

17 June 2010

Urals Energy Public Company Limited
("Urals Energy", or the "Company")

Annual Report and Accounts

Urals Energy (LSE: UEN), an independent exploration and production company with operations in Russia, today announces its audited financial results for the year ended 31st December 2009.

Strategy

- Following the divestiture of Dulisma and Taas Yuriakh and the restructure of the Petraco debt after the year end, Urals is now well positioned to recommence development programmes at its two producing fields, Arcticneft and Petrosakh
- Short-term strategy to investigate opportunities to increase profitability of the Company and to develop a programme to increase production
- The Company continues to look at potential transactions if they can bring synergy and additional value to the Company.

Operational

- As a result of the divestiture of the Dulisma asset in August 2009 and the Chepetskoye asset ("CNGDU") in February 2009, average 2009 production decreased to 4,409 BOPD (6,285 bopd in 2008)
- Production from Arcticneft and Petrosakh decreased to 876 thousand barrels in 2009 from 1,126 thousand barrels in 2008
- Current daily levels of production at Arcticneft increased in 2010 to 725 BOPD from an average of 641 BOPD in 2009
- Current daily levels of production at Petrosakh decreased in 2010 to 1,577 BOPD from an average of 1,760 BOPD in 2009 and stabilized at this level
- In June 2010 the first of three sidetrack wells was spudded at Petrosakh

Financial

- Significant reduction of net debt from \$658.2 as at 31 December 2008 to give net cash of \$4.5 million¹ as at 31 December 2009
- In 2009 the Company sold Dulisma and Taas Yuriakh for the full discharge of \$630 million of debt owed to Sberbank.
- The Company also terminated a Put option agreement with Limenitis Holdings (an affiliate of the Ashmore Funds).
- Gross Revenues, excluding crude oil purchased for resale, decreased by \$85 million to \$65 million, largely due to the divestiture of the Dulisma in August 2009 and decrease of crude oil resale activity at the end of 2008.
- An operating loss of \$138 million was recorded, largely due to the impairment losses recognized with respect to Dulisma's production assets of \$122 million.
- Extensive cost reduction programme introduced during 2009 has resulted in a decrease in Selling, General and Administrative expenses.

Corporate

- Completed significant corporate transactions:
 - Divestiture of Dulisma and Taas Yuriakh for full discharge of \$630 million of debt
 - Divestiture of Chepetskoye NGDU
- Significant Board and Senior Management changes including appointment of Alexei Maximov as Chief Executive Officer and a Director and appointment of Grigory Kazakov as Chief Financial Officer

¹ calculated as short-term debt plus payables to Finfund less cash in bank, less loan receivable from Taas and less Loans issued to related parties as at 31 December 2009 taking into account of the conversion of \$2.0 million of Petraco debt subsequent to year-end

Outlook

- Focused on early production increase from existing wells
- Complete geological studies in 2010 to develop a drilling program
- Assess potential growth opportunities to maximize synergies with current asset portfolio

Alexei Maximov, Chief Executive, commented:

“As we look back on 2009, I am pleased to report the significant progress we have made in restructuring our debts and streamlining the entire business. Following the divestiture of several of our assets, we were able to return to trading on AIM and build a healthier balance sheet following Petraco’s refinancing.

Having stabilized the business, we have also moved quickly to restart operations across our remaining licenses and importantly increase our production.”

Enquiries:

Allenby Capital Limited
Nominated advisor and broker
Nick Naylor/Alex Price

+44 (0)20 3328 5656

Pelham Bell Pottinger
Mark Antelme
Evgeniy Chuikov

+44 (0)20 7861 3232

The annual report and accounts for the year ending 31 December 2010 will today be posted to shareholders and will be available from the Company’s website www.uralsenergy.com in accordance with AIM Rule 20.

CEO STATEMENT AND ANNUAL REPORT TO SHAREHOLDERS

2009 was a challenging year for Urals Energy. Following the global financial crisis and the dramatic fall in oil prices, Urals had to take a difficult decision and divest some of its core assets in order to manage its debt and streamline its business.

The process began with the divestiture of Komi and Chepetskoye assets in late 2008 and early 2009 and, following extended negotiations with Sberbank, we were able to divest both Dulisma and Taas Yuriakh for the full discharge of the \$630 million owed to Sberbank. With such significant financial commitment cleared, we were also successful in canceling the Ashmore put option which allowed us to retain our current assets at Petrosakh and Arcticneft.

With a slimmer but healthier balance sheet, in December 2009 we were able to return to trading on AIM and start to deliver on our key shareholder promise of rebuilding Urals' asset base and operations. This was a significant achievement by Urals's management team, which had seen numerous changes during the year but which nonetheless was able to deliver on its strategy.

As we entered 2010 our focus now moves to restarting operations and renegotiating our remaining commitments with Petraco. Once again I am pleased to report both of these objectives were delivered in the first few months of 2010. With Petraco, we were able to reach an agreement which significantly extended the repayment of the financing facility. The payment schedule has now been extended through to the end of 2013 and which we are confident of meeting with this from cashflows from our existing production.

At the same time as completing the Petraco refinancing, we have also recommenced operations at both Arcticneft and Petrosakh were put on hold in 2009 as a result of our constrained financial situation. Both licenses have a long history of production and have combined proved and probable reserves of 58mmbbls.

On Petrosakh, we completed the workover on well 47, reperforated well 34 and optimised water injection on well 42. This work programme produced immediate results, reversing production decline and increasing daily production to 1,577 bopd. As reported on 4th June 2010 we also spudded the first sidetrack well 35b. In May 2010 we have also began first deliveries of Gasoline 92 which significantly increases Urals netbacks and allows for uninterrupted year round gasoline sales by the Company. Urals along side Rosneft is the only supplier of this type of fuel to Sakhalin where demand outstrips supply.

In May 2010, the Company filed an application for the exploration of the two prospects located on the Kolguev Island. The two prospects are in the undistributed state fund of resources with the total geological resources of more than 29 million metric tons of C3+D1+D2 resources as per the Russian classification of reserves (or about 230 million barrels). The results and exact timing for the response for the application are yet to be specified. In addition the Company is also planning to participate in the auction for the development license for Tarkskoye field, which is expected to be announced in the fourth quarter of 2010. The Tarkskoye field, which belongs to the State is also located on Kolguev Island and has Russian classification reserves C1+C2 for this field amount to approximately 8.9 million metric tons (or about 70 million barrels). The directors believe that Arcticneft is well positioned to explore and develop the two aforementioned prospects and the Tarkskoye field given the Company's existing operations and infrastructure on the Island.

Corporate

Since the year end, key management changes have been made allowing Urals to more effectively meet the challenges presented by the adverse economic environment.

Following the resignations of Leonid Dyachenko as CEO in April 2009, Vladimir Sidorovich as CFO in May and Vyatcheslav Ivanov in 2009, I assumed the role of Chief Executive and Director, and Grigory Kazakov was appointed as CFO. Leonid Dyachenko took on the role as Chairman of the Board. In June 2009, Vasilij Sechin was appointed as a Non-Executive director. In December 2009 both Vladimir Sidorovich and Vasilij Sechin were not re-elected for voting on the AGM and retired by rotation. Pursuant to the restricting agreement with Petraco, the Company is intending to appoint a non-executive director to the Board.

2009 Financial

Operating Environment

During most of the year the Company was affected by the uncertainties associated with loans received by the Company in the end of 2007 for the acquisition of Taas and refinancing of Goldman Sachs loans. These uncertainties resulted in inability of the Company to attract external financing debt of equity to finance operations of its production subsidiaries, which negatively effected production. Also, these uncertainties resulted in suspension from trading of Company's shares on AIM market from 30 June to 18 December 2009.

Following a sharp decrease in oil prices at the end of 2008 Brent prices started a year at a rate or \$43.59 per barrel, reached a level of \$70 per barrel in June 2009 and stabilized at a level of \$75 per barrel at the end of 2009. Despite low crude oil prices on export domestic prices for light oil products didn't change so much and were in a rage from \$60 to \$75 per barrel thus securing the Company's operating cash flows at the level sufficient to maintain operations and comply with license requirements at both fields.

Following the announcement of the Russian government in 2008 to depreciate Russian Rouble by 20%, the Rouble continued to depreciate against the dollar in 2009 and reached its peak of RR/\$ 35.76 in February 2009 and after that smoothly decreased to RR/\$ 30.24 at year end. Average exchanges rate for 2009 of RR/\$ 31.72 was 27% higher than average 2008 exchange rate of RR/\$ 24.86 which resulted in lower operating costs for Russian oil companies.

Operating Results

\$ '000	Year ended 31 December:	
	2009	2008
Gross revenues before excise, export duties	68,989	222,291
Net revenues after excise, export duties and VAT	50,881	174,854
Gross (loss)/profit	(113,458)	(86,822)
Operating (loss)/profit	(137,547)	(132,092)
Normalised management EBITDA (unaudited)	(3,811)	(8,920)
Total net finance costs	163,855	316,655
Profit for the year	(304,014)	(403,249)

In 2009, total gross revenues excluding crude oil for resale declined by \$85 million as a result of: (i) a negative price variance resulting from lower weighted average gross price per barrel of \$48.71 (compared with \$64.48 in 2008); and (ii) decrease in sales volumes totalling 1,336 thousand barrels in 2009 (compared with 2,183 thousand barrels in 2008). This was primarily due to the divestment of the Dulisma and the CNGDU.

Following the divestiture of subsidiaries in the Komi Republic, the Company continued to re-sell crude oil produced by these former subsidiaries on the export and domestic markets. The total cost of this purchased crude oil amounted to \$98 million during the year ended 31 December 2008. The Company charged a commission on these operations, which was included in gross revenues in the financial statements. The profit margin on these operations is substantially lower than for the self-produced oil, as the price of purchased crude oil also includes a seller's mark-up. There were no such operations with the Komi subsidiaries in 2009.

Gross Revenues (\$'000)

	Year ended 31 December:	
	2009	2008
Crude oil	52,370	206,764
Export sales	39,930	74,859
Export sales of purchased crude oil from AMNGR in 2009 and from AMNGR and Komi assets in 2008	3,942	72,518

Domestic sales (Russian Federation)	8,498	59,387
Petroleum (refined) products - domestic sales	15,592	12,163
Other sales	1,027	3,364
Total gross revenues	68,989	222,291

In 2009, the Company's total net revenues decreased to \$50.9 million from \$174.9 million in 2008. Netback, in the case of exports, is gross oil sales less export duty, customs charges, marketing costs and transportation, and, in the case of domestic crude oil sales, the gross sales net of VAT. Netback for domestic product sales is defined as gross product sales minus VAT, transportation, excise tax and refining costs.

The weighted average netback price for crude oil sales during 2009 was \$26.89 versus \$43.74 per barrel in 2008. This decrease was as a result of the seasonality of deliveries of crude from Arcticneft and Petrosakh, the majority of sales in 2008 took place in the months when crude oil prices were above \$100 per barrel.

In 2008, netbacks for export sales (excluding sales of purchased crude oil) were \$45.96 per barrel and \$33.44 per barrel for domestic sales. Netback prices for domestic product sales are defined as gross product sales price minus VAT, transportation, excise tax and refining costs. The average products netback for the year was \$45.02 per barrel (all domestic, as the Company does not export products).

Summary table: Net backs (\$/bbl)

	Year ended 31 December:	
	2009	2008
Crude oil	26.89	43.74
Export sales	33.46	45.96
Export sales (AMNGR crude oil)	37.47	112.22
Domestic sales (Russian Federation)	17.59	33.44
Petroleum (refined) products - domestic sales	45.02	65.48
Other sales	N/A	N/A

The gross loss of the Company for the year 2009 was \$113 million comparing to \$87 million in 2008. The main drivers of the increased loss were impairment charges recognized by the Company in 2009 in the amount of \$122 million associated with the impairment of Dulisma and Taas in comparison with impairment charges in the amount of \$95 million recognized in 2008 associated with Arcticneft and Petrosakh. According to IFRS, those expenses were included in the Cost of Sales. Without those write-offs the Gross Profit would have been \$8.0 million in 2009 and \$8.1 million in 2008. Cost of sales decreased by \$125 million due to cancellation of operations related to purchases and further re-sale of crude oil with subsidiaries in the Komi Republic, which were divested in April 2008, as well as divestiture of Dulisma and Chepetskoye NGDU during 2009. Also this decrease was partially driven by implementation of a cost reduction programme initiated in 2009.

Selling, General and Administrative expenses decreased during the year 2009 by \$23.0 million to \$21.3 million from \$44.3 million in 2008. This was primarily due to initiation of cost reduction programme in the holding company and management company and due to divestment of the Dulisma and the CNGDU during 2009. The Company anticipates to see the full results of the cost reduction programme in 2010, when recurring expenses will not be effected by one-off costs associated with severance payments made to retired personnel.

The net finance costs decreased substantially by \$153 million due to write-off of a liability associated with Put Option, which was cancelled by Limenitis in December 2009 as part of the deal with Sberbank for the divestiture of Dulisma and Taas for the full discharge of Sberbank loans.

Net loss for the year attributable to shareholders was \$303.9 million as compared to net loss of \$401.2 million in 2008. That was primarily driven by non-cash transactions associated with the divestiture of Dulisma and Taas discussed above.

Consolidated normalized management EBITDA increased by \$5.0 million to a negative figure of \$2.1 million in 2009 compared with negative \$7.1 million in 2008, with EBITDA margins of (4.1) % and

(4.1) % respectively. Management EBITDA for 2009 includes cost and losses from operations of subsidiaries, which were disposed during 2009. Costs include regular salaries of personnel and other costs which were decreased or completely eliminated during 2009.

Management EBITDA (\$'000) - Unaudited

	Year ended 31 December	
	2009	2008
Profit for the year	(304,014)	(403,249)
Net interest and foreign currency (income)/expense	163,855	316,656
Income tax	(29,035)	(37,377)
Depreciation, depletion and amortization	5,504	16,514
Total non-cash expenses	140,324	295,793
Share-based payments	4,177	8,971
Impairment of property, plant and equipment	122,127	94,955
Resignation fees to top-managers	1,200	-
(Release)/accrual of other taxes risk provision	(199)	(189)
Gain from disposal of assets held for sale	31,647	(8,121)
Write-off non-producing wells	-	2,552
Other non-recurrent losses	2,640	2,161
Total non-recurrent and non-cash items	161,592	100,329
Normalized EBITDA	(2,098)	(7,127)

Cash Flow

The 2009 cash position didn't change significantly as compared to 2008. The Group generated \$3.8 million from operations and used part of it on investing activities, primarily at Dulisma to satisfy claims from contractors and suppliers. In addition \$0.2 million was used at both Arcticneft and Petrosakh for license compliance activities.

In 2008 the cash position was negatively affected by the interest expense accrued on outstanding borrowing (amounting to \$78 million) and continuing capital investment outflows for Dulisma development (amounting to \$60 million). Proceeds from sale of subsidiaries generated \$93 million of positive cash flow improving the cash position and providing additional resources to keep on track with day-to-day operations.

Following the uncertainties associated with Sberbank loans the Company didn't pay interest on these loans and all disposals of subsidiaries in 2009 were non-cash transactions used to settle debt of the Company to third parties, such Sberbank Capital (with respect to disposal of Dulisma and Taas) and repayment of Galaform domestic prepayment received in 2008.

