

5 FINANCES

As of 2010 net profit totaled RUR 1 684 773 thous. (+RUR 631.5 mln. on 2009), including profit from connection RUR 1 223 295 thous.

	2010	2009	2008
Overall revenues	49 783 796	41 297 636	35 964 707
Energy transmission	47 763 291	40 001 176	34 437 161
Connection	1 685 727	973 985	895 581
Other revenues	334 778	322 475	631 965
Expenses	44 842 725	36 623 611	33 947 171
Gross profit	4 941 072	4 674 025	2 017 536
Commercial expenses	0	0	0
Operating profit	4 941 072	4 674 025	2 017 536
Interest receivable	15 715	14 598	14 953
Interest payable	391 864	728 621	435 820
Revenues from participation in other companies	118 784	13 242	13 324
Other revenues	5 778 541	3 845 823	1 928 401
Other expenses	8 071 661	6 426 100	2 249 970
Pre-tax profit	2 390 587	1 392 972	1 288 425
Income tax and other payments	705 814	339 705	426 339
Net profit	1 684 773	1 053 267	862 085
From operations	458 478	391 533	310 754
From connection	1 223 295	661 734	551 331

Our 2010 overall revenues totaled RUR 49 784 mln. (+RUR 8 486 mln. or +20% on 2009), including revenues from energy transmission – RUR 47 763 mln. (+RUR 7 762 mln. on 2009) and revenues from connection – RUR 1 686 mln. (+RUR 712 mln. on 2009). Overall expenses totaled RUR 44 843 mln. (+RUR 8 219 mln. or +22% on 2009). This increase is due to the growth of non-controllable expenses (loss compensation, payments to FSK and other regional grids) by RUR 6 398 mln. Gross profit totaled RUR 4 941 mln. (+RUR 267 mln. on 2009). Pre-tax profit increased by RUR 2 391 mln. (+RUR 998 mln. on 2009) due to additional revenues from participation in other companies (RUR 119 mln.), restoration of previously created bad-debt reserve and interest payable decrease by RUR 337 mln. (46%) as a result of credit portfolio decrease.

REVENUES STRUCTURE

	2010		2009		2008	
	RUR thous.	%	RUR thous.	%	RUR thous.	%
Overall revenues	49 783 796	100	41 297 636	100	35 964 707	100
Energy transmission	47 763 291	95,94	40 001 176	96,86	34 437 161	95,75
Connection	1 685 727	3,39	973 985	2,36	895 581	2,49
Other core operations	329 117	0,66	315 290	0,76	621 635	1,73
Non-core operations	5 661	0,01	7 184	0,02	10 329	0,03

2010 overall revenues totaled RUR 49 784 mln. (+RUR 8 486 mln. or 20% on 2009).

Revenues from energy transmission are one of the key business lines contributing to the revenues structure. As of 2010 these revenues totaled RUR 47 763 mln. (+19% on 2009) contributing 96% to the overall revenues. In absolute terms, the increase totaled RUR 7 762 mln. and was due to the growth of average transmission tariff and productive supply. The revenues also were affected by a direct contract concluded between ChEMK and FSK in 2010 on “last mile” objects.

Revenues from connection, as of 2010, totaled RUR 1 686 mln. (+73% on 2009) contributing 3.4% to overall revenues. The increase in absolute terms totaled RUR 712 mln. and was due to consumer connection, including commissioning of a large object (“Anna” substation, Sverdlovenegero). Other revenues totaled RUR 335 mln. (-3.8% on 2009) contributing 0.67% to overall revenues.

