JSC INTER RAO UES

IFRS Combined and Consolidated Financial Statements
For the Year ended 31 December 2009

PRICEWATERHOUSECOOPERS

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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"):

1 We have audited the accompanying combined and consolidated financial statements of JSC "INTER RAO UES" and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies other explanatory notes.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these combined and 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

3 Our responsibility is to express an opinion on these combined and 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.

4 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.

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

Opinion

6 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 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

27 July 2010

Moscow, Russian Federation

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Combined and Consolidated Statement of Financial Position

	Note	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	7	1,305,214	1,257,104
Investment property	8	56,241	-
Intangible assets	9	33,163	39,130
Investments in associates and jointly controlled entities	10	216,123	104,817
Deferred tax assets	11	26,300	8,762
Other non-current assets	12	271,009	147,754
Total non-current assets		**1,908,050**	**1,557,567**
Current assets			
Inventories	13	57,244	46,121
Accounts receivable and prepayments	14	273,371	252,507
Income tax prepaid		9,108	11,851
Cash and cash equivalents	15	190,196	273,839
Other current assets	16	9,464	33,478
Total current assets		**539,383**	**617,796**
Total assets		**2,447,433**	**2,175,363**

The Combined and Consolidated Statement of Financial Position 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 83.

Combined and Consolidated Statement of Financial Position (continued)

	Note	31 December 2009	31 December 2008
EQUITY AND LIABILITIES			
Equity			
Share capital: ordinary shares	17	1,732,306	6,165,300
Treasury shares	17	(74,701)	(265,756)
Hedging reserve	17	106	-
Property, plant and equipment revaluation reserve		438,765	183,837
Foreign currency translation reserve		(273,552)	(189,247)
Accumulated deficit		(524,849)	(4,500,213)
Total equity attributable to shareholders of the Company		**1,298,075**	**1,393,921**
Non-controlling interest		6,232	17,810
Total equity		**1,304,307**	**1,411,731**
Non-current liabilities			
Loans and borrowings	19	585,793	241,196
Deferred tax liabilities	11	35,481	23,043
Other non-current liabilities	21	227,550	122,124
Total non-current liabilities		**848,824**	**386,363**
Current liabilities			
Loans and borrowings	19	121,516	203,752
Accounts payable and accrued liabilities	20	150,930	135,444
Other taxes payable	22	15,650	20,784
Income tax payable		6,206	17,289
Total current liabilities		**294,302**	**377,269**
Total liabilities		**1,143,126**	**763,632**
Total equity and liabilities		**2,447,433**	**2,175,363**

Chairman of the Management Board — Kovalchuk B.Yu.

Chief Accountant — Chesnokova A.O.

27 July 2010

The Combined and Consolidated Statement of Financial Position 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 83.

Combined and Consolidated Statement of Comprehensive Income

	Note	2009	2008
Revenue	23	1,543,413	1,671,537
Operating expenses	24	(1,890,368)	(1,526,133)
Other operating income	23	21,803	53,278
Negative goodwill	6	25,595	-
Operating (loss)/profit		**(299,557)**	**198,682**
Finance income	25	21,551	13,402
Finance expenses	25	(127,000)	(62,164)
Share of profit of associates and jointly controlled entities	10,6	62,885	5,443
(Loss)/profit before income tax		**(342,121)**	**155,363**
Total income tax benefit/(expense)	26	59,865	(68,483)
(Loss)/profit for the year		**(282,256)**	**86,880**
Other comprehensive (expense)/ income			
Revaluation of property, plant and equipment		261,024	-
Change of revaluation of property, plant and equipment of a jointly controlled entity		26,128	16,574
Reversal of property, plant and equipment revaluation reserve		(44,092)	(9,690)
Cash flow hedges, net of tax		106	-
Exchange loss on translation to presentation currency		(85,159)	(160,384)
Other comprehensive income/(loss), net of tax		**158,007**	**(153,500)**
Total comprehensive loss for the year		**(124,249)**	**(66,620)**
(Loss)/profit attributable to:			
Shareholders of the Company		(280,788)	77,947
Non-controlling interest		(1,468)	8,933
		(282,256)	**86,880**
Total comprehensive (loss) / income attributable to:			
Shareholders of the Company		(121,744)	(79,960)
Non-controlling interest		(2,505)	13,340
		(124,249)	**(66,620)**
Basic earnings per ordinary share for (loss)/profit attributable to the shareholders of the Company	18	**EUR (0.0001290)**	**EUR 0.00006**
Diluted earnings per ordinary share for (loss)/profit attributable to the shareholders of the Company	18	**EUR (0.0001285)**	**EUR 0.00006**

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27 July 2010

The Combined and Consolidated Statement of Comprehensive Income 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 83.

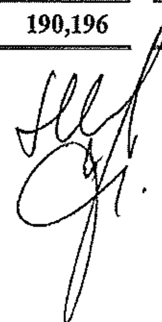
Combined and Consolidated Statement of Cash Flows

	Note	2009	2008
OPERATING ACTIVITIES			
(Loss)/profit before income tax		**(342,121)**	**155,363**
Adjustments to reconcile(loss)/ profit before tax to net cash provided by operations:			
Depreciation and amortisation	24	78,922	91,057
Depreciation and amortisation of investment property	24	257	-
Provision for impairment of accounts receivable	24	6,825	1,740
Other provisions charge	24	3,965	822
Write off of bad debt which was not previously provided	24	(50)	67
Impairment of property, plant and equipment	24	384,116	5,847
Impairment of investment property	8	12,437	-
Impairment of intangible assets	9	7,862	-
Share of profit of associates and jointly controlled entities	10,6	(62,885)	(5,443)
Loss/(gain) on disposal of property plant and equipment	24	1,741	(1,110)
Foreign exchange loss		44,656	62,574
Interest income	25	(21,551)	(10,169)
Interest expense	25	73,106	29,381
Government Grants / Subsidies	23	(1,238)	(100)
Dividend income	25	-	(3,233)
Negative goodwill	6	(25,595)	-
Gain on disposal of group entities	6	(814)	-
Option plan	31	21,089	-
Other non-cash operations/items		(1,257)	276
Operating cash flows before working capital changes and income tax paid		**179,465**	**327,072**
Increase in inventories		(11,570)	(3,364)
(Increase) / decrease in accounts receivable and prepayments		(10,763)	27,558
Decrease in value added tax recoverable		6,802	15,973
Decrease in other current assets		24,707	6,402
Increase in other non-current assets		(99,873)	(108,638)
Increase in accounts payable and accrued liabilities		763	40,962
Increase in other non-current liabilities		102,042	118,434
(Decrease) / increase in pension liabilities		(3)	19
Decrease in taxes other than on income prepaid and payable, net		(16,684)	(3,828)
Income tax paid		(19,567)	(19,531)
Currency translation effect		(37,314)	(43,865)
Net cash flows received from operating activities		**118,005**	**357,194**

The Combined and Consolidated Statement of Cash Flows 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 83.

Combined and Consolidated Statement of Cash Flows (continued)

	Note	2009	2008
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		110	745
Interest received		14,888	8,864
Purchase of property, plant and equipment and intangible assets		(221,986)	(174,652)
Purchase of associate and jointly controlled entities	6, 10	(39,796)	-
Purchase of subsidiary, net of cash acquired	6	(75,537)	(29,557)
Purchase of non-controlling interest in subsidiary	6	(1,020)	(103,927)
Disposal of group entities	6	12	-
Proceeds from loans issued		27,341	-
Loans issued		(56,552)	-
Dividends received	10,25	2,902	4,897
Net cash flows used for investing activities		**(349,638)**	**(293,630)**
FINANCING ACTIVITIES			
Proceeds from current borrowings		49,946	346,403
Proceeds from non-current borrowings		647,508	164,541
Repayment of borrowings		(489,302)	(412,221)
Repayment of lease		(6,789)	(10,609)
Issuance of shares by entities merged	17	-	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		(61,228)	(25,947)
Dividends paid	17	(5,072)	(252)
Net cash flows received from financing activities		**135,063**	**115,784**
Effect of exchange rate fluctuations on cash and cash equivalents		12,927	(36,317)
Net (decrease)/increase in cash and cash equivalents		**(83,643)**	**143,031**
Cash and cash equivalents at the beginning of the year		273,839	130,808
Cash and cash equivalents at the end of the period	15	**190,196**	**273,839**



Chairman of the Management Board — Kovalchuk B.Yu.

Chief Accountant — Chesnokova A.O.

27 July 2010

Combined and Consolidated Statement of changes in equity

		Attributable to shareholders of the Company							Non-controlling interest	Total equity
	Note	Share capital	Treasury shares	Foreign currency translation reserve	Hedging reserve	Revaluation reserve	Accumulated earnings/ (deficit)	Total		
Balance at 1 January 2008		118,912	-	(24,456)	-	105,381	505,197	705,034	228,628	933,66
Total comprehensive (loss)/income for the year ended 31 December 2008		-	-	(164,791)	-	5,480[1]	79,351[1]	(79,960)	13,340	(66,620
Dividends to shareholders	17	-	-	-	-	-	(218)	(218)	(34)	(252
Purchase of treasury shares	17	-	(15,101)	-	-	-	10,452	(4,649)	-	(4,649
Acquisition of non-controlling interest	6	-	-	-	-	23,136	(81,114)	(57,978)	(37,144)	(95,122
Acquisition of subsidiary	6	-	-	-	-	-	-	-	2,005	2,00
Issue of shares by entities merged	17	-	-	-	-	-	60,777	60,777	-	60,77
Reorganization of the Company	1,17	6,046,388	(250,655)	-	-	49,840	(5,074,658)	770,915	(188,985)	581,93
		6,046,388	(265,756)	-	-	72,976	(5,084,761)	768,847	(224,158)	544,68
Balance at 31 December 2008		6,165,300	(265,756)	(189,247)	-	183,837	(4,500,213)	1,393,921	17,810	1,411,73
Balance at 1 January 2009		6,165,300	(265,756)	(189,247)	-	183,837	(4,500,213)	1,393,921	17,810	1,411,73
Total comprehensive (loss)/income for the year ended 31 December 2009		-	-	(84,305)	106	241,472[1]	(279,017)[1]	(121,744)	(2,505)	(124,249
Dividends to shareholders	17	-	-	-	-	-	-	-	(5,072)	(5,072
Acquisition of non-controlling interest in subsidiary	6	-	-	-	-	13,456	(8,647)	4,809	(5,829)	(1,020
Acquisition of subsidiaries	6	-	-	-	-	-	-	-	1,828	1,82
Decrease in nominal value of share capital	17	(4,432,994)	191,055	-	-	-	4,241,939	-	-	-
Shares option plan	31	-	-	-	-	-	21,089	21,089	-	21,08
		(4,432,994)	191,055	-	-	13,456	4,254,381	25,898	(9,073)	16,82
Balance at 31 December 2009		1,732,306	(74,701)	(273,552)	106	438,765	(524,849)	1,298,075	6,232	1,304,30

Chairman of the Management Board — Kovalchuk B.Yu.

Chief Accountant — Chesnokova A.O.

27 July 2010

[1] These amounts are shown after reclass of a portion of revaluation reserve to accumulated deficit attributable to disposal of property, plant and equipment.

The Combined and Consolidated Statement of changes in equity 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 83.

