JSC INTER RAO UES

IFRS COMBINED AND CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR SIX MONTHS ENDED 30 JUNE 2009
(UNAUDITED)

PRICEWATERHOUSECOOPERS

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REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

To the Shareholders and Board of Directors of Open Joint Stock Company "INTER RAO UES" (OJSC "INTER RAO UES"):

Introduction
We have reviewed the accompanying combined and consolidated interim statement of financial position of OJSC "INTER RAO UES" and its subsidiaries (the "Group") as of 30 June 2009 and the related statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these combined and consolidated interim financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these combined and consolidated interim financial statements based on our review. The Group has prepared combined and consolidated interim financial statements for the first time as of and for the six months ended 30 June 2009 and hence we did not perform a review of combined and consolidated interim financial information as of and for the six months ended 30 June 2008.

Scope of Review
We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying combined and consolidated interim financial statements do not present fairly, in all material respects, the financial position of the Group as at 30 June 2009, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Accounting Standard 34, "Interim Financial Reporting".

ZAO PricewaterhouseCoopers Audit

9 November 2009

Moscow, Russian Federation

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IFRS COMBINED AND CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of EUR)

Combined and Consolidated Interim Statement of financial position

	Note	30 June 2009	31 December 2008	30 June 2008
ASSETS				
Non-current assets				
Property, plant and equipment	7	1,236,973	1,257,104	1,291,313
Intangible assets	8	39,366	39,130	38,666
Investments in associates and jointly controlled entities	9	81,331	104,817	77,210
Deferred tax assets	10	6,783	8,762	34,759
Other non-current assets	11	185,231	147,754	36,546
Total non-current assets		**1,549,684**	**1,557,567**	**1,478,494**
Current assets				
Inventories	12	65,356	46,121	42,256
Accounts receivable and prepayments	13	291,693	252,507	251,512
Income tax prepaid		12,130	11,851	2,403
Cash and cash equivalents	14	279,238	273,839	197,627
Other current assets	15	20,553	33,478	131,356
Total current assets		**668,970**	**617,796**	**625,154**
Total assets		**2,218,654**	**2,175,363**	**2,103,648**

(in thousands of EUR)

Combined and Consolidated Interim Statement of financial position (continued)

	Note	30 June 2009	31 December 2008	30 June 2008
EQUITY AND LIABILITIES				
Equity				
Share capital: ordinary shares	16	6,165,300	6,165,300	3,520,755
Treasury shares	16	(265,756)	(265,756)	(250,655)
Hedging reserve		1,119	-	-
Property, plant and equipment revaluation reserve		196,618	183,837	154,622
Foreign currency translation reserve		(282,334)	(189,247)	(63,854)
Retained earnings		(4,490,381)	(4,500,213)	(2,421,812)
Total equity attributable to shareholders of the Company		**1,324,566**	**1,393,921**	**939,056**
Non-controlling interest		5,661	17,810	67,211
Total equity		**1,330,227**	**1,411,731**	**1,006,267**
Non-current liabilities				
Loans and borrowings	18	420,011	241,196	107,941
Deferred tax liabilities	10	17,604	23,043	23,693
Other non-current liabilities	20	131,952	122,124	5,558
Total non-current liabilities		**569,567**	**386,363**	**137,192**
Current liabilities				
Loans and borrowings	18	140,036	203,752	242,959
Accounts payable and accrued liabilities	19	158,242	135,444	681,562
Other taxes payable	21	17,160	20,784	22,793
Income tax payable		3,422	17,289	12,875
Total current liabilities		**318,860**	**377,269**	**960,189**
Total liabilities		**888,427**	**763,632**	**1,097,381**
Total equity and liabilities		**2,218,654**	**2,175,363**	**2,103,648**

Chairman of the Management Board — Dod E.V.

Chief Accountant — Chesnokova A.O.

6 November 2009

The Combined and Consolidated Interim Statement of financial position is to be read in conjunction with the notes to and forming part of the combined and consolidated interim financial statements set out on pages 10 to 75.

(in thousands of EUR)

Combined and Consolidated Interim Statement of comprehensive income

	Note	Six months ended 30 June 2009	Six months ended 30 June 2008
Revenue	22	776,251	692,483
Operating expenses	23	(706,223)	(640,451)
Other operating income	22	5,721	18,201
Operating profit		**75,749**	**70,233**
Finance income	24	7,523	23,615
Finance expenses	24	(56,882)	(12,539)
Share of (loss) / profit of associates and jointly controlled entities	9	(993)	2,361
Profit before income tax		**25,397**	**83,670**
Total income tax expense	25	(7,529)	(34,001)
Profit for the period		**17,868**	**49,669**
Other comprehensive income			
Reversal of property, plant and equipment revaluation reserve		(519)	(409)
Cash flow hedges, net of tax		1,119	-
Loss on foreign currency translation differences		(93,985)	(39,185)
Other comprehensive loss, net of tax		**(93,385)**	**(39,594)**
Total comprehensive (loss) / income for the period		**(75,517)**	**10,075**
Profit attributable to:			
Shareholders of the Company		18,323	44,630
Non-controlling interest		(455)	5,039
		17,868	**49,669**
Total comprehensive (loss) / income attributable to:			
Shareholders of the Company		(74,164)	4,823
Non-controlling interest		(1,353)	5,252
		(75,517)	**10,075**
Earnings per ordinary share for profit attributable to the shareholders of the Company – basic and diluted	17	**EUR 0.000008**	**EUR 0.000105**

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(in thousands of EUR)

Combined and Consolidated Interim Statement of cash flows

	Note	Six months ended 30 June 2009	Six months ended 30 June 2008
OPERATING ACTIVITIES			
Profit before income tax		**25,397**	**83,670**
Adjustments to reconcile profit before tax to net cash provided by operations:			
Depreciation and amortisation	23	40,923	43,921
Provision for impairment of account receivables (release) / charge	23	(831)	1,806
Other provisions charge	23	1,185	55
Write off of bad debt which was not previously provided	23	144	44
Share of loss/(profit) of associates and jointly controlled entities	9	993	(2,361)
Loss on disposal of property plant and equipment	23	853	892
Foreign exchange loss/(gain), net		47,473	(7,432)
Interest income	24	(7,523)	(4,626)
Interest expense	24	27,198	12,539
Government Grants / Subsidies	22	-	(15)
Dividend income	24	-	(3,233)
Other non-cash operations		(12)	20
Operating cash flows before working capital changes and income tax paid		**135,800**	**125,280**
(Increase) / decrease in inventories		(19,250)	1,100
Increase in accounts receivable and prepayments		(10,867)	(10,870)
Decrease in value added tax recoverable		102	3,571
Decrease / (increase) in other current assets		12,925	(90,712)
Increase in other non-current assets		(7,202)	(23,716)
Increase in accounts payable and accrued liabilities		14,763	139,876
Increase in pension liabilities		33	139
Decrease in taxes other than on income prepaid and payable, net		(11,523)	(15,160)
Income tax paid		(15,527)	(10,528)
Currency translation effect		(19,894)	(2,877)
Net cash flows received from operating activities		**79,360**	**116,103**

The Combined and Consolidated Interim Statement of cash flows is to be read in conjunction with the notes to and forming part of the combined and consolidated interim financial statements set out on pages 10 to 75.

(in thousands of EUR)

Combined and Consolidated Interim Statement of cash flows (continued)

	Note	Six months ended 30 June 2009	Six months ended 30 June 2008
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		45	51
Interest received		6,905	5,823
Purchase of property, plant and equipment and intangible assets		(103,328)	(85,913)
Purchase of investments	9,11	(5,015)	-
Purchase of subsidiary	6	-	(29,557)
Purchase of non-controlling interest in subsidiary	6	(1,020)	-
Proceeds from loans issued		11	23,790
Loans issued		(20,830)	-
Dividends received	9,24	2,904	4,306
Net cash flows used for investing activities		**(120,328)**	**(81,500)**
FINANCING ACTIVITIES			
Proceeds from current borrowings		20,255	188,663
Proceeds from non-current borrowings		284,169	-
Repayment of borrowings		(210,111)	(187,662)
Repayment of lease		(2,011)	(5,409)
Issuance of shares by entities merged	16	-	58,318
Purchase of own shares by one of entities merged		-	(5,258)
Interest paid		(26,802)	(12,238)
Dividends paid	16	(4,967)	(252)
Net cash flows received from financing activities		**60,533**	**36,162**
Effect of exchange rate fluctuations on cash and cash equivalents		(14,166)	(3,946)
Net increase in cash and cash equivalents		**5,399**	**66,819**
Cash and cash equivalents at the beginning of the year		273,839	130,808
Cash and cash equivalents at the end of the period	14	**279,238**	**197,627**

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6 November 2009

(in thousands of EUR)

Combined and Consolidated Interim Statement of changes in equity

	Note	Attributable to shareholders of the Company							Non-controlling interest	Total equity
		Share capital	Treasury shares	Foreign currency translation reserve	Hedging reserve	Revaluation reserve	Retained earnings	Total		
Balance at 1 January 2008		**118,912**	**-**	**(24,456)**	**-**	**105,381**	**505,197**	**705,034**	**228,628**	**933,662**
Total comprehensive (expense)/income for six months ended 30 June 2008		**-**	**-**	**(39,398)**	**-**	**(599)**	**44,820**	**4,823**	**5,252**	**10,075**
Dividends to shareholders	16	-	-	-		-	(218)	**(218)**	(34)	**(252)**
Acquisition of subsidiary	6	-	-	-	-	-	-	**-**	2,005	**2,005**
Issue of shares by entities merged	16	-	-	-	-	-	60,777	**60,777**	-	**60,777**
Reorganization of the Company	1,16	3,401,843	(250,655)	-	-	49,840	(3,032,388)	**168,640**	(168,640)	**-**
		3,401,843	**(250,655)**	**-**	**-**	**49,840**	**(2,971,829)**	**229,199**	**(166,669)**	**62,530**
Balance at 30 June 2008		**3,520,755**	**(250,655)**	**(63,854)**	**-**	**154,622**	**(2,421,812)**	**939,056**	**67,211**	**1,006,267**
Balance at 1 January 2009		**6,165,300**	**(265,756)**	**(189,247)**	**-**	**183,837**	**(4,500,213)**	**1,393,921**	**17,810**	**1, 411,731**
Total comprehensive (expense)/income for six months ended 30 June 2009		**-**	**-**	**(93,087)**	**1,119**	**(675)**	**18,479**	**(74,164)**	**(1,353)**	**(75,517)**
Dividends to shareholders	16	-	-	-	-	-	-	**-**	(4,967)	**(4,967)**
Acquisition of non-controlling interest in subsidiary	6	-	-	-	-	13,456	(8,647)	**4,809**	(5,829)	**(1,020)**
		-	**-**	**-**	**-**	**13,456**	**(8,647)**	**4,809**	**(10,796)**	**(5,987)**
Balance at 30 June 2009		**6,165,300**	**(265,756)**	**(282,334)**	**1,119**	**196,618**	**(4,490,381)**	**1,324,566**	**5,661**	**1, 330,227**

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6 November 2009

The Combined and Consolidated Interim Statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated interim financial statements set out on pages 10 to 75.

1 The Group and its operations

Establishment of the Group. Open Joint Stock Company "INTER RAO UES" (the "Parent Company" or the "Company" or JSC "INTER RAO UES") was incorporated on 1 November 2002 by its then sole shareholder, Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia ("RAO UES"). From the date of incorporation until 9 April 2008 the Company's name was JSC "Sochinskaya TPS". On 9 April 2008, based on the shareholder's decision, the Company was renamed JSC "INTER RAO UES".

On 1 May 2008 three of RAO UES's subsidiaries, JSC "Ivanovo Thermal-gas Plant", JSC "North-West Thermal Power Plant" and JSC "RAO UES INTERNATIONAL" were merged into the Company and ceased to exist as separate legal entities. Prior to the merger, JSC "RAO UES INTERNATIONAL" held interests in a number of different subsidiaries and associates that as a result of the merger became direct subsidiaries and associates of the Company.

The above mentioned mergers were business combinations among entities under common control and have been accounted for using the predecessor accounting method (see Note 3).

On 1 July 2008 JSC "INTER RAO UES Holding" was spun off from RAO UES and merged into the Company. JSC "INTER RAO UES Holding" had, amongst other assets, controlling stakes in three other RAO UES subsidiaries, JSC "Kaliningradskaya TEC-2", JSC "Ispytatelniy Stend Ivanovskoy GRES" and JSC "Eastern energy company", that became subsidiaries of the Company as a result of the merger. On the same date one of the subsidiaries, JSC "Kaliningradskaya TEC-2", was merged into the Company. All these three subsidiaries were accounted for in these combined and consolidated financial statements using the predecessor accounting method.

Prior to 1 May 2008 RAO UES owned a 100% interest in the Company. From 1 May to 1 July RAO UES owned a 64.55% interest in the Company. In turn, 52.68% of RAO UES was owned by the Russian Federation.

On 1 July 2008, as part of the electric industry restructuring process, RAO UES ceased to exist as a separate legal entity.

As a result of the completion of the RAO UES restructuring process, including the mergers described above, the State Corporation Rosatom has obtained control over the Company and its subsidiaries (hereafter the Company together with its subsidiaries – the "Group"). As at 30 June 2009 the State Corporation Rosatom held a 57.34% interest in the Group. The State Corporation Rosatom is controlled by the Russian Federation.

After all the mergers described above, the Company operates four power plants located in different regions of Russia and has controlling interests in a number of subsidiaries. The Company's principal subsidiaries as at 30 June 2009 are presented in Note 32.

The Group performs the following types of business activity:

- Electricity production and distribution;
- Export of electricity purchased on the Russian domestic market;
- Sales of electricity purchased abroad, on the domestic market; and
- Sales of electricity, purchased abroad, to foreign customers without crossing the border of the Russian Federation.

At 30 June 2009, number of employees of the Group was 15,469 (30 June 2008: 15,712).

Until 25 July 2008 the Company's registered office was at Karl Libkhneht Str. - 10, 354000, Sochi, Krasnodarskiy region, Russia. With effect from 25 July 2008 the Company's registered office is entrance 7, Krasnopresnenskaya naberezhnaya – 12, 123610, Moscow, Russia.

Group's business environment. The governments of the countries where Group companies operate directly affect the Group's operations through regulation with respect to energy generation, purchases and sales. Governmental economic, social and other policies in these countries could have a material effect on the operations of the Group.

The Russian Federation, Georgia, Armenia, Moldova (Transnistria), Kazakhstan and Lithuania have been experiencing political and economic change that has affected, and may continue to affect, the activities of Group enterprises operating in this environment. Consequently, operations in these jurisdictions involve risks that typically do not exist in other markets. These risks include matters arising from the policies of the government, economic conditions, the imposition of or changes to taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment.

1 The Group and its operations (continued)

The accompanying consolidated financial statements reflect management's assessment of the impact of the business environment in the countries where Group companies operate, on the operations and the financial position of the Group. Management is unable to predict all developments which could have an impact on the utilities sector and the wider economy in these countries and consequently, what effect, if any, they could have on the financial position of the Group. Therefore, the future business environment may differ from management's assessment.

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 corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing global financial and economic crisis is proving to be difficult to anticipate or completely guard against.

The volume of wholesale financing 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.

Debtors of the Group may be adversely affected by the financial and economic environment which could in turn impact their ability to repay the amounts owed. Deteriorating economic conditions for customers may also have an impact on management's cash flow forecasts and our assessment of the impairment of non-financial assets. To the extent that information is available management have properly reflected revised estimates of expected future cash flows in their impairment assessments, however management is unable to reliably estimate the effects on the Group's 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.

2 Financial conditions

As at 30 June 2009, the Group's current assets exceeded its current liabilities by EUR 350,110 thousand (as at 31 December 2008: EUR 240,527 thousand; as at 30 June 2008 the Group's current liabilities exceeded its current assets by EUR 335,035 thousand). At the same time profit for the six months ended 30 June 2009 declined by EUR 31,801 thousand in comparison with the profit for the six months ended 30 June 2008.

The change in the current financial position is mainly explained by the RAO UES reorganisation and the resulting mergers of entities under common control into the Company (see Note 1). Certain liabilities of the entities merged to form the Group in 2008 were eliminated as a result of the Group's formation. The decline in profit is mainly caused by increase of interest expenses and foreign exchange losses associated with loans and borrowings.

In spite of negative effects of crises taking place in the world's financial markets and certain difficulties taking place in the financial market of the Russian Federation, where the Company is registered, actions taken by Group management to support sustainable business development resulted in the Group maintaining operating profitability and a stable financial position. Management believe that the Group has sufficient access to sources of both short and long term financing and, consequently, is not expecting any interruptions in the Group's operational activities. Based on their expectations of the future operations of the Group, management believes that it is appropriate to present the Financial Statements on a going concern basis.

3 Basis of preparation

Statement of compliance. These are the first interim combined and consolidated financial statements ("Financial Statements") that have been prepared in accordance with IAS 34, "Interim financial reporting". The combined and consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2008, which have been prepared in accordance with IFRSs.

Each entity of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the relevant statutory accounting requirements. The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

3 Basis of preparation (continued)

Predecessor Accounting. During first half 2008, RAO UES and minority shareholders transferred to the Company 60.0% (60.0% of ownership) and 40.0% of JSC "RAO UES INTERNATIONAL" ordinary shares, 93.6% (93.6% of ownership) and 6.4% of JSC "Ivanovo Thermal-gas Plant" ordinary shares, 82.8% (82.8% of ownership) and 17.2% of JSC "North-West Thermal Power Plant" ordinary shares, 91.5% (91.5% of ownership) and 8.5% of JSC "Kaliningradskaya TEC-2" ordinary shares, 82.8% (82.8% of ownership) of JSC "Ispytatelniy Stend Ivanovskoy GRES" ordinary shares and 100% (100% of ownership) of JSC "Eastern energy company" ordinary shares, respectively, in exchange for the ordinary shares of the Company as a result of the mergers. To effect the mergers, the Company issued shares to RAO UES and to the other owners from outside the RAO UES Group of companies merged, with the result that it acquired 100% ownership of each entity with the exception of JSC "Ispytatelniy Stend Ivanovskoy GRES" of which 82.8% was acquired.

In the Financial Statements the Company has accounted for the business combinations with JSC "RAO UES INTERNATIONAL" and its subsidiaries, JSC "Ivanovo Thermal-gas Plant", JSC "North-West Thermal Power Plant", JSC "Kaliningradskaya TEC-2", JSC "Ispytatelniy Stend Ivanovskoy GRES" and JSC "Eastern energy company" as business combinations amongst entities under common control under an accounting policy using the predecessor accounting method (or the pooling of interest method). Accordingly, information in respect of the comparative period has been prepared as if the business combinations took place at 1 January 2007. Therefore all the above entities together with their subsidiaries were combined until the date of legal merger.

Non-controlling interest represents the difference between the net assets and results of the above entities, including their subsidiaries and RAO UES's proportionate share of the respective net assets and results. Non-controlling interest forms a separate component of the Group's equity.

The carrying values of the net assets related to the acquired businesses from entities under common control and adjusted for non-controlling interest, is recorded in equity.

On the dates of the mergers any difference between the carrying amount of net assets adjusted for non-controlling interest and the nominal value of share capital issued to proceed with the mergers is accounted for in the Financial Statements as an adjustment to equity.

IFRS 1 adoption. The transition date to IFRS for the Company and entities merged with the exception of JSC "RAO UES INTERNATIONAL" was 1 January 2007.

Property, plant and equipment of the Company and entities merged, with the exception of JSC "RAO UES INTERNATIONAL" together with its subsidiaries, associates and joint ventures, were measured at their fair values as a deemed cost at the date of transition. Property, plant and equipment of JSC "RAO UES INTERNATIONAL" together with its subsidiaries, associates and joint ventures were measured as the date of transition to IFRS at the same carrying amounts as they were historically recorded in the consolidated IFRS financial statements of JSC "RAO UES INTERNATIONAL".

At the date of transition to IFRS the cumulative translation differences were deemed to be zero.

Basis of measurement. The consolidated financial statements are prepared on the historical cost basis except for property, plant and equipment, available-for-sale investments and derivatives which are measured at fair value.

Functional and presentation currency. The national currencies of the countries where the Group companies operate, are usually the individual company's functional currencies, because they generally reflect the economic substance of the underlying transactions and circumstances of those companies.

These consolidated financial statements are presented in the European Euro ("EUR") since management believes that this currency is a more useful measure for the potential users of the consolidated financial statements (shareholders and non-equity investors) due to consistency with previous presentation of the consolidated financial statements of JSC "RAO UES International". All financial information presented in EUR has been rounded to the nearest thousand.

The national currencies of the Russian Federation, Armenia, Georgia, Kazakhstan and Moldova (Transnistria) are not readily convertible currencies outside these countries and, accordingly, any conversion of national currencies to EUR should not be construed as a representation that their amounts have been, could be, or will be in the future, convertible into EUR at the exchange rate disclosed, or at any other exchange rate.

The Group applies judgment in the determination of the functional currencies of certain Group entities. The functional currency determination influences the foreign exchange gain/losses recognised in profit and loss and translation differences recognised in other comprehensive income.

3 Basis of preparation (continued)

Seasonality. Demand for electricity is to some extent influenced by the season of the year. Revenue is usually higher in the period from October to March than in other months of the year. This seasonality does not impact the revenue or cost recognition policies of the Group.