EXPENSE STRUCTURE

	2010		2009		2008	
	RUR thous.	%	RUR thous.	%	RUR thous.	%
Overall expenses	44 842 725	100	36 623 611	100	33 947 172	100
Loss compensation	10 764 312	24,0	8 237 656	22,5	7 498 977	22,1
Payments to FSK	10 938 484	24,4	8 374 947	22,9	6 765 843	19,9
Payments to other local grids	10 512 174	23,4	9 204 054	25,1	8 051 499	23,7
Salary and other social benefits	5 221 321	11,6	4 144 530	11,3	3 874 825	11,4
Depreciation	2 341 957	5,2	2 070 197	5,7	1 855 161	5,5
Taxes and levies	112 375	0,3	124 026	0,3	117 467	0,3
Other expenses	4 952 102	11,1	4 468 201	12,2	5 783 400	17,0
For information: repair	1 228 574	2,7	787 392	2,1	993 845	2,9

Expenses on loss compensation, as of 2010, totaled RUR 10 764 mln. (24% of overall expenses). In absolute terms, the increase on 2009 totaled RUR 2 527 mln. and was due to the increase of losses purchased at free market prices and excess of free market price over the regulated one.

Payments to FSK totaled RUR 10 938 mln. (24.4% of overall expenses). The increase on 2009 in absolute terms totaled RUR 2 564 mln. and was due to the increase of FSK maintenance tariff. Payments to other local grids as of 2010 totaled RUR 10 512 mln. (23.4% of overall expenses). In comparison to 2009 the increase totaled RUR 1 308 mln. and was due to new local grids and tariff growth.

Salaries and other social benefits in 2010 totaled RUR 5 221 mln. (+26% on 2009) contributing 11.6% to overall expenses. The increase was due to:

- Increase in personnel caused by the transition of repair and metering services to non-contracted ones since July 01, 2009;
- Staffing;
- Grid facilities acquisition (for maintenance).

Increase of depreciation (+RUR 272 mln. on 2009) was due to the growth of our fixed assets as a result of our investment program. Other expenses, equaling RUR 4 952 mln. (11% of overall expenses), were caused by transport services, rental expenses, maintenance and repair, consulting and information services. In absolute terms, the increase totaled RUR 484 mln. and was due to repair increase (+RUR 441 mln.), increase of expenses on information and consulting services (+RUR 159 mln.) due to implementation of a new SAP ERP software.

PROFIT DISTRIBUTION

As of 2010, IDGC of Urals gained net profit equaling RUR 1 684 773 thous. Net profit is calculated according to our financial statements. According to the Charter, our GSM adopts the final resolution on profit distribution. Target net profit distribution, as of 2010, is as follows:

	As of 2010	As of 2009	As of 2008
Net profit	1 684 773	1 053 267	861 352
Reserve fund	84 349	52 553	43 068
Dividends	245 550	0	0
Enterprise development	1 354 874	1 000 714	818 284

According to statements stipulated by article 8 of the Charter and Federal Law "On Joint-Stock Companies", the reserve fund is created by a GSM resolution. According to the Charter, annual contributions to the reserve fund total 5% of the net profit. Therefore, as of 2010, a part of the net profit equaling RUR 84 349 thous. is contributed to the reserve fund created for the coverage of company losses, bond redemption and share buy-back in cases when there are no other resources. A considerable share of the net profit equaling RUR 1 354 874 thous. is planned to be distributed for enterprise development. RUR 245 550 thous. will be forwarded for 2010 dividend payout.

ANALYSIS OF FINANCIAL STATUS AND OPERATION RESULTS

	31.12.09 r.	31.12.10 r.	Change
Net asset value, RUR thous.	28 263 217	29 941 608	+1 678 391
Debt/ Capital and Reserves, %	49,44	49,19	-0,25
Debt payment coverage, %	127,81	82,87	-44,9
Receivables turnover, times	6,63	7,53	+0,9
Efficiency ratios			
Return on Assets, %	2,5	3,78	+1,28
Return on Capital, %	3,74	5,64	+1,9
Financial stability ratios			
Equity autonomy ratio	0,67	0,67	0,00
Equity/Debt	2,04	2,05	+0,01
Receivables/Payables	0,87	0,93	+0,06
Liquidity ratios			
Current liquidity ratio	1,30	1,23	-0,07
Quick liquidity ratio	1,12	1,06	-0,06
Debt			
Debt	5 583 562	5 537 633	-45 929
Net debt	4 542 354	4 365 572	-176 782
Debt/EBITDA	1,3	1,1	-0,2
Debt/Equity	0,20	0,19	-0,01
For information:			
EBITDA	4 191 790	5 124 407	+932 617

