



MOESK

**Activity results of JSC “MOESK”
according to results of the
first half year of 2014**

**TRANSCRIPT OF
CONFERENCE CALL
(edited and added)**

REPRESENTATIVES OF JSC “MOESK”

Valentina Bragova – Director of economy and finances

Leonid Yushin – Director of price control and investments

Aleksey Svirin – Director of the Department for the corporate governance and interaction with shareholders

Artyom Koval’ – Deputy Director of the Department of tariff formation

Natal’ya Vasil’kova (principal speaker) – Head of the Department for the management of consolidated reporting according to international standards (IFRS)

Dar’ya Baranova (hostess) – Head of IR Department

Hostess: Good afternoon, dear participants of phone conference, I’m glad to welcome You at the arrangement, which is devoted to the activity results of JSC “MOESK” according to results of I half year of 2014. Let me introduce myself, my name is Dar’ya Baranova, I’m Head of the Investor Relations Department of JSC “MOESK”. Today I will be the call moderator. Let me pay Your attention to the restriction of responsibility regarding statements, answers to questions, which will be heard today during the conference call.

Let me introduce principal speakers. Natal’ya Vasil’kova - Head of the Department for the management of consolidated reporting according to international standards will present us the principal report. After the principal report Valentina Bragova – Director of economy and finances, Leonid Yushin – Director of price control and investments and Aleksey Svirin – Director of the Department for the corporate governance and interaction with shareholders will be ready to answer Your questions. You can ask Your question at any moment after the report.

I am through with organizational issues and ready to give the floor to Natal’ya Vasil’kova. Natal’ya, please, over to You.

Natal’ya Vasil’kova: Good afternoon, dear colleagues. On 22.08.2014 the company “MOESK” signed consolidated financial reporting of the Group according to IFRS for I half year of 2014.

Few words about the reporting. Consolidated financial reporting of the Group includes activity results of JSC “MOESK” and all its four affiliated companies, particularly: “Moskabel’set’montazh”, “Moskabel’energoremont”, “Plant on repair of electrical machinery” and “Energocenter”.



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On the whole financial indicators of the Group’s reporting for I half year of 2014 reflect the following tendencies. Assets grew by 3% and amounted to RUR bln 294. Growth of net assets was by 1%, having amounted to RUR bln 155 as of 30.06.2014.

If to speak about the most essential changes in assets and liabilities for I half year of 2014, I should point out the following. Growth of non-current assets is conditioned by growth of balance value of main assets by RUR bln 6 (2%) tied with putting into operation of fixed assets, reconstruction and modernization of objects. Two principal moments influenced 3%-growth of current assets. These are increase of cash balance on bank accounts by RUR bln 2.8 and reduction of trade and other accounts receivable by RUR bln 2, which occurred at the expense of indebtedness reduction on settlements for electric power transmission and distribution and VAT sum declared for deduction on fixed assets and objects of construction. General growth of obligations related to credits was by RUR bln 1 and is conditioned by procurement of loans of RUR bln 7 by “MOESK” in I half year of 2014 and at the same time redemption of loans of RUR bln 6. Reduction of liabilities regarding personnel remuneration by RUR bln 0.5 is tied with change in conditions of remunerations payments to personnel and discount rate, which is used according to actuarial valuation. Discount rate grew by 0.5% and amounted to 8.5% as of 30.06.2014. General growth of obligations on trade and other accounts payable amounted to RUR bln 4.6 at the expense of increase of advance payments by RUR bln 2.3, received in respect of the concluded agreements on grid connection; reduction of trade debt and accounts payable by RUR bln 1.2; increase of other accounts payable by the sum of accrued dividends for 2013 in amount of RUR bln 2.9 and the current debt on salary to personnel by RUR bln 0.6. Capital growth was by 1% and reflects net profit received by the Group for I half year of 2014 in amount of RUR bln 4.3 and dividends distribution by RUR bln 2.9 for 2013.

Financial result in I half year of 2014 was formed taking into account the following prerequisites. EBITDA indicator amounted to RUR bln 17.3, which is 8% lower than in the last year. Reduction in respect of net profit indicator was 40%. Reduction of these indicators is tied with higher than anticipated growth of cost in respect of conditional non-influenceable costs compared with proceeds growth. Thus, proceeds growth on electric power transmission for I half year amounted to 3%, which is RUR bln 1.6 more than for the similar period of the last year and is conditioned by growth of “boiler” tariffs. Herewith non-influenceable expenses in electric power transmission grew by RUR bln 4.9 for I half year of 2014 and amounted RUR bln 27.9 mostly at the expense that expenses for services of territorial grid companies grew by RUR bln 4.6 in connection with growth of individual tariffs of these companies; expenses for services of “UES FGC” grew by RUR bln 0.7 at the expense of volume growth of declared capacity as well as tariff for grids maintenance and tariff for payment of normative losses according to results of tariff-balance resolutions passed in the current period.

