JSC INTER RAO UES
IFRS COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying combined and consolidated financial statements of JSC "INTER RAO UES" and its subsidiaries (the "Group") which comprise the combined and consolidated balance sheet as at 31 December 2008 and the combined and consolidated income statement, the combined and consolidated statement of cash flows and the combined and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying combined and consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
8 July 2009

(in thousands of EUR)

Combined and Consolidated Balance Sheet

	Note	2008	2007
ASSETS			
Non-current assets			
Property, plant and equipment	7	1,257,104	1,284,767
Intangible assets	8	39,130	4,375
Investments in associates and jointly controlled entities	9	104,817	81,565
Deferred tax assets	10	8,762	41,884
Other non-current assets	11	147,754	19,472
Total non-current assets		**1,557,567**	**1,432,063**
Current assets			
Inventories	12	46,121	43,356
Accounts receivable and prepayments	13	252,507	251,670
Income tax prepaid		11,851	14,073
Cash and cash equivalents	14	273,839	130,808
Other current assets	15	33,478	40,642
Total current assets		**617,796**	**480,549**
Total assets		**2,175,363**	**1,912,612**

The combined and consolidated balance sheet is to be read in conjunction with the notes to and forming part of the combined and consolidated financial statements set out on pages 10 to 72.

(in thousands of EUR)

Combined and Consolidated Balance Sheet (continued)

	Note	2008	2007
EQUITY AND LIABILITIES			
Equity			
Share capital: ordinary shares	16	6,165,300	118,912
Treasury shares	16	(265,756)	-
Property, plant and equipment revaluation reserve		183,837	105,381
Foreign currency translation reserve		(189,247)	(24,456)
Retained earnings		(4,500,213)	505,197
Total equity attributable to shareholders of the Company		**1,393,921**	**705,034**
Minority interest		17,810	228,628
Total equity		**1,411,731**	**933,662**
Non-current liabilities			
Loans and borrowings	18	241,196	32,754
Deferred tax liabilities	10	23,043	24,646
Other non-current liabilities	20	122,124	4,751
Total non-current liabilities		**386,363**	**62,151**
Current liabilities			
Loans and borrowings	18	203,752	342,080
Accounts payable and accrued liabilities	19	135,444	541,996
Other taxes payable	21	20,784	27,939
Income tax payable		17,289	4,784
Total current liabilities		**377,269**	**916,799**
Total liabilities		**763,632**	**978,950**
Total equity and liabilities		**2,175,363**	**1,912,612**

Chairman of the Management Board — Dod E.V.

Chief Accountant — Chesnokova A.O.

30 June 2009

(in thousands of EUR, except for Earnings per share)

Combined and Consolidated Income Statement

	Note	2008	2007
Revenue	22	1,671,537	1,275,576
Operating expenses	23	(1,526,133)	(1,429,691)
Other operating income	22	53,278	12,245
Operating profit / (loss)		**198,682**	**(141,870)**
Finance income	24	13,402	18,912
Finance expenses	24	(62,164)	(25,209)
Share of profit of associates and jointly controlled entities	9	5,443	503
Profit / (Loss) before income tax		**155,363**	**(147,664)**
Total income tax (expense)/benefit	25	(68,483)	17,409
Profit / (Loss) for the year		**86,880**	**(130,255)**
Attributable to:			
Shareholders of the Company		77,947	(60,686)
Minority interest		8,933	(69,569)
		86,880	**(130,255)**
Earnings per ordinary share for profit / (loss) attributable to the shareholders of the Company – basic and diluted	17	**EUR 0.00006**	**EUR (0.00147)**

Chairman of the Management Board — Dod E.V.

Chief Accountant — Chesnokova A.O.

30 June 2009

(in thousands of EUR)

Combined and Consolidated Cash Flow Statement

	Note	2008	2007
OPERATING ACTIVITIES			
Profit / (Loss) before income tax		**155,363**	**(147,664)**
Adjustments to reconcile profit / (loss) before tax to net cash provided by operations:			
Depreciation and amortisation	23	91,057	82,932
Provision for impairment of account receivables	23	1,740	4,785
Other provisions charge	23	822	391
Write off of bad debt which was not previously provided	23	67	898
Provision for impairment of property, plant and equipment	23	5,847	123,277
Share of profit of associates and jointly controlled entities	9	(5,443)	(503)
(Gain)/loss on disposal of property plant and equipment	23	(1,110)	1,797
Forex exchange loss/(gain), net		62,574	(15,492)
Interest income	24	(10,169)	(4,632)
Interest expense	24	29,381	25,209
Government grants / subsidies	22	(100)	(5,724)
Dividend income	24	(3,233)	-
Other non-cash operations		276	(3,962)
Operating cash flows before working capital changes and income tax paid		**327,072**	**61,312**
Increase in inventories		(3,364)	(11,543)
Decrease in accounts receivable and prepayments		30,425	32,011
(Increase) / decrease in value added tax recoverable		(14,197)	29,809
Decrease / (increase) in other current assets		6,402	(33,912)
(Increase) /decrease in other non-current assets		(108,638)	4,692
Increase in accounts payable and accrued liabilities		216,869	105,115
Increase in pension liabilities		19	3,062
Decrease in taxes payable other than income tax		(3,828)	(6,098)
Income tax paid		(19,531)	(23,818)
Currency translation effect		(43,865)	9,404
Net cash flows received from operating activities		**387,364**	**170,034**

(in thousands of EUR)

Combined and Consolidated Cash Flow Statement (continued)

	Note	2008	2007
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		745	-
Interest received		8,864	3,178
Purchase of property, plant and equipment and intangible assets		(204,822)	(189,695)
Purchases of investments		-	(278)
Purchase of subsidiary	6	(29,557)	-
Purchase of minority interest in subsidiary	6	(103,927)	-
Dividends received	9,24	4,897	-
Net cash flows used for investing activities		**(323,800)**	**(186,795)**
FINANCING ACTIVITIES			
Proceeds from current borrowings		346,403	257,634
Proceeds from non-current borrowings		164,541	93,854
Repayment of borrowings		(412,221)	(216,745)
Repayment of lease		(10,609)	(11,597)
Issuance of shares by one of entities merged	16	58,318	-
Purchase of own shares by one of entities merged		(5,258)	-
Cash obtained from merger of JSC INTER RAO UES Holding		809	-
Interest paid		(25,947)	(21,478)
Dividends paid		(252)	(12,329)
Net cash flows received from financing activities		**115,784**	**89,339**
Effect of exchange rate fluctuations on cash and cash equivalents		(36,317)	(3,405)
Net increase in cash and cash equivalents		**143,031**	**69,173**
Cash and cash equivalents at the beginning of the year		130,808	61,635
Cash and cash equivalents at the end of the year	14	**273,839**	**130,808**

Chairman of the Management Board — Dod E.V.

Chief Accountant — Chesnokova A.O.

30 June 2009

(in thousands of EUR)

Combined and Consolidated Statement of Changes in Equity

	Note	Share capital	Treasury shares	Foreign currency translation reserve	Revaluation reserve	Retained earnings	Total	Minority interest	Total equity
		Attributable to shareholders of the Company							
Balance at 1 January 2007		**118,912**	**-**	**-**	**45,274**	**573,980**	**738,166**	**244,712**	**982,878**
Foreign currency translation differences		-	-	(24,456)	-	-	**(24,456)**	(7,329)	**(31,785)**
Realisation of property, plant and equipment revaluation reserve		-	-	-	(718)	718	**-**	-	**-**
Revaluation of property, plant and equipment	7, 9, 10	-	-	-	60,825	-	**60,825**	68,284	**129,109**
Net (expense)/income recognised directly in equity		-	-	*(24,456)*	*60,107*	*718*	***36,369***	*60,955*	***97,324***
Loss for the year		-	-	-	-	(60,686)	**(60,686)**	(69,569)	**(130,255)**
Total recognised (expense)/income for the year		-	-	***(24,456)***	***60,107***	***(59,968)***	***(24,317)***	***(8,614)***	***(32,931)***
Dividends to shareholders	16	-	-	-	-	(7,463)	**(7,463)**	(4,866)	**(12,329)**
Provision for purchase of own shares by one of entities merged		-	-	-	-	-	**-**	(5,635)	**(5,635)**
Change in Group structure		-	-	-	-	(1,352)	**(1,352)**	3,031	**1,679**
Balance at 31 December 2007		**118,912**	**-**	**(24,456)**	**105,381**	**505,197**	**705,034**	**228,628**	**933,662**
Balance at 1 January 2008		**118,912**	**-**	**(24,456)**	**105,381**	**505,197**	**705,034**	**228,628**	**933,662**
Foreign currency translation differences		-	-	(164,791)	-	-	**(164,791)**	4,407	**(160,384)**
Realisation of property, plant and equipment revaluation reserve		-	-	-	(1,404)	1,404	**-**	-	**-**
Revaluation of property, plant and equipment	7, 9, 10	-	-	-	6,884	-	**6,884**	-	**6,884**
Net income/(expense) recognised directly in equity		-	-	*(164,791)*	*5,480*	*1 404*	***(157,907)***	*4,407*	***(153,500)***
Profit for the year		-	-	-	-	77,947	**77,947**	8,933	**86,880**
Total recognised income/(expense) for the year		-	-	***(164,791)***	***5,480***	***79,351***	***(79,960)***	***13,340***	***(66,620)***
Dividends to shareholders	16	-	-	-	-	(218)	**(218)**	(34)	**(252)**
Acquisition of minority interest in subsidiary	6	-	-	-	23,136	(81,114)	**(57,978)**	(37,144)	**(95,122)**
Acquisition of subsidiary	6	-	-	-	-	-	**-**	2,005	**2,005**
Issue of shares by one of entities merged	16	-	-	-	-	58,318	**58,318**	-	**58,318**
Reorganization of the Company	1,16	6,046,388	(250,655)	-	49,840	(5,072,199)	**773,374**	(188,985)	**584,389**
Purchase of treasury shares	16	-	(15,101)	-	-	10,452	**(4,649)**	-	**(4,649)**
Balance at 31 December 2008		**6,165,300**	**(265,756)**	**(189,247)**	**183,837**	**(4,500,213)**	**1,393,921**	**17,810**	**1, 411,731**

Chairman of the Management Board — Dod E.V.

Chief Accountant — Chesnokova A.O.

30 June 2009

The combined and consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 72.

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 31 December 2008 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 31 December 2008 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 31 December 2008, the average number of employees of the Group was 15,345 (2007: 15,690).

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.

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

1 The Group and its operations (continued)

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 31 December 2008, the Group's current assets exceeded its current liabilities by EUR 240,527 thousand (at 31 December 2007 the Group's current liabilities exceeded its current assets by EUR 436,250 thousand).

The change in the current financial position in 2008 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 financial position of the Group also improved in 2008 as a result of better operating results and management efforts in investment and financial activities. As at 31 December 2008 the Group accumulated significant cash and cash equivalents balances for the purposes of making payments due at the beginning of 2009.

The Company's investment, financial and operational activities are aimed at maximizing its cash flows and minimizing its cost of capital.

In spite of the 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, 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 combined and consolidated financial statements ("Financial Statements") that have been prepared in accordance with International Financial Reporting Standards ("IFRS") using some IFRS 1 exemptions (see IFRS 1 adoption for details). The Group has not previously prepared any statutory combined and/or consolidated financial statements from which reconciliations can be prepared.

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.

Predecessor Accounting. During 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

3 Basis of preparation (continued)

"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 and opening balances as at 1 January 2007 has been prepared as if the business combinations took place at the beginning of the earliest period presented. Therefore all the above entities together with their subsidiaries were accounted in the Financial Statements effective from 1 January 2007.

Minority 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. Minority interest forms a separate component of the Group's equity.

The carrying values of the net assets as at 1 January 2007 related to the acquired businesses from entities under common control and adjusted for minority interest, is recorded in equity.

On the dates of the mergers any difference between the carrying amount of net assets adjusted for minority 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. These are the first combined and consolidated IFRS financial statements of the Group; the date of transition to IFRS was 1 January 2007. One of the entities merged into the Company, JSC "RAO UES INTERNATIONAL", had prepared IFRS consolidated financial statements before the merger. The Company and the other entities merged (see Note 1) did not prepare their financial statements in accordance with IFRS before the merger. The date of transition to IFRS for all entities which have not prepared their IFRS financial statements before the merger and combined and consolidated in the Financial Statements is the same as the date of transition for the Group (1 January 2007). The following exemptions from other IFRSs were used by the Group in preparing the first IFRS Financial Statements:

- the cumulative translation differences are deemed to be zero at the date of transition to IFRS;
- property, plant and equipment of entities merged, with the exception of JSC "RAO UES INTERNATIONAL" together with its subsidiaries, associates and joint ventures, are measured at their fair values as a deemed cost at the date of transition; these fair values were determined by an independent appraisers for the purposes of RAO UES IFRS consolidated financial statements preparations for 2007.

