

7. ECONOMIC REVIEW

MANASLU

It is located in the Mansiri Himal or (Manaslu Himal) in Nepal between the Buri Gandaki (east) and Marshyangdi (west) rivers. South arm of Manaslu has Hgadi Chuli (7 871 m) and Himal Chuli (7 893 m) located in 5 and 15 km from the main peak.

All sides of Manaslu, except for the north side, have sharp inclines. Foresummit plateau is at 7 800–7 900 m, it is headed by Manaslu summit. The summit is snowy-capped.

Two eastern spurs have three glacial basins – North basin (Larkya glacier), Middle and South-Eastern basins (Manaslu glacier). Mountain torrents from the glaciers flow into the Buri Gandaki river. South-eastern sides of Manaslu bear Himal Chuli glacier flowing into the Marshyangdi river.

	2013	2012	2011
	RUR thous.		
Overall revenues, including	57 443 525	51 334 978	54 571 746
<i>Revenues from transmission</i>	<i>55 257 665</i>	<i>49 691 276</i>	<i>52 866 144</i>
<i>Revenues from connection</i>	<i>1 883 512</i>	<i>1 268 360</i>	<i>1 327 617</i>
<i>Other revenues</i>	<i>302 348</i>	<i>375 342</i>	<i>377 985</i>
Expenses	54 047 304	48 490 674	50 063 731
Gross profit	3 396 221	2 844 304	4 508 015
Management expenses	886 195	867 006	0
Sales profit	2 510 026	1 977 298	4 508 015
Interest receivable	89 610	49 527	24 276
Interest payable	732 152	487 901	240 650
Participation capital	281 624	251 708	291 161
Other revenues, total	3 973 676	11 784 687	5 556 883
Other expenses, total	5 032 268	12 791 854	7 099 869
Pre-tax profit	1 090 516	783 465	3 039 816
Income tax and other payments	735 935	157 651	491 766
Net profit	354 581	625 814	2 548 050
From operations	-1 014 088	-288 136	1 602 143
From connection	1 368 669	913 950	945 907

Overall revenues in 2013 totaled RUR 57 444 mln (+ RUR 6 109 mln. or 12% on 2012). Revenues from energy transmission totaled RUR 55 258 mln. (+ RUR 5 566 mln on 2012) and grew due to the uplift of transmission tariff since 01.07.2013. Revenues from connection in 2013 totaled RUR 1 884 mln. (+ RUR 615 mln. on 2012). Overall expenses totaled RUR 54 047 mln. (+ RUR 5 557 mln. or 11.5%

on 2012). Therefore, gross profit, in comparison to 2012, increased by RUR 552 mln. and totaled RUR 3 396 mln. Management expenses in 2013 totaled RUR 886 mln. Pre-tax profit totaled RUR 1 091 mln. exceeding 2012 pre-tax profit by RUR 307 mln. As of 2013 net profit totaled RUR 355 mln. (- RUR 271 mln on 2012), including profit from connection equaling RUR 1 369 mln.

Revenue structure

	2013		2012		2011	
	RUR thous.	%	RUR thous.	%	RUR thous.	%
Revenues from services	57 443 525	100	51 334 978	100	54 571 746	100
Energy transmission	55 257 665	96.19	49 691 276	96.80	52 866 144	96.87
Connection fee	1 883 512	3.28	1 268 360	2.47	1 327 617	2.43
Other core services	297 095	0.52	371 742	0.72	373 011	0.68
Non-core services	5 253	0.01	3 600	0.01	4 974	0.01

Overall revenues in 2013 totaled RUR 57 443.5 mln. (+ RUR 6 108.5 mln. or +11.9% on 2012).

Transmission revenues contribute most to the revenues structure of the Company. In 2013 these revenue gains reached RUR 55 257.7 mln. or 96.2% of overall revenues (+11,2% on 2012). In absolute terms the uplift totaled RUR 5 566.4 mln. and was due to:

- increased boiler transmission tariffs;
- transition of providers of last resort to transmission fees since 01.01.2013 basing on a tariff type (flat

rate/ two-part tariff) chosen by a consumer under contract due to increased transmission tariffs since 01.07.2013.