Payments with the aims to compensate electric power losses reduced by RUR bln 0.4, which is conditioned by reduction of losses volume and price reduction for electric power losses purchase compared with the similar period of the last year. Reduction of proceeds from grid



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connection to electric networks of JSC “MOESK” by RUR bln 2.5 is tied with the change of regulatory legal acts, which regulate grid connection activity.

One more essential component of expenses is – depreciation. It grew by 17% in connection with growth of number of objects of depreciated fixed assets. It is tied with introduction of new objects into fixed assets and modernization and reconstruction of already existent.

Other operational income for I half year amounted to RUR bln 1.3, which is RUR bln 0.8 more than for the same period of the last year. Such growth is mostly tied with growth of incomes from charges for non-agreed electric power consumption.

Level of financial expenses remained at the level of the last year and amounted to RUR bln 1.6. Net profit of the Company for I half year of 2014 amounted to RUR bln 4.3 and profit per share – 8.73 kopecks. Net cash flow from operational activity for I half year of 2014 amounted to RUR bln 18.1 and was allocated at investment program financing.

Here my report is over, thank You very much.

Sergey Pigarev, Rye, Man & Gor Securities: Good afternoon, thank You for presentation. It was said in the presentation that the Company can acquire four or five TGO in 2014. And what amount of assets can be used for acquisition and what effect does the Company expect from these purchases?

Aleksey Svirin: Good afternoon. Sure enough, information on possible acquisition of four-five territorial grid organizations, disclosed in the presentation, is true, the Company declares it. At present work is carried out, including that which is tied with corporate procedures. However, it is hard to tell about any parameters of transactions now. We can tell that at the moment the largest organization, in respect of which negotiations are held, is “OEK” (“United Power Company”), generally, a well-known company, which occupies essential part of market in Moscow. However, in case of agreement over transaction parameters, information concerning this company will be disclosed separately. Apart from acquisition of different TGO, including according to results of negotiations with “OEK” owners, we are carrying out consolidation of single objects of electric grid property according to parameters of our Business-Plan. That is why, unfortunately, at the moment we can not disclose effects more detailed, because negotiations are held, but as soon as transactions will be made, or parameters will be specified more detailed, the Company will disclose the mentioned information separately. Thank You.

Polina Stroganova, «Energy News Agency»: Hello, thank You very much for presentation. Can You define more precisely the colleague’s question concerning TGO? If I get you right, these four-five TGO do not include “OEK” and You will disclose information on it separately, will You? And will You keep EBITDA plan according to results of the current year in amount of RUR bln 35.6 or was this indicator reviewed? If it’s no bother, in respect of RAS and IFRS. Thank You.



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Valentina Bragova: Good afternoon, dear colleagues. The Company forms monthly and makes calculation of expected parameters values in respect of proceeds, EBITDA, net profit. At the moment we expect that our future values regarding proceeds, EBITDA and net profit in the second half year will be not lower than the achieved results according to results of I half year of 2014. Consequently, it is easy to calculate approximately what net profit, EBITDA and proceeds we expect due to results of the year.

Aleksey Svirin: Concerning TGO, in fact, in the presentation, as You see the question is about TGO of Moscow region. And I want to say separately, that in case if one or another TGO will be acquired, than, of course, information on each will be disclosed. Simply “OEK” have been discussed for a long time enough, and questions concerning this transaction we received at the previous web-casts. That is why the Company will disclose separately information regarding TGO acquisition, specifically as legal persons. Thank You.

Aleksandr Seleznyov, VTB: Good afternoon colleagues, thank You for presentation. I have several clarification questions. The first question concerning Your slide “Tariff policy in 2014”. I can’t simply calculate. Look, if we look at “boiler” proceeds, which You expect according to results of 2014 against 2013, I see in it growth in RUR bln 10 with the account to passed tariff resolutions. In the right side of the slide there are Your expectations directly in respect of gross revenue requirement (GRR) of “MOESK”, which supposes growth by RUR bln 6 year-on-year. Herewith only that, which we see for a half year in respect of TGO, You have growth plus RUR bln 5. So, as I understand, approximately the same growth one should expect in the second half year, further more plus “UES FGC”. I can’t check out figures. Can You explain somehow?