Going concern. The Financial Statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The accompanying

Financial Statements do not include any adjustments that might be necessary should the Group be unable to continue as a going concern.

Critical accounting estimates and judgments. The Group makes estimates and judgments that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments 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 judgments, apart from those involving estimations, in the process of applying the accounting policies. The judgments 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 within the next financial year include:

Impairment provision for accounts receivable

The impairment provision for accounts receivable is based on the Group's assessment of the collectability of specific customer accounts. If there is a deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates.

If the Group determines that no objective evidence exists that an impairment has occurred for an individually assessed accounts receivable, whether significant or not, it includes the account receivable in a group of accounts receivable with similar credit risk characteristics and collectively assesses them for impairment.

For the purposes of a collective evaluation of impairment, accounts receivable are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of accounts receivable that are collectively 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 (see Note 13).

Impairment of property, plant and equipment

At each balance sheet date the Group assesses whether there is any indication that the recoverable amount of the Group's assets has declined below the carrying value. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. When such a decline is identified, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the combined and consolidated statement of comprehensive income in the period in which the reduction is identified. If conditions change and management determines that the assets' value has increased, the impairment provision will be fully or partially reversed.

As at 30 June 2009 a number of significant estimations and assumptions were made relating to the determination of the recoverable amount of property, plant and equipment of JSC Moldavskaya GRES, including assumptions as to that company's ability to make new deliveries to foreign markets (see Note 7).

Actual results may differ from the estimates and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure.

Useful lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment 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 for future depreciation rates.

Any reconsiderations of the useful life of property, plant and equipment by one year would impact future six months depreciation charge by approximately EUR 4 million.

3 Basis of preparation (continued)

Impairment of goodwill

As at 30 June 2009 a number of significant estimations and assumptions were made in relation to the determination of the ability of UAB Energijos Realizacios Centras (Lithuania), abbreviated "ERC", **to generate future earnings sufficient to support the carrying value of the goodwill associated with the acquisition of that business, including assumptions as to that company's ability to make profitable deliveries on the local market (see Note 8).**

Loans and borrowings

As at 30 June 2009 the Group accounts for loans with a nominal value of EUR 66,350 thousand at an amortised cost of EUR 1,762 thousand (31 December 2008: a nominal value – EUR 66,092 thousand: an amortised cost – EUR 1,580 thousand; 30 June 2008: a nominal value – EUR 62,393 thousand: an amortised cost – EUR 1,013 thousand). The amortised cost of these loans (see Note 18 (i)) has been calculated taking into account future cash flows associated with the repayment of these loans. The Group assessed future cash flows based on currently available facts and conditions, such as assessments of capital investments, gas and electricity prices. Changes in any of these conditions or estimates may result in adjustments for future amortised cost.

Tax contingencies

The Group entities operate in a number of tax jurisdictions across Europe and the CIS. Where management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is provided for in the Financial Statements. Tax contingencies are disclosed in Note 29.

Deferred income tax asset recognition

The Group does not recognize certain deferred income tax assets in respect of Group entities located in Armenia as management believe that it is not probable that the future taxable profit will be available in the respective Group entities against which the Group can utilize the benefits. Unrecognised deferred income tax assets are disclosed in Note 10 (b).

4 Summary of significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are described below. The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2008 except for adoption of new IFRS pronouncements as further discussed in Note4.

Basis of consolidation

Principles of consolidation

Subsidiaries. Subsidiaries are entities controlled by the Company. Control is presumed to exist when the Company directly or indirectly has an interest of more then one half of the voting rights or otherwise has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interest. Non-controlling interest represents the minority shareholders' proportionate share of the equity and results of operations of the Group's subsidiaries. This has been calculated based upon the non-controlling interests' ownership percentage of these subsidiaries. The non-controlling interest has been disclosed as part of Equity.

The group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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

4 Summary of significant accounting policies (continued)

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which the ventures have a shared interest. The entity operates in the same way as other entities, except that a contractual arrangement between the ventures establishes joint control over the economic activity of the entity. Jointly controlled entities are accounted for using the equity method.

The Group discontinues the use of the equity method from the date on which it ceases to have joint control over, or have significant influence in, associates and jointly controlled entity.

Transactions eliminated on consolidation. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Unrealised gains on transactions between the Group and its equity accounted investees are eliminated to the extent of the Group's interest in the investees; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Business combinations

The acquisition of businesses under the control of RAO UES and its subsidiaries represented business combinations amongst entities under common control, and were accounted for using the predecessor accounting method. Under the predecessor accounting method the assets and liabilities of the contributed entities were accounted for at the carrying value as determined by RAO UES in its IFRS consolidated financial statements.

All other acquisitions are accounted for by applying the purchase method of accounting.

Under this method when the Group obtains control of an entity or a business it measures the cost of the business combination as the aggregate of:

(a) the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group, in exchange for control of the acquirer; and

(b) any costs directly attributable to the business combination.

The acquisition date for purchase accounting is the date when the Group effectively obtains control of the acquiree.

Foreign currency

Foreign currency transactions and translation. Transactions in foreign currencies are measured in the respective functional currencies of the Group entities at exchange rates effective at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are remeasured to the entities' functional currencies at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are remeasured to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on remeasurement are recognised in profit and loss. Available-for-sale equity instruments are considered non-monetary and the effect of exchange rate changes on their fair value is included in the fair value gain or loss recognised in other comprehensive income.

Assets and liabilities of the Company and its subsidiaries are translated into the Group's presentation currency at the exchange rate prevailing at the reporting date. Profit and loss items of the Company and its subsidiaries are translated at the average exchange rate for the period (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 rate on the dates of the transactions). Components of equity and other comprehensive income are translated at the historic rate with the exception of equity opening balances at the date of transition to IFRS which were translated at the exchange rate at the date of transition. Exchange differences arising on the translation of the net assets of the Company and its subsidiaries are recognised as translation differences in other comprehensive income and included in the foreign currency translation reserve (FCTR) in equity.

(in thousands of EUR , unless otherwise stated)

4 Summary of significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are recorded initially based on historic or deemed cost, but are subject to periodic revaluation. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Where an item of property, plant and equipment comprises major components having different useful lives, the components are accounted for as separate items of property, plant and equipment.

A revaluation increase on an item of property, plant and equipment is recognised in other comprehensive income and included in revaluation reserve in equity except to the extent that it reverses a previous revaluation decrease or impairment recognised in profit and loss, in which case it is recognised in profit and loss.

A revaluation decrease on an item of property, plant and equipment is recognised in profit and loss except to the extent that it reverses a previous revaluation increase recognised in other comprehensive income and included in revaluation reserve in equity, in which case it is recognised in other comprehensive income and included in revaluation reserve in equity. When the asset is derecognised the revaluation surplus is transferred from revaluation reserve to retained earnings.

Renewals and improvements are capitalised and the assets replaced are retired. The costs of repair and maintenance are expensed as incurred. Gains and losses arising from the retirement of property, plant and equipment are included in profit and loss as incurred.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in profit and loss as an expense as incurred.

Advances for capital construction and acquisition of property, plant and equipment are included into construction in progress.

Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. For the property, plant and equipment which were subject to the third party valuation, the depreciation rate applied is initially based on the estimated remaining useful lives as at the valuation date. The useful lives are reviewed at each financial year-end and, if expectations differ from previous estimates, the changes are recognised prospectively. The useful lives, in years, of assets by type of facility are as follows:

Type of facility	Useful life, years
Buildings	10 - 100
Hydro engineering structures	33 - 100
Transmission facilities and equipment	14 - 33
Thermal networks	20 - 25
Power equipment	3 - 33
Other equipment and fixtures	2 - 50
Other structures	5 - 50
Other fixed assets	1 - 20

Intangible assets

Goodwill. Goodwill arises on the acquisition of subsidiaries, associates and jointly controlled companies.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill in respect of subsidiaries is recognised as a separate asset within intangible assets in the statement of financial position. Goodwill in respect of associates and joint ventures is included in the carrying amount of the investees.

When the excess is negative ("negative goodwill"), the excess is recognised immediately in profit and loss.

Goodwill is measured at cost less accumulated impairment losses and is the subject for an annual impairment test.

4 Summary of significant accounting policies (continued)

Other intangible assets. Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally generated goodwill and brands is recognised in the consolidated statement of comprehensive income as an expense as incurred.

Amortisation. Amortisation is recognised in profit and loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives of intangible assets are in the range of 2-10 years.

Leased assets

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

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position. The total lease payments are charged to profit or loss on a straight-line basis over the lease term.

Available-for-sale investments

Investments intended to be held for an indefinite period of time are classified as available-for-sale; these are included in other non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date, they will need to be sold to raise operating capital or they mature within 12 months, in which case they are included in other current assets. Management determines the appropriate categorisation, current or non-current, at the time of the purchase and re-evaluates it based on maturity at each reporting date.

Available-for-sale investments include non-marketable securities, which are not publicly traded or listed. For these investments, fair value is estimated by reference to a variety of methods including those based on their earnings and those using the discounted value of estimated future cash flows. In assessing the fair value, management makes assumptions that are based on market conditions existing at each balance sheet date. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means, are stated at cost less impairment losses.

'Regular way' purchases and sales of investments are initially measured at fair value and recognised on the settlement date, which is the date that the investment is delivered to or by the Group. Cost of purchase includes transaction costs. The available-for-sale investments are subsequently carried at fair value. Gains and losses arising from changes in the fair value of these investments are recognised in other comprehensive income and included in the fair value reserve in shareholders' equity in the period in which they arise. Realised gains and losses from the disposal of available-for-sale investments are included in profit and loss in the period in which they arise.

Impairment losses are recognised in profit and loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit and loss – is removed from equity fair value reserve and recognised in profit and loss. Impairment losses on equity instruments are not reversed. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit and loss, the impairment loss is reversed through current period's profit and loss.

The Group does not hold any investments held-to-maturity or for trading purposes.

Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either:

4 Summary of significant accounting policies (continued)

(a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
(b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge);
(c) hedges of a net investment in a foreign operation (net investment hedge).

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions.

The group also documents its assessment, both at the time of the hedges' inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of various derivative instruments used for hedging purposes are disclosed in Note 16. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Foreign currency forward exchange contracts (foreign currency forwards)

Foreign currency forwards are initially recognised at fair value on the date a forward contract is entered into and are subsequently remeasured at their fair value. Fair value gains and losses on foreign currency forwards are presented as part of the foreign currency gains and losses in the statement of comprehensive income.

Electricity derivatives

Electricity derivatives are initially recognised at fair value on the date a contract is entered into and are subsequently remeasured at their fair value. Fair value gains and losses on those derivatives are presented as part of other operating income and expenses in profit and loss.

Inventories

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

Cash and cash equivalents

Cash comprises cash in hand and cash deposited on demand at banks. Cash equivalents comprise short-term, highly liquid investments that are readily convertible into cash and have a maturity of three months or less from the date of acquisition and are subject to insignificant changes in value.

Accounts receivable

Accounts receivable are recorded inclusive of value added taxes (VAT) and are initially recorded at the amount receivable from the debtor. Trade and other receivables are adjusted for an allowance made for impairment of these receivables. Such an allowance for doubtful debtors is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, discounted at the market rate of interest for similar borrowers at the date of origination of the receivables.

Prepayments

Prepayments made by the Group are carried at cost less provision for impairment. 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 and loss.

Prepayments received by the Group are classified as non-current liabilities when the goods or services relating to the prepayment are expected to be delivered after one year. Where such prepayments relate to construction contracts revenue is recognised when the outcome of the contract can be estimated reliably, by reference to the stage of completion of the contract activity.

4 Summary of significant accounting policies (continued)

Value added tax on purchases and sales

Value added tax related to sales is payable to tax authorities either upon revenue recognition or at the time of collection of receivables from customers, depending on local statutory regulations in respective jurisdictions in which Group entities operate. Input VAT is reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (deferred VAT) is recognised in the statement of financial position on a gross basis and disclosed separately as a current asset and liability. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor's balance, including VAT. The related deferred VAT liability is maintained until the debtor is written off for tax purposes.

Impairment

Financial assets carried at amortised cost. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit and loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit and loss.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Non-financial assets. The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from those of other assets and groups. Impairment losses are recognised in the consolidated statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

Employee benefits

Pension and post-employment benefits. In the normal course of business the Group contributes to various governmental pension schemes on behalf of its employees. Mandatory contributions to governmental pension schemes are expensed in profit and loss when incurred. Costs associated with discretionary pensions and other post-employment benefits are included in wages, benefits and payroll taxes in profit and loss, however, separate disclosures are not provided as these costs are not material.

Short-term benefits. Short-term employee benefits obligations are measured on an undiscounted basis and are expensed in profit and loss as the related service is provided.

A provision in profit and loss is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined benefit plans. The Company operates defined benefit plans that cover the majority of the Company's employees. Benefit plans define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the statement of financial position in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined obligations are determined by discounting the estimated future cash outflows using interest rate of government bonds that are denominated in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related pension liabilities.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater than 10 percent of the value of plan asset or 10 percent of defined benefit obligations are charged or credited to profit and loss over the employees' expected average remaining working lives.

Borrowings

Debt is recognised initially at its fair value net of transaction costs incurred. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective yield method; any difference between the amount at initial recognition and the redemption amount is recognised in profit and loss as an interest adjustment over the period of the debt obligation.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in profit and loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to profit and loss on a straight-line basis over the expected lives of the related assets.

Provisions

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

Environmental liabilities

Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates can be made.

Shareholder's equity

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared (approved by shareholders) before or on the balance sheet date. Dividends are disclosed when they are declared after the balance sheet date, but before the financial statements are authorised for issue.

4 Summary of significant accounting policies (continued)

Earnings per share

Earnings per share is determined by dividing the profit (loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the reporting period.

Revenue

Revenue from the sale of electricity, capacity and heat is recognised in profit and loss on the delivery of electricity, capacity and heat. Where applicable this revenue is based on the rates and related restrictions established by law and regulating authorities. The regulatory mechanisms differ from country to country.
Revenue from the rendering of services is recognised in line with the stage of completion of the services. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature. Revenue amounts are presented exclusive of value added tax.

Operating expenses

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

Finance income

Finance income comprises interest income on funds invested, dividend income and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised when the dividends are declared and inflow of economic benefits is probable.

Finance expenses

Interest expense on borrowings, unwinding of any discount on provisions and foreign currency losses. All borrowing costs are recognised in the consolidated statement of comprehensive income using the effective interest method.

Income tax expense

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that the parent is able to control the timing of their reversal and it is probable that they will not reverse in the foreseeable future.

A deferred tax asset for deductible temporary differences and tax losses carry forward is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

4 Summary of significant accounting policies (continued)

New accounting pronouncements and revised standards

Certain new Standards and Interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 and that have been considered in preparing these combined and consolidated financial statements:

(a) The following standards and interpretations became effective for the Group's financial statements from 1 January 2009:

- *IFRS 8, 'Operating Segments' (effective for annual periods beginning on or after 1 January 2009).* 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 interim financial statements have been prepared under the revised disclosure requirements.

- *IAS 23 (Amendment), 'Borrowing Costs' (revised March 2007; effective for annual periods beginning on or after 1 January 2009).* The main change to IAS 23 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. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets not measured at fair value for which the commencement date for capitalisation is on or after 1 January 2009. In accordance with IAS 23 an entity is not required to apply the standard to borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset measured at fair value. As the Group measures property, plant and equipment at fair value it elected to continue to expense all borrowing costs in the interim financial statements.

- *IAS 1 'Presentation of Financial Statements' (revised September 2007; effective for annual periods beginning on or after 1 January 2009).* The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduced a requirement to present a statement of financial position 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 Group has elected to present one statement: a statement of comprehensive income. The interim financial statements have been prepared under the revised disclosure requirements.

- *IFRS 2 (Amendment), 'Share-based payment vesting conditions and cancellations' (issued in January 2008; effective for annual periods beginning on or after 1 January 2009).* 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. This interpretation does not have any impact on the Group's financial statements, as it has no share-based payments scheme at the reporting date.

- *IFRS 7 (Amendment), 'Improving Disclosures about Financial Instruments' (issued in March 2009; effective for annual periods beginning on or after 1 January 2009).* The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is 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 must also 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 Group is currently considering the new requirements for the disclosure in annual 2009 financial statements of the Group.

4 Summary of significant accounting policies (continued)

- *IAS 28 (Amendment), 'Investment in associates' (and consequential amendments to IAS 32, 'Financial instruments: Presentation', and IFRS 7, 'Financial instruments: disclosures') (effective from 1 January 2009).* The amendment is part of the IASB's annual improvements project published in May 2008. An investment in an associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example goodwill. Reversals of impairment are reordered as an adjustment to the investment balance to the extent that the recoverable amount of associate increases. This amendment does not have any material impact on the Group's Financial Statements.

There are a number of minor amendments to IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18 'Revenue', IAS 19 "Employee benefit', which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments do not have a material impact on the group's accounts and have therefore not been analysed here in detail.

(b) The following standards, amendments and interpretations to existing standards that have been published are not yet effective and have not been early adopted by the Group:

- *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, that is from January 2010).* 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 acquiree 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. The Group is currently assessing the impact of the amended standard on its financial statements.

- *IAS 27, ' Consolidated and Separate Financial Statements' (revised January 2008; effective for annual periods beginning on or after 1 July 2009, that is from January 2010).* 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 is currently assessing the impact of the amended standard on its financial statements.

- *IAS 39 (Amendment), 'Eligible Hedged Items' (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 Group is currently assessing the impact of the amendment on its financial statements.

- *IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 July 2009).* The amendment clarifies that property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable.

4 Summary of significant accounting policies (continued)

(c) The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the current Group's operations:

- IFRS 1 (Amendment) 'First time adoption of IFRS' and IAS 27, 'Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate' (effective for annual periods beginning on or after 1 January 2009).
- IFRS 5 (Amendment), 'Non-current assets held-for sale and discontinued operations' (and consequential amendments to IFRS 1, 'First-time adoption') (effective from 1 July 2009).
- IAS 1 (Amendment) and IAS 32 (Amendment), 'Puttable financial instruments and obligations arising on liquidation' (effective for annual periods beginning on or after 1 January 2009).
- IAS 16, Property, Plant and Equipment (and consequential amendments to IAS 7) (effective from 1 January 2009).
- IAS 20 (Amendment), 'Accounting for governmental grants and disclosure of governmental assistance' (effective from 1 January 2009).
- IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 July 2009).
- IAS 31 (Amendment), 'Interests in joint ventures' (and consequential amendments to IAS 16) (effective from 1 July 2009).
- IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009).
- Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition.
- IAS 41(Amendment), 'Agriculture' (effective from 1 July 2009).
- IFRIC 9 and IAS 39(Amendment), 'Embedded Derivatives' (effective for annual periods ending on or after 30 June 2009).
- IFRIC 15, 'Agreements for the Construction of Real Estate' (effective for annual periods beginning on or after 1 January 2009).
- IFRIC 16, 'Hedges of a Net Investment in a Foreign Operation' (effective for annual periods beginning on or after 1 October 2008).
- IFRIC 17, 'Distribution of Non-Cash Assets to Owners' (effective for annual periods beginning on or after 1 July 2009).
- IFRIC 18, 'Transfers of Assets from Customers' (effective for annual periods beginning on or after 1 July 2009).
- IFRS 1 'First time adoption of IFRS' (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009).

5 Segment information

The Group has adopted IFRS 8: "Operating Segments" with effect from 1 January 2009. IFRS 8 establishes standards for reporting information about operating segments and related disclosures in respect of products and services, geographical areas and major customers. Under IFRS 8 operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker (further "CODM") in deciding how to allocate resources and in assessing performance. The Management Board of the Parent has been determined as the CODM.

At the end of 2008 the Group established a structure of internal management reporting based on operating segments, where the operating segment is a legal entity or a branch. The Management Board considers the Group activities from both geographical (by countries of Group entities' jurisdiction) and business perspective (generation, distribution, trading and other) meaning that each segment represents a certain type of business activities in a certain country.

The following reporting segments have been identified based on the requirements of IFRS 8: "Operating segments" (taking into consideration revenue, EBITDA and total assets):

- Generation in Russia (represented by power generation stations of the Parent company);
- Trading in Russia (represented by head-office, Omsk and Orel divisions of the Parent company);
- Trading in Finland (represented by RAO Nordic Oy);
- Distribution in Georgia (represented by JSC Telasi);
- Distribution in Armenia (represented by JSC Elektricheskiye seti Armenii);
- Other

"Other" includes a jointly controlled entity, JSC Stantsiya Ekibastuzskaya GRES-2, which is accounted for in the Financial Statements using the equity method. JSC Stantsiya Ekibastuzskaya GRES-2 is analysed by the CODM as a separate operating segment.

"Unallocated" includes elimination of inter-segment transactions and interest expenses and foreign exchange gains/losses related to loans and borrowing obtained by the Parent company.

The CODM evaluates performance of the segments based on EBITDA, which is calculated as profit/(loss) for the period before interest income and expense, income tax expense and depreciation and amortisation of property, plant and equipment and intangible assets. The Group's definition of EBITDA may differ from that of other companies. Information about depreciation and amortisation of property, plant and equipment and intangible assets, interest income and interest expense is disclosed in segment information since this is regularly reviewed by the CODM.

Segment assets are measured as total assets allocated to the segment and exclude inter-segment balances.

Revenue of each segment represents sales of electricity, capacity and heat allocated to the segment.

