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Performance of JSC “MOESK” following the year 2013

REPRESENTATIVES OF JSC “MOESK”

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CONFERENCE CALL TRANSCRIPT (edited and supplemented)

Presenter: Good evening, dear colleagues. Welcome to the conference call, which is devoted to the performance of JSC "MOESK" for the year 2013. Let me draw your attention to the limitation of liability in respect of the statements to be delivered today during the call. You can examine the disclaimer on slide 2 of the presentation. The presentation to the call is available on the website in the section "Shareholders and Investors/Presentations". Let me introduce the participants of today's call: Alexey Starostin - Deputy Director General for Corporate Governance and Property, Bragova Valentina - Director of Economy and Finances, Elena Ivanova - Director of the Tariff Formation Department, Leonid Yushin - Director for Price Control and Investments, Alexandra Nechepurenko - Deputy Chief of the Administration for Consolidated Reports under IFRS. We are ready to begin, Alexandra Nechepurenko is given the floor.

Alexandra Nechepurenko: Good afternoon, dear colleagues. I am very pleased we have an opportunity to present the financial performance of the Group "MOESK" under IFRS for the year 2013. A few words about the reporting. The consolidated financial statements of the Group include the results of JSC "MOESK" and all of its subsidiaries, namely, JSC "Moskabel'set'montazh", JSC "Moskabel'energoremont", JSC "Plant on repair of electrical machinery" and OJSC "Energocenter".

On the whole, the financial indices of the Group statements for 2013 show a stable trend. With increasing productive supply index by 3%, EBITDA totaled RUR 44.4 bn, which is 2.1% higher than last year. Approximately the same increase is seen in the net profit index - 3%.



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The Company assets grew by 6% to RUR 286 bn. The net assets growth was 11%: it equaled RUR 153.6 bn. at the end of 2013. If we talk about the most significant changes in the assets and liabilities of the Company for 2013, we should note the following stages. First, an increase in non-current assets was due to the growth of the fixed assets book value by RUR 26 bn, which equaled 12% due to the commissioning of fixed assets. A decrease in current assets by 14% was due to a decrease in cash balance with bank accounts. The growth under the liabilities item "Credits and loans" occurred mainly as a result of the placement by JSC "MOESK" of the bond issue in 2013 in the amount of RUR 5 bn. A 5% increase in the liabilities under the advances received regarding the amounts under grid connection agreements amounted to RUR 2.3 bn. This increase resulted from entering into new grid connection agreements. The decrease in the reserves by RUR 2.7 bn was due to the use and recovery of the reserves for legal actions initiated against JSC "MOESK". The capital increase by 11% shows the net profit earned by the Group for 2013 in the amount of RUR 19.5 bn and the distribution of dividends equal to RUR 4.3 bn.

The financial result of the Company in 2013 was formed subject to the following components of the preconditions. The increase in the total revenue by 3% was due to the growth of the electricity transmission revenue. The increase in operating expenses by 4% was mainly influenced by the increase in the electricity transmission expenses. The 11% increase in electricity transmission services revenue resulted from the growth of productive supply. Based on the 2013 results, the “pool” (uniform tariffs-based) productive supply increased by 2.96% due to the growth of electricity consumption and implementation of the measures to reduce electricity losses. Electricity transmission expenses increased by 4% and amounted to RUR 53.7 bn, which includes the 30% increase in the cost for the services of territorial grid entities, which is explained by the growth of tariff for services of the entities. The payments in order to compensate for the electricity losses grew by 3%, which resulted from the increase in losses amount and average electricity purchase price to compensate for losses as compared to the same period of the last year. And there was the 10% increase in the expenses for the services of JSC "UES FGC", which was due to the growth of the tariffs for the entity services. Another significant component of the Company expenses is depreciation which increased by 3% due to the significant commissioning and renovation of fixed assets at the end of 2012 and during 2013. The growth of miscellaneous operating income is associated with the increase in income from non-contractual electricity consumption. The level of financial expenses remained at the previous year's level and amounted to RUR 2.6 bn. Thus, the net profit of the Company for 2013 amounted to RUR 19.5 bn, and earnings per share increased by 2% to 39.7 kopecks. The net cash flow from operating activities for 2013 amounted to RUR 36.1 bn and is aimed to finance the investment program. This concludes my report. Thank you for your attention.