As of 2010, Debt/Capital and Reserves ratio demonstrates insignificant and still positive dynamics. Our debt in 2010 was at the same level, financial stability also retaining. Borrowed funds are long-term borrowings. Other long-term borrowings were made of advances on connection contracts, execution date exceeding 12 months. Debt payment coverage demonstrates the ability of the company to discharge its liabilities using profit and its equivalents. Receivables turnover increase characterizes improvements in debtor payments.

Due to the increase of net profit and depreciation, income tax and decrease of interest payable EBITDA grew by 22% on 2009. Debt/ EBITDA in 2010 totaled 1.1, being within the generally accepted limits (not more than 4). Liquidity ratios are at the specified level and characterize the ability of the company to discharge its short-term liabilities. The Company is able to fully discharge its debt liabilities retaining its financial stability. The Company has a low risk of losing its financial solvency if the debt increases. Financial ratios are among guideline values of key financial indicators.

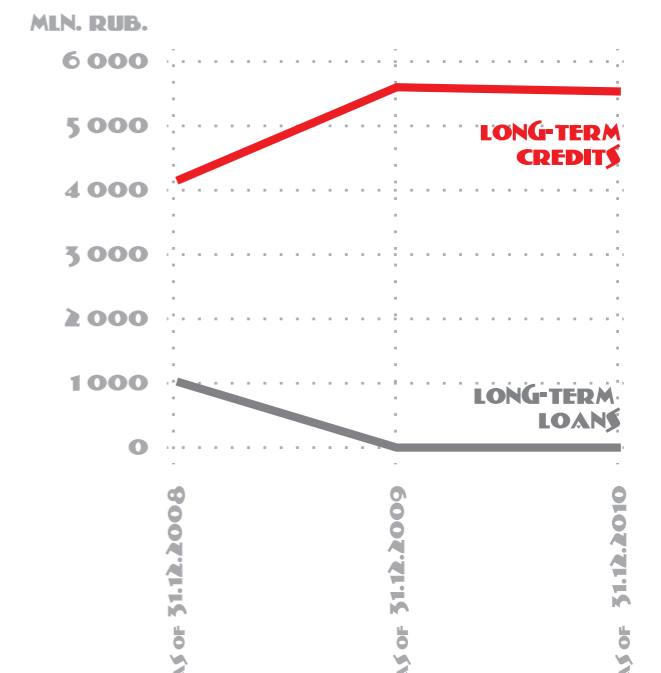
CREDIT PORTFOLIO

	31.12.2008	31.12.2009	31.12.2010	(2010/2009)	(2010/2009), %
Short-terms credits and loans	1 200 000	-	-	0	0%
Long-term credits and loans	5 161 534	5 583 562	5 537 633	-45 929	-1%
Including bonds	1 000 000	1 638	219	-1 419	-87%
Interest payable	42 770	26 503	2 123	-24 380	-92%
Total	6 404 304	5 610 065	5 539 756	-70 309	-1%

As of 31.12.2010, credits and loans totaled RUR 5 537.6 mln. (-1% or -45.9 mln on 2009). This debt is long-term (2-5 years). In 2010 there were 3 credit auctions. After the auctions we concluded 3 contracts (overall value of RUR 4 280 mln.). The key creditor banks are Urals Bank of Russian Savings Bank and Ekaterinburg branch of Gazprombank, OAO.

