

**OJSC INTERREGIONAL DISTRIBUTION GRID COMPANY OF URALS  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

## OJSC IDGC of Urals

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## Independent Auditors' Report

To the Board of Directors of Open Joint-Stock Company  
"Interregional Distribution Grid Company of Urals"

We have audited the accompanying consolidated financial statements of Open Joint-Stock Company "Interregional Distribution Grid Company of Urals" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Basis for Qualified Opinion*

We did not observe the counting of inventories stated at RUR 618,529 thousand as at 31 December 2007 because we were engaged as auditors of the Group only after that date. It was impracticable to satisfy ourselves as to those inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to operating expenses, income tax expense and profit for the year ended 31 December 2008.

*Qualified Opinion*

In our opinion, except for the effects on the corresponding figures of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG

14 May 2010

**OJSC IDGC of Urals**

**Consolidated Statement of Comprehensive Income for the year ended 31 December 2009**

*(in thousands of Russian Roubles, unless otherwise stated)*

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Revenue	5	48,025,720	41,593,436
Operating expenses	6	(44,896,399)	(40,239,752)
Other operating income		131,083	2,541
<b>Result from operating activities</b>		<b>3,260,404</b>	<b>1,356,225</b>
Financial income	8	14,912	25,329
Financial expenses	8	(971,046)	(565,587)
Share of profit of equity accounted investee	12	100,998	23,493
<b>Profit before income tax</b>		<b>2,405,268</b>	<b>839,460</b>
Income tax	9	(446,462)	164,246
<b>Profit for the year</b>		<b>1,958,806</b>	<b>1,003,706</b>
<b>Total comprehensive income for the year</b>		<b>1,958,806</b>	<b>1,003,706</b>
<b>Total comprehensive income attributable to:</b>			
Shareholders of the Company		1,917,982	872,636
Non-controlling interest		40,824	131,070
<b>Earnings per share</b>			
Basic and diluted earnings per share (expressed in RUR)	18	0.0219	0.0100

These consolidated financial statements were approved by management on 14 May 2010 and were signed on its behalf by:

General Director

Rodin V.N.

Chief Accountant

Abrosimova O.M.

**OJSC IDGC of Urals**  
**Consolidated Statement of Financial Position as at 31 December 2009**

*(in thousands of Russian Roubles, unless otherwise stated)*

	Notes	31 December 2009	31 December 2008
<b>Non-current assets</b>			
Property, plant and equipment	10	46,212,603	46,663,822
Investment property	10	223,443	301,451
Intangible assets	11	73,629	142,683
Investments in equity accounted investee	12	665,070	564,072
Deferred tax assets	9	87,002	140,048
Other non-current assets	13	404,226	605,564
<b>Total non-current assets</b>		<b>47,665,973</b>	<b>48,417,640</b>
<b>Current assets</b>			
Inventories	14	791,787	649,957
Income tax receivable		66,876	68,960
Trade and other receivables	15	6,796,000	4,505,103
Prepayments for current assets	16	112,271	394,246
Cash and cash equivalents	17	1,452,009	866,002
Other current assets		38,564	37,926
<b>Total current assets</b>		<b>9,257,507</b>	<b>6,522,194</b>
<b>TOTAL ASSETS</b>		<b>56,923,480</b>	<b>54,939,834</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	18		
Share capital		8,743,049	8,743,049
Retained earnings		27,718,267	25,800,285
<b>Total equity attributable to shareholders of the Company</b>		<b>36,461,316</b>	<b>34,543,334</b>
Non-controlling interest		662,239	622,576
<b>Total equity</b>		<b>37,123,555</b>	<b>35,165,910</b>
<b>Non-current liabilities</b>			
Loans and borrowings	19	6,426,350	3,266,629
Long-term advances	20	618,797	1,208,761
Employee benefits	21	305,741	303,935
Finance lease liabilities	22	172,901	315,220
Deferred tax liabilities	9	3,214,034	3,360,116
Other long-term liabilities		41,536	35,037
<b>Total non-current liabilities</b>		<b>10,779,359</b>	<b>8,489,698</b>
<b>Current liabilities</b>			
Loans and borrowings	19	1,020,561	5,621,256
Trade and other payables	23	6,982,081	5,303,186
Current portion of finance lease liabilities	22	166,610	157,825
Other taxes payable	24	710,697	187,194
Income tax payable		140,617	14,765
<b>Total current liabilities</b>		<b>9,020,566</b>	<b>11,284,226</b>
<b>TOTAL LIABILITIES</b>		<b>19,799,925</b>	<b>19,773,924</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>56,923,480</b>	<b>54,939,834</b>

The consolidated Statement of Financial Position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 47.

**OJSC IDGC of Urals**  
**Consolidated Statement of Cash Flows for the year ended 31 December 2009**

*(in thousands of Russian Roubles, unless otherwise stated)*

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit before income tax		2,405,268	839,460
Adjustments to reconcile profit before income tax and net cash from operating activities:			
Depreciation and amortization		3,371,224	2,932,534
Impairment losses		1,266,197	642,736
Net finance expenses		956,134	540,258
Share of profit of equity accounted investee		(100,998)	(23,493)
Loss on disposal of property, plant and equipment		469,237	531,041
Adjustment for other non-cash transactions		(96,850)	(35,659)
<b>Operating profit before changes in working capital and provisions</b>		<b>8,270,212</b>	<b>5,426,877</b>
Change in trade and other receivables and prepayments		(2,973,208)	(1,890,830)
Change in inventories		(91,384)	(106,502)
Change in trade and other payables		1,510,573	2,183,215
Change in taxes payable other than income		523,504	(70,206)
<b>Cash flows from operations before income taxes paid</b>		<b>7,239,697</b>	<b>5,542,554</b>
Income tax paid		(410,198)	(403,817)
<b>Cash flows from operating activities</b>		<b>6,829,499</b>	<b>5,138,737</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Acquisition of property, plant and equipment		(3,512,680)	(8,032,120)
Acquisition of intangible assets		(5,154)	(22,585)
Proceeds from disposal of property, plant and equipment		206,568	419,612
Proceeds from repayment of loans issued		18,507	26,005
Proceeds from sales of promissory notes		-	5,833
Interest received		14,869	15,223
<b>Cash flows from investing activities</b>		<b>(3,277,890)</b>	<b>(7,588,032)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from loans and borrowings		13,183,333	11,314,373
Repayment of loans and borrowings		(14,613,685)	(7,924,467)
Repayment of finance lease liabilities		(309,713)	(300,534)
Interest paid		(1,223,936)	(713,114)
Dividends paid		(1,601)	(10,824)
<b>Cash flows from financing activities</b>		<b>(2,965,602)</b>	<b>2,365,434</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>586,007</b>	<b>(83,861)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>866,002</b>	<b>949,863</b>
<b>Cash and cash equivalents at the end of the year</b>	17	<b>1,452,009</b>	<b>866,002</b>

The consolidated Statement of Cash Flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 47. 7

**OJSC IDGC of Urals**  
**Consolidated Statement of Changes in Equity for the year ended 31 December 2009**

*(in thousands of Russian Roubles, unless otherwise stated)*

	Total equity attributable to shareholders of the Company			Non-controlling interest	Total equity
	Share capital	Retained earnings	Total		
<b>At 1 January 2008</b>	8,743,049	24,931,657	33,674,706	492,570	34,167,276
Profit for the year	-	872,636	872,636	131,070	1,003,706
<b>Total comprehensive income for the year</b>		<b>872,636</b>	<b>872,636</b>	<b>131,070</b>	<b>1,003,706</b>
<b>Transactions with owners, recorded directly in equity</b>					
Dividends to shareholders	-	(4,008)	(4,008)	(1,064)	(5,072)
<b>Total transactions with owners</b>		<b>(4,008)</b>	<b>(4,008)</b>	<b>(1,064)</b>	<b>(5,072)</b>
<b>At 31 December 2008</b>	<b>8,743,049</b>	<b>25,800,285</b>	<b>34,543,334</b>	<b>622,576</b>	<b>35,165,910</b>
Profit for the year	-	1,917,982	1,917,982	40,824	1,958,806
<b>Total comprehensive income for the year</b>		<b>1,917,982</b>	<b>1,917,982</b>	<b>40,824</b>	<b>1,958,806</b>
<b>Transactions with owners, recorded directly in equity</b>					
Dividends to shareholders	-	-	-	(1,161)	(1,161)
<b>Total transactions with owners</b>		<b>-</b>	<b>-</b>	<b>(1,161)</b>	<b>(1,161)</b>
<b>At 31 December 2009</b>	<b>8,743,049</b>	<b>27,718,267</b>	<b>36,461,316</b>	<b>662,239</b>	<b>37,123,555</b>

The consolidated Statement of Changes in Equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 47.



## OJSC IDGC of Urals

### Notes to the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

#### Note 1. Background

##### (a) The Group and its operations

Open joint-stock company "Interregional Distribution Grid Company of Urals and Volga" was set up on 28 February 2005 based on Resolution no. 28p of the Russian open joint-stock company RAO "United Energy Systems of Russia" (hereafter, "RAO UES") dated 24 February 2005. On 14 August 2007 OJSC "Interregional Distribution Grid Company of Urals and Volga" was renamed to open joint-stock company "Interregional Distribution Grid Company of Urals" (hereafter, the "Company" or "IDGC of Urals").

The Company's registered office is located at 140, Mamina-Sibiriyaka street, Ekaterinburg, Russia, 620026.