Net debt Position

As at 31 December 2009 the Company had net cash of \$4.5 million (calculated as Short-term debt plus payables to Finfund less cash in bank, less loan receivable from Taas and less Loans issued to related parties) taking into account of the conversion of \$2.0 million of Petraco debt subsequent to year-end compared with negative net debt of \$658.2 million at 31 December 2008.

Towards the end of the 2007, the Company entered into two loan agreements with Sberbank, aiming to finance the acquisition of Taas and to further develop the Dulisma field. The principal amount outstanding as at 31 December 2008 was \$630 million. As collateral for these loans, certain of the Company's major non-institutional shareholders pledged UEPCL shares and the Company pledged 100% of the Company's shares in Dulisma and Taas. As at 31 December 2008 both loans were overdue. In December 2009 the Company transferred all of its shares of Dulisma and Taas to Sberbank Capital for the full discharge of those loans. As part of that deal, the Company was released

of any obligations under a Put option agreement with Ashmore, which was valued at \$161 million in the consolidated financial statements.

Accounts payable and accrued expenses of \$20.7 million at the year end mainly represented outstanding accounts payable to FGUP "ArcticMorNefteGazRazvedka" at state owned company ("AMNGR") in the amount of \$6.8 million for the crude oil, which the Company acquired at the end of 2009 and couldn't load due to weather conditions in December 2009. At year end the Company had 23,599 metric tons of crude oil purchased from AMNGR, which will be loaded during the first loading from Arcticneft in June - July 2010. The purchase price was RR 6,906.77 per ton or \$28.90 per barrel net of VAT.

The second largest creditor is Finfund with the maximum liability of \$6.6 million at 31 December 2009 for the pledge fee, which was not paid by the Company.

On 2 June 2010 the Company was notified that Finfund Limited has exercised its rights to acquire 13,000,000 existing Urals shares with a nominal value of US\$0.0063 from entities beneficially owned by two directors (being Leonid Y. Dyachenko and Aleksey V. Ogarev) and another significant shareholder (being Vyacheslav V. Rovneiko) (together the "Shareholders") pursuant to a share pledge agreement dated 26 November 2007 (the "Share Pledge Agreement").

The Share Pledge Agreement was entered into by entities beneficially owned by the Shareholders and secured various obligations of the Company under the terms of a sale and purchase agreement dated 26 November 2007 (the "SPA") relating to the acquisition by Urals of Taas-YuriakhNeftegazodobycha (the "Acquisition"). Such obligations included certain pledge fees which Finfund Limited are now claiming are owed by the Company. Based on Finfund Limited's alleged defaults by the Company in respect of such pledge fees, Finfund Limited has chosen to exercise its rights under the Share Pledge Agreement to acquire 13,000,000 shares in the Company from entities beneficially owned by the Shareholders (the "Pledged Shares").

In consequence of the exercise of Finfund Limited's rights as described above, any liability owed by the Company to Finfund Limited has been reduced by \$2.2 million. The Company understands however that this liability, whilst reducing any obligation of the Company to Finfund Limited, has been transferred by Finfund Limited to the Shareholders in proportion to the number of shares transferred by them under the Share Pledge Agreement. The Company intends to enter discussions with both Finfund Limited and the Shareholders shortly in relation to the settlement of these outstanding claims.

Following a number of restructuring agreements signed between the largest creditor Petraco Oil Company ("Petraco") and the Company, a prepayment received from Petraco was reclassified in short-term debt in accordance with the nature of these agreements. Through a series of repayments made by the Company during 2009 the total liability to Petraco decrease from \$49.4 million at 31 December 2008 to \$33.9 million but still the Company could not comply with repayment schedule completely.

In April 2010 the Company and Petraco reached an agreement and restructured this debt with the repayment schedule allowing for a more gradual repayment of the outstanding liability and providing additional security to Petraco. Additionally Petraco converted \$2 million of the liability in the Company's 8,693,006 new ordinary shares and received an option to acquire further 12,576,688 new ordinary shares for \$5 million. If that agreement was signed before the year end, the Company would classify only \$7 million of the \$33.9 million as Current portion of a long-term debt in its financial statements and the remaining part would be long-term debt.

Disposal of assets

In February 2009 Chepetskoye was sold to a domestic off-taker Galaform for the full discharge of the domestic prepayment granted to the Group in the end of 2006. As part of the transaction the Group assigned to the buyer intercompany loans amounting to \$10.8 million. The sale consideration was equal to \$5.2 million and included in the sales agreement was a call option for the Group to repurchase Chepetskoye for \$5.2 million. This call option expired in January 2010. The Group has assigned nil value to the call option.

On 4 August 2009 the Company sold its 100% interest in Dulisma for the discharge of a portion of a \$500 million loan to Sberbank in the amount of \$50 million plus assumption of \$130 million loan on the

balance sheet of Dulisma and plus assumption of all trade accounts payable accrued at the date of transaction.

As of 18 November 2009 the mutual settlement agreement was signed with Sberbank Capital. The Company settled total debt to Sberbank outstanding at the date of agreement in the amount of \$517.4 million (including \$439.6 million of principal amount and \$77.8 million interest accrued to the date of disposal) in exchange of 35.329% stake in OOO Taas Yurayakh Neftegazdobycha.

In April 2008, the Group completed the sale of Dinyu, Michayunefit and Nizhneomrinskaya Neft for \$93.1 million and CNPSEI was sold to the same buyer on 31 December 2008 for \$13.9 million. This consideration from the sale of CNPSEI was fully offset against outstanding unpaid liabilities of the Company under oil sales and other agreements involving Komi assets sold in April 2008; therefore, the Company had not received any cash proceeds from that transaction.

Cost reduction initiatives

The dramatic changes in the composition of the Group and significant uncertainties associated with debt from Sberbank, forced the Company's management to implement extensive cost reduction activities, capital investments preservation and liquidity improving measures in order to mitigate these challenges and be able to operate as effectively as possible in such an unstable environment. The management of the Company has achieved significant progress in 2009 and expects to see further cost reductions in 2010.

Sincerely,

Alexei Maximov
Chief Executive Officer

Urals Energy Public Company Limited

Consolidated Financial Statements

As of and for the Year Ended 31 December 2009

Independent Auditors' Report To the Members of Urals Energy Public Limited

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the consolidated financial statements of Urals Energy Public Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except as discussed in the Basis for Qualified Opinion paragraph, 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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 the Board of Directors, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

The sale of one of the Company's subsidiaries, Chepetskoye NGDU ('Chepetskoye'), was agreed to in substance prior to 31 December 2008 and was formally concluded in January 2009. The sale agreement included a call option allowing the Group to repurchase Chepetskoye. This call option expired in January 2010. The assets and liabilities of Chepetskoye were classified as held-for-sale as of 31 December 2008 and Chepetskoye was de-consolidated in January 2009 and an associated impairment loss reflected in the consolidated statement of comprehensive income for the year ended 31 December 2009. In accordance with IAS 27 "Consolidated and Separate Financial Statements" the existence of the call option meant that control over Chepetskoye was not relinquished in 2009. Consequently, the Company should have consolidated all of the assets and liabilities and the results of operations and cash flows of Chepetskoye in the financial statements for the year ended 31 December 2009 and recorded an associated non-controlling interest representing 100% of the net assets and the net profit of this entity as of and for the year ended 31 December 2009.

Furthermore, with respect to 2008, as a result of the existence of the call option, not all of the criteria under IFRS 5 "Non current assets held for sale and discontinued operations" required for classification of Chepetskoye as an asset held-for-sale were met as of 31 December 2008. As a result assets held-for-sale and liabilities associated with non-current assets held-for-sale were overstated by US\$ 20.0 million and US\$ 17.2 million, respectively as of 31 December 2008.

Qualified Opinion

In our opinion, except for the effect on the financial statements of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the financial position of Urals Energy Public Limited and its subsidiaries as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of matter - Going Concern

Without further qualifying our audit opinion, we draw attention to Note 3 to the consolidated financial statements which indicates that the Group incurred a net loss of US\$ 304.0 million during the year ended 31 December 2009 and, as of that date, the Group's current liabilities exceed its current assets by US\$ 32.5 million. This condition, along with other matters as set forth in Note 3, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Urals Energy Public Company Limited
Consolidated Statement of Financial Position
(presented in US\$ thousands)

	Note	31 December:	
		2009	2008
<i>Assets</i>			
Current assets			
Cash and cash equivalents		2,361	912
Accounts receivable and prepayments	11	11,264	28,912
Current income tax prepayments		-	15
Inventories	12	16,867	4,100
Assets held for sale	10	-	99,163
Total current assets		30,492	133,102
Non-current assets			
Property, plant and equipment	13	62,524	336,968
Supplies and materials for capital construction		2,289	13,892
Investment in joint venture	8	-	751,600
Other non-current assets	14	35,330	39,885
Total non-current assets		100,143	1,142,345
Total assets		130,635	1,275,447
<i>Liabilities and equity</i>			
Current liabilities			
Accounts payable and accrued expenses	15	20,697	26,030
Income tax payable		3,759	3,810
Other taxes payable	17	2,360	402
Financial instruments	8	-	161,300
Short-term borrowings and current portion of long-term borrowings	18	33,978	633,515
Advances from customers	16	2,090	55,778
Liabilities associated with non-current assets held for sale	10	-	10,248
Current liabilities before warrants classified as liabilities		62,884	891,083
Warrants classified as liabilities		56	177
Total current liabilities		62,940	891,260
Long-term liabilities			
Long term finance lease obligations		610	-
Dismantlement provision	19	1,223	15
Deferred income tax liabilities	17	3,921	34,344
Total long-term liabilities		5,754	34,359
Total liabilities		68,694	925,619
<i>Equity</i>			
Share capital		1,131	1,122
Share premium		644,135	639,967
Translation difference		(28,373)	(40,321)
Retained earnings (accumulated deficit)		(554,976)	(251,045)
Equity attributable to shareholders of Urals Energy Public Company Limited		61,917	349,723
Non-controlling interest		24	105
Total equity	20	61,941	349,828
Total liabilities and equity		130,635	1,275,447

Approved on behalf of the Board of Directors on 16 June 2010

A.D. Maximov
Chief Executive Officer

G.B.Kazakov
Chief Financial Officer

The accompanying notes on pages 9 to 58 are an integral part of these consolidated financial statements

Urals Energy Public Company Limited
Consolidated Statement of Comprehensive Income
(presented in US\$ thousands)

	Note	Year ended 31 December:	
		2009	2008
Revenues			
Gross revenues	21	68,989	222,291
Less: excise taxes		(345)	(287)
Less: export duties		(17,763)	(47,150)
Net revenues after excise taxes, export duties and VAT		50,881	174,854
Cost of sales	22	(42,212)	(166,721)
Impairment charges	7	(122,127)	(94,955)
Gross loss		(113,458)	(86,822)
Selling, general and administrative expenses	23	(21,342)	(44,331)
Other operating loss		(2,748)	(939)
Total operating costs		(24,090)	(45,270)
Operating loss		(137,548)	(132,092)
(Loss)/gain from disposal of subsidiaries	9	(31,647)	8,121
Interest income	18	4,175	5,654
Interest expense	18	(91,968)	(98,451)
Foreign currency loss		(3,256)	(17,428)
Movement in value of investment in joint venture	8	(234,106)	(159,833)
Movement in value of financial derivatives	8	161,300	(46,597)
Total net finance costs		(163,855)	(316,655)
Loss before income tax		(333,050)	(440,626)
Income tax benefit	17	29,035	37,377
Loss for the year		(304,015)	(403,249)
Loss for the year attributable to:			
- Non-controlling interest		(84)	(1,460)
- Shareholders of Urals Energy Public Company Limited		(303,931)	(401,789)
Loss per share of profit attributable to shareholders of Urals Energy Public Company Limited:	20		
- Basic loss per share (in US dollar per share)		(1.69)	(2.26)
- Diluted loss per share (in US dollar per share)		(1.69)	(2.26)
Weighted average shares outstanding attributable to:			
- Basic shares		179,409,466	177,985,004
- Diluted shares		179,409,466	177,985,004
Loss for the year		(304,015)	(403,249)
Other comprehensive income (loss):			
- Effect of currency translation		(19,616)	(77,021)
- Accumulative translation adjustment relating to disposed subsidiaries		31,567	(13,258)
Total comprehensive loss for the year		(292,064)	(493,528)
Attributable to:			
- Non-controlling interest		(81)	(1,499)
- Shareholders of Urals Energy Public Company Limited		(291,983)	(492,029)

The accompanying notes on pages 9 to 58 are an integral part of these consolidated financial statements

Urals Energy Public Company Limited
Consolidated Statement of Cash Flows
(presented in US\$ thousands)

	Note	Year ended 31 December:	
		2009	2008
Cash flows from operating activities			
Loss before income tax		(333,050)	(440,626)
Adjustments for:			
Depreciation, amortization and depletion	22	4,937	16,514
Change in fair value of financial derivatives	8	(161,300)	46,597
Change in fair value of investment in joint venture	8	234,106	159,833
Share-based payments	20	4,177	8,971
Interest income	18	(4,175)	(5,654)
Interest expense	18	91,968	98,451
Loss/(Gain) from disposal of assets held for sale	9	31,647	(8,121)
Accrual (release) of provision on inventory	12	(2,462)	4,307
Impairment charges	7	122,127	94,955
Write-off of non-producing wells	22	-	2,552
Bad debt write-off	23	(1,254)	2,161
Release of other taxes risk provision	17, 22	(199)	(189)
Foreign currency (gain) loss		3,256	17,428
Other non-cash transactions		999	(7)
Operating cash flows before changes in working capital		(9,223)	(2,828)
Decrease/(Increase) in inventories		12,314	(10,666)
Increase in accounts receivables and prepayments		(1,527)	(12,848)
(Decrease)/Increase in accounts payable and accrued expenses		(169)	25,781
Increase in advances from customers		1,934	693
(Decrease)/Increase in other taxes payable		546	(2,187)
Cash (used in) generated from operations		3,875	(2,055)
Interest received		72	2,389
Interest paid		(536)	(78,022)
Income tax received/(paid)		382	(2,136)
Net cash generated from/(used in) operating activities		3,793	(79,824)
Cash flows from investing activities			
Proceeds from sale of subsidiaries	9	-	93,107
Acquisition of joint venture		-	(589)
Purchase of property, plant and equipment		(1,930)	(68,354)
Purchase of intangible assets		-	(82)
Loans issued		(906)	(26,616)
Proceeds on loans issued		984	774
Repayment of promissory notes	18	-	64,247
Net cash generated from (used in) investing activities		(1,852)	62,487
Cash flows from financing activities			
Proceeds from borrowings		-	18,000
Repayment of borrowings		-	(18,365)
Repayment of loan organization fees		-	(10,000)
Finance lease principal payments		(376)	(468)
Cash proceeds from issuance of ordinary shares gross	20	-	6,155
Expenses related to issuance of ordinary shares	20	-	(263)
Cash proceeds from exercise of options	20	-	125
Net cash (used in) generated from financing activities		(376)	(4,816)
Effect of exchange rate changes on cash and cash equivalents		(476)	(5,354)
Net increase/(decrease) in cash and cash equivalents		1,089	(27,507)
Cash and cash equivalents at the beginning of the year		1,272	28,779
Cash and cash equivalents at the end of the year		2,361	1,272
Cash and cash equivalents at the end of the year of the Group, excluding those classified as held for sale		2,361	912
Cash and cash equivalents at the end of the year of the assets classified as held for sale	10	-	360