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Presenter: Thank you, Alexandra, we are ready to take your questions. So, the first question is from Matvey Tajts, you are welcome.

Matvey Tajts: The question regarding fixed assets. No revaluations are specified in your reporting. Tell me, please, whether any revaluations are possible due to changes in the regulation in the industry? What’s your assessment in this regard?

Valentina Bragova: No revaluation was conducted, if you mean something else, rather than accrual of the reserve for impairment of receivables. No any revaluations are assumed.

Matvey Tajts: So you don’t see any writing-off in respect of fixed assets, do you?

Valentina Bragova: We don’t hold revaluation under the accounting policy every year.

Matvey Tajts: And how is it held? When?

Valentina Bragova: It is performed only if the market value of our fixed assets is different from the residual value significantly, only in this case revaluation will be held. But during all previous periods we held revaluation every two years as well.

Matvey Tajts: I see. The fact is that since the regulation in the industry changes compared to what was going on at the beginning of 2013, the expectations concerning the tariffs growth changed greatly. In this regard, changes in fair value are possible. But this will become clear, as I understand, only following the results of 2014, whether this revaluation will be carried out or not.

Valentina Bragova: Certainly, every year we check what fair value of fixed assets we have. The latest test conducted in respect of the impairment subject to the new control parameters that were accepted at the end of 2013 basically showed that no impairment is available.

Matvey Tajts: Excellent, thank you very much. I have one more question - about tariffs, if I may. What are changes in your tariffs this year? Has there been any increase from 1 January or not? And do you see possible losses in 2014 regarding the "last mile"?

Elena Ivanova: The last but one - the ninth slide shows all our information on tariffs. With the tariffs which are the same for consumers, the tariffs for JSC "MOESK" have been adopted subject to the growth which is above inflation. In general, the slide shows everything, you can examine it.

Matvey Tajts: Tariff for 2014? Has it happened as from January 1 or will it happen as from July 1?



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Elena Ivanova: Tariffs for consumers do not change as from January 1. They vary as from July 1. RGR¹ is calculated as annual one, without breakdown by half-year periods. That is, on the whole during the year, we have an increase in RGR. But it is not broken by half-year periods. It is tariffs for consumers that are broken by half-year periods. The individual tariffs, which are calculated for mutual settlements with TGEs² take into account the increase in our RGR.

Matvey Tajts: I see. Good, thank you very much. And I have the last question, a small one. Note 9, concerning "Miscellaneous operating income". Could you tell me what kind of income is meant there? To what extent is this value constant in common periods?

Alexandra Nechepurenko: The increase in miscellaneous operating income is associated with the increase in income from non-contractual electricity consumption.

Matvey Tajts: That is, this volume represents the volume consumed without contracts, right? In the years of 2012 and 2013. What will this figure be like concerning the year 2014, in your opinion? What is this non-contracted consumption caused by in general?

Valentina Bragova: No, it's, as a matter of fact, identification of cases of non-contractual consumption and imposing of penalties on the contractor, which consumes electricity without a contract. Naturally, we plan this value, but it is not some kind of a stable one or defined by any plans. In fact, such an income occurs every year, and, actually, we plan them, but at the level of statistics. This is identification of non-contracted consumption.

Matvey Tajts: I see. If I get you right, if this had been consumed under contracts, this would have been included in revenue, am I right?

Valentina Bragova: Yes, that's absolutely true.

Matvey Tajts: Please clarify, how much is the share of fines here? What is the percentage of fines and consumption itself in this amount? Nearby 10-15%?