The principal activities of the Company and its subsidiaries (together referred to as the "Group" or "IDGC of Urals Group") are as follows:

- electricity transmission and distribution,
- connection services,
- electricity sales,
- other (repair, construction, maintenance, rent and transportation services).

The consolidated financial statements of the Company as at and for the year ended 31 December 2009 and 2008 comprise the Company, its subsidiaries and the Group's interest in associate:

	31 December 2009	31 December 2008
Company	% owned	% owned
<b>Subsidiaries</b>		
OJSC "Ekaterinburg Electric Grid Company"	91.04	91.04
LLC "Elektroservisnaya kompaniya"	54.62	54.62
OJSC "Ekaterinburgenergosbyt"	91.04	91.04
OJSC "Permenergotrans"	100.00	100.00
LLC "Sluzhba bezopasnosti "Permenergo"	100.00	100.00
OJSC "Permelektrosetremont"	100.00	100.00
OJSC "Sverdlovenergozhilstroy"	100.00	100.00
CJSC "Strahovaya kompaniya "Privat-Energostrah"	99.87	99.87
LLC "Uralskaya transportnaya kompaniya"	100.00	-
LLC "Permskoe avtotransportnoe predpriyatie"	100.00	-
LLC "Chelyabinskoe avtotransportnoe predpriyatie"	100.00	-
<b>Associate</b>		
OJSC "Kurganenergo" (53.81% ownership and 49.00% voting rights)	49.00	49.00

##### (b) Group formation

For the past few years Russian electric utilities industry has gone through a reform designed to introduce competition into the electricity sector and to create an environment in which the companies can raise capital required to maintain and expand current capacity.

As part of the reform process, throughout 2005 OJSC "Sverdlovenergo", OJSC "Chelyabenergo" and OJSC "Permenergo" were reorganized to spin off electricity transmission and distribution units from power generation and other non-core units.

The Group was legally formed on 30 April 2008 as a merger of the following companies in accordance with the Resolution of the Board of Administration of RAO UES no. 1795np/9 dated 25 December 2007:

- OJSC "Chelyabenergo",
- OJSC "Permenergo",

## **OJSC IDGC of Urals**

### **Notes to the Consolidated Financial Statements for the year ended 31 December 2009**

*(in thousands of Russian Roubles, unless otherwise stated)*

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- OJSC “Sverdlovenergo”.

The merger was affected through conversion of shares issued by the Company in exchange for shares in the acquired entities. As a result of the merger, above-mentioned companies ceased to exist as separate legal entities and the Company became their legal successor.

On 1 July 2008 RAO UES ceased to exist as a separate legal entity and transferred shares of the Company to JSC “IDGC Holding”, a newly formed state controlled entity.

As at 31 December 2009, the Government of the Russian Federation owned 52.7% shares of JSC “IDGC Holding” which in turn owned 51.52 % of the Company.

The Group includes investment in associate OJSC Kurganenergo with ownership rights of 53% and voting rights of 49%, which allows the Group to exercise significant influence, but not control, over the financial and operating policies of the associate.

#### ***(c) Relations with the state and regulation of the Group***

Since its foundation the Company has been under control of the Government of the Russian Federation. The Government of the Russian Federation directly affects the Group’s operations through indirect control and state tariffs on electricity transmission and connection services, which are set by the Federal Service on Tariffs, through the Regional Energy Commission.

The Group’s customer base includes a large number of entities controlled by or related to the Government of the Russian Federation. The state also controls a number of the Group’s suppliers, such as JSC “FGC UES”, providing electricity transmission services through a federal network.

#### ***(d) Recent volatility in global financial markets***

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2008 (often referred to as the “Credit Crunch”) has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing global financial and economic crisis is proving to be difficult to anticipate or completely guard against.

Management is unable to reliably determine the effects on the Group’s future financial position of any further deterioration in the Group’s operating environment as a result of the ongoing crisis. Management believes it is taking all the necessary measures to support the sustainability and development of the Group’s business in the current circumstances.

#### ***(e) Russian business environment***

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

**OJSC IDGC of Urals**  
**Notes to the Consolidated Financial Statements for the year ended 31 December 2009**

*(in thousands of Russian Roubles, unless otherwise stated)*

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**Note 2. Basis of preparation**

***(a) Statement of compliance***

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

***(b) Basis of measurement***

The consolidated IFRS financial statements are prepared on the historical cost basis except for property, plant and equipment that was revalued as at 1 January 2007 by an independent appraiser to determine deemed cost as part of adoption of IFRS.

***(c) Functional and presentation currency***

The national currency of the Russian Federation is the Russian rouble ("RUR"), which is the Group companies' functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in Russian roubles has been rounded to the nearest thousand.

***(d) Use of judgments, estimates and assumptions***

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 5 – Revenue;
- Notes 9, 24 – Taxation;
- Note 10 – Property, plant and equipment;
- Note 14 – Inventories;
- Note 15 – Trade and other receivables;
- Note 16 – Prepayments for current assets;
- Note 21 – Employee benefits;
- Note 29 – Contingencies.

***(e) Changes in accounting policies and presentation***

With effect from 1 January 2009, the Group changed its accounting policies in the following areas:

- determination and presentation of operating segments; and
- presentation of financial statements.

***(i) Determination and presentation of operating segments***

As at 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the Management Board, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of International Financial Reporting Standard 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with International Financial Reporting Standard IAS 14 *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented as follows.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Management Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Management Board, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment.

Comparative segment information has been re-presented in conformity with the transitional requirements of IFRS 8 *Operating Segments*. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

***(ii) Presentation of financial statements***

The Group applies revised IAS 1 *Presentation of Financial Statements (2007)*, which became effective as at 1 January 2009. The revised standard requires all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity to be presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

**Note 3. Summary of significant accounting policies**

The significant accounting policies applied in the preparation of the consolidated financial statements are described in notes 3(a) to 3(t). These accounting policies have been consistently applied except as explained in note 2 (e), which addresses changes in accounting policies.

***(a) Basis of consolidation***

***(i) Subsidiaries***

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

***(ii) Acquisitions from entities under common control***

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination, and control is not transitory.

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest

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**Notes to the Consolidated Financial Statements for the year ended 31 December 2009**

*(in thousands of Russian Roubles, unless otherwise stated)*

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comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated.

***(iii) Associates (equity accounted investees)***

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

***(iv) Transactions eliminated on consolidation***

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

***(b) Foreign currency***

***(i) Foreign currency transactions***

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments which are recognized in other comprehensive income.

***(c) Financial instruments***

***Non-derivative financial instruments***

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents comprise cash on current accounts with banks, cash on hand, call deposits and short-term (less than three months) and highly liquid deposits with immaterial liquidity risk.

*Held-to-maturity investments*

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

*Available-for-sale financial assets*

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

*Financial assets at fair value through profit or loss*

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

*Other*

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be estimated on a reasonable basis by other means, investments are stated at cost less impairment losses.

***(d) Share capital***

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

*Repurchase of share capital*

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

***(e) Property, plant and equipment***

***(i) Recognition and measurement***

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. Land is measured at cost less accumulated impairment loss. The cost of property, plant and equipment at 1 January 2007, the date of transition to IFRS, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to

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a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are recognised in "operating expenses" in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

***(ii) Subsequent costs***

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

***(f) Depreciation***

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

<b>Type of property, plant and equipment</b>	<b>Useful lives (in years)</b>
Production buildings	5-60
Electricity grids	5-50
Substations' equipment	6-23
Other	2-30

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

***(g) Investment property***

Investment property is measured at cost less accumulated depreciation and impairment losses. The cost of investment property at 1 January 2007, the date of transition to IFRS, was determined by reference to its fair value at that date.

Investment property is held primarily for the purpose of capital appreciation.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of investment property.

The estimated useful lives for the current and comparative periods are as follows:

<b>Type of investment property</b>	<b>Useful lives (in years)</b>
Buildings and premises	5-60

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

***(h) Intangible assets******(i) Research and development***

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

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Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The capitalised expenditure includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use and capitalized borrowing costs.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

***(ii) Other intangible assets***

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

***(iii) Subsequent expenditure***

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

***(iv) Amortisation***

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. Intangible assets are represented by electricity certificates with the estimated useful lives for the current and comparative periods of 2-3 years.

***(i) Leased assets***

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

***(j) Inventories***

Inventories are measured at the lower of cost and net realizable value. The cost of inventory is determined on the weighted average cost method and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

***(k) Impairment***

***(i) Financial assets***

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment



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securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

#### ***(ii) Non-financial assets***

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash generating unit to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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***(l) Employee benefits***

***(i) Defined contribution plans***

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised in profit or loss when they are due.

***(ii) Defined benefit plans and other long-term employee benefits***

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs are deducted.

The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss. Past service cost on other long-term obligations is recognized immediately.

Actuarial gains or losses arising from post-employment benefit obligation that exceed 10 per cent of the greater of the present value of the defined benefit obligation and 10 per cent of the fair value of plan assets at the end of the prior year are amortized over the expected average remaining working lives of the participating employees. Actuarial gains and losses on long-term obligations other than post-employment benefit obligation are recognized immediately.

***(m) Provisions***

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

***(i) Warranties***

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

***(ii) Restructuring***

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

***(iii) Onerous contracts***

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is

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measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

***(n) Revenue***

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer and the amount of revenue can be measured reliably. Revenues are shown net of value added tax ("VAT").

***(i) Electricity transmission***

Revenue from electricity transmission is recognized in profit or loss when the customer acceptance of the volume of electricity transmitted is received. The tariffs for energy transmission are approved by the Federal Tariff Agency and Regional Energy Commission.