The accompanying notes on pages 9 to 58 are an integral part of these consolidated financial statements

Urals Energy Public Company Limited
Consolidated Statements of Changes in Shareholders' Equity
(presented in US\$ thousands)

	Notes	Share capital	Share premium	Difference from conversion of share capital into US\$	Cumulative Translation Adjustment	Retained earnings (accumulated deficit)	Equity attributable to Shareholders of Urals Energy Public Company Limited	Non-controlling interest	Total equity
Balance at 31 December 2007		990	625,111	-	49,919	150,744	826,764	1,604	828,368
Effect of currency translation		-	-	-	(76,982)	-	(76,982)	(39)	(77,021)
Accumulative translation adjustment relating to disposed subsidiaries		-	-	-	(13,258)	-	(13,258)	-	(13,258)
Loss for the year		-	-	-	-	(401,789)	(401,789)	(1,460)	(403,249)
Total comprehensive loss		-	-	-	(90,240)	(401,789)	(492,029)	(1,499)	(493,528)
Issuance of shares	20	19	5,998	-	-	-	6,017	-	6,017
Share-based payment	20	-	8,971	-	-	-	8,971	-	8,971
Difference from conversion of share capital into US\$	20	113	-	(113)	-	-	-	-	-
Balance at 31 December 2008		1,122	640,080	(113)	(40,321)	(251,045)	349,723	105	349,828
Effect of currency translation		-	-	-	(19,619)	-	(19,619)	3	(19,616)
Accumulative translation adjustment relating to disposed subsidiaries		-	-	-	31,567	-	31,567	-	31,567
Loss for the year		-	-	-	-	(303,931)	(303,931)	(84)	(304,015)
Total comprehensive loss		-	-	-	11,948	(303,931)	(291,983)	(81)	(292,064)
Issuance of shares	20	9	(9)	-	-	-	-	-	-
Share-based payment	20	-	4,177	-	-	-	4,177	-	4,177
Balance at 31 December 2009		1,131	644,248	(113)	(28,373)	(554,976)	61,917	24	61,941

The accompanying notes on pages 9 to 58 are an integral part of these consolidated financial statements

1 Activities

Urals Energy Public Company Limited (“Urals Energy” or the “Company” or “UEPCL”) was incorporated as a limited liability company in Cyprus on 10 November 2003. Urals Energy and its subsidiaries (the “Group”) are primarily engaged in oil and gas exploration and production in the Russian Federation and processing of crude oil for distribution on both the Russian and international markets.

The registered office of Urals Energy is at 31 Evagorou Avenue, Suite 34, CY-1066, Nicosia, Cyprus. UEPCL’s shares are traded on the AIM Market operated by the London Stock Exchange. The Company’s shares were temporarily suspended from trading between 30 June 2009 and 18 December 2009 due to non-compliance with AIM rules 18 and 19, primarily due to the non-filing of audited financial statements for the year ended 31 December 2008 and the non-filing of unaudited interim financial information for the six-months ended 30 June 2009. The matters giving rise to the suspension were resolved in full on 18 December 2009 and the suspension was accordingly lifted.

The Group comprises UEPCL and the following main subsidiaries and joint venture (Note 8, 9):

Entity	Jurisdiction	Effective ownership interest at 31 December	
		2009	2008
Exploration and production			
OOO Oil Company Dulisma (“Dulisma”) (i)	Irkutsk	-	100%
ZAO Petrosakh (“Petrosakh”)	Sakhalin	97.2%	97.2%
ZAO Arcticneft (“Arcticneft”)	Nenetsky	100%	100%
OOO Lenskaya Transportnaya Kompaniya (“LTK”)	Irkutsk	100%	100%
ZAO Chepetskoye NGDU (“Chepetskoye”) (ii)	Udmurtia	-	100%
OOO Taas-Yuryakh Neftegazdobycha (“Taas”) (i)	Sakha-Yakutia	-	35.3%
Management company			
OOO Urals Energy	Moscow	100%	100%
Urals Energy (UK) Limited (dormant starting from May 2007)	United Kingdom	100%	100%
Exploration			
OOO Urals-Nord (“Urals-Nord”)	Nenetsky	100%	100%

- (i) On 3 August 2009 the Company sold its 100% interest in Dulisma and on 19 November 2009 it sold its 35.3% interest in Taas in return for full discharge of the Company’s debt to Sberbank Capital plus assumption of all trade accounts payable accrued by Dulisma and Taas at the date of the transaction (Note 3).
- (ii) In February 2009 Chepetskoye was sold to a domestic off-taker Galaform for the full discharge of the domestic prepayment (Note 9).

2 Summary of Significant Accounting Policies

Basis of preparation. The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and effective as at 1 January 2009 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of the following:

- certain provisions of IAS 39 “Financial Instruments: Recognition and Measurement” relating to portfolio hedge accounting.

In addition, the following interpretations have been endorsed, however their effective dates are not the same, although an entity may choose to early adopt them:

- IFRIC 12 “Service Concession Arrangements”;

- IFRIC 15 “Agreements for the construction of real estate”; and

- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”.

These consolidated financial statements have been prepared under the historical cost convention as modified by the change in fair value of financial instruments. The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. These policies have been consistently applied to all the periods presented, unless otherwise stated. Critical accounting estimates and judgements are disclosed in Note 6. Actual results could differ from the estimates.

Functional and presentation currency. The United States dollar (“US dollar or US\$ or \$”) is the presentation currency for the Group’s operations as management have used the US dollar accounts to manage the Group’s financial risks and exposures, and to measure its performance. Financial statements of the Russian subsidiaries are measured in Russian Roubles, their functional currency.

The functional currency of the Company is the US Dollar as substantially all the cash flows affecting the Company are in US Dollars.

Translation to functional currency. Monetary items of statement of financial position denominated in foreign currencies have been remeasured using the exchange rate at the respective reporting date. Exchange gains and losses resulting from foreign currency translation are included in the determination of profit or loss. The US dollar to Russian Rouble exchange rates were 30.24 and 29.38 as of 31 December 2009 and 2008, respectively.

Translation to presentation currency. The Group’s financial statements are presented in US dollars in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*. The results and financial position of each group entity having a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position. Goodwill and fair value adjustments arising on the acquisitions are treated as assets and liabilities of the acquired entity.
- (ii) Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).
- (iii) All resulting exchange differences are recognised as a separate component of equity.

When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in other comprehensive income are reclassified to the profit and loss.

Group accounting. Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over the operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the consideration provided or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition.

All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Non-controlling interest at the reporting date represents the non-controlling shareholders' portion of the fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date, and the non-controlling interest's portion of movements in equity since the date of the combination. Non-controlling interest is presented as a separate component of equity. Where the losses applicable to the non-controlling in a consolidated subsidiary exceed the non-controlling interest in the equity of the subsidiary, the excess and any further losses applicable to the non-controlling interest are charged against the majority interest except to the extent that the non-controlling interest has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the non-controlling interest's share of losses previously absorbed by the majority has been recovered.

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals to non-controlling interests result in gains or losses for the Group that are recorded in the consolidated statement of comprehensive income. Purchases from non-controlling interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

The Group accounts for the interest in a joint venture using the equity method of accounting. Investments in joint ventures are initially recognised at fair value. The group's investment in joint venture includes negative goodwill identified on acquisition, and immediately recognised as income in the consolidated statement of comprehensive income.

The Group's share of its joint venture's post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint venture have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in joint venture are recognised in the consolidated statement of income.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

Property, plant and equipment. Property, plant and equipment acquired as part of a business combination is recorded at fair value at the acquisition date and adjusted for accumulated depreciation, depletion and impairment. All subsequent additions are recorded at historical cost of acquisition or construction and adjusted for accumulated depreciation, depletion and impairment. Oil and gas exploration and production activities are accounted for in a manner similar to the successful efforts method. Costs of successful development and exploratory wells are capitalised. The cost of property, plant and equipment includes provisions for dismantlement, abandonment and site restoration (see *Provisions* below).

The Group accounts for exploration and evaluation activities in accordance with IFRS 6, *Exploration for and Evaluation of Mineral Resources*. Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with an exploration well are initially capitalised as an intangible asset within oil and gas properties until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs, delay rentals and payments made to contractors. If hydrocarbons are not found, the exploration expenditure is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells (exploration or exploratory-type stratigraphic test wells), are likely to be capable of commercial development, the costs continue to be carried as an asset. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to the tangible part of oil and gas properties and an impairment review of the property is undertaken at that time.

Development and production assets are accumulated generally on a field-by-field basis and represent the cost of developing the commercial reserves discovered and bringing them to production together with E&E expenditures incurred in finding commercial reserves and transferred from the intangible E&E assets described above. The cost of development and production assets also include the costs of acquisitions and purchases of such assets, directly attributable overheads, finance costs capitalised and the costs of recognising provisions for future restoration and decommissioning.

Depletion of capitalized costs of proved oil and gas properties is calculated using the unit-of-production method for each field based upon proved reserves for property acquisitions and proved developed reserves for exploration and development costs. Oil and gas reserves for this purpose are determined in accordance with Society of Petroleum Engineers definitions and were last estimated by DeGolyer and MacNaughton, the Group's independent reservoir engineers in 2007. The DeGolyer and MacNaughton information from the 2007 reserves review is updated annually by management by reference to production information and the equivalent Russian ABC reserves classification. Gains or losses from retirements or sales of oil and gas properties are included in the determination of profit for the year.

Depreciation of non oil and gas property, plant and equipment is calculated using the straight-line method over their estimated remaining useful lives, as follows:

	Estimated useful life
Refinery and related equipment	19
Buildings	20
Other assets	6 to 20

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains – net' in the consolidated statement of comprehensive income.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

Intangible assets. The Group measures intangible assets at cost less accumulated amortisation and impairment losses. All of the Group's other intangible assets have finite useful lives and primarily include capitalised computer software and licences.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if probable future economic benefits will be generated. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Intangible assets are amortised using the straight-line method over their useful lives:

	Estimated useful life
Software licences	1-5
Capitalised internal software development costs	3
Other licences	5 to 7

Provisions. Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions, including those related to dismantlement, abandonment and site restoration, are evaluated and re-estimated annually, and are included in the consolidated financial statements at each reporting date at the present value of the expenditures expected to be required to settle the obligation using pre – tax discount rates which reflect the current market assessment of the time value of money and the risks specific to the liability.

Changes in provisions resulting from the passage of time are reflected in the consolidated statement of comprehensive income each year under financial items. Other changes in provisions, relating to a change in the expected pattern of settlement of the obligation, changes in the discount rate or in the estimated amount of the obligation, are treated as a change in accounting estimate in the period of the change. Changes in provisions relating to dismantlement, abandonment and site restoration are added to, or deducted from, the cost of the related asset in the current period. The amount deducted from the cost of the asset should not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss.

The provision for dismantlement liability is recorded on the consolidated statement of financial position, with a corresponding amount being recorded as part of property, plant and equipment in accordance with IAS 16.

Leases. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are presented as finance lease obligations on the consolidated statement of financial position. The interest element of the finance cost is charged to the consolidated statement of comprehensive income over the lease period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

Impairment of assets. Assets that are subject to depreciation and depletion are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. For the purposes of assessing impairment, assets are grouped by license areas, which are the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Inventories. Inventories of extracted crude oil, materials and supplies and construction materials are valued at the lower of the weighted-average cost and net realisable value. General and administrative expenditure is excluded from inventory costs and expensed in the period incurred.

Trade receivables. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, net of provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Such objective evidence may include significant financial difficulties of the debtor, an increase in the probability that the debtor will enter bankruptcy or financial reorganization, and actual default or delinquency in payments. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The change in the amount of the provision is recognised in the consolidated statement of comprehensive income.

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in other non-current assets. Restricted cash balances are segregated from cash available for the business to use until such time as restrictions are removed.

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowings. Borrowings are recognised initially at the fair value of the liability, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between amount at initial recognition and the redemption amount is recognised as interest expense over the period of the borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the asset for its intended use.

Loans receivable. The loans advanced by the Group are classified as "loans and receivables" in accordance with IAS 39 and stated at amortised cost using the effective interest method. These loans are individually tested for impairment at each reporting date.

Income taxes. Income taxes related to the Group's operations in the Russian Federation have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the reporting date. The income tax charge or benefit comprises current tax and deferred tax and is recognised in the consolidated statement of comprehensive income unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Deferred income tax is calculated at rates enacted or substantively enacted by the reporting date, using the balance sheet liability method, for all temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. The principal temporary differences arise from depreciation on property, plant and equipment, provisions and other fair value adjustments to long-term items, and expenses which are charged to the consolidated statement of comprehensive income before they become deductible for tax purposes.

Deferred income tax assets attributable to deductible temporary differences, unused tax losses and credits are recognised only to the extent that it is probable that future taxable profit or taxable temporary differences will be available against which they can be utilised.

Deferred income tax assets and liabilities are offset when the Group has a legally enforceable right to set off current tax assets against current tax liabilities, when deferred tax balances relate to the same regulatory body, and when they relate to the same taxable entity.

The Group's uncertain tax positions are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

Employee benefits. Wages, salaries, social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

The Group makes required contributions to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed or capitalized to inventories on a basis consistent with the associated salaries and wages.

Social costs. The Group incurs employee costs related to the provision of benefits such as health insurance. These amounts principally represent an implicit cost of employing production workers and, accordingly, are included in the cost of inventory.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Revenue recognition. The Group recognises revenue when the amount of revenue can be reliably measured and it is probable that economic benefits will flow to the entity, typically when crude oil or refined products are dispatched to customers and title has transferred. Gross revenues include export duties and excise taxes but exclude value added taxes.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Segments. The Group operates in one business segment which is crude oil exploration and production. The Group assesses its results of operations and makes its strategic and investment decisions based on the analysis of its profitability as a whole. The Group operates within one geographic segment, which is the Russian Federation.

Warrants. Warrants issued that allow the holder to purchase shares of the Group's stock are recorded at fair value at issuance and recorded as liabilities unless the number of equity instruments to be issued to settle the warrants and the exercise price are fixed in the issuing entities' functional currency at the time of grant, in which case they are recorded within shareholders' equity. Changes in the fair value of warrants recorded as liabilities are recorded in the consolidated statement of comprehensive income.

Financial derivatives. The fair value of options is evaluated using market prices if available, taking into account the terms and conditions of the options, upon which those derivative instruments were issued. If market prices are not available, the fair value of the equity instruments granted is estimated using a valuation technique to estimate what the price of those equity instruments would have been on the measurement date in an arm's length transaction between knowledgeable, willing parties.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium.

Share-based payments. The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, using market prices, taking into account the terms and vesting conditions upon which those equity instruments were granted.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Group by the weighted average number of participating shares outstanding during the reporting year.

Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the consolidated statement of financial position as 'Non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the reporting date. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected to occur within one year and (d) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting date. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale property, plant and equipment, intangible assets or disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment and intangible assets are not depreciated or amortised. Reclassified non-current financial instruments and deferred taxes are not subject to the write down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Where assets cease to qualify as held for sale (Arcticneft, Petrosakh) assets are reinstated on the consolidated statement of financial position at the lower of:

- The carrying amount prior to the asset being classified as held-for-sale, adjusted for any depreciation, amortisation or revaluation that would have been recognized if the asset had not been classified as held for sale.
- The recoverable amount of the assets at the date of decision not to sell.

The depreciation for the fixed assets which ceased to be classified as assets held for sale was accrued from the moment the decision was made to treat these assets as held for sale. (October 2008). The profit and loss for the comparative period was not restated and depreciation charge for the period October-December 2008 was recognised in the reporting period. (USD 0.9 million)

Comparatives. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

3 Going Concern

A significant portion of the Group's consolidated net assets of \$61.9 million comprises undeveloped mineral deposits requiring significant additional investment. The Group is dependent upon external debt to fully develop the deposits and realise the value attributed to such assets.

During 2007, the Group attracted \$630 million in short term financing in the form of two separate loans (\$500 million and \$130 million) from Sberbank to finance acquisitions and mineral development. Despite detailed discussions with Sberbank, these loans were not re-financed during 2008. As of 31 December 2008 the Group was in default of its financing arrangement with Sberbank and the Group's current liabilities exceeded its current assets by \$758.2 million.

During 2009 the Group entered into a series of negotiations with Sberbank, OOO Sberbank Capital ('Sberbank Capital') (a 100% subsidiary of OAO Sberbank), and other entities. As a result of these negotiations the Group agreed to dispose of its 100% ownership interest in Dulisma and its 35.3% ownership in Taas in exchange for a release of its debt obligations of \$190 million (plus interest of \$2.3 million) and \$439.6 million (plus interest of \$77.8 million), respectively (see further discussion in Notes 7,8 and 9).

Furthermore, as a result of these negotiations the Group was released from a Put Option for nil consideration (see Note 8).

Despite the settlement of the aforementioned debt and put obligations the Group had net current liabilities of \$32.4 million as of 31 December 2009. The most significant creditor as of 31 December 2009 was an advance for future oil sales from Petraco – with \$33.9 million of principal and interest owed as of 31 December 2009.

As discussed further in Note 27, on 29 April 2010 an Extraordinary General Meeting was held, whereby it was agreed to authorise the restructuring of the Petraco advance. As a consequence of the restructuring the debt was restructured so that \$7.0 million is repayable by 31 December 2010 and \$8.0 million is repayable by 31 December 2011. The other terms and conditions of the restructuring are discussed further in Note 27;

Management have prepared monthly cash flow projections for periods throughout 2010, 2011 and 2012. Judgements with regard to future oil prices and planned production were required for the preparation of the cash flow projections and model. Positive overall cash flows are crucially dependant on future oil prices (a price of \$75 per barrel has been used for 2010 and for 2011).

Despite the above matters, the Group still has funding and liquidity constraints. Management considers that there is a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Despite these uncertainties and based on cash flow projections performed, management considers that the application of the going concern assumption for the preparation of these consolidated financial statements is appropriate.

4 Settlement with Sberbank

As discussed in Note 3, the Group entered into a number of transactions with Sberbank, Sberbank Capital and other parties to settle the Group's overdue debt obligations. No cash was paid or received as a result of the settlement transactions. As a consequence of these non-cash settlement transactions the Group incurred a net loss of \$225.5 million in 2009. This net loss is comprised of:

	2009
Impairment charge for Dulisma – see Note 7	122,127
Subsequent loss on disposal of Dulisma – see Note 9	30,558
Movement in value of investment in joint venture – see Note 8	234,106
Movement in value of financial derivatives (release from Put) – see Note 8	(161,300)
Net charge on settlement of Sberbank obligations	225,491

As discussed in note 8 the Company had no access to financial information of Taas for the period and accordingly did not account for the income from Taas under the equity method of accounting. Similarly the Company did not reassess the fair value of the put option prior to the release of the Company's obligations under the agreement. As Taas was disposed and the Put option terminated in the period there is no impact on the recognised loss for the year ended 31 December 2009 from the non-recording of these items.

5 New accounting pronouncements and interpretations

Since the Group has published its last annual consolidated financial statements, certain new standards and interpretations have been issued that are mandatory for the Group's annual accounting periods beginning on or after 1 January 2010 or later and which the Group has not early adopted:

(i) Adopted by the European Union

New standards

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. IFRS 3 is not relevant to the Group as it does not expect a business combination to occur.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group does not expect the amended standard to have a material effect on its financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; restructured IFRS 1 as adopted by the EU is effective for annual periods beginning after 31 December 2009, with early adoption permitted). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group does not expect the amendments to have any material effect on its financial statements.

Amendments

IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1) (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies that an entity committed to a sale plan involving loss of control of a subsidiary would classify the subsidiary's assets and liabilities as held for sale. The revised guidance should be applied prospectively from the date at which the entity first applied IFRS 5. The amendment is not expected to have any impact on the Company's financial statements.

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Company's financial statements as the Group does not apply hedge accounting.

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment is not expected to have any impact on the Company's financial statements.

Classification of Rights Issues – Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The amendment is not expected to have any material impact on the Group's financial statements.

Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2 Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Group does not expect the amendments to have a material effect on its financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its financial statements.

New IFRICs

IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 30 March 2009, with early adoption permitted). The interpretation contains guidance on applying the existing standards by service providers in public-to-private service concession arrangements. Application of IFRIC 12 will not have any impact on the Group's financial statements because it is not subject to any service concession arrangements.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009; IFRIC 15 as adopted by the EU is effective for annual periods beginning after 31 December 2009, with early adoption permitted). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 does not have any material impact on these financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008; IFRIC 16 as adopted by the EU is effective for annual periods beginning after 30 June 2009, with early adoption permitted). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have any impact on these financial statements as the Group does not apply hedge accounting.

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss for the year when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Group's financial statements.

(ii) Not adopted by the European Union

New standards

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group is currently assessing the impact of the amended standard on disclosures in its financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group does not expect to early apply the standard in its annual 2009 financial statements.

Amendments

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The amendment is not expected to have any impact on the Group's financial statements.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Group's financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The amendment is not expected to have any impact on the Group's financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010; effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its financial statements.

New IFRICs

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group is currently assessing the impact of the interpretation on its financial statements.

Certain new standards and interpretations became effective for the Group from 1 January 2009:

IFRS 8, Operating Segments. The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The standard did not have any impact on the Group's financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment. The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The amendment did not have any impact on the Group's financial statements.

IAS 23, Borrowing Costs revised in March 2007. The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that is not carried at fair value and that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method. The Group previously capitalised borrowing costs, this revision had no significant impact on the Group's financial statements.

IAS 1, Presentation of Financial Statements revised in September 2007. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The Group has elected to present a single statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Group's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment. The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment does not have any material impact on these financial statements.

IFRIC 13, Customer Loyalty Programmes. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 does not have any material impact on these financial statements.

IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. (effective for annual periods beginning on or after 1 January 2008; adopted by the EU with an effective date postponed to annual period beginning on or after 1 January 2009).

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment issued in May 2008. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendment did not have an impact on the Group's financial statements.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendment did not have an impact on the Group's financial statements except:

Improving Disclosures about Financial Instruments – Amendment to IFRS 7, Financial Instruments: Disclosures issued in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's consolidated financial statements.

6 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities are outlined below.

Tax legislation. Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. Please see Note 24 for more details.

Estimation of oil and gas reserves. Engineering estimates of hydrocarbon reserves are inherently uncertain and are subject to future revisions. Accounting measures such as depreciation, depletion and amortization charges, impairment assessments and asset retirement obligations that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are defined as the estimated quantities of hydrocarbons which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. Proved reserves are estimated by reference to available reservoir and well information, including production and pressure trends for producing reservoirs. Furthermore, estimates of proved reserves only include volumes for which access to market is assured with reasonable certainty. All proved reserves estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and depleted. As those fields are further developed, new information may lead to further revisions in reserve estimates. Reserves have a direct impact on certain amounts reported in the consolidated financial statements, most notably depreciation, depletion and amortization as well as impairment expenses. Depreciation rates on production assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Assuming all variables are held constant, an increase in proved developed reserves for each field decreases depreciation, depletion and amortization expenses. Conversely, a decrease in the estimated proved developed reserves increases depreciation, depletion and amortization expenses. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

The possibility exists for changes or revisions in estimated reserves to have a significant effect on depreciation, depletion and amortization charges and, therefore, reported net profit for the year.

Impairment provision for receivables. The impairment provision for receivables is based on management's assessment of the probability of collection of individual receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is potentially impaired. Actual results could differ from these estimates if there is deterioration in a debtor's creditworthiness or actual defaults are higher than the estimates.

When there is no expectation of recovering additional cash for an amount receivable, the expected amount receivable is written off against the associated provision.

Future cash flows of receivables that are evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Asset retirement obligations. Management makes provision for the future costs of decommissioning hydrocarbon production facilities, pipelines and related support equipment based on the best estimates of future cost and economic lives of those assets. Estimating future asset retirement obligations is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future. Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

Useful lives of non-oil and gas properties. Items of non-oil and gas properties are stated at cost less accumulated depreciation. The estimation of the useful life of an asset is a matter of management judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates. Useful lives applied to oil and gas properties may exceed the licence term where management considers that licences will be renewed. Assumptions related to renewal of licences can involve significant judgment of management.

Impairment. As discussed further in Note 7 and 8, management have estimated the recoverable amount of cash generating units. Changes in the assumptions used can have a significant impact on the amount of any impairment charge.

Fair values of acquired assets and liabilities. Since its inception, the Group has completed several significant acquisitions. IFRS 3 requires that, at the date of acquisition, all identifiable assets (including intangible assets), liabilities and contingent liabilities of an acquired entity be recorded at their respective fair values. The estimation of fair values requires management judgement. For significant acquisitions, management engages independent experts to advise as to the fair values of acquired assets and liabilities. Changes in any of the estimates subsequent to the finalisation of acquisition accounting may result in losses in future periods.

Going Concern. These consolidated financial statements have been prepared on the basis that the Group will continue as a going concern (Note 3). Preparation of the consolidated financial statements on a basis other than going concern can have a significant impact on the balances recorded in respect of assets and liabilities.

7 Impairment

Year ended 31 December 2009

During the first half 2009 the Group continued negotiations with Sberbank with regard to the transfer of its share in Dulisma to Sberbank as part of loan assignment agreement. In July 2009 the Group transferred Dulisma to Sberbank. At 30 June 2009 management assessed Dulisma for impairment using the information regarding the proposed transaction which was available at that date as an indicator of the fair value of the asset. As a result of this analysis, an impairment charge of \$122.1 million was recognized in the consolidated statement of comprehensive income in the six months ended 30 June 2009. The full amount of the impairment loss was allocated to the carrying value of oil and gas properties of Dulisma. The loss on disposal of Dulisma to Sberbank on 4 August 2009 (Note 9) was calculated based on the net assets of Dulisma after the impairment at the date of disposal.

Year ended 31 December 2008

Following a sharp decrease in actual and forecast crude oil prices at the end of 2008 management identified that there were indicators of impairment of production assets and cash generating units and consequently performed impairment calculations to assess their recoverable amounts.

In assessing whether a write-down is required in the carrying value of a potentially impaired item of property, plant and equipment or an equity-accounted investment, its carrying value is compared with its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. As the Group is in the process of actively marketing three businesses it is unlikely that there will be significant future use. Consequently, unless indicated otherwise, the recoverable amount used in assessing the impairment charges described below is fair value less cost to sell. Additionally, management estimated the recoverable amount of other cash generating units. The Group estimated fair value less cost to sell using discounted cash flow models. An average oil price of \$75 for 2010 and \$75 in real terms for future sales was estimated for the impairment calculation and a real discount rate of 12% was used to discount the estimated future cash flows. The discount rate of 12% in real terms was derived from the Group's approximate post-tax weighted average cost of capital.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

The Group recognized an impairment loss for the year ended 31 December 2008 of \$34.6 million and \$39.1 million for the Arcticneft and Petrosakh cash generating units, respectively. As discussed in Note 10 these cash generating units were classified as held for sale as of 31 December 2008. During 2009 the Management changed strategic plans to sell these assets. As at 31 December 2009 these cash generating units are recorded as long-term assets of the Group.

If the oil price used in the calculation was reduced to \$65 per barrel in real terms from 2010 onwards an additional impairment charge of \$11.3 million and \$3.1 million would be required for Arcticneft and Petrosakh, respectively. If the discount rate used in the calculation was increased to 14% in real terms an additional impairment charge of \$7.8 million and \$8.2 million would be required for Arcticneft and Petrosakh, respectively.

If the oil price used in the calculation was reduced to \$65 per barrel in real terms from 2010 onwards an impairment charge of \$32.2 million would be required for cash generating units other than the two aforementioned entities. If the discount rate used in the calculation was increased to 14% in real terms an impairment charge of \$18.8 million would be required for cash generating units other than the two aforementioned entities.

Following a recovery of oil prices in 2009, the Group has neither booked nor reversed previously recognized impairments of assets, since the crude oil price performance confirmed originally applied assumptions.

A summary of the impairment charges incurred by the Group for the year ended 31 December 2008 is presented below:

	Year ended 31 December:	
	2009	2008
Dulisma	122,127	-
Articneft	-	34,561
Petrosakh	-	39,136
Chepetskoye	-	16,499
Write off of exploration and evaluation expenditures	-	4,759
	122,127	94,955

Refer to Note 8 for detail of the impairment analysis of the Group's investment in joint ventures.

8 Investments in joint venture

Acquisition of equity interest of 35.3% in Taas Yuraykh Neftegazdobycha (“Taas”) In December 2007, the Group acquired a 35.329% stake in OOO Taas Yurayakh Neftegazdobycha. Taas is a privately-held Russian exploration and production company with oil development operations in East Siberia and licences to develop two adjacent blocks of the Srednebotuobinskoye oil, gas and condensate field in the region (the “SRB field”). The SRB field is essentially undeveloped. Taas holds (1) an oil production licence for the central block of the SRB field (the “Central Block”); and (2) a licence for geological prospecting, exploration and production of hydrocarbons in the adjacent Kurungsky allotment in East Siberia (the “Southern Block”).

As part of the transaction the Company also acquired a call option and wrote a put option for additional interests in Taas of 4.182% and 10.479%, respectively. The exercise price for the call option to acquire an additional 4.2% of Taas, exercisable in January 2009, was \$70.0 million, plus 11.95% per annum payable at the Seller’s selection either in cash or in equivalent shares of the Company – this call option was not exercised. The put option was exercisable from November 2008 and had an expiry date in December 2012 and allowed the holder to put a 10.5% stake in Taas to the Group for \$175.0 million plus accrued interest at 14.0% from December 2008 to the exercise date, or, at the holder’s option, 50% in cash and 50% in shares of Urals Energy valued at a price determined by the average closing price in the two-week period following the initial closing.