Segments' measures reviewed by the CODM are prepared based on statutory accounting principles in the respective countries and exclude inter-segment balances. In order to reconcile segments' measures to the Financial Statements, adjustments tables were prepared. The tables include both adjustments and reclassifications of statutory records to comply with IFRS.

The period commencing 1 January 2009 is the first period in which JSC "INTER RAO UES" applied IFRS8: "Operating Segments". This standard ordinarily requires that prior year comparative information for segments be restated to conform with the requirements of IFRS 8. As discussed in Note 1, the Group underwent a major restructuring process in the first half of 2008. The Chief Operating Decision Makers of the various entities involved had different mechanisms and formats for considering their business activities for the purposes of allocating resources to segments and assessing their performance. Accordingly, no segment information is presented as at 31 December 2008, 30 June 2008 and for the six month period ended 30 June 2008 as the information is not readily available and the cost to develop it would be excessive.

(in thousands of EUR , unless otherwise stated)

5 Segment information (continued)

	Generation Russia	Trading Russia	Trading Finland	Distribution Georgia	Distribution Armenia	Other	Unallocated	Total
Total revenue	**135,701**	**387,517**	**100,605**	**50,563**	**95,216**	**157,465**	**(107,398)**	**819,669**
Revenue from external customers	*135,701*	*292,753*	*100,605*	*50,563*	*95,018*	*145,029*	-	*819,669*
Inter-segment revenue	-	*94,764*	-	-	*198*	*12,436*	*(107,398)*	-
Purchased electricity and capacity	*(7,317)*	*(303,628)*	*(88,489)*	*(19,185)*	*(47,489)*	*(33,077)*	*107,363*	*(391,822)*
Fuel expenses	*(58,178)*	-	-	-	-	*(63,507)*	-	*(121,685)*
Share of (loss)/profit of associate and jointly controlled entities	-	(53)	-	-	-	190	-	137
EBITDA	**41,906**	**49,916**	**2,334**	**16,838**	**5,438**	**14,582**	**(42,475)**	**88,539**
Depreciation and amortisation of property, plant and equipment and intangible assets	(31,469)	(332)	(16)	(1,259)	(4,763)	(8,564)	-	(46,403)
Interest income	3	5,904	-	53	-	1,753	-	7,713
Interest expense	(26)	-	-	(747)	(2,521)	(979)	(22,384)	(26,657)

	Generation Russia	Trading Russia	Trading Finland	Distribution Georgia	Distribution Armenia	Other	Total
Total assets, including:	**1,225,519**	**526,742**	**46,438**	**87,793**	**172,251**	**537,995**	**2,596,738**
Property, plant and equipment	*1,024,372*	*46,150*	*114*	*57,500*	*126,806*	*315,881*	*1,570,823*
Goodwill	-	-	*32,591*	-	-	-	*32,591*
Investments in associate and jointly controlled entities	-	*662*	-	-	-	*1,984*	*2,646*
Total liabilities, including:	**299**	**724,782**	**5,041**	**41,010**	**66,227**	**128,680**	**966,039**
Loans and borrowings	*299*	*492,908*	*39*	*10,394*	*40,073*	*66,733*	*610,446*
Capital expenditure	**87,582**	**1,679**	-	**2,464**	**20,890**	**19,262**	**131,877**

The main differences between financial statements and segment reporting are due to the following:

- several Group entities does not use revaluation policy regarding property, plant and equipment in management accounting;
- different methods of accounting of JSC Stantsiya Ekibastuzskaya GRES-2;
- the majority of IFRS adjustments made in financial statements on the Parent company and JSC Moldavskaya GRES are not included in management accounting.

(in thousands of EUR , unless otherwise stated)

5 Segment information (continued)

A reconciliation of the reportable segments results to the Combined and Consolidated Interim Financial Statements are provided as follows:

Revenue for reportable segments	**819,669**
Netting of turnovers on bilateral agreements on electricity trading of the Parent company	(8,432)
Translation differences	(3,451)
JSC Stantsiya Ekibastuzskaya GRES-2 (see Note 9)	(32,188)
Revenues included in other operating income	653
Revenue per Combined and Consolidated Interim Statement of Comprehensive Income	**776,251**

Purchased electricity and capacity for reportable segments	**391,822**
Netting of turnovers on bilateral agreements on electricity trading of the Parent company	(8,432)
Translation differences	(1,523)
JSC Stantsiya Ekibastuzskaya GRES-2	(110)
Electricity derivatives	(2,775)
Other	339
Purchased electricity and capacity per Combined and Consolidated Interim Statement of Comprehensive Income	**379,321**

Fuel expenses for reportable segments	**121,685**
JSC Stantsiya Ekibastuzskaya GRES-2	(6,896)
Other	(10)
Fuel expenses per Combined and Consolidated Interim Statement of Comprehensive Income	**114,779**

Share of loss of associates and jointly controlled entities for reportable segments	**137**
JSC Stantsiya Ekibastuzskaya GRES-2 (see Note 9)	1,063
Other	(207)
Share of loss of associates and jointly controlled entities per Combined and Consolidated Interim Statement of Comprehensive Income	**993**

EBITDA for reportable segments	**88,539**
JSC Stantsiya Ekibastuzskaya GRES-2	(3,956)
Foreign exchange differences on loan received from KFW (See Note 18 (iii))	2,218
Other	(806)
EBITDA per Combined and Consolidated Interim Statement of Comprehensive Income	**85,995**
Depreciation of property, plan and equipment and amortisation of intangible assets	(40,923)
Interest income	7,523
Interest expense	(27,198)
Profit before income tax	**25,397**

Depreciation and amortisation for reportable segments	**46,403**
Adjustments due to revaluation accounting policy of property, plant and equipment of several Group entities	(1,859)
Depreciation included in other operating expenses	608
Translation differences	(195)
JSC Stantsiya Ekibastuzskaya GRES-2	(4,514)
Other	480
Depreciation and amortisation per Combined and Consolidated Interim Statement of Comprehensive Income	**40,923**

(in thousands of EUR , unless otherwise stated)

5 Segment information (continued)

Total assets for reportable segments	**2,596,738**
Adjustments due to revaluation accounting policy of property, plant and equipment of several Group entities	(164,791)
Impairment of promissory notes held by JSC Moldavskaya GRES	(34,712)
Netting of VAT in the Parent company	(16,923)
Impairment of investment in JSC Sangtudinskaya GES-1	(5,621)
Provision for impairment of account receivables of the Parent company	(5,157)
Discounting of accounts payable and receivable of the Parent company	(4,934)
Acquisition adjustment on UAB Alproka	(1,756)
Acquisition adjustment on ERC	1,406
Capitalised interest expense on borrowings of the Parent company and JSC Elektricheskiye seti Armenii	(1,158)
JSC Stantsiya Ekibastuzskaya GRES-2 (see Note 9)	(224,749)
Investment in JSC Stantsiya Ekibastuzskaya GRES-2 by equity accounting (see Note 9)	80,412
Other	(101)
Total assets per Combined and Consolidated Interim Statement of financial position	**2,218,654**
Property, plant and equipment for reportable segments	**1,570,823**
Adjustments due to revaluation accounting policy of property, plant and equipment of several Group entities	(164,791)
Reclassification of advances given for capital expenditures	58,792
Reclassification of construction in progress relating to the second power generating block at Kaliningradskaya TEC-2, where the Parent is an agent	(34,377)
Translation differences	4,175
Consolidation adjustments on elimination of intercompany unrealised gains	(853)
Capitalised interest expense on borrowings of the Parent company and JSC Elektricheskiye seti Armenii	(516)
JSC Stantsiya Ekibastuzskaya GRES-2	(195,701)
Other	(579)
Property, plant and equipment per Combined and Consolidated Interim Statement of financial position	**1,236,973**
Investments in associates and jointly controlled entities for reportable segments	**2,646**
Acquisition adjustment on UAB Alproka	(1,756)
Investment in JSC Stantsiya Ekibastuzskaya GRES-2 by equity accounting (see Note 9)	80,412
Other	29
Investments in associates and jointly controlled entities per Combined and Consolidated Interim Statement of financial position	**81,331**
Total liabilities for reportable segments	**966,039**
Netting of VAT in the Parent company	(16,923)
Discounting effect of loans (see Note 18, (i) and (iii))	(13,993)
Provision for income tax	976
Translation differences	1,958
JSC Stantsiya Ekibastuzskaya GRES-2	(47,790)
Other	(1,840)
Total liabilities per Combined and Consolidated Interim Statement of financial position	**888,427**
Loans and borrowings for reportable segments	**610,446**
Discounting effect of loans (see Note 18, i and iii)	(13,993)
JSC Stantsiya Ekibastuzskaya GRES-2	(39,307)
Translation differences	2,901
Loans and borrowings per Combined and Consolidated Interim Statement of financial position	**560,047**

(in thousands of EUR , unless otherwise stated)

5 Segment information (continued)

Information about geographical areas

The Management Board also considers revenue of the Group entities generated in their countries of jurisdiction and abroad as well as non-current assets (property, plant and equipment and intangible assets, including goodwill) based on location of assets.

	Revenue in the Group entity's jurisdiction[1]	Revenue in countries other than Group entity's jurisdiction[1]	Total revenue based on location of customers	Total non-current assets based on location of assets
Russian Federation	239,490	-	239,490	1,178,142
Finland	100,605	86,988	187,593	32,705
Armenia	93,464	-	93,464	156,917
Belarus	-	74,726	74,726	-
Moldova	4,725	62,563	67,288	63,588
Georgia	59,110	5,368	64,478	77,232
Other	46,388	46,242	92,630	197,236
Kazakhstan	*32,732*	*10,763*	*43,495*	*196,616*
Latvia	-	*11,678*	*11,678*	-
Lithuania	*13,656*	-	*13,656*	*463*
Rumania	-	*13,069*	*13,069*	-
Azerbaijan	-	*281*	*281*	-
Ukraine	-	*395*	*395*	*6*
China	-	*6,066*	*6,066*	-
Mongolia	-	*2,414*	*2,414*	-
Nagorno-Karabakh	-	*1,576*	*1,576*	-
Turkey	-	-	-	*151*
TOTAL	**543,782**	**275,887**	**819,669**	**1,705,820**

[1] Revenues are attributed to countries on the basis of the customer's location.

(in thousands of EUR , unless otherwise stated)

6 Acquisitions

During 2008 and first half 2009 the Group has made several acquisitions. Details on the acquisitions are presented below:

Acquisition of ERC

As at 1 January 2008 18 % of the share capital of ERC, was owned by a Group entity, RAO Nordic Oy. In May 2008, RAO Nordic Oy acquired a further 33% of the share capital of ERC. The total consideration paid for this additional stake by RAO Nordic Oy was EUR 31.6 million. Thus, in May 2008 the Group obtained control over ERC.

The fair values of assets and liabilities arising from the acquisition are as follows (EUR thousand):

	Fair values
Property, plant and equipment	581
Intangible assets	29
Investment in associate (UAB Alproka)	314
Other non-current assets	2,685
Accounts receivable	3,846
Cash and cash equivalents	2,043
Accounts payable and accrued charges	(4,876)
Taxes payable	(530)
Fair value of net assets acquired	**4,092**
Less: Non-controlling interest (49% of ERC net assets)	(2,005)
Fair value of acquired interest in net assets	**2,087**
Goodwill arising from the acquisition	32,591
Total purchase consideration for 33% of ERC (May 2008)	**31,600**
Total purchase consideration for 18% of ERC (January 2005)	**3,078**

Cash outflow on the acquisition amounted to EUR 29,557 thousand (purchase consideration in the amount of EUR 31,600 thousand net of cash and cash equivalents in the entity acquired in the amount of EUR 2,043 thousand).

As a result of the acquisition of control over ERC, the Group acquired a 49.99% interest in an associated company, UAB Alproka (see Note 9).

ERC contributed revenues of EUR 5,124 thousand and a net profit of EUR 1,053 thousand to the Group for the period from the date of acquisition to 30 June 2008. If the acquisition had occurred as at 1 January 2008, the estimated contribution to the Group revenue would have been a net EUR 10,132 thousand, and the estimated contribution to the result for the six months ended 30 June 2008 would have been a net profit of EUR 2,759 thousand.

Acquisition of non-controlling interest in Interenergo B.V. and JSC Electricheskiye seti Armenii

In March 2009, the Group entity, ES Georgia Holdings B.V., purchased from a third party an interest of 33.3 % in Interenergo B.V., a Group entity. The total consideration paid totalled USD 1,290 thousand (EUR 1,020 thousand). As a result, 100 % of Interenergo B.V. shares are now owned by the Group. The transaction resulted in the acquisition of the previously outstanding 33.3% non-controlling interest in Interenergo B.V. and JSC Electricheskiye seti Armenii in the amount EUR 5,829 thousand.

(in thousands of EUR , unless otherwise stated)

7 Property, plant and equipment

	Land and buildings	Constructions	Plant and equipment	Other	Constructions in progress	Total
Cost/Revalued amount						
Balance at 1 January 2008	**280,818**	**179,106**	**703,358**	**53,695**	**159,311**	**1,376,288**
Reclassification	1,028	4,482	2,287	(7,797)	-	-
Additions	37	-	1	593	91,364	91,995
Transfers	5,175	3,546	16,892	2,585	(28,198)	-
Disposals	(1,133)	(81)	(102)	(266)	(1,382)	(2,964)
Acquisition of Group entities	-	-	-	580	-	580
Translation difference	(7,872)	(7,700)	(21,478)	(1,819)	(5,079)	(43,948)
Balance at 30 June 2008	**278,053**	**179,353**	**700,958**	**47,571**	**216,016**	**1,421,951**
Including PPE under finance lease	-	2,286	54,399	261	-	56,946
Balance at 1 January 2009	**264,664**	**194,869**	**688,971**	**52,320**	**241,061**	**1,441,885**
Additions	16	3	3	111	93,595	93,728
Transfers	810	5,742	6,777	2,771	(16,100)	-
Disposals	(499)	(245)	(202)	(588)	(2,043)	(3,577)
Translation difference	(10,685)	(15,661)	(35,314)	(2,926)	(14,983)	(79,569)
Balance at 30 June 2009	**254,306**	**184,708**	**660,235**	**51,688**	**301,530**	**1,452,467**
Including PPE under finance lease	-	1,925	45,819	219	-	47,963
Depreciation and impairment losses						
Balance at 1 January 2008	**(8,485)**	**(12,230)**	**(63,833)**	**(6,780)**	**(193)**	**(91,521)**
Reclassification	(105)	(6)	(646)	757	-	-
Depreciation charge	(3,190)	(3,706)	(33,247)	(3,289)	-	(43,432)
Disposals	21	5	10	64	-	100
Transfers	-	-	(33)	-	33	-
Translation difference	417	705	2,827	253	13	4,215
Balance at 30 June 2008	**(11,342)**	**(15,232)**	**(94,922)**	**(8,995)**	**(147)**	**(130,638)**
Including PPE under finance lease	-	(180)	(7,875)	(74)	-	(8,129)
Balance at 1 January 2009	**(24,119)**	**(18,953)**	**(129,541)**	**(12,009)**	**(159)**	**(184,781)**
Reclassification	-	5	(5)	-	-	-
Depreciation charge	(3,183)	(4,005)	(29,370)	(3,529)	-	(40,087)
Disposals	118	22	42	133	-	315
Translation difference	576	1,995	5,745	720	23	9,059
Balance at 30 June 2009	**(26,608)**	**(20,936)**	**(153,129)**	**(14,685)**	**(136)**	**(215,494)**
Including PPE under finance lease	-	(252)	(11,055)	(104)	-	(11,411)
Net book value						
At 30 June 2008	**266,711**	**164,121**	**606,036**	**38,576**	**215,869**	**1,291,313**
At 31 December 2008	**240,545**	**175,916**	**559,430**	**40,311**	**240,902**	**1,257,104**
At 30 June 2009	**227,698**	**163,772**	**507,106**	**37,003**	**301,394**	**1,236,973**

(in thousands of EUR , unless otherwise stated)

7 Property, plant and equipment (continued)

The category Land and buildings includes land in the amount of EUR 12,503 thousand (31 December 2008: EUR 12,351 thousand, 30 June 2008: EUR 18,522 thousand).

Construction in progress is represented by the carrying amount of property, plant and equipment that has not yet been put into operations and advances to construction companies and suppliers of property, plant and equipment. Such advances amounted to EUR 59,396 thousand (including EUR 38,693 thousand for JSC "Ivanovo Thermal-gas Plant" and EUR 7,423 thousand for JSC Elektricheskiye seti Armenii) as at 30 June 2009 (31 December 2008: EUR 65,089 thousand, 30 June 2008: EUR 104,676 thousand).

(a) Deemed cost at the date of transition to IFRS

Fair values of property, plant and equipment of the merged entities, which have not prepared their IFRS financial statements before (OAO Ispytatelniy Stend Ivanovskoy GRES, Ivanovo Thermal-gas Plant, Sochinskaya TPS, Kaliningradskaya TEC-2, Severo-Zapadnaya TEC), were determined by independent appraiser and used as their deemed cost at the date of transition to IFRS (see Note 3).

(b) Cost model disclosure

For each revalued class of property, plant and equipment stated at a revalued amount in these financial statements, the carrying amount that would have been recognised had the assets been carried under the cost model is as follows:

	Land and buildings	Constructions	Plant and equipment	Other	CIP	Total
Net book value as at 30 June 2008	271,979	164,887	575,952	43,874	32,704	1,089,396
Net book value as at 31 December 2008	267,170	169,834	485,480	99,989	203,848	1,226,321
Net book value as at 30 June 2009	252,138	188,956	484,291	28,470	245,991	1,199,846

(c) Impairment

In management's opinion, the existing impairment provision represents the best estimate of the impact of impairment as a result of the current economic conditions in the Russian Federation and other countries in which the Group operates and expectations about future trading.

JSC Moldavskaya GRES

As at 31 December 2008 the Group performed an assessment of the recoverable amount of property, plant and equipment of JSC Moldavskaya GRES, one of the Group subsidiaries. During 2008 JSC Moldavskaya GRES operated at approximately 15% of its operating capacity and recognised revenue in the amount of EUR 42,539 thousand. Management is actively seeking new distribution markets for this entity. For the purposes of an assessment of the recoverable amount of property, plant and equipment of JSC Moldavskaya GRES as at 31 December 2008, management made the following assumptions and estimates related to new markets:

- Revenue for the years ended 31 December 2009 and 2010 are expected to be not lower than EUR 163.7 million and EUR 200 million, respectively;
- The major source of revenue growth is the export of electricity to Romania and Moldova. The first reason for export revenue increase is an anticipated commencement of significant electricity supply to Romania under so called "aerial wire" mode in 2012 after certain planned upgrades of the Moldavian electricity transmission grids. The second reason for the increase in export revenues is the commencement of electricity export to Moldova from January 2009, which covers the majority of demand for electricity in that country. The revenue from export sales is expected to reach 96% of total revenues from 2012, out of which the export sales to Romania are expected to be on average 52% (including supply under "aerial wire" 44%) and export sales to Moldova are expected to be on average 44 % over the next ten years.

7 Property, plant and equipment (continued)

As at 30 June 2009, management carried out a review of the assessment of the recoverable amount of property, plant and equipment of JSC Moldavskaya GRES and concluded that, although there had been some deteriorations in short term trading at the subsidiary, given expectations as to long term trading, these short term effects were not sufficient to require the recognition of any impairment of the assets. Had any impairment provision been calculated based solely on the existing trading level and pricing, an additional impairment provision of approximately EUR 40 million would have been recognised in the Combined and Consolidated Interim Statement of comprehensive income for the period ended 30 June 2009.

The Parent Company

As at the 31 December 2008 Management assessed whether the carrying value of property, plant and equipment of Parent Company branches - Ivanovo Thermal-gas Plant, North-West Thermal Power Plant, Kaliningradskaya TEC-2 and Sochinskaya TPS - was recoverable through future operations.

In making this assessment, management performed an impairment review ("the impairment test") in accordance with IAS 36 by comparing the recoverable amount of each cash generating unit to its net book value. Management considered that the individual power stations, i.e. Parent Company's branch, each represented a cash generating unit. The recoverable amount was assessed based on value in use, calculated by discounting the estimated future cash flows using various assumptions. A pre-tax discount rate of 16.7% was applied for discounting purposes. Additionally it was taken into consideration that the Group was impacted by the ongoing global financial and economic crisis ("the economic crisis"). Specifically:

- the economic crisis has resulted in capital markets instability, certain deterioration of liquidity in the Russian economy and tighter credit conditions within Russia;
- the medium-term forecast for primary economic indicators such as CPI and GDP have changed;
- the decline in commodity prices, particularly, crude oil, stable gas condensate, liquefied petroleum gas, and oil products evidence lower energy demand levels;
- the deterioration of liquidity has caused a decrease in output across a significant portion of Russian industry which has had a consequent negative impact on energy demand levels.

The recoverable amounts were assessed for all cash-generating units with the exception of North-West Thermal Power Plant and Ivanovo Thermal-gas Plant was significantly above their carrying values. As a result, these cash-generating units were considered not sensitive to variations of the assumptions and, therefore, sensitivity analysis for these cash-generating units was not provided in the financial statements.