***(ii) Connection services***

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network. The terms, conditions are negotiated separately and are independent from fees generated by electricity transmission services. The tariffs for connection services fees are approved by the Regional Energy Commission or administration of Ekaterinburg city.

Revenue is recognized when electricity is activated and the customer is connected to the grid network or, for contracts where connection services are performed in stages, revenue is recognized in the proportion to the stage of completion when act of acceptance is signed by the customer.

***(iii) Other services***

Revenue from installation, repair and maintenance services and other sales is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer or when the services are provided.

***(o) Other expenses***

***(i) Lease payments***

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

***(ii) Social expenditure***

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

***(p) Finance income and expenses***

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

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Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets.

Foreign currency gains and losses are reported on a net basis.

***(q) Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

***(r) Income tax expense***

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

***(s) Earnings per share***

The Group presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. The Company has not issued any instruments that potentially may dilute EPS.

***(t) Segment reporting***

Under IFRS 8 operating segments are components of an enterprise that engage in business activities (from which they may earn revenues and incur expenses) and about which separate financial information is available that is evaluated regularly by the chief operating decision-maker (further "CODM") in deciding how to allocate resources and in assessing performance. Segment financial information is presented in financial statements in a manner similar to those provided to the CODM. The amount of each segment item reported is the measure reported to the CODM. Total amounts of segment information are reconciled to those in financial statements.

Inter-segment pricing is determined on an arm's length basis.

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*(u) New Standards and Interpretations not yet adopted*

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2009, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- Revised IAS 24 *Related Party Disclosures (2009)* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.
- Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount are classified as equity instruments even if the fixed amount is determined in foreign currency. A fixed amount can be determined in any currency provided that entity offers these instruments pro rata to all of the existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after 1 February 2010. The amendment is expected to have no impact on the Group's consolidated financial statements.
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment, which becomes mandatory for the Group's 2010 consolidated financial statements, with retrospective application required, is not expected to have any impact on the consolidated financial statements.
- Amendment to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* which clarifies that the entity receiving goods or services in a share-based payment transaction that is settled by any other entity in the group or any shareholder of such an entity in cash or other assets is required to recognise the goods or services received in its financial statements. Amendment will come into effect on 1 January 2010. The Group has not yet determined the potential effect of the amendment.
- Revised IFRS 3 *Business Combinations (2008)* and amended IAS 27 (2008) *Consolidated and Separate Financial Statements* came into effect on 1 July 2009 (i.e. they become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among other things, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove the exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require the effects of transactions with non-controlling interests to be recognised directly in equity.
- Amendments to IFRS 5 *Non-current Assets held for Sale and Discontinued Operations* which came into effect on 1 July 2009 (i.e. they become mandatory for the Group's 2010 consolidated financial statements). The amendment clarifies the classification of assets and liabilities on disposal of a subsidiary. The amendment is not expected to have an impact on Group's consolidated financial statements.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

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- IFRIC 17 *Distributions of Non-cash Assets to Owners* addresses the accounting for non-cash dividend distributions to owners. The interpretation clarifies when and how a non-cash dividend should be recognised and how the difference between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 became effective for annual periods beginning on or after 1 July 2009.
- IFRIC 18 *Transfers of Assets from Customers* applies to accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation clarifies the recognition and measurement of items received, how the resulting credit, as well as the transfer of cash from customers should be accounted for. IFRIC 18 applies prospectively to transfers of assets from customers received on or after 1 July 2009.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2010. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

#### Note 4. Acquisition of subsidiaries

In December 2009 the Group obtained control of LLC "Uralskaya transportnaya kompaniya" ("UTK"), LLC "Permskoe avtotransportnoe predpriyatie" ("PAP"), LLC "Chelyabinskoe avtotransportnoe predpriyatie" ("ChAP") by acquiring 100% of the shares and voting interests in the acquired companies for RUR 9.9 thousand for each of the companies or total consideration of RUR 29.7 thousand paid in cash.

The principal activities of the acquired entities are provision of transportation services. The purpose of these acquisitions was to optimize and reduce transportation expenses of the Group.

The business combination did not have a material impact on the Group's consolidated operations for the years ended 31 December 2009 and 2008. Therefore, no pro forma profit or loss information has been provided.

The Group allocated RUR 89.3 million to property, plant and equipment, RUR 172.7 million to trade and other receivables, RUR 3.3 million to cash and cash equivalents, RUR 9.6 million to other assets, RUR 187.5 million to trade and other payables and RUR 87.4 million gain on the bargain purchase recognized in other operating income in the statement of comprehensive income. These business combinations resulted in a net gain because the major customers of the acquired companies were the Group companies (83 % of revenues for the year ended 31 December 2009) and as such operations of these companies were dependent on the Group and allowed the Group to exercise bargain power at acquisition.

#### Note 5. Revenue

	Year ended 31 December 2009	Year ended 31 December 2008
Electricity transmission	36,744,746	30,772,890
Electricity sales	9,474,573	8,313,962
Connection services	1,234,454	1,742,714
Other services	571,947	763,870
<b>Total</b>	<b>48,025,720</b>	<b>41,593,436</b>

Other services are comprised of revenue from installation, repair and maintenance services and other sales.

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**Note 6. Operating expenses**

	Year ended 31 December 2009	Year ended 31 December 2008
Electricity transmission fee paid to distribution grids and compensation of technological losses	22,901,253	19,464,534
Purchased electricity	6,221,260	5,360,430
Personnel costs (Note 7)	5,235,000	4,636,897
Depreciation and amortization	3,371,224	2,932,534
Net impairment loss on accounts receivable	1,326,485	567,662
Transportation	1,016,056	1,216,940
Repair and maintenance	822,608	1,619,743
Materials	587,781	524,169
Rent	568,044	513,576
Consulting, legal and audit services	483,451	543,930
Loss on the disposal of property, plant and equipment	469,237	531,041
Electricity metering services	409,933	789,552
Insurance	246,281	234,635
Electricity and heat power for own needs	240,391	183,603
Security	134,504	235,083
Taxes other than income tax	115,971	151,942
Communication services	80,127	89,426
Social expenditures and charity expenses	55,106	81,982
Bank commission	31,029	154,261
Other	580,658	407,812
<b>Total</b>	<b>44,896,399</b>	<b>40,239,752</b>

**Note 7. Personnel costs**

	Year ended 31 December 2009	Year ended 31 December 2008
Wages, salaries and bonuses	4,261,559	3,693,147
Contributions to State pension fund	888,749	859,687
Expense in respect of post-employment defined benefit plan (Note 21)	89,128	75,973
(Income)/expense in respect of long-term service benefits provided (Note 21)	(4,436)	8,090
<b>Personnel costs</b>	<b>5,235,000</b>	<b>4,636,897</b>

**Note 8. Financial income and expenses**

	Year ended 31 December 2009	Year ended 31 December 2008
<b>Financial income</b>		
Interest income	14,869	24,211
Net foreign exchange gains	43	-
Unwinding of discount of financial assets	-	1,118
<b>Total financial income</b>	<b>14,912</b>	<b>25,329</b>
<b>Financial expenses</b>		
Interest expense on loans and borrowings	(865,346)	(471,858)
Interest expense on leasing	(105,669)	(92,935)
Unwinding of discount of financial liabilities	(31)	-
Net foreign exchange losses	-	(794)
<b>Total financial expenses</b>	<b>(971,046)</b>	<b>(565,587)</b>

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**Note 9. Income tax**

	Year ended 31 December 2009	Year ended 31 December 2008
<i><b>Current tax expense</b></i>		
Current income tax	(690,724)	(867,940)
Overprovided in prior years	151,226	6,379
	(539,498)	(861,561)
<i><b>Deferred tax expense</b></i>		
Origination and reversal of temporary differences	93,036	1,025,807
	93,036	1,025,807
<b>Income tax</b>	<b>(446,462)</b>	<b>164,246</b>

The Group is taxable in a number of jurisdictions within the Russian Federation and, as a result, is subject to a variety of taxes as established under the statutory provisions of each jurisdiction.

Until 1 January 2009, operations in the Russian Federation were subject to a Federal income tax rate of 6.5% and a regional income tax rate that varied from 13.5% (Perm region) to 17.5% (Sverdlovsk and Chelyabinsk regions).

Starting 1 January 2009, the Federal income tax rate is 2.0% and regional income tax rate varies from 13.5% (Perm region) to 18.0% (Sverdlovsk and Chelyabinsk regions). These rates have been used in the calculation of deferred tax assets and liabilities as at 31 December 2009.

**Reconciliation of effective tax rate:**

	Year ended 31 December 2009	%	Year ended 31 December 2008	%
<b>Profit before income tax</b>	<b>2,405,268</b>	<b>100</b>	<b>839,460</b>	<b>100</b>
Income tax at applicable tax rate	(481,054)	20	(201,470)	24
Tax effect of items which are not deductible or taxable for taxation purposes	(134,303)	6	(361,657)	43
Effect of income taxed at lower rates	17,669	(1)	9,961	(1)
Change in tax rate	-	-	711,033	(85)
Overprovided in prior period	151,226	(6)	6,379	(1)
<b>Total</b>	<b>(446,462)</b>	<b>19</b>	<b>164,246</b>	<b>(20)</b>

***Deferred tax assets and liabilities***

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases.

