

**OJSC INTERREGIONAL DISTRIBUTION GRID COMPANY OF URALS
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

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 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 policies 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 audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

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18 April 2012

OJSC IDGC of Urals**Consolidated Statement of Comprehensive Income for the year ended 31 December 2011***(in thousands of Russian Roubles, unless otherwise stated)*

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Revenue	4	62,000,160	57,065,597
Operating expenses	5	(57,944,136)	(51,768,430)
Other operating income/(expenses)	7	33,582	(1,240,575)
Result from operating activities		4,089,606	4,056,592
Finance income	8	85,175	30,844
Finance costs	8	(306,024)	(539,911)
Share of profit of equity accounted investee	12	246,424	266,305
Profit before income tax		4,115,181	3,813,830
Income tax	9	(844,230)	(1,431,647)
Profit for the year		3,270,951	2,382,183
Profit and total comprehensive income for the year		3,270,951	2,382,183
Profit and total comprehensive income attributable to:			
Shareholders of the Company		3,145,348	2,277,100
Non-controlling interest		125,603	105,083
Earnings per share			
Basic and diluted earnings per share (expressed in RUB)	19	0.0360	0.0260

These consolidated financial statements were approved by management on 13 April 2012 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 2011

(in thousands of Russian Roubles, unless otherwise stated)

	Notes	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	10	52,998,691	48,310,911
Investment property	10	85,512	98,317
Intangible assets	11	2,279	3,233
Investments in equity accounted investee	12	1,177,799	931,375
Deferred tax assets	9	28,050	44,778
Other non-current assets	13	400,713	652,880
Total non-current assets		54,693,044	50,041,494
Current assets			
Inventories	14	1,278,163	969,429
Income tax receivable		284,959	614,589
Trade and other receivables	15	6,001,742	5,931,389
Prepayments for current assets	16	290,540	326,848
Cash and cash equivalents	18	1,429,881	1,877,166
Other current assets	17	268,109	20,211
Total current assets		9,553,394	9,739,632
TOTAL ASSETS		64,246,438	59,781,126
EQUITY AND LIABILITIES			
Equity			
Share capital	19	8,743,049	8,743,049
Retained earnings		32,895,910	29,995,367
Total equity attributable to shareholders of the Company		41,638,959	38,738,416
Non-controlling interest		852,599	766,084
Total equity		42,491,558	39,504,500
Non-current liabilities			
Loans and borrowings	20	7,315,828	6,381,317
Long-term advances	21	414,639	574,552
Employee benefits	22	379,155	330,914
Finance lease liabilities	23	53,829	89,437
Deferred tax liabilities	9	4,643,425	4,639,881
Other long-term liabilities		-	10,715
Total non-current liabilities		12,806,876	12,026,816
Current liabilities			
Loans and borrowings	20	730,544	699,355
Trade and other payables	24	7,534,397	6,789,664
Current portion of finance lease liabilities	23	106,502	194,577
Other taxes payable	25	530,609	452,959
Income tax payable		45,952	113,255
Total current liabilities		8,948,004	8,249,810
TOTAL LIABILITIES		21,754,880	20,276,626
TOTAL EQUITY AND LIABILITIES		64,246,438	59,781,126

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 45.

OJSC IDGC of Urals
Consolidated Statement of Cash Flows for the year ended 31 December 2011

(in thousands of Russian Roubles, unless otherwise stated)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		4,115,181	3,813,830
Adjustments to reconcile profit before income tax and net cash from operating activities:			
Depreciation and amortization		4,152,368	3,790,582
Net impairment losses		593,003	188,112
Net finance costs		220,849	509,067
Share of profit of equity accounted investee		(246,424)	(266,305)
(Gain)/loss on disposal of property, plant and equipment		(173,027)	218,132
Adjustment for other non-cash transactions		61,956	(25,483)
Operating profit before changes in working capital and provisions		8,723,906	8,227,935
Change in trade and other receivables and prepayments		(547,244)	(481,167)
Change in inventories		(375,417)	(173,738)
Change in trade and other payables		210,799	197,159
Change in taxes payable other than income		68,649	(253,963)
Cash flows from operations before income taxes paid		8,080,693	7,516,226
Income tax paid		(600,180)	(538,650)
Cash flows from operating activities		7,480,513	6,977,576
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment		(8,323,244)	(5,663,368)
Acquisition of intangible assets		(1,756)	(1,361)
Proceeds from disposal of property, plant and equipment		432,053	418,526
Proceeds from repayment of loans issued		5,874	12,131
Loans issued		(70,674)	(8,832)
Interest received		46,529	22,422
Cash flows used in investing activities		(7,911,218)	(5,220,482)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from loans and borrowings		6,800,238	5,116,767
Repayment of loans and borrowings		(5,834,539)	(5,483,005)
Repayment of finance lease liabilities		(277,913)	(343,585)
Interest paid		(420,473)	(597,234)
Dividends paid		(283,893)	(24,880)
Cash flows used in financing activities		(16,580)	(1,331,937)
Net (decrease)/increase in cash and cash equivalents		(447,285)	425,157
Cash and cash equivalents at the beginning of the year		1,877,166	1,452,009
Cash and cash equivalents at the end of the year	18	1,429,881	1,877,166

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to, and forming part of, 7 the consolidated financial statements set out on pages 9 to 45.

**OJSC IDGC of Urals
Consolidated Statement of Changes in Equity for the year ended 31 December 2011**

(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		
At 1 January 2010	8,743,049	27,718,267	36,461,316	662,239	37,123,555
Profit for the year	-	2,277,100	2,277,100	105,083	2,382,183
Total comprehensive income for the year	-	2,277,100	2,277,100	105,083	2,382,183
Transactions with owners, recorded directly in equity					
Dividends to shareholders	-	-	-	(1,238)	(1,238)
Total transactions with owners	-	-	-	(1,238)	(1,238)
At 31 December 2010	8,743,049	29,995,367	38,738,416	766,084	39,504,500
Profit for the year	-	3,145,348	3,145,348	125,603	3,270,951
Total comprehensive income for the year	-	3,145,348	3,145,348	125,603	3,270,951
Transactions with owners, recorded directly in equity					
Dividends to shareholders	-	(244,805)	(244,805)	(39,088)	(283,893)
Total transactions with owners	-	(244,805)	(244,805)	(39,088)	(283,893)
At 31 December 2011	8,743,049	32,895,910	41,638,959	852,599	42,491,558

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 45.