Artyom Koval’: Good afternoon. Actually, these are parameters on the ground of tariffs, already approved and adjusted from July. That is why everything is checked out on the ground of resolutions, approved by regulators¹.

Aleksandr Seleznyov, VTB: I have clarification question regarding TGO. If I get it right, growth was approximately 40%. I have such question, does it from January, 1 or July, 1 of the last year. In other words, from what moment are these tariffs?

Artyom Koval’: Tariffs are approved from January. Herewith, if to take 2014 than tariffs from July do not exceed I half year. That is why, I think, it is not very correct to speak about 40% growth².

Aleksandr Seleznyov, VTB: I read Your press-release, it is written here “increased expenses for territorial grid companies services by 43%”. I have a question: is it TGO’s tariff growth or did You somehow change “boiler” perimeter? In other words 43% - is significantly enough. Is it possible that Regional Energy Commission of Moscow gave approval to “OEK” or somebody else for such tariff growth?

¹ Sums of “boiler” GRR and GRR of JSC “MOESK” on slide are given on the whole for the corresponding year, and not for half years.

² The speaker spoke about growth of “boiler” tariffs on transmission services.



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Valentina Bragova: Colleagues, from 01.07.2013 tariffs of “OEK” grew significantly. But, properly speaking, this is tariffs’ growth in the second half year of 2013, these tariffs were not reduced significantly in I half year of 2014. Consequently, if to compare TGO’s expenses of I half year of 2013 and I half year of 2014, of course, we will see significant growth in respect of the company “OEK”. But they had tariff growth on 01.07.2013.

Aleksandr Seleznyov, VTB: In other words, broadly speaking, actually main growth was finally from July, 1, wasn’t it? Virtually, there will be other base effect, if we speak about the second half year of 2014, do I get it right? The question is whether it was additional tariff indexation from January, 1 or not, and what was it? And if we speak about the second half year, what TGO’s tariff growth do You expect in respect of the second half year of 2013?

Valentina Bragova: Taking into account that there was order of the Government, tied with the fact that tariffs of the second half year of 2014 are equated to tariffs of I half year of 2014. Consequently, we do not expect growth of tariffs in the second half year which we observe in I half year of 2014 compared with I half year of 2013.

Aleksandr Seleznyov, VTB: You are surely have Business-Plan. Simply what TGO’s tariffs growth do You expect in the second half year year-on-year, in other words not the second half year on I half year, but the second half year of 2014 on the second half year of 2013? Now figure in 43% looks, to put it mildly, “striking”.

Valentina Bragova: 43% - is mostly tied with “OEK”. Yes, it was like that. But in the second half year there should not be so significant growth³.

Aleksandr Seleznyov, VTB: I understood You, thank You very much.

Mikhail Rasstrigin, VTB: Hello, I’d like to clarify, could You tell, why reserves for accounts receivable remain at sufficiently high level (approximately 1 billion in I half year)? And the second question: could You comment what is additional reserve in RUR mln 300 tied with, exactly with what kind of court proceeding?

Valentina Bragova: The Company carries out quarterly monitoring of accounts receivable and estimates it with a view to possibility of collection of accounts receivable. According to it we restore quarterly part of receivables, part of reserves for accounts receivable and accrue simultaneously. That, which we accrued as of July, 1, approximately RUR mln 800, in respect of expenses, tied with electric power transmission, is not tied with the companies of “One window”. As well as reserve on court proceedings, accrued as of July, 1, these are not court proceedings in respect of “One window” either. There was no reserves flow in respect of “One window” as of July, 1. It means that amount of those reserves, concerning “One window”, which were accrued as of January, 1, remain unchanged. Quarterly estimation of our court proceedings is carried out, provided that there are quite a large

³ Expenses for TGO’s services in the second half year of 2014 are expected at the level of expenses of the second half year of 2013.



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number of them, at which possibility of favourable or unfavourable result is accepted and estimated. Strictly speaking, according to this possibility estimation specialists of “MOESK” pass resolution together regarding reserve accrual. We do not disclose debtors particularly or contractors particularly in respect of court proceedings.

Mikhail Rasstrigin, VTB: I understand. Anyhow, can You tell in general terms? It was clear that before that, for example, receivables were reserved by everybody, because one large seller had evident problems. It seems to me, that in this year there are no any large problems, but suddenly You have the same large reserves. Can You somehow characterize the reason for such situation in general terms?

Valentina Bragova: At the moment as of July, 1 we have grown overdue accounts receivable, because number of sales companies have problems. Consequently, reserve for that accounts receivable is accrued.