As of 18 November 2009 the mutual settlement agreement was signed with Sberbank Capital. The Company settled total debt to Sberbank outstanding at the date of agreement in the amount of \$517.4 million (including \$439.6 million of principal amount and \$77.8 million interest accrued to the date of disposal) in exchange of 35.329% stake in OOO Taas Yurayakh Neftegazdobycha. An impairment loss in the amount of \$234.1 million was recognized in these consolidated financial statements (excess of carrying value of investment over amount of outstanding debt).

The table below summarises the movements in the carrying amount of the Group’s investment in Taas.

	Year ended 31 December:	
	2009	2008
Carrying amount at 1 January	751,600	911,433
Share of profit of joint venture*	-	(7,313)
Movement in value of investment in joint venture	(234,106)	(152,520)
Assignment amount with Sberbank	(517,494)	-
Carrying amount at 31 December	-	751,600

* The Company had no access to the financial information of Taas for the period ended 31 December 2009 as the interest in Taas had been disposed and Taas historically prepared financial information on an annual basis only. Prior to its disposal, Taas was accounted for under the equity method of accounting.. Any gain/loss from equity method earnings recognized in the year ended 31 December 2009 would have had an equal and opposite effect on the gain/loss on disposal recognized.

Additionally, subsequent to the disposal of 35.329% stake in OOO Taas Yurayakh Neftegazdobycha the Company was released from any obligations under Taas Shareholder’s agreement and terminated the Put Option agreement with Ashmore for nil consideration. The corresponding effect of financial liability release constituted USD 161.3 million. The Company did not reassess the fair value of the put prior to termination as termination extinguished all liabilities of the Company under the Put option and reassessment of fair value at the date of termination would not affect the recognised loss for the year.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

9 Disposal of subsidiaries

Chepetskoye. In February 2009 Chepetskoye was sold to a domestic off-taker Galaform for the full discharge of the domestic prepayment granted to the Group in the end of 2006 (see Note 16). As part of the transaction the Group assigned to the buyer intercompany loans amounting to \$10.8 million. The sale consideration was equal to \$5.2 million and included in the sales agreement was a call option for the Group to repurchase Chepetskoye for \$5.2 million. This call option expires in January 2010. The Group has assigned nil value to the call option. An additional loss from disposal in the amount of \$1.1 million was recognized in the consolidated statement of comprehensive income for the year ended 31 December 2009.

Dulisma. On 4 August 2009 the Company sold its 100% interest in Dulisma for the full discharge of the Company's debt to Sberbank capital plus assumption of all trade accounts payable accrued at the date of transaction. Details of the assets and liabilities disposed of are disclosed below:

	Dulisma	Chepetskoye	Total
<i>Book value of net assets sold</i>			
Current assets	13,198	850	14,048
Non-current assets	242,038	3,730	245,768
Current liabilities	(172,843)	(4,487)	(177,330)
Non-current liabilities	(20,835)	(11,576)	(32,411)
Net assets disposed of	61,558	(11,483)	50,075
<i>Consideration</i>			
Cash received	-	(700)	(700)
Loans settled	(60,534)	10,810	(49,724)
Other adjustments	-	429	429
Currency translation loss	29,534	2,033	31,567
Loss on disposals	30,558	1,089	31,647

In April 2008, the Group completed the sale of Dinyu, Michayunefit and Nizhneomrinskaya Neft for \$93.1 million and CNPSEI was sold to the same buyer on 31 December 2008 for \$13.9 million. This consideration from the sale of CNPSEI was fully offset against outstanding unpaid liabilities of the Company under oil sales and other agreements involving Komi assets sold in April 2008; therefore, the Company had not received any cash proceeds from that transaction. The Group recognised a net gain on the above sales in the amount of \$8.1 million.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

10 Non-current assets held for sale

During 2008 the Group's Board of Directors approved a plan to divest what it considered to be non-core assets - Arcticneft, Petrosakh and Chepetskoye. The assets and liabilities of those subsidiaries have been presented as held for sale as of 31 December 2008. In February 2009 the Company completed the sale of Chepetskoye (Note 9).

During 2009 due to improvement of economic situation on the world oil market the management made a strategic decision not to sell Arcticneft and Petrosakh and to resume development and extraction of oil reserves of these Group entities. In the reporting period both assets and liabilities of Arcticneft and Petrosakh were reclassified from assets held for sale into appropriate categories of the consolidated statement of financial position. For the purposes of comparability the reclassification is shown separately in each disclosure.

Below is a breakdown of assets and liabilities of non-current assets of Arcticneft, Chepetskoye, and Petrosakh that are classified as held for sale at 31 December 2008.

	31 December 2008
Cash and cash equivalents	360
Accounts receivable and prepayments	5,545
Current income tax prepayments	551
Inventories	18,426
Property, plant and equipment	70,710
Supplies and materials for capital construction	2,487
Other non-current assets	1,084
Total assets held for sale	99,163
Accounts payable and accrued expenses (net of provision of \$0 thousand and \$664 thousand at 31 December 2009 and 2008, respectively)	2,881
Other taxes payable	1,518
Advances from customers	150
Long -term finance lease obligations	846
Dismantlement provision	1,423
Deferred tax liability	3,430
Total liabilities associated with non-current assets classified as held for sale	10,248

During the year ended 31 December 2008 these assets had the following cash flows.

	Year ended 31 December 2008
Operating cash flows	3,443
Investing cash flows	(7,053)
Total cash flows	(3,610)

At 31 December 2008 an inventory provision of \$2.1 million related to assets held for sale was charged to record oil and oil products inventory at net realizable value (Note 12). Additionally, impairment charges discussed in Note 7 related to the Arcticneft and Petrosakh assets were recognized.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

11 Accounts Receivable and Prepayments

	Year ended 31 December:	
	2009	2008
Loans issued to related parties (Note 26)	6,296	4,882
Recoverable taxes including VAT	1,627	1,874
Prepaid expenses	1,141	2,557
Prepaid taxes	601	13,883
Advances to suppliers	639	542
Trade accounts and notes receivable	86	2,043
Receivables from related parties (Note 26)	78	73
Other	796	3,058
Total accounts receivable and prepayments, excluding assets held for sale	11,264	28,912
Included in assets held for sale (Note 10)	-	5,545
Total accounts receivable and prepayments:	11,264	34,457

Included in total accounts receivable and prepayments are \$7.3 million and \$7.9 million at 31 December 2009 and 2008, respectively, denominated in US dollars and substantially all remaining amounts are denominated in Russian Roubles.

Trade accounts receivable arises primarily from sales to ongoing customers with standard payment terms. The category 'Other' primarily relates to short-term prepaid expenses, which will be expensed during 2010 and prepaid amounts to customs and tax authorities, which will be returned to the Group either in cash or through an off-set against future payments.

Changes in the provision for impairment of trade and other receivables related to the recognition of a provision against receivables from related parties and disposal of assets held for sale as follows:

	Year ended 31 December:	
	2009	2008
At 1 January	1,243	664
Disposals of assets held for sale	-	(555)
(Release) accrual of additional provision against related party (Note 26)	(1,254)	1,243
Effect of currency translation	11	(109)
At 31 December	-	1,243

The carrying values of trade and other receivables approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security for trade and other receivables (see Note 25 for credit risk disclosures).

Trade and other receivables that are less than three months past due are generally not considered for impairment unless other indicators of impairment exist, such as indication of significant financial difficulty or bankruptcy. Trade and other receivables of \$0.1 million and \$0.1 million at 31 December 2009 and 2008, respectively were past due but not impaired. The ageing analysis of these past due but not impaired trade and other receivables are as follows:

	Year ended 31 December:	
	2009	2008
Up to 90 days past-due	54	-
91 to 360 days past-due	32	137
Total past due but not impaired	86	137

No financial assets are considered to be impaired at 31 December 2009.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

12 Inventories

	Year ended 31 December:	
	2009	2008
Crude oil (net of adjustment on net realisable value of \$0 million and \$2.3 million at 31 December 2009 and 2008, respectively)	8,747	10,556
Oil products (net of adjustment on net realisable value of \$0 million and \$0.1 million at 31 December 2009 and 2008, respectively)	1,586	2,264
Materials and supplies (net of allowances of \$0 million and \$2.3 million at 31 December 2009 and 2008, respectively)	6,534	9,706
Total inventories	16,867	22,526
- Inventories of the Group, excluding the portion classified as assets held for sale	16,867	4,100
- Inventories classified as assets held for sale	-	18,426

Inventory provision

	Year ended 31 December:	
	2009	2008
At 1 January	4,638	397
Additional provisions	-	4,307
Disposal of Dulisma	(2,104)	-
Release of adjustment on net realizable value	(2,462)	-
Effect of currency translation	(2)	(66)
At 31 December	70	4,638
- Inventory provision of the Group, excluding the portion classified as assets held for sale	70	2,584
- Inventory provision classified as assets held for sale	-	2,054

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

13 Property, Plant and Equipment

<i>Cost at</i>	Oil and gas properties	Refinery and related equipment	Buildings	Other Assets	Assets under construction	Total
1 January 2008	596,254	10,627	5,434	16,629	77,848	706,792
- PPE of the Group, excluding assets held for sale	458,952	10,627	5,434	15,278	71,247	561,538
- PPE held for sale	137,302	-	-	1,351	6,601	145,254
Translation difference	(76,824)	(1,748)	(884)	(2,662)	(20,433)	(102,551)
Additions	93				100,136	100,229
Capitalised borrowing costs (Note 18)					5,863	5,863
Transfers	38,303	-	-	1,871	(40,174)	-
Changes in estimates of dismantlement provision (Note 19)	128	-	-	-	-	128
Impairment	(84,702)	(3,329)	(793)	(1,675)	(4,456)	(94,955)
Disposals	(108)	-	(68)	(593)	(5,332)	(6,101)
Disposals of assets held for sale (KOMI)	(142,106)	-	-	(1,439)	(6,825)	(150,370)
31 December 2008	331,038	5,550	3,689	12,131	106,627	459,035
- PPE of the Group, excluding assets held for sale	229,044	-	2,446	8,843	103,145	343,478
- PPE held for sale	101,994	5,550	1,243	3,288	3,482	115,557
Translation difference	(17,783)	(158)	(175)	(608)	(5,973)	(24,697)
Reclassification as assets held for sale	-	-	-	-	(1,794)	(1,794)
Additions	-	-	-	-	12,333	12,333
Capitalised borrowing costs (Note 18)	-	-	-	-	7,567	7,567(*)
Transfers	8,033	3	380	34	(8,450)	-
Impairment provision (Note 7)	(122,127)	-	-	-	-	(122,127)
Disposals	(2)	(1)	-	(3,137)	(187)	(3,327)
Disposals of assets held for sale (Dulisma, Chepetskoye)	(107,168)	-	(2,687)	(3,324)	(106,680)	(219,859)
31 December 2009	91,991	5,394	1,207	5,096	3,443	107,131

(*)Total amount of interest capitalized relates to Dulisma assets under construction which were disposed with transfer of Dulisma to Sberbank.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

13 Property, Plant and Equipment (continued)

	Oil and gas properties	Refinery and related equipment	Buildings	Other Assets	Assets under construction	Total
<i>Accumulated Depreciation, Amortization and Depletion at</i>						
1 January 2008	(55,722)	(1,792)	(964)	(3,939)	-	(62,417)
- PPE of the Group, excluding assets held for sale	(36,831)	(1,792)	(964)	(3,628)	-	(43,215)
- PPE held for sale	(18,891)	-	-	(311)	-	(19,202)
Translation difference	7,797	372	196	812	-	9,177
Depreciation	(15,935)	(500)	(254)	(1,754)	-	(18,443)
Disposals	43	-	14	346	-	403
Disposals of assets held for sale (KOMI)	19,599	-	-	324	-	19,923
31 December 2008	(44,218)	(1,920)	(1,008)	(4,211)	-	(51,357)
- PPE of the Group, excluding assets held for sale	(3,361)	-	(424)	(2,725)	-	(6,510)
- PPE held for sale	(40,857)	(1,920)	(584)	(1,486)	-	(44,847)
Translation difference	1,987	41	38	157	-	2,223
Depreciation	(3,982)	(293)	(77)	(225)	-	(4,577)
Disposals	2	1	-	347	-	350
Disposals of assets held for sale (Dulisma, Chepetskoye)	7,428	-	399	927	-	8,754
31 December 2009	(38,783)	(2,171)	(648)	(3,005)	-	(44,607)
	Oil and gas properties	Refinery and related equipment	Buildings	Other Assets	Assets under construction	Total
<i>Net Book Value at</i>						
31 December 2008	286,820	3,630	2,681	7,920	106,627	407,678
- PPE of the Group, excluding assets held for sale	225,683	-	2,022	6,118	103,145	336,968
- PPE held for sale	61,137	3,630	659	1,802	3,482	70,710
31 December 2009	53,208	3,223	559	2,091	3,443	62,524

Included within oil and gas properties at 31 December 2009 and 2008 were exploration and evaluation assets:

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

13 Property, Plant and Equipment (continued)

	Cost at 31 December 2008	Add	Transfers to tangible part of Oil and Gas properties	Disposal s: Impair ment loss	Disposals ; disposal of assets held for sale	Translation difference	Cost at 31 December 2009
<i>Exploration and evaluation assets</i>							
Dulisma	144,256	-	-	(122,12	(13,531)	(8,598	-
Arcticneft	7,632	-	-	-	-	(218	7,414
Petrosakh	18,209	-	-	-	-	(4,837	13,372
Chepetskoye	1,139	-	-	-	(929)	(210	-
Total cost of exploration and evaluation assets	171,236	-	-	(122,12	(14,460)	(13,863	20,786

	Cost at 31 December 2007	Addit	Transfers to tangible part of Oil and Gas properties	Dispos als: Impair ment loss	Disposals; disposal of assets held for sale	Translation difference	Cost at 31 December 2008
<i>Exploration and evaluation assets</i>							
Dulisma	172,666	-	-	-	-	(28,410	144,256
Arcticneft	20,995	-	-	(9,9	-	(3,454	7,632
Petrosakh	43,351	-	-	(18,4	-	(6,664	18,209
Chepetskoye	8,461	-	-	(5,9	-	(1,392	1,139
Dinyu	71,878	90	-	-	(75,269)	3,301	-
CNPSEI	92	-	-	-	(77)	(14	-
Total cost of exploration and evaluation assets	317,443	90	-	(34,3	(75,346)	(36,634	171,236

Cash flows associated with exploration and evaluation assets during the years ended 31 December 2009 and 2008 were as follows:

	Year ended 31 December:	
	2009	2008
Cash flows used in operating activities	-	90
Cash flows used in investing activities	-	-
Total cash used for exploration and evaluation of assets	-	90

The Group's oil fields are situated in the Russian Federation on land owned by the Russian government. The Group holds licenses and associated mining plots and pays production taxes to extract oil and gas from the fields. The licenses expire between 2012 and 2067, but may be extended. Management intends to renew the licences as the properties are expected to remain productive subsequent to the license expiration date.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

Estimated costs of dismantling oil and gas production facilities, including abandonment and site restoration costs, amounting to \$0.2 million and \$0.3 million (including \$0.0 million and \$0.3 million recorded within assets held for sale) at 31 December 2009 and 2008, respectively, are included in the cost of oil and gas properties. The Group has estimated its liability based on current environmental legislation using estimated costs when the expenses are expected to be incurred.