Connection revenues in 2013 totaled RUR 1 883.5 mln or 3.3% of overall revenues (+48.5% or RUR 615.2 mln. on 2012). The increase was due to execution of large contracts, including a contract with TKG-9.

Other revenues totaled RUR 302 mln or 0.53% of overall revenues (-20% on 2012).

Expense structure

Expenses	2013		2012		2011	
	RUR thous.	%	RUR thous.	%	RUR thous.	%
Total expenses *	54 933 499	100	49 357 680	100	50 063 731	100
Purchased energy for loss compensation	8 581 019	15.6	7 918 835	16.0	8 253 118	16.5
Materials	1 492 172	2.7	1 138 521	2.3	943 797	1.9
Production expenses	517 619	0.9	1 511 756	3.1	2 066 250	4.1
FSK payments	15 271 412	27.8	13 397 490	27.1	13 296 286	26.6
Payments to other regional grid companies	14 234 011	25.9	12 867 882	26.1	14 192 640	28.3
Wages and other social benefits	8 485 930	15.4	6 833 554	13.8	6 245 414	12.5
Depreciation and amortization	3 663 594	6.7	3 196 708	6.5	2 640 348	5.3
Taxes and dues	268 355	0.5	141 959	0.3	115 433	0.2
Other expenses	2 419 388	4.4	2 350 975	4.8	2 310 444	4.6
For information: repair expenses	1 578 113	2.9	1 364 460	2.8	1 296 671	2.6

* the cost structure includes management expenses

Purchased energy for loss compensation totaled RUR 8 581.0 mln (15.6% of overall expenses). In absolute terms the increase totaled RUR 662.2 mln and was due to increased non-regulated price for energy.

FSK payments totaled RUR 15 271.4 mln (27.8% of overall expenses). Increase totaled RUR 1 873.9 mln and was due to tariff growth.

Payments to other regional grid companies totaled RUR 14 234.0 mln (25.9% of overall expenses). In comparison to 2012 increase totaled RUR 1 366.1 mln and was due to increased transmission via grid networks and tariff uplift.

Wages and other social benefits in 2013 totaled RUR 8 485.9 mln or 15.4% of overall expenses (+24.2% on 2012). The key reason for uplift was due to transition to non-contracted transportation services since

01.09.2012 as well as indexation of employee tariff rates under sector agreement.

Depreciation and amortization grew by RUR 466.9 mln due to the increased value of fixed assets from the investment program implementation.

Materials totaled RUR 1 492.2 mln (+RUR 353.7 mln on 2012). Expenses grew due to the transition to non-contracted transportation services since 01.09.2012.

Production expenses decreased by RUR 994.1 mln due to decreased transportation expenses as a result of transition to a non-contracted form since 01.09.2012.

Taxes and dues comprising the prime costs increased by RUR 126.4 mln, due to cancelled property tax privilege.

Financial analysis

Indicator	31.12.2011	31.12.2012	31.12.2013	Change (2013/2012)
Liquidity ratios				
Absolute liquidity ratio	0,09	0,20	0,12	-0,08
Acid-test ratio	0,83	0,79	0,84	0,05
Current liquidity ratio	1,00	0,95	0,93	-0,02
Financial soundness indicators				
Equity/Total Assets ratio	0,66	0,63	0,56	-0,07
Debt/ EBITDA	1,02	2,04	2,26	0,22
Working capital financed by equity to total assets ratio	-0,01	-0,07	-0,08	-0,01
Profitability performance profile				
Return on Equity (ROE)	8,48	1,99	1,12	-0,87
Return on Total Assets (ROTA)	6,63	1,61	2,04	0,43
EBITDA margin	10,85	8,70	9,55	0,85
Efficiency ratios				
Receivables and payables growth ratio	0,97	0,77	1,37	0,60
Joint receivables and payables ratio	0,86	0,67	0,89	0,22
Most liquid receivables and payables ratio	1,25	1,11	1,52	0,41