In the Financial Statements the assets, including property, plant and equipment, and liabilities of JSC "RAO UES INTERNATIONAL" together with its subsidiaries, associates and joint ventures are measured at the same carrying amounts as they were historically recorded in the consolidated IFRS financial statements of JSC "RAO UES INERNATIONAL".

Basis of measurement. The consolidated financial statements are prepared on the historical cost basis except for property, plant and equipment, available-for-sale investments, foreign currency forward exchange contracts and electricity 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.

3 Basis of preparation (continued)

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 judgement in the determination of the functional currencies of certain Group entities. The functional currency determination influences the foreign exchange gain/losses recognised in the combined and consolidated income statement and translation differences recognised in equity.

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 income statement 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 31 December 2008 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.

3 Basis of preparation (continued)

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 annual depreciation charge by approximately EUR 8 million.

Impairment of goodwill

As at 31 December 2008 a number of significant estimations and assumptions were made in relation to the determination of the ability of ERC UAB (Lithuanian Republic) 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

At 31 December 2008 the Group accounts for loans with a nominal value of EUR 66,092 thousand at an amortized cost of EUR 1,580 thousand (31 December 2007: a nominal value – EUR 66,092 thousand: an amortised cost – EUR 358 thousand). The amortized cost of these loans (see Note 18 (iii)) 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 amortized 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 consolidated financial Statements. Tax contingencies are disclosed in Note 28.

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. These accounting policies have been consistently applied.

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.

Minority interest. Minority 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 minority interests' ownership percentage of these subsidiaries. The minority interest has been disclosed as part of Equity.

The group applies a policy of treating transactions with minority interests as transactions with equity owners of the group. For purchases from minority 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 minority 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.

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.

For the purposes of preparing these Financial Statements, RAO UES subsidiaries merged into the Company and accounted for under the predecessor accounting method (see Note 3 "Predecessor accounting") were combined starting from 1 January 2007.

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.

4 Summary of significant accounting policies (continued)

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 the consolidated income statement. 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 equity.

The balance sheets of the Company and its subsidiaries are translated into the Group's presentation currency at the exchange rate prevailing at the reporting date. Income statements 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 are translated at the historic rate with the exception of opening balances at the date of transition to IFRS which are translated at the exchange rate on 1 January 2007. Exchange differences arising on the translation of the net assets of the Company and its subsidiaries are recognised as translation differences and included in the foreign currency translation reserve (FCTR) in equity.

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 directly in equity except to the extent that it reverses a previous revaluation decrease or impairment recognised in the consolidated income statement, in which case it is recognised in the consolidated income statement. A revaluation decrease on an item of property, plant and equipment is recognised in the consolidated income statement except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised in equity. When the asset is derecognised the revaluation surplus is transferred directly to retained earnings.

Renewals and improvements are capitalized 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 the consolidated income statement as incurred.

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

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

(in thousands of EUR , unless otherwise stated)

4 Summary of significant accounting policies (continued)

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 in the balance sheet. 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 the consolidated income statement.

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

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 income statement as an expense as incurred.

Amortisation. Amortisation is recognised in the consolidated income statement 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 balance sheet. 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.

4 Summary of significant accounting policies (continued)

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 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 the consolidated income statement in the period in which they arise.

Impairment losses are recognised in the consolidated income statement 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 the consolidated income statement – is removed from equity and recognised in the consolidated income statement. Impairment losses on equity instruments are not reversed through the consolidated income statement. 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 the consolidated income statement, the impairment loss is reversed through current period's consolidated income statement.

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

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 income statement.

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 the income statement.

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

4 Summary of significant accounting policies (continued)

indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Prepayment 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.

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 balance sheet 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 the consolidated income statement.

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 the consolidated income statement.

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 income statement. 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

4 Summary of significant accounting policies (continued)

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 when incurred. Costs associated with discretionary pensions and other post-employment benefits are included in wages, benefits and payroll taxes in the consolidated income statement, 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 as the related service is provided.

A provision 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 balance sheet 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 the income statement 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 the consolidated income statement 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 the income statement 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 the income statement 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.

4 Summary of significant accounting policies (continued)

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 authorized for issue.

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 the consolidated income statement 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 differs from country to country.

Revenue from the rendering of services are 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 the consolidated income statement 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 income statement using the effective interest method.

Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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.

4 Summary of significant accounting policies (continued)

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.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on geographical segments.

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 2007 and that have been considered in preparing these combined and consolidated financial statements:

(a) Standards, amendments and interpretations effective after 1 January 2007 but adopted on 1 January 2007 due to IFRS 1 application (see paragraph "IFRS 1 adoption" in Note 3):

- *IFRIC 14,' IAS 19 - The limit of a defined benefit asset, minimum funding requirements and their interaction'*, provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group's financial statements

- *IFRIC 11, 'IFRS 2 – Group and treasury shares transactions';*

(b) The following standards and interpretations became effective for the Group's financial statements from 1 January 2007 due to IFRS 1 application, but are not relevant to its operations:

- *IFRIC 12, 'Service concession arrangements';*
- *IFRIC 13, ' Customer loyalty programmes'.*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group. The following standards and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning:

- *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. The Group is currently assessing the impact of the amended standard on its financial statements.

- *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.

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

- *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.* The amendments allow entities the options (a) to reclassify a financial asset out of the held for trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. The Group is currently assessing the impact of the amendment on disclosures in its financial statements.

- *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. Management is currently assessing what impact the standard will have on segment disclosures in the Group's 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 will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

- *IAS 16, Property, Plant and Equipment (and consequential amendments to IAS 7).* Under the amended standard, entities that routinely sell assets previously held for rental are required to classify such assets as inventories from the point that the assets cease to be leased and become held for sale, while the proceeds from sale are to be recognised as revenue. The rent and proceeds from sale will have to be classified as cash flows from operating activities. The amendment is not expected to have material effect on the Group's financial statements.

- *IAS 20 (Amendment), 'Accounting for governmental grants and disclosure of governmental assistance' (effective from 1 January 2009).* The amendment requires benefits arising from government loans at below-market interest rates to be accounted for as government grants, with the benefit calculated as the difference between the proceeds and the initial fair value of the loan, net of transaction costs. The amendment applies prospectively to government loans received in periods beginning on or after 1 January 2009. The Group is currently assessing the impact of this standard.

4 Summary of significant accounting policies (continued)

- *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 for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amendment to the 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 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 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. The group will apply the IAS 28 (Amendment) to impairment tests related to subsidiaries and any related impairment losses from 1 January 2009.

- *IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009).* The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The group will apply the IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

- *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.

- 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', IAS 34 'Interim financial reporting', which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have a material impact on the group's accounts and have therefore not been analysed here in detail.

(d) 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 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 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 40 (Amendment), 'Investment property' (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 July 2009).
- IAS 41(Amendment), 'Agriculture' (effective from 1 July 2009).

4 Summary of significant accounting policies (continued)

- 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).

(in thousands of EUR , unless otherwise stated)

5 Segment information

Segment information is presented in respect of the Group's geographical and business segments. The primary format, geographical segments, is based on the location of assets.

Segment results, assets and liabilities include items directly attributable to each segment. Unallocated items comprise mainly investments and related revenue, loans received and related expenses, corporate assets and expenses, income tax assets and liabilities.

The basis for inter-segment sales pricing is market prices, which in their turn are affected through regulation by the appropriate regulators as discussed in Note 1.

Geographical segments based on location of assets

The Group's companies operate in the following principal geographical areas: Finland, Russia, Georgia, Armenia, Moldova (Transnistria). Revenue, assets and liabilities of the Group companies located in Kazakhstan, Ukraine, Turkey, Netherlands, Lithuania, Cyprus and Belgium do not represent reportable segment and are, therefore, included in unallocated.

2008

	Finland	Russia	Georgia	Armenia	Moldova	Unallocated	Eliminations	Consolidated
Revenue from external customers	215,735	1,047,157	108,686	184,804	42,918	72,237	-	1,671,537
Inter-segment revenue	113	221,310	262		-	10,400	(232,085)	-
Total segment revenue	**215,848**	**1,268,467**	**108,948**	**184,804**	**42,918**	**82,637**	**(232,085)**	**1,671,537**
Segment result	**33,883**	**176,470**	**16,090**	**13,397**	**(7,969)**	**13,556**		**245,427**
Unallocated expenses	-	-	-	-	-	-	-	(46,745)
Finance income	-	-	-	-	-	-	-	13,402
Finance expense	-	-	-	-	-	-	-	(62,164)
Share of profit/(loss) of associates and jointly controlled entity	-	(203)	-	-	-	5,646	-	5,443
Income tax expense	-	-	-	-	-	-	-	(68,483)
Profit for the year	-	-	-	-	-	-	-	86,880

2007

	Finland	Russia	Georgia	Armenia	Moldova	Unallocated	Eliminations	Consolidated
Revenue from external customers	109,002	850,724	112,286	175,937	25,039	2,588	-	1,275,576
Inter-segment revenue	-	95,053	-	63	8,739	2,679	(106,534)	-
Total segment revenue	**109,002**	**945,777**	**112,286**	**176,000**	**33,778**	**5,267**	**(106,534)**	**1,275,576**
Segment result	**2,925**	**24,090**	**(12,481)**	**(50,085)**	**(50,512)**	**(3,593)**		**(89,656)**
Unallocated expenses	-	-	-	-	-	-	-	(52,214)
Finance income	-	-	-	-	-	-	-	18,912
Finance expense	-	-	-	-	-	-	-	(25,209)
Share of profit/(loss) of associates and jointly controlled entity	-	(41)	-	-	-	544	-	503
Income tax benefit	-		-	-	-	-	-	17,409
Loss for the year	-	-	-	-	-	-	-	(130,255)

(in thousands of EUR, unless otherwise stated)

5 Segment information (continued)

31 December 2008	Finland	Russia	Georgia	Armenia	Moldova	Unallocated	Eliminations	Consolidated
Segment assets	56,260	1,527,424	112,965	199,250	154,228	64,133	(64,327)	2,049,933
Investments in associates and jointly controlled entities	-	28	-	-	-	104,789	-	104,817
Current and deferred tax assets	-	-	-	-	-	-	-	20,613
Total assets	-	-	-	-	-	-	-	**2,175,363**
Segment liabilities	(15,097)	(187,348)	(72,687)	(95,293)	(14,113)	(15,101)	43,202	(356,437)
Current and deferred tax liabilities	-	-	-	-	-	-	-	(40,332)
Unallocated liabilities	-	-	-	-	-	-	-	(366,863)
Total liabilities	-	-	-	-	-	-	-	**(763,632)**
Depreciation and amortisation	99	58,438	4,399	9,582	18,312	227	-	91,057
Capital expenditure	40	176,818	23,219	37,679	6,102	108	-	243,966
PPE impairment	-	-	6,387	-	(540)	-	-	5,847
Provision for/(release) of impairment of accounts receivable	-	3,150	(2,707)	668	586	43	-	1,740

31 December 2007	Finland	Russia	Georgia	Armenia	Moldova	Unallocated	Eliminations	Consolidated
Segment assets	60,493	1,326,297	124,531	171,597	155,396	36,125	(99,349)	1,775,090
Investments in associates and jointly controlled entities	-	239	-	-	-	81,326	-	81,565
Current and deferred tax assets	-	-	-	-	-	-	-	55,957
Total assets	-	-	-	-	-	-	-	**1,912,612**
Segment liabilities	(48,932)	(478,038)	(75,657)	(65,844)	(24,555)	(7,254)	35,372	(664,908)
Current and deferred income tax liabilities	-	-	-	-	-	-	-	(29,430)
Unallocated liabilities	-	-	-	-	-	-	-	(284,612)
Total liabilities	-	-	-	-	-	-	-	**(978,950)**
Depreciation and amortisation	100	52,455	3,733	6,846	19,602	196	-	82,932
Capital expenditure	81	135,462	23,365	30,049	8,401	8	-	197,366
PPE impairment	-	-	20,807	61,822	40,647	-	-	123,276
Provision for/(release) of impairment of accounts receivable	-	3,791	1,100	204	(310)	-	-	4,785

(in thousands of EUR , unless otherwise stated)

5 Segment information (continued)

Geographical segments based on location of customers

In addition to the above segments, based on the location of assets, management has identified a further reportable segment "Belorussia" and "Norway" in order to disclose 75 percent of the Group's revenue based on location of customers. Revenues from customers located in Kazakhstan, Latvia, Lithuania and other destinations are included in unallocated.