OJSC IDGC of Urals
Notes to the Consolidated Financial Statements for the year ended 31 December 2011

(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 2011 and 2010 comprise the Company, its subsidiaries and the Group’s interest in an associate:

Company	31 December 2011 % owned	31 December 2010 % owned
Subsidiaries		
OJSC “Ekaterinburg Electric Grid Company”	91.04	91.04
LLC “Elektroservisnaya kompaniya”	54.62	54.62
OJSC “Ekaterinburgenergosbyt”	91.04	91.04
LLC “Uralenergotrans” / OJSC “Permenergotrans”	100.00	100.00
LLC “Sluzhba bezopasnosti “Permenergo”	100.00	100.00
Non-Government Private Educational Institution “Uchebny Centre OJSC IDGS of Urals”	100.00	100.00
OJSC “Energoservisnaya kompaniya Urala”	100.00	-
CJSC “Strahovaya kompaniya “Privat-Energostrah”	99.87	99.87
OJSC “Permelektrosetremont”	-	100.00
Associate		
OJSC “Kurganenergo” (53.81% ownership and 49.00% voting rights)	49.00	49.00

(b) Group formation

In the past few years the 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 the capital required to maintain and expand current capacity.

As part of the reform process, throughout 2005 OJSC “Sverdlovenego”, OJSC “Chelyabenergo” and OJSC “Permenergo” were reorganized to spin off the electricity transmission and distribution units from the 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. 1795pr/9 dated 25 December 2007:

- OJSC “Chelyabenergo”,
- OJSC “Permenergo”,
- OJSC “Sverdlovenego”.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2011

(in thousands of Russian Roubles, unless otherwise stated)

The merger was effected 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.

In January 2011 OJSC "Energoservisnaya kompaniya Urala" was founded as a subsidiary of OJSC "IDGC of Urals" with share capital amounted to RUB 5 million. The principal activity of OJSC "Energoservisnaya kompaniya Urala" is provision of maintenance services for electricity grids.

In August 2010 LLC "Permenergotrans", the Company's subsidiary, was renamed as LLC "Uralenergotrans" in accordance with a decision approved by the Company's Board of Directors in May 2010.

In October 2010 the Company's Board of Directors approved a decision on reorganization of LLC "Uralenergotrans" by merging it with 3 subsidiaries of the Company: LLC "Uralskaya transportnaya kompaniya", LLC "Permskoe avtotransportnoe predpriyatie" and LLC "Chelyabinskoe avtotransportnoe predpriyatie".

In September 2010 Non-Government Private Educational Institution "Uchebny Centre OJSC IDGS of Urals" was formed as a result of separation from IDGC of Urals.

On 1 July 2008 RAO UES ceased to exist as a separate legal entity and it transferred shares of the Company to JSC "IDGC Holding", a newly formed state controlled entity. As at 31 December 2011, 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 an investment in an 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) Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. 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.

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 the adoption of IFRS.

OJSC IDGC of Urals
Notes to the Consolidated Financial Statements for the year ended 31 December 2011

(in thousands of Russian Roubles, unless otherwise stated)

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian rouble (“RUB”), 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 22 – Employee benefits;
- Notes 9, 25 – Taxation;
- Note 30 – Contingencies.

(e) Changes in accounting policies and presentation

With effect from 1 January 2011, the Group changed its accounting policies in disclosure of information about related parties.

From 1 January 2011 the Group has applied revised IAS 24 (2009) *Related Party Disclosures*. As the Group is a government-related entity it applies the exemption on disclosure of information about transactions with entities that are related parties because the Government of Russian Federation has control, joint control or significant influence over them.

The Group discloses a share of sales to entities under control of the Russian Federation Government and share of key purchases from such entities as quantitative indications of related-party transactions.

The comparative disclosures were changed retrospectively as if new policy had been applied since the beginning of the earliest period presented. As this change affected disclosures only, there were no any changes in 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(s). These accounting policies have been consistently applied.

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

(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 held-to-maturity investments, 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

(in thousands of Russian Roubles, unless otherwise stated)

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 other comprehensive income. 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.

OJSC IDGC of Urals
Notes to the Consolidated Financial Statements for the year ended 31 December 2011

(in thousands of Russian Roubles, unless otherwise stated)

(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 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.

(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.

(iii) 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:

Type of property, plant and equipment	Useful lives (in years)
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.

(f) 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:

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

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

OJSC IDGC of Urals
Notes to the Consolidated Financial Statements for the year ended 31 December 2011

(in thousands of Russian Roubles, unless otherwise stated)

(g) 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.

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.

(h) 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.

(i) 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.

(j) 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 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.

(k) 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.

(l) 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 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.

(m) 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.

(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.

(n) 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.

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(o) Finance income and costs

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.

Finance costs 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.

(p) 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.

(q) 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.

(r) 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.

(s) 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

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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.

(t) 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 2011, 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.

- IAS 19 (2011) *Employee Benefits*. The amended standard will introduce a number of significant changes to IAS 19. First, the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur. Secondly, the amendment will eliminate the current ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss. Thirdly, the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation. The amended standard shall be applied for annual periods beginning on or after 1 July 2013 and early adoption is permitted. The amendment generally applies retrospectively.
- IAS 28 (2011) *Investments in Associates and Joint Ventures* combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011).
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. 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. The Group does not intend to adopt this standard early.
- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 *Consolidation – Special Purpose Entities*. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

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- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.
- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.
- 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 for annual periods beginning after 1 January 2012. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

Note 4. Revenue

	Year ended 31 December 2011	Year ended 31 December 2010
Electricity transmission	47,815,160	43,326,196
Electricity sales	12,251,585	11,113,862
Connection services	1,466,583	1,997,704
Other services	466,832	627,835
Total	62,000,160	57,065,597

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

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Note 5. Operating expenses

	Year ended 31 December 2011	Year ended 31 December 2010
Electricity transmission fee paid to distribution grids and compensation of technological losses	31,756,816	28,567,706
Personnel costs (Note 6)	8,532,436	6,527,516
Purchased electricity	7,678,248	7,324,489
Depreciation and amortization	4,152,368	3,790,582
Materials	1,449,957	1,151,393
Repair and maintenance	819,369	972,572
Rent	647,484	557,041
Net impairment loss on accounts receivable	621,160	270,704
Consulting, legal and audit services	340,052	500,617
Electricity and heat power for own needs	286,292	281,898
Security	217,091	144,642
Insurance	190,585	276,071
Social expenditures and charity expenses	161,909	246,142
Taxes other than income tax	136,379	131,966
Communication services	96,677	75,189
Transportation	95,311	73,201
Bank commission	17,335	21,778
Other	744,667	854,923
Total	57,944,136	51,768,430