	Terms	Limits, RUR thous.
Bond issue (series 01 4-01-32501-D)	May 2012	1 000 000
Sberbank	2-5 years	3 600 000
Gazprombank	2-5 years	6 730 000
Total		11 330 000

In 2010 credit market was characterized as favorable and we took measures to decrease interest rates. As a result, we raised capital below our approved debt value limits. Average interest rate in 2010 totaled 9.6% per annum, at the same time, as of 31.12.2010, average credit portfolio interest rate totaled 7.7% per annum. As of 2010 the Company ensured the compliance of our debt to the approved limits and retained business solvency rating at Level A.



ANALYSIS OF CHANGES IN RECEIVABLES AND PAYABLES

	As of 31.12.2008	As of 31.12.2009	As of 31.12.2010	Change
Receivables, including	6 702 273	6 226 469	6 614 285	+387 816
Receivables (exceeding 12 months)	128 131	99 509	278 410	+178 901
Including buyers and customers	3 805	8 187	2 716	-5 471
Receivables (less than 12 months)	6 574 142	6 126 960	6 335 875	+208 915
Including buyers and customers	3 857 266	4 676 087	4 062 211	-613 876
Payables	3 631 480	6 340 816	6 542 964	+202 148
Including buyers and customers	2 379 927	3 127 653	3543018	+415 695

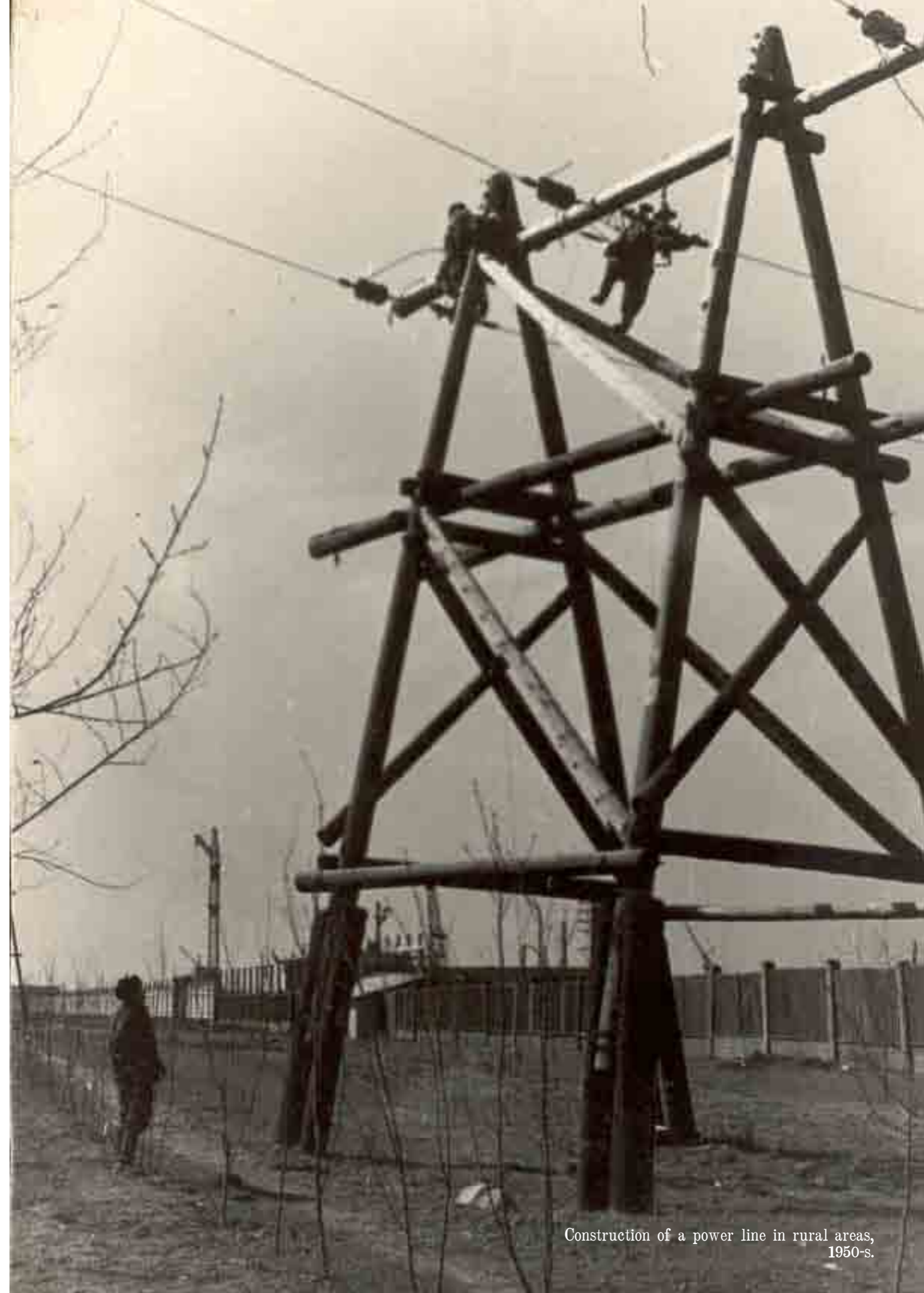
At the beginning of the reported period overall receivables have totaled RUR 6 226.5 mln., but, as of 31.12.2010, receivables have reached RUR 6 614.3 mln. During the reported year the receivables increased by RUR 387.8 mln., including lines "Advances paid" (+RUR 137.9 mln.) and "Other debtors" (+RUR 812.0 mln.) as well as tax and levy overpayment (+RUR 784.5 mln.). At the same time there was a decrease of lines "Buyers and Customers" (-RUR 619.3 mln.) and "Debts of subsidiaries and associates" (-RUR 127.1 mln.). Besides, every quarter after receivables inventory we formed a bad debt reserve, carefully evaluating information on debtor solvency. As of 31.12.2010, the reserve has totaled RUR 1 680.1 mln.