Sensitivity analysis for the major assumptions for North-West Thermal Power Plant is provided below. In sensitivity analysis for North-West Thermal Power Plant each assumption was varied other assumptions being constant. The estimates are particularly sensitive in the following areas:

- Should the annual growth rate of the selling price for electricity decrease by 2%, the carrying value of the property, plant and equipment would be EUR 7,249 thousand lower;
- Should the annual growth rate of the gas purchase price increase by 3%, the carrying value of the property, plant and equipment would be EUR 7,891 thousand lower;
- Should the discount rate increase by 1%, the carrying value of the property, plant and equipment would be EUR 18,015 thousand lower.

Sensitivity analysis for the major assumptions for Ivanovo Thermal-gas Plant is provided below. In sensitivity analysis for Ivanovo Thermal-gas Plant each assumption was varied other assumptions being constant. The estimates are particularly sensitive in the following area:

- Should the discount rate increase by 2%, the carrying value of the property, plant and equipment would be EUR 19,569 thousand lower.

Pursuant to this impairment test assessed as of 31 December 2008, management did not identify any instances where carrying values of property, plant and equipment were considered to be impaired thereby requiring the recording of an impairment loss for the year ended 31 December 2008.

Management considers that as at 30 June 2009 no changes in assumptions and other aspects have occurred thus no instances where carrying values of property, plant and equipment were considered to be impaired as at 30 June 2009.

(in thousands of EUR , unless otherwise stated)

7 Property, plant and equipment (continued)

(d) Security

Properties as at 30 June 2009 with a carrying amount of EUR 3,298 thousand (31 December 2008: EUR 813 thousand, 30 June 2008: none) are pledged by JSC Elektricheskiye seti Armenii as collateral for several of its HSBC bank of Armenii loans (see Note 18).

8 Intangible assets

	Goodwill	Software	Other	Total
Cost				
Balance at 1 January 2008	289	5,035	386	5,710
Reclassification of cost from other intangibles to software	-	39	(39)	-
Acquisition of Group entities	33,997	-	29	34,026
Additions	-	910	11	921
Disposals	-	-	-	-
Translation difference	(8)	(417)	(20)	(445)
Balance at 30 June 2008	34,278	5,567	367	40,212
Balance at 1 January 2009	34,247	6,703	410	41,360
Additions	-	1,274	200	1,474
Disposals	-	(84)	-	(84)
Translation difference	(14)	(540)	(14)	(568)
Balance at 30 June 2009	34,233	7,353	596	42,182
Amortisation				
Balance at 1 January 2008	-	(1,221)	(114)	(1,335)
Reclassification of cost from other intangibles to software	-	(20)	20	-
Amortisation charge	-	(451)	(38)	(489)
Impairment losses	-	-	-	-
Disposals	-	-	-	-
Translation difference	-	276	2	278
Balance at 30 June 2008	-	(1,416)	(130)	(1,546)
Balance at 1 January 2009	-	(2,077)	(153)	(2,230)
Amortisation charge	-	(726)	(110)	(836)
Impairment losses	-	-	-	-
Disposals	-	84	-	84
Translation difference	-	159	7	166
Balance at 30 June 2009	-	(2,560)	(256)	(2,816)
Net book value				
At 30 June 2008	34,278	4,151	237	38,666
At 1 January 2009	34,247	4,626	257	39,130
At 30 June 2009	34,233	4,793	340	39,366

The amortisation charge is included in operating expenses in the Combined and Consolidated Statement of comprehensive income.

The goodwill recognised as at 31 December 2008 comprised goodwill which arose on the acquisition of Energospetsserviceobslyzhivanie in 2005 in the amount of EUR 250 thousand and on the acquisition of ERC (see Note 6) in 2008 in the amount of EUR 33,997 thousand.

Capitalised goodwill of EUR 33,997 thousand recognised on the acquisition of ERC was generated as a result of the Group's ability to benefit from synergies available to it because of the Group's position as an exporter of Russian electricity and the strength of ERC in selling imported electricity into the Lithuanian electricity market.

As at 31 December 2008 the Group carried out an impairment test on the goodwill related to ERC. For the purpose of impairment testing the goodwill is allocated to ERC as an individual cash-generating unit.

The impairment test was based on the following key assumptions:

ERC is carrying out trading operations with electricity, including export – import deliveries to/from electricity system of the Russian Federation, and trading operations on the electricity market of the Lithuanian Republic. The ERC revenues for 2008 amounted to EUR 75 million, and net profit amounted to EUR 12 million.

(in thousands of EUR , unless otherwise stated)

8 Intangible assets (continued)

Starting from the year 2010, the electricity market of the Lithuanian Republic will experience significant changes due to the scheduled closure of the Ignalina Nuclear Power Plant with effect from the end of 2009.

The Ignalina plant is currently the main electricity generating facility within Lithuania and the Baltic region, providing up to 70% of electricity generation in that region. The electricity deficit arising due to the closure of Ignalina plant can potentially be covered either by additional production by the Lithuanian power stations, or by additional imports to the Lithuanian electricity system from the neighbour systems, especially from the electricity system of the Russian Federation, which have considerable export potential. The Group assumes that, due to lower costs, the second scenario is the most realistic, and the impairment test in relation to goodwill is based on this scenario. According to electricity demand projections, the annual demand would increase annually at an average rate of 3% and would reach approximately 13.4 GWth by the year 2020, from the current level of approximately 9.0 GWth. It is expected that starting from the year 2010 till the year 2020 the annual volume of electricity imported to Lithuania would grow to 7.5 GWth, and that 50 % of that volume could be covered by deliveries carried out by ERC. In making their impairment test, management used a more conservative assumption, and assumed that 2.5 GWth would be imported by ERC.

This volume of deliveries is assumed to provide gross margin of 17%, as the above mentioned volume allows ERC to carry out electricity sales in peak periods, when higher profitability is achieved.

The pre-tax discount factor used for the impairment test performed by management was 21.7%

If the expected electricity deficit in the Lithuanian Republic is entirely covered by additional internal production, then the goodwill in relation to ERC, attributable to the Group, would require an additional impairment and be lower by EUR 12 million.

Management considers that as at 30 June 2009 there was no need to adjust the assumptions used as at 31 December 2008 and that, consequently, there was no need to impair the carrying value of goodwill.

9 Investments in associates and jointly controlled entities

Details of the associates and jointly controlled entities, together with the movements in the carrying values of these entities, are set at below:

			Ownership/Voting	
	Status	**Country**	**30 June 2009**	**30 June 2008**
JSC Stantsiya Ekibastuzskaya GRES-2	Jointly controlled entity	Kazakhstan	50.0%	50.0%
UAB Alproka	Associate	Lithuania	49.99%	49.99%
JSC "Kambarata HPP-1"	Jointly controlled entity	Kyrgyz Republic	50.0%	50.0%
JSC "Industrial Power Company"	Jointly controlled entity	Russian Federation	50.0%	50.0%

(in thousands of EUR , unless otherwise stated)

9 Investments in associates and jointly controlled entities (continued)

	Stantsiya Ekibastuzskaya GRES-2	JSC Industrial Power Company	UAB Alproka	JSC Kambarata HPP-1	Total
Carrying value at 1 January 2008	**81,326**	**239**	-	-	**81,565**
Additions	-	-	315	-	**315**
Share of revaluation of property, plant and equipment net of Income tax effect	(538)	-	-	-	**(538)**
Share of profit/(loss) after tax	1,937	(144)	568	-	**2,361**
Dividends received	(1,073)	-	-	-	**(1,073)**
Translation difference	(5,413)	(7)	-	-	**(5,420)**
Carrying value at 30 June 2008	**76,239**	**88**	**883**	-	**77,210**
Carrying value at 1 January 2009	**104,626**	**28**	**163**	-	**104,817**
Additions	-	-	-	662	**662**
Share of revaluation of property, plant and equipment net of Income tax effect	(648)	-	-	-	**(648)**
Share of (loss) / profit after tax	(1,063)	(27)	97	-	**(993)**
Dividends received	(2,904)	-	-	-	**(2,904)**
Translation difference	(19,599)	(1)	-	(3)	**(19,603)**
Carrying value at 30 June 2009	**80,412**	-	**260**	**659**	**81,331**

JSC Stantsiya Ekibastuzskaya GRES-2

The following is summarised financial information in respect of the jointly controlled entity Stantsiya Ekibastuzskaya GRES-2:

	Six months ended 30 June 2009	Twelve months ended 31 December 2008	Six months ended 30 June 2008
Non-current assets	200,874	252,715	212,829
Current assets	23,875	26,220	22,805
Non-current liabilities	(58,800)	(63,361)	(76,540)
Current liabilities	(5,126)	(6,322)	(6,616)
Revenue	32,188	86,385	36,111
(Loss) / profit for the period	(2,126)	10,413	3,873

JSC Industrial Power Company

The ownership of JSC Industrial Power Company represents a jointly controlled entity and the Group applies the equity accounting method to recognize its investment.

The following is summarised financial information in respect of JSC Industrial Power Company:

	Six months ended 30 June 2009	Twelve months ended 31 December 2008	Six months ended 30 June 2008
Non-current assets	138	148	131
Current assets	8	59	81
Current liabilities	(198)	(152)	(36)
Revenue	67	222	28
Loss for the period	(104)	(407)	(288)

UAB Alproka

In May 2008, the Group obtained control over ERC which has an investment in an associate company UAB Alproka.

The following is summarised financial information in respect of UAB Alproka at the reporting date:

(in thousands of EUR , unless otherwise stated)

9 Investments in associates and jointly controlled entities (continued)

	Six months ended 30 June 2009	Since the date of acquisition to 31 December 2008	Since the date of acquisition to 30 June 2008
Non-current assets	109	24	-
Current assets	2,177	3,326	9,151
Current liabilities	(1,268)	(2,711)	(5,689)
Revenue	1,509	6,622	4,301
Profit for the period	376	1,726	2,230

JSC "Kambarata HPP-1"

In May 2009 the Parent Company and JSC "Electricity Stations" (Kyrgyz Republic) established JSC "Kambarata HPP – 1", registered in the Kyrgyz Republic. The entity is established to complete construction of the Kambarata HPP in the Kyrgyz Republic.

The fair value of assets and liabilities of the investee at the reporting date are as follows:

	30 June 2009
Non-current assets	-
Current assets	1,318
Current liabilities	-

10 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Differences between IFRS and relevant statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred profit tax assets and liabilities are measured at the rate expected to be applicable when the temporary differences will reverse, based on rates and legislation enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are attributable to the following:

	Assets			Liabilities		
	30 June 2009	31 December 2008	30 June 2008	30 June 2009	31 December 2008	30 June 2008
Property, plant and equipment	5,559	6,767	11,340	(9,582)	(11,609)	(14,176)
Investments in associates and jointly controlled entities	5	36	29	(14,767)	(19,534)	(16,423)
Trade and other receivables	5,658	5,146	12,789	(734)	-	-
Tax loss carry-forwards	556	1,629	14,126	(432)	-	-
Other	3,080	3,187	3,656	(164)	97	(275)
Tax assets/(liabilities)	**14,858**	**16,765**	**41,940**	**(25,679)**	**(31,046)**	**(30,874)**
Set off of tax	(8,075)	(8,003)	(7,181)	8,075	8,003	7,181
	6,783	**8,762**	**34,759**	**(17,604)**	**(23,043)**	**(23,693)**

(b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of Group entities located in Armenia and applicable to the following items:

	30 June 2009	31 December 2008	30 June 2008
Deductible temporary differences	17,265	12,296	10,420
Tax loss carry-forwards	169	225	335
	17,434	**12,521**	**10,755**

Deductible temporary differences mainly relate to property, plant and equipment.

The tax losses expire in 2009. Deferred tax assets have not been recognised in respect of these items because in management's view it is not probable that future taxable profit will be available in the respective Group entity against which the Group can utilize the benefits.

(in thousands of EUR , unless otherwise stated)

10 Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year

Deferred tax assets:

	1 January 2008	Recognised in profit and loss	Recognised in equity (FCTR)	Recognised in equity (Revaluation reserve)	30 June 2008
Property, plant and equipment	12,246	(4,123)	(189)	-	7,934
Investment in associate and jointly controlled entity	10	19	-	-	29
Trade and other receivables	9,163	994	370	-	10,527
Other items	4,006	(1,849)	(14)	-	2,143
Tax loss carry-forwards	16,459	(1,914)	(419)	-	14,126
	41,884	**(6,873)**	**(252)**	**-**	**34,759**

	1 January 2009	Recognised in profit and loss	Recognised in equity (FCTR)	Recognised in equity (Revaluation reserve)	30 June 2009
Property, plant and equipment	3,551	(974)	(129)	-	2,448
Investment in associate and jointly controlled entity	36	(28)	(2)	-	6
Trade and other receivables	3,091	(62)	5	-	3,034
Other items	994	50	29	222	1,295
Tax loss carry-forwards	1,090	(1,078)	(12)	-	-
	8,762	**(2,092)**	**(109)**	**222**	**6,783**

Deferred tax liabilities:

	1 January 2008	Recognised in profit and loss	Recognised in equity (FCTR)	Recognised in equity (Revaluation reserve)	30 June 2008
Property, plant and equipment	(10,549)	(479)	258	-	(10,770)
Investments in associates and jointly controlled entities	(17,594)	(359)	1,400	129	(16,424)
Available-for-sale investments	(366)	366	-	-	-
Other items	3,863	(237)	(125)	-	3,501
	(24,646)	**(709)**	**1,533**	**129**	**(23,693)**

	1 January 2009	Recognised in profit and loss	Recognised in equity (FCTR)	Recognised in equity (Revaluation reserve)	30 June 2009
Property, plant and equipment	(8,393)	1,183	738	-	(6,472)
Investments in associates and jointly controlled entities	(19,534)	794	3,843	130	(14,767)
Available-for-sale investments	-	-	-	-	-
Other items	4,884	(891)	(358)	-	3,635
	(23,043)	**1,086**	**4,223**	**130**	**(17,604)**

The Group recognised temporary differences on property, plant and equipment which relate to differences between the accounting and tax bases for depreciation rates, fair values and statutory tax base of property, plant and equipment.

A deferred tax liability in the amount of EUR 130 thousand was recognised in equity in relation to JSC Stantsiya Ekibastuzskaya GRES-2 in respect of reversal the Group's share in the revaluation of property, plant and equipment (six months ended 30 June 2008: EUR 129 thousand).

The Group has not recognised deferred tax liabilities in respect of temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future. For the periods ended 30 June 2009, 31 December 2008 and 30 June 2008, the corresponding temporary tax differences were equal to EUR 108,430 thousand, EUR 112,303 thousand and EUR 95,725 thousand.

(in thousands of EUR , unless otherwise stated)

11 Other non-current assets

		30 June 2009	31 December 2008	30 June 2008
Financial non-current assets				
Non-current loans issued (including outstanding interest)		21,532	81	413
	Less impairment provision	(53)	(56)	(63)
Non-current loans issued (including outstanding interest)- net		*21,479*	*25*	*350*
Non-current trade receivables		5,189	4,429	3,001
	Less impairment provision	(2,264)	(1,834)	(1,259)
Non-current trade receivables - net		*2,925*	*2,595*	*1,742*
Other non-current receivables		8,788	8,870	8,456
	Less impairment provision	(4,546)	(5,080)	(5,617)
Other non-current receivables - net		*4,242*	*3,790*	*2,839*
Available-for-sale investments		9,694	5,650	903
Long-term derivative financial instruments		1,006	-	-
Long-term bank deposit		-	724	23,166
		39,346	**12,784**	**29,000**
Non-financial non-current assets				
Other non-current assets		145,885	134,970	7,546
		145,885	**134,970**	**7,546**
		185,231	**147,754**	**36,546**

As at 30 June 2009 non-current loans issued included EUR 21,462 thousand in respect of a new loan given to CJSC Electroluch, an entity acquired after the reporting date (see Note 33). The loan was acquired as a result of the assumption of a loan in the amount of USD 30 million previously granted by JSC Alfa-Bank to CJSC Electroluch in 2007. The new loan is collateralised by the buildings of CJSC Electroluch.

As at 30 June 2009 available-for-sale investments included EUR 5,282 thousand in respect of investments in the shares of JSC Sangtudinskaya GES - 1 (Tajikistan) (31 December 2008: EUR 5,586 thousand; 30 June 2008: EUR 797 thousand). The increase in investments into JSC Sangtudinskaya GES -1 happened as a result of the transfer of shares of JSC Sangtudinskaya GES - 1 from RAO UES to the Company. The shares of JSC Sangtudinskaya GES-1were transferred by RAO UES on 1 July 2008 to JSC "INTER RAO UES Holding" as a result of its spin off from RAO UES, and then they were contributed into the Company as a result of the merger of JSC "INTER RAO UES Holding" into the Company. The contribution of shares of JSC Sangtudinskaya GES-1 into the Company was accounted at the fair value of EUR 5,465 thousand as part of the exchange of shares transactions.

As at 30 June 2009 available-for-sale investments include EUR 4,351 thousand in respect of investments in the shares of OJSC TGK-11 (2.59% of ordinary shares), which were purchased by JSC RAO UES International Baltia, a Group entity, on 8 June 2009.

As at 30 June 2009 long-term derivative financial instruments amounted to EUR 1,006 thousand (as at 30 June 2008: nil) representing the fair value of the interest rate swap contract signed with OOO HSBC Bank RR for the purposes of hedging of future interest payments (see Note 16).

As at 30 June 2009 other non-current assets included EUR 140,185 thousand (31 December 2008: EUR 128,877 thousand) relating to construction of the second power generating block at Kaliningradskaya TEC-2 and comprises advances given to JSC "Technopromexport" (an entity which performs the construction) in the amount of EUR 100,581 thousand (31 December 2008: EUR 114,520 thousand), construction in progress in the amount of EUR 35,424 thousand (31 December 2008: EUR 14,357 thousand) and VAT in the amount of EUR 4,180 thousand (see Note 20).

As at 30 June 2009 other non-current assets included EUR 1,549 thousand of prepayments on solidarity accounts and on individual accounts in non-state pension fund in respect of current employees (31 December: EUR 1,599 thousand; 30 June 2008: EUR 1,795 thousand). The prepayments are intended to be used for settlement of defined benefit pension obligations.

(in thousands of EUR , unless otherwise stated)

11 Other non-current assets (continued)

Movements on the group provision for impairment of receivables are as follows:

	Non-current trade receivables	Non-current loans issued incl. interest	Other non-current receivables	Total provision
At 1 January 2009	(1,834)	(56)	(5,080)	(6,970)
Provision for receivables impairment	(434)	-	-	(434)
Unwind of discount	10	-	258	268
Translation difference	(6)	3	276	273
At 30 June 2009	**(2,264)**	**(53)**	**(4,546)**	**(6,863)**

	Non-current trade receivables	Non-current loans issued incl. interest	Other non-current receivables	Total provision
At 1 January 2008	(1,270)	(65)	(5,321)	(6,656)
Provision for receivables impairment	(32)	-	(697)	(729)
Unwind of discount	84	-	257	341
Translation difference	(41)	2	144	105
At 30 June 2008	**(1,259)**	**(63)**	**(5,617)**	**(6,939)**

The impairment provision against non-current financial assets mainly represents the effect of discounting the estimated future cash flows to their present value using a pre-tax discount rate.

12 Inventories

	30 June 2009	31 December 2008	30 June 2008
Fuel production stocks	25,119	11,784	11,465
Spare parts	19,924	15,086	11,302
Materials and consumables	13,532	11,583	11,576
Other inventories	6,781	7,668	7,913
	65,356	**46,121**	**42,256**

(in thousands of EUR , unless otherwise stated)

13 Accounts receivable and prepayments

		30 June 2009	31 December 2008	30 June 2008
Financial assets, included:		**174,140**	**139,257**	**119,364**
Trade receivables		198,414	180,673	167,169
	Less impairment provision	(64,252)	(65,509)	(69,775)
Trade receivables - net		*134,162*	*115,164*	*97,394*
Other receivables		22,206	28,015	23,798
	Less impairment provision	(5,077)	(4,980)	(4,816)
Other receivables - net		*17,129*	*23,035*	*18,982*
Short-term loans issued (including outstanding interest)		22,780	545	3,042
	Less impairment provision	(65)	(66)	(54)
Short-term loans issued (including outstanding interest)		*22,715*	*479*	*2,988*
Dividends receivable		134	579	-
Non-financial assets, included:		**117,553**	**113,250**	**132,148**
Advances to suppliers and prepayments		31,383	32,104	38,184
	Less impairment provision	(978)	(1,204)	(1,011)
Advances to suppliers and prepayments - net		*30,405*	*30,900*	*37,173*
Short-term VAT recoverable		29,132	32,235	31,517
Taxes prepaid		58,016	50,115	63,458
		291,693	**252,507**	**251,512**
Impairment provision, total		(70,372)	(71,759)	(75,656)

As at 30 June 2009 included in the taxes prepaid is VAT in the total amount of EUR 57,823 thousand (31 December 2008: EUR 49,155 thousand; 30 June 2008: EUR 60,913 thousand).

In April 2009 the Parent company issued a short-term loan to OJSC OGK-1 in the amount of EUR 15,975 (with fixed interest rate equal to 14.25% p.a. and a maturity date of 25 December 2009. The loan was given for the purposes of financing the investment activities of OJSC OGK-1.

In May 2009 the Parent company issued a short-term loan to JSC Sangtudinskaya GES-1 in the amount of EUR 5,899 thousand with fixed interest rate equal to 35% p.a. and maturity date of 29 November 2009.