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 electricity 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 2009 the State Corporation Rosatom held a 57.34% interest in the Group. The State Corporation Rosatom is controlled by the Russian Federation.

After all the mergers described above, the Company operates four power plants located in different regions of Russia and has controlling interests in a number of subsidiaries. The Company's principal subsidiaries as at 31 December 2009 are presented in Note 33.

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;
- Sales of electricity, purchased abroad, to foreign customers without crossing the border of the Russian Federation.

At 31 December 2009, the number of employees of the Group was 15,872 (31 December 2008: 15,345).

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

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

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

1 The Group and its operations (continued)

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

Impact of the global financial and economic crisis. The 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 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 financial markets and the increased volatility in 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 2009 the amount of current assets of the Group exceeded current liabilities of the Group for EUR 245,081 thousand (as at 31 December 2008 – EUR 240,527 thousand).

The Group's financial results in the reporting period are mainly characterized by low profit from operating activities (excluding property, plant and equipment revaluation results) due to a decline in economic activity in its market owing to crisis which caused falls in both prices and the demand for electricity, as well as exchange losses associated with Group borrowings. Another significant factor which influenced the decline in profitability is the economic impairment of non-current assets (see Notes 7, 8, 24) as at the end of the reporting period.

Despite the crisis and the significant volatility of the Russian stock market, where the Company's shares are listed, the actions undertaken by the Group during the reporting period ensured its stable financial position. Management believes that the Group has sufficient access to both short and long-term financing. Management also plans to implement an investment programme to increase the Group's installed capacity, expand its presence on foreign markets, upgrade the equipment in use and restore facilities retired during the post-Soviet period.

Based on their expectations as to future operations of the Group, management believes that it is appropriate to present these financial statements on a going concern basis.

3 Basis of preparation

Statement of compliance. These combined and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (-IFRS)s.

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

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

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

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

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

IFRS adoption. These are not the entity's first IFRS financial statements. The Group prepared its prior year financial statements for the year ended 31 December 2008 in compliance with IFRS with a transition date to IFRS for the Company and entities merged with the exception of JSC "RAO UES INTERNATIONAL" on 1 January 2007.

Property, plant and equipment of the Company and entities merged, with the exception of JSC "RAO UES INTERNATIONAL" together with its subsidiaries, associates and joint ventures, were measured at their fair values as a deemed cost at the date of transition, which was 1 January 2007. Property, plant and equipment of JSC "RAO UES INTERNATIONAL" together with its subsidiaries, associates and joint ventures were measured at the date of transition to IFRS at the same carrying amounts as they were historically recorded in the consolidated IFRS financial statements of JSC "RAO UES INTERNATIONAL".

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

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

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

These consolidated financial statements are presented in the European Euro ("EUR") since management believes that this currency is a more useful measure for the potential users of the consolidated financial statements (shareholders and non-equity investors) due to consistency with the 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 judgment in the determination of the functional currencies of certain Group entities. The functional currency determination influences the foreign exchange gain/losses recognised in profit and loss and translation differences recognised in other comprehensive income.

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

Going concern. The Financial Statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. These 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 14).

Revaluation of property, plant and equipment

Fair value of property, plant and equipment of the Group companies has been determined by independent appraiser as at 31 December 2009. The carrying value of property, plant and equipment is affected by cash flow projections. Changes in the assumptions used in those projections could have a material impact to the fair value of property, plant and equipment (see Note 7).

As at 31 December 2009 a number of significant estimations and assumptions were made relating to the determination of the recoverable amount of property, plant and equipment of CJSC Moldavskaya GRES, including assumptions as to that company's ability to sell electricity to foreign markets (see Note 7).

As at 31 December 2009 a number of significant estimations and assumptions were made relating to the determination of the recoverable amount of investment property of CJSC Electrolutch (see Note 8).

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 2009 a number of significant estimations and assumptions were made in relation to the determination of the ability of UAB INTER RAO Lietuva (thereafter referred as ERC), to generate future earnings sufficient to support the carrying value of the goodwill associated with the acquisition of that business, including assumptions as to that company's ability to make profitable deliveries on the local market (see Note 9).

Loans and borrowings

As at 31 December 2009 the Group accounts for loans with a nominal value of EUR 65,492 thousand at an amortised cost of EUR 6,048 thousand (31 December 2008: a nominal value – EUR 66,092 thousand: an amortised cost – EUR 1,580 thousand). The amortised cost of these loans (see Note 19 (i)) has been calculated taking into account future cash flows associated with the repayment of these loans. The Group assessed future cash flows based on currently available facts and conditions, such as assessments of future capital investments and gas and electricity prices. Changes in any of these conditions or estimates may result in significant adjustments to the future amortised cost.

Tax contingencies

The Group entities operate in a number of tax jurisdictions across Europe and the CIS. Where management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is provided for in these financial statements. Tax contingencies are disclosed in Note 30.

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 11 (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.

4 Summary of significant accounting policies (continued)

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

The group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the group. For purchases of non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Differences between consideration received and carrying value of non-controlling interests sold 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.

Business combinations

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

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

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

(a) the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group, in exchange for control of the acquiree; 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 end of the reporting period are remeasured to the entities' functional currencies at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are remeasured to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on remeasurement are recognised in profit and loss.

Available-for-sale equity instruments are considered non-monetary and the effect of exchange rate changes on their fair value is included in the fair value gain or loss recognised in other comprehensive income.

Assets and liabilities of the Company and its subsidiaries are translated into the Group's presentation currency at the exchange rate prevailing at the end of the reporting period. Profit and loss items of the Company and its subsidiaries are translated at the average exchange rate for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions). Components of equity and other comprehensive income are translated at the historic rate with the exception of equity opening balances at the date of transition to IFRS which were translated at the exchange rate at the date of transition. Exchange differences arising on the translation of the net assets of the Company and its subsidiaries are recognised as translation differences in other comprehensive income and included in the foreign currency translation reserve (FCTR) in equity.

Property, plant and equipment

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

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

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

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

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

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

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

4 Summary of significant accounting policies (continued)

Type of facility	Useful life, years
Buildings	8 – 100
Hydro engineering structures	25 – 100
Transmission facilities and equipment	12 – 33
Thermal networks	17 – 25
Power equipment	3 – 33
Other equipment and fixtures	3 – 50
Other structures	4 – 50
Other fixed assets	1 – 25

Investment properties

Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses. Investment property acquired as a result of business combination is initially recognised at its fair value as a deemed cost at the date of its acquisition. Losses arising due to depreciation and impairment are recorded in profit and loss.

Depreciation on investment property 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. The useful life for buildings for rent out purposed equalled to 58 years.

Earned rental income is recorded as revenue in profit and loss.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit and loss.

Transfers are made to investment property when, and only when, there is a change in use, evidenced ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development with a view to sale.

If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Intangible assets

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

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

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

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

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

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

Leased assets

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

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

Available-for-sale investments

Investments intended to be held for an indefinite period of time are classified as available-for-sale; these are included in other non-current assets unless management has the express intention of holding the investment for less than 12 months from the end of the reporting period, 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 the end of each reporting period.

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

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

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

Derivative financial instruments and hedging activities

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

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

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

4 Summary of significant accounting policies (continued)

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

Foreign currency forward exchange contracts (foreign currency forwards)

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

Electricity derivatives

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

Inventories

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

Cash and cash equivalents

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

Accounts receivable

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

Prepayments

Prepayments made by the Group are carried at cost less provision for impairment. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit and loss.

Prepayments received by the Group are classified as non-current liabilities when the goods or services relating to the prepayment are 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 end of the reporting period (deferred VAT) is recognised in the statement of financial position on a gross basis and disclosed separately as a current asset and liability. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor's balance, including VAT. The related deferred VAT liability is maintained until the debtor is written off for tax purposes.

Impairment

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

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

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

All impairment losses are recognised in profit and loss.

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

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

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

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

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

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

Employee benefits

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

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

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

4 Summary of significant accounting policies (continued)

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

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

Share-based payment transactions. The share option programme allows the Company employees to acquire shares of the Company. The fair value of the options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured based on the Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

Borrowings

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

Government grants

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

Provisions

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

Environmental liabilities

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

Shareholder's equity

Dividends

Dividends are recognised as a liability and deducted from equity at the end of the reporting period only if they are declared (approved by shareholders) before or on the end of the reporting period. Dividends are disclosed when they are declared after the end of the reporting period, but before the financial statements are authorised 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.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The company has dillution effect caused by share options. For the share options, a calculation is done to determine the number of shares that could have been

acquired at fair value (determined as the average market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Revenue

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

Operating expenses

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

Finance income

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

Finance expenses

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

Income tax expense

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

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

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

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

Deferred tax assets are reviewed at the end of each reporting period 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 end of the reporting period.

4 Summary of significant accounting policies (continued)

New accounting pronouncements and revised standards

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

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

- *IFRS 8, 'Operating Segments' (effective for annual periods beginning on or after 1 January 2009).* The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The financial statements have been prepared under the revised disclosure requirements. The adoption of IFRS 8 has resulted in an increase in the number of reportable segments presented, as the previously reported segment Russia has been split into Generation in Russia and Trading in Russia.

- *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. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that is not carried at fair value and that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method. As the Group measures property, plant and equipment at fair value it elected to continue to expense all borrowing costs in the financial statements.

- *IAS 1 'Presentation of Financial Statements' (revised September 2007; effective for annual periods beginning on or after 1 January 2009).* The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Group has elected to present a single statement of comprehensive income. The revised IAS 1 also introduced a requirement to present a statement of financial position at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Group's financial statements, but had no impact on the recognition or measurement of the specific transactions and balances.

- *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 consolidated financial statements have been prepared under the revised requirements.

- *IFRS 7 (Amendment), 'Improving Disclosures about Financial Instruments' (issued in March 2009; effective for annual periods beginning on or after 1 January 2009).* The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity must also disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. This amendment does not have any material impact on the Group's 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

4 Summary of significant accounting policies (continued)

an associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example goodwill. Reversals of impairment are recordered as an adjustment to the investment balance to the extent that the recoverable amount of associate increases. This amendment does not have any material impact on the Group's Financial Statements.

- *IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from 1 July 2009).* Property that is under construction or development for future use as investment property is brought within the scope of the revised IAS 40. The financial statements are prepared based on the amended standard requirements.

There are other pronouncements, improvements and amendments that are not relevant for the current Group's operations.

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

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

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

4 Summary of significant accounting policies (continued)

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

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

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

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

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

- *Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010).* The improvements consist of a mixture of substantive changes and clarifications in the following IFRSs: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the Annual Improvements to International Financial Reporting Standards, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The Group does not expect the amendments to have any material effect on its financial statements.

- *Improvements to International Financial Reporting Standards (issued in May 2010 and effective for the Group from 1 January 2011).* The improvements consist of a mixture of substantive changes and clarifications in the following IFRSs: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment

4 Summary of significant accounting policies (continued)

arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the end of the reporting period and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits.

There are other improvements, pronouncements and amendments that ate not relevant to the current Group's operations.

