

# Chapter 4

## OUTCOMES

### Financial Capital

#### Financial Policy of TVEL FC

Financial management is carried out in accordance with the approved Financial Policy of Enterprises Comprising the Fuel Company and agreed upon by ROSATOM State Corporation.

#### Main provisions of the TVEL FC Financial Policy appear to be as follows:

- TVEL JSC is a pool leader and conducts overall centralized control over relationship between the TVEL JSC enterprises and financial institutions (base banks, partner banks) in management of consolidated debt portfolio, allocation of free cash and management of liquidity of enterprises;
- TVEL JSC directly approves transactions of the TVEL FC enterprises on allocation of temporarily free funds and raising loans. Financial transactions are conducted in accordance with requirements of the Uniform Industry Procurement Standard;
- intercompany loan system serves to optimize the consolidated TVEL FC loan portfolio and the cost of external funding, as well as to promote centralized funding of operation of the enterprises and current liquidity management.

Budgeting at the TVEL FC enterprises is based on the unified budget regulations and standards of ROSATOM State Corporation.

Budgets of the TVEL FC enterprises are approved by the Board of Directors of the SA based on consideration of consolidated budget of the Fuel Company by the budget committees of TVEL JSC and ROSATOM State Corporation.

In 2013, all KPI targets and performance indicators used in assessment of the Company's performance were achieved.

#### Financial Results of Activities

Key financial and economic indicators of financial standing of TVEL FC that characterize the efficiency and productivity of the Company's performance are shown in Table 13 below.

Overall growth of revenues of the Fuel Company in 2013 against 2012 amounted to 9,478 mln RUB (+8%). Changes were caused by both negative and positive factors. Negative factors: decline in current reloads of nuclear fuel and components for NPP within Russia as requested by the customer – Rosenergoatom Concern JSC (-8,459 mln RUB), slump in sales of fuel for research reactors (-1,323 mln RUB), reduction in sale of power-related (electric and heat) services (-1,605 mln RUB), etc. The abovementioned negative factors were made up for by sales of brand new product – fuel start-up facility for

reactor BN-800 (5,121 mln RUB), increased amount and restructured fuel supplies to foreign NPPs (3,532 mln RUB), growing sales of services related to conversion and enrichment resulting from sales of enriched uranium product (5,013 mln RUB), and the growing sales of research and development, test design and scientific and engineering services (1,033 mln RUB). Revision of contract prices and rates also had positive effect on the 2013 results (3,858 mln RUB).

Changes in exchange rates had positive impact on revenues as well (1,672 mln RUB).

Table 12. KPI and Performance Indicators Achieved by TVEL FC in 2013\*

Indicator	Target	Actual value	Δ 2013/2012, %
AFCF** of TVEL FC, bln RUB	49.46	51.71	+4.55
Unit cost of principal products	100% of the plan	done	done
Revenues of Division – joint products, mln RUB	7,296.7	9,325.6	+27.81
EBITDA, mln RUB	51,021	51,163	+0.28
Labor efficiency, mln RUB/person	4.3	4.5	+4.86
Revenues from international operations (including exports by enterprises of the Russian Federation), mln USD	1,428.2	1,505	+5.38
Export orders portfolio for the 10-years period, mln USD	10,885	10,891	+0.06
Violations of Level 2 or higher under the INES scale	none	none	–
Lost time injury frequency rate (LTIFR), %	0.33	0.14	-57.58

GRI G3.1: 2.8

Table 13. Key Financial and Economic Indicators of TVEL FC

Indicator	2011	2012	2013	Δ 2013/2012, %
Net sales, mln RUB	126,090	121,958	131,436	+8
Gross margin, mln RUB	33,506	39,289	39,628	+1
Gross margin percentage to revenues from sales, %	26.57	32.22	30.15	
Total administrative expenses in revenues, %	2.14	2.29	2.27	
Commercial expenses	2,434	2,400	2,224	-7
Administration costs	2,700	2,799	2,989	+7
EBITDA, mln RUB	38,078	42,668	51,163	+20
Net profit, mln RUB	16,494	19,642	23,866	+22
Net cash flow, mln RUB	1,699	-470	1,801	+483
Net assets, mln RUB	559,730	566,427	579,708	+2
Return on sales, %	13.08	16.11	18.16	+13
Return on equity, %	0.059	0.035	0.042	
EBITDA profitability, %	30.2	34.99	38.93	
Debt to equity ratio	0.08	0.11	0.13	+16

\* Financial and economic indicators are given in accordance with the consolidated management accounts of FC TVEL.