	Finland	Russia	Belorussia	Georgia	Armenia	Moldova	Norway	Unallocated	Consolidated
2008	273,845	541,149	76,852	112,437	181,653	12,780	180,300	292,521	1,671,537
2007	135,819	503,540	80,329	121,007	173,350	13,147	82,996	165,388	1,275,576

Business segments

The Group comprises the following main business segments:

Distribution. The distribution of electric power.

Generation. The generation of electric power.

Trading. The trading of electricity.

Unallocated. Other operations, including the holding companies, investment activity.

	Distribution		Generation		Trading		Unallocated		Eliminations		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Revenue from external customers	281,939	262,123	296,676	309,902	1,090,291	703,539	2,631	12	-	-	1,671,537	1,275,576
Segment assets	268,161	233,490	1,269,139	1,329,621	548,669	296,392	250,090	71,680	(286,126)	(156,093)	2,049,933	1,775,090
Capital expenditure	59,643	52,685	176,524	143,805	7,386	840	413	36	-	-	243,966	197,366

6 Acquisitions

In 2008 the Group has made several acquisitions. Details on the acquisitions are presented below:

Acquisition of ERC

As at 31 December 2007 18 % of the share capital of UAB Energijos Realizacios Centras (Lithuania), abbreviated "ERC", was owned by a Group entity, RAO Nordic Oy (see Note 11). 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.

(in thousands of EUR , unless otherwise stated)

6 Acquisitions (continued)

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: Minority 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 25.5% interest in an associated company, UAB Alproka (see Note 9).

ERC contributed revenues of EUR 69,356 thousand and a net profit of EUR 10,136 thousand to the Group for the period from the date of acquisition to 31 December 2008. If the acquisition had occurred as at 1 January 2008, the estimated contribution to the Group revenue would have been a net EUR 74,364 thousand, and the estimated contribution to the result for the year would have been a net profit of EUR 11,842 thousand.

Acquisition of minority interest in JSC Moldavskaya GRES

In July 2008 the Parent company acquired 100.0% of the shares of Freecom Trading Limited (Cyprus), which owns 49% of the shares of JSC Moldavskaya GRES, a Group entity. The total consideration paid in cash for the shares of Freecom Trading Limited was USD 163,000 thousand or EUR 103,197 thousand (for shares - USD 105,455 thousand or EUR 66,765 thousand; Freecom Trading Limited debt assignment - USD 57,545 thousand or EUR 36,432 thousand). This transaction resulted in the acquisition of the previously outstanding 49% minority interest in JSC Moldavskaya GRES in the amount EUR 37,095 thousand and consequently the 20.4% minority interest of Energospetsservisobsluzhivanie, a Group entity, in the amount of EUR 49 thousand (together EUR 37,144 thousand) and Freecom Trading Limited loan receivable from Moldavskaya GRES (see Note 18) in the amount of USD 14,150 thousand or EUR 8,075 thousand, which are included into Acquisition movement in the Consolidated Equity Statement.

(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 2007	**285,689**	**156,992**	**547,415**	**44,365**	**231,413**	**1,265,874**
Reclassification	4,935	6,126	(4,017)	(7,044)	-	-
Elimination of depreciation and impairment	(11,677)	(12,786)	(22,978)	(3,147)	-	(50,588)
Revaluation reserve	21,974	34,726	69,976	14,153	2,027	142,856
Revaluation loss (impairment provision)	(37,467)	(25,989)	(36,513)	(7,084)	(14,189)	(121,242)
Additions	164	164	236	812	193,524	194,900
Transfers	29,686	20,729	172,683	14,382	(237,480)	-
Disposals	(937)	(378)	(631)	(1,159)	(9,883)	(12,988)
Translation difference	(11,549)	(478)	(22,813)	(1,583)	(6,101)	(42,524)
Balance at 31 December 2007	**280,818**	**179,106**	**703,358**	**53,695**	**159,311**	**1,376,288**
Including PPE under finance lease	-	2,348	55,874	523	-	58,745
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	81	26	861	1,566	238,940	241,474
Transfers	10,838	23,732	55,062	7,424	(97,056)	-
Disposals	(3,395)	(788)	(1,422)	(1,154)	(30,453)	(37,212)
Acquisition of Group entities	-	-	4,369	580	-	4,949
Translation difference	(24,706)	(11,689)	(75,544)	(1,994)	(29,681)	(143,614)
Balance at 31 December 2008	**264,664**	**194,869**	**688,971**	**52,320**	**241,061**	**1,441,885**
Including PPE under finance lease	-	2,036	48,448	232	-	50,716
Depreciation and impairment losses						
Balance at 1 January 2007	**(11,929)**	**(12,334)**	**(24,246)**	**(5,395)**	-	**(53,904)**
Reclassification	(61)	(963)	(344)	1,368	-	-
Reversal of impairment provision	231	367	2,023	72	-	2,693
Elimination of depreciation and impairment	11,677	12,786	22,978	3,147	-	50,588
Impairment loss recognised during the year	(1,840)	(4,937)	(2,569)	(705)	(179)	(10,230)
Depreciation charge	(6,663)	(6,865)	(63,251)	(5,498)	-	(82,277)
Disposals	68	45	238	132	-	483
Translation difference	32	(329)	1,338	99	(14)	1,126
Balance at 31 December 2007	**(8,485)**	**(12,230)**	**(63,833)**	**(6,780)**	**(193)**	**(91,521)**
Including PPE under finance lease	-	(123)	(5,393)	(51)	-	(5,567)
Balance at 1 January 2008	**(8,485)**	**(12,230)**	**(63,833)**	**(6,780)**	**(193)**	**(91,521)**
Reclassification	(105)	(6)	(646)	757	-	-
Impairment loss recognised during the year	(10,285)	337	(6,575)	(199)	-	(16,722)
Depreciation charge	(6,847)	(7,676)	(68,362)	(6,875)	-	(89,760)
Disposals	806	81	223	497	-	1,607
Transfers	-	-	(34)	-	34	-
Translation difference	797	541	9,686	591	-	11,615
Balance at 31 December 2008	**(24,119)**	**(18,953)**	**(129,541)**	**(12,009)**	**(159)**	**(184,781)**
Including PPE under finance lease	-	(213)	(9,352)	(88)	-	(9,653)
Net book value						
At 1 January 2007	**273,760**	**144,658**	**523,169**	**38,970**	**231,413**	**1,211,970**
At 31 December 2007	**272,333**	**166,876**	**639,525**	**46,915**	**159,118**	**1,284,767**
At 31 December 2008	**240,545**	**175,916**	**559,430**	**40,311**	**240,902**	**1,257,104**

7 Property, plant and equipment (continued)

In the above disclosure any accumulated depreciation (aggregated with accumulated impairment losses) at the date of the last revaluation, 1 January 2007, was eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The category Land and buildings includes land in the amount of EUR 12,351 thousand (2007: EUR 18,266 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 65,089 thousand as at 31 December 2008 (2007: EUR 69,172 thousand).

(a) Revaluation

The Group is using the revaluation model to account for property, plant and equipment.

In 2007, management commissioned an independent valuer to appraise the property, plant and equipment of five major subsidiaries, an existing IFRS preparers (JSC Telasi, Mtkvari Ltd., JSC Elektricheskiye seti Armenii, JSC IEC, JSC Moldavskaya GRES), in order to determine the fair value of their property, plant and equipment for the purpose of revaluation as at 1 January 2007.

Fair values were determined primarily based on the depreciated replacement cost method. The replacement cost of the major part of buildings, substations, power transmission grids and constructions was estimated based on technical characteristics, unit construction cost and construction estimates. The replacement cost of the major part of equipment was estimated based on the current purchase contracts and price-list of producers and trading companies. The economic obsolescence was estimated based on profitability test results for each cash generating unit. The following significant assumptions were applied:

- The discount rate used in the profitability test varied from 15.49% to 15.90% per annum depending on the subsidiary. From 2008 onwards, the applied discount rate varied from 15.49% to 16.23%;
- The planned annual growth of the electricity tariff used for the purposes of appraisal was 3% for JSC Elektricheskiye seti Armenii and JSC IEC, 5% for JSC Telasi, 7% for Mtkvari Ltd. and 14% for JSC Moldavskaya GRES;
- The expected long-term growth of sales used was 2% for JSC Telasi and Mtkvari Ltd., 4% for JSC Elektricheskiye seti Armenii 5% for JSC IEC and 20% for JSC Moldavskaya GRES.

Revaluation of property, plant and equipment in regard to JSC Telasi, Mtkvari Ltd., JSC Elektricheskiye seti Armenii, JSC IEC, JSC Moldavskaya GRES as at 1 January 2007 has resulted in:

- a revaluation increase of EUR 127,940 thousand (net of related deferred tax of EUR 14,916 thousand) comprising an increase in the carrying value of property, plant and equipment;
- a net revaluation decrease of EUR 118,549 thousand comprising a decrease in the carrying value of property, plant and equipment of EUR 121,242 thousand less the reversal of a previously recognised impairment on property plant and equipment of JSC Moldavskaya GRES and Mtkvari Ltd. of EUR 2,693 thousand.

Increases in the carrying amount arising on revaluation of the items of property, plant and equipment net of the related deferred tax effect were credited to the revaluation reserve in equity; decreases were recognised in the Combined and Consolidated Income Statement as a provision for impairment of property, plant and equipment.

(b) 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 Ispytatelny Stend Ivanovskoy GRES, Ivanovskie PGU, Sochinskaya TES, 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). The aggregate amount of those fair values as at 1 January 2007 was EUR 890,807 thousand.

Fair values were determined primarily based on the depreciated replacement cost method. The following significant assumptions were applied:

- The discount rate used in profitability test varied from 15.49% to 19.06% per annum depending on the merged entity. From 2008 onwards, the applied discount rate varied from 15.49% to 16.23%;
- The planned annual growth of the electricity tariff used for the purposes of appraisal was 1.8%.

(in thousands of EUR , unless otherwise stated)

7 Property, plant and equipment (continued)

(c) 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	Construction in progress	Total
Net book value as at 31 December 2007	288,583	160,860	551,509	115,129	90,345	1,206,426
Net book value as at 31 December 2008	267,170	169,834	485,480	99,989	203,848	1,226,321

(d) Impairment

(i) For the year ended 31 December 2007

As at 1 January 2007 the Group's accumulated impairment provision related to the property, plant and equipment of JSC Moldavskaya GRES and Mktvari Ltd. amounted to EUR 6,102 thousand.

During 2007 JSC Moldavskaya GRES additionally impaired its property, plant and equipment, located on the territory of Ukraine, the rights of ownership of which are currently uncertain, by EUR 974 thousand.

As a result of the impairment test performed as at 31 December 2007 the Group recognised an impairment loss in the amount of EUR 9,256 thousand with regard to JSC IEC, one of the Group subsidiaries. The main indicator and reason for impairment relates to the fact that in July 2007 there was a significant decrease in the state regulated tariff. For impairment purposes the recoverable amount was determined for all property, plant and equipment of JSC IEC as one cash-generating unit. The recoverable amount represents its value in use as determined by discounting the expected future cash flows of JSC IEC from the continuing use of property, plant and equipment during remaining twenty five years of their useful life. The expected cash flow was based on budgeted EBITDA for 2008 in the amount of EUR 697 thousand with further annual growth of 2.7% and was discounted using the discount rate of 12.28%. Part of the impairment loss, amounting to EUR 5,502 thousand, was reversed from previously recognised revaluation reserve in equity; the remaining amount of EUR 3,754 thousand was recognised in the Combined and Consolidated Income Statement as Impairment of property plant and equipment.

As at 31 December 2007 the Group's accumulated impairment provision related to the property, plant and equipment of JSC Moldavskaya GRES and JSC IEC amounted to EUR 16,942 thousand (including negative translation difference of EUR 610 thousand).

(ii) For the year ended 31 December 2008

Mktvari Ltd.

As at 31 December 2008 the Group performed an assessment of the recoverable amount of property, plant and equipment of Mktvari Ltd., one of the Group subsidiaries. For impairment purposes the recoverable amount was determined for all property, plant and equipment as one cash-generating unit.

The following key assumptions were used:

- Cash flows were projected based on actual operating results and the ten-year business plan, using a pre-tax discount rate of 23.8%;
- Total electricity production in 2008 was 497 million kWth and it was projected at about 900 million kWth in 2009 and 1,380 million kWth for the years from 2010 to 2018;
- The cost of gas purchases was projected to increase from the current prices by 24% per 1,000 cubic metres till 2014 and by 27% after 2015;
- The electricity tariff will increase gradually from current prices by 22% till 2018 per 1,000 kWth;
- Approximately EUR 20,024 thousand for the replacement/repair of property, plant and equipment will be spent during the period from 2009 to 2018.