Valentina Bragova: If you look at non-contracted consumption, it may be nearby RUR 1.5 bn, say, to the revenue of RUR 120 bn. This is not a very significant value.

Matvey Tajts: Good, thank you very much.

Presenter: Thank you, Matvey. The next question is from Sergey Pigarev. You are welcome.

¹ RGR – required gross revenue

² TGE – territorial grid entity



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Sergey Pigarev: Thank you for this opportunity to ask questions of the management. I’d like to ask about dividends. The Company, if I get it right, is going to pay 25% of RAS-based profit. Due to the fact that last year there was a significant decrease in the cash on the balance sheet, and due to new tariff decisions and the necessity of capital expenditures, do you think all this can somehow affect the amount of dividends based on the year 2013 results negatively? Thank you.

Valentina Bragova: Regarding the dividends. As far as you understand, we can say for sure about the dividends after the shareholders take a decision, since this is the prerogative of the shareholders meeting and the resolution of the Board of Directors. At the moment, we can only tell you about our expectations as regards the payment of dividends. At the moment, we live within the framework of resolution #2083-r³ of the RF Government which amended order #774. We assume to pay dividends at the expense of the nearby 25% of the joint-stock company’s net profit, which is calculated in accordance with Russian accounting standards. We can assert that the current situation concerning frozen tariffs, some other difficulties will not affect the payment of such an amount of dividends, which we expect to accrue for 2013, amounting to 25% of the net profit calculated under RAS. Since no formal decisions have been adopted yet, it's only an expectation.

Sergey Pigarev: The matter is that some companies are already turning to the Government in order to revise such an amount of dividends somehow, say, 25% under RAS, because economic conditions have deteriorated. Do you intend similar solicitations?

Valentina Bragova: At least, no such corporate decisions have been taken. That is, if such decisions are made, then you’ll know about it.

Sergey Pigarev: All right, thank you.

Presenter: Thank you very much, the next question is from Dmitry Bulgakov.

Dmitry Bulgakov: Good afternoon, thank you for your presentation. My question concerns TGEs. It is clear that this question does not concern you on the whole, but if you are a “pool holder” (a grid entity collecting payments from sales companies and settling accounts with other grid entities), as far as I understand it, it would be interesting to hear the reason for such kind of volatility. Because your sixth slide shows expenses for the services of TGE, and a very strong decline occurred in 2012, then a rapid growth happened in 2013, compared with 2012. Could you tell the cause of this volatility? Thank you.

³ Resolution #2083-r of the RF Government dated 12.11.2012 “On incorporation of changes to resolution #774-r of the RF Government dated 29.05.2006 about formation of the position of the shareholder – the Russian Federation in the joint-stock companies, the shares of which are in the federal ownership.”



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Valentina Bragova: Once again, please clarify your question. Do you compare the year 2013 with 2012?

Dmitry Bulgakov: Well, the first point. The presentation, page six. There are two graphs on the right, each of them has the part "expenses for TGEs services". It is clear that these expenses have changed a lot for the last three years. At first, they were quite significant, it is shown in relative figures, but we see exactly the same volatility in the absolute terms. That is, in 2011 they are large, then they fall sharply in 2012, and in 2013 the growth is almost on the level of 2011. Can you tell what happened during the past three years and what we see in 2014 here?

Valentina Bragova: Yes, of course. The fact is that the structure of our “pool” changed during the last three years. Accordingly, the revenue is calculated proceeding from the “pool on the top”, and our required gross revenue includes TGEs’ expenses as well. With the change in the structure of the pool during the last three years, the structure of revenues changed, i.e. it included a different number of TGEs. Accordingly, due to changes in the structure of the “pool” we changed costs associated with the payment and display of costs of TGEs services. In 2012, changes in the structure of the “pool” occurred mainly in Moscow (we have two regions, Moscow and the Moscow Area), and the change in the “pool” in the region of Moscow was significant. If OEK was the only entity included in 2012, in 2011 and in 2013 other TGEs joined. In 2014, no substantial changes in the structure of the “pool” are expected as compared to the year 2013.