Following a sharp decrease in crude oil prices at the end of 2008 the Group recognised an impairment in respect of property plant and equipment of Arcticneft as of 31 December 2008 in the amount of \$73.7 million (see Note 7) and wrote off exploration and evaluation costs in the amount of \$4.8 million. The write off of the exploration and evaluation costs relates to exploration expenses previously capitalised on the license block on Petrosakh for which the Group has no further plans as reserves were confirmed to be non-economic for further exploration and development.

Included within disposals of assets under construction were costs related to unsuccessful drilling in the amount of \$2.6 recorded within assets held for sale in 2008.

At 31 December 2009 and 2008, no property, plant and equipment were pledged as collateral for the Group's borrowings.

14 Other Non-Current Assets

	Year ended 31 December:	
	2009	2008
Loans receivable	34,438	31,066
Advances to contractors and suppliers for construction in process	461	8,195
Intangible assets	431	624
Other Non-Current Assets, excluding the portion classified as assets held for sale	35,330	39,885
Other Non-Current Assets, excluding the portion classified as assets held for sale	-	1,084
Total other non-current assets	35,330	40,969

Loans receivable represent US dollar denominated long-term loans (interest inclusive) of \$34.4 million and \$31.1 million at 31 December 2009 and 2008, respectively, issued by UEPCL to Taas, as part of the Taas acquisition agreement. The loans were used to pay organisation fees for a \$600.0 million project finance loan facility provided by Savings Bank of Russian Federation ("Sberbank") for the development of the SRB field, financing of interest payments and repayment of third party loans at Taas. The loans bear interest of 12% and mature in February 2015. The fair value of the loans approximates the carrying value at the reporting date. These loans are considered to be fully performing as of 31 December 2009. The loans are unsecured.

15 Accounts Payable and Accrued Expenses

	Year ended 31 December:	
	2009	2008
Trade payables	9,430	949
Payable to Finfund Ltd.	6,572	3,607
Accounts payable for construction in process	710	18,823
Wages and salaries	1,634	624
Advances from and payables to related parties (Note 26)	13	74
Other payable and accrued expenses	2,338	1,953
Accounts payable and accrued expenses, excluding the portion classified as liabilities held for sale	20,697	26,030
Accounts payable and accrued expenses, classified as liabilities held for sale	-	2,881
Total accounts payable and accrued expenses	20,697	28,911

Total accounts payable and accrued expenses in the amount of \$9.1 million and \$9.1 million at 31 December 2009 and 2008, respectively, are denominated in US dollars and substantially all remaining amounts are denominated in Russian Roubles.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

16 Advances from customers

	Year ended 31 December:	
	2009	2008
Kresov	1,171	-
Rusproduct	202	-
Petraco	-	49,418
Galaform	-	5,474
Other	717	886
Advances from customers, excluding the portion classified as liabilities held for sale	2,090	55,778
Advances from customers, classified as liabilities held for sale	-	150
Total advances from customers	2,090	55,928

Petraco Revolving Prepayment Agreement. In July 2007, the Group entered into a five year revolving prepayment agreement with Petraco. Under the terms of the agreement, US dollar denominated prepayments shall be made to the Group in one or more advances against specified future deliveries of agreed volumes of crude oil to be sold to Petraco. Interest accrues at LIBOR plus 5.00% on prepayments for which the related volumes have not been delivered, and LIBOR plus 1% on prepayments where Petraco pays 30 days before the bill of lading, in order to mirror normal commercial payment terms. During 2008 the maximum borrowing base was increased from \$50.0 million to \$60.0 million.

In December 2008 the original repayment schedule has been modified to take into account decreased oil prices and Company's financial position. Under this schedule Company would have to decrease the amount outstanding to USD 25 million by July 1, 2009 with the remaining balance payable by deliveries to be made in 2009 and 2010. Subsequent to the year-end management realized that the proposed repayment schedule was not feasible, and the Company proposed an amendment to the repayment schedule allowing for a more gradual repayment of the currently outstanding USD 33.9 million in 2009 and 2010 and providing additional security to the Lender. At the date of preparation of these consolidated financials statements the Company and Petraco have agreed on the restructuring of that liability (Note 27). For the purposes of these financials the balance outstanding to Petraco as of 31 December 2009 was reclassified into short-term borrowings as the balance must now be paid in cash only.

Galaform domestic crude oil prepayment agreement. In February 2009 the Group transferred its interest in Chepetskoye to Galaform in return for the discharge of the remaining amount of the prepayment (Note 9).

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

17 Taxes

Income taxes for the years ended 31 December 2009 and 2008 comprised the following:

	Year ended 31 December:	
	2009	2008
Current tax expense	(564)	901
Accrual (release) of income tax provision	-	1,862
Deferred tax benefit	(28,471)	(40,140)
Income tax benefit	(29,035)	(37,377)

Below is a reconciliation of profit before taxation to income tax charge (benefit):

	Year ended 31 December:	
	2009	2008
Loss before income tax	(333,050)	(440,626)
Theoretical tax (benefit) charge at the statutory rate of 20% (2008: 24%)	(66,610)	(105,750)
Effect of recalculation at 31 December 2008 DTA/DTL at 20%	-	(7,712)
Income tax refund	(564)	-
Reversal of previously recognized DTA on loss carry forward	-	1,974
Unrecognised tax loss carry forward for the year	26,646	40,104
Accrual of income tax provision	-	1,862
Effect of tax penalties	-	46
Expenses taxable at other tax rate	9,033	29,903
Other non-deductible expenses	2,460	2,196
Income tax benefit	(29,035)	(37,377)

The movements in deferred tax assets and liabilities during the years ended 31 December 2009 were as follows:

	2008	Recognized in equity for translation differences	Credited (charged) to the consolidated statement of comprehensive income	Effect of disposals	2007
<i>Deferred income tax liabilities</i>					
Inventories	-	(4)	-	74	(70)
Property, plant and equipment	(91)	20	(111)	-	-
<i>Deferred income tax assets</i>					
Property, plant and equipment	-	12	156	(263)	95
Receivables	-	(2)	(85)	-	87
Payables	38	(9)	47	-	-
Dismantlement provision	-	25	-	(565)	540
Other deductible temporary differences	53	30	23	-	-
Tax losses	-	(25)	(1,974)	-	1,999
Net deferred income tax assets	-	47	(1,944)	(754)	2,651
Net deferred tax assets of the Group, excluding those classified as assets held for sale	-	14	(1,939)	-	1,925
Net deferred tax assets classified as assets held for sale at 31 December 2008	-	-	-	-	-
Net deferred tax assets classified as assets held for sale at 31 December 2007	-	33	(5)	(754)	726

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

17 Taxes (continued)

	2008	Recognized in equity for translation differences	Credited (charged) to the consolidated statement of comprehensive income	Effect of disposals	2007
<i>Deferred income tax liabilities</i>					
Property, plant and equipment	(48,262)	15,3	31,199	20,400	(115,165)
Inventories	(1,474)	435	(169)	20	(1,760)
Payables	-	-	54	4	(58)
Other taxable temporary differences	(34)	(146)	450	-	(338)
<i>Deferred income tax assets</i>					
Receivables	209	(70)	172	(192)	299
Dismantlement provision	288	(68)	4	(89)	441
Payables	315	(73)	18	-	370
Inventories	645	(36)	726	(45)	-
Other deductible temporary differences	5	2	3	-	-
Tax losses	10,534	(2,343)	9,627	-	3,250
Net deferred income tax liabilities	(37,774)	13,005	42,084	20,098	(112,961)
Net deferred tax liabilities of the Group, excluding the portion classified as liabilities directly associated with non- current assets classified as held for sale	(34,344)	8,277	17,825	-	(60,446)
Net deferred tax liabilities classified as liabilities directly associated with non- current assets classified as held for sale at 31 December 2008	(3,430)	5,387	24,572	-	(33,389)
Net deferred tax liabilities classified as liabilities directly associated with non- current assets classified as held for sale at 31 December 2007	-	(659)	(313)	20,098	(19,126)

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

17 Taxes (continued)

	2009	Recognized in equity for translation differences	Credited (charged) to the consolidated statement of comprehensive income	Effect of disposals	2008
Deferred tax liabilities					
Property, plant and equipment	(4,631)	2,825	22,436	18,461	(48,353)
Inventories	54	77	1,335	(529)	(829)
Deferred tax assets					
Receivables	43	(12)	(27)	(127)	209
Dismantlement provision	245	(17)	27	(53)	288
Payables	276	(13)	(51)	(14)	354
Tax losses	-	(545)	5,375	(15,365)	10,535
Other	92	(8)	(624)	702	22
Net deferred tax liabilities	(3,921)	2,307	28,471	3,075	(37,774)
Net deferred tax liabilities classified as liabilities directly associated with non-current assets classified as held for sale at 31 December 2008	-	-	-	3,430 *	(3,430)
Net deferred tax liabilities of the Group, excluding the portion classified as liabilities directly associated with non-current assets classified as held for sale	(3,921)	2,307	28,471	(355)	(34,344)

**The amount includes reversal of deferred tax liability in relation to change of treatment for the assets held for sale.*

The Group is subject to corporation tax on taxable profits at the rate of 10%. Most of the individual operating entities are taxed in the Russian Federation at the rate of 20%. Under certain conditions interest may be subject to defence contribution at the rate of 10%. In such cases 50% of the same interest will be exempt from corporation tax thus having an effective tax rate burden of approximately 15%. In certain cases dividends received from abroad may be subject to defence contribution at the rate of 15%.

There is no concept of consolidated tax returns in the Russian Federation and, consequently, tax losses and current tax assets of different subsidiaries cannot be set off against tax liabilities and taxable profits of other subsidiaries. Accordingly, taxes may accrue even where there is a net consolidated tax loss. Similarly, deferred tax assets of one subsidiary cannot be offset against deferred tax liabilities of another subsidiary. At 31 December 2009 and 2008, deferred tax assets of \$71.6 million and \$45.6 million, respectively, have not been recognized for deductible temporary differences for which it is not probable that sufficient taxable profit will be available to allow the benefit of that deferred tax assets to be utilised. Accumulated tax losses were \$584.9 million and \$409.6 million at 31 December 2009 and 2008, respectively; of which \$453.7 million in 2009 and \$363.4 million in 2008 can be carried forward indefinitely. The remaining \$131.1 million of the accumulated tax losses at 31 December 2009 expire in 2014-2019 years and of the remaining \$46.2 million at 31 December 2008 expire in 2014-2018.

An income tax rate of 20% has been enacted in the Russian Federation in November 2008 which becomes effective starting from 1 January 2009. As this tax rate was enacted by 31 December 2008, the effect of the change on closing deferred tax liabilities (assets) amounted to \$7.7 million has been recognised in previous reporting period.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

Other taxes payable at 31 December 2009 and 2008 were as follows:

	Year ended 31 December:	
	2009	2008
Unified production tax	2,227	940
Other taxes payable	133	728
Other tax provisions	-	252
Total other taxes payable	2,360	1,920
Net other taxes payable of the Group, excluding that classified as held for sale	2,360	402
Net other taxes payable classified as held for sale	-	1,518

Other tax provisions

	Year ended 31 December:	
	2009	2008
Tax provision at 1 January	252	529
Release of tax provision:		
Excise tax	(199)	-
VAT	-	(167)
Other	-	(22)
Effect of currency translation	(53)	(88)
Tax provisions at 31 December	-	252
Net tax provisions of the Group, excluding that classified as held for sale	-	38
Net tax provisions classified as held for sale	-	214

In 2009 and 2008 the Group released \$0.2 and \$0.2 million tax risks due to expiration of limitation period.

18 Borrowings

Short-term borrowings. Short-term borrowings were as follows at 31 December 2009 and 2008:

	Year ended 31 December:	
	2009	2008
Sberbank acquisition loan	-	499,635
Sberbank field development loan	-	130,000
Sberbank loan interest	-	2,337
Petraco		
- principal	30,722	-
- interest	3,195	1,429
Other	61	114
Total short-term borrowings	33,978	633,515

Sberbank. As of 31 December 2008 both loans were overdue. In 2009 the Company sold its 100% interest in Dulisma (August 2009) and 35.3% interest in Taas (November 2009) for the full discharge of the Company's debt to Sberbank Capital plus assumption of all trade accounts payable accrued by Dulisma and Taas at the date of the transaction.

Petraco. The outstanding amount of USD 33.9 million (including USD 3.2 million of interest) due to Petraco was recorded as short-term debt as of 31 December 2009.

Weighted average interest rate. The Group's weighted average interest rates on short-term borrowings were 17.2% and 14.0% at 31 December 2009 and 2008, respectively.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

Interest expense and income. Interest expense and income for the years ended 31 December 2009 and 2008, respectively, comprised the following:

	Year ended 31 December:	
	2009	2008
Short-term borrowings		
Sberbank		
- interest at coupon rate	-	77,959
- accretion of issuance costs	-	16,005
- interest at penalty rate	86,244	-
Evrofinance	-	408
Total interest expense associated with short-term borrowings	86,244	94,372
Finfund pledge fee	3,083	3,636
Interest on advance from Petraco Oil Company Limited	2,211	5,661
Finance leases	189	271
Change in dismantlement provision due to passage of time (Note 19)	134	138
Interest on advance from Galaform	107	175
Less capitalised borrowing costs (*)	-	(5,863)
Other interest	-	61
Total interest expense	91,968	98,451
Interest income		
Interest on loan issued to TYNGD	(3,372)	-
Related party loans issued (Note 26)	(686)	(3,704)
Sberbank promissory notes	-	(1,737)
Bank deposit	-	(70)
Other	(117)	(143)
Total interest income	(4,175)	(5,654)
Total finance costs	87,793	92,797

The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation were 16.5% and 14.0% in 2009 and 2008, respectively.

(*) Total capitalized interest in Dulisma for the period January – July 2009 in the amount of \$7.6 million was shown net with loss from the disposal of Dulisma.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

19 Dismantlement Provision

The dismantlement provision represents the net present value of the estimated future obligation for dismantlement, abandonment and site restoration costs which are expected to be incurred at the end of the production lives of the oil and gas fields, which vary from 10 to 40 years depending on the field and type of assets. The discount rate used to calculate the net present value of the dismantling liability was 13.0%.

	Year ended 31 December:	
	2009	2008
Opening dismantlement provision	1,438	4,086
Translation difference	(49)	(311)
Additions	-	2
Disposals	(300)	(2,605)
Changes in estimates	-	128
Change due to passage of time	134	138
Closing dismantlement provision	1,223	1,438
Dismantlement provision, excluding that classified as held for sale	1,223	15
Dismantlement provision classified as held for sale	-	1,423

As further discussed in Note 24, environmental regulations and their enforcement are being developed by governmental authorities. Consequently, the ultimate dismantlement, abandonment and site restoration obligation may differ from the estimated amounts, and this difference could be significant.

20 Equity

Redenomination of shares. Following the adoption of the Euro on 1 January 2008 as the official currency of the Republic of Cyprus, replacing the Cyprus Pound, the Company was obliged to convert its authorised and issued share capital first to Euro and subsequently was permitted to change to any other approved currency. On 22 January 2008 following the Extraordinary General Meeting, the Company converted its shares first into Euro at a conversion rate of 1.71 Euro to 1 Cypriot Pound and subsequently into US dollars at a conversion rate of \$1.48 to 1 Euro. As a result of this at 22 January 2008 the authorised share capital was changed to \$1,890 thousand divided into 300 million shares of \$0.0063 each and the issued share capital was changed to \$1,103 thousand divided into 175.1 million shares of \$0.0063 each. The effect of this redenomination was to increase share capital by \$113 thousand.