Deferred tax assets and liabilities are attributable to the following:



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**Notes to the Consolidated Financial Statements for the year ended 31 December 2009**

*(in thousands of Russian Roubles, unless otherwise stated)*

	Assets		Liabilities		Net	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Property, plant and equipment	441	192	(3,513,989)	(3,699,950)	(3,513,548)	(3,699,758)
Trade and other receivables and prepayments	120,296	283,482	-	-	120,296	283,482
Trade and other payables	132,474	64,260	(11,586)	(24,940)	120,888	39,320
Investments	95,223	111,843	(9,263)	(4,460)	85,960	107,383
Inventories	47,117	60,919	-	-	47,117	60,919
Other	12,255	83	-	(11,497)	12,255	(11,414)
<b>Tax assets/(liabilities)</b>	<b>407,806</b>	<b>520,779</b>	<b>(3,534,838)</b>	<b>(3,740,847)</b>	<b>(3,127,032)</b>	<b>(3,220,068)</b>
Set off of tax	(320,804)	(380,731)	320,804	380,731	-	-
<b>Net tax assets/(liabilities)</b>	<b>87,002</b>	<b>140,048</b>	<b>(3,214,034)</b>	<b>(3,360,116)</b>	<b>(3,127,032)</b>	<b>(3,220,068)</b>

**OJSC IDGC of Urals**
**Notes to the Consolidated Financial Statements for the year ended 31 December 2009**
*(in thousands of Russian Roubles, unless otherwise stated)*
**Note 10. Property, plant and equipment**

	Production buildings	Electricity grids	Substations' equipment	Assets under construction	Other	Total
<b>Cost</b>						
Balance at 1 January 2008	4,940,820	22,505,057	10,206,115	3,482,290	2,705,618	43,839,900
Additions	170,947	335,468	962,048	7,376,713	252,072	9,097,248
Transfers	393,202	1,013,421	1,676,683	(3,749,733)	666,427	-
Disposals	(135,798)	(164,238)	(42,085)	(277,877)	(508,894)	(1,128,892)
<b>Balance at 31 December 2008</b>	<b>5,369,171</b>	<b>23,689,708</b>	<b>12,802,761</b>	<b>6,831,393</b>	<b>3,115,223</b>	<b>51,808,256</b>
Balance at 1 January 2009	5,369,171	23,689,708	12,802,761	6,831,393	3,115,223	51,808,256
Additions due to acquisition of subsidiaries	26,742	-	-	318	62,327	89,387
Additions	47,805	180,220	229,690	2,987,549	80,370	3,525,634
Transfers	1,001,261	2,044,513	2,137,521	(5,522,337)	339,042	-
Disposals	(218,325)	(56,041)	(33,242)	(77,961)	(469,401)	(854,970)
<b>Balance at 31 December 2009</b>	<b>6,226,654</b>	<b>25,858,400</b>	<b>15,136,730</b>	<b>4,218,962</b>	<b>3,127,561</b>	<b>54,568,307</b>
<b>Depreciation</b>						
Balance at 1 January 2008	(168,923)	(1,280,439)	(626,316)	-	(315,279)	(2,390,957)
Depreciation charge	(224,640)	(1,377,772)	(943,478)	-	(286,669)	(2,832,559)
Disposals	7,940	16,628	10,932	-	43,582	79,082
<b>Balance at 31 December 2008</b>	<b>(385,623)</b>	<b>(2,641,583)</b>	<b>(1,558,862)</b>	<b>-</b>	<b>(558,366)</b>	<b>(5,144,434)</b>
Balance at 1 January 2009	(385,623)	(2,641,583)	(1,558,862)	-	(558,366)	(5,144,434)
Depreciation charge	(222,973)	(1,497,841)	(1,148,939)	-	(418,674)	(3,288,427)
Disposals	9,298	11,328	20,800	-	35,731	77,157
<b>Balance at 31 December 2009</b>	<b>(599,298)</b>	<b>(4,128,096)</b>	<b>(2,687,001)</b>	<b>-</b>	<b>(941,309)</b>	<b>(8,355,704)</b>
<b>Net book value</b>						
At 1 January 2008	4,771,897	21,224,618	9,579,799	3,482,290	2,390,339	41,448,943
At 31 December 2008	4,983,548	21,048,125	11,243,899	6,831,393	2,556,857	46,663,822
At 31 December 2009	5,627,356	21,730,304	12,449,729	4,218,962	2,186,252	46,212,603

As at 31 December 2009 assets under construction include advance payments for property, plant and equipment of RUR 107 million (2008: RUR 1.2 billion).

The amount of capitalised interest for the year ended 31 December 2009 was RUR 330.3 million (2008: RUR 259.6 million). As at 31 December 2009 the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 13.7% (2008: 10.4%).

**OJSC IDGC of Urals****Notes to the Consolidated Financial Statements for the year ended 31 December 2009***(in thousands of Russian Roubles, unless otherwise stated)***Security**

As at 31 December 2009 and 2008 there are no property, plant and equipment which are subject to a registered debenture to secure bank loans.

**Leased plant and machinery**

The Group leases production equipment and transport under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price.

The net book value of leased property, plant and equipment accounted for as part of the Group's property, plant and equipment was as follows:

<b>31 December 2009</b>	<b>Substations' equipment</b>	<b>Other</b>	<b>Total</b>
Cost of leased assets	931,813	133,822	1,065,635
Accumulated depreciation	(118,503)	(96,322)	(214,825)
<b>Net book value</b>	<b>813,310</b>	<b>37,500</b>	<b>850,810</b>

<b>31 December 2008</b>	<b>Substations' equipment</b>	<b>Other</b>	<b>Total</b>
Cost of leased assets	873,677	150,402	1,024,079
Accumulated depreciation	(84,282)	(93,190)	(177,472)
<b>Net book value</b>	<b>789,395</b>	<b>57,212</b>	<b>846,607</b>

**Investment property**

	<b>2009</b>	<b>2008</b>
<b>Cost</b>		
Balance at 1 January	319,596	326,261
Disposals	(70,007)	(6,665)
<b>Balance as at 31 December</b>	<b>249,589</b>	<b>319,596</b>
<b>Depreciation</b>		
Balance as at 1 January	(18,145)	(9,784)
Depreciation charge	(8,589)	(8,418)
Disposals	588	57
<b>Balance as at 31 December</b>	<b>(26,146)</b>	<b>(18,145)</b>
<b>Net book value</b>		
<b>Balance as at 1 January</b>	<b>301,451</b>	<b>316,477</b>
<b>Balance as at 31 December</b>	<b>223,443</b>	<b>301,451</b>

As at 31 December 2009 the fair value of investment property was RUR 340.3 million (31 December 2008: RUR 680.2 million).

Investment property mainly comprises of buildings owned by the Group and leased out under operating leases. The fair value of investment property was determined by reference to market evidence. This property is primarily held for the purpose of capital appreciation.

**OJSC IDGC of Urals****Notes to the Consolidated Financial Statements for the year ended 31 December 2009***(in thousands of Russian Roubles, unless otherwise stated)***Note 11. Intangible assets**

	31 December 2009	31 December 2008
<b>Cost</b>		
Balance as at 1 January	240,118	217,533
Additions	5,154	22,585
<b>Balance as at 31 December</b>	<b>245,272</b>	<b>240,118</b>
<b>Amortization</b>		
Balance as at 1 January	(97,435)	(5,878)
Amortization charge	(74,208)	(91,557)
<b>Balance as at 31 December</b>	<b>(171,643)</b>	<b>(97,435)</b>
<b>Net book value</b>		
<b>As at 1 January</b>	<b>142,683</b>	<b>211,655</b>
<b>As at 31 December</b>	<b>73,629</b>	<b>142,683</b>

The Company's major activities (refer Note 1) are subject to obligatory certification under current Russian legislation. Intangible assets primarily comprise of electricity certificates acquired to meet obligatory certification requirements.

**Note 12. Investments in equity accounted investee**

The principal activities of OJSC "Kurganenergo" are electricity transmission, distribution and connection services. The ownership rights comprised of 53.81% of ordinary shares, representing 49% of voting rights, which allows the Group to exercise significant influence, but not control, over operating and financial activities of the associate.

	Carrying value as at January 2008	Share of profit of associates	Carrying value as at 31 December 2008
OJSC "Kurganenergo"	540,579	23,493	564,072
<b>Total investments in equity accounted investee</b>	<b>540,579</b>	<b>23,493</b>	<b>564,072</b>

	Carrying value as at 31 December 2008	Share of profit of associates	Carrying value as at 31 December 2009
OJSC "Kurganenergo"	564,072	100,998	665,070
<b>Total investments in equity accounted investee</b>	<b>564,072</b>	<b>100,998</b>	<b>665,070</b>

**OJSC IDGC of Urals****Notes to the Consolidated Financial Statements for the year ended 31 December 2009***(in thousands of Russian Roubles, unless otherwise stated)*

The following is summarized financial information, in aggregate, in respect of equity accounted investee:

	31 December 2009	31 December 2008
Total assets	2,107,353	1,839,925
Total liabilities	(750,069)	(688,759)
Revenue	3,414,414	2,692,711
Expenses	(3,208,296)	(2,644,766)
Profit for the year	206,118	47,945

OJSC "Kurganenergo" is a listed company on Russian Trade System. There was no trading activity with shares of the associate in 2009 and it was limited to 5 transactions in 2008. In 2009 OJSC "Kurganenergo" approved a decision not to declare dividends for 2008.

**Note 13. Other non-current assets**

	31 December 2009	31 December 2008
Long-term receivable from pension funds	244,961	361,419
VAT on long-term advances received	92,511	160,358
Long term loans issued	50,244	69,378
Other non-current assets	16,510	14,409
<b>Total</b>	<b>404,226</b>	<b>605,564</b>

Long-term receivable from pension funds represents the Group contributions accumulated in solidary and employees' individual pension accounts with the Non-State Pension Fund of Electric Power Industry and Non-State Pension Fund Vybor (employee benefit fund). Subject to certain restrictions 80% of contributions to the employee benefit fund can be withdrawn at the discretion of the Group.