Note 6. Personnel costs

	Year ended 31 December 2011	Year ended 31 December 2010
Wages, salaries and bonuses	6,481,100	5,344,483
Compulsory social security contributions	1,799,914	1,071,092
Expense in respect of post-employment defined benefit plan (Note 22)	220,858	102,591
Expense in respect of long-term service benefits provided (Note 22)	30,564	9,350
Personnel costs	8,532,436	6,527,516

Note 7. Other operating income/(expenses)

	Year ended 31 December 2011	Year ended 31 December 2010
Accrual of VAT, related tax penalties and interest for late payment (Note 30)	-	(1,140,182)
Other	33,582	(100,393)
Other operating income/(expenses)	33,582	(1,240,575)

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Note 8. Finance income and costs

	Year ended 31 December 2011	Year ended 31 December 2010
Finance income		
Interest income	46,529	22,422
Unwinding of discount of held-to-maturity investments	19,918	8,422
Income from financial assets related to employee benefits	18,728	-
Total finance income	85,175	30,844
Finance costs		
Interest expense on loans and borrowings	(259,700)	(354,807)
Interest expense on leasing	(45,312)	(141,561)
Unwinding of discount of financial liabilities	(1,012)	-
Initial discounting of held-to-maturity investments	-	(43,543)
Total finance costs	(306,024)	(539,911)

Note 9. Income tax

	Year ended 31 December 2011	Year ended 31 December 2010
Current tax expense		
Current income tax	(823,958)	(849,667)
Adjustment for prior years	-	985,044
Accrual of additional income tax liabilities after review of tax authorities	-	(98,953)
	(823,958)	36,424
Deferred tax expense		
Origination and reversal of temporary differences	(20,272)	(596,151)
Change in the tax base of property, plant and equipment	-	(871,920)
	(20,272)	(1,468,071)
Income tax	(844,230)	(1,431,647)

In 2010 the Group recalculated income tax for prior periods (2006-2009) related to deductibility for tax purposes of certain operating expenses which were previously capitalized in the tax value of property, plant and equipment and accelerated depreciation of property, plant and equipment operated in an aggressive environment.

As a result, income tax overprovided in prior periods, in accordance with the adjusted tax declarations submitted to the tax authorities, amounted to RUB 985,044 thousand. Also the Group corrected the tax value of property, plant and equipment which resulted in an increase of deferred tax liabilities of the Group in the amount of RUB 871,920 thousand.

Income tax rate

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.

Starting 1 January 2009, the Federal income tax rate is 2.0% and regional income tax rates vary 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 2011 and 2010.

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Reconciliation of effective tax rate:

	Year ended 31 December 2011	%	Year ended 31 December 2010	%
Profit before income tax	4,115,181	100	3,813,830	100
Income tax at applicable tax rate	(823,036)	(20)	(762,766)	(20)
Adjustment for prior years	-	-	985,044	26
Change in the tax base of property, plant and equipment	-	-	(871,920)	(23)
Accrual of additional income tax liabilities after review of tax authorities	-	-	(98,953)	(3)
Effect of income taxed at lower rates	33,229	1	23,804	1
Tax effect of items which are not deductible or taxable for taxation purposes	(54,423)	(1)	(706,856)	(19)
Total	(844,230)	(20)	(1,431,647)	(38)

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:

	Assets		Liabilities		Net	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Property, plant and equipment	2,830	1,058	(4,604,433)	(4,731,118)	(4,601,603)	(4,730,060)
Trade and other receivables and prepayments	15,115	39,253	(4,711)	-	10,404	39,253
Trade and other payables	24,550	16,858	(115,252)	(3,647)	(90,702)	13,211
Investments	-	46,489	(2,358)	(4,788)	(2,358)	41,701
Inventories	50,202	43,131	-	-	50,202	43,131
Other	18,969	221	(287)	(2,560)	18,682	(2,339)
Tax assets/(liabilities)	111,666	147,010	(4,727,041)	(4,742,113)	(4,615,375)	(4,595,103)
Set off of tax	(83,616)	(102,232)	83,616	102,232	-	-
Net tax assets/(liabilities)	28,050	44,778	(4,643,425)	(4,639,881)	(4,615,375)	(4,595,103)

Unrecognised deferred tax liabilities

At 31 December 2011 a deferred tax liability for temporary differences of RUB 8,262,498 thousand (2010: RUB 7,004,535 thousand) related to investments in subsidiaries was not recognised because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

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Note 10. Property, plant and equipment

	Production buildings	Electricity grids	Substations' equipment	Assets under construction	Other	Total
Cost						
Balance at 1 January 2010	6,226,654	25,858,400	15,136,730	4,218,962	3,127,561	54,568,307
Additions	197,435	123,593	157,337	5,244,643	501,096	6,224,104
Transfers	618,150	2,310,009	2,090,611	(5,640,199)	621,429	-
Disposals	(65,927)	(36,793)	(96,827)	(262,151)	(96,279)	(557,977)
Balance at 31 December 2010	6,976,312	28,255,209	17,287,851	3,561,255	4,153,807	60,234,434
Balance at 1 January 2011	6,976,312	28,255,209	17,287,851	3,561,255	4,153,807	60,234,434
Additions	138,654	85,109	290,098	7,650,211	907,111	9,071,183
Transfers	1,077,828	1,538,639	2,029,749	(5,912,877)	1,266,661	-
Disposals	(24,515)	(83,402)	(23,862)	(94,557)	(122,971)	(349,307)
Balance at 31 December 2011	8,168,279	29,795,555	19,583,836	5,204,032	6,204,608	68,956,310
Depreciation						
Balance at 1 January 2010	(599,298)	(4,128,096)	(2,687,001)	-	(941,309)	(8,355,704)
Depreciation charge	(296,013)	(1,579,207)	(1,295,427)	-	(541,272)	(3,711,919)
Disposals	10,209	18,195	41,082	-	74,614	144,100
Balance at 31 December 2010	(885,102)	(5,689,108)	(3,941,346)	-	(1,407,967)	(11,923,523)
Balance at 1 January 2011	(885,102)	(5,689,108)	(3,941,346)	-	(1,407,967)	(11,923,523)
Depreciation charge	(297,754)	(1,742,438)	(1,473,647)	-	(632,278)	(4,146,117)
Disposals	5,848	28,135	18,356	-	59,682	112,021
Balance at 31 December 2011	(1,177,008)	(7,403,411)	(5,396,637)	-	(1,980,563)	(15,957,619)
Net book value						
At 1 January 2010	5,627,356	21,730,304	12,449,729	4,218,962	2,186,252	46,212,603
At 31 December 2010	6,091,210	22,566,101	13,346,505	3,561,255	2,745,840	48,310,911
At 31 December 2011	6,991,271	22,392,144	14,187,199	5,204,032	4,224,045	52,998,691

As at 31 December 2011 assets under construction include advance payments for property, plant and equipment of RUB 88 million (31 December 2010: RUB 440 million).