At 31 December 2009 authorised share capital was \$1,890 thousand divided into 300 million shares of \$0.0063 each and issued share capital was \$1,132 thousand divided into 179.6 million shares of \$0.0063 each.

Shares issued for cash. In January 2008, Morgan Stanley, the Group's nominated adviser of a private placement in December 2007, executed an option for 5% of over-allotment of UEPCL shares in the amount of 1,643,000 shares. Proceeds from the over-allotment issuance totalled \$5.9 million net of transaction costs of \$0.3 million.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

	Number of shares (thousand of shares)	Share capital	Share premium	Difference from conversion of share capital to USD
Balance at 1 January 2008	175,121	990	625,111	-
Shares issued for cash	1,643	10	5,882	-
Shares issued under restricted stock plans	753	5	(5)	-
Early vested shares issued under restricted stock plans	460	3	(3)	-
Share issued under option agreement	167	1	124	-
Share-based payment under restricted stock	-	-	8,971	-
Difference from conversion of share capital to USD	-	113	-	(113)
Balance at 31 December 2008	178,144	1,122	640,080	(113)
Shares issued for cash	-	-	-	-
Shares issued under restricted stock plans	1,141	7	(7)	-
Early vested shares issued under restricted stock plans	363	2	(2)	-
Share issued under option agreement	-	-	-	-
Share-based payment under restricted stock	-	-	2,810	-
Share-based payment related to immediate vesting	-	-	1,367	-
Balance at 31 December 2009	179,648	1,131	644,248	(113)

Restricted Stock Plan. In February 2006, the Group's Board of Directors approved a Restricted Stock Plan (the "Plan") authorizing the Compensation Committee of the Board of Directors to issue restricted stock of up to five percent of the outstanding shares of the Group. Restricted stock grants entitle the holder to shares of stock for no consideration upon vesting. There are no performance conditions beyond continued employment with the Group. The Plan which was authorized in 2006 expired in 2008. Additionally, of the restricted stock of 3,075,393 shares initially granted in 2007, 93,901 and 75,275 granted shares were cancelled as a result of retirement of certain employees of the Company during years 2008 and 2007.

In March 2008, the Group substantially granted an additional 2,281,677 shares of restricted stock of which 16,966 and 71,796 granted shares were cancelled as a result of retirement of certain employees of the Company during 2009 and 2008 correspondingly.

During the years ended 31 December 2009 and 2008, \$4.2 million and \$9.0 million, respectively, of expense related to share-based payments were recognized in the consolidated statements of comprehensive income.

At 31 December 2009 and 31 December 2008, restricted stock grants for 1,504,561 shares and 1,213,407 shares were fully issued.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

As of 31 December 2009, the number of unvested restricted stock grants and their respective vesting dates are presented in the table below.

Date of Grant	January 2009	January 2010	January 2011	Total
Unvested Restricted Stock Granted as of 31 December 2008	1,495,575	1,401,724	778,488	3,675,787
Restricted Stock Granted in 2009 Forfeited in 2009	-	-	(16,966)	(16,966)
Vesting in 2009 Immediately vested during the period	(1,141,479)	-	-	(1,141,479)
	-	(266,679)	(96,402)	(363,081)
Total Restricted Stock Granted as of 31 December 2009	354,096	1,135,045	665,120	2,154,261

During the reporting period, the Group issued 1,504,561 shares which included early vesting of grants of 363,081 shares to the retired employees during 2009 as part of severance payments and issue of 1,141,479 shares as a result of normal vesting of previously issued restricted stock grants.

Loss per share. Basic loss per share is calculated by dividing the loss attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

The weighted average number of ordinary shares issued was calculated as following:

	Year ended 31 December:	
	2009	2008
Balance at 1 January	178,143,987	175,120,478
Shares issued for cash	-	1,607,087
Shares issued under restricted stock plans	960,094	704,174
Early vested shares under restricted stock plans	305,385	405,797
Exercise of options	-	147,468
Weighted average number of ordinary shares in issue	179,409,466	177,985,004

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

20 Equity (continued)

	Year ended 31 December:	
	2009	2008
Loss attributable to equity holders of the Company	(303,931)	(401,789)
Weighted average number of ordinary shares in issue (thousands)	179,409	177,985
Basic loss per share (in US dollar per share)	(1.69)	(2.26)

The company has two categories of potential ordinary shares: warrants, share options and restricted stock plan. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding and the profit attributable equity holders of the Company to assume conversion of all dilutive potential ordinary shares. For the year ended 31 December 2009 and 31 December 2008, basic and diluted earnings per share and the corresponding weighted average shares outstanding used in each calculation are identical as all potentially dilutive instruments are antidilutive.

21 Revenues

	Year ended 31 December:	
	2009	2008
Crude oil		
Export sales	43,872	147,377
Domestic sales (Russian Federation)	8,498	59,387
Petroleum (refined) products – domestic sales	15,592	12,163
Other sales	1,027	3,364
Total gross revenues	68,989	222,291

Substantially all of the Group's export sales are made to third party traders with title passing at the Russian border. Accordingly, management does not monitor the ultimate consumers and geographic markets of its export sales.

Segment information

Effective 1 January 2009, the Group adopted IFRS 8, *Operating Segments* ("IFRS 8"), which replaces IAS 14, *Segment Reporting*. IFRS 8 introduces new requirements and guidelines regarding the disclosures of operating segments.

Operating segments are defined as components of the Group where separate financial information is available and reported regularly to the chief operating decision maker (hereinafter referred to as "CODM", represented by the Board of Director of the Company), which decides how to allocate resources and assesses operational and financial performance using the information provided.

The CODM receives monthly IFRS based financial information for its production entities. There were three production entities for all of 2008 and for the first seven months of 2009, and two for the last five months of 2009 (following the disposal of Dulisma). Management has determined that the operations of these production entities are sufficiently homogenous for these to be aggregated for the purpose of IFRS 8. The Group has other entities that engage as either head office / corporate or as holding companies. Consequently, management has concluded that due to the above aggregation criteria that separate financial information for segments is not required.

Geographical information. The Group operates in three major geographical areas of the world. In the Russian Federation, its home country, the Group is mainly engaged in the exploration, development, extraction and sales of crude oil, and refining and sale of oil products. Activities outside the Russian Federation are restricted to sales activities where title passes upon tanker loading. Sales are made to Europe (sales of crude oil), and in Asia (sales of crude oil in Korea and China). Information on the geographical location of the Group's revenues is set out below.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

For the year ended 31 December 2009:

	Russian Federation	Europe	Asia (Korea, China)	Total
Crude oil	8,498	27,385	16,487	52,370
Petroleum (refined) products	15,592			15,592
Other sales	1,027			1,027
Total gross revenues				68,989

For the year ended 31 December 2008:

	Russian Federation	Europe	Asia (Korea)	Total
Crude oil	59,387	92,437	54,940	206,764
Petroleum (refined) products	12,163			12,163
Other sales	3,364			3,364
Total gross revenues				222,291

Revenue from external customers is based on the geographical location of customers although all revenues are generated by assets in the Russian Federation. Substantially all of the Group's assets are located in the Russian Federation.

Major customers. For the year 2009, the Group has one major customer to whom individual revenues represent 64 percent of total external revenues (2008: one major customer that represented 66 percent).

22 Cost of Sales

	Year ended 31 December:	
	2009	2008
Wages and salaries (including payroll taxes of \$1.9 million and \$3.5 million for the years ended 31 December 2009 and 2008, respectively)	12,926	22,175
Unified production tax	8,372	37,952
Depreciation	4,937	16,514
Cost of purchased products	1,636	70,799
Materials	3,436	7,184
Other taxes	1,869	2,721
Rent, utilities and repair services	457	1,534
Oil treating, storage and other services	381	6,571
Energy services	26	774
(Release) accrual provision on inventory (Note 12)	(2,462)	4,307
Write-off non-producing wells	-	2,552
Release of other taxes risk provision	(199)	(189)
Other	1,361	4,203
Change in finished goods	9,472	(10,376)
Total cost of sales	42,212	166,721

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

23 Selling, General and Administrative Expenses

	Year ended 31 December:	
	2009	2008
Wages and salaries	7,215	13,431
Share based payments	4,177	8,971
Transport and storage services	3,869	2,244
Office rent and other expenses	1,531	2,411
Professional consultancy fees	1,463	3,350
Audit fees	916	1,479
Loading services	757	3,331
Trip expenses and communication services	558	1,630
Bad debt (recovery)/write-off	(1,254)	2,161
Other expenses	2,110	5,323
Total selling, general and administrative expenses	21,342	44,331

Directors' fees for the years ended 31 December 2009 and 2008 were \$0.03 million and \$0.172 million, respectively, and do not include amounts related to share-based payments provided to the Group's directors (Note 26).

24 Contingencies, Commitments and Operating Risks

Operating environment. The Russian Federation continues to display some characteristics of an emerging market economy. These characteristics include, but are not limited to, the existence of a currency that is not yet fully convertible in many countries outside of the Russian Federation, and relatively high inflation. Tax and customs legislation within the Russian Federation is subject to varying interpretations, and changes can occur frequently.

The Russian economy was impacted significantly by the recent economic crisis and resultant global recession. Impacts included a dramatic fall in consumer and industrial output demand resulting in significant decreases in energy commodity prices in late 2008 and early 2009. In addition, the crisis resulted in a lack of available financing and liquidity in the capital markets and, where financing was available, a significant increase in borrowing costs and interest rates. In the second half of 2009 energy commodity prices appeared to stabilise and have increased through 2010. In addition, access to capital markets and the cost of debt has eased.

Whilst there have been improvements in the Russian economic situation generally, Russia continues to develop economic reforms and improve its legal, tax and regulatory frameworks to bring it more in line with a stable market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Oilfield licenses. The Group is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its oil field licenses. Management of the Group correspond with governmental authorities to agree on remedial actions, if necessary, to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties or license limitations, suspension or revocations. Management believes any issues of non-compliance will be resolved through negotiations or corrective actions without any materially adverse effect on the financial position or the operating results of the Group.

Management believes that proved reserves should include quantities that are expected to be produced after the expiry dates of the Group's production licenses. These licenses expire between 2012 and 2067.

The principal licenses of the Group and their expiry dates are:

Field	License holder	License expiry date
Okruzhnoye	Petrosakh	2012
Peschanozerskoye	Arcticneft	2067

Management believes the licenses may be extended at the initiative of the Group and management intends to extend such licenses for properties expected to produce subsequent to their license expiry dates.

As of 31 December 2009 the Group was not in compliance with all of the conditions as set forth in its license agreements. As a result, the Group is exposed to potential penalties, but not revocation of the license. Management does not believe that any of its significant exploration or production licenses are at risk of being withdrawn by the licensing authorities because subsequent to year end, management has taken steps to amend license agreements with the relevant authorities. Management plans to complete all the required exploration and development work, in accordance with the timetables established in the amended licenses. At 31 December 2009 management is unable to reliably estimate the amount of any penalty that may be levied by the authorities in respect of license non-compliance if such penalty were to be levied.

Taxation. Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include: transactions with interdependent parties, as determined under the Russian Tax Code; all cross-border transactions (irrespective whether performed between related or unrelated parties); transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time; and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumptions that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and or the overall operations of the Group.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Management regularly reviews the Group's taxation compliance with applicable legislation, laws and decrees as well as interpretations published by the authorities in the jurisdictions in which the Group has operations. However, from time to time potential exposures and contingencies are identified and at any point in time a number of open matters exist, management believes that its tax positions are sustainable. Management estimates that possible tax exposures that are more than remote but for which no liability is required to be recognised under IFRS, could be up to \$12.6 million of the Group's profit before tax for the current year. These exposures primarily relate to income tax, VAT and other taxes. This estimation is provided for the IFRS requirement for disclosure of possible taxes and should not be considered as an estimate of the Group's future tax liability.

Insurance policies. The Group insured all of its major assets, including oil in stock, plant and equipment, transport and machinery with a total limit of \$2.0 million. Also, a liability insurance policy covering property, plant and equipment, hazardous objects, including environmental liability, was put in place with a total limit of \$0.5 million and directors and officers liability with total limit of \$79.4 million. Staff and personal insurance includes casualty, medical and travel insurance for losses of \$0.3 million. The associated expenses are included within selling, general and administrative expenses in the consolidated statement of comprehensive income.

Restoration, rehabilitation and environmental costs. The Group companies have operated in the upstream and refining oil industry in the Russian Federation for many years, and their activities have had an impact on the environment. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations related thereto. The outcome of environmental liabilities under proposed or future legislation, or as a result of stricter enforcement of existing legislation, cannot reasonably be estimated at present, but could be material. Under the current levels of enforcement of existing legislation, management believes there are no significant liabilities in addition to amounts which are already accrued and which would have a material adverse effect on the financial position of the Group.

Legal proceedings. The Group is involved in a number of court proceedings (both as a plaintiff and 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 effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Impact of the ongoing global financial and economic crisis. The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporate entities, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

The availability of external funding in financial markets has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

Other capital commitments. At 31 December 2009, the Group had no significant contractual commitments for capital expenditures.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

25 Financial Risk Management

The accounting policies for financial instruments have been applied to the line items below:

	At 31 December:	
	2009	2008
<i>Financial assets</i>		
<i>Loans and receivables: current assets</i>		
Loans receivable: current	6,296	4,882
Cash and cash equivalents	2,361	912
Trade receivables	164	2,116
Total loans and receivables: current assets	8,821	7,910
<i>Loans and receivables: non-current assets</i>		
Loans receivable: non-current	34,438	31,066
Total loans and receivables	43,259	38,976
<i>Financial liabilities</i>		
<i>Measured at fair value – current liabilities</i>		
Financial instruments	-	161,300
Warrants classified as liabilities	56	177
Total current liabilities measured at fair value	56	161,477
<i>Measured at amortized cost: current liabilities</i>		
Trade and other payables	19,050	25,332
Short-term borrowings and current portion of long-term borrowings	33,978	633,515
Total current liabilities measured at amortized cost	53,028	658,847

Financial risk management objectives and policies. In the ordinary course of business, the Group is exposed to market risks from fluctuating prices on commodities purchased and sold, credit risk, liquidity risk, currency exchange rates and interest rates. Depending on the degree of price volatility, such fluctuations in market price may create volatility in the Group's financial results. As an entity focused upon the exploration and development of oil and gas properties, the Group's overriding strategy is to maintain a strong financial position by securing access to capital to meet its capital investment needs.

The Group's principal risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to these limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements

(presented in US\$ thousands)

Market risk. Market risk is the risk that changes in market prices and rates, such as foreign exchange rates, interest rates, commodity prices and equity prices, will affect the Group's financial results or the value of its holdings of financial instruments. The primary objective of mitigating these market risks is to manage and control market risk exposures. The Group is exposed to market price movements relating to changes in commodity prices such as crude oil, gas condensate, petroleum products and natural gas (commodity price risk), foreign currency exchange rates, interest rates, equity prices and other indices that could adversely affect the value of the Group's financial assets, liabilities or expected future cash flows.