The Group's exposure to credit and currency risks related to non-current accounts receivable are disclosed in note 30.

**Note 14. Inventories**

	31 December 2009	31 December 2008
Raw materials and supplies	553,174	498,806
Spare parts	314,249	284,141
Other inventories	41,766	44,700
Provision for obsolete and slow moving inventories	(117,402)	(177,690)
<b>Total</b>	<b>791,787</b>	<b>649,957</b>

As of 31 December 2009 and 2008 there were no inventories that have been pledged to secure bank loans and borrowings of the Group.

**Note 15. Trade and other receivables**

	31 December 2009	31 December 2008
Trade receivables	7,710,200	3,969,422
Other receivables	597,782	572,545
VAT recoverable	186,925	413,054
VAT on advances received	327,819	252,957
Allowance for impairment of accounts receivable	(2,026,726)	(702,875)
<b>Total</b>	<b>6,796,000</b>	<b>4,505,103</b>

**OJSC IDGC of Urals**

**Notes to the Consolidated Financial Statements for the year ended 31 December 2009**

*(in thousands of Russian Roubles, unless otherwise stated)*

As at 31 December 2009 trade receivables balance includes the amount of RUR 1.6 billion, 0.7 billion and 0.5 billion due from OJSC “Sverdlovenergosbut”, OJSC “Chelyabenergosbut” and LLC “MEC”, respectively (31 December 2008: RUR 1.4 billion due from OJSC “Sverdlovenergosbut”). There are no other customers who represent more than 5% of the total balance of trade receivables.

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 30.

**Note 16. Prepayments for current assets**

	31 December 2009	31 December 2008
Prepayments	114,353	325,430
Prepaid taxes	26,447	230,286
Allowance for impairment of prepayments	(28,529)	(161,470)
<b>Total</b>	<b>112,271</b>	<b>394,246</b>

**Note 17. Cash and cash equivalents**

	31 December 2009	31 December 2008
Cash at bank and petty cash	1,450,009	863,947
Bank deposits	2,000	2,055
<b>Total</b>	<b>1,452,009</b>	<b>866,002</b>

All cash and cash equivalents are denominated in RUR.

	Rating	Rating agency	31 December 2009	31 December 2008
<b>Cash at bank and petty cash</b>				
JSB “Gazprombank”	Baa3	Moody's	885,745	28,408
JSB “Sberbank”	A3	Moody's	211,954	34,227
JSCB “Absolut Bank”	BB+	Fitch Ratings	98,943	3
JSCB “Agropromcredit”	B2	Moody's	64,481	694,802
JSC “The Ural Bank for Reconstruction and Development”	B-	Standard & Poor's	45,977	869
JSB “Uraltransbank”	BB+ (rus)	Fitch Ratings	38,277	5,285
JSB “International Industrial Bank”	A+	Expert RA	24,941	-
OJSC “SKB-BANK”	BB+	Rus-Rating	23,948	145
JSB “Ekaterinburg National City Bank”	BB	Rus-Rating	17,918	15,968
JSC “Metcombank”	A	Expert RA	14,925	-
OJSC “Alfa-Bank”	B+	Standard & Poor's	14,731	77,862
LLC “Bank Neiva”	no rating	no rating	2,013	-
Other			6,156	6,378
<b>Total cash at bank and petty cash</b>			<b>1,450,009</b>	<b>863,947</b>

**OJSC IDGC of Urals**

**Notes to the Consolidated Financial Statements for the year ended 31 December 2009**

*(in thousands of Russian Roubles, unless otherwise stated)*

	Rating	Rating agency	31 December 2009	31 December 2008
<b>Bank deposits</b>				
JSB "Sberbank"	A3	Moody's	2,000	-
JSCB "Perminvestbank"	no rating	no rating	-	1,500
Other			-	555
<b>Total bank deposit</b>			<b>2,000</b>	<b>2,055</b>
<b>Total</b>			<b>1,452,009</b>	<b>866,002</b>

The Group's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in note 30.

**Note 18. Equity**

*Share capital*

The Group was formed as at 30 April 2008 by the combination of a number of businesses under common control. For the purpose of comparability, the equity of the Group has been presented for comparative periods and as at 1 January 2007 (the date of transition to IFRS) as if the group structure on its formation had existed as at 1 January 2007.

Prior to the reorganization and acquisition of an associate, OJSC "Kurganenergo", the Company's share capital consisted of 100,000,000 ordinary shares of RUR 0.10 par value. The share capital of 87,430,485,711 ordinary shares of the Company was formed through the issuance and exchange of 2,414,185,974 ordinary shares of the Company into shares of an associate, OJSC "Kurganenergo", and issuance of 84,916,299,737 of shares of the Company and conversion of these newly issued shares into the shares of the merged entities (refer to Note 1) as follows:

- 49,102/184,159 of ordinary shares of OJSC "Chelyabenergo" with par value of RUR 1 were converted into one additionally issued share of the Company with par value of RUR 0.10;
- 49,102/166,480 of preference shares of OJSC "Chelyabenergo" with par value of RUR 1 were converted into one additionally issued share of the Company with par value of RUR 0.10;
- 49,102/29,721,660 of ordinary shares of OJSC "Permenergo" with par value of RUR 55 were converted into one additionally issued share of the Company with par value of RUR 0.10;
- 49,102/26,868,381 of preference shares of OJSC "Permenergo" with par value of RUR 55 were converted into one additionally issued share of the Company with par value of RUR 0.10;
- 49,102/2,629,547 of ordinary shares of OJSC "Sverdlovenegero" with par value of RUR 1 were converted into one additionally issued share of the Company with par value of RUR 0.10;
- 49,102/2,377,111 of preference shares of OJSC "Sverdlovenegero" with par value of RUR 1 were converted into one additionally issued share of the Company with par value of RUR 0.10.

	31 December 2009	31 December 2008
Number of ordinary shares authorized, issued and fully paid	87,430,485,711	87,430,485,711
Par value (in RUR)	0.10	0.10
<b>Total share capital</b>	<b>8,743,049</b>	<b>8,743,049</b>

**OJSC IDGC of Urals****Notes to the Consolidated Financial Statements for the year ended 31 December 2009***(in thousands of Russian Roubles, unless otherwise stated)**Dividends paid and declared*

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. The Company had retained earnings, including profit for the year, of RUR 22.5 billion as at 31 December 2009 (31 December 2008: RUR 19.9 billion).

In 2009 the Company approved a decision not to declare dividends for 2008 (2008: RUR 4 million for 2007, RUR 0.0001 per share).

During 2009, the Group paid dividends of RUR 1.6 million (2008: RUR 11 million). Dividends payable by the Group of RUR 23.6 million are included in Trade and other payables in the consolidated statement of financial position as of 31 December 2009 (31 December 2008: RUR 24 million).

*Earnings per share*

The calculation of earnings per share is the net profit for the year divided by the weighted average number of ordinary shares outstanding during the year. The Company has no dilutive potential ordinary shares.

	Year ended 31 December 2009	Year ended 31 December 2008
Weighted average number of ordinary shares issued	87,430,485,711	87,430,485,711
Profit attributable to the shareholders of the Company	1,917,982	872,636
Earnings per share (in RUR)	0.0219	0.0100

**Note 19. Loans and borrowings**

The note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate risk refer to Note 30.

*Long-term loans and borrowings*

	Nominal interest rate, %	Year of maturity	31 December 2009	31 December 2008
JSB "Sberbank"	12.47%-14.24%	2011-2013	3,986,947	2,098,129
JSB "Gazprombank"	11%-17%	2011-2012	2,429,383	1,168,500
<i>Unsecured bond issues</i>	8.40%	2012	10,020	-
<b>Total</b>			<b>6,426,350</b>	<b>3,266,629</b>



**OJSC IDGC of Urals**  
**Notes to the Consolidated Financial Statements for the year ended 31 December 2009**

*(in thousands of Russian Roubles, unless otherwise stated)*

**Short-term loans and borrowings**

Name of lender	Nominal interest rate, %	31 December	
		2009	2008
<i>Bank loans</i>			
JSB "Gazprombank"	12.80%-17.00%	573,162	2,098,820
JSB "Sberbank"	14.00%	329,996	500,000
JSB "Uraltransbank"	15.00%	107,690	-
JSC "TransCreditBank"	11.8%-13.68%	-	500,000
JSCB "Agropromcredit"	14.5%-17%	-	381,550
OJSC "Absolut"	10.75%	-	138,586
Other	20.00%	8,075	2,300
<i>Unsecured bond issues</i>	8.15%	1,638	2,000,000
<b>Total</b>		<b>1,020,561</b>	<b>5,621,256</b>

All loans and borrowings of the Group are denominated in RUR and bear fixed interest rate.

As at 31 December 2009 all loans and borrowings are unsecured. As at 31 December 2008 loans with JSB "Gazprombank" were partially secured by rights to claim future cash collections from the Company's customers for electricity transmission services. These rights to claim were limited to a maximum amount of RUR 3.3 billion as of 31 December 2008.

The Group's exposure to currency and liquidity risk related to loans and borrowings is disclosed in Note 30.

**Note 20. Long-term advances**

Long-term advances are mostly comprised of advances received for connection services to the electricity grid.