The amount of capitalised interest for the year ended 31 December 2011 was RUB 201.3 million (2010: RUB 207.9 million). As at 31 December 2011 the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 7.8% (31 December 2010: 10.9%).

Security

As at 31 December 2011 properties with a carrying amount of RUB 60,671 thousand are subject to a registered debenture to secure bank loans (31 December 2010: RUB 61,984 thousand), see Note 20.

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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:

31 December 2011	Substations' equipment	Other	Total
Cost of leased assets	479,596	275,015	754,611
Accumulated depreciation	(77,307)	(109,354)	(186,661)
Net book value	402,289	165,661	567,950

31 December 2010	Substations' equipment	Other	Total
Cost of leased assets	687,153	244,271	931,424
Accumulated depreciation	(74,274)	(90,880)	(165,154)
Net book value	612,879	153,391	766,270

Investment property

	2011	2010
Cost		
Balance at 1 January	117,664	249,589
Additions	536	3,829
Disposals	(13,461)	(135,754)
Balance as at 31 December	104,739	117,664
Depreciation		
Balance as at 1 January	(19,347)	(26,146)
Depreciation charge	(3,541)	(6,906)
Disposals	3,661	13,705
Balance as at 31 December	(19,227)	(19,347)
Net book value		
Balance as at 1 January	98,317	223,443
Balance as at 31 December	85,512	98,317

As at 31 December 2011 the fair value of investment property was RUB 277 million (31 December 2010: RUB 315.2 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.

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Note 11. Intangible assets

	2011	2010
Cost		
Balance as at 1 January	246,633	245,272
Additions	1,756	1,361
Balance as at 31 December	248,389	246,633
Amortization		
Balance as at 1 January	(243,400)	(171,643)
Amortization charge	(2,710)	(71,757)
Balance as at 31 December	(246,110)	(243,400)
Net book value		
As at 1 January	3,233	73,629
As at 31 December	2,279	3,233

The Company's major activities (refer Note 1) are subject to an obligatory certification under current Russian legislation. Intangible assets primarily consist 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 the operating and financial activities of the associate.

	Carrying value as at 1 January 2010	Share of profit of equity accounted investee	Carrying value as at 31 December 2010
OJSC "Kurganenergo"	665,070	266,305	931,375
Total investments in equity accounted investee	665,070	266,305	931,375

	Carrying value as at 1 January 2011	Share of profit of equity accounted investee	Carrying value as at 31 December 2011
OJSC "Kurganenergo"	931,375	246,424	1,177,799
Total investments in equity accounted investee	931,375	246,424	1,177,799

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

	31 December 2011	31 December 2010
Total assets	3,837,972	2,517,300
Total liabilities	(1,434,300)	(616,534)
Revenue	2,887,042	2,943,324
Expenses	(2,384,137)	(2,399,844)
Profit for the year	502,905	543,480

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OJSC "Kurganenergo" is a listed company on the Russian Trade System. There was no trading activity in shares of the associate in 2011 and 2010. In 2011 and 2010 OJSC "Kurganenergo" approved a decision not to declare dividends for 2011 and 2010, respectively.

Note 13. Other non-current assets

	31 December 2011	31 December 2010
Long-term receivable from pension funds	285,535	343,714
VAT on long-term advances received	53,618	81,809
Long term loans issued	47,831	45,287
Held-to-maturity investments	-	166,077
Other non-current assets	13,729	15,993
Total	400,713	652,880

The Group's exposure to credit and currency risks related to other non-current assets are disclosed in Note 31.

Subject to certain restrictions 80% of contributions to the employee benefit fund can be withdrawn at the discretion of the Group.

Note 14. Inventories

	31 December 2011	31 December 2010
Raw materials and supplies	859,783	625,841
Spare parts	440,041	368,973
Other inventories	44,545	44,783
Allowance for obsolete and slow moving inventories	(66,206)	(70,168)
Total	1,278,163	969,429

As of 31 December 2011 and 2010 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 2011	31 December 2010
Trade receivables	6,656,771	5,772,927
Other receivables	280,125	316,041
VAT recoverable	55,922	399,732
VAT on advances received	278,482	290,546
Allowance for impairment of accounts receivable	(1,269,558)	(847,857)
Total	6,001,742	5,931,389

As at 31 December 2011 trade receivables balance includes the amount of RUB 1.7 billion, 651 million, 689,3 million and 491,5 million due from OJSC "Sverdlovenersgosbut", OJSC "Chelyabenersgosbut", OJSC "SUAL-UAZ" and OJSC "Roskommunenergo", respectively (31 December 2010: 1.4 billion, 457.6 million, 368.1 million, 304.9 million and 266.6 million due from OJSC "Sverdlovenersgosbut", OJSC "Chelyabenersgosbut", LLC "MEC", OJSC "ChEMC" and OJSC "Permenersgosbut", respectively). 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 31.

Note 16. Prepayments for current assets

	31 December 2011	31 December 2010
Prepayments	256,630	324,871
Prepaid taxes	47,113	19,601
Allowance for impairment of prepayments	(13,203)	(17,624)
Total	290,540	326,848

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Note 17. Other current assets

	31 December 2011	31 December 2010
Held-to-maturity investments	185,995	-
Short term loans issued	82,104	20,201
Other current assets	10	10
Total	268,109	20,211

Held-to-maturity investments comprise promissory notes of JSB "Gazprombank" payable on demand but not earlier than 31 August 2012. Upon initial recognition the investments were discounted using a market rate of interest of 11.99%. For the year ended 31 December 2010 discount of RUB 43,543 thousand was initially recognized in financial expenses (Note 8).

The Group's exposure to credit and currency risks related to other current assets are disclosed in Note 31.

Note 18. Cash and cash equivalents

	31 December 2011	31 December 2010
Cash at bank and petty cash	1,239,881	1,877,166
Bank deposits	190,000	-
Total	1,429,881	1,877,166

All cash and cash equivalents are denominated in RUB.