Dmitry Bulgakov: In other words, do I understand you correctly, that in the absolute and relative terms the increase in expenses for TGEs in 2013 compared to 2012 represents primarily inclusion of other entities, besides “OEK”, rather than enhancement of TGEs tariffs?

Valentina Bragova: Yes.

Dmitry Bulgakov: Could you name a few TGEs, which led to such a strong growth?

Valentina Bragova: I can name the number only. If we had one TGE in our structure of the “pool” in Moscow in 2012 – OEK, there were 16 TGEs in 2013.

Dmitry Bulgakov: It’s clear. All right. Thank you very much.

Presenter: Thank you, the next question is from Igor Goncharov.

Igor Goncharov: The financial company "BCS". Thank you very much for the presentation, I have two questions, the first concerns the investment program. You have a section on the



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website, and it contains the investment program 2012-2017. Probably it is no longer very up-to-date. Can you tell me about the status of the formal process of approval of the new medium-term investment program now? And what numbers should be taken as a basis to make a forecast of capital expenditure for 3 years or 5 years from now? Thank you.

Leonid Yushin: Good afternoon. Let me answer the first part of the question. Formally, at the moment, our investment program 2014-2018 respectively for this five-year plan, has been agreed upon by all regulators and all the constituent entities of the Federation, and has been submitted to Russia’s Energy Industry Ministry for approval. Yesterday public hearings were held as part of the Open Government. These public hearings were held for us positively I guess. We answered all the questions that were of interest for both the public and the Open Government experts. So I hope that Russia’s Energy Industry Ministry will soon adopt the program 2014-2018 for us and we will then be able to place it on the website without making any changes there. As to the figures, now I will not enumerate all of them, it will take long. You can visit the website of the Energy Industry Ministry of the Russian Federation⁴, a draft of our investment program is placed there, and all the figures on financing, capital expenditures for all the years prior to 2018 are shown there. Thank you.

Igor Goncharov: Yes, thank you very much. And the second question, the one of a technical nature. Slide #5, where you compare financial performance under IFRS and RAS, shows a discrepancy in the dynamics of 2013 as to EBITDA and net profit under IFRS and RAS. That is, in 2012 they behaved approximately unidirectionally, and in 2013 differently. Could you tell me the reason for EBITDA fall under RAS and, most importantly, why has net profit fallen, whereas it has grown under IFRS? Thank you.

Valentina Bragova: The main reason for these discrepancies in financial results under RAS and IFRS is the accrual of the provision for impairment of doubtful debts regarding JSC “Energocomplex”. This happened in 2013 under RAS as well. This is due to the fact that we lost the case regarding JSC “Energocomplex” in the courts of all instances and had to accrue the provision. As for IFRS, this reserve is accrued to other reporting periods, and, in addition, another system of putting on records was applied. Accordingly, there was no such receivable in IFRS as to JSC “Energocomplex”. Therefore, this provision actually had no effect on IFRS reporting. Under RAS, accrual of the reserve had been carried out during the past two years. Accordingly, the major share of this provision referred to the year 2013 in the RAS reports.

Igor Goncharov: Thank you very much.

⁴ <http://minenergo.gov.ru/documents/razrabotka/>



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Presenter: Thank you, the next question is from Alexander Seleznyov. You are welcome.

Alexander Seleznyov: Good afternoon, thank you very much for your presentation, I have a few clarifying questions. The first question: could you name the reason for the discrepancy in the payment for grid connection under IFRS and RAS? I.e. RUR 13 bn under RAS, RUR 17 bn under IFRS.

Valentina Bragova: In IFRS, the grid connection services revenue is nearby RUR 16 bn, in RAS – RUR 13 bn. This is due to the fact that we have income from property and equipment obtained in the framework of loss compensation agreements. According to RAS, we include this amount in miscellaneous income, rather than in revenues. According to IFRS, it is included in revenue.

