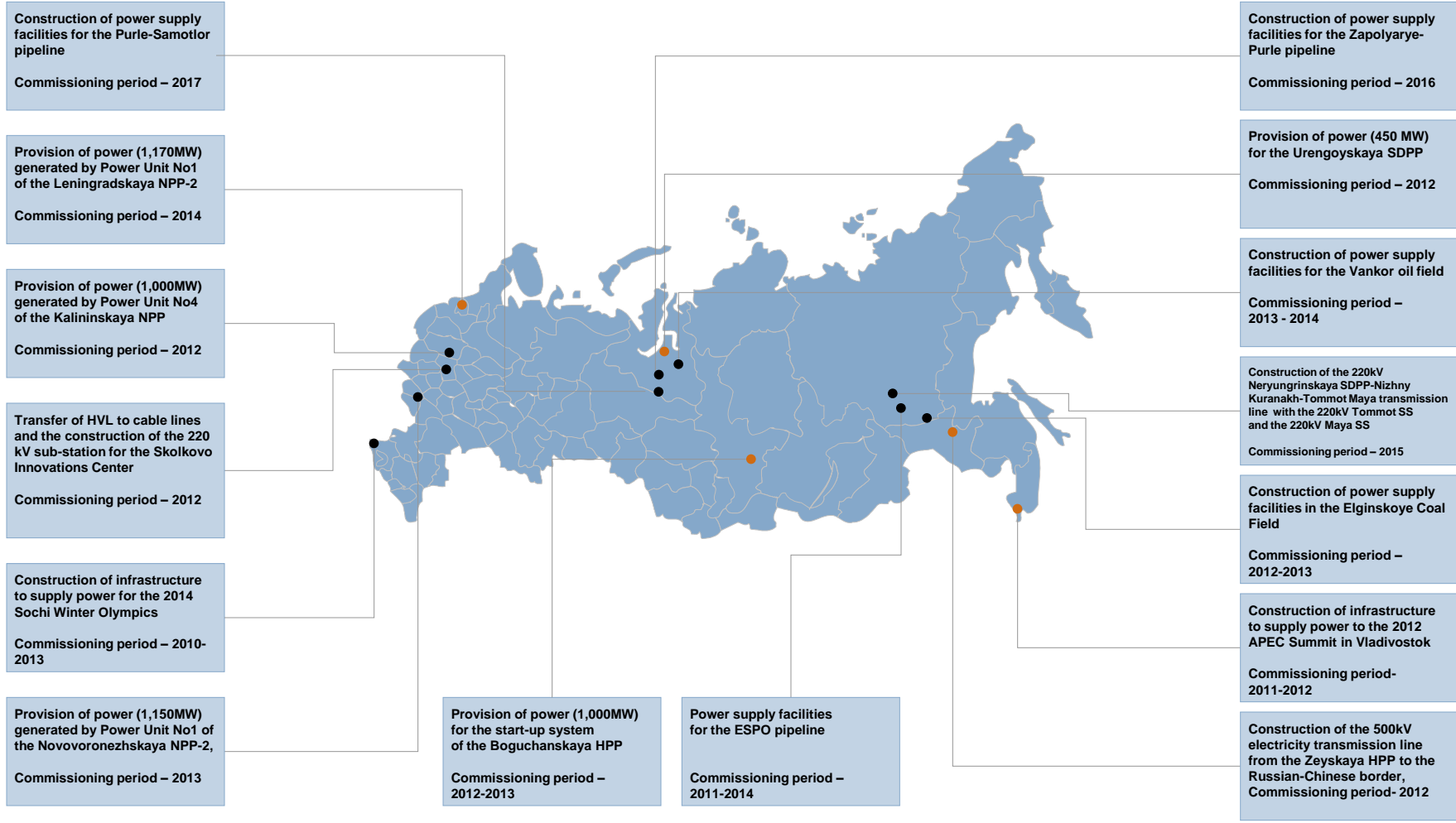


**Total Volume over 2012 – 2014:**

|                              |              |
|------------------------------|--------------|
| Projected investment:        | RUB 504.8 Bn |
| Capacity to be commissioned: | 50,386 MVA   |
| Grids to be commissioned:    | 13,147 km    |