Liquidity ratio depicts the ability of the company to discharge short-term liabilities. Absolute liquidity ratio, as of 31.12.2013, shows that the Company is able to discharge 12% of short-term indebtedness by funds deposited on the operating account. In comparison to 2012 acid-test ratio grew due to short-term receivables uplift. Current liquidity ratio decreased insignificantly in comparison to 2012. Working capital financed by equity to total assets ratio has a negative value and underwent no considerable changes for the last three years. Equity/Total Assets ratio is high evidencing on sufficient financial soundness of the Com-

pany. Debt/EBITDA ratio shows the Company debt. In 2013 its value is 2.26 (within generally accepted norm – up to 3). In comparison to similar period of 2012 profitability performance profile increased. Receivables growth ratio exceeds payables growth ratio and demonstrates that the Company pay its bills in time despite the deterioration of payment history. The Company is able to discharge its liabilities in full without losing its financial stability. We have a low risk of solvency loss in case debt grows in comparison to the current figures. Financial indicators correspond with the regulatory value of key financial ratios.

The structure of the credit portfolio

Terms of liabilities, RUR thous.	31.12.2011	31.12.2012	31.12.2013	Change (2013/2012),%	Change (2013/2012), %
Short-term credits and borrowings	219	-	-	-	-
Including bonds	219	-	-	-	-
Debt on interest payable	33 373	60 049	161 117	+101 068	+59,4%
Long-term credits and borrowings	6 030 928	9 071 231	12 231 733	+3 160 502	+34,8%
Including bonds	-	-	3 000 000	+3 000 000	+100%
TOTAL	6 064 520	9 131 280	12 392 850	+3 261 570	+35,7%

As of the reported period our credit portfolio increased by RUR 3 160.5 mln. or 34.8% and totaled RUR 12 231.7 mln. as of 31.12.2013. The uplift was

due to loans and bond issue raised to finance the Company's investment program.





The Company's credit portfolio as of the end of 2013 comprises long-term loans and borrowings under 15 credit contracts with the maturity of 5 years and a bond issue with the maturity of 3 years. The Company has no credit contracts with debt exceeding 5% of the book asset value of the Company.

The level of debt service quality is high. Liabilities under each contract are discharged in time.

Our key banks are Urals Bank of Sberbank of Russia and Ekaterinburg branch of Gazprombank.

In 2013 after credit tenders we concluded 6 contracts worth RUR 4 300 mln. RUR 3 300 mln. were used to finance our investment program and RUR 1 000 mln. to refinance loans. On the whole in 2013 the situation on credit resource market was favorable. Interest rate on previously raised loans was reduced. Newly concluded contracts stipulated interest rate at 8.35–8.36% per annum. In this respect, as of 31.12.2013, average interest rate of the Com-

pany's credit portfolio totaled 8.0% per annum (for information: in 2012 the rate was 8.5% per annum).

In 2013 the Company has placed documentary interest-bearing non-convertible bearer commercial papers series BO-01 with centralized obligatory custody (maturity date – 3 years since the placement, open subscription) and possible early redemption on demand from holders and at the discretion of the issuer. The overall amount of bonds totaled 3 mln. bonds with the nominal value of RUR 1000. Bonds were placed on MICEX on 31.01.2013. 1st coupon rate totaled 8.4% per annum. Coupon payment per each bond is RUR 41.88. Bonds have 6 coupon periods (182 days per each). On 01.08.2013 overall 1st coupon payment totaled RUR 125 640 000. The rate of 2–6th coupon is equal to 1st coupon rate. As of 31.12.2013 BO-01 series commercial papers were in circulation. The key parameters of the bond are shown in the table below.