7 Property, plant and equipment (continued)

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external sources and internal sources. The above estimates are particularly sensitive in the following areas:

- An increase of one percentage point in the discount rates used would have decreased the carrying value by EUR 1,041 thousand.
- A 10% decrease in future production volumes would have decreased the carrying value by EUR 4,474 thousand.

As a result of an assessment of the recoverable amount performed as at 31 December 2008 the Group recognised an impairment loss in the amount of EUR 12,042 thousand which was recognised in Combined and Consolidated Income Statement and in Combined and Consolidated Statement of Changes in Equity in the amounts EUR 5,866 thousand and EUR 5,504 thousand (net of related deferred tax of EUR 971 thousand), respectively.

JSC Moldavskaya GRES

During 2008 JSC Moldavskaya GRES has both recognised an impairment of EUR 132 thousand and released an impairment of EUR 673 thousand against its property, plant and equipment.

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 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.

Based on the assumptions described above, management concluded that no additional impairment loss needed to be recognised in these consolidated financial statements in respect of the JSC Moldavskaya GRES assets. Had any impairment provision been calculated based solely on the existing trading level and pricing, an additional impairment provision of approximately EUR 16 million would have been recognised in the Combined and Consolidated Income Statement for 2008.

JSC Telasi

The category Land and building includes land in the amount of EUR 10,600 thousand (2007: EUR 16,062 thousand). The main reason for decrease was a revaluation of land in JSC Telasi at 31 December 2008. As a result of revaluation the Group recognised an impairment loss in the amount of EUR 5,221 thousand which resulted in a net decrease of revaluation reserve in equity in the amount of EUR 4,162 thousand (net of related deferred tax of EUR 762 thousand) and charge to the Combined and Consolidated Income Statement as provision for impairment of property, plant and equipment in the amount of EUR 522 thousand.

The Parent Company

As described in Note 2, the operating environment of the Group has been impacted by the ongoing global financial and economic crisis ("the economic crisis"). Specifically:

7 Property, plant and equipment (continued)

- the economic crisis has resulted in capital markets instability, significant 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 significantly;
- 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.

Given these developments, Management has assessed whether the carrying value of property, plant and equipment of Ivanovo Thermal-gas Plant, North-West Thermal Power Plant, Kaliningradskaya TEC-2 and Sochinskaja TPS at 31 December 2008 is recoverable through future operations. In making this assessment, management has 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 considers that the individual power stations, i.e. Parent Company's branch, each represent 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.

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

Other Companies

Accumulated impairment disposed during reporting period due to sale of property, plant and equipment of JSC IEC amounted to EUR 876 thousand.

As 31 December 2008 the Group's accumulated impairment provision related to the property, plant and equipment of JSC Moldavskaya GRES, Mktvari Ltd. and JSC IEC amounted to EUR 33,040 thousand (including negative translation difference of EUR 252 thousand). In management's opinion, the existing 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.

(e) Security

Properties as at 31 December 2008 with a carrying amount of EUR 813 thousand (31 December 2007: EUR 488 thousand) are pledged by JSC Elektricheskiye seti Armenii as collateral for some of its bank loans (see Note 18). As at 31 December 2007, property, plant and equipment of one of the Group's companies, Telasi, in the amount of EUR 1,212 thousand were pledged as security to the Tax Department of Largest Taxpayers Inspection in Georgia.

(in thousands of EUR , unless otherwise stated)

8 Intangible assets

	Goodwill	Software	Other	Total
Cost				
Balance at 1 January 2007	299	2,781	288	3,368
Additions	-	2,346	119	2,465
Disposals	-	(72)	(33)	(105)
Translation difference	(10)	(20)	12	(18)
Balance at 31 December 2007	**289**	**5,035**	**386**	**5,710**
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	-	2,401	92	2,493
Disposals	-	-	-	-
Translation difference	(39)	(772)	(58)	(869)
Balance at 31 December 2008	**34,247**	**6,703**	**410**	**41,360**
Amortisation				
Balance at 1 January 2007	-	(710)	(48)	(758)
Amortisation charge	-	(580)	(75)	(655)
Impairment losses	-	-	-	-
Disposals	-	72	15	87
Translation difference	-	(3)	(6)	(9)
Balance at 31 December 2007	-	**(1,221)**	**(114)**	**(1,335)**
Balance at 1 January 2008	-	(1,221)	(114)	(1,335)
Reclassification of cost from other intangibles to software	-	(20)	20	-
Amortisation charge	-	(1,219)	(78)	(1,297)
Impairment losses	-	-	-	-
Disposals	-	-	-	-
Translation difference	-	383	19	402
Balance at 31 December 2008	-	**(2,077)**	**(153)**	**(2,230)**
Net book value				
At 1 January 2008	**289**	**3,814**	**272**	**4,375**
At 31 December 2008	**34,247**	**4,626**	**257**	**39,130**

The amortisation charge is included in operating expenses in the Combined and Consolidated income statement.

The goodwill recognised as at 31 December 2008 comprises 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.

Capitalized 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.

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.

(in thousands of EUR , unless otherwise stated)

8 Intangible assets (continued)

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%

Based on the test performed, in management's opinion, no impairment should be recognised as at 31 December 2008 in relation to the goodwill associated with the purchase ERC.

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.

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:

	Status	Country	Ownership/Voting 2008	Ownership/Voting 2007
Stantsiya Ekibastuzskaya GRES-2	Jointly controlled entity	Kazakhstan	50.0%	50.0%
UAB Alproka	Associate	Lithuania	49.99%	-
JSC "Industrial Power Company"	Jointly controlled entity	Russian Federation	50.0%	50.0%

	Stantsiya Ekibastuzskaya GRES-2	JSC Industrial Power Company	UAB Alproka	Total
Carrying value at 1 January 2007	**76,633**	-	-	**76,633**
Additions	-	280	-	**280**
Share of revaluation of property, plant and equipment net of Income tax effect	8,778	-	-	**8,778**
Share of (loss) / profit after tax	544	(41)	-	**503**
Translation difference	(4,629)	-	-	**(4,629)**
Carrying value at 31 December 2007	**81,326**	**239**	-	**81,565**
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	7,664	-	-	**7,664**
Income tax rate reduction in Kazakhstan, reflected on revaluation reserve of property, plant and equipment	9,379	-	-	**9,379**
Share of profit/(loss) after tax	5,207	(203)	439	**5,443**
Dividends received	(1,073)	-	(591)	**(1,664)**
Translation difference	2,123	(8)	-	**2,115**
Carrying value at 31 December 2008	**104,626**	**28**	**163**	**104,817**

(in thousands of EUR, unless otherwise stated)

9 Investments in associates and jointly controlled entities (continued)

JSC Stantsiya Ekibastuzskaya GRES-2

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

	2008	2007
Non-current assets	252,715	231,033
Current assets	26,220	16,784
Non-current liabilities	(63,361)	(81,014)
Current liabilities	(6,322)	(4,150)
Revenue	86,385	60,177
Profit for the year	10,413	1,087

JSC Industrial Power Company

In August 2007, JSC RAO UES INTERNATIONAL contributed RR 10 million to the share capital of the newly established company – JSC Industrial Power Company and became the owner of 50 percent of its shares.

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:

	2008	2007
Non-current assets	148	25
Current assets	59	460
Current liabilities	(152)	(9)
Revenue	222	-
Loss for the year	(407)	(81)

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:

	2008
Non-current assets	24
Current assets	3,326
Current liabilities	(2,711)
Revenue (from the date of acquisition)	6,622
Profit for the year (from the date of acquisition)	1,726

(in thousands of EUR , unless otherwise stated)

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	
	2008	**2007**	**2008**	**2007**
Property, plant and equipment	6,767	41,924	(11,609)	(40,227)
Investments in associates and jointly controlled entity	36	10	(19,534)	(17,594)
Trade and other receivables	5,146	11,135	-	2
Tax loss carry-forwards	1,629	14,544	-	1,914
Other	3,187	5,010	97	520
Tax assets/(liabilities)	**16,765**	**72,623**	**(31,046)**	**(55,385)**
Set off of tax	(8,003)	(30,739)	8,003	30,739
	8,762	**41,884**	**(23,043)**	**(24,646)**

(b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of Group entities located in Armenia in 2008 and in 2007 and applicable to the following items:

	2008	**2007**
Deductible temporary differences	12,296	9,684
Tax loss carry-forwards	225	359
	12,521	**10,043**

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

The tax losses expire in 2010. 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.

Movement in temporary differences during the year

Deferred tax assets:

	1 January 2007	**Recognised in income statement**	**Recognised in equity (FCTR)**	**Recognised in equity (Revaluation reserve)**	**31 December 2007**
Property, plant and equipment	26,315	(10,765)	(620)	(2,684)	12,246
Investment in associate and jointly controlled entity	-	10	-	-	10
Trade and other receivables	4,639	4,721	(197)	-	9,163
Other items	1,638	2,460	(92)	-	4,006
Tax loss carry-forwards	13,294	3,677	(512)	-	16,459
	45,886	**103**	**(1,421)**	**(2,684)**	**41,884**

	1 January 2008	**Recognised in income statement**	**Recognised in equity (FCTR)**	**Recognised in equity (Revaluation reserve)**	**31 December 2008**
Property, plant and equipment	12,246	(9,038)	(419)	762	3,551
Investment in associate and jointly controlled entity	10	26	-	-	36
Trade and other receivables	9,163	(6,343)	271	-	3,091
Other items	4,006	(2,970)	(42)	-	994
Tax loss carry-forwards	16,459	(15,019)	(350)	-	1,090
	41,884	**(33,344)**	**(540)**	**762**	**8,762**

(in thousands of EUR , unless otherwise stated)

10 Deferred tax assets and liabilities (continued)

Deferred tax liabilities:

	1 January 2007	Recognised in income statement	Recognised in equity (FCTR)	Recognised in equity (Revaluation reserve)	31 December 2007
Property, plant and equipment	(11,865)	14,197	(649)	(12,232)	(10,549)
Investments in associates and jointly controlled entities	(16,398)	130	781	(2,107)	(17,594)
Available-for-sale investments	(366)	-	-	-	(366)
Other items	3,797	(94)	160	-	3,863
	(24,832)	**14,233**	**292**	**(14,339)**	**(24,646)**

	1 January 2008	Recognised in income statement	Recognised in equity (FCTR)	Recognised in equity (Revaluation reserve)	31 December 2008
Property, plant and equipment	(10,549)	1,271	(86)	971	(8,393)
Investments in associates and jointly controlled entities	(17,594)	(1,041)	(430)	(469)	(19,534)
Available-for-sale investments	(366)	366	-	-	-
Other items	3,863	1,032	(11)	-	4,884
	(24,646)	**1,628**	**(527)**	**502**	**(23,043)**

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 1,782 thousand was recognised in equity in relation to Stantsiya Ekibastuzskaya GRES-2 in respect of the Group's share in the revaluation of property, plant and equipment performed at 31 December 2008 (at 31 December 2007 EUR 2,107 thousand) and due to the change in the income tax rate in Kazakhstan (from 30% to 15%) in the amount of EUR 2,251 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 years ended 31 December 2008 and 2007, the corresponding temporary tax differences were equal to EUR 115,503 thousand and EUR 91,973 thousand.

11 Other non-current assets

		2008	2007
Financial non-current assets			
Non-current loans issued		81	2,816
	Less impairment provision	(56)	(65)
Non-current loans issued - net		*25*	*2,751*
Non-current trade receivables		4,429	2,488
	Less impairment provision	(1,834)	(1,270)
Non-current trade receivables - net		*2,595*	*1,218*
Other non-current receivables		8,870	8,496
	Less impairment provision	(5,080)	(5,321)
Other non-current receivables - net		*3,790*	*3,175*
Available-for-sale investments		5,650	5,331
Long-term bank deposit		724	-
		12,784	**12,475**
Non-financial non-current assets			
Other non-current assets		134,970	6,997
		134,970	**6,997**
		147,754	**19,472**

(in thousands of EUR , unless otherwise stated)

11 Other non-current assets (continued)

As at 31 December 2007 non-current loans issued included EUR 2,732 thousand in respect of a loan given to Khramesi I, a company under asset management of the Group (see Note 31).

As at 31 December 2007 available-for-sale investments included EUR 4,484 thousand of investments in respect of shares of ERC acquired in 2005 (paid in cash) and accounted for at fair value. In 2008 the Group obtained control over ERC (see Note 6).

As at 31 December 2008 available-for-sale investments include EUR 5,586 thousand in respect of investments in the shares of JSC "Sangtudinskaya GES - 1" (Tadjikistan) (31 December 2007: EUR 819 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-1"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. 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 and resulted in a corresponding increase of the merger reserve (see also paragraph "Exchange of shares transactions" in Note 16).