# Key Investment Projects



● Electricity transmission lines (220 kV, 330 kV, 500k kV and 750 kV) ● Electricity transmission lines and sub-stations



Thank you





# Appendix





## Consolidated Interim Statement of Financial Position

RUB MM

|   | 30 June 2012     | 31 December 2011 |
|---|------------------|------------------|
| <b>ASSETS</b>   |                  |                  |
| <b>Non-current assets</b>                                       |                  |                  |
| Property, plant and equipment                                   | 1,022,111        | 980,677          |
| Intangible assets   | 7,498            | 6,973            |
| Investments in associates                                       | 1,506            | 910              |
| Available-for-sale investments                                  | 56,420           | 69,979           |
| Long-term promissory notes                                      | 11,908           | 14,928           |
| Other non-current assets  | 993              | 1,039            |
| <b>Total non-current assets</b>                                 | <b>1,100,436</b> | <b>1,074,506</b> |
| <b>Current assets</b>   |                  |                  |
| Cash and cash equivalents                                       | 29,953           | 25,627           |
| Bank deposits   | 1,035            | 1,184            |
| Short-term promissory notes                                     | 15,438           | 20,737           |
| Loans given   | 35               | 448              |
| Accounts receivable and prepayments                             | 32,886           | 32,944           |
| Income tax prepayments  | 1,384            | 1,911            |
| Inventories   | 7,492            | 6,320            |
| <b>Total current assets</b>                                     | <b>88,223</b>    | <b>89,171</b>    |
| <b>TOTAL ASSETS</b>   | <b>1,188,659</b> | <b>1,163,677</b> |
| <b>EQUITY AND LIABILITIES</b>                                   |                  |                  |
| <b>Equity</b>   |                  |                  |
| Share capital: Ordinary shares                                  | 630,193          | 627,974          |
| Treasury shares   | (5,161)          | (5,522)          |
| Share premium   | 10,501           | 10,501           |
| Reserves  | 313,688          | 314,323          |
| Accumulated deficit   | (45,628)         | (49,962)         |
| <b>Equity attributable to the shareholders of JSC "FGC UES"</b> | <b>903,593</b>   | <b>897,314</b>   |
| Non-controlling interest  | 762              | 793              |
| <b>Total equity</b>   | <b>904,355</b>   | <b>898,107</b>   |
| <b>Non-current liabilities</b>                                  |                  |                  |
| Deferred income tax liabilities                                 | 78,928           | 80,572           |
| Non-current debt  | 150,740          | 130,778          |
| Retirement benefit obligations                                  | 4,847            | 4,686            |
| <b>Total non-current liabilities</b>                            | <b>234,515</b>   | <b>216,036</b>   |
| <b>Current liabilities</b>                                      |                  |                  |
| Accounts payable to the shareholders of JSC "FGC UES"           | 55               | 2,275            |
| Current debt and current portion of non-current debt            | 2,516            | 2,002            |
| Accounts payable and accrued charges                            | 46,915           | 44,974           |
| Income tax payable  | 303              | 283              |
| <b>Total current liabilities</b>                                | <b>49,789</b>    | <b>49,534</b>    |
| <b>Total liabilities</b>  | <b>284,304</b>   | <b>265,570</b>   |
| <b>TOTAL EQUITY AND LIABILITIES</b>                             | <b>1,188,659</b> | <b>1,163,677</b> |



