



**CONFERENCE CALL  
TRANSCRIPT  
(edited and supplemented)**

**REPRESENTATIVES OF JSC “MOESK”**

**Vasil’kova Natalia**

**(main reporter)** – Chief of the International Standards Consolidated Statements (IFRS) Administration

**Bragova Valentina** – Director for economy and finances

**Zakharov Boris** – Director for grid connection and services development

**Saltykov Sergey** – Director for services sale

**Ivanova Elena** – Director of the Tariff Formation Department

**Zotova Olga** – Director of the Investments Department

**Svirin Alexey** – Director of the Corporate Governance and Shareholder Relations Department

**Baranova Daria (presenter)** – Chief of the IR Division

**Presenter:** Good afternoon, dear participants of the conference call devoted to summarizing the performance of JSC “MOESK” in the first half of 2013. At any point during the call, you can dial 01 to submit an application to ask a question or dial 02 to reject a question. I think we can begin already. Natalia, please, you have the floor.

**Vasil’kova Natalia:** Good afternoon, dear colleagues. I would like to say a few words on the presentation of financial results of the “MOESK” group under IFRS for the first half of the year 2013. The consolidated financial statements of the group include the performance of JSC “MOESK” and all its subsidiary companies: JSC “Moskabel’set’montazh”, JSC “Moskabel’energoremont”, JSC “Plant on repair of electrical machinery” and OJSC “Energocenter”.

If we talk about the most significant changes in the assets and liabilities of the company for the first half of 2013, the following can be noted. Regarding non-current assets, we mark an increase, on the one hand, of the fixed assets book value by RUR 3.8 bn – this is 2% due to the commissioning of the fixed assets. On the other hand, we mark a decrease in other non-current assets due to an increase in allowances for doubtful debts in respect of long-term advances provided under an agreement with a partner of “one contact system” by RUR 4.5 bn. A 6% decrease in current assets was mainly due to money reduction with the bank accounts and repayment of trade receivables.

Reduction in the liabilities item “Credits and loans” occurred in connection with the repayment of credit instruments of JSC “ALFA- BANK” equal to RUR 7.5 bn and Gazprombank (Open Joint Stock Company) equal to RUR 1.5 bn. This repayment exceeded the amount of the borrowed, obtained tranche on the bonded loan in the amount of RUR 5 bn. The total amount of payables for the first half of 2013 remained at the same level – RUR 58 bn. Here we may note two things. The



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first is a reduction of RUR 1.8 bn (4%) in obligations in respect of obtained advances, under grid connection contracts. Repayment of the advance was mainly due to the recognition of the grid connection revenue, and the total balance of the advance as at 30.06.2013 amounted to RUR 43 bn. And the second component of the payables is accrued dividends for the year 2012 in the amount of RUR 4.297 bn. A decrease of 11% in deferred tax liabilities was mainly due to recalculation of pension liabilities in connection with introduction of the new standard (...) -19 (3:19), starting from the year 2012, and increase in the allowances for doubtful debts in book keeping accounts.

Allowances for the legal actions fell slightly - by RUR 300 mn to RUR 2.8 bn.

Capital increase of 2% shows the net profit earned by the group for the first half of 2013 in the amount of RUR 7.2 bn and distribution of dividends – RUR 4.3 bn.

Company's financial results for the first half of 2013 were formed subject to the following components and prerequisites. The increase in total revenues by 7% was due to the increase in electricity transmission revenue.

The increase in operating expenses by 12% was mainly influenced by the increase in the electricity transmission expenses, as well as the creation of the allowance for the advances issued by the partner of the "one contact system".

The increase of RUR 5.5 bn in electricity transmission revenue was due to the increase of 3.5% in the productive supply of electricity to the grid and the growth of the electricity transmission tariff.

The electricity transmission expenses grew by 6% to RUR 23 bn for the first half. In particular, the services of local grid companies remained unchanged and amounted to RUR 10.7 bn. The increase in payments to compensate for energy losses was 10%, which amounted to RUR 5.8 bn. This was mainly due to the increase in the volume of losses and the average purchase price of electricity to compensate for losses in comparison with the same period of the last year. The expenses for the services of JSC "FGC UES" were RUR 6.5 bn, which is 14% more than for the last year. The expenses growth was associated with the increase in the tariffs for the company's services.