As at 31 December 2008 other non-current assets included EUR 128,877 thousand relating to construction of the second power generating block at Kaliningradskaya TEC-2 and comprises advances given to JSC "VO Technopromexport" (an entity which performs the construction) in the amount of EUR 114,520 thousand and construction in progress in the amount of EUR 14,357 thousand (see Note 20).

As at 31 December 2008 other non-current assets included EUR 1,599 thousand of prepayments on solidarity accounts and on individual accounts in non-state pension fund in respect of current employees (31 December 2007: EUR 1,061 thousand). The prepayments are intended to be used for settlement of defined benefit pension obligations.

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 2008	(1,270)	(65)	(5,321)	(6,656)
Provision for receivables impairment	(728)	-	(1,011)	(1,739)
Unwind of discount	88	1	473	562
Translation difference	76	8	779	863
At 31 December 2008	**(1,834)**	**(56)**	**(5,080)**	**(6,970)**

	Non-current trade receivables	Non-current loans issued incl. interest	Other non-current receivables	Total provision
At 1 January 2007	(824)	(68)	(2,336)	(3,228)
Provision for receivables impairment	(469)	-	(3,136)	(3,605)
Unwind of discount	-	1	17	18
Translation difference	23	2	134	159
At 31 December 2007	**(1,270)**	**(65)**	**(5,321)**	**(6,656)**

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.

(in thousands of EUR , unless otherwise stated)

12 Inventories

	2008	2007
Materials and consumables	11,583	11,855
Spare parts	15,086	11,101
Fuel production stocks	11,784	11,639
Other inventories	7,668	8,761
	46,121	**43,356**

13 Accounts receivable and prepayments

		2008	2007
Financial assets, included:		**139,257**	**138,733**
Trade receivables		180,673	169,723
	Less impairment provision	(65,509)	(66,588)
Trade receivables - net		115,164	103,135
Other receivables		28,015	17,791
	Less impairment provision	(4,980)	(4,887)
Other receivables - net		23,035	12,904
Short-term loans issued, including interest		545	22,753
	Less impairment provision	(66)	(59)
Short-term loans issued, including interest		479	22,694
Dividends receivable		579	-
Non-financial assets, included:		**113,250**	**112,937**
Advances to suppliers and prepayments		32,104	25,079
	Less impairment provision	(1,204)	(1,204)
Advances to suppliers and prepayments - net		30,900	23,875
Short-term VAT recoverable		32,235	35,087
Taxes prepaid		50,115	53,975
		252,507	**251,670**
Impairment provision, total		(71,759)	(72,738)

As at 31 December 2008 included in the taxes prepaid is VAT in the total amount of EUR 49,155 thousand (31 December 2007: EUR 53,149 thousand).

(in thousands of EUR , unless otherwise stated)

13 Accounts receivable and prepayments (continued)

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 2008	(66,588)	(1,204)	(59)	(4,887)	**(72,738)**
Provision for receivables impairment	(3,980)	(495)	(5)	(452)	**(4,932)**
Release of provision	3,699	356	-	112	**4,167**
Receivables written off during the year as uncollectible (provided as of year beginning)	291	-	-	-	**291**
Unwind of discount	62	-	-	140	**202**
Foreign exchange gain/(loss)	(30)	-	-	3	**(27)**
Translation difference	1,037	139	(2)	104	**1,278**
At 31 December 2008	**(65,509)**	**(1,204)**	**(66)**	**(4,980)**	**(71,759)**

	Trade receivables	Advances to suppliers and prepayments	Short-term loans issued (incl. interest)	Other receivables	Total provision
At 1 January 2007	(89,540)	(1,413)	(1)	(3,836)	**(94,790)**
Provision for receivables impairment	(894)	(64)	(61)	(1,834)	**(2,853)**
Release of provision	834	229	-	560	**1,623**
Receivables written off during the year as uncollectible (provided as of year beginning)	21,283	-	-	-	**21,283**
Unwind of discount	-	-	-	32	**32**
Foreign exchange gain/(loss)	57	-	-	10	**67**
Translation difference	1,672	44	3	181	**1,900**
At 31 December 2007	**(66,588)**	**(1,204)**	**(59)**	**(4,887)**	**(72,738)**

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

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 31 December 2007	Trade receivables	Short-term loans issued (including interest)	Other receivables	Total
Not past due not impaired	85,535	22,751	10,266	**118,552**
Past due but not impaired	12,387	-	826	**13,213**
Past due and impaired	71,801	2	6,699	**78,502**
Total	**169,723**	**22,753**	**17,791**	**210,267**

(in thousands of EUR , unless otherwise stated)

13 Accounts receivable and prepayments (continued)

As of 31 December 2008 accounts receivable of EUR 15,738 thousand (2007: EUR 13,213 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	2008	2007
Up to 3 month	13,728	9,642
3 to 6 month	864	1,579
6 to 12 month	1,146	1,992
Total	**15,738**	**13,213**

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	2008	2007
Up to 3 month	7,853	3,783
3 to 6 month	72,405	73,846
6 to 12 month	2,537	873
Total	**82,795**	**78,502**

The Group does not hold any collateral as security.

14 Cash and cash equivalents

	2008	2007
Cash at bank and in hand	107,526	72,250
Foreign currency accounts	45,028	29,337
Bank deposits with maturity of three months or less	121,285	29,221
	273,839	**130,808**

(in thousands of EUR , unless otherwise stated)

14 Cash and cash equivalents (continued)

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

Financial institution	Credit rating	Rating agency	2008	2007
NOMOS-BANK JSC	B+/Negative/B-	Fitch	96,578	-
Commerzbank EURASIJA SAO	Unrated	Unrated	44,220	-
HSBC Bank RR OOO	Unrated	Unrated	41,022	-
Sberbank JSC	BBB/Negative/F3	Fitch	38,263	78,760
ORGRESBANK OJSC JSB	BBB+/Negative/F2	Fitch	12,118	-
Vnesheconombank SC	BBB/Negative/A-2	Standard&Poor's	9,913	1,032
SEB AB	A/Negative/A-1	Standard&Poor's	9,093	-
Tatecobank JSC	Unrated	Unrated	3,620	-
Commerzbank AG	A/Negative/A-1	Standard&Poor's	3,022	5,679
Gazprombank JSC	BB+/Negative/B	Standard&Poor's	2,827	-
Tavrichesky JSC	Unrated	Unrated	2,799	991
Nordea Bank Finland PLC	AA-/Stable/A-1	Standard&Poor's	2,783	822
Bank of Georgia JSC	B/ Stable/B	Standard&Poor's	2,651	1,202
Alfa-Bank JSC	BB-/ Stable/B	Standard&Poor's	1,074	-
VTB Bank Georgia JSC	B+/Negative/B	Fitch	704	-
TBC Bank JSC	B/ Negative /B	Fitch	347	15
VTB Bank JSC	BBB/Negative/A-3	Standard&Poor's	325	5,613
UniCredit Bank JSC	BBB/ Negative /A-3	Standard&Poor's	294	610
CB Citibank JSC	BBB+/ Negative/F2	Fitch	220	41
ING Bank NV	AA-/Negative/A-1	Standard&Poor's	218	49
Tsesnabank JSC	B-/ Negative/C	Standard&Poor's	204	75
OTKRITIE JSC	Unrated	Unrated	50	15,983
Rosbank JSCB	BB+/ Negative/B	Standard&Poor's	32	422
Credit Suisse AG	A+/Stable/A-1	Standard&Poor's	8	2,271
Conversebank CJSC	Unrated	Unrated	5	10
NB CO RTS Settlement Chamber	Unrated	Unrated	-	3,486
Investment trade Bank JSC	Unrated	Unrated	-	11,281
Other			1,449	2,466
			273,839	**130,808**

(in thousands of EUR , unless otherwise stated)

14 Cash and cash equivalents (continued)

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

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

Bank deposits with maturity of three months or less at 31 December 2007

Bank	Interest rate	Amount of deposits
Sberbank JSC	7.25%	8,349
VTB Bank JSC	7.50%	5,566
OTKRITIE JSC	4.50%	15,306
		29,221

15 Other current assets

	2008	**2007**
Restricted cash	22,800	38,543
Short-term derivative financial instruments	9,402	-
Other	1,276	2,099
	33,478	**40,642**

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 20,526 thousand and EUR 36,974 thousand as at 31 December 2008 and 31 December 2007, respectively. These amounts are included in restricted cash balance.

Restricted cash balances include cash deposited in Pohjola Bank (collateral security in favour of Fingrid) and Nordea (collateral securities in favour of Nord Pool and other parties) in the aggregate amount of EUR 2,264 thousand and EUR 1,556 thousand as at 31 December 2008 and 31 December 2007, respectively.

Restricted cash balances include cash deposited in Garanti Bank (deposits to providers of services) in the amount of EUR 10 thousand and EUR 13 thousand as at 31 December 2008 and 31 December 2007, respectively.

Short-tem derivative financial instruments represent the fair value of a foreign currency forward related to a foreign currency loan obtained in June 2008 (see Note 24).

(in thousands of EUR , unless otherwise stated)

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 as disclosed in paragraph "IFRS 1 adoption" (see Note 3). 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 minority interest.

Merger reserve. As described in the paragraph "Predecessor accounting" (see Note 3), the Company accounted for the merger of businesses contributed as of 1 January 2007.

The net difference of EUR 616,983 thousand between the IFRS carrying value of the contributed assets as at 1 January 2007 and the minority 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 2007	**616,983**
Realisation of property, plant and equipment revaluation reserve	718
Loss of reorganised and merged businesses for the year	(59,842)
Dividends to shareholders, other than Parent's	(7 396)
Change in Group structure	(1,352)
Balance at 31 December 2007	**549,111**

Balance at 1 January 2008	**549,111**
Profit of reorganised and merged businesses for the year (till the date of legal merger)	20,664
Issue of shares by one of entities merged	58,318
Reorganization the Company	(5,072,199)
Purchase of treasury shares	10,452
Balance at 31 December 2008	**(4,433,654)**

(in thousands of EUR , unless otherwise stated)

16 Equity (continued)

Share capital

	2008	2007
Number of ordinary shares issued and fully paid (in thousand of units)	2,274,113,845	41,258,360
Par value (in Russian roubles ("RR")	0.10	0.10

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
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**

The total number of the Company's ordinary shares authorised for issue as at 31 December 2008 was 4,631,258,360 thousand (31 December 2007 was 3,101,258,360 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.

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. JSC "INTER RAO UES Holding" had on its balance sheet some assets that did not represent businesses and, therefore, were not accounted in the Financial Statements using the predecessor accounting method. The merger of JSC "INTER RAO UES Holding" resulted in an increase of the Company's equity for the fair value of the assets received in the amount of RR 21,605,446 thousand or EUR 584,389 thousand.

The total nominal value of shares issued is RR 223,285,549 thousand or EUR 6,046,388 thousand.

The difference of EUR 5,072,199 thousand between the nominal value of the shares issued in the amount of EUR 6,046,388 thousand and minority interest of EUR 188,985 thousand, as adjusted for the revaluation reserve of EUR 49,840 thousand, attributable to the Company's shareholders, the fair value of other assets contributed to the Company as a result of merger of JSC "INTER RAO UES Holding of EUR 584,389 thousand and treasury shares of EUR 250,655 thousand, resulting from the exchange, was recorded as a decrease in the merger reserve. For details of the treasury shares held as result of the exchange see paragraph "Treasury shares" below.

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.

16 Equity (continued)

- 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 recognized, among other assets held on the balance sheet of JSC "INTER RAO UES Holding", third party promissory notes with a nominal value of RR 171,881 thousand or EUR 4,649 thousand. The fair value of the promissory notes was assessed by management on the date of the merger as being equal to their nominal value. In October 2008 the promissory notes were settled by exchange for 5,583,278 thousand of the Company's shares with a total nominal value of RR 558,328 thousand or EUR 15,101 thousand.

As at 31 December 2008 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 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 29 June 2007 JSC "RAO UES INTERNATIONAL" (entity combined in the Financial Statements from 1 January 2007, see Note 3) declared dividends for the year ended 31 December 2006 of RR 36.85 or EUR 1.06 per share for the total of RR 420 million or EUR 12,092 thousand, out of which RR 252 million or EUR 7,255 thousand were payable to RAO UES and accounted as a decrease in the merger reserve and RR 168 thousand or EUR 4,837 thousand were payable to minorities.