# Profit and Loss Statement

## Consolidated Interim Statement of Comprehensive Income

RUB MM

|   | Six months ended<br>30 June 2012 | Six months ended<br>30 June 2011 |
|---|----------------------------------|----------------------------------|
| Revenues  | 66,909                           | 71,217                           |
| Other operating income  | 1,447                            | 1,587                            |
| Operating expenses  | (53,584)                         | (45,657)                         |
| Gain on disposal of available-for-sale investments  | -                                | 31,115                           |
| Loss on re-measurement of assets held for sale  | -                                | (4,718)                          |
| Reversal of impairment of property, plant and equipment, net  | 267                              | -                                |
| <b>Operating profit</b>   | <b>15,039</b>                    | <b>53,544</b>                    |
| Finance income  | 2,237                            | 2,200                            |
| Finance costs   | (129)                            | (103)                            |
| Impairment of available-for-sale investments  | (12,895)                         | -                                |
| Reversal of impairment of investments in associates   | 313                              | -                                |
| Share of result of associates   | (1)                              | (1)                              |
| <b>Profit before income tax</b>   | <b>4,564</b>                     | <b>55,640</b>                    |
| Income tax  | (650)                            | (11,712)                         |
| <b>Profit for the period</b>  | <b>3,914</b>                     | <b>43,928</b>                    |
| <b>Other comprehensive income</b>   |                                  |                                  |
| Change in fair value of available-for-sale investments  | (13,559)                         | (17,261)                         |
| Accumulated gain on available-for-sale investments recycled to profit or loss   | -                                | (31,115)                         |
| Impairment of available-for-sale investments recycled to profit or loss   | 12,895                           | -                                |
| Change in revaluation reserve for property, plant and equipment in associates   | 260                              | -                                |
| Foreign currency translation difference   | 24                               | (11)                             |
| Income tax recorded directly in other comprehensive income  | 133                              | 9,675                            |
| <b>Other comprehensive loss for the period, net of income tax</b>   | <b>(247)</b>                     | <b>(38,712)</b>                  |
| <b>Total comprehensive income for the period</b>  | <b>3,667</b>                     | <b>5,216</b>                     |
| <b>Profit / (loss) attributable to:</b>   |                                  |                                  |
| Shareholders of JSC "FGC UES"   | 3,945                            | 44,197                           |
| Non-controlling interest  | (31)                             | (269)                            |
| <b>Total comprehensive income / (loss) attributable to:</b>   |                                  |                                  |
| Shareholders of JSC "FGC UES"   | 3,698                            | 5,485                            |
| Non-controlling interest  | (31)                             | (269)                            |
| <b>Earning per ordinary share for profit attributable to the shareholders of JSC "FGC UES" – basic and diluted (in Russian Roubles)</b> | <b>0.003</b>                     | <b>0.036</b>                     |