**Note 21. Employee benefits**

The Group provides the following long-term pension and social benefit plans:

- defined contribution pension plan and defined benefit pension plan (Non-Government Pension Fund of the Electric Power and Non-Government Pension Fund "Professionalny"); and
- defined benefit pension plans regulated by Collective Bargaining Agreements that include lump sum benefit for pensioners, benefits paid in connection with the jubilee dates birthday of employee and pensioners, and financial support for pensioners.

The table below summarizes the amounts of defined benefit obligations recognized in the financial statements.

Amounts recognized in the consolidated statement of financial position:

	31 December 2009		31 December 2008	
	Post-employment benefits	Other long-term benefits	Post-employment benefits	Other long-term benefits
Present value of funded defined benefit obligations	670,863	8,503	410,537	13,832
Unrecognized actuarial losses	(314,825)	-	(75,237)	-
Unrecognized past service cost / (benefit)	(58,800)	-	(45,197)	-
<b>Net defined benefit obligation</b>	<b>297,238</b>	<b>8,503</b>	<b>290,103</b>	<b>13,832</b>

**OJSC IDGC of Urals**

**Notes to the Consolidated Financial Statements for the year ended 31 December 2009**

*(in thousands of Russian Roubles, unless otherwise stated)*

Amounts recognized in profit or loss:

	Year ended 31 December 2009		Year ended 31 December 2008	
	Post-employment benefits	Other long-term benefits	Post- employment benefits	Other long- term benefits
Current service cost	26,726	725	25,931	1,035
Interest expenses	34,115	402	26,043	505
Recognized actuarial loss	3,418	3,561	4,947	6,550
Recognised past service cost / (benefit)	24,869	(9,124)	19,052	-
<b>Total</b>	<b>89,128</b>	<b>(4,436)</b>	<b>75,973</b>	<b>8,090</b>

Movements in the present value of the Group's defined benefit obligations are as follows:

	Year ended 31 December 2009		Year ended 31 December 2008	
	Post-employment benefits	Other long-term benefits	Post- employment benefits	Other long- term benefits
Defined benefit obligations as at the beginning of the period	410,537	13,832	434,160	8,081
Current service cost	26,726	725	25,931	1,035
Interest cost	34,115	402	26,043	505
Actuarial (gains) losses	243,006	3,561	(12,706)	6,550
Benefits paid	(81,993)	(893)	(127,140)	(2,339)
Past service cost / (benefit)	38,472	(9,124)	64,249	-
<b>Defined benefit obligations as at the end of the period</b>	<b>670,863</b>	<b>8,503</b>	<b>410,537</b>	<b>13,832</b>

Movements in the Group's net benefit obligations are as follows:

	Year ended 31 December 2009		Year ended 31 December 2008	
	Post-employment benefits	Other long-term benefits	Post- employment benefits	Other long- term benefits
Net defined benefit obligations as at the beginning of the period	290,103	13,832	341,270	8,081
Net expenses (benefits) for the period	89,128	(4,436)	75,973	8,090
Benefits paid	(81,993)	(893)	(127,140)	(2,339)
<b>Net defined benefit obligations as at the end of the period</b>	<b>297,238</b>	<b>8,503</b>	<b>290,103</b>	<b>13,832</b>

Principal actuarial estimations are as follows:

	Year ended 31 December 2009		Year ended 31 December 2008	
	Post- employment benefits	Other long- term benefits	Post- employment benefits	Other long- term benefits
Discount rate (nominal)	8.70%	8.70%	8.85%	8.85%
Future salary and pension increases	5.50%	5.50%	5.81%	5.81%
Future inflation rate	5.50%	5.50%	5.81%	5.81%
Employees average remaining working life (years)	13	13	10	10

**OJSC IDGC of Urals**
**Notes to the Consolidated Financial Statements for the year ended 31 December 2009**
*(in thousands of Russian Roubles, unless otherwise stated)*
**Note 22. Finance lease liabilities**

The Group leases production equipment and transportation vehicles under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. Finance lease liabilities are payable as follows:

	Nominal interest rate, %	Currency	31 December 2009	31 December 2008
Non-current finance lease obligation	17%-36%	RUR	172,901	315,220
Current portion finance lease obligation	17%-36%	RUR	166,610	157,825

Non-current finance lease liabilities outstanding as at 31 December 2009 mature from 2011 to 2013 (31 December 2008: from 2010 to 2012).

	31 December 2009		31 December 2008		Present value of minimum lease payments	
	Minimum lease payments	Interest	Minimum lease payments	Interest		
Less than one year	230,590	(63,980)	166,610	257,431	(99,606)	157,825
Between one and five years	201,856	(28,955)	172,901	399,707	(84,487)	315,220
<b>Total</b>	<b>432,446</b>	<b>(92,935)</b>	<b>339,511</b>	<b>657,138</b>	<b>(184,093)</b>	<b>473,045</b>

The net book value of leased property, plant and equipment is disclosed in Note 10.

The finance lease liabilities are secured by leased assets.

The Group's exposure to currency and liquidity risk related finance lease liabilities is disclosed in Note 30.

**Note 23. Trade and other payables**

	31 December 2009	31 December 2008
Trade payables	3,339,001	2,787,748
Advances received	2,192,759	1,702,619
Payables to employees	760,743	456,845
Dividends payable	23,643	24,083
Accrued liabilities and other payables	665,935	331,891
<b>Total</b>	<b>6,982,081</b>	<b>5,303,186</b>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 30.

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**Note 24. Other taxes payable**

	31 December 2009	31 December 2008
Unified social tax	138,205	91,384
Property tax	22,329	37,833
Fines and other penalties	393	1,615
Land tax	1,873	-
Value added tax	430,847	-
Other taxes	117,050	56,362
<b>Total</b>	<b>710,697</b>	<b>187,194</b>

**Note 25. Related parties**

***Control relationships***

Related parties include shareholders, affiliates and entities under common ownership and control with the Group and members of the Board of Directors and key management personnel. The Company's parent as at 31 December 2009 was JSC "IDGC Holding". The party with the ultimate control over the Company is the Government of the Russian Federation which held the majority of the voting rights of JSC "IDGC Holding".

Before 30 June 2008 the Company's parent was OJSC RAO UES of Russia, an entity under control of the Government of the Russian Federation. On 1 July 2008 OJSC RAO UES of Russia ceased to exist as a separate legal entity and transferred 51.52 percent of OJSC IDGC of Urals to JSC "IDGC Holding".

In the normal course of business the Group enters into transactions with other entities under common government control including Federal Grid Company, Russian railways, state-controlled banks and various governmental bodies. Prices for electricity, electricity transmission and connection services are based on tariffs set by federal and regional tariff regulatory bodies. Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

The amounts outstanding with related parties are unsecured and will be settled in cash.

The Group's parent company produces publicly available financial statements.

***Transactions with the Company's Parent, its subsidiaries and associates***

Transactions with the Company's parent, its subsidiaries and associate include transactions with RAO UES of Russia, its subsidiaries and associates for the period from 1 January 2008 to 30 June 2008 and afterwards with JSC "IDGC Holding", its subsidiaries and associates, and were as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
<b><i>Revenue</i></b>		
Electricity transmission and electricity sales	6,934	10,745,189
Revenue from other services	803	13,341
<b><i>Operating expenses</i></b>		
Electricity transmission paid to local distribution grids and purchased electricity	-	8,696,991
Other expenses	266,040	12,857

Balances with JSC "IDGC Holding", its subsidiaries and associates as at 31 December 2009 and 2008 were as follows:

	31 December 2009	31 December 2008
Trade and other receivable and prepayments	373	967
Trade and other payables	15,835	-

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**Transactions with state controlled entities**

The Group had the following significant transactions with state-controlled entities:

	Year ended 31 December 2009	Year ended 31 December 2008
<b>Revenue</b>		
Electricity transmission and electricity sales	2,974,542	3,014,946
Revenue from connection services	476,537	212,749
Revenue from other services	92,602	64,646
<b>Operating expenses</b>		
Electricity transmission paid to distribution grids and purchased electricity	13,549,382	10,031,302
Other expenses	242,077	121,849
Interest expense	303,263	3,590

The Group had the following significant balances with state-controlled entities:

	31 December 2009	31 December 2008
Trade and other receivable and prepayments	586,526	360,149
Trade and other payables	961,893	523,456
Loans and borrowings	4,316,943	3,098,128

As at 31 December 2009 cash held at state-controlled banks amounted to RUR 214 million (31 December 2008: RUR 50 million).

**Transactions with members of the Board of Directors and key management personnel**

There are no transactions with members of the Board of Directors and key management personnel except for remuneration in the form of salary and bonuses, which were as follows:

	Year ended 31 December 2009		Year ended 31 December 2008	
	Members of Board of Directors	Key management personnel	Members of Board of Directors	Key management personnel
Salaries and bonuses	14,159	92,844	9,492	93,785

**Note 26. Operating leases**

The Group leases a number of land plots, office facilities and other assets owned by local governments and commercial enterprises under operating lease agreements.

Non-cancellable operating lease rentals under land and other lease agreements are payable as follows:

	31 December 2009	31 December 2008
Less than one year	352,353	331,398
Between one year and five years	719,657	973,041
More than five years	1,339,229	1,436,140
<b>Total</b>	<b>2,411,239</b>	<b>2,740,579</b>

*(in thousands of Russian Roubles, unless otherwise stated)*

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The land plots leased by the Group are the territories on which the Group electricity grids, substations and other assets are located. There are lease contracts for land leases concluded for a period of 49 years. Lease payments are reviewed regularly to reflect market rates.