On 14 June 2007 JSC "North-West Thermal Power Plant" (entity combined in the Financial Statements from 1 January 2007, see Note 3) declared interim dividends for the year ended 31 December 2006 of RR 0.47 or EUR 0.01 per share for the total of RR 7,837 thousand or EUR 227 thousand, out of which RR 5,208 thousand or EUR 141 thousand were payable to RAO UES and accounted as a decrease in the merger reserve, RR 1,959 thousand of EUR 57 thousand were payable to JSC "RAO UES INTERNATIONAL" and were eliminated in the combined and consolidated equity statement as an intercompany transaction (JSC "RAO UES INTERNATIONAL" held 25% + 1 share in JSC "North-West Thermal Power Plant" before the merger) and RR 670 thousand or EUR 29 thousand were payable to minorities.

On 1 August 2007 the Company declared interim dividends for the year ended 31 December 2006 of RR 0.00006 or EUR 0.000002 per share for the total of RR 2,342 thousand or EUR 67 thousand, which were totally payable to RAO UES and accounted as a decrease in retained earnings.

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.

Information on dividends for the year 2008 declared after the reporting date 31 December 2008 is presented in Note 33.

Other equity movements. Some minority shareholders of JSC "North-West Thermal Power Plant", out of those who voted against the respective merger into the Company on the extraordinary shareholders meeting held in December 2007, claimed redemption of their shares by the entity. In March 2008 JSC "North-West Thermal Power Plant" purchased shares claimed for redemption for RR 195,155 thousand or EUR 5,635 thousand.

(in thousands of EUR , unless otherwise stated)

16 Equity (continued)

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.

17 Earnings per share

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

	2008	2007
Weighted average number of shares for the year	1,307,293,018,456	41,258,360,000
Profit / (Loss) attributable to the shareholders of the Company	77,947	(60,686)
Profit / (Loss) earnings per ordinary share - basic and diluted (EUR)	0.00006	(0.00147)

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 the whole of 2007 and 2008 respectively.

(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	2008	2007
Vnesheconombank SC (vi) [1]	USD	Libor+6%	115,562	-
Sberbank JSC (iv)	RUR	10.75%	48,261	55,659
VTB Bank Europe PLC [1]	USD	LIBOR+2%	35,448	34,155
VTB Bank Armenia CJSC	USD	12.00%	21,154	-
VTB Bank Georgia JSC	USD	14.00%	9,869	-
Ministry of Defence, Armenia	AMD	12.00%	7,471	8,342
FIBI BANK (Switzerland) (x)	USD	3.50%	7,090	6,831
HSBC Bank Armenia CJSC	USD	10.00%	3,526	-
Areximbank CJSC	AMD	12.00%	3,448	-
Government of Armenia (subloaned-KfW) (v)	EUR	18.00%	3,198	3,812
Government of Armenia (vii)	JPY	12.00%	2,675	-
IR-Leasing OOO (viii)	RUR	10.58%	2,397	12,581
Ministry of Finance, Georgia (subloaned-IDA/WB) (iii, a)	USD	20.00%	700	159
Ministry of Finance, Georgia (subloaned-EBRD) (iii, b)	USD	20.00%	603	137
Ministry of Finance, Georgia (subloaned-KfW) (iii, c)	EUR	20.00%	277	62
Notes payable Elgadatsema	GEL	15.40%	262	323
Finance lease liabilities	USD, EUR	6%-22%	93	255
Clovery PLC (ii)	USD	7.75%	-	102,466
Credit Suisse International (i)	USD	RF30+2.7%	-	15,180
Freecom Trading Limited[2]	USD	12.00%	-	8,197
Khrami I	USD	12.00%	-	2,057
Other			4	4
Total long-term borrowings			**262,038**	**250,220**
Less: current portion of non-current loans and borrowings related to restructuring (ix)			-	(97,404)
Less: current portion of long-term loans and borrowings and long-term financial lease			(20,842)	(120,062)
			241,196	**32,754**

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

As at 31 December 2008 the estimated fair value of total non-current debts (including the current portion) was EUR 262.2 million (31 December 2007: EUR 250.9 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) The Parent Company pledged to Credit Suisse International property rights in respect of certain electricity sales contracts. The loan was repaid in 2008.

(ii) On 13 March 2006 the Company issued loan notes payable in the amount of USD 150 million with a fixed interest rate of 7.75%. The loan was repaid in 2008.

(iii) As at 31 December 2008 one of the Group entities, "Mtkvari" Ltd. (Mtkvari) had three loans obtained by the predecessor of this entity and acquired by the Group as a result of the acquisition of this entity in 2003.

[1] Under the terms of the Agreement the Company should be in compliance with certain financial and non-financial covenants.

[2] Freecom Trading Limited was a significant shareholder of JSC Moldavskaya GRES, which in 2007 was 51 percent owned by the Group. In 2008 Freecom Trading Limited became a Group company, 100 percent owned by the Group (see Note 6).

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 percent;

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

(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 percent.

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 amortized 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 percent, 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 1,310 thousand and EUR 61 thousand in 2008 and 2007, respectively.

(iv) On 25 April 2007 the Company obtained 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 Sberbank property rights in respect of certain electricity sales contract with total value of USD 11.5 million.

(v) 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-Hrazadan 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 percent), initially the loan has been recorded at discounted amounts using market rates prevailing at the time of its initial recognition (18 percent). Further to initial recognition, the loan has been carried at amortized 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 682 thousand and EUR 587 thousand in 2008 and 2007, respectively.

(vi) On 12 November 2008 the Company obtained a loan in the amount of USD 163 million with an interest rate of Libor+6% for the purpose of financing the purchase of Freecom Trading Limited. The loan is to be repaid on 12 November 2013.

(vii) The loan in the amount 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.

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 percent). Further to initial recognition, the loan is to be carried at amortized cost, using the discount rate applied during its initial recognition.

(in thousands of EUR , unless otherwise stated)

18 Loans and borrowings (continued)

(viii)The liability to OOO IR-Leasing in the amount of EUR 2,366 thousand (31 December 2007: EUR 12,104 thousand) represents finance lease liabilities for leased equipment at Kaliningradskaya TETS, one of the Parent Company branches (the interest rate implied in the lease is equal to 10.58%).

(ix) As discussed in Note 1 "Establishment of the Group", in connection with the reorganization of JSC RAO UES INTERNATIONAL approved by shareholders in December 2007, the company notified its creditors of their right to demand the settlement of liabilities. In this circumstance, in accordance with IAS 1 "Presentation of Financial Statements", the related liabilities in the amount of EUR 97,404 thousand should be presented as current liabilities as the Group did not have an unconditional right to defer the settlement of the liabilities for at least 12 months after the balance sheet date. The Company's creditors had the right to make a claim for earlier repayment until 9th of February 2008. As after 31 December 2007 no claims were received from the creditors and the deadline for claims had passed, the associated current liabilities of JSC RAO UES INTERNATIONAL were reclassified back to non-current liabilities.

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

Gross finance lease liabilities – minimum lease payments

	2008	2007
Less than one year	2,316	10,705
Between one and five years	224	2,885
After five years	-	3
	2,540	**13,593**
Future finance charges on finance leases	(50)	(757)
Present value of finance lease liabilities	**2,490**	**12,836**

The present value of finance lease liabilities is as follows:

	2008	2007
Less than one year	2,276	10,006
Between one and five years	214	2,828
After five years	-	2
	2,490	**12,836**

Maturity table:

	2008	2007
Due for repayment		
Between one and two years	93,584	13,161
Between two and five years	143,037	15,571
After five years	4,575	4,022
	241,196	**32,754**

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 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.

(in thousands of EUR , unless otherwise stated)

18 Loans and borrowings (continued)

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

	Effective interest rate	2008	2007
Current loans and borrowings	2.70%-15.40%	182,911	124,614
Current portion of non-current loans and borrowings	9.10%-12.00%	18,566	110,056
Current portion of non-current loans and borrowings related to restructuring (ix)		-	97,404
Current portion of finance lease liability	10.58%-16.52%	2,275	10,006
Total		**203,752**	**342,080**

As at 31 December 2008 bank loans are collateralized by properties with a carrying amount of EUR 813 (31 December 2007: EUR 488 thousand) – see Note 7 (e). The amount of the loans as at 31 December 2008 is EUR 3,526 thousand (31 December 2007: EUR 2,899 thousand).

The Group has the following undrawn borrowing facilities:

	2008	2007
Floating rate:		
Expiring within one year	35,448	29,616
Expiring beyond one year	24,131	-
	59,579	*29,616*
Fixed rate:		
Expiring within one year	12,716	974
Expiring beyond one year	12,625	-
	25,341	*974*
Total	**84,920**	**30,590**

19 Accounts payable and accrued liabilities

	2008	2007
Financial liabilities		
Trade payables	96,831	93,465
Short-term derivative financial instruments	4,267	-
Other payables	10,055	416,710
Total	**111,153**	**510,175**
Non-financial liabilities		
Advances received	11,405	13,248
Staff payables	6,620	5,154
Other payables and accrued expenses	6,266	13,419
Total	**24,291**	**31,821**
	135,444	**541,996**

Short-term derivative financial instruments represent the fair value of open foreign currency forwards related to foreign currency sales (see Note 24).

As at 31 December 2007 other payables included payables to RAO UES in the amount of RR 14,627,126 thousand or EUR 407,064 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 starting from 1 January 2007). Financing was provided to the entities by RAO UES in the form of cash or by purchasing the entities' promissory notes. In the first quarter of 2008 JSC "Ivanovo Thermal-gas Plant" received from RAO UES RR 5,193,000 thousand (EUR 143,549 thousand) as the second part of the financing for the construction of the power generating blocks.

(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. The conversion of payables into equity was accounted as part of the exchange of shares transactions resulting in an increase in the merger reserve of EUR 536,099 thousand (see also paragraph "Exchange of shares transactions" in Note 16).

20 Other non-current liabilities

	2008	2007
Financial liabilities		
Long-term accounts payable	609	1,689
Total financial liabilities	**609**	**1,689**
Non-financial liabilities		
Pensions liabilities	3,081	3,062
Other long-term liabilities	118,434	-
Total non - financial liabilities	**121,515**	**3,062**
Total	**122,124**	**4,751**

Other long-term liabilities include financing from OJSC "Mejregiongazenergostroy" in the amount of EUR 114,520 thousand 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 "Mejregiongazenergostroy" will finance the capital expenditure through payments to a special bank account up to a limit of EUR 538,159 thousand. The Parent Company will receive remuneration in the amount to EUR 3,641 thousand, 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 "Mejregiongazenergostroy". 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 Combined and Consolidated Balance Sheet:

	2008	2007
Present value of defined benefit obligations	4,047	4,525
Less: Fair value of plan assets	-	-
Deficit in plan	4,047	4,525
Net actuarial loss not recognised in the Combined and Consolidated Balance Sheet	(481)	(741)
Unrecognised past service costs	(485)	(722)
Pension liabilities in the Combined and Consolidated Balance Sheet	3,081	3,062

Amounts recognised in the Combined and Consolidated Statement of Operations:

	Year ended 31 December 2008	Year ended 31 December 2007
Current service cost	349	233
Interest cost	286	210
Recognised actuarial loss	34	27
Recognised past service cost	86	177
Curtailment and settlement gain	(152)	-
Total	603	647

(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:

	Year ended 31 December 2008	Year ended 31 December 2007
Present value of defined benefit obligations as at the beginning of the period	4,525	3,098
Current service cost	349	233
Interest cost	286	210
Actuarial (gain)/loss	(36)	781
Past service cost	-	483
Benefits paid	(119)	(147)
Other (Curtailment gain)	(340)	-
Translation difference	(618)	(133)
Present value of defined benefit obligations as at the end of the period	4,047	4,525

Changes in the pension liabilities are as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Pension liabilities at start of the year	3,062	2,663
Net expense recognised in the statement of operations	603	647
Benefits paid	(119)	(147)
Translation difference	(465)	(101)
Pension liabilities at end of period	3,081	3,062

Principal actuarial assumptions are as follows:

	2008	2007
Discount rate	9.00%	6.75%
Salary increase	8.50%	7.00%
Inflation	7.00%	6.00%
Mortality	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:

	2008	2007
Defined benefit obligation	4,047	4,525
Deficit in plan	4,047	4,525
Experience adjustments on plan liabilities, loss	(361)	(513)

21 Taxes payable

	2008	2007
Value added tax (including deferred)	8,494	12,224
Fines and interest	5,150	6,237
Property tax	2,889	5,984
Other taxes	4,251	3,494
	20,784	**27,939**

Included in value added tax payable is EUR 4,015 thousand of deferred VAT which only becomes payable to the authorities when the underlying receivables balances are either recovered or written off (31 December 2007: EUR 7,672 thousand).