# Cash Flow Statement

## Consolidated Interim Statement of Cash Flows

RUB MM

|   | Six months ended<br>30 June 2012 | Six months ended<br>30 June 2011 |
|---|----------------------------------|----------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                                  |                                  |
| <b>Profit before profit tax</b>   | <b>4,564</b>                     | <b>55,640</b>                    |
| <i>Adjustments to reconcile profit before income tax to net cash provided by operations</i> |                                  |                                  |
| Depreciation of property, plant and equipment   | 20,186                           | 15,652                           |
| Loss on disposal of property, plant and equipment   | 279                              | 392                              |
| Amortisation of intangible assets   | 278                              | 461                              |
| Reversal of impairment of property, plant and equipment, net                                | (267)                            | -                                |
| Impairment of available-for-sale investments  | 12,895                           | -                                |
| Reversal of impairment of investments in associates   | (313)                            | -                                |
| Gain on disposal of available-for-sale investments  | -                                | (31,115)                         |
| Loss on re-measurement of assets held for sale  | -                                | 4,718                            |
| Share of result of associates   | 1                                | 1                                |
| Accrual / (reversal) of allowance for doubtful debtors                                      | 1,933                            | (124)                            |
| Share-based compensation  | 361                              | 880                              |
| Finance income  | (2,237)                          | (2,200)                          |
| Finance costs   | 129                              | 103                              |
| Other non-cash operating expense  | 7                                | -                                |
| <b>Operating cash flows before working capital changes and income tax paid</b>              | <b>37,816</b>                    | <b>44,408</b>                    |
| <i>Working capital changes:</i>   |                                  |                                  |
| Increase in accounts receivable and prepayments   | (2,145)                          | (1,922)                          |
| Increase in inventories   | (1,177)                          | (1,406)                          |
| Decrease / (increase) in other non-current assets   | 46                               | (111)                            |
| Increase in accounts payable and accrued charges  | 4,364                            | 2,939                            |
| Increase in retirement benefit obligations  | 162                              | 451                              |
| Income tax paid   | (1,613)                          | (8,084)                          |
| <b>Net cash generated by operating activities</b>   | <b>37,453</b>                    | <b>36,275</b>                    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                                  |                                  |
| Purchase of property, plant and equipment   | (58,882)                         | (69,614)                         |
| Proceeds from disposal of property, plant and equipment                                     | 341                              | 458                              |
| Purchase of intangible assets   | (803)                            | (425)                            |
| Purchase of promissory notes  | (35,000)                         | (9,000)                          |
| Investment in bank deposits   | (1,897)                          | (2,246)                          |
| Redemption of promissory notes  | 45,027                           | 46,623                           |
| Redemption of bank deposits   | 2,046                            | 1,983                            |
| Interest received   | 1,169                            | 942                              |
| <b>Net cash used in investing activities</b>  | <b>(47,999)</b>                  | <b>(31,279)</b>                  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                                  |                                  |
| Proceeds from non-current borrowings  | 20,000                           | -                                |
| Repayment of current borrowings   | (59)                             | -                                |
| Repayment of lease  | (75)                             | -                                |
| Interest paid   | (4,994)                          | (2,102)                          |
| <b>Net cash generated by / (used in) financing activities</b>                               | <b>14,872</b>                    | <b>(2,102)</b>                   |
| <b>Net increase in cash and cash equivalents</b>  | <b>4,326</b>                     | <b>2,894</b>                     |
| <b>Cash and cash equivalents at the beginning of the period</b>                             | <b>25,627</b>                    | <b>13,573</b>                    |
| <b>Cash and cash equivalents at the end of the period</b>                                   | <b>29,953</b>                    | <b>16,467</b>                    |



## General

- The Unified National Electric Grid – UNEG
- OJSC “Federal Grid Company of Unified Energy System” – Federal Grid Company
- OJSC “FGC UES” and its subsidiaries – the Group
- OJSC “Interregional Distribution Grid Companies Holding” – Holding MRSK
- Russian Federal Tariff Service – FTS

## Financial Metrics

- Adjusted EBITDA – profit for the period before income tax expense, finance income and costs, depreciation and amortization adjusted to exclude such items as: a gain on disposal of available-for-sale investments and investments in associates, an impairment (reversal of impairment) of available-for-sale investments and investments in associates, a loss on re-measurement of assets held for sale, a revaluation loss on property, plant and equipment, movements in non-specific impairment of property, plant and equipment, a loss on dilution of share in associates, and to include finance income
- Adjusted EBITDA Margin – ratio of Adjusted EBITDA to revenue
- Adjusted Profit for the period – profit for the period adjusted for such items as: a gain on disposal of available-for-sale investments and investments in associates, an impairment (reversal of impairment) of available-for-sale investments and investments in associates, a loss on re-measurement of assets held for sale, a revaluation loss on property, plant and equipment, movements in non-specific impairment of property, plant and equipment, a loss on dilution of share in associates, and related deferred income tax effects
- Total Debt – current and non-current debt (includes bonds, bank and non-bank loans and finance lease liabilities)
- Net Debt – Total Debt less cash and equivalents, short-term promissory notes and bank deposits
- Capex – cash spent during the reporting period for purchase of property, plant and equipment and intangible assets
- Leverage – ratio of Net Debt as at the end of the reporting period to Adjusted EBITDA for the last twelve months before the end of that period
- Personnel Related Expenses – employee benefit expenses and payroll taxes
- Materials, Repairs and Maintenance costs – sum of expenses for repairs and maintenance of equipment (by contractors) and materials for repair
- Debtor Accruals/(Reversals) and Losses on PP&E – sum of accrual / (reversal) of allowance for doubtful debtors and loss / (gain) on disposal of property, plant and equipment
- D&A – depreciation of property, plant and equipment and amortization of intangible assets
- FFO – Adjusted Profit for the period plus D&A
- Gross interest – total interest expense before capitalization on borrowings related to qualifying assets



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