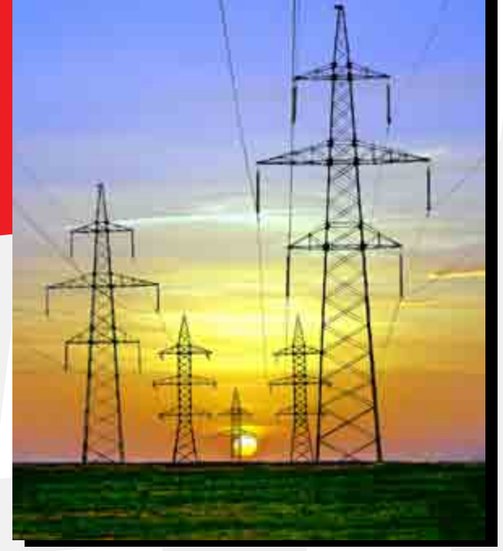
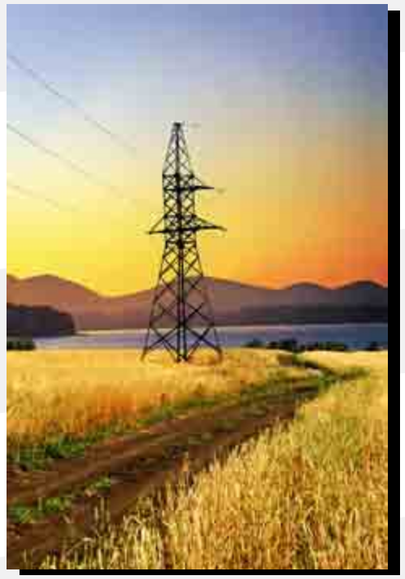
3 OUR PRIORITIES



IDGC of Urals, being one of the largest energy companies in the Urals region, arranges the functioning of the grid complex in the Sverdlovsk, Chelyabinsk and Perm regions. According to the aims of energy sector reform our goals are:

- Implementation of national policy on electric grid services, including energy saving and efficiency;
- Creation of conditions for efficient operations of local grid complex;
- Efficient exploitation and centralized grid management;
- Implementation of united strategy in the sphere of investments and fund raising for reaching general goals of grid development;
- Elaboration and implementation of scientific and technical policy as well as implementation of new cutting-edge equipment and technologies;
- Trouble-free and reliable energy supply all over the service area and profit-making.



Therefore, our grid complex evolves in the following spheres:

1. Connection of new consumers
   Aim: we facilitate the development of our local economy and transmission run-up.
2. Construction of grid objects
   Aim: we liquidate power deficit zones (110-220 kV grid operating modes) and ensure reliable and trouble-free operations.
3. Creation of united grid area
   Aim: we ensure reliable supply and enable efficient regional grid development.
4. Development of the Company's industrial complex
   Aim: we support federal programs, national projects, regional programs and development plans.

CONSOLIDATING NETWORKS

Creation of united grid area using our industrial base gives the following advantages:

- Liquidation of unfair regional gridcos ensuring more transparency to a regional tariff model and reducing tariff burden for consumers.
- Optimization of operations.
- Reduction of operating expenses and tariffs of the Company.
- Facilitation of isochronal preparation and approval of plans for developing energy system and public utilities.
- Provision of a more detailed control over public load upsurge and timeliness of measures taken to reconfigure networks and to commission new capacities.

We implement our strategy of united energy area concluding rental contracts, acquiring grids and accepting into ownership, maintenance and exploitation no-man's grids located on municipal territories. According to the strategy, in 2010 we significantly increased our local market share: we concluded 9 new rental contracts with municipal institutions and administrations. Generally, we concluded 33 rental contracts (over 36 964 c.u.) and took over 4 731.87 c.u. into possession in compliance with 22 contracts. In 2011 we plan to take over 6 000 c.u. into maintenance and exploitation.