(in thousands of EUR , unless otherwise stated)

22 Revenue

	Year ended 31 December 2008	Year ended 31 December 2007
Electricity and capacity	1,668,438	1,269,702
Government Grants / Subsides	100	5,724
Other revenue	2,999	150
	1,671,537	1,275,576

Other operating income

	Year ended 31 December 2008	Year ended 31 December 2007
Insurance compensation	8,741	-
Other	44,537	12,245
	53,278	12,245

In 2008 other includes a gain on the fair value of electricity derivatives in the amount of EUR 18,233 thousand.

23 Operating expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Purchased electricity and capacity	892,461	716,616
Fuel expense	141,181	116,749
Transmission fees	110,457	107,288
Employee benefit expenses and payroll taxes	104,704	99,260
Depreciation of property, plan and equipment	89,760	82,277
Repairs and maintenance	36,426	31,051
Taxes other than on income	27,699	60,687
Agency fees to RAO UES	13,817	18,144
Consulting, legal and auditing services	9,076	6,912
Business trip and field travel expenses	7,233	6,595
Insurance expenses	7,169	5,830
Provision for impairment of property, plant and equipment	5,847	123,277
Bank services	4,769	3,520
Operating lease expenses	4,763	3,320
Advertising	4,317	2,260
Communication services	4,136	2,649
Fines and penalties	4,076	733
Materials for production purposes	3,355	2,473
Security expenses	2,778	2,349
Social expenditure	2,624	2,186
Charity donations	2,520	243
Material expenses (office maintenance)	2,497	2,542
Provision for impairment of account receivables	1,740	4,785
Brokerage charges	1,564	1,938
Amortisation of intangible assets	1,297	655
Representative expenses	915	985
Research and development	825	1,460
Other provisions	822	391
Custom taxes	502	565
Write off of receivables which was not previously provided	67	898
Management fee	-	1,664
(Gain)/loss on sale or write-off of property, plant and equipment	(1,110)	1,797
Other operating expenses	37,846	17,592
	1,526,133	1,429,691

(in thousands of EUR , unless otherwise stated)

23 Operating expenses (continued)

In 2008 other expenses includes a loss on the fair value of electricity derivatives in the amount of EUR 12,552 thousand.

24 Finance income and expenses

Finance income	Year ended 31 December 2008	Year ended 31 December 2007
Interest income	10,169	4,632
Dividend income	3,233	-
Foreign exchange gain, net	-	14,280
	13,402	**18,912**

Finance expenses	Year ended 31 December 2008	Year ended 31 December 2007
Interest expense	29,381	25,209
Foreign exchange loss, net	32,783	-
	62,164	**25,209**

Included in foreign exchange loss is the net amount of fair value gains and losses on foreign currency forwards recognised in the combined and consolidated income statement during the current period. The gain arising from fair value forward contract related to foreign currency loan recognised in the profit and loss in 2008 amounted to EUR 9,402 thousand (see Note 15). The loss recognised in the profit or loss that arises from forward contracts related to foreign currency sales amounted to EUR 4,267 thousand (see Note 19).

25 Income tax benefit /(expense)

	Year ended 31 December 2008	Year ended 31 December 2007
Current tax (expense) / benefit	(31,706)	4,301
Deferred tax (expense) / benefit	(31,716)	14,336
Provision for income tax	(5,061)	(1,228)
	(68,483)	**17,409**

The Parent Company's applicable tax rate is the corporate income tax rate of 24% (2007: 24%). The income tax rate in Finland is 26% (2007: 26%), in Georgia is 15% (2007: 20%), and in Armenia is 20% (2007: 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. The impact of the change in profit tax rate presented below represents the effect of applying the reduced 20% tax rate to deferred tax balances as at 31 December 2008 (2007 - represented by the change in tax rate in Georgia).

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

	Year ended 31 December 2008	Year ended 31 December 2007
Profit / (loss) before profit tax	155,363	(147,664)
Theoretical profit tax (charge) / benefit at 24%	(37,287)	35,440
Effect from change in profit tax rate	(1,404)	(5,188)
Effect of different tax rates	(1,094)	(9,120)
Effect of different tax base (JSC Moldavskaya GRES)	(4,587)	(7,249)
Non-recognised deferred tax assets movements and recognition of previously unrecognised tax benefits	(2,478)	17,569
Amended tax declarations (JSC RAO UES INTERNATIONAL)	-	17,125
Provision for income tax	(5,061)	(1,228)
Tax effect of items which are not deductible or assessable for taxation purposes, net	(16,572)	(29,940)
	(68,483)	**17,409**

(in thousands of EUR , unless otherwise stated)

25 Income tax benefit/(expense) (continued)

The tax system in Transnistria, Moldova, where JSC Moldavskaya GRES operates, is based on revenue at a rate of 8.2% (2007: 8.6%).

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:

31 December 2008	Loans and receivables	Assets at fair value through the profit and loss	Available for sale	Total
Assets as per Combined and consolidated Balance Sheet				
Available for sale financial assets	-	-	5,650	5,650
Derivative financial instruments	-	9,402	-	9,402
Trade and other receivables excluding prepayments	145,670	-	-	145,670
Restricted cash	22,800	-	-	22,800
Cash and cash equivalents	273,839	-	-	273,839
Total assets	**442,309**	**9,402**	**5,650**	**457,361**

31 December 2008	Liabilities at fair value through the profit and loss	Other financial liabilities at amortised cost	Total
Liabilities as per Combined and consolidated Balance Sheet			
Borrowings (excluding finance lease liabilities)	-	442,459	442,459
Finance lease liabilities	-	2,490	2,490
Derivative financial instruments	4,267	-	4,267
Trade and other payables excluding taxes	-	107,496	107,496
Total liabilities	**4,267**	**552,445**	**556,712**

31 December 2007	Loans and receivables	Available for sale	Total
Assets as per Combined and consolidated Balance Sheet			
Available for sale financial assets	-	5,331	**5,331**
Trade and other receivables excluding prepayments	145,878	-	**145,878**
Restricted cash	38,543	-	**38,543**
Cash and cash equivalents	130,808	-	**130,808**
Total assets	**315,229**	**5,331**	**320,560**

(in thousands of EUR , unless otherwise stated)

26 Financial instruments and financial risk factors (continued)

31 December 2007	Other financial liabilities at amortised cost	Total
Liabilities as per Combined and consolidated Balance Sheet		
Borrowings (excluding finance lease liabilities)	361,998	**361,998**
Finance lease liabilities	12,836	**12,836**
Trade and other payables excluding taxes	511,864	**511,864**
Total liabilities	**886,698**	**886,698**

(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, Finland, Moldova (Transnistria) 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:

31 December 2008

	Russia	Armenia	Georgia	Finland	Moldova	Other	Total
Derivative financial instruments	9,402	-	-	-	-	-	**9,402**
Restricted cash	20,526	-	-	2,224	-	50	**22,800**
Short – term trade receivables	52,711	28,473	18,926	6,627	6,085	2,345	**115,167**
Other receivables	6,931	2,402	1,744	6,423	1,355	5,238	**24,093**
Non-current loans issued	8	-	-	-	-	17	**25**
Non-current receivables	4,447	46	1,272	-	-	620	**6,385**
Cash and cash equivalents	250,685	608	3,950	5,806	3,140	9,650	**273,839**
Total	**344,710**	**31,529**	**25,892**	**21,080**	**10,580**	**17,920**	**451,711**

(in thousands of EUR , unless otherwise stated)

26 Financial instruments and financial risk factors (continued)

31 December 2007	Russia	Armenia	Georgia	Finland	Moldova	Other	Total
Restricted cash	36,974	-	-	1,556	-	13	**38,543**
Short – term trade receivables	44,150	28,570	21,785	4,910	2,556	1,163	**103,134**
Other receivables	26,033	2,094	1,671	193	1,579	4,030	**35,600**
Non-current loans issued	2,743	8	-	-	-	-	**2,751**
Non-current receivables	3,175	437	781	-	-	-	**4,393**
Cash and cash equivalents	126,342	544	2,123	831	538	430	**130,808**
Total	**239,417**	**31,653**	**26,360**	**7,490**	**4,673**	**5,636**	**315,229**

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 18) 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 31 December 2008 receivables potentially involving credit risks for the Group consisted mainly of short – term trade receivables in the amount of EUR 115,167 thousand (as at 31 December 2007: EUR 103,134 thousand), and other receivables in the amount of EUR 30,503 thousand (as at 31 December 2007: EUR 42,743 thousand). The total sum of receivables as at 31 December 2008 was EUR 145,670 thousand (as at 31 December 2007: EUR 145,877 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.). 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 31 December 2008	Nominal value	Provision for impairment of accounts receivable	Carrying amount	Share in total, %
A	83,430	-	83,430	57%
B'	29,755	3,124	26,631	18%
B"	24,431	5,906	18,525	13%
B'''	11,136	6,259	4,877	3%
C	61,263	56,549	4,714	3%
Other small debtors (A class)	1,061	-	1,061	2%
Loans issued to employees	8,758	5,529	3,229	2%
Related parties (A class)	3,203	-	3,203	2%
Total	**223,037**	**77,367**	**145,670**	**100%**

(in thousands of EUR , unless otherwise stated)

26 Financial instruments and financial risk factors (continued)

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.

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 (Khrami-1 and Khrami-2) 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):

At 31 December 2008	EUR	USD	Other	Total
Trade and other receivables (excluding prepayments)	41,065	256,477	2,620	300,162
Cash and cash equivalents	48,334	2,369	2,969	53,672
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)	(851,634)	(2,675)	(883,184)
Finance lease liabilities	(55)	(12)	-	(67)
Derivative financial instruments (liabilities)	(3,834)	-	-	(3,834)
Trade and other payables (excluding taxes)	(11,478)	(26,465)	(2,457)	(40,400)
Net foreign currency position	**45,197**	**(609,860)**	**470**	**(564,193)**

(in thousands of EUR, unless otherwise stated)

26 Financial instruments and financial risk factors (continued)

At 31 December 2007	EUR	USD	Other	Total
Trade and other receivables (excluding prepayments)	40,766	481,009	2,066	523,841
Cash and cash equivalents	12,262	17,287	106	29,655
Loans and borrowings (excluding finance lease liabilities)	(27,467)	(977,076)	-	(1,004,543)
Finance lease liabilities	-	-	(63)	(63)
Trade and other payables (excluding taxes)	(1,412)	(21,099)	(542)	(23,053)
Net foreign currency position	**24,149**	**(499,879)**	**1,567**	**(474,163)**

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 would have been a loss between EUR 889 thousand and EUR 1,969 thousand, respectively.

	EUR /USD	RUR /USD	RUR /EUR	AMD /USD	AMD /EUR	AMD /JPY	GEL /USD	GEL /EUR	GEL /AMD	LTL /EUR
Upper level	1.5%	38.7%	24.0%	36.9%	28.2%	27.9%	9.7%	2.0%	29.1%	1.0%
Lower level	(22.8)%	15.5%	3.2%	10.1%	(7.5)%	(6.3)%	(11.3)%	(25.6)%	19.3%	(1.0)%

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 31 December 2008, the variable rate debt, represented by loans with LIBOR linked interest rates, amounted to EUR 316,048 thousand (as at 31 December 2007 - EUR 93,706 thousand). If interest rates on that category of borrowings at that date had been 120 basis points per annum higher/lower, with all other variables held constant, the hypothetical effect on income for the year would have been a EUR 3,034 thousand loss/profit (for the year 2007 – EUR 1,068 thousand loss/profit, with estimated LIBOR linked interest rate variance as 150 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 31 December 2008.

(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	268,043	156,234	170,255	33,892	149,615	778,039
Trade and other payables	104 825	115 127	99	-	-	220 051
Finance lease payables	2,276	189	25	-	-	2,490
Derivative financial instruments obligations	4,267	-	-	-	-	4,267
Total at 31 December 2008	**379,411**	**271,550**	**170,379**	**33,892**	**149,615**	**1,004,847**

	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	246,431	100,128	163,362	11,697	168,192	689,810
Trade and other payables	511,243	1,689	-	-	-	512,932
Finance lease payables	10,018	2,642	185	2	-	12,847
Total at 31 December 2007	**767,692**	**104,459**	**163,547**	**11,699**	**168,192**	**1,215,589**

(d) Capital risk 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 31 December 2008 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.

27 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2008	2007
Less than one year	2,173	2,332
Between one and five years	1,573	3,820
Over five years	13,112	15,279
	16,858	**21,431**

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 2009 year on such lease contracts are EUR 110 thousand.

During 2008 EUR 4,763 thousand (2007: EUR 3,320 thousand) was recognised in the consolidated combined and consolidated income statement in respect of operating lease expenses.

(in thousands of EUR , unless otherwise stated)

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 realization of projects aimed at the improvement of the electricity network which belongs to the Group entity JSC Telasi. The remaining investment commitments as at 31 December 2008 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

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 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. 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 177,440 thousand (EUR 322,496 thousand as of 31 December 2007).