Movements on the group provision for impairment of receivables are as follows:

	Trade receivables	Advances to suppliers and prepayments	Short-term loans issued (incl. interest)	Other receivables	Total provision
At 1 January 2009	**(65,509)**	**(1,204)**	**(66)**	**(4,980)**	**(71,759)**
Provision for receivables impairment	(2,655)	-	-	(318)	**(2,973)**
Release of provision	3,623	185	-	137	**3,945**
Receivables written off during the year as uncollectible (provided as of year beginning)	-	-	-	38	**38**
Unwind of discount	2	-	-	23	**25**
Foreign exchange gain/(loss)	53	-	-	32	**85**
Translation difference	234	41	1	(9)	**267**
At 30 June 2009	**(64,252)**	**(978)**	**(65)**	**(5,077)**	**(70,372)**

(in thousands of EUR , unless otherwise stated)

13 Accounts receivable and prepayments (continued)

	Trade receivables	Advances to suppliers and prepayments	Short-term loans issued (incl. interest)	Other receivables	Total provision
At 1 January 2008	(66,588)	(1,204)	(59)	(4,887)	**(72,738)**
Provision for receivables impairment	(2,438)	(148)	-	(73)	**(2,659)**
Release of provision	683	331	-	154	**1,168**
Receivables written off during the year as uncollectible (provided as of year beginning)	280	-	-	-	**280**
Unwind of discount	-	-	-	73	**73**
Foreign exchange gain/(loss)	70	-	-	1	**71**
Translation difference	(1,782)	10	5	(84)	**(1,851)**
At 30 June 2008	**(69,775)**	**(1,011)**	**(54)**	**(4,816)**	**(75,656)**

Carrying value of above financial assets can be analysed as follows:

At 30 June 2009	Trade receivables	Short-term loans issued (including interest)	Other receivables	Dividends receivables	Total
Not past due not impaired	83,349	22,718	14,164	134	**120,365**
Past due but not impaired	28,119	-	938	-	**29,057**
Past due and impaired	86,946	62	7,104	-	**94,112**
Total	**198,414**	**22,780**	**22,206**	**134**	**243,534**

At 31 December 2008	Trade receivables	Short-term loans issued (including interest)	Other receivables	Dividends receivables	Total
Not past due not impaired	91,272	544	18,884	579	**111,279**
Past due but not impaired	13,388	-	2,350	-	**15,738**
Past due and impaired	76,013	1	6,781	-	**82,795**
Total	**180,673**	**545**	**28,015**	**579**	**209,812**

At 30 June 2008	Trade receivables	Short-term loans issued (including interest)	Other receivables	Total
Not past due not impaired	63,793	3,040	14,555	**81,388**
Past due but not impaired	3,651	-	4,379	**8,030**
Past due and impaired	99,725	2	4,864	**104,591**
Total	**167,169**	**3,042**	**23,798**	**194,009**

(in thousands of EUR , unless otherwise stated)

13 Accounts receivable and prepayments (continued)

As of 30 June 2009 accounts receivable of EUR 29,057 thousand (31 December 2008: EUR 15,738 thousand; 30 June 2008: EUR 8,030 thousand) were past due but not impaired. These relate to a number of independent counterparties from whom there is no recent history of default. The ageing analysis of these receivables is as follows:

Past due but not impaired	30 June 2009	31 December 2008	30 June 2008
Up to 3 month	19,320	13,728	6,331
3 to 6 month	9,417	864	733
6 to 12 month	320	1,146	966
Total	**29,057**	**15,738**	**8,030**

The impaired accounts receivable mainly comprise amounts due from wholesalers. It was assessed that a portion of these receivables is expected to be recovered. The ageing of these receivables is as follows:

Past due and impaired	30 June 2009	31 December 2008	30 June 2008
Up to 3 month	16,101	7,853	25,695
3 to 6 month	7,789	72,405	75,730
6 to 12 month	63,260	2,537	3,166
Over 12 months	6,962	-	-
Total	**94,112**	**82,795**	**104,591**

The Group does not hold any collateral as security.

14 Cash and cash equivalents

	30 June 2009	31 December 2008	30 June 2008
Cash at bank and in hand	87,539	107,526	125,191
Foreign currency accounts	48,358	45,028	27,730
Bank deposits with maturity of three months or less	86,288	121,285	44,706
Promissory note	57,053	-	-
	279,238	273,839	197,627

As at 30 June 2009 the Parent Company purchased the promissory note of Rosgosstrah Holding Company with maturity date not later than 30 September 2009 and 15% interest rate. The promissory note was purchased for cash. Rosgosstrah Holding Company has no individual rating (unrated). Rosgosstrah Group is A++ rated (the highest) in accordance with Expert RA. The promissory note was realised on 1 July 2009.

(in thousands of EUR , unless otherwise stated)

14 Cash and cash equivalents (continued)

These following tables provide information about the cash and cash equivalent balances of the Group.

Financial institution	Credit rating	Rating agency	30 June 2009	31 December 2008	30 June 2008
JSC Gazprombank	BB/Stable/B	Standard&Poor's	74,249	2,827	-
JSC NOMOS-BANK	B+/Negative/B	Fitch	72,324	96,578	44,706
Rosgosstrah Holding Company	Unrated	Unrated	57,053	-	-
JSC Sberbank	BBB/Negative/F3	Fitch	25,828	38,263	51,253
SC Vnesheconombank	BBB/Negative/A-3	Standard&Poor's	13,402	9,913	58,553
JSC Alfa-Bank	B+/Stable/B	Standard&Poor's	7,573	1,074	2,063
CJSC VTB Bank Armenia	BB/Stable/B	Fitch	7,566	-	305
SAO Commerzbank EURASIJA	Unrated	Unrated	6,916	44,220	25,152
PLC Nordea Bank Finland	AA-/Stable/A-1	Standard&Poor's	4,062	2,783	3,703
AB SEB	A/Negative/A-1	Standard&Poor's	2,863	9,093	2,519
PLC Standard Bank	Unrated	Unrated	2,751	-	227
JSC Bank of Georgia	B/Stable/B	Standard&Poor's	1,055	2,651	1,185
JSC TBC Bank	B+/Stable/B	Fitch	511	347	16
Banca de Economii S.A.	Unrated	Unrated	428	-	-
CJSC Ardshininvestbank	Unrated	Unrated	300	-	385
JSC VTB Bank	BBB/Negative/A-3	Standard&Poor's	298	325	3
JSC Russ-Bank	Unrated	Unrated	258	-	-
JSC Tsesnabank	B-/Negative/C	Standard&Poor's	224	204	62
OOO HSBC Bank RR	Unrated	Unrated	317	41,022	25
OJSC ORGRESBANK JSB	BBB+/Negative/F2	Fitch	178	12,118	-
ING Bank NV	A+/Stable/A-1	Standard&Poor's	174	218	554
ABN AMRO Bank	A+/Stable/A-1	Standard&Poor's	133	-	22
CJSC Areximbank	Unrated	Unrated	111	-	2
JSC UniCredit Bank	BBB-/Negative/A-3	Standard&Poor's	88	294	205
JSC People's Bank of Georgia	Unrated	Unrated	75	-	135
JSC VTB Bank Georgia	BB-/Stable/B	Fitch	70	704	16
CJSC Artsakhbank	Unrated	Unrated	61	-	-
CJSC AKBA-Credit Agricole Bank	BB/Stable/B	Fitch	57	-	60
JSC Evrofinance Mosnarbank	B/Stable/B	Fitch	30	-	127
Republic Bank Ltd	BBB-/Stable/A-3	Standard&Poor's	23	-	-
JSC Agroprombank	Unrated	Unrated	15	-	796
GarantiBank International N.V.	Unrated	Unrated	6	-	731
CJSC Conversebank	Unrated	Unrated	1	5	211
JSC Tatecobank	Unrated	Unrated	-	3,620	-
Commerzbank AG	A/Negative/A-1	Standard&Poor's	-	3,022	-
JSC Tavrichesky	Unrated	Unrated	-	2,799	-
Other			238	1,759	4,611
			279,238	**273,839**	**197,627**

(in thousands of EUR , unless otherwise stated)

14 Cash and cash equivalents (continued)

Bank deposits with original maturity of three months or less at 30 June 2009

Bank	Interest rate	Amount of deposits
JSC Gazprombank	5.8%	68,463
JSC NOMOS-BANK	11%	9,128
JSC NOMOS-BANK	11%	7,987
JSC TBC Bank	5%	462
CJSC Ardshininvestbank	10%	248
		86,288

Bank deposits with original maturity of three months or less at 31 December 2008

Bank	Interest rate	Amount of deposits
OOO HSBC Bank RR	14%	24,131
SAO Commerzbank EURASIJA	14%	24,131
OOO HSBC Bank RR	19%	16,891
JSC NOMOS-BANK	8%	14,478
AB SEB	5%	8,751
JSC NOMOS-BANK	9.25%	8,446
JSC NOMOS-BANK	10.50%	7,239
OJSC ORGRESBANK JSB	14%	7,239
OJSC ORGRESBANK JSB	13.75%	4,826
JSC NOMOS-BANK	8%	2,413
JSC Tavrichesky	14%	2,413
JSC TBC Bank	5%	327
		121,285

Bank deposits with original maturity of three months or less at 30 June 2008

Bank	Interest rate	Amount of deposits
JSC NOMOS-BANK	5%	35,223
JSC NOMOS-BANK	7%	9,483
		44,706

15 Other current assets

	30 June 2009	**31 December 2008**	**30 June 2008**
Restricted cash	17,770	22,800	114,549
Deposits with maturity of 3-12 months	685	-	13,547
Short-term derivative financial instruments	-	9,402	-
Other	2,098	1,276	3,260
	20,553	**33,478**	**131,356**

The Parent Company opened an irrevocable letter of credit at JSC VTB Bank in favour of JSC "Technopromexport" to fulfil its obligations under a construction contract in the amount of EUR 15,720 thousand, EUR 20,526 thousand and EUR 107,849 thousand as at 30 June 2009, 31 December 2008 and 30 June 2008, respectively. These amounts are included in restricted cash balance. According to the agreement with JSC "Technopromexport" the building of second power generated block have to be finished in 2nd quarter of 2010.

Restricted cash balances include cash deposited in Pohjola Bank (collateral security in favour of Fingrid), Nordea (collateral securities in favour of Nord Pool and other parties) and AB SEB in the aggregate amount of EUR 2,040 thousand, EUR 2,264 thousand and EUR 6,689 thousand as at 30 June 2009, 31 December 2008 and 30 June 2008, respectively.

Restricted cash balances include cash deposited in Garanti Bank (deposits to providers of services) in the amount of EUR 10 thousand, EUR 10 thousand and EUR 11 thousand as at 30 June 2009, 31 December 2008 and 30 June 2008, respectively.

(in thousands of EUR , unless otherwise stated)

15 Other current assets (continued)

Short-tem derivative financial instruments as at 31 December 2008 represent the fair value of a foreign currency forward related to a foreign currency loan obtained by the Parent company in June 2008.

Deposits with maturity of 3-12 months as at 30 June 2009 include a cash deposit in JSC Sberbank with maturity date of 15 January 2010 and 12.55% interest rate.

Deposits with maturity of 3-12 months as at 30 June 2008 include five cash deposits in JSC OTKRITIE with maturity date of 20 January 2009 and 6.50-6.75% interest rates.

16 Equity

Basis of presentation of movements in equity. The Group was formed by the combination of a number of businesses under common control. Because of the consequent use of the predecessor basis of accounting (see Note 3), the significant part of the equity of the Group is based on the carrying value of the net assets of the businesses contributed as recorded in the IFRS consolidated financial records of RAO UES, subject only to some specific IFRS 1 exemptions. Similarly, for the purpose of comparability, the equity of the Group has been presented for comparative period as if the current Company and Group structure had existed from 1 January 2007 (see Note 3).

As the mergers into the Company proceeded as a result of additional share issues completed after 1 January 2008, the equity statement reflects additions to share capital in the amount equal to the statutory nominal value of the shares issued. The number of shares for additional issuance was calculated based on the conversion coefficients of RAO UES subsidiaries' shares into the Company shares agreed by the respective shareholders. In accordance with the predecessor basis of accounting, the effect of such additions to share capital is offset by a corresponding decrease in the merger reserve and a concurrent reduction in non-controlling interest.

Merger reserve. As described in the paragraph "Predecessor accounting" (see Note 3), the Company accounted for the merger of businesses contributed before the date of legal merger.

The net difference of EUR 549,111 thousand between the IFRS carrying value of the contributed assets as at 1 January 2008 and the non-controlling interest, as adjusted for revaluation and fair value reserves attributable to RAO UES shareholders, has been recorded as a merger reserve within retained earnings within the equity attributable to the Company's shareholders. All further equity movements (till the date of the legal merge) for merged and reorganised businesses have been also recorded through merger reserve and presented as follows.

Balance at 1 January 2008	**549,111**
Profit of reorganised and merged businesses for the period till the date of legal merger	20,664
Issue of shares by entities merged	60,777
Reorganization the Company	(3,032,388)
Balance at 30 June 2008	**(2,401,836)**
Balance at 31 December 2008	**(4,433,654)**
Balance at 30 June 2009	**(4,433,654)**

Share capital

	30 June 2009	31 December 2008	30 June 2008
Number of ordinary shares issued and fully paid (in thousand of units)	2,274,113,845	2,274,113,845	1,296,399,050
Par value (in Russian roubles ("RR")	0.10	0.10	0.10

(in thousands of EUR , unless otherwise stated)

16 Equity (continued)

Movements in outstanding shares (in thousand of units)

	Issued shares	Treasury shares	Total
1 January 2008	**41,258,360**	-	**41,258,360**
Exchange of shares transaction (1 May 2008)	1,255,140,690	(92,481,177)	1,162,659,513
30 June 2008	**1,296,399,050**	**(92,481,177)**	**1,203,917,873**
Exchange of shares transaction (1 July 2008)	977,714,795	-	977,714,795
Purchase of treasury shares	-	(5,583,278)	(5,583,278)
31 December 2008	**2,274,113,845**	**(98,064,455)**	**2,176,049,390**
30 June 2009	**2,274,113,845**	**(98,064,455)**	**2,176,049,390**

The total number of the Company's ordinary shares authorised for issue as at 30 June 2009 and 31 December 2008 was 4,631,258,360 thousand (30 June 2008: 4,594,125,836 thousand).

Exchange of shares transaction.

On 1 May 2008 the Company issued 1,255,140,690 thousand ordinary shares, which were exchanged for the outstanding ordinary shares of JSC "Ivanovo Thermal-gas Plant", JSC "North-West Thermal Power Plant" and JSC "RAO UES INTERNATIONAL" in connection with the merger of these entities into the Company.

The difference of EUR 3,032,823 thousand between the nominal value of the shares issued in the amount of EUR 3,401,843 thousand and non-controlling interest of EUR 168,640 thousand, as adjusted for the revaluation reserve of EUR 49,840 thousand, attributable to the Company's shareholders and treasury shares of EUR 250,655 thousand, resulting from the exchange, was recorded in the merger reserve. For details of the treasury shares held as result of the exchange see paragraph "Treasury shares" below.

On 1 July 2008 the Company issued 977,714,795 thousand ordinary shares, which were exchanged for the outstanding ordinary and preference shares of JSC "INTER RAO UES Holding" and a minority stake in JSC "Kaliningradskaya TEC-2" in connection with the merger of these entities into the Company. The coefficients used for the shares exchange were approved by the Company's shareholders and the shareholders of the entities merged. As a result of the transaction share capital increased by EUR 2,644,545 thousand to EUR 6,165,300 thousand and merger reserve (accounted within retained earnings) decreased by EUR 2,031,818 thousand to EUR 4,433,654 thousand.

Treasury shares.

As a result of exchange of shares transaction certain shares of companies merged became treasury shares of the company:

- Out of those who voted against the respective merger into the Company on the extraordinary shareholders meeting held in December 2007, some minority shareholders of JSC "North-West Thermal Power Plant" claimed redemption of their shares by the entity. In March 2008 JSC "North-West Thermal Power Plant" purchased its own shares submitted for redemption. On 1 May 2008 as a result of the merger of JSC "North-West Thermal Power Plant" into the Company these shares were converted into 9,060,044 thousand of ordinary shares of the Company with a nominal value of RR 906,004 thousand or EUR 24,556 thousand. As a result of the conversion these shares became treasury shares of the Group.

- On 1 May 2008, as a result of the merger of JSC "North-West Thermal Power Plant" and JSC "RAO UES INTERNATIONAL" into the Company, the ordinary shares of JSC "North-West Thermal Power Plant" held on the date of the merger by one of the subsidiaries of JSC "RAO UES INTERNATIONAL" were converted into 83,421,133 thousand ordinary shares of the Company and became treasury shares in the Group with a nominal value of RR 8,342,113 thousand or EUR 226,099 thousand.

Total number of treasury shares obtained as a result of the reorganisation of the Company is 92,481,177 thousand with total nominal value RR 9,248,117 thousand or EUR 250,655 thousand.

On 1 July 2008, as a result of the merger with JSC "INTER RAO UES Holding", the Company recognised, among other assets held on the statement of financial position of JSC "INTER RAO UES Holding", third party promissory notes. In October 2008 the promissory notes were settled by exchange for 5,583,278 thousand of the Company's shares.

(in thousands of EUR , unless otherwise stated)

16 Equity (continued)

As at 31 December 2008 as well as at 30 June 2009 the Group held 98,064,455 thousands treasury shares (RR 9,806,446 thousand or EUR 265,756 thousand). All of the treasury shares were held by one of the Company's 100% subsidiaries.

Dividends. In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company form the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements. The same is applicable for the entities merged.

Combined and Consolidated Interim Statement of Changes in Equity includes dividends declared by entities merged before their legal merger. These dividends actually represent a direct distribution to the shareholders of the entities merged and, therefore, represent a distribution of their equity combined in these Financial Statements.

On 26 June 2008 JSC "Ispytatelniy Stend Ivanovskoy GRES" (an entity combined in the Financial Statements with effect from 1 January 2007, see Note 3) declared dividends for the year ended 31 December 2007 of RR 0.025 or EUR 0.0006 per share for the total of RR 9,245 thousand or EUR 252 thousand, out of which RR 7,734 thousand or EUR 218 thousand were payable to RAO UES and accounted as a decrease in the merger reserve and RR 1,511 thousand or EUR 34 thousand were payable to minorities.

On 30 April 2009 ERC, the Group entity, declared dividends for the year 2008 of LTL 35 thousand or EUR 10 thousand per share for the total of LTL 35,000 thousand or EUR 10,137 thousand, out of which LTL 17,150 thousand or EUR 4,967 thousand were paid to minorities.

In June 2009 the annual shareholders meeting of the Parent company approved the decision to pay no dividends for the year ended 31 December 2008.

Other equity movements. In June 2008 RAO UES contributed RR 2,140,290 thousand or EUR 58,318 thousand of cash to the capital of JSC "Eastern energy company" (entity combined in the Financial Statements starting 1 January 2007). The contribution was recorded as an increase in the merger reserve.

In June 2008 one of the entities merged into the Parent, JSC "Kaliningradskaya TEC-2", made an additional issue of shares in the amount of RR 85,308 thousand or EUR 2,459 thousand, which was paid for be means of settlement of payables to the Ministry of Property of Russian Federation.

Hedge reserve. In April 2009 the Parent company entered into an interest rate swap agreement in respect of future payments of USD 100 million within the period 13 May 2009 till 12 November 2013 for the purposes of hedging future interest payments under the long-term loan agreement with LIBOR floating interest rate from SC Vnesheconombank (see Note 18 (iv)). As at 30 June 2009 the gain on the above hedge transaction was recognised in other comprehensive income of the combined and consolidated interim statement of comprehensive income and amounted to EUR 1,119 thousand (June 2008: nil), the ineffective part of the hedge transaction amounted to EUR 14 thousand was recognised in other operating income of the combined and consolidated interim statement of comprehensive income.

17 Earnings per share

The calculation of earnings per share is based upon the profit for the period and the weighted average number of ordinary shares outstanding during the year, calculated as shown below. The Company has no dilutive potential ordinary shares.

	Six months ended 30 June 2009	Six months ended 30 June 2008
Weighted average number of shares	2,176,049,389,090	426,670,353,460
Profit attributable to the shareholders of the Company	18,323	44,630
Profit earnings per ordinary share - basic and diluted (EUR)	0.000008	0.000105

The calculation of the weighted average number of shares was based on the dates of legal issue of shares, while the profit or loss attributable to the shareholders includes the results of merged entities for six months of 2008.

(in thousands of EUR , unless otherwise stated)

18 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings.