5 Segment information

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

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

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

- Generation in Russia (represented by power generation stations of the Parent company);
- Trading in Russia (represented by head-office, Omsk and Orel divisions of the Parent company);
- Trading in Finland (represented by RAO Nordic Oy);
- Distribution in Georgia (represented by JSC Telasi);
- Distribution in Armenia (represented by JSC Elektricheskiye seti Armenii);
- Generation in Moldavia (represented by CJSC Moldavskaya GRES);
- Generation in Kazakhstan (represented by JSC Stantsiya Ekibastuzskaya GRES-2);
- Other

JSC Stantsiya Ekibastuzskaya GRES-2 is analysed by the CODM as a separate entity on the permanent basis, so it was fully consolidated for management reporting and disclosed as a separate operating segment.

"Unallocated" includes elimination of inter-segment transactions and share in profit of associates and jointly controlled entities, dividend income, impairment of investments, interest expenses and foreign exchange gains (losses), investments in associates and jointly controlled entities and liabilities on loans and borrowings, obtained by the Parent company. Also includes goodwill which arose on the acquisition of UAB INTER RAO Lietuva.

The CODM evaluates performance of the segments based on EBITDA, which is calculated as profit/(loss) for the period before finance income and expenses, income tax expense, depreciation and amortisation of property, plant and equipment and intangible assets, impairment of property, plant and equipment and investment property, impairment of goodwill and provisions for doubtful debts and obsolete inventory. The Group's definition of EBITDA may differ from that of other companies. Information about depreciation and amortisation of property, plant and equipment and intangible assets, finance income and expenses is disclosed in segment information as it is regularly reviewed by the CODM.

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

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

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

The segment information for the year 2008 was generated in compliance with the requirements of IFRS 8, 'Operating Segments' for the purpose of comparability with financial information for year 2009. The present disclosure for the year 2008 was not provided to the Management Board.

5 Segment information (continued)

As at 31 December 2009:

	Generation Russia	Trading Russia	Trading Finland	Distribution Georgia	Distribution Armenia	Generation Moldavia	Generation Kazakhstan	Other	Unallocated	Total
Total revenue	**279 708**	**781 847**	**196 496**	**93 618**	**180 350**	**146 250**	**65 418**	**104 654**	**(209 307)**	**1 639 034**
Revenue from external customers	279 708	600 071	196 496	93 618	180 015	146 249	65 418	77 460	-	1 639 035
Inter-segment revenue	-	181 776	-	-	336	1	-	27 194	(209 307)	-
Purchased electricity and capacity	(17 270)	(621 484)	(166 641)	(34 393)	(94 628)	(16 826)	(597)	(58 832)	208 916	(801 755)
Fuel expenses	(122 535)	-	-	-	-	(86 271)	(13 333)	(21 705)	-	(243 844)
Share of profit of associate and jointly controlled entities	-	-	-	-	-	-	-	101	15	116
EBITDA	**71 798**	**37 522**	**5 789**	**25 389**	**30 756**	**24 892**	**20 818**	**1 461**	**1 053**	**219 478**
Depreciation and amortisation of property, plant and equipment and intangible assets	(67 530)	(649)	(33)	(2 468)	(8 526)	(3 982)	(8 473)	(3 694)	-	(95 355)
Interest income	13	-	67	127	388	-	569	2 741	10 602	14 507
Interest expense	(4 558)	-	(26)	(1 571)	(5 232)	(86)	(1 259)	(477)	(53 140)	(66 349)

	Generation Russia	Trading Russia	Trading Finland	Distribution Georgia	Distribution Armenia	Generation Moldavia	Generation Kazakhstan	Other	Unallocated	Total
Total assets, including:	**1 608 658**	**154 368**	**15 044**	**89 730**	**211 945**	**140 917**	**223 185**	**278 766**	**101 974**	**2 824 587**
Property, plant and equipment	1 340 094	3 474	97	60 060	145 470	64 311	197 304	101 826	-	1 912 636
Goodwill	-	-	-	-	-	-	-	-	32 591	32 591
Investments in associate and jointly controlled entities	-	-	-	-	-	-	-	297	64 269	64 566
Total liabilities, including:	**72 851**	**45 313**	**9 326**	**46 741**	**106 798**	**14 499**	**58 222**	**60 103**	**580 540**	**994 393**
Loans and borrowings	31 283	-	4	17 993	63 497	7 567	33 752	22 946	580 540	757 582
Capital expenditure	**308 976**	**3 142**	**-**	**9 078**	**51 611**	**9 357**	**22 312**	**21 370**	**-**	**425 846**

5 Segment information (continued)

As at 31 December 2008:

	Generation Russia	Trading Russia	Trading Finland	Distribution Georgia	Distribution Armenia	Generation Moldavia	Generation Kazakhstan	Other	Unallocated	Total
Total revenue	283 779	1 008 008	215 849	98 897	185 662	42 959	86 385	116 815	(251 042)	1 787 312
Revenue from external customers	283 779	780 561	215 849	98 897	185 389	42 959	86 385	93 493	-	1 787 312
Inter-segment revenue	-	227 447	-	-	273	-	-	23 322	(251 042)	-
Purchased electricity and capacity	(48 710)	(741 570)	(159 051)	(37 123)	(105 760)	-	(338)	(78 995)	254 162	(917 385)
Fuel expenses	(109 292)	-	-	-	-	(15 577)	(19 285)	(15 533)	-	(159 687)
Share of (loss)/profit of associate and jointly controlled entities	-	-	-	-	-	-	-	440	(203)	237
EBITDA	50 707	119 265	42 631	30 219	23 397	11 428	30 611	3 093	3 335	314 686
Depreciation and amortisation of property, plant and equipment and intangible assets	(68 120)	(660)	(99)	(2 241)	(8 089)	(3 883)	(10 729)	(4 428)	-	(98 249)
Interest income	4 017	-	-	54	6	-	456	1 741	3 389	9 663
Interest expense	(690)	-	(1 194)	(1 540)	(4 224)	(29)	(1 338)	(1 533)	(18 826)	(29 374)

	Generation Russia	Trading Russia	Trading Finland	Distribution Georgia	Distribution Armenia	Generation Moldavia	Generation Kazakhstan	Other	Unallocated	Total
Total assets, including:	1 323 984	240 406	21 556	85 554	182 123	139 933	278 936	153 414	158 100	2 584 006
Property, plant and equipment	1 062 446	9 830	130	55 438	136 032	71 084	233 897	64 072	-	1 632 929
Goodwill	-	-	-	-	-	-	-	-	32 591	32 591
Investments in associate and jointly controlled entities	-	-	-	-	-	-	-	163	28	191
Total liabilities, including:	23 889	42 697	12 709	47 873	88 820	14 856	71 905	49 110	364 465	716 324
Loans and borrowings	2 397	-	6	11 990	52 722	7 088	39 579	19 834	364 465	498 081
Capital expenditure	163 369	1 054	45	13 204	36 790	6 225	26 813	1 359	-	248 859

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

- several Group entities do not use revaluation policy regarding property, plant and equipment in management accounting;
- full consolidation of operations of JSC Stantsiya Ekibastuzskaya GRES-2 in management accounting;
- the majority of IFRS adjustments made in the financial statements in respect of the Parent company, CJSC Moldavskaya GRES and other Group companies are not included in management accounting;
- different methods of presentation of direct financing from JSC "Mejregionenergostroy" (see Note 21).

5 Segment information (continued)

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

	2009	2008
Revenue for reportable segments	**1,639,034**	**1,787,312**
JSC Stantsiya Ekibastuzskaya GRES-2	(65,418)	(86,385)
Gross versus net presentation of revenue under IFRS accounting	(23,811)	(21,534)
Other income included in revenue under Management accounting	(8,224)	(2,930)
Intercompany eliminations before reorganization of the Parent company, unrecorded in segment reporting	-	(4,484)
Other adjustments	1,832	(442)
Revenue per Combined and Consolidated Statement of Comprehensive Income	**1,543,413**	**1,671,537**

	2009	2008
Depreciation and amortisation for reportable segments	**95,355**	**98,249**
Difference in depreciation, due to different value of assets under IFRS and Management accounting	(8,749)	3,883
JSC Stantsiya Ekibastuzskaya GRES-2	(8,473)	(10,729)
Amortisation of intangible assets of the Parent company	1,076	-
Depreciation of investment property	257	-
Other adjustments	(287)	(346)
Depreciation and amortisation per Combined and Consolidated Statement of Comprehensive Income	**79,179**	**91,057**

	2009	2008
Share of profit of associates and jointly controlled entities for reportable segments	**116**	**237**
OJSC TGK-11	60,666	-
JSC Stantsiya Ekibastuzskaya GRES-2	2,363	5,206
Other adjustments	(260)	-
Share of profit of associates and jointly controlled entities per Combined and Consolidated Statement of Comprehensive Income	**62,885**	**5,443**

	2009	2008
EBITDA for reportable segments	**219,478**	**314,686**
Share of profit in associates	62,885	5,443
Negative Goodwill	25,595	-
Share based payments	(21,089)	-
JSC Stantsiya Ekibastuzskaya GRES-2	(20,818)	(30,611)
Provision for impairment of accounts receivable	(6,337)	(5,951)
Bank services, included in other operating expenses	(4,025)	(2,554)
Disposal of Group entities	814	-
Loss on property, plant and equipment disposal, unrecorded in segment reporting	496	8,341
Write-off of research and development costs	-	2,707
Revenues included in other operating income	-	(1,921)
Other adjustments	(6,583)	10,889
EBITDA per Combined and Consolidated Statement of Comprehensive Income	**250,416**	**301,029**
Impairment of property plant and equipment	(384,116)	(5,847)
Finance Income / Expense	(105,449)	(48,762)
Deprecation and amortisation per Combined and Consolidated Statement of Comprehensive Income	(79,179)	(91,057)
Impairment of investment property	(12,437)	-
Impairment of Goodwill	(7,862)	-
Impairment of JSC Sangtudinskaya GES-1	(3,494)	-
(Loss)/Profit before income tax per Combined and Consolidated Statement of Comprehensive Income	(342,121)	**155,363**

5 Segment information (continued)

	31 December 2009	31 December 2008
Total assets for reportable segments	2,824,588	2,584,006
Difference in measurement of property, plant and equipment (results of revaluation and application of IFRS 1)	(379,372)	(194,306)
JSC Stantsiya Ekibastuzskaya GRES-2	(107,073)	(174,310)
Fair value adjustments of CJSC Electrolutch on acquisition	86,316	-
IFRS adjustment on accrual of deferred taxes	61,431	1,353
Write-off of financial instruments (mostly related to previous periods)	(35,912)	(36,603)
Equity accounting of associates and jointly controlled entities	35,249	-
Provision for impairment of accounts receivable	(8,181)	(3,711)
Impairment of Goodwill from UAB INTER RAO Lietuva acquisition	(6,449)	-
Gross-up of accounts payable/receivable	(6,421)	3,706
Discounting of accounts payable and receivable	(4,755)	(5,529)
Deferred expenses write-off	(4,035)	(707)
Impairment of loans given to Khrami I, II	(3,585)	(1,297)
Interest capitalized	(2,872)	-
Impairment of investment in JSC Sangtudinskaya GES-1	(132)	(5,983)
Government grants given to JSC Elektricheskiye seti Armenii	-	3,973
Derivatives hedging in the Parent Company	-	3,040
Other adjustments	(1,364)	1,731
Total assets per Combined and Consolidated Statement of Financial Position	**2,447,433**	**2,175,363**