The majority of other lease payments relates to the lease of the office building of OJSC IDGC of Urals in Yekaterinburg with a lease term up to 2014.

During the current year RUR 568 million (2008: RUR 514 million) was recognized in profit or loss in respect of operating leases.

#### **Note 27. Segment information**

The Management Board of the Company has been determined as the Group Chief Operating Decision-Maker.

The primary activity of the Group is provision of electricity transmission services and electricity sales in the Russian Federation. Internal management reporting system is based on segments related to electricity transmission and electricity sales in separate regions of the Russian Federation.

Management Board regularly evaluates and analyses financial information of segments reported in accordance with their statutory financial statements.

In accordance with requirements of IFRS 8, the Management Board has identified the following reportable segments based on information on segment revenues, profit before income tax and total assets:

- Electricity Transmission Segments: Chelyabenergo, Permenergo, Sverdlovennergo (branches of the Company located in Chelyabinsk, Perm and Sverdlovsk regions, respectively) and OJSC "Ekaterinburg Electric Grid Company" (subsidiary of the Company located in Ekaterinburg city);
- Electricity Sales Segment: OJSC "Ekaterinburgenergosbyt";
- Other Segments – other Group companies.

Segment items are based on financial information reported in statutory financial statements which may significantly differ from financial statements prepared in accordance with IFRS. Reconciliation of items measured as reported to Management Board with similar items in these Consolidated Financial Statements includes those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

Key segment items presented to and analysed by the Management Board are presented in the tables below.

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Segment items for the year ended 31 December 2009 are presented below:

	Electricity transmission				Electricity sales		Other segments All other Group Companies	Total
	Chelyabenergo	Permenergo	Sverdlovenergo	OJSC "Ekaterinburg Electric Grid Company"	"Ekaterinburgenergosbyt"	OJSC Group Companies		
Electricity transmission	10,652,567	10,242,583	19,106,025	3,101,775	-	-	43,102,950	
Electricity sales	-	-	-	-	10,195,573	-	10,195,573	
Connection services	227,209	684,437	62,340	77,645	-	-	1,051,631	
Other services	79,329	113,765	88,551	128,210	-	276,726	686,581	
<b>Total segment revenues, including</b>	<b>10,959,105</b>	<b>11,040,785</b>	<b>19,256,916</b>	<b>3,307,630</b>	<b>10,195,573</b>	<b>276,726</b>	<b>55,036,735</b>	
External revenues	10,959,105	11,040,785	15,647,442	205,855	9,474,573	244,282	47,572,042	
Inter-segment revenue	-	-	3,609,474	3,101,775	721,000	32,444	7,464,693	
<b>Segment operating profit/(loss)</b>	<b>428,226</b>	<b>1,105,216</b>	<b>573,533</b>	<b>1,063,327</b>	<b>167,884</b>	<b>(29,464)</b>	<b>3,308,722</b>	
<b>Segment finance expenses</b>	<b>(102,145)</b>	<b>(266,103)</b>	<b>(81,444)</b>	<b>(11,266)</b>	<b>(60,211)</b>	<b>(376)</b>	<b>(521,545)</b>	
<b>Reportable segment profit/(loss) before income tax</b>	<b>326,088</b>	<b>839,147</b>	<b>492,102</b>	<b>1,052,302</b>	<b>107,673</b>	<b>(29,583)</b>	<b>2,787,729</b>	
Segment depreciation	465,505	745,393	359,651	605,948	2,248	14,630	2,193,375	
Net impairment loss on accounts receivable	1,108,940	118,529	746,376	(301)	-	-	1,973,544	
<b>Segment assets</b>	<b>10,474,848</b>	<b>12,165,235</b>	<b>15,643,058</b>	<b>8,444,469</b>	<b>1,214,584</b>	<b>688,207</b>	<b>48,630,401</b>	
<i>Including property, plant and equipment</i>	<i>8,133,907</i>	<i>11,120,739</i>	<i>11,778,399</i>	<i>7,643,193</i>	<i>2,715</i>	<i>177,468</i>	<i>38,856,421</i>	
<b>Segment liabilities</b>	<b>1,756,951</b>	<b>1,956,553</b>	<b>2,883,616</b>	<b>2,501,438</b>	<b>1,012,492</b>	<b>427,675</b>	<b>10,538,725</b>	
<b>Capital expenditure</b>	<b>480,430</b>	<b>1,378,198</b>	<b>1,524,202</b>	<b>1,036,099</b>	<b>1,543</b>	<b>70</b>	<b>4,420,542</b>	

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Segment items for the year ended 31 December 2008 are presented below:

	Electricity transmission				Electricity sales		Other segments All other Group Companies	Total
	Chelyabenergo	Permenergo	Sverdlovenergo	OJSC "Ekaterinburg Electric Grid Company"	"Ekaterinburgenergosbyt"			
					OJSC			
Electricity transmission	9,358,434	8,738,859	16,339,868	3,043,843	-	-	37,481,004	
Electricity sales	-	-	-	-	8,898,397	-	8,898,397	
Connection services	264,346	512,269	118,967	752,975	-	-	1,648,557	
Other services	147,618	215,717	146,803	30,589	-	350,462	891,189	
<b>Total segment revenues, including</b>	<b>9,770,398</b>	<b>9,466,845</b>	<b>16,605,638</b>	<b>3,827,407</b>	<b>8,898,397</b>	<b>350,462</b>	<b>48,919,147</b>	
<i>External revenues</i>	<i>9,770,398</i>	<i>9,466,845</i>	<i>13,286,119</i>	<i>771,704</i>	<i>8,313,962</i>	<i>242,951</i>	<i>41,851,979</i>	
<i>Inter-segment revenue</i>	-	-	<i>3,319,519</i>	<i>3,055,703</i>	<i>584,435</i>	<i>107,511</i>	<i>7,067,168</i>	
<b>Segment operating profit/(loss)</b>	<b>946,796</b>	<b>248,870</b>	<b>404,886</b>	<b>1,341,312</b>	<b>363,139</b>	<b>(26,325)</b>	<b>3,278,678</b>	
<b>Segment finance expenses</b>	<b>(39,640)</b>	<b>(157,054)</b>	<b>(218,077)</b>	<b>(11,567)</b>	<b>(24,253)</b>	<b>(105)</b>	<b>(450,696)</b>	
<b>Reportable segment profit/(loss) before income tax</b>	<b>907,155</b>	<b>94,076</b>	<b>186,810</b>	<b>1,329,751</b>	<b>338,886</b>	<b>(26,058)</b>	<b>2,830,620</b>	
Segment depreciation	413,284	685,136	251,249	498,599	693	16,670	1,865,631	
Net impairment loss on accounts receivable	4,775	877	115	261	-	-	6,028	
<b>Segment assets</b>	<b>9,513,767</b>	<b>11,864,790</b>	<b>14,650,862</b>	<b>8,601,504</b>	<b>914,785</b>	<b>271,265</b>	<b>45,816,973</b>	
<i>Including property, plant and equipment</i>	<i>8,064,838</i>	<i>10,527,121</i>	<i>10,620,305</i>	<i>7,308,535</i>	<i>3,420</i>	<i>103,008</i>	<i>36,637,227</i>	
<b>Segment liabilities</b>	<b>1,315,561</b>	<b>2,079,630</b>	<b>2,224,177</b>	<b>3,464,385</b>	<b>796,083</b>	<b>87,950</b>	<b>9,967,786</b>	
<b>Capital expenditure</b>	<b>1,302,952</b>	<b>2,324,214</b>	<b>1,690,363</b>	<b>3,190,935</b>	<b>3,126</b>	<b>7,443</b>	<b>8,519,033</b>	



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Reconciliation of key segment items measured as reported to Management Board with similar items in these Consolidated Financial Statements is presented in the tables below.

Reconciliation of reportable segment revenues is presented below:

	Year ended 31 December 2009	Year ended 31 December 2008
<b>Total segment revenues</b>	<b>55,036,735</b>	<b>48,919,147</b>
Elimination of intersegment revenue	(7,464,693)	(7,067,168)
Reclassification from other income	412,846	-
Derecognition of revenue	-	(580,660)
Head Office revenue (unallocated)	40,832	331,420
Other adjustment	-	(9,303)
<b>Revenues per Statement of Comprehensive Income</b>	<b>48,025,720</b>	<b>41,593,436</b>

Reconciliation of reportable segment profit before income tax for the year is presented below:

	Year ended 31 December 2009	Year ended 31 December 2008
<b>Total segment profit before income tax</b>	<b>2,787,729</b>	<b>2,830,620</b>
Adjustment for impairment of accounts receivable	762,440	39,283
Adjustment for derecognized revenue in prior year	580,660	-
Derecognition of revenue	-	(580,660)
Accrual of bonuses and unused vacation provision	(303,819)	(164,100)
Gain on bargain purchase	87,457	-
Change in provision for obsolete and slow moving inventories	60,288	(75,074)
Share of profit of equity accounted investees	100,998	23,493
Adjustment for employee benefits	(118,263)	194,939
Adjustment for property, plant and equipment	(1,111,049)	(1,139,729)
Adjustments for financial lease	(111,969)	(111,503)
Head Office loss (unallocated)	(268,428)	(39,706)
Other adjustments	(60,776)	(138,103)
<b>Profit before income tax for the year per Statement of Comprehensive Income</b>	<b>2,405,268</b>	<b>839,460</b>

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Reconciliation of reportable segment total assets is presented below:

	31 December 2009	31 December 2008
<b>Total segment assets</b>	<b>48,630,401</b>	<b>45,816,973</b>
Elimination of intersegment assets	(2,118,130)	(1,916,334)
Adjustment for property, plant and equipment	7,525,377	8,597,747
Adjustment for employee benefits plan assets	244,961	361,419
Adjustment of investments in equity accounted investee	(520,343)	(621,342)
Adjustment for finance lease prepayments	(300,390)	(200,650)
Adjustment for deferred taxes	(258,150)	(121,177)
Adjustments for impairment of accounts receivable	(39,266)	(804,139)
Adjustment for provision for obsolete and slow moving inventories	(117,402)	(177,690)
Derecognition of accounts receivable	-	(580,660)
Head Office assets (unallocated)	3,821,441	4,704,988
Other adjustments	54,981	(119,301)
<b>Total assets per Statement of Financial Position</b>	<b>56,923,480</b>	<b>54,939,834</b>

Reconciliation of total reportable segment liabilities is presented below:

	31 December 2009	31 December 2008
<b>Total segment liabilities</b>	<b>10,538,725</b>	<b>9,967,786</b>
Elimination of intersegment liabilities	(973,300)	(772,434)
Adjustment for deferred taxes	1,923,766	2,081,449
Adjustment for employee benefits	305,741	303,935
Accrual of bonuses and unused vacation provision	627,102	346,966
Finance lease liabilities	(92,889)	(171,015)
Head Office liabilities (unallocated)	7,333,271	7,994,115
Other adjustments	137,509	23,122
<b>Total liabilities per Statement of Financial Position</b>	<b>19,799,925</b>	<b>19,773,924</b>

Reconciliation of other material items is presented below:

	Year ended 31 December 2009			Year ended 31 December 2008		
	Reportable segment totals	Adjustments and unallocated	Consolidated totals	Reportable segment totals	Adjustments and unallocated	Consolidated totals
Finance expense	(521,545)	(449,501)	(971,046)	(450,696)	(114,891)	(565,587)
Depreciation and amortization	2,193,375	1,177,849	3,371,224	1,865,631	1,066,903	2,932,534
Net impairment loss on accounts receivable	1,973,544	(647,059)	1,326,485	6,028	561,634	567,662
Property, plant and equipment	38,856,421	7,356,182	46,212,603	36,627,227	10,036,595	46,663,822
Capital expenditure	4,420,542	(894,908)	3,525,634	8,519,033	578,215	9,097,248

The Group performs its activities in Russian Federation.

There is a major group of customers under common control of the Government of the Russian Federation. The amounts of revenues from such companies comprised 7% (2008: 8%) of total Group revenues and are reported by all segments of the Group and disclosed in Note 25.

*(in thousands of Russian Roubles, unless otherwise stated)*

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In 2009 the Group had three major customers represented by distribution companies operating in three regions of the Russian Federation with individual turnovers exceeding 13% of total Group revenues. Revenues from these customers are recognized by branches of the Company and amounted to RUR 10.14 billion (Sverdlovenergo, 2008: RUR 9.34 billion), RUR 8.13 billion (Permenergo, 2008: RUR 6.20 billion) and RUR 6.39 billion (Chelyabenergo, 2008: RUR 6.04 billion) for the year ended 31 December 2009.

## **Note 28. Commitments**

### ***Capital commitments***

As at 31 December 2009 the Group has outstanding commitments for the acquisition and construction of property, plant and equipment of RUR 2.7 billion (31 December 2008: RUR 4.5 billion).

## **Note 29. Contingencies**

### ***Insurance***

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not generally available. The Group does not have full coverage for its stations, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

### ***Litigation***

During the year, the Group was involved in the number of court procedures (both as a plaintiff and as a defendant) arising in the originally course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operation, financial position or cash flows of the Group and which have not been accrued or disclosed in these consolidated financial statements.

### ***Taxation***

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities of the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

As at 31 December 2009 the Company was involved in court proceedings with Federal Tax Service of the Russian Federation ("FTS") concerning additional accruals of VAT in the amount of RUR 601.6 million, related tax penalties and interests for late payment as a result of tax audits of the Company performed for the years 2004 and 2005. In the opinion of management, after taking appropriate legal advice, this case will be resolved in the Group's favor. As a result, no provision has been recognized in these consolidated financial statements.

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**Notes to the Consolidated Financial Statements for the year ended 31 December 2009**

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***Environmental matters***

The Group and its predecessors have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group entities periodically evaluate their obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

**Note 30. Financial risk management**

***(a) Overview***

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk,
- Liquidity risk,
- Market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group does not hedge its exposure to such risks. Further quantitative disclosures are included throughout these consolidated financial statements.

***(b) Credit risk***

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

***Trade and other receivables***

The Group exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Group management assesses the credit quality of the customer taking into account its financial position, past experience and other factors. The Group establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables that relate to individually significant exposures.

The customer base for electricity transmission services is limited to several distribution companies and a small number of large commercial enterprises.

Approximately 64% of the Group's revenue for the year ended 31 December 2009 (2008: 63%) is attributable to sales transactions with nine customers (2008: seven customers) transacting with the Group for several years, and, consequently, losses have incurred infrequently. Accounts receivable from these customers represents 67% (2008: 69%) from the total outstanding balance of trade and other receivables.

The Group does not require collateral in respect of trade and other receivables.

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*Exposure to credit risks*

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31 December 2009	31 December 2008
Cash and cash equivalents	1,452,009	866,002
Trade and other receivables	6,281,256	3,839,092
Other current assets	38,564	37,926
Other non-current assets	311,715	445,206
<b>Total</b>	<b>8,083,544</b>	<b>5,188,226</b>

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	31 December 2009	31 December 2008
Electricity transmission	4,424,691	2,343,085
Electricity sales	837,057	676,498
Connection services	43,607	69,227
Other services	469,901	374,516
<b>Total</b>	<b>5,775,256</b>	<b>3,463,326</b>

*Impairment losses*

The aging of trade and other receivables at the reporting date was:

	31 December 2009		31 December 2008	
	Gross	Impairment	Gross	Impairment
Not past due	4,709,310	(298,175)	3,059,514	(71,093)
Past due less than 90 days	1,023,995	(378,161)	491,232	(90,684)
Past due 90 – 180 days	873,833	(364,836)	351,869	(197,156)
Past due 180 – 365 days	1,224,404	(732,694)	141,765	(126,705)
Past due more than 1 year	476,440	(252,860)	497,587	(217,237)
<b>Total</b>	<b>8,307,982</b>	<b>(2,026,726)</b>	<b>4,541,967</b>	<b>(702,875)</b>

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	31 December 2009	31 December 2008
Balance at beginning of the year	702,875	255,946
Increase during the year	1,746,039	452,890
Amounts written off against trade receivables	(135,575)	-
Decrease due to reversal	(286,613)	(5,961)
<b>Balance at end of the year</b>	<b>2,026,726</b>	<b>702,875</b>

**(c) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

**OJSC IDGC of Urals****Notes to the Consolidated Financial Statements for the year ended 31 December 2009***(in thousands of Russian Roubles, unless otherwise stated)*

The Group monitors the risk of cash shortfalls, using current liquidity planning. The management analyses payment dates associated with financial assets and also forecast cash flows from operating activity and manages liquidity risk by maintaining bank credit lines and sufficient cash balances on its settlement accounts.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding impact of netting agreements:

As at 31 December 2009:

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years
<b>Non-derivative financial liabilities:</b>						
Unsecured bond issues	11,658	13,881	812	826	12,243	-
Loans and borrowings	7,435,253	9,027,203	915,964	854,144	7,099,925	157,170
Finance lease liabilities	339,511	432,446	119,560	111,030	189,689	12,167
Trade and other payables	4,830,858	4,830,858	4,724,878	64,444	39,042	2,494
<b>Total</b>	<b>12,617,280</b>	<b>14,304,388</b>	<b>5,761,214</b>	<b>1,030,444</b>	<b>7,340,899</b>	<b>171,831</b>

As at 31 December 2008:

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years
<b>Non-derivative financial liabilities:</b>						
Unsecured bond issues	2,000,000	2,070,375	2,070,375	-	-	-
Loans and borrowings	6,887,885	8,121,672	1,992,193	2,243,351	1,892,475	1,993,653
Finance lease liabilities	473,045	657,138	134,670	122,761	216,126	183,581
Trade and other payables	3,635,604	3,635,604	3,212,656	387,911	35,037	-
<b>Total</b>	<b>12,996,534</b>	<b>14,484,789</b>	<b>7,409,894</b>	<b>2,754,023</b>	<b>2,143,638</b>	<b>2,177,234</b>

**(d) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

*Foreign currency risk*

The Group does not have any significant exposure to foreign currency risk as no significant sales, purchases and borrowings are denominated in a currency other than the functional currency of Group entities, which is the Russian Rouble.

*Interest rate risk*

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Group. The Group does not use any derivatives to manage interest rate risk exposure.

The majority of the financial assets and liabilities of the Group are fixed rate financial instruments. The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

**(e) Capital management**

The Group's manages its capital to ensure Group entities are able to continue as a going concern while maximizing the return to the equity holders through the optimization of the debt and equity balance. The management of the Group reviews the capital structure on a regular basis. Based on results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing one.

*(in thousands of Russian Roubles, unless otherwise stated)*

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There were no changes in the Group's approach to capital management during the year. The company is subject to external capital requirements that require that its net assets as determined in accordance with Russian accounting principles must exceed its charter capital at all times.

***(f) Fair values***

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities (excluding derivatives) are determined in accordance with generally accepted pricing model based on discounted cash flow analysis using prices from observable current market transactions.

Management believes that the carrying values of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.