	Rating	Rating agency	31 December 2011	31 December 2010
Cash at bank and petty cash				
JSC "The Ural Bank for Reconstruction and Development"	B-	Standard & Poor's	545,400	290,722
JSB "Gazprombank"	Baa3	Moody's	422,393	1,088,143
JSB "Sberbank"	A3	Moody's	134,366	382,548
JSCB "NOMOS-BANK"	Ba3	Moody's	46,826	8
JSC "Metcombank"	A	Expert RA	33,335	44,385
JSB "Uraltransbank"	BB+ (rus)	Fitch Ratings	17,085	30,491
OJSC "SKB-BANK"	B1	Moody's	14,102	3,752
JSB "Ekaterinburg National City Bank"	BB	Rus-Rating	10,525	3,185
JSCB "Agropromcredit"	B2	Moody's	8,255	2,393
OJSC "Alfa-Bank"	Ba1	Moody's	3,994	23,751
OJSC "Ural FD"	B3	Moody's	-	3,515
Other			3,600	4,273
Total cash at bank and petty cash			1,239,881	1,877,166
Bank deposits				
JSB "Sberbank"	A3	Moody's	190,000	-
Total bank deposit			190,000	-
Total			1,429,881	1,877,166

The Group's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in Note 31.

OJSC IDGC of Urals**Notes to the Consolidated Financial Statements for the year ended 31 December 2011***(in thousands of Russian Roubles, unless otherwise stated)***Note 19. Equity***Share capital*

	31 December 2011	31 December 2010
Number of ordinary shares authorized, issued and fully paid	87,430,485,711	87,430,485,711
Par value (in RUB)	0.10	0.10
Total share capital	8,743,049	8,743,049

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 RUB 21.1 billion unaudited as at 31 December 2011 (31 December 2010: RUB 22.5 billion unaudited).

At the annual meeting of shareholders of OJSC "IDGC of Urals" held on 16 June 2011 the decision was made to declare dividends of RUB 244.8 million for the year 2010.

At the meeting of shareholders of OJSC "Ekaterinburg Electric Grid Company" held on 10 June 2011 the decision was made to declare dividends of RUB 14.8 million for the year 2010.

At the meeting of shareholders of OJSC "Ekaterinburgenergosbyt" held on 20 December 2011 the decision was made to declare dividends of RUB 141.6 million for the year ended 31 December 2010 and of RUB 280 million for the nine months ended 30 September 2011.

During 2011, the Group paid dividends of RUB 283.9 million (2010: RUB 24.9 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 2011	Year ended 31 December 2010
Weighted average number of ordinary shares issued	87,430,485,711	87,430,485,711
Profit attributable to the shareholders of the Company	3,145,348	2,277,100
Earnings per share (in RUB)	0.0360	0.0260

Note 20. 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 31.

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Long-term loans and borrowings

Name of lender	Nominal interest rate, %		Year of maturity	31 December 2011	31 December 2010
	31 December 2011	31 December 2010			
<i>Bank loans</i>					
JSB "Sberbank"	7.70-8.28%	7.75-9.00%	2013-2016	4,090,499	2,395,842
JSB "Gazprombank"	7.71-8.80%	7.21-8.50%	2015	2,086,276	3,637,414
JSB "Ural Bank for Reconstruction and Development"	7.65-8.28%	7.65%	2013-2016	1,102,461	336,000
JSB "NOMOS-BANK"	11.85-14.50%	12.00-14.50%	2013	36,592	11,842
<i>Unsecured bond issues</i>	-	8.6%		-	219
Total				7,315,828	6,381,317

Short-term loans and borrowings

Name of lender	Nominal interest rate, %		31 December 2011	31 December 2010
	31 December 2011	31 December 2010		
<i>Bank loans</i>				
JSB "Ural Bank for Reconstruction and Development"	7.65-8.28%	7.65%	469,449	64,000
JSB "Sberbank"	8.28%	9.00%	249,996	249,996
JSB "NOMOS-BANK"	11.50-14.50%	11.00-14.50%	10,250	22,583
JSB "Gazprombank"	-	8.50-9.00%	-	350,146
JSB "Metallinvestbank"	-	15.00%	-	12,000
Other			630	630
<i>Unsecured bond issues</i>	8.6%	-	219	-
Total			730,544	699,355

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

At 31 December 2011 the bank loans in the amount of RUB 46,842 thousand (31 December 2010: RUB 46,425 thousand) are secured over fixed assets in the amount of RUB 60,671 thousand (31 December 2010: RUB 61,984 thousand), see Note 10.

As at 31 December 2011 the Group has ability to draw additional amounts of RUB 2.2 billion (31 December 2010: RUB 2.3 billion), RUB 0.5 billion (31 December 2010: RUB 1 billion) and RUB 34.1 million (31 December 2010: nil) from JSB "Gazprombank", JSB "Sberbank" and JSC "The Ural Bank for Reconstruction and Development", respectively.

The Group's exposure to currency and liquidity risk related to loans and borrowings is disclosed in Note 31.

Note 21. Long-term advances

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

Note 22. Employee benefits

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

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- defined contribution pension plan and defined benefit pension plan (Non-Government Pension Fund of the Electric Power and Non-Government Pension Fund “Vibor”); 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 2011		31 December 2010	
	Post-employment benefits	Other long-term benefits	Post-employment benefits	Other long-term benefits
Present value of defined benefit obligations	1,063,443	44,317	784,303	15,645
Unrecognized actuarial losses	(417,913)	-	(416,661)	-
Unrecognized past service cost	(310,692)	-	(52,373)	-
Net defined benefit obligation	334,838	44,317	315,269	15,645

Amounts recognized in profit or loss:

	Year ended 31 December 2011		Year ended 31 December 2010	
	Post-employment benefits	Other long-term benefits	Post-employment benefits	Other long-term benefits
Current service cost	69,201	1,579	41,862	724
Interest expenses	57,461	1,239	61,670	678
Recognized actuarial loss	26,018	2,224	19,057	5,332
Recognised past service cost	68,178	25,522	65,759	-
Curtailements	-	-	(53,824)	-
Correction on defined benefit obligations	-	-	(31,933)	2,616
Total	220,858	30,564	102,591	9,350