Investments in associates and jointly controlled entities for reportable segments	**64,566**	**191**
Investment in JSC Stantsiya Ekibastuzskaya GRES-2 by equity accounting	116,111	114,20
Investments in JSC TGK-11 by equity accounting	35,516	-
Other adjustments	(70)	-
Investments in associates and jointly controlled entities per Combined and Consolidated Statement of Financial Position	**216,123**	**104,817**

Total liabilities for reportable segments	**994,393**	**716,324**
Direct financing from JSC "Mejregionenergostroy"	216,701	114,720
Investment in JSC Stantsiya Ekibastuzskaya GRES-2 by equity accounting	(36,328)	(52,371)
Dividends payable	-	(17,087)
Discounting effect of loans	(13,988)	(14,712)
IFRS adjustment on accrual of deferred taxes	(11,661)	(10,274)
Gross-up accounts payable/receivable	(6,421)	3,706
Parent company pension liabilities	3,078	3,081
Recognition of external payables	(2,128)	-
Unused vacation provision	1,914	2,127
Equity accounting of associates and jointly controlled entities	1,030	-
Tax provision, not included in Management accounting	-	7,013
Government grants given to JSC Elektricheskiye seti Armenii	-	3,973
Derivatives hedging in the Parent Company	-	3,834
Other adjustments	(3,464)	3,498
Total liabilities per Combined and Consolidated Statement of Financial Position	**1,143,126**	**763,632**

5 Segment information (continued)

Information about geographical areas

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

As at 31 December 2008:

	Revenue in the Group entity's jurisdiction[1]	Revenue in countries other than Group entity's jurisdiction	Total revenue based on location of customers	Total non-current assets based on location of assets[2]
Russian Federation	534,477	-	534,477	1,011,083
Finland (incl. Nord Pool)	35,548	420,359	455,907	34,127
Armenia	181,539	-	181,539	155,806
Georgia	108,686	3,489	112,175	74,840
Moldova (incl. Transdniestria Republic)	12,287	113	12,400	123,227
Belarus	-	76,852	76,852	-
Other	53,303	244,886	298,189	1,968
Kazakhstan	*2,681*	*68,920*	*71,601*	*1,076*
Turkey	*5*	-	*5*	*173*
Ukraine	*14*	*46,257*	*46,271*	*7*
Latvia	-	*87,338*	*87,338*	-
Lithuania	*50,603*	*1,337*	*51,940*	*712*
Romania	-	*30,138*	*30,138*	-
Other	-	*10,896*	*10,896*	-
TOTAL	925,840	745,697	1,671,537	1,401,051

As at 31 December 2009:

	Revenue in the Group entity's jurisdiction[1]	Revenue in countries other than Group entity's jurisdiction	Total revenue based on location of customers	Total non-current assets based on location of assets[2]
Russian Federation	523,559	-	523,559	1,238,001
Finland (incl. Nord Pool)	38,446	325,119	363,565	27,649
Armenia	179,174	-	179,174	137,032
Georgia	112,259	10,863	123,122	82,995
Moldova (incl. Transdniestria Republic)	9,406	121,788	131,194	109,064
Belarus	-	106,646	106,646	-
Other	24,599	91,554	116,153	16,000
Kazakhstan	*4,950*	*16,061*	*21,011*	*893*
Turkey	-	-	-	*120*
Ukraine	-	*763*	*763*	-
Latvia	-	*27,956*	*27,956*	-
Lithuania	*19,649*	-	*19,649*	*695*
Romania	-	*15,081*	*15,081*	-
China	-	*23,667*	*23,667*	-
Other	-	*8,026*	*8,026*	*14,292*
TOTAL	887,443	655,970	1,543,413	1,610,741

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

[2] Total non-current assets based on location of assets excludes deferred tax assets and other non-current assets.

6 Acquisitions and disposals

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

Acquisition of CJSC Electrolutch

On 3 July 2009 the Group has acquired 97.78% of CJSC Electrolutch (Moscow, Russian Federation), an entity holding a complex of seven office buildings in various stages of completion. Two buildings are completed and rented out. The Group intends to rent out the other buildings when they are completed with the exception of part of one of the buildings that is going to be occupied for own purposes. The total consideration paid by the Group was EUR 73.6 million (RUR 3,231.5 million) including cash spent by the Parent company of EUR 33.5 million (RUR 1,474.8 million) to repay/purchase loans of the acquired subsidiary. The management of the Group considers this acquisition as acquisition of a business.

Net assets of the entity were initially recognised at fair value measured as at the date close to the date of acquisition. The fair values of the obtained investment properties were used as their deemed cost at the date of acquisition.

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

	Fair values
Property, plant and equipment	48,064
Investment property	66,808
Inventories	26
Accounts receivable	3,618
Income tax prepaid	885
Cash and cash equivalents	234
Deferred tax liabilities	(16,677)
Accounts payable and accrued charges	(2,252)
Taxes payable	(20)
Fair value of net assets acquired	**100,686**
Less: Non-controlling interest (2.22% of CJSC Electrolutch net assets)	(1,490)
Fair value of acquired interest in net assets	99,196
Negative goodwill arising from the acquisition	(25,595)
Total purchase consideration	**73,601**

The disclosure of the carrying amounts of assets and liabilities of CJSC Electrolutch immediately before the acquisition in accordance with IFRS would be impracticable as the subsidiary did not prepare financial statements in accordance with IFRS prior to the date of acquisition.

Cash outflow on the acquisition amounted to EUR 73,367 thousand (purchase consideration in the amount of EUR 73,601 thousand net of cash and cash equivalents in the entity acquired in the amount of EUR 234 thousand). Negative goodwill amounting to EUR 25,595 thousand was recognised directly in the combined consolidated statement of comprehensive income. The ability of INTER RAO UES to generate negative goodwill on the acquisition reflected the fact that the real estate market in Moscow region sharply contracted due to the crisis and property developers were faced with liquidity issues and the need to sell assets, even if that meant at prices below the medium term achievable value.

CJSC Electrolutch contributed revenues of EUR 2,081 thousand and a net loss of EUR 15,796 thousand to the Group for the period from the date of acquisition to 31 December 2009. If the acquisition had occurred as at 1 January 2009, the estimated contribution to the Group's revenues would have been EUR 4,244 thousand, and the estimated contribution to the result for the year ended 31 December 2009 would have been a net loss of EUR 15,467 thousand.

Acquisition of JSC TGK-11

On 11 November 2009 the Group acquired a 29.9% interest in JSC TGK-11, an electricity and heat power generating company operating in Western Siberia region, Russian Federation. The total consideration paid by the Group was EUR 39 million (RUR 1,685.5 million). The ownership of JSC TGK-11 represents an investment in an associate entity.

Net assets of the entity were initially recognised at fair value measured as at the date of acquisition.

6 Acquisitions and disposals (continued)

Fair value of property, plant and equipment was determined by an independent appraiser. Fair value of other assets and liabilities was determined by Group management based on audited IFRS financial statements of the acquired entity for 2009 year.

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

	Fair values
Fair value of entities' net assets	323,728
Fair value of acquired interest in net assets	96,795
Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment	(57,664)
Total purchase consideration	39,131

Cash outflow on the acquisition amounted to EUR 39,131 thousand. Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment amounting to EUR 57,664 thousand was recognised in share of profit of associates and jointly controlled entities in the consolidated statement of comprehensive income. The excess (negative goodwill) is caused by the fact that that market quotations on the acquired shares are affected by the financial crisis and also by the normal trading timing difference in quotations between the date of purchase consideration negotiation and the date of transaction.

On 29 December 2009 the Group received additional 16.25% of JSC TGK-11 shares in asset management. The transfer does not represent ownership or kind of ownership rights for the Group.

Acquisition of LLP Kazenergoresurs and LLP Nedra Kazakhstana

On 19 August 2009 the Group acquired 76% of CJSC TOO Kazenergoresurs, an electricity trading company operating in Kazakhstan. The total consideration paid by the Group was EUR 2.5 million (USD 3.5 million). As a result of the acquisition of control over TOO Kazenergoresurs, the Group acquired a 74.48% interest in its subsidiary company, LLP Nedra Kazakhstana, and thus obtained control over that entity also.

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

	Fair values
Property, plant and equipment	151
Inventories	49
Accounts receivable	1,890
Income tax prepaid	23
Other current assets	2
Cash and cash equivalents	536
Accounts payable and accrued charges	(1,234)
Taxes payable	(14)
Fair value of net assets acquired	**1,403**
Less: Non-controlling interest	(338)
Fair value of acquired interest in net assets	**1,065**
Goodwill arising from the acquisition	1,413
Total purchase consideration	**2,478**

Cash outflow on the acquisition amounted to EUR 1,942 thousand (purchase consideration in the amount of EUR 2,478 thousand net of cash and cash equivalents in the entity acquired in the amount of EUR 536 thousand). Goodwill arising on the acquisition of LLP Kazenergoresurs amounted to EUR 1,413.

LLP Kazenergoresurs contributed revenues of EUR 3,742 thousand and a net profit of EUR 219 thousand to the Group for the period from the date of acquisition to 31 December 2009. If the acquisition had occurred as at 1 January 2009, the estimated contribution to the Group's revenues would have been EUR 10,463 thousand, and the estimated contribution to the result for the year ended 31 December 2009 would have been a net profit of EUR 779 thousand.

Acquisition of non-controlling interest in Interenergo B.V. and CJSC Elektricheskiye seti Armenii

In March 2009, the Group entity, ES Georgia Holdings B.V., purchased from a third party an interest of 33.3 % in Interenergo B.V., a Group entity. The total consideration paid totalled USD 1,290 thousand (EUR 1,020 thousand). As a result, 100 % of Interenergo B.V. shares are now owned by the Group. The transaction resulted in

6 Acquisitions and disposals (continued)

the acquisition of the previously outstanding 33.3% non-controlling interest in Interenergo B.V. and CJSC Elektricheskiye seti Armenii in the amount EUR 5,829 thousand.

Acquisition of UAB INTER RAO Lietuva (ERC)

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

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

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

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

As a result of the acquisition of control over ERC, the Group acquired a 49.99% interest in an associated company, UAB Alproka (see Note 10).

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 EUR 75,232 thousand, and the estimated contribution to the result for the year ended 31 December 2008 would have been a net profit of EUR 11,842 thousand.

Acquisition of minority interest in CJSC 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 CJSC 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 CJSC 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 CJSC Moldavskaya GRES in the amount of USD 14,150 thousand or EUR 8,075 thousand, which are included into Acquisition movement in the Consolidated Equity Statement.

Disposal of the Group entities

On 21 December 2009, the Group disposed its 90% share in JSC RAO UES INTERNATIONAL Ukraine and its subsidiary Technoelectrika S.R.L.

Cash inflow on the disposal amounted to EUR 12 thousand. The gain on disposal amounting to EUR 814 thousand was recognised in the consolidated statement of the comprehensive income.