As to the financial income and expenses, we can note that the level of financial expenses remained at the same level as last year, and amounted to RUR 1.5 bn. Financial income for the first half of 2013 decreased by RUR 800 mn, mainly due to the fact that the effect of the purchase of the bonds of the subsidiary company OJSC "Energocenter" at a price below the par one was taken into account in the same period in 2012. The decrease in the profit tax expenses by RUR 1 bn was associated with the reduction in the liabilities in respect of the complex tax.

Thus, net profit for the first half of 2013 amounted to RUR 7.2 bn, and earnings per share were 14.88 kopecks.

Net cash flow from operating activities amounted to RUR 17.9 bn and was used to finance the investment program.

EBITDA amounted to RUR 18.8 nm, which is by RUR 2.8 bn less than in the comparable period of the last year. This decrease was due to the increase in the operating expenses mainly due to the



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allowances for doubtful debts and the increase in staff-related costs, due to the rise in the minimum monthly wage rate and the increase in pension liabilities.

Thus, the overall financial performance of the group for the first half of 2013 can be characterized as stable in terms of the Company's operating activities. This is evidenced by the growth of the electricity productive supply. This concludes my report. Thank you very much for your attention.

**Presenter:** Natalia, thank you very much. We are ready to move on to the question and answer session. Please remember, if you want to ask a question, dial 01 on your telephone set. If you would like to reject your question, dial 02. Thank you.

**Moderator:** We have received the first question. Please, you are welcome. Unfortunately, the user has not introduced himself.

**Trufanov Andrey, SBERBANK CIB:** *Good afternoon. I have several questions related with the growth of operating expenses. The first one, what is the reason for the growth of the staff-related costs of nearby 17% when you specify the reduction in the average headcount by nearby 1% in your presentation? The second one, could you please disclose the amount of the increase in the allowance for the impairment in absolute terms? Since slide 8, where you disclose the operating expenses structure, item "Others", as I understand, includes exactly the increase in this allowance.*

**Vasil'kova Natalia:** Good afternoon. The increase in the wages was first of all due to, if we talk about JSC "MOESK", the increase in the monthly minimum wage rate. It increased by 9% compared to the same period of the last year. This is the first point. The effect there will be somewhere nearby RUR 600 mn. Plus or minus, I'm not ready to name the exact figures now. And the second point. If we talk about the comparison of data from the presentation, which you review, the numerical strength is compared here. The fact is that this information is for JSC "MOESK". If we talk about the consolidated financial statements, these statements are for JSC "MOESK" plus four subsidiaries of the company. Therefore, we cannot probably talk about the numerical strength only. This is the first point. The second point. If we talk about the data from the perspective of wages in the consolidated financial statements under IFRS, they include, as opposed to the RAS, among other things, payments under pension obligations. This is a type of expenses which is not available in Russian accounting, but which is included in IFRS. And, as I said briefly in my report, it may be that since the standards changed (...) (11:09) in 2012, according to which the amount of expenses that used to appear only in the disclosure, in the annual accounts, now we recognize this as an expense. Therefore the obligations, in particular, were recalculated, this is disclosed in the financial statements. The liabilities in the provision on financial results increased by a rather large amount, and accordingly, that had an impact on the profit and loss account in this case under this item as well. Therefore, the main increase, in fact, consists of the increase in the minimum monthly wage rate and the increase in pension liabilities.

**Trufanov Andrey, SBERBANK CIB:** *Yes, thank you. Could you please dwell on the growth of other controlled costs? As I understand, they include exactly the allowance increase. Could you please disclose it in absolute terms?*

**Vasil'kova Natalia:** Yes, indeed, other controllable expenses included allowances for impairment of advances issued to partners of the "one contact system". But I should say that the Company has a



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special body that makes decisions about the amount and reasons for creation of doubtful debts, but I probably would not undertake to tell more detailed information. The matter is that the person who is directly involved in this is currently absent here. Maybe if you have some additional questions we can answer them.