Mikhail Rasstrigin, VTB: It’s clear, thank You. Can You tell one more figure in respect of TGO’s tariffs growth, which were a year ago, on 01.07.2013?

Valentina Bragova: Without books, only very roughly. In respect of “OEK” two-rate tariff, and according to the rate for grids maintenance in I half year of 2013 the tariff was, to my mind, approximately RUR ths. 681 for MW per month, and from the second half year it became approximately RUR ths. 1,800 for MW per month.

Mikhail Rasstrigin, VTB: It’s clear, thank You.

Matvey Tait, Uralsib: Good afternoon, thank You very much for presentation. Do You plan to write off any assets during this year, will there be any non-monetary writings-off due to the year results? Because in the last year we saw that “UES FGC” wrote off a lot, because tariff regulation had changed a lot. It didn’t happen in distribution grids and whether this will occur in this year or not?

Valentina Bragova: Colleagues, estimation of which reserve is accrued is carried out quarterly. In present situation, in situation as of July, 1, we have written off everything what we saw and what has possibility of unfavourable result. Today we don’t see any additional large non-monetary writings-off. But situation is changing, and we will carry out its monitoring quarterly. Consequently, according to results of nine months, probably, one could give more detailed answer.

Matvey Tait, Uralsib: Thank You. One more question, if I may. Do You have dividends figure in Your Business-Plan or not? Because when Investment Program was discussed, I believe, in Minenergo in the frames of open system of investment programs accepting, in Your appendix, where the Company’s business-model was, everywhere were zeroes in the part, where dividends should be stated. Did these zeroes appear due to some mistake or whether You don’t really plan dividends or do You plan them? In general, do You have any target figure in respect of dividends for this year?



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Valentina Bragova: According to the approved Business-Plan payment of dividends accruals is provided according to results of the year from net profit, calculated according to Russian Accounting Standards at the level of 25%.

Matvey Tait, Uralsib: I I got it right, You say, that the second half year will be approximately the same as the first. In other words if we multiply by two the result of I half year according to RAS and take 25% than we will have that amount of expected dividend, which You have in Business-Plan, I understand You right, don't I?

Valentina Bragova: In our approved Business-Plan net profit is approved for 2014 in amount of RUR mln 7,847. The figure differs from what we have according to IFRS, but RUR mln 7,847 is – our approved figure.

Matvey Tait, Uralsib: Thank You very much.

Polina Stroganova, «Energy News Agency»: I forgot to clarify one more question. It was announced recently, that “MOESK” approved extension of credit with limit of RUR bln 1.3 from the Centre of payments settlement. This organization is subordinated to “Inter RAO” and is operator of settlements for electric power in Crimea and Sevastopol'. Can You, please, explain what this decision is tied with? Have You already given these assets? And when do You expect paying back and in what form?

Valentina Bragova: We granted such assets in amount of one billion under 14% interest per annum. We expect their paying back in this year.

Polina Stroganova, «Energy News Agency»: I don't understand the logics. Why “MOESK” grants assets to organization, which works in Crimea, what is it tied with?

Valentina Bragova: The Company granted loan under market interest, that is why no questions can be raised.

Polina Stroganova, «Energy News Agency»: OK, thank You.

Aleksandr Seleznyov, VTB: If I may ask one more clarification question regarding reporting, capitalization of interests. If I get it right from the reporting, Your level of capitalization of interests grew, in other words You capitalized RUR mln 500 in the last half year, and approximately RUR mln 800 – in this year. Do I get it right, that according to year results level of capitalization of interests will be higher than in the last year, in other words, I believe, You had RUR bln 1.5 in the last year?

Natal'ya Vasil'kova: Yes, our capitalization interest grew a little bit, but there will be no principal large growth of capitalization, only a little bit at the expense of interests. That is why on a good note we expect capitalization level approximately at the same level, which was in the last year. It will change a little bit only at the expense of little interest growth and at the expense of growth of capital investments, it means incomplete construction, for which assets are allocated.



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Aleksandr Seleznyov, VTB: And when You calculated net profit of approximately RUR bln 8, what volume of capitalized interests did You take into account?

Natal'ya Vasil'kova: Approximately at the level of interests, which are taken into account according to IFRS, but I can't say now the exact figure to You.

Aleksandr Seleznyov, VTB: OK, thank You very much.

Hostess: Dear participants, thank You very much. We'll glad to hear You at our future conference calls. Please follow press-releases and other publications in section “For Shareholders and Investors” at our corporate web-page. Thank You for attention, good bye.