DEVELOPING GRIDS

In our service area there are several agreements, concluded between RAO UES and local administrations, on the construction and update of electric network capacities till 2011 - the Sverdlovsk region: agreement #38 dd. 14.12.06, updated on 20.06.2008; the Chelyabinsk region: agreement #45 dd. 25.12.2006; the Perm region: agreement #30 dd. 21.09.2007. During the reported period, according to the agreements, we have completed the following:

The Perm region

Construction of 110 kV cable line "TES-13-Dolina"
Accomplishments: Design and survey work. Spent: RUR 8 800 thous.
Aim: capacity increase due to the construction of perinatal and cardio-centers as well as substation "Bereg" and 110 kV line "Soboli-Danilikha-TES-13".

Construction of 110/35/6 kV substation "Plekhanova"
Accomplishments: the purchase of high-voltage equipment (transformers, 110 kV switches), arrangement of pile field and foundation frame. Spent: RUR 163 214 thous.
Aim: provision of consumer's capacity demand (Perm, microdistict Danilikha), load redistribution from loaded substations "Yuzhnaya" and "Zapadnaya"

Construction of 110/6 kV substation "Sviyazeva" and 110 kV aerial line
Spent: RUR 178 thous. (land lease). The contracts are currently cancelled; there is no construction on the site.

The Sverdlovsk region

Reconstruction of 35 kV cable line "Severka-Khrustalnaya"
Accomplishments: reconstruction of existing 35 kV aerial line, mast and wire replacement. Commissioned: 7.26 km.
Aim: Improvement of supply reliability in Severka and traction substation servicing the Sverdlovsk railroad and Severka ballast quarry.

Construction of 110 kV substation "Belogorye" and 110 kV aerial line
Commissioned: 20 MVA and 27.9 km. Spent: RUR 200 614 thous.
Aim: Improvement of supply reliability and provision of possibilities for connection of "Gora Belaya" ski resort, industrial and agricultural consumers, boiler-houses in Uralets, Visim and Ust-Utka.

Objects: 110 kV aerial line "Yuzhnaya - Polevskaya", overhangs to substation "Gvozdika" (Polevskoi), 110 kV aerial line "Serov – Serovskaya GRES", 110 kV aerial line "Serovskaya GRES - Ferrosplav" (Serov)
Accomplishments: design and estimate documentation prepared, object reconstruction in progress.

The Chelyabinsk region

Reconstruction of **110** kV aerial line "Shagol-Sosnovskaya-Isakovo"
Accomplishments: creplacement of wire and overhead protection cable. Reconstructed: **14** km.
Aim: enhancement of aerial line capacity totaling **31** MW.

Reconstruction of **110/6** kV substation "Zarechnaya"
Accomplishments: replacement of a **10** MVA transformer with a **16** MVA one.
Aim: provision of possibilities for connection of new consumers (Chelyabinsk).

Construction of **110** kV substation "Khamadullin" (Kazachya).
Accomplishments: project update, construction-assembly work are planned for **2011-2012**.

Construction of **110/10** kV substation "Granitnaya", overhangs of **110** kV aerial line.
Commissioned: 80 MVA and 0.5 km of a **110** kV aerial line.
Aim: provision of alternative supply to consumers and connection of new consumers (Chelyabinsk).

Capex on objects stipulated by the agreements and included in 2010 investment program:

	2010 Target, RUR mln.	2010 Actual, RUR mln.	Accomplished, %
Permenergo	**191,5**	**172,2**	**90**
Sverdlovenergo	**154,2**	**206,3**	**134**
Chelyabenergo	**291,5**	**298,6**	**102**
IDGC of Urals	**637,2**	**677,1**	**106**

Object completion:

	Commissioned objects in 2010		Commissioned, km		Commissioned, MVA	
	target	actual	target	actual	target	actual
Permenergo	**3**	**0**	**31**	**0**	**75**	**0**
Sverdlovenergo	**2**	**2**	**19**	**35**	**42**	**20**
Chelyabenergo	**4**	**4**	**8**	**22**	**160**	**99**
IDGC of Urals	**9**	**6**	**58**	**57**	**277**	**119**

At present the Russian Ministry of Energy and local administrations approve our long-term RAB-based investment program for **2011-2016**. According to the program, to construct and update **5 949** MVA and **15 204** km of various voltage classes during **2011-2016** we plan to spend RUR **80 676** mln., including RUR **53 487** mln. or **66%** (technical update and reconstruction), RUR **16 699** mln. (new construction), RUR **6 922** mln. (discharge of liabilities according to connection contracts) and RUR **3 496** mln. (acquisition of grids).