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

	Year ended 31 December 2011		Year ended 31 December 2010	
	Post-employment benefits	Other long-term benefits	Post-employment benefits	Other long-term benefits
Defined benefit obligations as at the beginning of the period	784,303	15,645	670,863	8,503
Current service cost	69,201	1,579	41,862	724
Interest cost	57,461	1,239	61,670	678
Actuarial losses	27,270	2,224	120,893	5,332
Benefits paid	(201,289)	(1,892)	(84,560)	(2,208)
Past service cost	326,497	25,522	59,332	-
Curtailements	-	-	(53,824)	-
Correction on defined benefit obligations	-	-	(31,933)	2,616
Defined benefit obligations as at the end of the period	1,063,443	44,317	784,303	15,645

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

	Year ended 31 December 2011		Year ended 31 December 2010	
	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	315,269	15,645	297,238	8,503
Net expenses for the period	220,858	30,564	102,591	9,350
Benefits paid	(201,289)	(1,892)	(84,560)	(2,208)
Net defined benefit obligations as at the end of the period	334,838	44,317	315,269	15,645

Principal actuarial estimations are as follows:

	Year ended 31 December 2011		Year ended 31 December 2010	
	Post- employment benefits	Other long- term benefits	Post- employment benefits	Other long- term benefits
Discount rate (nominal)	8.50%	8.50%	8.00%	8.00%
Future salary and pension increases	5.50%	5.50%	5.00%	5.00%
Future inflation rate	5.50%	5.50%	5.00%	5.00%
Employees average remaining working life (years)	13	13	13	13

Note 23. 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 2011	31 December 2010
Non-current finance lease obligation	10% - 36%	RUB	53,829	89,437
Current portion finance lease obligation	10% - 36%	RUB	106,502	194,577

Non-current finance lease liabilities outstanding as at 31 December 2011 mature from 2013 to 2014 (31 December 2010: from 2012 to 2014).

	31 December 2011			31 December 2010		
	Minimum lease payments	Interest	Present value of minimum lease payments	Minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	125,016	(18,514)	106,502	231,095	(36,518)	194,577
Between one and five years	59,327	(5,498)	53,829	101,406	(11,969)	89,437
Total	184,343	(24,012)	160,331	332,501	(48,487)	284,014

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

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The finance lease liabilities are secured by leased assets.

The Group's exposure to currency and liquidity risk related to finance lease liabilities is disclosed in Note 31.

Note 24. Trade and other payables

	31 December 2011	31 December 2010
Trade payables	3,577,660	3,854,336
Advances received	2,153,558	2,040,521
Payables to employees	1,155,485	683,038
Accrued liabilities and other payables	647,694	211,768
Dividends payable	-	1
Total	7,534,397	6,789,664

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 31.

Note 25. Other taxes payable

	31 December 2011	31 December 2010
Social contributions	186,961	180,807
Property tax	23,481	18,023
Fines and other penalties	127	11,820
Value added tax	285,890	202,446
Other taxes	34,150	39,863
Total	530,609	452,959

Note 26. 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 2011 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".

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 JSC "IDGC Holding", its subsidiaries and associates, and were as follows:

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	Year ended 31 December 2011	Year ended 31 December 2010
Revenue		
Revenue from other services	-	1,981
Operating expenses		
Other expenses	231,183	266,464

Balances with JSC "IDGC Holding", its subsidiaries and associates as at 31 December 2011 and 2010 were as follows:

	31 December 2011	31 December 2010
Trade and other receivable and prepayments	1,778	3
Trade and other payables	13,339	15,931

Transactions with state controlled entities

Revenues from state-controlled entities for the year ended 31 December 2011 constitute 7% (2010: 8%) of total Group revenues, including 6% (2010: 7%) of electricity transmission revenues.

Electricity transmission costs for state-controlled entities for the year ended 31 December 2011 constitute 50% (2010: 53%) of total transmission costs.

Interest expenses for state-controlled entities and banks for the year ended 31 December 2011 constitute 89% (2010: 84%) of total interest expenses on loans and borrowings.

As at 31 December 2011 cash held at state-controlled banks amounted to RUB 747 million (31 December 2010: RUB 1 471 million).

As at 31 December 2011 loans and borrowings from state-controlled entities amounted to RUB 6.4 billion (31 December 2010: RUB 6.6 billion).

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 2011		Year ended 31 December 2010	
	Members of Board of Directors	Key management personnel	Members of Board of Directors	Key management personnel
Salaries and bonuses	35,224	141,116	18,613	91,635

Note 27. 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 2011	31 December 2010
Less than one year	338,451	90,221
Between one year and five years	544,127	226,547
More than five years	1,209,697	914,939
Total	2,092,275	1,231,707

The land plots leased by the Group are the territories on which the Group's 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.

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During the current year RUB 647 million (2010: RUB 557 million) was recognized in profit or loss in respect of operating leases.

Note 28. 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, Sverdlovenergo (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 2011 are presented below:

	Electricity transmission				Electricity sales		Other segments All other Group Companies	Total
	Chelyabenergo	Permenergo	Sverdlovenergo	OJSC "Ekaterinburg Electric Grid Company"	OJSC "Ekaterinburgenergosbyt"			
Electricity transmission	13,088,345	13,581,351	26,196,448	4,065,016	-	-	56,931,160	
Electricity sales	-	-	-	-	13,185,725	-	13,185,725	
Connection services	302,681	811,870	213,066	127,764	-	-	1,455,381	
Other services	65,141	100,196	210,651	26,976	-	2,108,241	2,511,205	
Total segment revenues, including	13,456,167	14,493,417	26,620,165	4,219,756	13,185,725	2,108,241	74,083,471	
<i>External revenues</i>	<i>13,427,010</i>	<i>14,493,358</i>	<i>21,886,061</i>	<i>147,485</i>	<i>12,251,585</i>	<i>170,511</i>	<i>62,376,010</i>	
<i>Inter-segment revenue</i>	<i>29,157</i>	<i>59</i>	<i>4,734,104</i>	<i>4,072,271</i>	<i>934,140</i>	<i>1,937,730</i>	<i>11,707,461</i>	
Segment operating profit	1,554,510	1,881,774	2,137,653	1,252,515	757,485	102,352	7,686,289	
Segment finance costs	(22,426)	(119,878)	(98,346)	-	(20,711)	(6,350)	(267,711)	
Reportable segment profit before income tax	1,088,809	1,732,768	1,080,124	1,387,643	611,316	20,588	5,921,248	
Segment depreciation	595,669	936,134	1,098,026	830,955	3,771	46,128	3,510,683	
Segment assets	11,819,533	15,249,223	16,624,929	10,822,725	1,217,572	589,431	56,323,413	
<i>Including property, plant and equipment</i>	<i>9,446,634</i>	<i>14,324,031</i>	<i>12,840,880</i>	<i>9,550,202</i>	<i>9,172</i>	<i>229,661</i>	<i>46,400,580</i>	
Segment liabilities	1,855,615	2,360,984	2,791,511	2,776,790	777,278	411,774	10,973,952	
Capital expenditure	1,690,542	2,438,719	2,266,483	2,855,640	6,468	42,738	9,300,590	