\*\* Adjusted Free Cash Flow calculated by indirect method as the amount of proprietary funds generated by the company over the period from current activities adjusted by non-cash revenues and expenditures.

**Table 13. Key Financial and Economic Indicators of TVEL FC**

Indicator	2011	2012	2013	Δ 2013/2012, %
Current liquidity ratio	2.39	2.52	2.42	-4
Labor efficiency, mln RUB/person	2.96	3.6	4.5	+25
Gross tax liabilities, mln RUB	25,502	23,419	27,695	+18
Dividends paid, mln RUB	3,100	19,500	18,937	-3

The bulk of revenues from sale of products, operations and services (60.6%) falls on the sale of nuclear fuel and its components. Compared to 2011, the share of this product grew considerably (55% in 2011). However, proceeds from the sale of conversion and enrichment services decreased by 19.4% against 2011 (although they were still higher than in 2012).

**Table 14. Distribution of Consolidated Revenues by Areas**

Product	Sales, mln RUB		
	2011	2012	2013
Nuclear fuel and components	69,189.4	75,017.3	79,603
Conversion and enrichment services	29,166.1	18,403.2	23,505.1
Gas centrifuge products	2,053.3	2,916.7	4,214.3
R&D	3,331.8	4,301.4	6,338.5
Other	22,349.3	21,319.4	17,775.1
Total	126,089.9	121,958	131,436

In 2013, the exports amounted to USD 1,505 mln (36.2% of total revenues of the Company against 35% in 2012). The largest share in export revenues comprises of the sale of nuclear fuel and its components – 95.5%.

**Table 15. Distribution of Export Revenues by Products**

Product	Sales, mln USD		
	2011	2012	2013
Nuclear fuel and components	1,310.6	1,353.5	1,437.1
Engineering services	19.7	7.2	6.3
Lithium products	15.9	16.3	13.3
Calcium, titanium, zirconium	13.4	12.4	12.3
Isotope products	7.6	9.9	10.1
Other	25.8	29.7	26
Total	1,392.9	1,429	1,505

Net profit of TVEL FC in 2013 grew by 21.5% against 2012, amounting to RUB 23,866 mln.

In 2013, TVEL FC took certain measures to optimize its costs, such as cutting the administration costs, energy saving, development of production, introduction of modern technologies and the ROSATOM production system, optimization of areas (abandoning and leasing out), etc.

Main factors causing the growth of net profit include increase of revenues, optimization of costs, growth of other income and change of exchange rates. Thanks to the optimization efforts of the management personnel of the FC enterprises, the costs were reduced in 2013 by RUB 1,699 mln.

**Table 16. Dividends, thousand RUB**

Indicator	2011	2012	2013
Dividends paid to Atomenergoprom JSC	3,138,000	19,486,653	18,937,488
Dividends paid to TVEL JSC by the SA	3,204,715	515,740	4,150,891

TVEL JSC Dividends Policy with respect to its subsidiaries and affiliates is based on the need to make investments in production, modernization and technical upgrade.

#### Key Risks Management Results

Risk	Risk Management Results
Exchange risk	Mitigated by application of hedging tools
Loan risk	Mitigated by insurance and reduction of the share of advance payments in settlements with external suppliers

#### Investment Activity

TVEL FC conducts its investment activities in accordance with Uniform Industry-specific Policy of ROSATOM State Corporation and its organizations and in accordance with the following industry-specific documents:

- TVEL JSC Investment Projects and Programs Management Standards;
- Uniform Industry-specific Regulations for Corporate Projects Portfolio Management of ROSATOM State Corporation and its organizations;
- uniform industry-specific guidelines on handling requests for consolidated investment resource of ROSATOM State Corporation and its organizations;

- uniform industry-specific guidelines on execution of project identification summaries of ROSATOM State Corporation and its organizations;
- Order “On Participants of Investment Activities of TVEL JSC and Enterprises Comprising the Fuel Company”;
- Provisions on TVEL JSC Investment Committee.