Payables, as of 2010, have increased by RUR 202.1 mln. on 2009 and, as of 31.12.2010, totaled RUR 6 542.9 mln. There was an increase of line "Suppliers and contractors" (+RUR 415.4 mln.) due to the increase of debts for electric and heat energy (+RUR 1 094.4 mln.), builders (+RUR 152.57 mln.), repair companies (+RUR 74.9 mln.) and due to the decrease of debts for industrial services, telecom services, office equipment maintenance, transportation (-RUR 911.7 mln.). Debts to subsidiaries increased by RUR 230.46 mln, advances received decreased by RUR 108.0 mln. (80% - connection advances). There were also a decrease of current liabilities to personnel (-RUR 49.9 mln.) and current tax and levy liabilities (-RUR 525.7 mln.). There were no overdue payables in 2010.

BONDS

The Company has issued 2 bond issues with overall value RUR 1.6 bln. The bonds were issued during the restructuring process on 30.04.2008 by converting Permenergo and Chelyabenergo bonds. As of 31.12.2010, 219 series-01 bonds were in circulation. Series-02 bonds were redeemed on 13.05.2010. As of the redemption date bonds were not in circulation, liabilities equaling RUR 0. The key bond parameters are illustrated below.

Issue	IDGC of Urals 01	IDGC of Urals 02
Series	4-01-32501-D	4-02-32501-D
Nominal value, RUR	1 000	1 000
Overall volume, RUR thous.	1 000 000	600 000
In circulation, RUR thous.	219	-
Coupon rate	8,6%	8,4%
Date of state registration	27.03.08	27.03.08
Placement date	30.04.08	30.04.08
Redemption date	22.05.12	13.05.10
Offer	27.05.09, 25.05.10	15.05.08



Construction of a power line in rural areas, 1950-s.