Securities	Series	Identification number	pcs	Nominal value, RUR	Issuing volume, RUR thous.	In circulation, RUR thous.	Coupon rate	Placed on	Redemption date
Commercial papers	BO-01	4B02-01-32501-D	3 000 000	1 000	3 000 000	3 000 000	8.40%	31.01.2013	28.01.2016

Besides, the Company prepared commercial papers worth RUR 15 bln. for placement (maturity period – 10 years). Please, study the table below for more details.

Securities	Series	Identification number	pcs	Nominal value, RUR	In circulation, RUR thous.	Registration date	Maturity period
Commercial papers	BO-02	4B02-02-32501-D	3 000 000	1 000	3 000 000	31.05.2013	10 years
	BO-03	4B02-03-32501-D	3 000 000	1 000	3 000 000	31.05.2013	10 years
	BO-04	4B02-04-32501-D	4 000 000	1 000	4 000 000	31.05.2013	10 years
	BO-05	4B02-05-32501-D	5 000 000	1 000	5 000 000	31.05.2013	10 years

The structure of receivables and payables

Value, RUR thous.	As of 31.12.2011	As of 31.12.2012	As of 31.12.2013	Change 2013/2012
Receivables (line 1230) including	5 400 107	4 115 412	6 524 715	+2 409 303
Receivables with payments within over 12 months since the reported period (line 1231)	76 564	92 027	82 531	-9 496
Receivables with payments within 12 months since the reported period (line 1232)	5 323 543	4 023 385	6 442 184	+2 418 799
Payables (lines 1520)	5 881 362	5 851 137	6 796 851	+945 714

Overall receivables at the beginning of the reported period totaled RUR 4 115.4 mln. As of 31.12.2013 it reached RUR 6 524.7 mln. Receivables increased by RUR 2 409.3 mln. The receivables structure underwent the following changes: debt on item “Purchasers and Contractors” increased by RUR mln. 2 546.7 mln. due to the growth of debt on energy transmission. At the same time there was a decrease of other debt (RUR 92.6 mln.) and item “Advances paid” (RUR 44.8 mln.). Receivables, except for bad debt reserve, as of 31.12.2013, includes the following debt:

- Energy transmission debt: Sverdlovenersgosbyt (RUR 783.3 mln.), Perm Energy Supply Company (RUR 896.5 mln.), Chelyabenersgosbyt (RUR 918.1 mln.), Magnitogorskaya Energy Supply Company (RUR 266.4 mln.) and a branch of BAZ SUAL (RUR 322.7 mln.).

- Connection debt: South Urals Corporation of Residential Construction and Mortgage (RUR 10.7 mln.), Kamskaya Dolina (RUR 23.8 mln.) and Zhilsotinvest (RUR 20.0 mln.).

As of 31.12.2013 we formed a bad debt reserve equaling RUR 2 746.2 mln., including doubtful receivables – RUR 2 684.0 mln. (in our balance sheet shown as decreased receivables) and doubtful advances given to acquire fixed assets – RUR 0,02 mln. (in our balance sheet shown as a part of non-current assets as decrease of advance debts). We work closely with contractors on reconciliation (both pre-trial cooperation and litigation). We have also written off unlikely-to-be-collected receivables equaling RUR 1.7 mln.

Payables in 2013 increased by RUR 945.7 mln. in comparison to 2012 and as of 31.12.2013 totaled RUR 6 796.8 mln. The payable structure underwent the following changes: debt on item “Suppliers and Contractors” increased by RUR 626.0 mln. due to increased debt on energy transmission (RUR 656.8 mln.), repair companies (RUR 18.0 mln.), other suppliers and contractors (RUR 19.7 mln.). At the same

time there was a decrease of debt to construction companies (RUR 22.7 mln.), other suppliers of electric and heating energy (RUR 45.9 mln.). Debt on advances from customers lowered by – RUR 28.8 mln. 74% of debt is advances on connection. Debt to personnel increased by RUR 111.6 mln. Debt on tax and dues increased by RUR 192.5 mln., debt to state non-budgetary funds increased RUR 3.0 mln. Other payables increased by RUR 41.6 mln. We have no overdue payables as of 2013.