Alexander Seleznyov: And please tell us once again, what kind of equipment is this? Maybe in a little more detailed manner.

Alexey Starostin: A small addition. When an outbound route is built, for example - a well-known, clear example – the base of asphalt road contains our cable lines. The contractor which builds the road liquidates these cable lines and builds new cable lines instead. The destroyed cable lines are written off the balance sheet at the residual value and new cable lines are included in the balance sheet, respectively, at the cost which was effective during construction. This delta between the residual value of written-off, liquidated equipment and the market value or the estimated cost of construction of new equipment comprises the income that the company receives under the loss compensation agreement. This is, in fact, a loss compensation agreement. That’s where these RUR 3 bn come from.

Alexander Seleznyov: It is in fact a non-cash component, isn’t it?

Alexey Starostin: Yes, that is one property retired, and another one is included in the balance sheet to replace it. Accordingly, the difference in the value of this property forms the income. It's not real money.

Alexander Seleznyov: I understand. If I may, a few more questions. Slide #7 showing the dynamics of change in EBITDA from 2012 to 2013, contains a reduction in miscellaneous expenses by RUR 6 bn. Could you clarify please, what kind of miscellaneous expenses are these? What did you consolidate here?

Valentina Bragova: Regarding miscellaneous expenses. Here we compare EBITDA in IFRS of the year 2012 and EBITDA of 2013. This includes all expenses that were not included in the list of the previous named large expenses. The largest amounts are related with the fact that in 2012 we accrued provisions for contingent losses amounting to RUR



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2.2 bn; in 2013 we restored them for RUR 1.1 bn, and this operation has given us the difference of nearby RUR 3.3 bn. The second largest amount is a reduction in the expenses associated with putting on records with respect to grid connection services.

Alexander Seleznyov: Thank you very much. In terms of the services of putting on records grid connection, do I understand it correctly that because of this your costs in 2013 fell by RUR 1 bn?

Valentina Bragova: Approximately RUR 1 bn.

Alexander Seleznyov: I see, thank you. If I may, a few more clarifying questions. The first question concerns the access fee which you pay to "Russian Grids". Could you tell me its amount in 2013 and whether it was included in the tariff for the year 2013? If included, to what extent?

Alexey Starostin: The access fee paid to "Russian Grids" is a little more than RUR 30 mn per month. For the year, these expenses represent slightly more than RUR 350 mn. These expenses are not considered in the tariff regulation.

Alexander Seleznyov: I understand. Another question. Please tell me, again, slide #7, you show the increase in costs of purchased electricity equal to RUR 300 mn only. I just have the only clarifying question. Supply grows, as I understand, probably, losses grow, the tariff on the wholesale market grows as well – by more than 10%. As far as I understand, the gain in this indicator amounted to 2-3%. Could you explain why do we see such dynamics year-on-year?

Valentina Bragova: Productive supply grows, so the level of losses reduces, volume of losses purchase in kWh falls. That means that the physical volume decreases. The tariff for losses purchase - the value of the market nature, to a greater extent – changes as well. The main factor of not a very large increase in costs for electricity losses purchase is that the level of losses and physical volume of losses purchase fell.

Alexander Seleznyov: I understand you. And the last question, if I may. Your reports for 2013 show that you have dissolved the reserve of RUR 1 bn for litigation, while you created two reserves in 2012. Would it be correct to assume that you will fully dissolve this reserve in 2014?

Valentina Bragova: In 2014, we are monitoring the situation on a quarterly basis for contingent losses, for penalties. And this situation will depend on the situation with our arbitration cases.



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Alexander Seleznyov: I understand you, thank you very much.

Presenter: Thank you. We have no more questions. Those who did not have time to ask questions, please contact us by e-mail. I thank all our participants, as well as active participants. Goodbye.