(a) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various exposures in the normal course of business, primarily with respect to the US dollar. Foreign exchange risk arises primarily from commercial transactions, and recognized assets and liabilities when such transactions, assets and liabilities are denominated in a currency other than the functional currency.

The Group's overall strategy is to have no significant net exposure in currencies other than the Russian rouble or the US dollar.

The carrying amounts of the Group's financial instruments are denominated in the following currencies (all amounts expressed in thousands of US dollars at the appropriate 31 December 2009 and 2008 exchange rates):

At 31 December 2009	Russian rouble	US dollar	Other	Total
<i>Financial assets</i>				
<i>Non-current</i>				
Loans receivable	-	34,438	-	34,438
<i>Current</i>				
Loans receivable	-	6,296	-	6,296
Cash and cash equivalents	2,350	3	8	2,361
Accounts receivable	164	-	-	164
<i>Financial liabilities</i>				
<i>Current</i>				
Accounts payable and accrued expenses	(10,034)	(9,016)	-	(19,050)
Derivative financial instruments	-	-	-	-
Short-term borrowings and current portion of long-term borrowings	-	(33,978)	-	(33,978)
Warrants classified as liabilities			(56)	(56)
Net exposure at 31 December 2009	(7,520)	(2,257)	(48)	(9,825)

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

25 Financial Risk Management (continued)

At 31 December 2008	Russian rouble	US Dollar	Other	Total
<i>Financial assets</i>				
<i>Non-current</i>				
Loans receivable	-	31,066	-	31,066
<i>Current</i>				
Cash and cash equivalents	396	491	25	912
Accounts receivable	2,043	4,955	-	6,998
<i>Financial liabilities</i>				
<i>Current</i>				
Accounts payable and accrued expenses	(19,950)	(5,382)	-	(25,332)
Derivative financial instruments	-	(161,300)	-	(161,300)
Short-term borrowings and current portion of long-term borrowings	(53)	(633,462)	-	(633,515)
Warrants classified as liabilities	-	-	(177)	(177)
Net exposure at 31 December 2008	(17,564)	(763,632)	(152)	(781,348)

In accordance with IFRS requirements, the Group has provided information about market risk and potential exposure to hypothetical loss from its use of financial instruments through sensitivity analysis disclosures. The sensitivity analysis depicted in the table below reflects the hypothetical income (loss) that would occur assuming a 15% change in exchange rates and no changes in the portfolio of instruments and other variables held at 31 December 2009 and 2008, respectively.

Effect on pre-tax profit	Increase in exchange rate	Year ended 31 December:	
		2009	2008
\$/RUS	15%	(339)	(114,545)
\$/Other	15%	(7)	(23)

The effect of a corresponding 15% decrease in exchange rate is approximately equal and opposite.

(b) Commodity price risk

The Group's overall commercial trading strategy in crude oil and related products is centrally managed. Changes in commodity prices could negatively or positively affect the Group's results of operations.

The Group sells all its crude oil and petroleum products under spot contracts. Crude oil sold internationally is based on benchmark reference crude oil prices of Brent dated, plus or minus a discount for quality and on a transaction-by-transaction basis for volumes sold domestically. As a result, the Group's revenues from the sales of liquid hydrocarbons are subject to commodity price volatility based on fluctuations or changes in the crude oil benchmark reference prices. Presently, the Group does not use commodity derivative instruments for trading purposes to mitigate price volatility.

(c) Cash flow and fair value interest rate risk

The Group is not significantly exposed to cash flow interest rate risk on its financial liabilities as most of its financial liabilities bear fixed rates of interest. However, changes in market interest rates impact the fair values of fixed rate financial liabilities or future cash flows in the case of variable financial liabilities. Management does not have a formal policy on the proportion of the Group's exposure interest rate risk on its financial liabilities.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

At 31 December 2009 and 2008, the Group's interest rate profiles for interest-bearing financial liabilities were:

	Year ended 31 December:	
	2009	2008
At fixed rate	-	629,749
At floating rate	30,783	-
Total interest bearing financial liabilities	30,783	629,749

To the degree possible, the Group centralizes the cash requirements and surpluses of controlled subsidiaries and the majority of their external financing requirements, and applies, on its consolidated net debt position, a funding policy to optimize its financing costs and manage the impact of interest-rate changes on its financial results in line with market conditions.

Credit risk. Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations.

Credit risk is managed on a Group level and arises from cash and cash equivalents, including short-term deposits with banks, promissory notes, loans issued as well as credit exposures to customers, including outstanding trade receivables and committed transactions. Cash and cash equivalents are deposited only with banks that are considered by the Group at the time of deposit to minimal risk of default.

The Group's domestic trade and other receivables consist of a large number of customers, spread across diverse industries mainly on Sakhalin Island. All of the Group's export crude oil sales are made to one customer, Petraco, with whom the Group was trading for the past several years (see Note 16). A majority of domestic sales of petroleum products are made on a prepayment basis. Although the Group does not require collateral in respect of trade and other receivables, it has developed standard credit payment terms and constantly monitors the status of trade receivables and the creditworthiness of the customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset exposed to credit risk. As the majority of customers pay in advance (including Petraco currently) credit risk related to trade debtors is not considered to be significant.

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 has been to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group prepares various financial and operational plans (monthly, quarterly and annually) to ensure that the Group has sufficient cash on demand to meet expected operational and administrative expenses.

The following tables summarize the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments:

At 31 December 2009	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	After 5 years	Total
Debt at floating rate					
<i>Principal</i>	30,783	-	-	-	30,783
<i>Interest</i>	3,195	-	-	-	3,195
Warrants classified as liability	56	-	-	-	56
Financial instruments	-	-	-	-	-
Accounts payable and accrued expenses	19,050	-	-	-	19,050
Total financial liabilities	53,084	-	-	-	53,084

Subsequent to the reporting date the debt liabilities on borrowings have been restructured in April 2010 (Note 27).

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

At 31 December 2008	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	After 5 years	Total
Debt at fixed rate					
<i>Principal</i>	629,749	-	-	-	629,749
<i>Interest</i>	2,337	-	-	-	2,337
Debt at floating rate					
<i>Interest</i>	1,429	-	-	-	1,429
Warrants classified as liability	177	-	-	-	177
Financial instruments	161,300	-	-	-	161,300
Accounts payable and accrued expenses	25,332	-	-	-	25,332
Total financial liabilities	820,324	-	-	-	820,324

Capital management. The primary objectives of the Group's capital management policy is to ensure a strong capital base to fund and sustain its business operations through prudent investment decisions and to maintain investor, market and creditor confidence to support its business activities.

The capital as defined by management at 31 December 2009 and 2008 was as follows:

	2009	2008
Total borrowings	33,978	633,515
Less loan to Taas	(34,438)	(31,066)
Less loan to certain shareholders	(4,289)	(2,899)
Add payable to Finfund Ltd.	6,572	3,607
Less cash and cash equivalents	(2,361)	(912)
Net debt	(538)	602,245
Total equity	61,941	349,828

Management considers capital to represent net debt and total equity. Management does not use a specific target debt to equity or gearing ratio when managing the business

For the capital management, the Group manages and monitors its liquidity on a corporate-wide basis to ensure adequate funding to sufficiently meet group operational requirements. The Group controls all external debts at the Parent level, and all financing to Group entities for the operating and investing activity is facilitated through inter-company loan arrangements, except for the specific project financing, which are taken on the subsidiary level.

There were no changes to the Group's approach to capital management during the year.

26 Balances and transactions with Related Parties

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 Related Party Disclosures. Key management personnel are considered to be related parties. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Substantially all related party balances at 31 December 2009 relate to balances with a shareholder and former director of the Company.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

	As of or for the year ended 31 December	
	2009	2008
Interest income	686	3,704
Rental expenses (included in selling, general and administrative expense)	6	56
Loan issued to other related parties	5,781	5,250
Interest receivable from other related parties	515	875
Accounts and notes receivable	78	73
Impairment of receivables from related parties (Notes 11)	-	(1,243)
Receivables from related parties (Note 11)	6,374	4,955
Loan issued to Taas	-	28,099
Interest receivable from Taas	-	2,967
Advances from and payables to related parties (Note 15)	(13)	(13)
Loans payable (Note 15)	-	(61)

Compensation to senior management. The Group's senior management team compensation totaled \$8.5 million and \$15.0 million for the periods ended 31 December 2009 and 2008, respectively, including salary, bonuses and severance payments of \$1.2 million and \$0.9 million respectively. Stock compensation of \$4.2 million and \$9.0 million, respectively, included in the senior management team compensation. Additionally, included in loans receivable at 31 December 2009 and 2008 were loans receivable of \$5.8 million and \$4.1 million, respectively from the Group's senior management team.

Within loans receivable the largest part relates to a short-term loan provided to a shareholder and former senior manager of the company in the amount of \$4.3 million, including accrued interest. The loan bears 15% interest and matures on 30 September 2008. The loan is secured with real estate properties located in Moscow. The loan receivable was past-due and impaired at 31 December 2008 by \$1.2 million as a result of valuation of the pledge which decreased following lack of liquidity in the real estate market in Moscow. This impairment was reversed in these financial statements as a result of recovery of the real estate market in Moscow. Additionally, this shareholder pledged their own shares to secure the Company's obligation to Finfund to pay pledge fees (see Note 15).

Additionally, loans receivable include amounts due by OOO Komineftegeophysica in the amount of \$0.866 million, where major shareholders of the Group hold the majority of shares. The loans bear interest from 5% to 15% and are short term in nature. These loans are not secured, however, in the ordinary course of business and on market terms Komineftegeophysica provides geological and geophysical services to the Group companies.

Interest income is earned from the loan provided by the Group to Taas (Note 18) and the loans provided to senior management of the Group as described above.

Other loans and receivable balances are short-term in the nature, immaterial individually and expire during 2008.

27 Events after the reporting period

Petraco debt restructuring

An April 2010 the Company has reached agreement with Petraco relating to the restructuring of the Petraco Facility (the "Restructuring Agreement"). The principal terms of the Restructuring Agreement are as follows:

Total indebtedness owed by the Company to Petraco, as at 31 March 2010, was US\$34.3 million, made up as follows:

- capital amount outstanding (the "Capital Outstanding") of: US\$30.7 million
- accrued interest outstanding (the "Accrued Interest") of: US\$3.6 million

At 1 April 2010, the Capital Outstanding and Accrued Interest was be added together and carried forward as principal ("Principal"). After 1 April 2010 interest will be accrued on the Principal and will not be compounded. All accrued interest from 1 April 2010 will be paid once the Principal has been repaid and all payments made by

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

the Company according to the payment schedule set out below will be applied against the Principal outstanding. Interest will be charged on the Principal at a rate of 6 month LIBOR plus 5% per annum, non-compounding.

As part of the restructuring agreement Petraco converted US\$2.0 million of the Capital Outstanding into 8,693,006 Urals Energy ordinary shares and received an option to acquire additional new ordinary shares in the amount of 12,576,688 for \$5.0 million .

The repayment schedule of the balance for the Capital Outstanding and the Accrued Interest is:

Payment date	Amount to be paid by Urals Energy to Petraco
30 September 2010	US\$3.0 million
31 December 2010**	US\$3.0 million*
31 December 2011	US\$8.0 million
31 December 2012	US\$11.7 million
31 December 2013	Outstanding balance

Notes

*In the event that Urals Energy does not export any oil from Petrosakh (Urals Energy's operations on Sakhalin Island), the amount of this tranche is to be increased to US\$4.0 million.

**Urals Energy and Petraco as part of the Restructuring Agreement have also agreed a distribution schedule of the Taas-Yuriakh Neftegazodobycha loan (the "Taas loan") proceeds based on the amount of any early repayment received by the Company. In the event of early repayment of the Taas Loan in 2010, the maximum payment by the Company to Petraco is to be not more than US\$10.0 million. If the Taas Loan is repaid earlier than maturity, but later than 31 December 2010, Urals Energy and Petraco have agreed to a schedule of settlement.

Urals Energy will pledge 100% of the shares it currently holds in CJSC Arcticneft and 97.2% of shares it currently holds in CJSC Petrosakh to Petraco as security against the restructured Petraco Facility.

Directors' Dealings

On 2 June 2010 the Company was notified that Finfund Limited has exercised its rights to acquire 13,000,000 existing Urals shares with a nominal value of US\$0.0063 from entities beneficially owned by two directors (being Leonid Y. Dyachenko and Aleksey V. Ogarev) and another significant shareholder (being Vyacheslav V. Rovneiko) (together the "Shareholders") pursuant to a share pledge agreement dated 26 November 2007 (the "Share Pledge Agreement").

The Share Pledge Agreement was entered into by entities beneficially owned by the Shareholders and secured various obligations of the Company under the terms of a sale and purchase agreement dated 26 November 2007 (the "SPA") relating to the acquisition by Urals of Taas-YuriakhNeftegazodobycha (the "Acquisition"). Such obligations included certain pledge fees which Finfund Limited are now claiming are owed by the Company. Based on Finfund Limited's alleged defaults by the Company in respect of such pledge fees, Finfund Limited has chosen to exercise its rights under the Share Pledge Agreement to acquire 13,000,000 shares in the Company from entities beneficially owned by the Shareholders (the "Pledged Shares"). The Shares beneficially owned and transferred to Finfund Limited as a result of such exercise of its rights against each Shareholder are as follows:

Name	Number of Pledged Shares
Vyacheslav V. Rovneiko	8,010,000
Leonid Y. Dyachenko (Executive Chairman)	3,422,000
Aleksey V. Ogarev (Executive Director)	1,568,000
Total	13,000,000

In consequence of the exercise of Finfund Limited's rights as described above, any liability owed by Urals to Finfund Limited would be reduced by the value of the shares transferred. The Company understands however that this liability (equal to the transferred share value), whilst reducing any obligation of the Company to Finfund Limited, has been transferred by Finfund Limited to the Shareholders in proportion to the number of shares transferred by them under the Share Pledge Agreement. The Company intends to enter discussions with both Finfund Limited and the Shareholders shortly in relation to the settlement of these outstanding claims.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

The Company has also been notified by Finfund Limited that it has subsequently sold the 13,000,000 Pledged Shares to VR Trade Limited, a company incorporated in the British Virgin Islands. The Board believe that the Pledge Shares represent VR Trade Limited's entire interest in the Company's issued shares and, in the event that this is the case, VR Trade Limited have a notifiable interest in 13,000,000 Urals shares with a nominal value of US\$0.0063 in the Company, representing approximately 6.90 per cent of the Company's issued share capital.

Following the transfer of the Pledged Shares, the number of Urals shares held by the following directors is as follows:

Name of director	Number of shares beneficially held following the transfer of the Pledged Shares	Percentage of the Company's issued share capital
Leonid Y. Dyachenko (Executive Chairman)	3,676,760	1.95%
Aleksey V. Ogarev (Executive Director)	1,278,351	0.68%

In addition, Vyacheslav V. Rovneiko has notified the board of Urals that as a result of the transfer of the Pledged Shares he now has a beneficial notifiable interest in 11,374,963 Urals shares with a nominal value of US\$0.0063 in the Company representing approximately 6.03 per cent of the Company's issued share capital.