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(in thousands of Russian Roubles, unless otherwise stated)

Segment items for the year ended 31 December 2010 are presented below:

	Electricity transmission				Electricity sales		Other segments All other Group Companies	Total
	Chelyabenergo	Permenergo	Sverdlovenergo	OJSC "Ekaterinburg Electric Grid Company"	OJSC "Ekaterinburgenergosbyt"			
Electricity transmission	13,149,572	12,012,406	22,601,313	3,714,501	-	-	51,477,792	
Electricity sales	-	-	-	-	12,007,374	-	12,007,374	
Connection services	312,900	549,467	823,359	307,068	-	-	1,992,794	
Other services	112,675	105,111	112,446	20,422	-	2,011,394	2,362,048	
Total segment revenues, including	13,575,147	12,666,984	23,537,118	4,041,991	12,007,374	2,011,394	67,840,008	
<i>External revenues</i>	<i>13,575,147</i>	<i>12,666,984</i>	<i>19,359,516</i>	<i>319,440</i>	<i>11,113,862</i>	<i>364,896</i>	<i>57,399,845</i>	
<i>Inter-segment revenue</i>	-	-	<i>4,177,602</i>	<i>3,722,551</i>	<i>893,512</i>	<i>1,646,498</i>	<i>10,440,163</i>	
Segment operating profit	1,033,640	1,707,149	2,917,884	1,275,074	406,937	87,446	7,428,130	
Segment finance costs	(60,950)	(133,246)	(197,668)	-	(34,167)	(5,759)	(431,790)	
Reportable segment profit before income tax	1,013,772	1,443,212	1,134,503	1,365,501	255,962	21,089	5,234,039	
Segment depreciation	517,000	798,204	1,017,529	834,603	2,455	36,881	3,206,672	
Segment assets	10,532,717	13,986,075	15,194,544	9,133,727	1,519,236	496,716	50,863,015	
<i>Including property, plant and equipment</i>	<i>8,395,988</i>	<i>12,849,024</i>	<i>11,771,882</i>	<i>7,634,324</i>	<i>6,475</i>	<i>203,540</i>	<i>40,861,233</i>	
Segment liabilities	1,728,820	2,303,168	2,739,536	2,143,583	1,132,842	312,195	10,360,144	
Capital expenditure	879,616	2,588,809	1,168,840	830,954	6,214	32,087	5,506,520	

OJSC IDGC of Urals
Notes to the Consolidated Financial Statements for the year ended 31 December 2011
(in thousands of Russian Roubles, unless otherwise stated)

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 2011	Year ended 31 December 2010
Total segment revenues	74,083,471	67,840,008
Elimination of intersegment revenue	(11,707,461)	(10,440,162)
Derecognition of revenue related to "last mile" customers	(502,111)	(573,065)
Reclassification from other income	154,858	234,269
Derecognition of revenue related to other customers	(30,594)	-
Head Office revenue (unallocated)	1,997	4,547
Revenues per Statement of Comprehensive Income	62,000,160	57,065,597

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

	Year ended 31 December 2011	Year ended 31 December 2010
Total segment profit before income tax	5,921,248	5,234,039
Adjustment for impairment of accounts receivable	743,400	447,005
Derecognition of revenue and expenses related to "last mile" customers	(268,298)	(399,562)
Accrual of bonuses and unused vacation provision	(302,913)	(17,159)
Change in provision for obsolete and slow moving inventories	3,962	47,234
Share of profit of equity accounted investees	246,424	266,305
Adjustment for employee benefits	(106,421)	73,580
Adjustment for property, plant and equipment	(538,430)	(740,561)
Adjustments for financial lease	23,187	168,722
Accrual of expenses	(426,414)	137,463
Head Office loss (unallocated)	(861,885)	(1,200,901)
Other adjustments	(318,679)	(202,335)
Profit before income tax for the year per Statement of Comprehensive Income	4,115,181	3,813,830

Reconciliation of reportable segment total assets is presented below:

	31 December 2011	31 December 2010
Total segment assets	56,323,413	50,863,015
Elimination of intersegment assets	(1,756,532)	(2,318,688)
Adjustment for property, plant and equipment	6,571,164	7,072,655
Adjustment for employee benefits plan assets	285,535	343,714
Adjustment of investments in equity accounted investee	(7,614)	(254,038)
Adjustment for finance lease prepayments	(18,612)	(44,403)
Adjustment for deferred taxes	(363,841)	(304,565)
Adjustments for impairment of accounts receivable	75,963	(165,326)
Adjustment for provision for obsolete and slow moving inventories	(66,206)	(70,168)
Head Office assets (unallocated)	3,464,321	4,831,847
Other adjustments	(261,153)	(172,917)
Total assets per Statement of Financial Position	64,246,438	59,781,126

OJSC IDGC of Urals**Notes to the Consolidated Financial Statements for the year ended 31 December 2011***(in thousands of Russian Roubles, unless otherwise stated)*

Reconciliation of total reportable segment liabilities is presented below:

	31 December 2011	31 December 2010
Total segment liabilities	10,973,952	10,360,144
Elimination of intersegment liabilities	(728,247)	(1,253,704)
Adjustment for deferred taxes	2,500,964	2,941,892
Adjustment for employee benefits	379,155	330,914
Accrual of bonuses and unused vacation provision	23,658	666,213
Finance lease liabilities	108,391	81,753
Adjustment for income tax overprovided	(14,290)	(246,614)
Adjustment for FSK services related to "last mile"	(531,822)	(298,009)
Adjustment for accrued liabilities	(137,095)	83,905
Adjustment for derecognition of provision for litigation	323,707	(323,707)
Head Office liabilities (unallocated)	8,933,155	7,914,694
Other adjustments	(76,648)	19,145
Total liabilities per Statement of Financial Position	21,754,880	20,276,626

Reconciliation of other material items is presented below:

	Year ended 31 December 2011			Year ended 31 December 2010		
	Reportable segment totals	Adjustments and unallocated	Consolidated totals	Reportable segment totals	Adjustments and unallocated	Consolidated totals
Finance costs	(267,711)	(38,313)	(306,024)	(431,790)	(108,121)	(539,911)
Depreciation and amortization	3,510,683	641,685	4,152,368	3,206,672	583,910	3,790,582
Property, plant and equipment	46,400,580	6,598,111	52,998,691	40,861,233	7,449,678	48,310,911
Capital expenditure	9,300,590	(229,407)	9,071,183	5,506,520	717,584	6,224,104

The Group performs its activities in Russian Federation.