ENHANCING ENERGY SUPPLY RELIABILITY

Since current construction and update tempo is low, grids are ageing both physically and morally. Average depreciation of substations, cable and aerial lines is around **67%**. To ensure reliable and sustainable grid performance we acknowledge the following measures as high-priority ones:

- Overcome of fixed asset ageing tendency: replacement of morally and physically obsolete equipment and implementation of new cutting-edge technologies, equipment and materials with advanced durability and reliability.

- Decrease of energy losses: voltage regulation in **6-10** kV networks, outcommission of underloaded transformers, discharge of overloaded line segments, and capacity enhancement due to reactive power management.
- Quality improvement of repair and maintenance services, decrease of quantity and continuity of shutdowns using modern technologies.
- Monitoring the performance of existing power equipment and implementation of modern methods and appliances for testing and diagnostics: thermal image control, burn-free methods for cable isolation control.
- Update and modernization of substations: enhancement of installed transformer capacity.
- Implementation of new-generation coupler devices and telematics, development of IT-technologies.
- Renewal of special-purpose vehicle pool.
- Usage of new information technologies in grid management (SAP 6.0).

The following key principles are posited into our strategy of perspective grid evolution:

1. Satisfaction of demand and creation of capacity reserve outstripping regional economy progress.
2. Provision of high-quality and reliable energy supply.
3. Construction of new feed units.
4. Discharge of current transits.
5. Network spoke-ring structure.
6. Limitations of **35** kV voltage application and transition of networks onto high voltage classes.
7. Development of 220 kV grids for transmission and distribution of power from main 220(500) kV substations and power plants.
8. Implementation of new modern equipment.

ENHANCING ENERGY EFFICIENCY AND PROVIDING INNOVATION DEVELOPMENT

Within the framework of federal program "Count, Save and Pay", elaborated by the President commission for modernization and technological development of the Russian economy, we commenced to implement a pilot project on intellectual metering installation. One of the key aims is to work out measures for stimulating energy efficient consumption. The pilot project will generate united technical requirements to intellectual metering devices as well as determine efficiency and payback period for projects, similar to Smart Metering projects. The project will also provide an opportunity to update business processes related to commercial metering in gridcos and retail suppliers. Financing of the Smart Metering project is rolled into the Permenergo investment program (2011 – RUR 197 mln., 2012 – RUR 163 mln.)

In January 2010 Sverdlovenergo launched an energy-saving laboratory. It is aimed at elaboration and implementation of new energy-saving technologies. In May, 2010 Russian-German Energy Agency and IDGC of Urals signed a range of cooperation contracts. According to the contracts, foreign specialists will thoroughly examine our production units in terms of energy saving efficiency. The audit will end in a range of explicit arrangement and investment proposals aimed at energy efficiency boost. In 2011 we plan to work out and implement a program on innovation development covering scientific and R&D works as well as implementation of ready-to-use innovative products. The results of the program will be elaboration and preparation for subsequent mass usage of new equipment as well as cutting-edge and most efficient technologies.

DEVELOPING OUR PERSONNEL

Taking into account targets set forth for gridcos and segment update finding solution to providing gridcos with highly-skilled workers will be a pivotal factor. Our HR policy is a perspective system of goals and aims based on basic values and aimed at long-term development. Keeping in mind our current HR policy the BoD approved the Program of Personnel Endorsement and Development worked out with a view to the current situation, sector and regional evolution and aimed at preservation, compensation and development of personnel potential.

A power line on Glavny Prospekt (Ekaterinburg, 1910)