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.

(in thousands of EUR , unless otherwise stated)

29 Contingencies (continued)

(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.

	2008	2007
Subcontractors claims	11,020	12,710
Customer's complaints	566	10,482
	11,586	**23,192**

In subcontractors claims the major part (2008: EUR 10.3 million, 2007: EUR 11.9 million) 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 TES" 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 31 December 2007 the major part (EUR 6 million) relates to a claim made to JSC "Telasi" for compensation for the usage of transmission facilities owned by JSC "Bambis Narti". In 2008 the claim was settled by mutual agreement for EUR 46 thousand.

In customer's complaints as at 31 December 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.

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 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

(in thousands of EUR, unless otherwise stated)

29 Contingencies (continued)

Group companies could amount to as much as EUR 5,775 thousand (31 December 2007: EUR 15,053 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 38,475 thousand (31 December 2007: EUR 2,426 thousand).

(e) 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.

(f) 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 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.

30 Related party transactions

(a) Parent company and control relationships

As at 31 December 2008 the State Corporation Rosatom owned 57.34 percent of the voting shares of JSC INTER RAO UES. As at 31 December 2008 and 31 December 2007 the State of Russian Federation owned 100 percent of the State Corporation Rosatom. Information on transactions with entities of the State corporation Rosatom is presented below:

	2008	2007
Revenue:		
Electricity and capacity	17,637	-
Other revenues	21	4
	17,658	**4**

	2008	2007
Purchases:		
Purchased power and capacity	29,109	28,261
Other purchases	309	601
	29,418	**28,862**

(b) Transactions with key management personnel

The members of the Management Board own 0.041% of the ordinary shares of JSC INTER RAO UES and 10% 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 21):

	2008	2007
Salaries and bonuses	2,587	8,130
Termination benefits	344	-
	2,931	**8,130**

(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 Ekibaztuzskaya GRES-2 and JSC Industrial Power Company.

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

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

	2008	2007
Interest income:		
Jointly controlled entities	6	-
Associate	6	-
Dividend income:		
Jointly controlled entities	908	-
Associate	1,170	-
	2,090	-

	2008	2007
Purchases		
Purchased power:		
Jointly controlled entities	-	9,423
	-	**9,423**

	Year ended 31 December 2008	Year ended 31 December 2007
Accounts receivable:		
Jointly controlled entities	-	27
Associate	579	-
Loans issued:		
Jointly controlled entities	142	-
	721	**27**

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

	2008	2007
Revenue:		
Electricity and capacity	140,606	45,319

	2008	2007
Purchases:		
Purchased power and capacity	32,827	17,484
Transmission fees/Agency fees to RAO UES	42,773	645
Fuel expense	105,116	61,729
Other purchases	1,217	286
	181,933	**80,144**

	2008	2007
Capital expenditures	**100,228**	**62,477**

(in thousands of EUR , unless otherwise stated)

30 Related parties (continued)

	2008	2007
Finance income and expenses:		
Interest income	(754)	(1.239)
Interest expenses	13.630	7.393

	Year ended 31 December 2008	Year ended 31 December 2007
Accounts receivable:		
Trade receivables	6.371	1.970
Less impairment provision	(2.189)	(483)
Trade receivables - net	4.182	1.487
Advances issued	159.286	3.567
Loans issued	-	11
Other receivable	612	135
	164,080	**5,200**

	Year ended 31 December 2008	Year ended 31 December 2007
Accounts payable:		
Trade accounts payable	6,480	813
Other accounts payable	5,996	902
Advances received	43	3,860
Special-purpose financing (see Note 20)	114.520	-
	127,039	**5,575**

	Year ended 31 December 2008	Year ended 31 December 2007
Loans and borrowings received	297.546	164.508
Loans and borrowings repaid	(109.118)	(67.433)

	Year ended 31 December 2008	Year ended 31 December 2007
Loans and borrowings payable:		
Short-term loans	120.689	127.764
Long term loans	219.690	-
Interest on loans	1.917	285
	342,296	**128,049**

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

As described in the Note 1, 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 rest of the year 2008 are provided in the note (d).

Revenue:	**2008**	**2007**
Electricity and capacity	127.734	209.512

(in thousands of EUR , unless otherwise stated)

30 Related parties (continued)

Purchases:	**2008**	**2007**
Purchased power and capacity	43,346	158,289
Transmission fees/Agency fees to RAO UES	37,330	76,281
Other purchases	453	293
	81,129	**234,863**

	2008	**2007**
Capital expenditures	**7,950**	**33,614**

(f) Transactions with the State of the Russian Federation

	2008	**2007**
Expenses:		
Current profit tax expense/(benefit)	14,443	(13,471)
Unified social tax	4,530	3,480
Taxes other than income	21,826	57,551
Interest on late payment of taxes accrued	14	-
Income from VAT recovery	-	(10,555)
	40,813	**37,005**

Accounts receivable:	**Year ended 31 December 2008**	**Year ended 31 December 2007**
Value added tax recoverable	32,235	29,159
Value added tax prepaid	49,155	53,149
Income tax prepaid	11,409	14,086
Other taxes recoverable	694	118
	93,493	**96,512**

Accounts payable:	**Year ended 31 December 2008**	**Year ended 31 December 2007**
Value added tax payable	118	1,069
Income tax payable	82	2
Other taxes payable	2,336	5,644
	2,536	**6,715**

31 The entities under asset management

The entities under asset management are the hydrogeneration plants Khramesi I and II in Georgia and the CJSC Armenian nuclear power station. These entities were not consolidated in these financial statements.

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

	Year ended 31 December 2008	**Year ended 31 December 2007**
Other revenues	75	1,952
Purchased power and capacity	36,783	29,859
Management and technical fee	-	41

(in thousands of EUR , unless otherwise stated)

31 The entities under asset management (continued)

	2008	2007
Accounts receivable	4,079	3,155
Accounts payable	6,104	6,133
Loans received from Khramesi I	600	-

32 Significant subsidiaries

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

	Country of incorporation	2008 Ownership/voting	2007 Ownership/voting
Distributing and trading entities			
RAO Nordic Oy[1]	Finland	100%	100%
JSC Telasi	Georgia	75%	75%
JSC Elektricheskiye seti Armenii	Armenia	67%	67%
TGR Energji	Turkey	70%	70%
ERC (Note 6)	Lithuania	51%	-
Generating entities			
Mtkvari Ltd.	Georgia	100%	100%
JSC IEC	Armenia	90%	90%
JSC Moldavskaya GRES (Note 6)	Moldova, Transnistria	100%	51%
JSC Ispytatelniy Stend Ivanovskoy GRES[3]	Russian Federation	83%	-
Holding entities			
InterEnergo BV	Netherlands	67%	67%
Silk Road Holdings BV	Netherlands	100%	100%
Gardbani Holdings BV	Netherlands	100%	100%
ES Georgia Holdings BV	Netherlands	100%	100%
Saint Guidon Invest N.V.	Belgium	100%	100%
Freecom Trading Limited (Note 6)	Cyprus	100%	-
Inter RAO Holding B.V.[2]	Netherlands	100%	-
Service entities			
JSC RAO UES International Baltia	Russian Federation	100%	88%
Technoelectrika S.R.L.	Moldova	90%	90%
JSC Inter RAO UES – Ukraine	Ukraine	90%	90%
Energospetsservisobsluzhivanie	Moldova, Transnistria	80%	60%
Inter RAO Central Asia	Kazakhstan	100%	100%
Other entity			
LLC INTER RAO UES FINANCE	Russian Federation	100%	100%
JSC Eastern Energy Company[3]	Russian Federation	100%	-
Inter RAO Trust B.V.[2]	Netherlands	100%	-
Asia Energy B.V.[2]	Netherlands	100%	-

33 Events after the balance sheet date

1. Loans

a) In January 2009 JSC Gazprombank provided the Parent Company with a loan in the amount of EUR 220 million for a period of 36 months. The purpose of the loan is to finance the operational activities of the Parent Company.

[1] RAO Nordic Oy also acts as a holding company for certain Group entities.
[2] Newly organized 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 (continued)

b) In February 2009 the Parent Company and State corporation Vnesheconombank have signed an agreement on issuing to the Parent Company a credit line amounting to RR 3.7 billion (EUR 90,243 thousand). The credit line is available untill the third quarter of 2018. The credit line is provided to finance construction of the second part of Sochi TPP, a branch of the Parent Company.

c) After the balance sheet date the Parent Company has fully repaid certain loans in the amount of USD 230 million (EUR 163 million); these loans were included in current loans and borrowings in Note 18.

d) In March 2009 the Parent Company provided a loan to OJSC OGK – 1, an entity under asset management (see Note 33.4 below). The loan provided amounted to RR 700,000 thousand or EUR 15,579 thousand and it was provided for a period of 9 months.

e) In June 2009 the European Bank for Reconstruction and Development (EBRD) and State corporation Vnesheconombank provided a credit line to the Parent Company's subsidiary, JSC «Electricity Networks of Armenia», in the amount of EUR 64,500 thousand for a period of 10 years.

Following the terms of the contract, EBRD will provide the credit line in the amount of EUR 42,000 thousand, and Vnesheconombank – in the amount of EUR 22,500 thousand.

The financing is provided to finance the project of modernization and restoration of electrical distribution networks of the Republic of Armenia aimed at improving energy efficiency, reducing losses in the electricity networks, and enhancing energy integration of the CIS countries.

2. Dividends

a) In June 2009 the Annual Shareholders meeting of the Parent Company approved the decision to pay no dividends in respect of the year ended 31 December 2008.

b) In May 2009 the Annual shareholders meeting of Stantsiya Ekibastuzskaya GRES-2, the Parent Company jointly controlled entity, declared the distribution of 1,229,058 thousand tenges (EUR 6,144 thousand) as dividends. 50 % of the dividends declared are attributable to the Parent Company.

3. Group entities

In June 2009 the Parent Company and JSC "Electricity Stations" (Kyrgystan Republic) established JSC "Kambarata HPP – 1", registered in the Kyrgystan Republic. The share capital of the established entity is 80,000 thousand kyrgys somoni (EUR 1,330 thousand) in which a 50 % of interest belongs to the Parent Company. The entity is established to complete construction of the Kambarata HPP in the Kyrgystan Republic.

4. *Asset management*

In March 2009 the Parent Company has signed two asset management agreements with OJSC Federal Grid Company and OJSC RusHydro in relation to the shares of OJSC OGK – 1, owned by those companies. Under those agreements, OJSC Federal Grid Company and OJSC RusGidro established asset management in relation to shares of OJSK OGK – 1, owned by the companies, and transferred the rights on management of the above mentioned OJSC OGK – 1 shares to the Parent Company. The ownership rights in relation to OJSC OGK – 1 shares are retained by OJSC Federal Grid Company and OJSC RusHydro.

5. Changes in the share capital of the Parent Company

In accordance with one of the capital requirements for joint stock companies established by the legislation of the Russian Federation, if the share capital of an entity is greater than the statutory net assets of the entity, such an entity must decrease its share capital to the value not exceeding its net assets. As at 31 December 2008 the Company's share capital exceeded the statutory net assets of the Company by RR 163,514,073 thousand of EUR 3,945,803 thousand. To comply with the legal capital requirement the General Shareholders Meeting held on 25 June 2009 approved the decrease of the Company's share capital by RR 163,514,084 thousand or EUR 3,945,803 thousand to RR 63,897,300 thousand or EUR 1,541,923.2 thousand by decreasing the nominal value of shares issued from RR 0.1 per share or EUR 0.0024 per share to RR 0.02809767 per share or EUR 0.000678 per share.

33 Events after the balance sheet date (continued)

At the same meeting, the Shareholders approved an increase of the Company's share capital through an additional issue of 1,600,000,000 thousand of ordinary shares with nominal value of RR 0.02809767 per share or EUR 0.000699 per share (total nominal value is RR 44,956,272 thousand or EUR 1,084,800 thousand). The share placement price is subject to determination by the Board of Directors of the Parent Company prior to the placement of additional shares. The shares will be paid for in cash in Russian rubles and / or by contribution of the ordinary registered shares of JSC "Sangtudinskaya GES - 1".

6. Acquisitions

a) In March 2009, the Group entity, ES Georgia Holdings B.V., purchased from the non-group entity 33 % of INTERENERGO B.V. shares, also a Group entity. The total consideration paid totalled USD 1,290 thousand (EUR 915 thousand). As a result, 100 % of INTERENERGO B.V. shares are now owned by the Group.

b) In June 2009, the Group entity, JSC RAO UES International Baltia, purchased 2.59% of the shares of JSC TGK–11, an entity registered in the Russian Federation, for a total consideration of RR 190,650 thousand (EUR 4,405 thousand).