7 Property, plant and equipment

	Land and buildings	Constructions	Plant and equipment	Other	Constructions in progress	Total
Cost/Revalued amount						
Balance at 1 January 2008	280,818	179,106	703,358	53,695	159,311	1,376,288
Reclassification	1,028	4,482	2,287	(7,797)	-	-
Additions	81	26	861	1,566	236,071	238,605
Transfers	10,838	23,732	55,062	7,424	(97,056)	-
Disposals	(3,395)	(788)	(1,422)	(1,154)	(27,584)	(34,343)
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
Balance at 1 January 2009	264,664	194,869	688,971	52,320	241,061	1,441,885
Reclassification	6,936	27,895	(15,770)	(19,061)	-	-
Revaluation reserve	76,657	28,583	152,215	7,343	(110)	264,688
Revaluation loss (impairment provision)	(44,386)	(77,686)	(137,195)	(9,701)	(129,690)	(398,658)
Elimination of depreciation and impairment	(27,332)	(30,003)	(179,659)	(9,293)	(129)	(246,416)
Reversal of impairment provision	8,594	3,130	2,210	608	-	14,542
Additions	12	(368)	518	14,612	265,013	279,787
Transfers	31,301	39,448	78,263	7,420	(156,432)	-
Disposals	(748)	(1,352)	(778)	(1,336)	(8,351)	(12,565)
Acquisition of Group entities	-	143	41	149	47,882	48,215
Disposals of Group entities	-	-	-	(27)	-	(27)
Translation difference	(12,072)	(19,283)	(33,755)	(3,178)	(14,474)	(82,762)
Balance at 31 December 2009	303,626	165,376	555,061	39,856	244,770	1,308,689
Including PPE under finance lease	-	3,114	39,976	40	-	43,130
Depreciation and impairment losses						
Balance at 1 January 2008	(8,485)	(12,230)	(63,833)	(6,780)	(193)	(91,521)
Reclassification	(105)	(6)	(646)	757	-	-
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)
Balance at 1 January 2009	(24,119)	(18,953)	(129,541)	(12,009)	(159)	(184,781)
Reclassification	(313)	(3,927)	(820)	5,060	-	-
Elimination of depreciation and impairment	27,332	30,003	179,659	9,293	129	246,416
Depreciation charge	(6,642)	(10,232)	(56,044)	(4,350)	-	(77,268)
Disposals	181	300	147	558	-	1,186
Disposals of Group entities	-	-	-	21	-	21
Translation difference	1,134	2,731	6,295	759	32	10,951
Balance at 31 December 2009	(2,427)	(78)	(304)	(668)	2	(3,475)
Including PPE under finance lease	-	-	-	-	-	-
Net book value						
At 1 January 2008	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
At 31 December 2009	301,199	165,298	554,757	39,188	244,772	1,305,214

7 Property, plant and equipment (continued)

In the above disclosure any accumulated depreciation (aggregated with accumulated impairment losses) at the date of the revaluation 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 8,495 thousand (31 December 2008: EUR 12,351 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 44,420 thousand (including EUR 27,987 thousand for JSC "INTER RAO UES" and EUR 12,168 thousand for JSC Elektricheskiye seti Armenii) as at 31 December 2009 (31 December 2008: EUR 65,089 thousand).

(a) Revaluation

The Group is using the revaluation model for accounting of property, plant and equipment.

In 2009 management commissioned an independent valuer to appraise the property, plant and equipment of six subsidiaries (JSC Telasi, Mtkvari Energy LLC, JSC Elektricheskiye seti Armenii, CJSC International Power Corporation, JSC Ispytatelniy Stend Ivanovskoy GRES and two new entities (CJSC Electrolutch and OrangeWings Limited) in order to determine the fair value of their property, plant and equipment for the purpose of revaluation as at 31 December 2009.

The independent valuer holds a recognized and relevant professional qualification and has recent experience in valuation of assets of similar location and category.

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 costs and construction estimates. The replacement cost of the major part of equipment was estimated based on the current purchase contracts and the price-lists of producers and trading companies. The level of economic obsolescence was estimated based on profitability test results for each cash generating unit.

The revaluation of property, plant and equipment as at 31 December 2009 has resulted in:

- a net revaluation increase of EUR 264,688 thousand, comprising an increase in the carrying value of property, plant and equipment of EUR 313,359 thousand net of the reversal of a previously recognized revaluation reserve on property plant and equipment of JSC Elektricheskiye seti Armenii, JSC Telasi, Mtkvari Energy LLC, CJSC International Power Corporation and CJSC Moldavskaya GRES of EUR 48,671 thousand.
- a net revaluation loss (impairment) of EUR 384,116 thousand, comprising a decrease in the carrying value of property, plant and equipment of EUR 398,658 thousand net of the reversal of a previously recognized impairment on property plant and equipment of JSC Elektricheskiye seti Armenii, JSC Telasi, Mtkvari Energy LLC, CJSC International Power Corporation and CJSC Moldavskaya GRES of EUR 14,542 thousand.

The preparation of the profitability tests undertaken as part of the revaluation as at 31 December 2009 involves considerable judgment as to the assumptions used. Further details on the key assumptions used in key profitability tests for the Group companies are set out below.

JSC INTER RAO UES

The revaluation was performed for four major cash generating units – branches of the Parent: Sochinskaya TPS, Ivanovo Thermal-gas Plant, North-West Thermal Power Plant and Kaliningradskaya TEC-2.

The following key assumptions were used in performing the profitability test:

- Applied WACC discount rate was 13.4% per annum;
- Regulated electricity sales tariffs and electricity market prices are expected to increase by 13%-21% per annum for 2011-2015 years and subsequently by 3%-4% per annum;
- Gas purchase prices are expected to increase by 13%-21% per annum for 2011-2015 years and subsequently by 3%-5% per annum; the growth rate was forecasted with a view that internal market gas prices will approach export gas prices by 2015 year;
- Capacity prices are expected to increase by 6%-9% per annum for 2011-2015 years and subsequently by 3%-5% per annum;
- Heat sales_ tariffs in North-West Thermal Power Plant and Kalinigradskaya TEC-2 are expected to increase in 2011 by more than 100% and 50% respectively.

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 (historic data).

A change in the expected weighted average cost of capital discount rate by 2% would impact the carrying value of property, plant and equipment by approximately EUR 24,000 thousand.

A change in the expected electricity sales tariff/ price by 1% would impact the carrying value of property, plant and equipment by approximately EUR 9,200 thousand.

If management expectations on significant increase of heat sales tariff in two cash generating units are not fulfilled then the recoverable value of property, plant and equipment would be approximately EUR 96,000 thousand lower.

As a result of the revaluation in 2009 the Company's carrying value of property, plant and equipment decreased by EUR 57,394 thousand, comprising an equity increase of EUR 170,895 thousand, net of a related deferred tax liability of EUR 42,723 thousand and a revaluation losses of EUR 271,012 thousand.

JSC Moldavskaya GRES

During 2009 JSC Moldavskaya GRES operated at approximately 31% of its operating capacity and generated revenues in the amount of EUR 138 million. Management is actively seeking new distribution markets for this entity. For the purposes of the revaluation of property, plant and equipment of JSC Moldavskaya GRES as at 31 December 2009, management made the following assumptions and estimates related to new markets:

- Applied WACC discount rate was 22.1% per annum;
- Revenue for the years ended 31 December 2010, 2011, 2012 are expected to be not lower than EUR 144 million, EUR 167 million and EUR 260 million, respectively;
- The major source of revenue growth is export of electricity to Romania and Moldova. The main reason for export revenue increase is the anticipated commencement of significant electricity supply to Romania under so called "aerial wire" mode in 2012 after certain upgrades of the Moldavian electricity transmission grids have been completed. The revenue from export sales is expected to reach 94% of total revenue from 2012, out of which the share of "aerial wire" mode operations is expected to be on average 40 % over the next ten years;
- Electricity sales (output) tariff is expected to increase by approximately 9% per annum until 2014 and by 4% per annum from 2015 till 2023 for export sales to Moldova and approximately by 4% per annum until 2023 for export sales to Romania;
- The cost of gas purchases are currently regulated by decrees of the President of Transniestria Republic and are at tariffs lower than those available in the general market; the forecast for the period from 2011 till 2015 was based on management estimations of such tariffs increasing by 4.5%-8% per annum with subsequent growth of approximately 3% per annum;
- Net cash flows from operating activities will increase by 2.6 times during next 14 years, with the most significant increase being between 2010 and 2013.

A change in the weighted average cost of capital discount rate by 1% would impact the carrying value of property, plant and equipment by approximately EUR 6,400 thousand. A change in the expected sales tariff by 1% would impact the carrying value of property, plant and equipment by approximately EUR 58,900 thousand. A change in the expected gas prices by 5% would impact the carrying value of property, plant and equipment by approximately EUR 35,300 thousand. If future actual cost of gas purchases is based on full general market prices then the recoverable value of the property, plant and equipment of JSC Moldavskaya GRES would be impaired significantly.

As a result of the revaluation in 2009 the carrying value of the property, plant and equipment of JSC Moldavskaya GRES decreased by EUR 7,861 thousand, comprising an equity increase of EUR 21,910 thousand, and a revaluation losses of EUR 29,771 thousand.

7 Property, plant and equipment (continued)

JSC Elektricheskiye seti Armenii

For the purposes of the revaluation of property,plant and equipment of JSC Elektricheskiye seti Armenii as at 31 December 2009, management made the following assumptions:

- Applied WACC discount rate was 15.6% per annum;
- Revenues are forecast to increase by approximately 6% per annum;
- "Regulated level of profitability" is expected to equal 15.6% from 2010 to 2028;

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on the both external and internal sources (historic data).

A change in the expected weighted average cost of capital discount rate by 1% or expected "regulated level of profitability" by 2% would impact the carrying value of property, plant and equipment by approximately EUR 9,300 thousand and EUR 10,200 thousand respectively.

As a result of the revaluation in 2009 the Company's carrying value of property, plant and equipment decreased by EUR 40,016 thousand, comprising an equity increase of EUR 5,484 thousand, net of a related deferred tax liability of EUR 1,371 thousand and revaluation losses of EUR 46,871 thousand.

Other subsidiaries

As a result of property, plant and equipment revaluation performed in other subsidiaries the carrying value of property plant and equipment decreased by EUR 14,157 thousand, comprising an equity increase of EUR 18,642 thousand, net of a related deferred tax liability of EUR 3,663 thousand and revaluation losses of EUR 36,462 thousand.

For all entities, increases in the carrying amount arising on the revaluation of the items of property, plant and equipment net of the related deferred tax effect were credited to the revaluation reserve in equity; revaluation losses were recognized in the profit and loss as a provision for impairment of property, plant and equipment.

(b) Security

Properties as at 31 December 2009 with a carrying amount of EUR 3,087 thousand (31 December 2008: EUR 813 thousand) are pledged by CJSC Elektricheskiye seti Armenii as collateral for several of its loans.

8 Investment property

The movement of investment properties for the reporting period is as follows:

At 1 January 2009	-
Acquisition of subsidiary	66,808
Additions	1,312
Impairment loss	(12,437)
Depreciation charge	(257)
Translation difference	815
At 31 December 2009	**56,241**

In 2009 the Group recorded investment properties as a result of the acquisition of its new subsidiary CJSC Electrolutch (see Note 6). The acquired properties represent a complex of seven office buildings located in Moscow in various stages of completion which will be rented out. One of these buildings is to be partially owner-occupied and partially rented out. The part which is for the own purposes of the Group is recognised as property, plant and equipment, the part which will be rented out is accounted as an investment property.