	Currency	Effective interest rate	30 June 2009	31 December 2008	30 June 2008
JSC Gazprombank (viii)	EUR	12.40%	220,000	-	-
SC Vnesheconombank (iv)[1]	USD	LIBOR+6%	116,395	115,562	-
JSC Sberbank (ii)	RUR	10.75%	45,642	48,261	54,189
PLC VTB Bank Europe [2]	USD	LIBOR+2%	35,704	35,448	31,778
JSC Russ-Bank (xi)	RUR	15.50%	34,232	-	-
JSC Sberbank (ix)	RUR	16.50%	22,365	-	-
CJSC VTB Bank Armenia	USD	12.00%	21,280	21,154	-
SC Vnesheconombank (x) [1]	RUR	14.00%	16,651	-	-
JSC VTB Bank Georgia	USD	14.00%	9,965	9,869	-
FIBI BANK (Switzerland) (vii)	USD	3.50%	7,141	7,090	6,356
Government of Armenia (v)	JPY	12.00%	4,207	2,675	-
CJSC HSBC Bank Armenia	USD	10.00%	3,547	3,526	-
Ministry of Defence, Armenia	AMD	12.00%	3,546	7,471	6,840
Government of Armenia (subloaned-KfW) (iii)	EUR	18.00%	4,852	4,466	4,111
Ministry of Finance, Georgia (subloaned-IDA/WB) (i, a)	USD	20.00%	739	700	453
Ministry of Finance, Georgia (subloaned-EBRD) (i, b)	USD	20.00%	672	603	381
Ministry of Finance, Georgia (subloaned-KfW) (i, c)	EUR	20.00%	351	277	179
Notes payable JSC Elektrogadatsema	GEL	15.40%	300	262	355
LLC IR-Leasing (vi)	RUR	10.58%	298	2,397	7,473
Finance lease liabilities	USD, EUR	6%-22%	50	93	127
Freecom Trading Limited[3]	USD	12.00%	-	-	7,627
CJCS Areximbank	AMD	12.00%	-	3,448	-
Other			5	5	4
Total long-term borrowings			**547,942**	**263,307**	**119,873**
Less: current portion of long-term loans and borrowings and long-term financial lease			(127,931)	(22,111)	(11,932)
			420,011	**241,196**	**107,941**

The effective interest rate is the market interest rate applicable to the loan at the date of origination.

As at 30 June 2009 the estimated fair value of total non-current debts (including the current portion) was EUR 544.0 million (31 December 2008: EUR 262.2 million; 30 June 2008: EUR 122.3 million), which is estimated by discounting the future contractual cash flows at the estimated current market interest rates available to the Group for similar financial instruments.

(i) As at 30 June 2009 one of the Group entities, "Mtkvari" Ltd. (Mtkvari) had three loans of total carrying value of EUR 1,762 thousand obtained by the predecessor of this entity and acquired by the Group as a result of the acquisition of this entity in 2003.

[1] The Group hedged the risks related to LIBOR floating interest rate of the SC Vnesheconombank loan nominated in USD (see Note 16).
[2] Under the terms of the Agreement the Company should be in compliance with certain financial and non-financial covenants.
[3] Freecom Trading Limited was a significant shareholder of JSC Moldavskaya GRES, which in first six months 2008 was 51 percent owned by the Group. In July 2008 Freecom Trading Limited became a Group company, 100 percent owned by the Group.

18 Loans and borrowings (continued)

Initially these loans were borrowed by the State of Georgia from international credit organizations (World Bank, EBRD, KfW) to rehabilitate certain generation assets and these loans were assigned to the predecessor of this Group entity in the course of privatization.

The loans currently are payable to:

(a) Ministry of Finance, Georgia (IDA/WB) – USD 36 million under contractual payment schedule from 2008 to 2027, interest rate 7%;

(b) Ministry of Finance, Georgia (EBRD) – USD 14.4 million under contractual payment schedule from 2005 to 2010, interest rate 8.2%;

(c) Ministry of Finance, Ministry of Fuel and National Bank, Georgia (KfW) – EUR 30 million under contractual payment schedule from 2007 to 2036, interest rate 0.75%.

All three loans have common provisions in relation to setting priority for the repayment of the loans, as follows:

- The entity is required to cover all current operational costs.
- The entity is required to repay the principal and related interest of a loan payable to the parent company only up to a maximum aggregate principal amount of USD 50 million.
- The entity is required to repay the "Subordinated Liabilities", i.e. the loans to the State of Georgia initially taken from the World Bank, EBRD and KfW stipulated above.
- The entity is required to repay all principal and interest repayments due on the loans payable to the parent company above the USD 50 million aggregate principal cap set out in the second point above.

The Group considered the ability of Mtkvari to settle its existing and future liabilities in accordance with the above repayment priority and concluded that the repayment of these three loans will start not earlier than in 2021 with the last payment to be made in 2059. The amortised cost of these loans has been calculated by taking into account the future cash flows associated with the repayment of these loans, as assessed by the Group, and discounting them at a rate of 20%, approximating the equivalent market yield on loan borrowings by Mtkvari at the date of inception of these loans.

The Group recognised a charge within interest expense in respect of the amortization of the prior period discounting on the Mtkvari loans discussed above, in the amount of EUR 167 thousand and EUR 625 thousand in the period of six months ended 30 June 2009 and 30 June 2008, respectively.

(ii) As at 30 June 2009 the Parent Company had a loan in the amount of RUR 2,000 million. The loan is to be repaid on 23 April 2010. The Parent Company pledged to JSC Sberbank property rights in respect of certain electricity sales contract with total value of USD 11.5 million.

(iii) The Government of Armenia (subloaned –KfW liabilities) loan arose as a result of sub-lending of credit received by the Government of Armenia from KfW to Sevan-Hrazdan Cascade JSC.

This liability was transferred to one of the Group entities, "International Energy Corporation" JSC (JSC IEC) pursuant to the purchase of Sevan-Hrazdan Cascade JSC assets. The total amount of the loan was EUR 21.1 million. This amount is to be paid by JSC IEC from 25 November 2009 to 25 November 2041. Since the interest rate stipulated by this loan was significantly lower than the market rates (effective interest rate per agreement is about 1%), initially the loan has been recorded at discounted amounts using market rates prevailing at the time of its initial recognition (18%). Further to initial recognition, the loan has been carried at amortised cost, using the discount rate applied during its initial recognition.

The Group recognised a charge within interest expense in respect of the amortization of the prior period discounting for the Armenian loans considered above in the amount of EUR 385 thousand and EUR 327 thousand in the period of six months ended 30 June 2009 and 30 June 2008, respectively.

(iv) As at 30 June 2009 the Parent Company had a loan in the amount of USD 163 million with an interest rate of LIBOR+6%, which was obtained for the purpose of financing the purchase of Freecom Trading Limited. The loan is to be repaid on 12 November 2013.

(v) The credit line of JPY 3,877 million with an interest rate of 1.8% was obtained for the purposes of financing the Armenian power system program "Transmission and distribution of electricity network". The loan is to be repaid from 10 February 2009 to 10 February 2039. The loan is obtained in the form of consulting services and performed prepayments recorded by the company as construction in progress.

(in thousands of EUR , unless otherwise stated)

18 Loans and borrowings (continued)

Since the interest rate stipulated by this loan was significantly lower than the market rates, initially the loan has been recorded at discounted amounts using market rates prevailing at the time of its initial recognition (12 %). Further to initial recognition, the loan is to be carried at amortised cost, using the discount rate applied during its initial recognition.

(vi) The liability to LLC IR-Leasing in the amount of EUR 299 thousand (31 December 2008: EUR 2,366 thousand; 30 June 2008: EUR 7,473 thousand) represents finance lease liabilities for leased equipment at Kaliningradskaya TEC-2, one of the Parent Company branches (the interest rate implied in the lease is equal to 10.58%).

(vii)In 2008 the Group received a request from FIBI BANK (Switzerland) for the immediate repayment of the amount of the loan. In September 2009 the Group received a legal claim in this regard. In management's opinion this claim has no legal grounds. Therefore the Group continues to classify the loan as long-term, repayable in 2010.

(viii) On 16 January 2009 the Parent Company obtained a loan in the amount of EUR 220 million with a fixed interest rate of 12.4% for the purposes of loans repayment in other banks and financing of operating activities. The loan is to be repaid on 16 January 2012.

(ix) Between May-June 2009 the Parent Company obtained from JSC Sberbank a loan in the amount of RUR 980 million for the purposes of financing of current operating activities. The loan is to be repaid on 23 December 2010. The Parent Company pledged to JSC Sberbank property rights in respect of certain electricity sales contract.

(x) On March 2009 the Parent Company obtained a loan in the amount of RUR 729.6 million and the total amount of credit limit of RUR 3.7 billion with a fixed interest rate equalled to 14% for the purposes of construction of second power generating block on Sochinskaya TPS, one of the Parent Company branches. The loan is to be repaid on 30 September 2018.

(xi) On June 2009 the Parent company obtained a loan in the amount of RUR 1.5 billion with a fixed interest rate equalled to 15.5% for the purposes of financing of current operating activities. The loan is to be repaid on 11 January 2011.

Gross finance lease liabilities – minimum lease payments

	30 June 2009	31 December 2008	30 June 2008
Less than one year	230	2,316	7,447
Between one and five years	139	224	431
After five years	-	-	1
	369	2,540	7,879
Future finance charges on finance leases	(21)	(50)	(279)
Present value of finance lease liabilities	**348**	**2,490**	**7,600**

The present value of finance lease liabilities is as follows:

	30 June 2009	31 December 2008	30 June 2008
Less than one year	213	2,276	7,192
Between one and five years	135	214	406
After five years	-	-	2
	348	2,490	7,600

Maturity table:

	30 June 2009	31 December 2008	30 June 2008
Due for repayment			
Between one and two years	271,433	93,584	87,776
Between two and five years	141,330	143,037	16,940
After five years	7,248	4,575	3,225
	420,011	241,196	107,941

Changes in interest rates impact loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Parent Company has a formal policy of determining how much of the Company's exposure should be to fixed or variable rates. At the time of raising new loans or borrowings management applies the policy to determine whether a fixed or variable rate would be more favourable to the

(in thousands of EUR , unless otherwise stated)

18 Loans and borrowings (continued)

Company over the expected period until maturity. As for other entities of the Group, following the corporate regulative documents, the decisions on raising new loans and borrowings on the subsidiaries level are subject for confirmation by the Parent Company. Management applies the same policy in making decisions concerning the conditions of raising loans and borrowings on the subsidiary level.

Current loans and borrowings and current portion of non-current loans and borrowings

	Effective interest rate	30 June 2009	31 December 2008	30 June 2008
Current loans and borrowings	11.00%-12.00%	12,105	181,641	231,027
Current portion of non-current loans and borrowings	6.56%-18.00%	127,718	19,835	4,740
Current portion of finance lease liability	10.58%-16.52%	213	2,276	7,192
Total		**140,036**	**203,752**	**242,959**

As at 30 June 2009 bank loan in CJSC HSBC Bank Armenia is collateralised by properties with a carrying amount of EUR 3,298 thousand (31 December 2008: EUR 813 thousand; 30 June 2008: EUR 4,469 thousand) – see Note 7 (d). The amount of the loans as at 30 June 2009 is EUR 3,547 thousand (31 December 2008: EUR 3,526 thousand; 30 June 2008: EUR 1,652 thousand).

The Group has the following undrawn borrowing facilities:

	30 June 2009	31 December 2008	30 June 2008
Floating rate:			
Expiring within one year	-	35,448	54,023
Expiring beyond one year	67,787	24,131	-
	67,787	*59,579*	*54,023*
Fixed rate:			
Expiring within one year	4,154	12,716	45,355
Expiring beyond one year	9,043	12,625	18,897
	13,197	*25,341*	*64,252*
Total	**80,984**	**84,920**	**118,275**

19 Accounts payable and accrued liabilities

	30 June 2009	31 December 2008	30 June 2008
Financial liabilities			
Trade payables	93,880	96,831	99,534
Dividends payable	-	-	250
Short-term derivative financial instruments	3,872	4,267	55
Other payables and accrued expenses	36,744	10,055	548,741
Total	**134,496**	**111,153**	**648,580**
Non-financial liabilities			
Advances received	10,874	11,405	19,720
Staff payables	9,031	8,747	8,863
Other payables	3,841	4,139	4,399
Total	**23,746**	**24,291**	**32,982**
	158,242	**135,444**	**681,562**

Short-term derivative financial instruments recognised as at 30 June 2009 represent the fair value of open electricity derivatives of RAO Nordic Oy. Short-term derivative financial instruments recognised as at 31 December 2008 and 30 June 2008 represent the fair value of open foreign currency forwards related to foreign currency sales of the Parent company and foreign currency loan obtained in June 2008 respectively.

As at 30 June 2008 other payables included payables to RAO UES in the amount of RR 19,820,126 thousand or EUR 537,019 thousand. RAO UES financed the construction of power generating blocks at two of its subsidiaries, JSC "North-West Thermal Power Plant" and JSC "Ivanovo Thermal-gas Plant" (entities combined in the Financial Statements before the legal merger with the Parent company). Financing was provided to the entities by RAO UES in the form of cash or by purchasing the entities' promissory notes.

(in thousands of EUR , unless otherwise stated)

19 Accounts payable and accrued liabilities (continued)

Accounts receivable from JSC "North-West Thermal Power Plant" and JSC "Ivanovo Thermal-gas Plant" for cash provided to them during construction in the amount of RR 19,820,126 thousand or EUR 536,099 thousand were transferred by RAO UES on 1 July 2008 to JSC "INTER RAO UES Holding" as a result of its spin off from RAO UES, and then they were contributed into the Company as a result of the merger of JSC "INTER RAO UES Holding" into the Company. As a result of the merger the accounts payable of JSC "North-West Thermal Power Plant" and JSC "Ivanovo Thermal-gas Plant" to RAO UES were converted into the Company's equity.

As at 30 June 2009 other payables include EUR 21,462 thousand according to the cession agreement with OJSC Alfa-Bank with regard to the loan of CJSC Electroluch (see Note 11). This liability was fully repaid by the Parent in July 2009 just prior to the acquisition of CJSC Electroluch.

20 Other non-current liabilities

	30 June 2009	31 December 2008	30 June 2008
Financial liabilities			
Long-term accounts payable	557	609	989
Total financial liabilities	**557**	**609**	**989**
Non-financial liabilities			
Pensions liabilities	3,114	3,081	3,201
Long-term part of taxes payable	2,450	-	-
Other long-term liabilities	125,831	118,434	1,368
Total non – financial liabilities	**131,395**	**121,515**	**4,569**
Total	**131,952**	**122,124**	**5,558**

Other long-term liabilities include financing from OJSC "Mejregionenergostroy" in the amount of EUR 120,857 thousand (31 December 2008: 114,520 thousand; 30 June 2008: nil) received for the purpose of financing the building of the second power generating block at Kaliningradskaya TEC-2 on behalf of that company under an investment agreement. In accordance with the investment agreement, OJSC "Mejregionenergostroy" will finance the capital expenditure through payments to a special bank account up to a limit of EUR 508,954 thousand. The Parent Company will receive remuneration in the amount limited to EUR 3,444 thousand (including VAT), as defined in the investment contract, in connection with management of the construction project. After construction is completed (expected in September 2011), the title of ownership will be transferred to OJSC "Mejregionenergostroy". The balances related to the construction of the second power generating block at Kaliningradskaya TEC-2 are disclosed in Note 11.

The tables below provide information about the liabilities related to pension and other post-employment benefits, plan assets and actuarial assumptions used for the current and previous year reporting periods.

Amounts recognised in the Consolidated Balance Sheet:

	30 June 2009	31 December 2008	30 June 2008
Present value of defined benefit obligations	3,795	4,047	4,268
Less: Fair value of plan assets	-	-	-
Deficit in plan	3,795	4,047	4,268
Net actuarial loss not recognised in the balance sheet	(92)	(481)	(479)
Unrecognised past service costs	(589)	(485)	(588)
Pension liabilities in the balance sheet	**3,114**	**3,081**	**3,201**

Amounts recognised in the Consolidated Statement of Operations:

	Six months ended 30 June 2009	Six months ended 30 June 2008
Current service cost	167	174
Interest cost	183	141
Recognised actuarial loss	6	28
Recognised past service cost	75	43
Total	**431**	**386**
Curtailment and settlement gain	(159)	(152)
Total	**272**	**234**

(in thousands of EUR , unless otherwise stated)

20 Other non-current liabilities (continued)

Changes in the present value of the Group's defined benefit obligation and plan assets are as follows:

	30 June 2009	31 December 2008	30 June 2008
Present value of defined benefit obligations as at the beginning of the period	4,047	4,525	4,525
Current service cost	167	349	174
Interest cost	183	286	141
Actuarial (gain)/loss	(212)	(36)	(102)
Past service cost	204	-	-
Benefits paid	(74)	(119)	(13)
Other (Curtailment gain)	(300)	(340)	(338)
Translation difference	(220)	(618)	(119)
Present value of defined benefit obligations as at the end of the period	**3,795**	**4,047**	**4,268**

Plan assets:

	30 June 2009	31 December 2008	30 June 2008
Employer contributions	74	119	13
Benefits paid	(74)	(119)	(13)
Fair value of plan assets as at the end of the period	-	-	-

Changes in the pension liabilities are as follows:

	30 June 2009	31 December 2008	30 June 2008
Pension liabilities at start of the year	3,081	3,062	3,062
Net expense recognised in the statement of operations	272	603	234
Benefits paid	(74)	(119)	(13)
Translation difference	(165)	(465)	(82)
Pension liabilities as at the end of the period	**3,114**	**3,081**	**3,201**

Principal actuarial assumptions are as follows:

	30 June 2009	31 December 2008	30 June 2008
Discount rate	11.50%	9.00%	7.15%
Salary increase	8.50%	8.50%	7.50%
Inflation	7.00%	7.00%	6.00%
Mortality	Russian population mortality table 1998	Russian population mortality table 1998	Russian population mortality table 1998

Staff turnover was assessed using an experience-based model.
Funded status of the pension and other post employment and long-term obligations as well as gains/losses arising from experience adjustments is as follows:

	30 June 2009	31 December 2008	30 June 2008
Defined benefit obligation	3,795	4,047	4,268
Deficit in plan	3,795	4,047	4,268
Experience adjustments on plan liabilities, gain/(loss)	878	(361)	(1)

21 Taxes payable

	30 June 2009	31 December 2008	30 June 2008
Value added tax (including deferred)	8,280	8,494	8,045
Fines and interest	2,606	5,150	807
Property tax	1,155	2,889	4,318
Other taxes	5,119	4,251	9,623
	17,160	**20,784**	**22,793**

Included in value added tax payable is EUR 3,666 thousand of deferred VAT which only becomes payable to the authorities when the underlying receivables balances are either recovered or written off (31 December 2008: EUR 4,015 thousand; 30 June 2008: EUR 4,666 thousand).

(in thousands of EUR , unless otherwise stated)

22 Revenue

	Six months ended 30 June 2009	Six months ended 30 June 2008
Electricity and capacity	775,041	690,460
Government Grants / Subsidies	-	15
Other revenue	1,210	2,008
	776,251	**692,483**

Other operating income

	Six months ended 30 June 2009	Six months ended 30 June 2008
Rent income	1,264	1,326
Fines and penalties	667	896
Electricity derivatives of RAO Nordic Oy	664	4,545
Income on sale of inventory	607	411
Insurance compensation	583	529
Network Connection	386	643
Amended property tax declaration of the Parent Company	-	3,096
Deferred VAT	-	2,458
Other	1,550	4,297
	5,721	**18,201**

(in thousands of EUR , unless otherwise stated)

23 Operating expenses

	Six months ended 30 June 2009	Six months ended 30 June 2008
Purchased electricity and capacity	379,321	361,067
Fuel expense	114,779	55,338
Transmission fees	52,467	58,251
Employee benefit expenses and payroll taxes	52,425	46,779
Depreciation of property, plan and equipment	40,087	43,432
Taxes other than on income	11,982	13,348
Repairs and maintenance	11,578	11,641
Consulting, legal and auditing services	3,787	3,139
Business trip and field travel expenses	3,317	2,845
Operating lease expenses	2,944	1,960
Agency fees	2,862	10,633
Insurance expenses	2,817	3,438
Bank services	1,857	3,353
Communication services	1,677	1,401
Security expenses	1,520	1,166
Fees and penalties, other than tax	1,370	1,584
Other provisions - charge (release)	1,185	55
Other materials for production purposes	1,156	2,503
Material expenses (office maintenance)	1,097	980
Charity donations	942	935
Loss on sale and write off of property, plan and equipment	853	892
Amortisation of intangible assets	836	489
Social expenditure	677	633
Representative expenses	452	416
Brokerage charges	348	664
Advertising	315	594
Research and development	268	546
Custom taxes	166	236
Write off of bad debt which was not previously provided	144	44
Management fee	9	-
Provision for impairment of account receivables - (release)/ charge	(831)	1,806
Other operating expenses	13,816	10,283
	706,223	**640,451**

As at 30 June 2009 other expenses include a loss on the fair value of Nordic's electricity derivatives in the amount of EUR 3,473 thousand (30 June 2008: nil).

(in thousands of EUR , unless otherwise stated)

24 Finance income and expenses

Finance income	Six months ended 30 June 2009	Six months ended 30 June 2008
Interest income	7,523	4,626
Dividend income	-	3,233
Foreign exchange gain, net	-	15,756
	7,523	23,615

Finance expenses	Six months ended 30 June 2009	Six months ended 30 June 2008
Interest expense	27,198	12,539
Foreign exchange loss, net	29,684	-
	56,882	12,539

Included in interest expenses is the net amount of interest expense on a long-term interest rate swap contract (see Note 16) of EUR 127 thousand recognised in the combined and consolidated statement of comprehensive income during the current period.