**Trufanov Andrey, SBERBANK CIB:** *Good. And a few more questions, if I may, already taking into account the past eight months. What are your expectations regarding EBITDA, net profit, revenue for the entire year?*

**Bragova Valentina:** Good afternoon. Bragova Valentina. As to the revenue, we expect full implementation of the planned figures. Most likely, with a little over-fulfillment by 2%. We expect a slight increase in the gross profit compared to the last year. As to the net profit, under EBITDA, in connection with the establishment of the allowance for impairment of receivables, which happened during this half-year, we expect a decline compared to the last year. This undoubtedly will be shown in the year-related performance. Accordingly, the results for 2013 based on the actual net profit and EBITDA will be lower than based on the results of 2012.

**Trufanov Andrey, SBERBANK CIB:** *As far as I understand, the creation of the allowance is noncash expenses. Will it somehow influence the payment of dividends for the year? So, will you use the electricity transmission net profit, taking into account the allowance, in the calculation of the payment of dividends or will this allowance be somehow allocated, among other things, to the grid connection net profit?*

**Bragova Valentina:** Indeed, the charge of this allowance is a noncash transaction. Accordingly, it has no effect on the cash flow amount. But under the law, the amount of dividends is accrued on the basis of the net profit amount which was formed for the reporting period in accordance with RAS. In accordance with this, the net profit amount for 2013 will include the changes in allowances for impairment of receivables. Accordingly, the shareholders' meeting, which will take a decision, will be based on the net profit calculated in accordance with RAS.

**Trufanov Andrey, SBERBANK CIB:** *Not so long ago, the media discussed the plan of consolidation of TGEs (territorial grid entities) in respect of IDGCs as a whole; in particular, regarding JSC "MOESK" they told about the merger by JSC "Energocomplex" of the grid facilities in Moscow and consolidation of JSC "OEK". Could you please give some comments on the status of the transaction? Is it considered now? What sort of price points does it have? Thank you.*

**Svirin Alexey:** Good afternoon. As to the status of the transaction I can say that the consolidation options, both in the city and in the region, have been in the process of discussion and consideration for a long time already. However, we cannot give more information regarding pricing parameters of consolidation of the grid facilities in Moscow, and the timing of the deal at the moment. Everything is currently in progress. As soon as we receive any information, this will of course appear in external sources. Thank you.

**Trufanov Andrey, SBERBANK CIB:** *If I may, I have a question about the tariff increase for the next 5 years. Does your business plan take into account already quite pessimistic scenarios regarding the tariff growth "inflation – plus", and in this case, do you anticipate any adjustment in the investment program; if yes, by how many percent? Thank you.*



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**Bragova Valentina:** When forming the business plan for 2014 - we are just now in the stage of preparation of this business plan - we use certain scenario conditions that have been developed. In accordance with these scenario conditions, a rather pessimistic nature of development is stipulated, and the growth rate of the common tariffs does not exceed 6% in our scenarios. But, at the same time, no significant reduction in activity, decline in the investment program is planned. As to the investment program, now I'll pass the word to my colleagues.

**Zotova Olga:** At the moment, we have our investment program considered by Russia's Energy Industry Ministry, it stipulates the adjustment in the form of a slight reduction in the investment program. It is not larger than 2-3%.

**Trufanov Andrey, SBERBANK CIB:** *Thanks for your detailed answers.*

**Presenter:** The next question is from Polina Strogonova, you are welcome.

**Strogonova Polina, Interfax:** *Can you clarify please the following? Do I understand it correctly that based on the results of the year 2013, a reduction in the net profit and EBITDA is expected? Can you say by how many points it will fall, can you give some figures? Thank you.*

**Bragova Valentina:** As to the net profit, we expect a decline of no more than RUR 2 bn as a whole for the year. Accordingly, a similar reduction is expected regarding EBITDA as well, roughly.

**Strogonova Polina, Interfax:** *Thank you, this concerns RAS, doesn't it?*

**Bragova Valentina:** The reduction will be both under IFRS and RAS, roughly by the same figure.

**Presenter:** Dear colleagues, we have no more questions. I want to thank all of you for participating. The event transcript will be posted on our website in the near future. So if you have missed something, you can read it in the section Shareholders and Investors / Presentations. Thank you all for your attention, have a nice day. Goodbye.

**Moderator:** The conference call comes to an end now, thank you for your participation. You can turn off.