The Investment Committee (hereinafter – “the Committee”) is a permanent collegiate advisory body acting under the guidance of the Chairman and implementing principles of the investment policy of ROSATOM State Corporation and its organizations.

**Primary goal of the Committee is to shape out the agreed opinion with respect to:**

- TVEL FC investment priorities in order to implement the Operations Strategy of ROSATOM State Corporation and TVEL FC;
- composition, structure, parameters of TVEL FC project portfolio and amendments to it;
- solutions that would promote implementation of TVEL FC projects and acquisition of expected results;
- control of TVEL FC project implementation on each stage of the project life cycle through preventive and corrective actions.

**TVEL JSC Investment Committee**

Chairman	Y.A. Olenin — President of TVEL JSC
Deputy Chairman	N.V. Nikipelova — Senior Vice-President of TVEL JSC for Finance, Economy and Corporate Management
Secretary	E.I. Lukina — Director of Department for Investments and Implementation of Strategic Programs of TVEL JSC
Members	V.V. Rozhdestvensky — Senior Vice-President of TVEL JSC for Production
	P.I. Lavrenyuk — Senior Vice-President of TVEL JSC for Science, Engineering, Technology and Quality
	Y.A. Kudryavtsev — Senior Vice-President of TVEL JSC for Development of New Businesses
	K.K. Sokolov — Vice-President — TVEL JSC Executive Officer, Energy Resources
	E.V. Lyakhova — Director, Management of Investments and Operations Efficiency of ROSATOM State Corporation
	V.I. Korogodin — Director for Lifecycle Management of the Nuclear Fuel Cycle and NPP of ROSATOM State Corporation
	N.S. Khlebnikova — Director of the Investment Management of ROSATOM State Corporation
S.V. Komova — Head of Department of Investment Control of ROSATOM State Corporation	

**Investment Control Mechanisms include:**

- joint decisions regarding the investments made by TVEL JSC Investment Committee or, depending on the value and strategic importance of the investment project, by the Investment Committee of ROSATOM State Corporation;
- certification of investment projects and programs, including the elaboration and description of the current status, feasibility studies and plans of their implementation;
- “gate” approach in management of investment projects and programs, including the audit of efficiency and effectiveness of their implementation;
- annual preparation and updating of the FC Investment Memorandum defining the mid- and long-term prospects of investment activities of the enterprises within the perimeter of TVEL FC, followed by approval thereof by the Investment Committee of TVEL JSC.

**Investment Activity Results**

In 2013, TVEL JSC Investment Committee convened 18 times, including 4 meeting in presentia. The amount of investment project financing reached RUB 36,920 mln (RUB 41,328 mln in 2012). Since TVEL FC is implementing over 250 investment projects simultaneously, the amount of funding tends to vary year after year, depending on combination of various stages of their life cycles.

Funding of industrial and technological base of primary production accounts for the biggest share in overall investment outlay.

## Manufactured Capital

**Production and Economic Results**

TVEL FC enterprises fulfilled their quotas for output and sale of products and services in 2013, thereby enabling the Company to perform its contract obligations to Russian and foreign customers in full.

Significant growth of labor efficiency throughout TVEL FC in 2011-2013 is indicative of growing efficiency of production – one of the main business objectives. The growth is achieved through introduction of the ROSATOM Production System (“the RPS”) and personnel downsizing through restructuring of the Fuel Company.

**Table 17**

Description	Unit of measurement	2011	2012	2013	Δ 2013/2012, %
Average staffing number	person	42,581	34,088	29,238	- 14.2
Labor efficiency	mln RUB/person	2.96	3.6	4.5	+ 25
Proceeds	mln RUB	126,090	121,958	131,436	+ 7.8

\* Chapter 4 Section “Productive Efficiency Management”.