(a) Deemed cost

Investment properties are initially recognised at fair value at the date of acquisition. The fair value was determined by an independent appraiser by using income and sales comparison approaches. After the initial recognition, investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Investment properties with a carrying value of EUR 24,866 thousand represent two buildings fully completed and in use as at 31 December 2009 (as at the date of acquisition EUR 30,234 thousand). Investment properties with a carrying value of EUR 31,375 thousand as at 31 December 2009 (as at the date of acquisition EUR 36,574 thousand) represent five buildings under construction which, in accordance with the amendment made to IAS 40 "Investment Property" effective since 1 January 2009, were classified as investment property.

(b) Impairment

As at 31 December 2009 the Group performed an assessment of the recoverable amount of the investment properties of CJSC Electrolutch. The assessment was performed by an independent appraiser using an income approach. For this purpose the following key assumptions were used:

- The forecast period was 6 years;
- The initial base rental fee is USD 650 per square meter with subsequent growth of 2%-8% per annum.
- The expected portion of rental area utilisation applied in the forecast equalled 39% as at 31 December 2009 and further increases to 95% in the fourth quarter of 2011. After 2011 full utilisation is expected.
- The discount rate used for construction period was assessed at the level of 25% – 35%; for the period of operations the discount rate of 14% was applied.;
- The capitalisation rate used for the calculation of the terminal value was 10%.

Based on the assumptions described above, management concluded that an impairment loss of EUR 12,437 thousand had to be recognized in the profit and loss in respect of the investment properties of CJSC Electrolutch (see Note 24). The fall in the revaluation of the part of the building for own use of the Group is included in revaluation results disclosed in Note 7. The key factors which caused the necessity of impairment are the following: decrease of expected base rental fee and deterioration of macroeconomic indicators from the date of acquisition. In management's opinion, the existing accumulated impairment losses represent the best estimate of the impact of impairment as a result of the current economic conditions.

Total rental income for the year 2009 was EUR 2,078 thousand. The future minimum lease payments receivable under non-cancellable operating leases are as follows:

8 Investment property (continued)

Not later than 1 year	3,251
Later than 1 year and not later than 5 years	778
Later than 5 years	-
Total operating lease payments receivable	**4,029**

As at 31 December 2009 five long-term and one short-term rental agreements were signed in respect of the investment properties. Although the contracts were concluded for periods up to 2018, the rental payments due under the agreement are set in accordance with additional agreements and only for periods up to two years.

As at 31 December 2009 the Group has contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements, amounting to EUR 6,454 thousand (as at the date of acquisition: EUR 4,813 thousand).

9 Intangible assets

	Goodwill	Software	Other	Total
Cost				
Balance at 1 January 2008	289	5,035	386	5,710
Reclassification of cost from other intangibles to software	-	39	(39)	-
Acquisition of Group entities	33,997	-	29	34,026
Additions	-	2,401	92	2,493
Disposals	-	-	-	-
Translation difference	(39)	(772)	(58)	(869)
Balance at 31 December 2008	**34,247**	**6,703**	**410**	**41,360**
Balance at 1 January 2009	34,247	6,703	410	41,360
Additions	-	2,517	101	2,618
Acquisition of Group entities	1,413	-	-	1,413
Disposals	-	(73)	-	(73)
Translation difference	34	(646)	(14)	(626)
Balance at 31 December 2009	**35,694**	**8,501**	**497**	**44,692**
Amortisation and impairment				
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)
Translation difference	-	383	19	402
Balance at 31 December 2008	**-**	**(2,077)**	**(153)**	**(2,230)**
Balance at 1 January 2009	-	(2,077)	(153)	(2,230)
Amortisation charge	-	(1,506)	(148)	(1,654)
Impairment losses	(7,862)	-	-	(7,862)
Disposals	-	69	-	69
Translation difference	(55)	200	3	148
Balance at 31 December 2009	**(7,917)**	**(3,314)**	**(298)**	**(11,529)**
Net book value				
At 1 January 2009	**34,247**	**4,626**	**257**	**39,130**
At 31 December 2009	**27,777**	**5,187**	**199**	**33,163**

The amortisation charge is included in operating expenses in the Combined and Consolidated Statement of Comprehensive Income.

The carrying value of goodwill as at 31 December 2009 comprised goodwill which arose on the acquisition of Energospetsserviceobslyzhivanie in 2005 in the amount of EUR 229 thousand and on the acquisition of UAB INTER RAO Lietuva (ex. ERC) (see Note 6) in 2008 in the amount of EUR 33,997 thousand.

9 Intangible assets (continued)

Capitalised goodwill of EUR 33,997 thousand recognised on the acquisition of UAB INTER RAO Lietuva 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 UAB INTER RAO Lietuva in selling imported electricity into the Lithuanian electricity market.

As at 31 December 2009 the Group carried out an impairment test on the goodwill related to CJSC INTER RAO Lietuva. For the purpose of impairment testing the goodwill is allocated to UAB INTER RAO Lietuva as an individual cash-generating unit.

The impairment test was based on the following key assumptions:

- UAB INTER RAO Lietuva is carrying out trading operations with electricity, including import deliveries from electricity system of the Russian Federation to the electricity market of the Lithuanian Republic and export deliveries from the electricity market of the Lithuanian Republic to other countries of Baltic region.
- Starting from 2010, the electricity market of the Lithuanian Republic experiences significant changes due to the closure of the Ignalina Nuclear Power Plant with effect from the end of 2009. The Ignalina plant was 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 will be covered partially by additional production by the Lithuanian power stations and partially by additional imports to the Lithuanian electricity system from the neighbour systems, mostly from the electricity system of the Russian Federation, which have considerable export potential. According to electricity demand projections, the demand would increase annually at average rate of 3% and would reach approximately 9.9 GWth by the year 2019, from the current level of approximately 8.0 GWth. It is expected that starting from the year 2010 till the year 2019 the annual volume of electricity imported to Lithuania would grow to 6 GWth, and that 81 % of that volume could be covered by deliveries carried out by CJSC INTER RAO Lietuva.
- This volume of deliveries is assumed to provide gross margin of 9.3%, as the above mentioned volume allows ERC to carry out electricity sales in peak periods, when higher profitability is achieved.
- The discount factor used for the impairment test performed by management was 17.9%

Based on the assumptions described above, management concluded that an impairment loss in the amount of EUR 6,449 thousand was required to be recognized in the combined and consolidated statement of comprehensive income for the year 2009. The key factor that caused the impairment loss is decrease of gross margin. In management's opinion, the existing provision represents the best estimate of the impact of impairment as a result of the current economic conditions.

The goodwill which arose on acquisition of LLP Kazenergoresurs and its subsidiary LLP Nedra Kazakhstana amounted as at date of acquisition to EUR 1,413 thousand (see Note 6) was fully impaired as at the end of the reporting period to the combined and consolidated statement of comprehensive income. The main reason for its impairment was unfavourable change in customer's base after the date of acquisition.

10 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:

			Voting	
	Status	Country	31 December 2009	31 December 2008
JSC Stantsiya Ekibastuzskaya GRES-2	Jointly controlled entity	Kazakhstan	50.00%	50.00%
UAB Alproka	Associate	Lithuania	49.99%	49.99%
JSC "Kambarata HPP-1"	Jointly controlled entity	Kyrgyz Republic	50.00%	-
JSC "Industrial Power Company"	Jointly controlled entity	Russian Federation	50.00%	50.00%
JSC TGK-11	Associate	Russian Federation	29.90%	-

10 Investments in associates and jointly controlled entities (continued)

	Stantsiya Ekibastuzskaya GRES-2	JSC TGK-11	JSC Industrial Power Company	JSC Kambarata HPP-1	UAB Alproka	Total
Carrying value at 1 January 2008	**81,326**	-	**239**	-	-	**81,565**
Additions	-	-	-	-	315	**315**
Share of revaluation of property,plant and equipment and other related equity movements	7,664	-	-	-	-	**7,664**
Change of income tax rate in Kazakstan, reflected on revaluation reserve of property, plant and equipment	9,379	-	-	-	-	**9,379**
Share of (loss) / profit after tax	5,207	-	(203)	-	439	**5,443**
Dividends received from associates	(1,073)	-	-	-	(591)	**(1,664)**
Translation difference	2,123	-	(8)	-	-	**2,115**
Carrying value at 31 December 2008	**104,626**	-	**28**	-	**163**	**104,817**
Carrying value at 1 January 2009	**104,626**	-	**28**	-	**163**	**104,817**
Additions	-	96,794	-	665	-	**97,459**
Share of revaluation of property,plant and equipment and other related equity movements	32,690	-	-	-	-	**32,690**
Share of (loss) / profit after tax	2,129	3,003	(26)	14	101	**5,221**
Dividends received from associates	(2,902)	-	-	-	-	**(2,902)**
Translation difference	(20,432)	(693)	(2)	(35)	-	**(21,162)**
Carrying value at 31 December 2009	**116,111**	**99,104**	-	**644**	**264**	**216,123**

JSC Stantsiya Ekibastuzskaya GRES-2

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

	The year ended 31 December 2009	The year ended 31 December 2008
Non-current assets	277,247	252,715
Current assets	25,590	26,220
Non-current liabilities	(65,778)	(63,361)
Current liabilities	(4,837)	(6,322)
Revenue	65,418	86,385
Profit for the period	4,258	10,413

10 Investments in associates and jointly controlled entities (continued)

JSC TGK-11

In November 2009 The Group acquired 29.90% of JSC TGK-11 (see Note 6). Consequently, JSC TGK-11 represents an associate entity and the Group applies the equity accounting method to recognise its investment.

The following is summarised financial information in respect of JSC TGK-11:

	Since the date of acquisition to 31 December 2009
Non-current assets	404,370
Current assets	81,926
Non-current liabilities	(66,672)
Current liabilities	(88,172)
Revenue	97,508
Profit for the period	10,043

JSC Industrial Power Company

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

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

	The year ended 31 December 2009	The year ended 31 December 2008
Non-current assets	119	148
Current assets	2	59
Current liabilities	(137)	(152)
Revenue	136	222
Loss for the period	(69)	(407)

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:

	The year ended 31 December 2009	Since the date of acquisition to 31 December 2008
Non-current assets	66	24
Current assets	1,320	3,326
Current liabilities	(354)	(2,711)
Revenue	2,091	6,622
Profit for the period	394	1,726

JSC "Kambarata HPP-1"

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

The following is summarised financial information in respect of JSC "Kambarata HPP – 1":

	Since the date of acquisition to 31 December 2009
Non-current assets	1,291
Current liabilities	(3)
Profit for the period	30

11 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 income tax purposes. Deferred 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 end of the reporting period.