25 Income tax expense

	Six months ended 30 June 2009	Six months ended 30 June 2008
Current tax expense	(12,812)	(21,358)
Deferred tax expense	(1,006)	(7,582)
Release/(Accrual) of provision for income tax	6,289	(5,061)
	(7,529)	(34,001)

The Parent Company's applicable tax rate is the corporate income tax rate of 20% (2008: 24%). The income tax rate in Finland is 26% (2008: 26%), in Georgia is 15% (2008: 15%), in Lithuania is 20% (2008: 15%) and in Armenia is 20% (2008: 20%). In accordance with tax legislations, tax losses in different Group companies in the countries where Group companies operate may not be offset against taxable profit of other Group companies. Accordingly, profit tax may accrue even where there is a net consolidated tax loss.

On 26 November 2008, the Russian Federation reduced the standard corporate income tax rate from 24% to 20% with effect from 1 January 2009.

Profit before tax for financial reporting purposes is reconciled to profit tax expenses as follows:

	Six months ended 30 June 2009	Six months ended 30 June 2008
Profit before profit tax	25,397	83,670
Theoretical profit tax charge at 20% (2008: 24%)	(5,079)	(20,081)
Effect of different tax rates	881	825
Effect of different tax base (JSC Moldavskaya GRES)	(1,978)	(2,087)
Non-recognised deferred tax assets movements and recognition of previously unrecognised tax benefits	(4,913)	(712)
Provision for income tax	6,289	(5,061)
Tax effect of items which are not deductible or assessable for taxation purposes, net	(2,729)	(6,885)
	(7,529)	(34,001)

The tax system in Transnistria, Moldova, where JSC Moldavskaya GRES operates, is based on revenue at a rate of 6.7% (for six month ended 30 June 2008: 8.3%).

(in thousands of EUR , unless otherwise stated)

26 Financial instruments and financial risk factors

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency exchange risk, interest rates risk and price risk), credit risk and liquidity risk. Prior to 2008 the Group did not have a risk policy in order to hedge its financial exposures. Since 2008 risk management is carried out in accordance with a risk policy approved by the Management Board.

This risk policy provides written principles for overall risk management and policies for specific areas, such as foreign exchange risk, and credit risk. Management considers these measures as sufficient to control the risks within the Group's business activities.

Information on financial instruments in terms of categories is presented below:

30 June 2009	Loans and receivables	Derivatives used for hedging	Available for sale	Total
Assets as per Combined and consolidated Statement of financial position				
Available for sale financial assets	-	-	9,694	9,694
Derivative financial instruments	-	1,006	-	1,006
Trade and other receivables excluding prepayments	202,786	-	-	202,786
Restricted cash	17,770	-	-	17,770
Deposits with maturity exceeding 3 months	685	-	-	685
Cash and cash equivalents	279,238	-	-	279,238
Total assets	**500,479**	**1,006**	**9,694**	**511,179**

30 June 2009	Liabilities at fair value through profit and loss	Other financial liabilities at amortised cost	Total
Liabilities as per Combined and consolidated Statement of financial position			
Borrowings (excluding finance lease liabilities)	-	559,699	559,699
Finance lease liabilities	-	348	348
Derivative financial instruments	3,872	-	3,872
Trade and other payables excluding taxes	-	131,181	131,181
Total liabilities	**3,872**	**691,228**	**695,100**

31 December 2008	Loans and receivables	Assets at fair value through profit and loss	Available for sale	Total
Assets as per Combined and consolidated Statement of financial position				
Available for sale financial assets	-	-	5,650	5,650
Derivative financial instruments	-	9,402	-	9,402
Trade and other receivables excluding prepayments	145,667	-	-	145,667
Restricted cash	22,800	-	-	22,800
Deposits with maturity exceeding 3 months	724			724
Cash and cash equivalents	273,839	-	-	273,839
Total assets	**443,030**	**9,402**	**5,650**	**458,082**

(in thousands of EUR , unless otherwise stated)

26 Financial instruments and financial risk factors (continued)

31 December 2008	Liabilities at fair value through profit and loss	Other financial liabilities at amortised cost	Total
Liabilities as per Combined and consolidated Statement of financial position			
Borrowings (excluding finance lease liabilities)	-	442,458	442,458
Finance lease liabilities	-	2,490	2,490
Derivative financial instruments	4,267	-	4,267
Trade and other payables excluding taxes	-	107,495	107,495
Total liabilities	**4,267**	**552,443**	**556,710**

30 June 2008	Loans and receivables	Available for sale	Total
Assets as per Combined and consolidated Statement of financial position			
Available for sale financial assets	-	903	903
Trade and other receivables excluding prepayments	124,295	-	124,295
Restricted cash	114,549	-	114,549
Deposits with maturity exceeding 3 months	36,713	-	36,713
Promissory notes	-	-	-
Cash and cash equivalents	197,627	-	197,627
Total assets	**473,184**	**903**	**474,087**

30 June 2008	Liabilities at fair value through profit and loss	Other financial liabilities at amortised cost	Total
Liabilities as per Combined and consolidated Statement of financial position			
Borrowings (excluding finance lease liabilities)	-	343,300	343,300
Finance lease liabilities	-	7,600	7,600
Derivative financial instruments	55	-	55
Trade and other payables excluding taxes	-	649,514	649,514
Total liabilities	**55**	**1,000,414**	**1,000,469**

(in thousands of EUR , unless otherwise stated)

26 Financial instruments and financial risk factors (continued)

(a) Credit risk

The Group is exposed to credit risk, which is the risk that a counterparty will not be able to pay amounts due in full when due. Credit risk is managed on a Group basis, as well as at the level of a particular Group entity. Financial assets which are potentially subject to credit risk are presented in the table below net of an allowance for impairment provision and consist principally of trade and other receivables, cash and cash equivalents.

The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The Group's current arrangements include assessing the customers' financial position, past experience and other relevant factors. The carrying amount of trade and other receivables, net of the allowance for impairment provision, represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic and other factors, management believes that there is no significant risk of loss to the Group beyond the impairment provision already recorded.

As the Group's assets are located in different geographical areas (Russia, Armenia, Georgia, Lithuania, Moldova (Transnistria), Finland and others) potential credit risk is associated with the credit risks of those regions. Some of the areas where Group operations take place continue to display certain characteristics of an emerging market. As such, the Group's credit risk is strongly related to any deterioration of the business environment in those areas.

Information on financial assets potentially subject to credit risk in terms of geographical areas is presented below:

30 June2009

	Russia	**Armenia**	**Georgia**	**Lithuania**	**Moldova**	**Finland**	**Other**	**Total**
Derivative financial instruments	1,006	-	-	-	-	-	-	**1,006**
Restricted cash	15,720	-	-	40		2,000	10	**17,770**
Trade receivables	67,899	20,762	14,584	14,160	12,920	3,700	137	**134,162**
Other receivables	25,468	3,267	1,820	697	2,479	2,704	3,543	**39,978**
Non-current loans issued	21,470	-	-	9	-	-	-	**21,479**
Non-current receivables	4,582	15	1,991	579	-	-	-	**7,167**
Deposits with maturity exceeding 3 months	685	-	-	-	-	-	-	**685**
Cash and cash equivalents	257,381	8,262	4,540	2,863	1,542	4,084	566	**279,238**
Total	**394,211**	**32,306**	**22,935**	**18,348**	**16,941**	**12,488**	**4,256**	**501,485**

(in thousands of EUR , unless otherwise stated)

26 Financial instruments and financial risk factors (continued)

31 January 2008

	Russia	Armenia	Georgia	Finland	Lithuania	Moldova	Other	Total
Derivative financial instruments	9,402	-	-	-	-	-	-	**9,402**
Restricted cash	20,526	-	-	2,224	40	-	10	**22,800**
Trade receivables	52,711	28,473	18,926	6,627	2,127	6,085	215	**115,164**
Other receivables	6,931	2,402	1,744	6,423	1,485	1,355	3,753	**24,093**
Non-current loans issued	8	-	-	-	17	-	-	**25**
Non-current receivables	4,447	46	1,272	-	580	-	40	**6,385**
Deposits with maturity exceeding 3 months	724	-	-	-	-	-	-	**724**
Cash and cash equivalents	250,684	608	3,950	5,806	9,093	3,140	558	**273,839**
Total	**345,433**	**31,529**	**25,892**	**21,080**	**13,342**	**10,580**	**4,576**	**452,432**

30 June 2008

	Russia	Armenia	Georgia	Finland	Lithuania	Moldova	Other	Total
Restricted cash	107,849	-	-	6,649	40	-	11	**114,549**
Trade receivables	51,495	20,955	13,708	3,409	3,237	4,413	177	**97,394**
Other receivables	10,693	2,367	1,603	22	2,830	951	3,504	**21,970**
Non-current loans issued	10	8	-	-	332	-	-	**350**
Non-current receivables	3,618	22	941	-	-	-	-	**4,581**
Deposits with maturity exceeding 3 months	36,713	-	-	-	-	-	-	**36,713**
Cash and cash equivalents	182,663	1,014	1,657	5,703	2,520	2,654	1,416	**197,627**
Total	**393,041**	**24,366**	**17,909**	**15,783**	**8,959**	**8,018**	**5,108**	**473,184**

Cash is placed in financial institutions, which are considered at the time of deposit to have minimal risk of default. Despite the fact that certain banks do not have international credit ratings (see Note 14) they are considered as reliable counterparties that have stable positions in the financial market of the Russian Federation or the other countries in which the Group entities operate.

As at 30 June 2009 receivables potentially involving credit risks for the Group consisted mainly of trade receivables in the amount of EUR 137,087 thousand (31 December 2008: EUR 117,759 thousand), and other receivables in the amount of EUR 65,699 thousand (31 December 2008: EUR 27,908 thousand). The total sum of receivables as at 30 June 2009 was EUR 202,786 thousand (as at 31 December 2008: EUR 145,667 thousand).

The Group's general objective for managing credit risk is to ensure continuous revenue collection and stable cash inflow as well as efficient financial asset utilization.

Being mainly linked to trade receivables, the Group's exposure to credit risk is generally affected by quality of such debtors. It is considered, that business activities among the diverse entities within the Group differ. Consequently credit risks are specific for the different types of trade receivables (Residential Sector, Wholesale trading etc.).

(in thousands of EUR , unless otherwise stated)

26 Financial instruments and financial risk factors (continued)

Due to the impracticability of determining independent credit ratings for each of its customers and trade partners, as well as taking into account the dissimilarity between different groups of them, the Group assesses credit risks allied with trade receivables based upon particular precedent experience and business relationship supported by other factors.

In order to obtain better credit risk monitoring the Group has classified its receivables according to its own understanding of their credit risk rate. The Group makes sure that the provision for impairment of accounts receivable reflects the credit risk classification in order to consistently grade and treat different groups of receivables in a similar manner.

As at 30 June 2009	Nominal value	Provision for impairment of accounts receivable	Carrying amount	Share in total, %
A	83,754	-	83,754	41%
B'	52,750	(3,947)	48,803	24%
B''	25,272	(7,077)	18,195	9%
B'''	10,028	(5,840)	4,188	2%
C	56,947	(54,426)	2,521	1%
Other small debtors (A class)	935	-	935	1%
Loans issued to employees	8,692	(4,967)	3,725	2%
Loan issued to CJSC Electroluch (A class)	21,462	-	21,462	11%
Related parties (A class)	19,203	-	19,203	9%
Total	**279,043**	**(76,257)**	**202,786**	**100%**

As at 31 December 2008	Nominal value	Provision for impairment of accounts receivable	Carrying amount	Share in total, %
A	83,429	-	83,429	57%
B'	29,754	(3,124)	26,630	18%
B''	24,431	(5,906)	18,525	13%
B'''	11,136	(6,259)	4,877	3%
C	61,421	(56,707)	4,714	3%
Other small debtors (A class)	1,060	-	1,060	2%
Loans issued to employees	8,758	(5,529)	3,229	2%
Related parties (A class)	3,203	-	3,203	2%
Total	**223,192**	**(77,525)**	**145,667**	**100%**

The Group has applied three main Credit risk Classes – A (premium), B (medium), C (low-grade).

Class A – parties with stable financial performance who have rarely allowed delayed settlement or defaulted on their financial obligations towards the Group. The credit risk related to those entities and individuals is considered minimal. No provision has been applied for such receivables.
Class B – parties, whose capacity to clear their financial obligations towards the Group is to some extent affected by credit risk. This group is sequentially divided into three sub-classes:
Class B' – parties with satisfactory solvency, where any delaying of payments has been only short-term and temporary in character, related agreements are put in place accordingly, credit risk related to those entities and individuals is considered low.
Class B'' – parties with poor solvency, reasonably frequent delays in payments happen from time to time, there is reasonable uncertainty regarding their capacity to clear their financial obligations towards the Group. The credit risk related to those entities and individuals is considered acceptable.
Class B''' – parties with unsatisfactory solvency, frequent delay in payments happen or\and have systematic grounds (reasons), there is significant uncertainty regarding their capacity to clear their financial obligations towards the Group. The credit risk related to those entities and individuals is considered moderate.

(in thousands of EUR , unless otherwise stated)

26 Financial instruments and financial risk factors (continued)

The main reason behind dividing Class B into the three sub-classes is to develop a tool for more precise monitoring of the status of receivables and the outcome of credit risk-management measures employed during the reported period.

Class C – parties with uncertain capacity to meet their financial obligations towards the Group. The credit risk related to those entities and individuals, mainly residential subscribers in Georgia, is considered high. The Group can not switch off the debtors or reject potential debtors of this class due to social and political reasons.

Policies and procedures to address credit risk-management include financial claims and court proceedings. Entities also use a wider range of proactive credit risk-management procedures where they are possible considering the rules of national energy markets. Such procedures include preliminary credit risk-assessment before setting a contract or a deal.

There are number of debtors to which credit risk classification and policy are addressed on a specific basis. These are debts of entities under asset management (OGK-1, Khrami-1 and Khrami-2), loan issued to CJSC Electroluch, the entity acquired after the balance sheet date (see Note 33) and the loans issued to employees. Management considers these debts as highly likely to be recovered.

(b) Market risk

(i) Foreign exchange risk

Individual subsidiaries and the Group as a whole, incur currency risk on sales, purchases and borrowings that are denominated in a currency other than functional currency of the specific subsidiary or the Parent Company. The currencies giving rise to this risk are primarily the USD and EUR. In 2008 the Group entered into several forward contracts to manage the Group's foreign currency risks (see Note 15 and 19).

The Group has the following foreign-currency denominated financial assets and liabilities (these are disclosed on stand-alone basis inclusive of intercompany balances and exclusive receivables considered net investments and liabilities related to those assets):

At 30 June 2009	EUR	USD	Other	Total
Trade and other receivables (excluding prepayments)	71,745	218,718	3,198	293,661
Cash and cash equivalents	17,130	30,472	1,215	48,817
Restricted cash	40	-	-	40
Available - for - sale financial assets	-	3	13	16
Derivative financial instruments (assets)	-	1,006	-	1,006
Loans and borrowings (excluding finance lease liabilities)	(280,904)	(272,827)	(4,207)	(557,938)
Finance lease liabilities	(37)	-	-	(37)
Trade and other payables (excluding taxes)	(14,214)	(35,731)	(6,219)	(56,164)
Net foreign currency position	**(206,240)**	**(58,359)**	**(6,000)**	**(270,599)**

At 31 December 2008	EUR	USD	Other	Total
Trade and other receivables (excluding prepayments)	41,065	177,446	2,620	221,131
Cash and cash equivalents	48,334	2,420	2,969	53,723
Restricted cash	40	-	-	40
Available - for - sale financial assets	-	3	13	16
Derivative financial instruments (assets)	-	9,402	-	9,402
Loans and borrowings (excluding finance lease liabilities)	(28,875)	(437,020)	(2,675)	(468,570)
Finance lease liabilities	(55)	(12)	-	(67)
Derivative financial instruments (liabilities)	(3,834)	-	-	(3,834)
Trade and other payables (excluding taxes)	(11,478)	(26,942)	(2,457)	(40,877)
Net foreign currency position	**45,197**	**(274,703)**	**470**	**(229,036)**

(in thousands of EUR , unless otherwise stated)

26 Financial instruments and financial risk factors (continued)

At 30 June 2008	EUR	USD	Other	Total
Trade and other receivables (excluding prepayments)	26,629	132,710	1,701	161,040
Cash and cash equivalents	17,459	6,882	648	24,989
Loans and borrowings (excluding finance lease liabilities)	(24,999)	(233,076)	-	(258,075)
Derivative financial instruments (liabilities)	-	(55)	-	(55)
Trade and other payables (excluding taxes)	(9,478)	(22,493)	(2,862)	(34,833)
Net foreign currency position	**9,611**	**(116,032)**	**(513)**	**(106,934)**

For the purposes of sensitivity analysis management has estimated the reasonably possible changes in currency exchange rates based mainly on expectations as to the volatility of exchange rates. If the currency exchange rates had weakened/strengthened within the estimated levels (see table below) with all other variables held constant, the hypothetical effect on income and equity for six months ended 30 June 2009 would have been a profit EUR 37,775 thousand and loss EUR 9,473 thousand, respectively.

	EUR /USD	RUR /USD	RUR /EUR	AMD /USD	AMD /EUR	AMD /JPY	GEL /USD	GEL /EUR	GEL /AMD	LTL /EUR
Upper level	11.7%	3.0%	15.0%	2.6%	14.5%	11.2%	3.5%	15.5%	0.9%	0.2%
Lower level	(11.7)%	(3.4)%	(14.7)%	(2.6)%	(13.9)%	(11.2)%	(3.5)%	(14.7)%	(0.9)%	(0.2)%

The expected deviations were based on the calculation of possible change in exchange rates based on an analysis of recent trends.

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). At the moment, the Parent Company has a formal policy of determining how much of the company's exposure should be to fixed or variable rates. At the time of raising new loans or borrowings management applies the policy to determine whether a fixed or variable rate would be more favourable to the Company over the expected period until maturity. As for other entities of the Group, following the corporate regulative documents, the decisions on raising new loans and borrowings on the subsidiaries level are subject for confirmation by the Parent Company. Management applies the same policy in making decisions concerning the conditions of raising loans and borrowings on the subsidiary level.

As at 30 June 2009, the variable rate debt, represented by loans with LIBOR linked interest rates, amounted to EUR 153,265 thousand (31 December 2008: EUR 316,048 thousand; 30 June 2008: EUR 181,585 thousand). If interest rates on that category of borrowings at that date had been 190 basis points per annum higher/lower, with all other variables held constant, the hypothetical effect on income for six months ended 30 June 2009 would have been a EUR 2,330 thousand loss/profit (for six months ended as at 30 June 2008: EUR 2,622 thousand loss/profit, with estimated LIBOR linked interest rate variance as 190 basis points per annum higher/lower).

(c) Liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group seeks to adopt a prudent approach to liquidity risk management which implies holding a reasonable level of cash and maintaining the availability of funding through an adequate amount of committed credit facilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows translated at exchange rates as at the reporting dates.

(in thousands of EUR , unless otherwise stated)

26 Financial instruments and financial risk factors (continued)

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 20 years	Over 20 years	Total
Loans and borrowings	188,334	308,223	177,910	43,389	200,579	918,435
Trade and other payables	130,621	744	4	-	-	131,369
Finance lease payables	213	131	5	-	-	349
Derivative financial instruments obligations	3,872	-	-	-	-	3,872
Total at 30 June 2009	**323,040**	**309,098**	**177,919**	**43,389**	**200,579**	**1,054,025**

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 20 years	Over 20 years	Total
Loans and borrowings	268,043	156,234	170,255	33,892	149,615	778,039
Trade and other payables	104,825	245	99	-	-	105,169
Finance lease payables	2,276	189	25	-	-	2,490
Derivative financial instruments obligations	4,267	-	-	-	-	4,267
Total at 31 December 2008	**379,411**	**156,668**	**170,379**	**33,892**	**149,615**	**889,965**

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 20 years	Over 20 years	Total
Loans and borrowings	291,731	96,773	36,095	40,055	157,522	622,176
Trade and other payables	650,121	628	160	-	-	650,909
Finance lease payables	7,192	293	114	1	-	7,600
Derivative financial instruments obligations	55	-	-	-	-	55
Total at 30 June 2008	**949,099**	**97,694**	**36,369**	**40,056**	**157,522**	**1,280,740**

(d) Capital management

The Group's objective when managing capital is to safeguard the Group's ability to continue operations on a going concern basis and to provide returns to shareholders as well as to maintaining a strong capital base to provide creditor's and the market with confidence in the Group (see also Note 2).

The Group monitors capital on the basis of a number of ratios, including gearing ratio, based on the statutory financial statements of JSC "INTER RAO UES" and the management accounts of its subsidiaries prepared according to statutory requirements. As at 30 June 2009 the Group was in compliance with the gearing ratios imposed by loan agreements held with certain banks.

(e) Fair values

Fair value has been determined either by reference to the market value at the balance sheet date or by discounting the relevant cash flows using market interest rates for similar instruments. As a result of this exercise management believes that the fair value of its financial assets and liabilities approximates their carrying amounts.

(in thousands of EUR , unless otherwise stated)

27 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	30 June 2009	31 December 2008	30 June 2008
Less than one year	2,663	2,173	4,898
Between one and five years	2,317	1,573	3,815
Over five years	13,233	13,112	16,152
	18,213	**16,858**	**24,865**

The above table includes Group's lease agreements of land plots owned by local governments. Land lease payments are determined by lease agreements. Lease agreements are concluded for different periods. Part of the lease contracts are concluded annually with the right of future prolongation.

The Group also has lease agreements which have indefinite periods and which are not included in the table above. Annual payments for 2010 year on such lease contracts are EUR 269 thousand.