In 2011 the Group had three major customers represented by distribution companies operating in three regions of the Russian Federation with total turnover exceeding 45% (2010: 49%) of total Group revenues. Revenues from these customers are recognized by branches of the Company and amounted to RUB 10.98 billion (Sverdlovenergo, 2010: RUB 10.85 billion), RUB 9.92 billion (Permenergo, 2010: RUB 9.04 billion) and RUB 7.16 billion (Chelyabenergo, 2010: RUB 8.42 billion) for the year ended 31 December 2011.

Note 29. Commitments**Capital commitments**

As at 31 December 2011 the Group has outstanding commitments for the acquisition and construction of property, plant and equipment of RUB 3.2 billion (31 December 2010: RUB 3.0 billion).

Note 30. 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 ordinary 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 continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes 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 and substance-based 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 consolidated 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 as a result of tax audits of the Company performed for the years 2004 and 2005 the Company was involved in court proceedings with the Federal Tax Service of the Russian Federation ("FTS") concerning additional accruals of VAT in the amount of RUB 601.6 million and related tax penalties and interests for late payment. In the opinion of management, after taking appropriate legal advice, this case would have been resolved in the Group's favor. As a result, no provision has been recognized as at 31 December 2009.

However, in 2010 the Court ruled this case not in favor of the Group. Accordingly, as at 31 December 2010 the Group paid RUB 601.6 million of additional VAT, RUB 417.4 million of penalties and RUB 121.2 million of late payment interests to the tax authorities (Note 7).

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.

Other contingencies

The Group believes that all Group's sales arrangements are generally in compliance with the Russian legislation regulating electric power transmission. However, based on uncertainty of legislation that regulates the lease of Unified National Electricity Network property ("last-mile") by the Group there is a risk that customers may challenge that the Group has no legal ground to invoice them and hence recognize revenue for electric power transmission services provided via leased "last-mile" grids and courts agree with the customers' view. The potential amount of such claims could be significant, but cannot be reliably estimated as each claim would have individual legal circumstances and respective estimation would be based on a variety of assumptions and judgments, which makes it impracticable. The Group did not recognize as at the reporting date any provision for those actual and potential claims as it believes that it is not probable that related outflow of resources or decrease

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The Group believes that all Group's sales arrangements are generally in compliance with the Russian legislation regulating electric power transmission. However, based on uncertainty of legislation that regulates the lease of Unified National Electricity Network property ("last-mile") by the Group there is a risk that customers may challenge that the Group has no legal ground to invoice them and hence recognize revenue for electric power transmission services provided via leased "last-mile" grids and courts agree with the customers' view. The potential amount of such claims could be significant, but cannot be reliably estimated as each claim would have individual legal circumstances and respective estimation would be based on a variety of assumptions and judgments, which makes it impracticable. The Group did not recognize as at the reporting date any provision for those actual and potential claims as it believes that it is not probable that related outflow of resources or decrease

of benefits inflow will take place. The Group believes that expected changes in legislation will further reduce the level of risk.

Note 31. 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 incurred 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 60% of the Group's revenue for the year ended 31 December 2011 (2010: 60%) is attributable to sales transactions with nine customers (2010: eight customers) transacting with the Group for several years, and, consequently, losses have incurred infrequently. Accounts receivable from these customers represents 69% (2010: 67%) from the total outstanding balance of trade and other receivables.

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

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 2011	31 December 2010
Cash and cash equivalents	1,429,881	1,877,166
Trade and other receivables	5,667,338	5,241,111
Other current assets	268,109	20,211
Other non-current assets	347,095	571,071
Total	7,712,423	7,709,559

OJSC IDGC of Urals**Notes to the Consolidated Financial Statements for the year ended 31 December 2011***(in thousands of Russian Roubles, unless otherwise stated)*

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

	31 December 2011	31 December 2010
Electricity transmission	4,645,364	3,954,404
Electricity sales	697,527	762,335
Connection services	60,064	101,934
Other services	73,119	186,798
Total	5,476,074	5,005,471

Impairment losses

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

	31 December 2011		31 December 2010	
	Gross	Impairment	Gross	Impairment
Not past due	3,495,315	(80,652)	3,906,459	(24,713)
Past due less than 90 days	1,384,805	(131,821)	752,738	(86,142)
Past due 90 – 180 days	353,224	(194,359)	377,374	(69,672)
Past due 180 – 365 days	480,708	(218,663)	351,057	(41,106)
Past due more than 1 year	1,222,844	(644,063)	701,340	(626,224)
Total	6,936,896	(1,269,558)	6,088,968	(847,857)

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

	31 December 2011	31 December 2010
Balance at beginning of the year	847,857	2,026,726
Increase during the year	719,184	323,369
Amounts written off against trade receivables	(176,102)	(1,393,831)
Decrease due to reversal	(121,381)	(108,407)
Balance at end of the year	1,269,558	847,857

(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.

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:

OJSC IDGC of Urals**Notes to the Consolidated Financial Statements for the year ended 31 December 2011***(in thousands of Russian Roubles, unless otherwise stated)*

As at 31 December 2011:

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years
Non-derivative financial liabilities:						
Unsecured bond issues	219	226	226	-	-	-
Loans and borrowings	8,046,153	10,340,865	663,983	677,593	1,181,734	7,817,555
Finance lease liabilities	160,331	184,343	67,679	57,337	48,667	10,660
Trade and other payables	5,380,839	5,380,839	5,377,394	3,445	-	-
Total	13,587,542	15,906,273	6,109,282	738,375	1,230,401	7,828,215

As at 31 December 2010:

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years
Non-derivative financial liabilities:						
Unsecured bond issues	219	241	8	8	225	-
Loans and borrowings	7,080,453	8,573,504	633,250	605,913	3,718,695	3,615,646
Finance lease liabilities	284,014	332,501	141,605	89,490	78,790	22,616
Trade and other payables	4,759,858	4,759,858	4,389,571	354,943	8,174	7,170
Total	12,124,544	13,666,104	5,164,434	1,050,354	3,805,884	3,645,432

(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 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 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.

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.