Deferred tax assets and liabilities are attributable to the following:

	Deferred Tax Assets		Deferred Tax Liabilities	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Property, plant and equipment	20,452	6,767	(12,494)	(11,609)
Investment property	-	-	(7,448)	-
Investments in associates and jointly controlled entities	-	36	(22,927)	(19,534)
Trade and other receivables	6,486	5,146	-	-
Tax loss carry-forwards	789	1,629	329	-
Other	5,997	3,187	(365)	97
Tax assets/(liabilities)	33,724	16,765	(42,905)	(31,046)
Set off of tax	(7,424)	(8,003)	7,424	8,003
	26,300	8,762	(35,481)	(23,043)

(b) Unrecognised deferred tax assets

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

	31 December 2009	31 December 2008
Deductible temporary differences	16,714	12,296
Tax loss carry-forwards	-	225
	16,714	12,521

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

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

11 Deferred tax assets and liabilities (continued)

Movement in tax effects of temporary differences, after offsetting, during the year

Deferred tax assets:

	1 January 2008	Recognised in profit and loss	Recognised in OCI (FCTR)	Recognised in OCI (Revaluation reserve)	Acquisition / disposal of Group entities	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

	1 January 2009	Recognised in profit and loss	Recognised in OCI (FCTR)	Recognised in OCI (Revaluation reserve)	Acquisition / disposal of Group entities	31 December 2009
Property, plant and equipment	3,551	54,043	375	(42,682)	(12)	15,275
Investment in associate and jointly controlled entity	36	(34)	(2)	-	-	-
Trade and other receivables	3,091	2,267	(85)	-	-	5,273
Other items	994	4,875	(91)	(26)	-	5,752
Tax loss carry-forwards	1,090	(1,054)	(36)	-	-	-
	8,762	60,097	161	(42,708)	(12)	26,300

Deferred tax liabilities:

	1 January 2008	Recognised in profit and loss	Recognised in OCI (FCTR)	Recognised in OCI (Revaluation reserve)	Acquisition / disposal of Group entities	31 December 2008
Property, plant and equipment	(10,549)	1,271	(86)	971	-	(8,393)
Investment in associate and jointly controlled entity	(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)

	1 January 2009	Recognised in profit and loss	Recognised in OCI (FCTR)	Recognised in OCI (Revaluation reserve)	Acquisition / disposal of Group entities	31 December 2009
Property, plant and equipment	(8,393)	12,590	559	(5,075)	(7,000)	(7,319)
Investment property	-	2,685	-	(74)	(10,060)	(7,449)
Investment in associate and jointly controlled entity	(19,534)	(873)	4,019	(6,538)	-	(22,926)
Other items	4,884	(2,572)	(556)	73	384	2,213
	(23,043)	11,830	4,022	(11,614)	(16,676)	(35,481)

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 6,538 thousand was recognised in other comprehensive income in relation to JSC Stantsiya Ekibastuzskaya GRES-2 in respect of the Group's share in the revaluation of property, plant and equipment as at 31 December 2009 (for the year ended 31 December 2008: EUR 469 thousand, out of which EUR 1,782 thousand related to the revaluation of property, plant and equipment of JSC Stantsiya Ekibastuzskaya GRES-2 as at 31 December 2008 and EUR 2,251 thousand related to change of income tax rate in Kazakhstan from 30 % to 15%).

A deferred tax liability in the amount of EUR 16,676 thousand were recognised during the reporting period in relation to acquired subsidiary – CJSC Electrolutch. A deferred tax asset in the amount of EUR 12 thousand was derecognised during the reporting period in relation to disposal of the subsidiary – JSC RAO UES INTERNATIONAL Ukraine.

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

11 Deferred tax assets and liabilities (continued)

and does not intend to reverse them in the foreseeable future. For the periods ended 31 December 2009 and 31 December 2008, the corresponding temporary tax differences were equal to EUR 145,694 thousand, EUR 115,503 thousand.

The deferred tax assets and liabilities, after offsetting, mature as follows:

	31 December 2009	31 December 2008
Deferred tax assets, including:	26,300	8,762
- Deferred tax assets to be recovered after more than 12 month	*22,091*	*6,367*
- Deferred tax assets to be recovered within 12 month	*4,209*	*2,395*
Deferred tax liabilities, including:	(35,481)	(23,043)
- Deferred tax liabilities to be recovered after more than 12 month	*(23,236)*	*(23,055)*
- Deferred tax liabilities to be recovered within 12 month	*(12,245)*	*12*

12 Other non-current assets

		31 December 2009	31 December 2008
Financial non-current assets			
Non-current loans issued (including outstanding interest)		28,371	81
	Less impairment provision	(61)	(56)
Non-current loans issued (including outstanding interest)- net		28,310	25
Non-current trade receivables		5,939	4,429
	Less impairment provision	(3,121)	(1,834)
Non-current trade receivables - net		2,818	2,595
Other non-current receivables		7,281	8,870
	Less impairment provision	(4,328)	(5,080)
Other non-current receivables - net		2,953	3,790
Available-for-sale investments		1,845	5,650
Long-term bank deposit		-	724
		35,926	**12,784**
Non-financial non-current assets			
Other non-current assets		235,083	134,970
		235,083	**134,970**
		271,009	**147,754**

In March 2009 the Group signed management agreements with JSC RusHydro and JSC FGC UES, which stated that the rights for shares of JSC OGK-1 were transferred to JSC INTER RAO UES for asset management in favour of JSC RusHydro and JSC FGC UES. The transfer did not result in the termination of JSC RusHydro and JSC FGC UES rights of ownership for these shares or transfer of significant influence to the Group.

As at 31 December 2009 non-current loans issued included EUR 28,303 thousand in respect of loan given by the Parent company to JSC OGK-1, the company under asset management (see Notes 31 (d), 32), with floating interest rate equal to refinancing rate of the Central Bank of Russian Federation plus 2.76% p.a. and maturity date of 25 December 2011.

As at 31 December 2009 available-for-sale investments included EUR 1,782 thousand in respect of investments in the shares of JSC Sangtudinskaya GES-1 (Tajikistan) (31 December 2008: EUR 5,586 thousand). The decrease in investments into JSC Sangtudinskaya GES-1 represents the impairment loss amounting to EUR 3,494 thousand. The impairment was due to the assessed low collectability of trade accounts receivables. In management's

12 Other non-current assets (continued)

opinion, the existing provision represents the best estimate of the impact of impairment as a result of the current economic conditions.

As at 31 December 2009 other non-current assets included EUR 231,505 thousand (31 December 2008: EUR 128,877 thousand) relating to construction of the second power generating block at Kaliningradskaya TEC-2 (see Note 21).

As at 31 December 2009 other non-current assets included EUR 1,370 thousand of prepayments on solidarity accounts and on individual accounts in non-state pension fund in respect of current employees (31 December 2008: EUR 1,599 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 2009	(1,834)	(56)	(5,080)	(6,970)
Provision for receivables impairment	(536)	(10)	-	(546)
Reclassification of current portion	(1,008)	-	-	(1,008)
Unwind of discount	6	2	516	524
Translation difference	251	3	236	490
At 31 December 2009	**(3,121)**	**(61)**	**(4,328)**	**(7,510)**

	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)**

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

13 Inventories

	31 December 2009	31 December 2008
Fuel production stocks	21,746	11,784
Spare Parts	16,184	15,086
Materials and consumables	13,334	11,583
Other inventories	5,980	7,668
	57,244	**46,121**

14 Accounts receivable and prepayments

		31 December 2009	31 December 2008
Financial assets:		**150,527**	**139,257**
Trade receivables		196,010	180,673
	Less impairment provision	(65,218)	(65,509)
Trade receivables - net		130,792	*115,164*
Other receivables		24,325	28,015
	Less impairment provision	(6,098)	(4,980)
Other receivables - net		18,227	*23,035*
Short-term loans issued (including outstanding interest)		1,514	545
	Less impairment provision	(6)	(66)
Short-term loans issued (including outstanding interest)		1,508	*479*
Dividends receivable		-	579
Non-financial assets:		**122,844**	**113,250**
Advances to suppliers and prepayments		23,655	32,104
	Less impairment provision	(995)	(1,204)
Advances to suppliers and prepayments - net		22,660	*30,900*
Short-term VAT recoverable		36,787	32,235
Taxes prepaid		63,397	50,115
		273,371	**252,507**
Impairment provision, total		(72,317)	(71,759)

As at 31 December 2009 included in the taxes prepaid is VAT in the total amount of EUR 62,822 thousand (31 December 2008: EUR 49,155 thousand).

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

	Trade receivables	Advances to suppliers and prepayments	Short-term loans issued (incl. interest)	Other receivables	Total provision
At 1 January 2009	(65,509)	(1,204)	(66)	(4,980)	**(71,759)**
Acquisition of subsidiaries	-	(16)	-	-	**(16)**
Provision for receivables impairment	(12,611)	(191)	(2)	(1,515)	**(14,319)**
Release of provision	6,948	363	-	169	**7,480**
Reclassification of current portion	1,008	-	-	-	**1,008**
Receivables written off during the year as uncollectible (provided as of year beginning)	2,667	-	61	36	**2,764**
Unwinding of discount	-	-	1	35	**36**
Foreign exchange gain	40	-	-	27	**67**
Translation difference	2,239	53	-	130	**2,422**
At 31 December 2009	**(65,218)**	**(995)**	**(6)**	**(6,098)**	**(72,317)**

14 Accounts receivable and prepayments (continued)

	Trade receivables	Advances to suppliers and prepayments	Short-term loans issued (incl. interest)	Other receivables	Total provision
At 1 January 2008	(66,588)	(1,204)	(59)	(4,887)	**(72,738)**
Provision for receivables impairment	(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**
Unwinding 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)**

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

At 31 December 2009	Trade receivables	Short-term loans issued (including interest)	Other receivables	Dividends receivables	Total
Not past due not impaired	92,849	1,503	8,385	-	**102,737**
Past due but not impaired	16,605	-	1,554	-	**18,159**
Past due and impaired	86,556	11	14,386	-	**100,953**
Total	**196,010**	**1,514**	**24,325**	-	**221,849**

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**

14 Accounts receivable and prepayments (continued)

As of 31 December 2009 accounts receivable of EUR 18,159 thousand (31 December 2008: EUR 15,738 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	31 December 2009	31 December 2008
Up to 3 month	16,621	13,728
3 to 6 month	714	864
6 to 12 month	824	1,146
Total	**18,159**	**15,738**

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	31 December 2009	31 December 2008
Up to 3 month	16,003	7,853
3 to 6 month	7,035	72,405
6 to 12 month	9,521	2,537
Over 12 months	68,393	-
Total	**100,952**	**82,795**

The Group does not hold any collateral as security.