During six months ended 30 June 2009 EUR 2,944 thousand (six month ended 30 June 2008: EUR 1,960 thousand) were recognised in profit and loss of the combined and consolidated interim statement of comprehensive income in respect of operating lease expenses.

28 Commitments

Investment commitments

In accordance with the agreement signed between the Group and the Government of Georgia in June 2007, the Group has to invest during the period from 1 January 2007 till 31 December 2015 USD 56.3 million in realisation of projects aimed at the improvement of the electricity network which belongs to the Group entity JSC Telasi. The remaining investment commitments are as follows:

Year	Investments, USD million
2009	2.5
2010	2.5
2011	2.5
2012	2.5
2013	2.6
2014	2.9
2015	2.9

As of 30 June 2009 management considers that realisation of investment commitments is in line with schedule for the year 2009.

In accordance with the privatization agreements, the shareholders of JSC Moldavskaya GRES, a 100 percent-owned Group company acquired in 2005, have certain investment commitments. Fulfilment of these investment commitments in relation to JSC Moldavskaya GRES are subject to annual approval by the authorised governmental body of Transnistria, Moldavia. The schedule of investing covers the period up to year 2010.

As of 31 December 2008, the Group is in compliance with the Transnistria investment program. The authorised body of Transnistria accepted the fulfilment of investment commitments for USD 101,884 thousand, out of which USD 50,200 thousand is to be invested into JSC Moldavskaya GRES if and when needed in the course of normal business activities. No other approvals by the authorised governmental body of Transnistria, Moldavia, were required as at 30 June, 2009. As of 30 June, 2009 management considers that realisation of investment commitments is in line with schedule for the year 2009. The remaining part of the investment commitments (USD 58,946 thousand) are to be realised by the end of 2010.

In accordance with agreements signed by the Group, investment commitments of the Group in relation to branches of the Parent company in Russian Federation amounted to EUR 125,271 thousand (31 December 2008: EUR 177,440 thousand; 30 June 2008: EUR 284,475 thousand).

(in thousands of EUR , unless otherwise stated)

29 Contingencies

(a) Political environment

The operations and earnings of Group entities continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russia, Georgia, Armenia, Moldavia (Transnistria), Lithuania and Kazakhstan.

(b) Insurance

The insurance industry in Russia and other CIS countries is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations in Russia and other CIS countries. In May 2008 management of the Parent Company has approved the main principles of a policy on insurance in relation to risks related to the Parent Company's activities. The policy covers risks in relation to property aspects, activities of hydro-technical equipment and highly hazardous equipment. At the moment the same policy is in the process of being adopted by other entities of the Group. It is intended to introduce comprehensive insurance coverage on the Group's property and the Group's operations in the nearest future. Until the Group obtains full insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(c) Litigation

Legal proceedings

In the normal course of business the Group may be a party to legal actions. Other than as presented below, management of the Group is unaware of any actual, pending or threatened claims as at the signing date of these financial statements, which would have a material impact on the Group.

	30 June 2009	31 December 2008	30 June 2008
Subcontractors claims	12,508	11,020	12,374
Customer's complaints	427	566	846
	12,935	**11,586**	**13,220**

In subcontractors claims the major part (30 June 2009: EUR 10,536 thousand; 31 December 2008: EUR 10,300 thousand; 30 June 2008: EUR 12,375 thousand) is the claim from JSC "Ingenerniy Centre UES" to JSC "INTER RAO UES" with request to settle the liability against the construction works performed in 2003 and 2004. The Group believes that these liabilities were fully settled by JSC "Sochinskaya TPS" in 2003 and 2004 (all transactions were supported with proper documents). Therefore the claim is considered as not probable, and no provision is accrued.

In customer's complaints as at 30 June 2009, 31 December 2008 and 30 June 2008 the Group had a number of legal claims the likelihood of which is not probable, but only possible, and, consequently, no provision has been made in the consolidated financial statements.

(d) Tax contingency

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

In addition, tax and other legislation do not address specifically all the aspects of the Group's reorganisation related to reforming of the electric utilities industry in the Russian Federation. As such there may be tax and legal challenges to the various interpretations, transactions and resolutions that were a part of the reorganisation and reform process.

29 Contingencies (continued)

These circumstances may create tax risks in the Russian Federation and in the CIS countries that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable relevant tax legislation, official pronouncements and court decisions.

However, the interpretations of the relevant authorities could differ and the effect on these combined and consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

The Parent Company and subsidiaries in the countries where they operate, have various transactions with related parties. The pricing policy could give rise to transfer pricing risks. In management's opinion, the Group is in substantial compliance with the tax laws of the countries where Group companies operate. However, relevant authorities could take different positions with regard to interpretive issues or court practice could develop adversely with respect to the positions taken by the Group and the effect could be significant.

The Group includes a number of operating and investment companies located in a number of tax jurisdictions across Europe and CIS. Those entities are subject to a complex variety of tax regimes and the nature of current and past trading and investment activities exposes them to areas of tax legislation involving considerable judgement and, consequently, uncertainty. The Group estimates that possible claims in respect of certain open tax positions of Group companies could amount to as much as EUR 8,237 thousand (31 December 2008: EUR 5,775 thousand) if the tax positions would be successfully challenged. In addition, the Group identified certain tax matters, which require estimates to be made of the amount of possible tax claims. The Group's best estimate of potential obligations relating to such additional exposures is EUR 19,097 thousand (31 December 2008: EUR 38,475 thousand).

Environmental matters

Group entities and their predecessor entities have operated in the electric power industry in the Russian Federation, Georgia, Armenia, Kazakhstan and Moldavia for many years. The enforcement of environmental regulation in these countries is evolving and the enforcement posture of government authorities is continually being reconsidered. Group entities periodically evaluate their obligations under environmental regulations.

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

(e) Ownership of transmission lines

The current legislation in Georgia is untested in relation to ownership issues with regard to line objects of real estate property, for example, the land over which one of the Group's entities (JSC "Telasi") equipment for the transmission of electricity is located. On further clarification of the law, it is possible that JSC "Telasi" may be required to acquire ownership to certain land plots or to pay rentals to other parties for the use of certain land plots. JSC "Telasi" uses land plots owned by other parties for access to its network facilities which gives rise to servitude relationships with the owner of the land. Rapidly the changing circumstances in the real estate market of Georgia and certain claims that were raised in 2008 and 2009 indicate that servitude in respect of rights may become chargeable for current and prior periods. At the date of approval of these financial statements, management considers that it is not possible to quantify any additional expense, if any, which JSC "Telasi" might incur and consequently, no provision has been made against such potential liabilities in the financial statements.

(in thousands of EUR , unless otherwise stated)

30 Related party transactions

(a) Parent company and control relationships

As at June 30, 2009 State Corporation Rosatom was owning 57.34% of voting shares of JSC INTER RAO UES. As at June 30, 2009 the State of Russian Federation owned 100% of State Corporation Rosatom. Information on transactions with entities of the State corporation Rosatom is presented below:

	Six months ended 30 June 2009	Six months ended 30 June 2008
Revenue:		
Electricity and capacity	7,407	11,061
Other revenues	11	21
	7,418	**11,082**

	Six months ended 30 June 2009	Six months ended 30 June 2008
Purchases:		
Purchased power and capacity	9,339	8,777
Other purchases	43	104
	9,382	**8,881**

	30 June 2009	31 December 2008	30 June 2008
Accounts receivable:			
Advances issued	4	3	-

Accounts payable:	30 June 2009	31 December 2008	30 June 2008
Trade accounts payable	15	9	10

(b) Transactions with key management personnel

The members of the Management Board own 0.022% of the ordinary shares of JSC INTER RAO UES and 10.5% of the ordinary shares of JSC IEC, a subsidiary of the Group.

Compensation paid to key management for their service in that capacity is made up of contractual salary and performance bonuses. Key management received the following remuneration during the year, which is included in wages, benefits and payroll taxes (see Note 23):

	Six months ended 30 June 2009	Six months ended 30 June 2008
Salaries and bonuses	2,385	1,963

(in thousands of EUR , unless otherwise stated)

30 Related parties (continued)

(c) Transactions with associates and jointly controlled entities

The Group's jointly controlled entities are JSC Stantsiya Ekibastuzskaya GRES-2, JSC Industrial Power Company and in the year 2009 - JSC "Kambarata HPP-1".

The Group's associate entity is UAB Alproka (Lithuania).

The Group's transactions with associates and jointly controlled entities are disclosed below.

	Six months ended 30 June 2009	Six months ended 30 June 2008
Interest income:		
Jointly-controlled entity	6	-
Dividend income:		
Jointly-controlled entities	2,904	996
	2,910	**996**

	30 June 2009	31 December 2008	30 June 2008
Accounts receivable:			
Jointly-controlled entities	1,106	-	151
Associate	-	579	-
Loans issued:			
Jointly-controlled entities	114	142	-
	1,220	**721**	**151**

(d) Transactions with enterprises controlled by the Russian Federation (other than entities of the State Corporation Rosatom)

	Six months ended 30 June 2009	Six months ended 30 June 2008
Revenue:		
Electricity and capacity	90,429	45,996
Other revenues:	41	450
	90,470	**46,446**

	Six months ended 30 June 2009	Six months ended 30 June 2008
Expenses:		
Purchased power and capacity	23,621	12,450
Transmission fees/Agency fees	1,603	-
Fuel Expense (Gas)	50,069	30,991
Other purchases	37,339	595
Other expenses	834	99
	113,466	**44,135**

	Six months ended 30 June 2009	Six months ended 30 June 2008
Capital expenditures	56,336	15,259

	Six months ended 30 June 2009	Six months ended 30 June 2008
Finance income and expenses:		
Interest income	(726)	(47)
Interest expenses	21,827	4,865
	21,101	**4,818**

(in thousands of EUR , unless otherwise stated)

30 Related parties (continued)

	30 June 2009	31 December 2008	30 June 2008
Accounts receivable:			
Trade accounts receivable gross	8,939	6,371	5,371
Less impairment provision	(1,236)	(2,189)	(1,120)
Trade receivables - net	*7,703*	*4,182*	*4,251*
Advances issued	6,916	115,069	6,995
Advances issued for CAPEX	28,432	44,217	87,100
Loans issued	4,992	-	-
Other receivable	2,080	612	215
	50,123	**164,080**	**98,561**

	30 June 2009	31 December 2008	30 June 2008
Other non-current assets	100,581	115,244	-

	30 June 2009	31 December 2008	30 June 2008
Accounts payable:			
Trade accounts payable	7,232	6,480	31,855
AP for CAPEX	7,306	5,127	3,957
Other accounts payable	7,633	869	39
Advances received	67	43	3,798
Special-purpose financing (see Note 20)	120,857	114,520	
	143,095	**127,039**	**39,649**

	30 June 2009	31 December 2008	30 June 2008
Loans and borrowings payable:			
Short-term loans	112,383	120,689	92,157
Long-term loans	344,374	219,690	85,968
Interest on loans	1,920	1,917	320
	458,677	**342,296**	**178,445**

	30 June 2009	31 December 2008	30 June 2008
Cash and cash equivalents:			
Bank deposits	68,463	-	-
Current accounts balances	45,286	51,298	109,689
	113,749	**51,298**	**109,689**

	30 June 2009	31 December 2008	30 June 2008
Other current assets	685	-	-

	Six months ended 30 June 2009	Six months ended 30 June 2008
Financial transactions:		
Loans and borrowings received	251,807	84,306
Loans and borrowings repaid	(127,938)	(31,505)

Commencing March 2009 the Company manages assets of OJSC OGK-1 a state-controlled entity under agreements with OJSC RusHydro and OJSC FGC, shareholders of OJSC OGK-1 (see Note 31). Both OJSC RusHydro and OJSC FGC are state-controlled entities.

(in thousands of EUR , unless otherwise stated)

30 Related parties (continued)

(e) Transactions with the enterprises controlled by RAO UES (prior to its liquidation on 1 July 2008)

Prior to July 1, 2008 the sole shareholder of the Parent Company was RAO UES. After that date as a result of reorganisation process RAO UES ceased to exist as separate legal entity. Prior to that date RAO UES held interest in various subsidiaries, who, in turn, were considered as related parties of the Parent company. The details of operations with those entities for the period till July 1, 2008 are presented below. After that date part of those entities became controlled by the State of Russian Federation. Thus, details of operations with such entities for the 6 months ended 30 June 2009 are provided in the note (d).

	Six months ended 30 June 2009	Six months ended 30 June 2008
Revenue:		
Electricity and capacity	-	127,117

	Six months ended 30 June 2009	Six months ended 30 June 2008
Purchases:		
Purchased power and capacity	-	43,136
Transmission fees/Agency fees to RAO UES	-	37,149
Other purchases	-	450
	-	**80,735**

	Six months ended 30 June 2009	Six months ended 30 June 2008
Capital expenditures	-	7,911

	30 June 2009	31 December 2008	30 June 2008
Accounts receivable:			
Trade accounts receivable gross	-	-	10,270
Less impairment provision	-	-	(359)
Trade receivables - net	-	-	*9,911*
Advances issued	-	-	403
Advances issued for CAPEX	-	-	2,748
Other receivable	-	-	23
	-	-	**13,085**

	30 June 2009	31 December 2008	30 June 2008
Accounts payable:			
Trade accounts payable	-	-	20,528
AP for CAPEX	-	-	2,341
Other accounts payable	-	-	538,002
Advances received	-	-	1
	-	-	**560,872**

(f) Transactions with the State of the Russian Federation

	Six months ended 30 June 2009	Six months ended 30 June 2008
Expenses:		
Current profit tax	4,686	21,649
Unified social tax	2,815	2,758
Taxes other than income	8,933	10,239
Interest on late payment of taxes accrued	-	13
	16,434	**34,659**

(in thousands of EUR , unless otherwise stated)

30 Related parties (continued)

	30 June 2009	31 December 2008	30 June 2008
Accounts receivable:			
Value added tax recoverable	23,939	32,235	26,016
Value added tax prepaid	57,823	49,155	60,561
Income tax prepaid	11,300	11,409	2,293
Other taxes recoverable	62	694	2,257
	93,124	**93,493**	**91,127**

	30 June 2009	31 December 2008	30 June 2008
Accounts payable:			
Value added tax payable	4	118	103
Income tax payable	-	82	40
Other taxes payable	1,211	2,336	4,061
	1,215	**2,536**	**4,204**

31 The entities under asset management

The entities under asset management are the hydro generation plants Khramesi I and II in Georgia, the CJSC Armenian nuclear power station and starting from March 2009 OJSC OGK-1[1] in Russia. These entities were not consolidated in these financial statements.

The Group's transactions with the entities under asset management are disclosed below.

	Six months ended 30 June 2009	Six months ended 30 June 2008
Revenue:		
Electricity and capacity	3,512	-
Other revenues:	-	368
	3,512	**368**

	Six months ended 30 June 2009	Six months ended 30 June 2008
Purchases:		
Purchased power and capacity	25,614	26,668
Other expenses	20	123
	25,634	**26,791**

	Six months ended 30 June 2009	Six months ended 30 June 2008
Finance income:		
Interest income	570	156

	30 June 2009	31 December 2008	30 June 2008
Accounts receivable:			
Advances issued	4	-	-
Loans issued	15,975	797	2,542
Other receivable	3,226	3,282	2,937
	19,205	**4,079**	**5,479**

	30 June 2009	31 December 2008	30 June 2008
Accounts payable:			
Trade accounts payable	7	6,104	-
Loans received	-	600	1,957
	7	**6,704**	**1,957**

[1] Transactions and balances with OJSC OGK-1 for January-February 2009 are disclosed in Note 30 (d) and as at and for the six months ended 30 June 2008 are disclosed in Note 30 (e).

(in thousands of EUR , unless otherwise stated)

32 Significant subsidiaries

The principal subsidiaries consolidated in the Group's financial statements are disclosed in the table below:

	Country of incorporation	30 June 2009 Ownership/ voting	31 December 2008 Ownership/ voting	30 June 2008 Ownership/ voting
Distributing and trading entities				
RAO Nordic Oy[1]	Finland	100%	100%	100%
JSC Telasi	Georgia	75%	75%	75%
JSC Elektricheskiye seti Armenii	Armenia	100%	67%	67%
TGR Energji	Turkey	70%	70%	70%
ERC (Note 6)	Lithuania	51%	51%	-
Generating entities				
Mtkvari Ltd.	Georgia	100%	100%	100%
JSC IEC	Armenia	90%	90%	90%
JSC Moldavskaya GRES (Note 6)	Moldova, Transnistria	100%	100%	51%
JSC Ispytatelniy Stend Ivanovskoy GRES[3]	Russian Federation	83%	83%	-
Holding entities				
Interenergo B.V. (Note 6)	Netherlands	100%	67%	67%
Silk Road Holdings B.V.	Netherlands	100%	100%	100%
Gardabani Holdings B.V.	Netherlands	100%	100%	100%
ES Georgia Holdings B.V.	Netherlands	100%	100%	100%
Saint Guidon Invest N.V.	Belgium	100%	100%	100%
Freecom Trading Limited (Note 6)	Cyprus	100%	100%	-
INTER RAO Holding B.V.[2]	Netherlands	100%	100%	-
Service entities				
JSC RAO UES International Baltia	Russian Federation	100%	100%	88%
Technoelectrika S.R.L.	Moldova	90%	90%	90%
JSC Inter RAO UES – Ukraine	Ukraine	90%	90%	90%
Energospetsserviceobslyzhivanie	Moldova, Transnistria	80%	80%	60%
Inter RAO Central Asia	Kazakhstan	100%	100%	100%
LLC INTER RAO SERVICE[2]	Russian Federation	99,99%	-	-
Other entity				
LLC INTER RAO UES FINANCE	Russian Federation	100%	100%	100%
JSC Eastern Energy Company[3]	Russian Federation	100%	100%	-
Inter RAO Trust B.V.[2]	Netherlands	100%	100%	-
Asia Energy B.V.[2]	Netherlands	100%	100%	-
Silverteria Holdings Limited	Cyprus	100%	-	-

[1] RAO Nordic Oy also acts as a holding company for certain Group entities.
[2] Newly organised entities.
[3] The entities transferred to the Company as a result of the merger of JSC "INTER RAO UES Holding" on 1 July 2008.

33 Events after the balance sheet date

1. Asset management

On 6 July 2009 the Parent Company and OJSC OGK–1, an entity under asset management of the Group, signed an agreement on transferring to the Parent Company the rights of the sole executive body of OJSC OGK–1.

On 7 July 2009 the Board of Directors of OJSC OGK–1 elected Evgeniy Dod, the Chairman of the Management Board of the Parent Company, as the Chairman of the Board of Directors.

At the end of October 2009 the Company's Board of Directors made a decision to recommend to the shareholders' meeting to approve the purchase of up to 38,000,000 thousand new shares of OJSC OGK–1 at a price to be determined by the Board of Directors of OJSC OGK–1. The shares are to be paid in cash.

On 2 November 2009 the Board of Directors of OJSC OGK–1, an entity under assets management of the Group, re-elected members of the Management Board of OJSC OGK–1 and decreased the membership of the Management Board from 11 to 9 persons. Representatives from management of the Parent Company are elected as the members of the new Management Board of OJSC OGK–1.

2. Acquisitions

In addition to the loan issued in June 2009 to CJSC Electroluch, an entity registered in the Russian Federation, in the amount of USD 30 million or EUR 21 million (see Note 11), in July 2009 the Parent Company issued another loan to CJSC Electroluch in amount of USD 17 million or EUR 12 million and purchased 97.78 % of the shares of CJSC Electroluch for the RR 1,745 million or EUR 40 million.

On 19 August 2009 Asia Energy B.V., a Group entity, purchased 76% of the shares of LLC Kazenergoresource, an entity registered in the Republic of Kazakhstan, for total consideration of USD 3.5 million or EUR 2.5 million.

On 19 August 2009 Asia Energy B.V., a Group entity, established a 100% subsidiary, Orange Wings Ltd, an entity registered on the British Virgin Islands. On 2 September 2009 Orange Wings Ltd entered into an Aircraft Purchase Agreement with a non-group entity and thus became the owner of the aircraft.

3. Acquisition commitments

On 9 July 2009 the Federal Antimonopoly Service of Russian Federation approved the application of JSC RAO UES International Baltia, a Group entity, to purchase 97.41% of the voting shares of OJSC TGK–11, an entity registered in the Russian Federation. As of the balance sheet date JSC RAO UES International Baltia owned 2.59 % of the voting shares of OJSC TGK–11 (see note 11).

On 21 July 2009 Mikhail Mantrov, Deputy Chairman of the Management Board of the Parent Company, was elected as the Chairman of the Board of Directors of OJSC TGK–11.

4. Loans and borrowings

On 31 August 2009 the Parent Company borrowed RR 10,000,000 thousand (EUR 220,645 thousand) from JSC Sberbank. The loan facility is provided until 30 August 2014 with a fixed interest rate of 15.4% p.a. and monthly interest payments. No collateral has been provided for the loan facility received.

5. Changes in the share capital of the Parent Company

On 29 October 2009 the Federal Financial Markets Service of Russian Federation registered the Prospect on issuing the shares of the Parent Company. The number of the Parent Company shares to be issued is 2,274,113,845,013 thousand at the nominal value RR 0.02809767 each. The shares are issued to substitute the existing shares of the Parent Company on the shares of the same category with lower nominal value, thus no changes in stockholders and stakes in the Parent Company share capital owned by them occurred as a result of the issue.