15 Cash and cash equivalents

	31 December 2009	31 December 2008
Cash at bank and in hand	84,225	107,526
Foreign currency accounts	66,247	45,028
Bank deposits with maturity of three months or less	39,724	121,285
	190,196	**273,839**

15 Cash and cash equivalents (continued)

These following tables provide information about the cash and cash equivalent balances of the Group. The balances are neither past due nor impaired:

Financial inctitution	Credit rating	Rating agency	31 December 2009	31 December 2008
JSC Sberbank	BBB/Stable/F3	Fitch	58,368	38,263
CJSC Peresvet Bank	Unrated	Unrated	30,899	-
JSC Gazprombank	BB/ Stable /B	Standard&Poor's	20,702	2,827
JSC Petrocommerzbank	B+/Stable/B	Standard&Poor's	11,524	-
JSC Alfa-Bank	B+/ Stable /B	Standard&Poor's	10,866	1,074
JSC Evrofinance Mosnarbank	B/Positive/B	Fitch	7,602	-
JSC Russ-Bank	Unrated	Unrated	7,434	-
JSC NOMOS-BANK	B+/Positive/B	Fitch	7,175	96,578
SEB AB	A/ Negative /A-1	Standard&Poor's	5,730	9,093
SAO Commerzbank EURASIJA	B-/ Negative /B	Fitch	4,880	44,220
LLC HSBC Bank RR	Unrated	Unrated	4,220	41,022
SC Vnesheconombank	BBB/ Stable /F3	Fitch	4,117	9,913
PLC Standard Bank	B+/Stable/B	Fitch	2,600	-
PLC Nordea Bank Finland	AA-/ Stable /A-1	Standard&Poor's	2,252	2,783
JSC Bank of Georgia	B/ Stable /B	Standard&Poor's	2,113	2,651
JSC Gazenergobank	Unrated	Unrated	1,686	-
JSC ORGRESBANK JSB	BBB+/Negative/F2	Fitch	-	12,118
JSC Tatecobank	Unrated	Unrated	-	3,620
Commerzbank AG	A/ Negative /A-1	Standard&Poor's	-	3,022
JSC Tavrichesky	Unrated	Unrated	-	2,799
Other	-	-	8,028	3,856
			190,196	273,839

Bank deposits with original maturity of three months or less at 31 December 2009

Bank	Interest rate	Amount of deposits
JSC Gazprombank	4.00%	15,903
JSC Petrocommerzbank	3.50%	11,524
SAO Commerzbank EURASIJA	3.50%	4,149
LLC HSBC Bank RR	3.75%	4,148
SEB AB	4.65%	4,000
		39,724

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

Bank	Interest rate	Amount of deposits
LLC HSBC Bank RR	14.00%	24,131
SAO Commerzbank EURASIJA	14.00%	24,131
LLC HSBC Bank RR	19.00%	16,891
JSC NOMOS-BANK	8.00%	14,478
SEB AB	5.00%	8,751
JSC NOMOS-BANK	9.25%	8,446
JSC NOMOS-BANK	10.50%	7,239
JSC ORGRESBANK JSB	14.00%	7,239
JSC ORGRESBANK JSB	13.75%	4,826
JSC NOMOS-BANK	8.00%	2,413
JSC Tavrichesky	14.00%	2,413
JSC TBC Bank	5.00%	327
		121,285

16 Other current assets

	31 December 2009	31 December 2008
Restricted cash	6,180	22,800
Deposits with maturity of 3-12 months	691	-
Short-term derivative financial instruments	-	9,402
Other	2,593	1,276
	9,464	33,478

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 3,426 thousand and EUR 2,224 thousand as at 31 December 2009 and 31 December 2008, respectively.

Restricted cash balances include cash deposited in CJSC ACBA (collateral security in favour of AREVA Energietechnik GmbH on the equipment supply agreement) and VTB Bank Armenia (collateral security in favour of EBRD on the loan agreement) in the amount of EUR 2,219 thousand and EUR 496 thousand respectively (31 December 2008: nil).

As at 31 December 2008 included in the restricted cash is the amount of EUR 20,526 thousand that represents the irrevocable letter of credit opened by The Parent Company at JSC VTB Bank in favour of JSC "Technopromexport" to fulfil its obligations under a construction contract. According to the agreement with JSC "Technopromexport" the building of second power generating block had to be finished in 2nd quarter of 2010.

Short-term derivative financial instruments represent the fair value of a foreign currency forward related to a foreign currency loan obtained in June 2008.

17 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. 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 the beginning of the earliest period presented (see Note 3).

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

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

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

17 Equity (continued)

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 entities merged	60,777
Reorganization of the Company	(5,074,658)
Purchase of treasury shares	10,452
Balance at 31 December 2008	**(4,433,654)**

Balance at 1 January 2009	**(4,433,654)**
Decrease in nominal value of share capital	4,241,939
Balance at 31 December 2009	**(191,715)**

Share capital

	31 December 2009	31 December 2008
Number of ordinary shares issued and fully paid (in units)	2,274,113,845,013	2,274,113,845,013
Par value (in Russian roubles ("RR")	0.0281	0.10

To comply with the statutory share capital requirements the shareholders of the Company have approved the reduction of nominal value of ordinary shares of the Company from RUR 0,1 per share to RUR 0.02809767 per share.

The decrease of nominal value of share capital was translated from Parent company's functional currency (Russian rouble) into presentation currency using the historical exchange rate of 36.8857 RUR / EUR. To account for the decrease in nominal value of share capital the corresponding increase in merger reserve was recognized.

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**

	Issued shares	Treasury shares	Total
1 January 2009	**2,274,113,845**	**(98,064,455)**	**2,176,049,390**
31 December 2009	**2,274,113,845**	**(98,064,455)**	**2,176,049,390**

The total number of the Company's ordinary shares authorised for issue as at 31 December 2009 and 31 December 2008 was 4,631,258,360 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 statement of financial position 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 RUR 21,605,446 thousand or EUR 584,389 thousand.

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

The difference of EUR 5,074,658 thousand between the nominal value of the shares issued in the amount of EUR 6,046,388 thousand and non-controlling 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 581,930 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 RUR 906,004 thousand or EUR 24,556 thousand. As a result of the conversion these shares became treasury shares of the Group.

- On 1 May 2008, as a result of the merger of JSC "North-West Thermal Power Plant" and JSC "RAO UES INTERNATIONAL" into the Company, the ordinary shares of JSC "North-West Thermal Power Plant" held on the date of the merger by one of the subsidiaries of JSC "RAO UES INTERNATIONAL" were converted into 83,421,133 thousand ordinary shares of the Company and became treasury shares in the Group with a nominal value of RUR 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 RUR 9,248,118 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 statement of financial position of JSC "INTER RAO UES Holding", third party promissory notes with a nominal value of RUR 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 RUR 558,329 thousand or EUR 15,101 thousand.

As at 31 December 2008 as well as at 31 December 2009 the Group held 98,064,455 thousands treasury shares (RUR 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 26 June 2008 JSC "Ispytatelniy Stend Ivanovskoy GRES" (an entity combined in these financial statements with effect from the beginning of the earliest period presented, see Note 3) declared dividends for the year ended 31 December 2007 of RUR 0.025 or EUR 0.0006 per share for the total of RUR 9,245 thousand or EUR 252 thousand, out of which RUR 7,734 thousand or EUR 218 thousand were payable to RAO UES and accounted as a decrease in the merger reserve and RUR 1,511 thousand or EUR 34 thousand were payable to minorities.

17 Equity (continued)

On 29 June 2009 JSC Ispytatelniy Stend Ivanovskoy GRES, the Group entity, declared dividends for the year 2008 of RUR 0.074 or EUR 0.002 per share for the total of RUR 26,755 thousand or EUR 612 thousand, out of which RUR 4,591 thousand or EUR 105 thousand were paid to minorities.

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

On 25 June 2010 the annual shareholders meeting of the Parent company approved the decision to pay no dividends for the year ended 31 December 2009 (see Note 34).

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

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

Hedge reserve. In April 2009 the Parent company entered into an interest rate swap agreement in respect of future payments of USD 109 million within the period 13 May 2009 till 12 November 2013 for the purposes of hedging future interest payments under the long-term loan agreement with LIBOR floating interest rate from SC Vnesheconombank (see Note 19 (iv)). The payment period according to the agreement is six months, the first repayment date is 12 November 2009. As at 31 December 2009 the gain on the above hedge transaction was recognised in other comprehensive income of the combined and consolidated statement of comprehensive income and amounted to EUR 106 thousand (as at 31 December 2008: nil), the ineffective part of the hedge transaction amounted to EUR 2 thousand was recognised in operating expenses of the combined and consolidated statement of comprehensive income.

18 Earnings per share

The calculation of earnings per share is based upon the profit for the period and the weighted average number of ordinary shares outstanding during the year, calculated as shown below. The dilutive effect of outstanding options (Note 31) is reflected as share dilution in the computation of diluted earnings per share.

	The year ended 31 December 2009	The year ended 31 December 2008
Weighted average number of shares for basic earnings per share	2,176,049,389,090	1,307,293,018,456
Effect of dilution:		
Share options	8,545,736,951	-
Weighted average number of shares adjusted for effect of dilution	2,184,595,126,041	1,307,293,018,456
(Loss) / Profit attributable to the shareholders of the Company	(280,788)	77,947
Basic earnings per ordinary share for (loss)/profit attributable to the shareholders of the Company (EUR)	(0.0001290)	0.00006
Diluted earnings per ordinary share for (loss)/profit attributable to the shareholders of the Company (EUR)	(0.0001285)	0.00006

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 2008 year. Dilution effect is caused by option programme (see Note 31).

19 Loans and borrowings

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

	Currency	Effective interest rate	31 December 2009	31 December 2008
JSC Sberbank (xii)	RUR	15.40%	230,477	-
SC Vnesheconombank (iv)[1]	USD	Libor+6%	113,621	115,562
JSC Sberbank (ii)	RUR	10.75%	46,095	48,261
JSC Gazprombank (vi)	RUR	14.50%	38,735	-
JSC Russ-Bank (ix)	RUR	13.75%	34,572	-
SC Vnesheconombank (viii)[2]	RUR	14.00%	34,359	-
CJSC Busines-Alians (xiii)	RUR	15.02%	31,128	-
PLC VTB Bank Europe[2]	USD	Libor+2%	29,044	35,448
SC Vnesheconombank (x)	RUR	CBR+2.75%	28,303	-
JSC Gazprombank (vii)	RUR	14.50%	19,591	-
CJSC VTB Bank Armenia	USD	12.00%	16,266	21,154
EBRD (xi)[2]	EUR	Euribor+7%	15,223	-
JSC VTB Bank Georgia	USD	14.00%	9,755	9,869
Government of Armenia (v)	JPY	12.00%	7,468	2,675
FIBI BANK (Switzerland)	USD	3.50%	6,971	7,090
Government of Armenia (subloaned-KfW) (iii)	EUR	18.00%	4,535	4,467
Ministry of Finance, Georgia (subloaned-IDA/WB) (i,a)	USD	20.00%	2,681	700
Ministry of Defense , Armenia	AMD	12.00%	2,490	7,471
Ministry of Finance, Georgia (subloaned-EBRD) (i,b)	USD	20.00%	2,307	603
Ministry of Finance, Georgia (subloaned-KfW) (i,c)	EUR	20.00%	1,060	277
Other			17,417	9,730
Total long-term borrowings			**692,098**	**263,307**
Less: current portion of long-term loans and borrowings and long-term financial lease			(106,305)	(22,111)
			585,793	**241,196**

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

As at 31 December 2009 the estimated fair value of total non-current debts (including the current portion) was EUR 684.05 million (31 December 2008: EUR 262.2 million), which is estimated by discounting the future contractual cash flows at the estimated current market interest rates available to the Group for similar financial instruments.

(i) As at 31 December 2009 one of the Group entities, Mtkvari Energy LLC, had three loans of total carrying value of EUR 6,048 thousand obtained by the predecessor of this entity and acquired by the Group as a result of the acquisition of this entity in 2003.

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.

[1] The Group hedged the risks related to LIBOR floating interest rate of the SC Vnesheconombank loan nominated in USD(see Note 17).

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

19 Loans and borrowings (continued)

The loans currently are payable to:

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

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

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

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

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

The Group considered the ability of Mtkvari Energy LLC 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 2013 with the last payment to be made in 2064. The amortised cost of these loans has been calculated by taking into account the future cash flows associated with the repayment of these loans, as assessed by the Group, and discounting them at a rate of 20%, approximating the equivalent market yield on loan borrowings by Mtkvari Energy LLC 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 Energy LLC loans discussed above, in the amount of EUR 4,655 thousand in the period ended 31 December 2009 and EUR 1,310 thousand charge within interest expense in the period ended 31 December 2008.

(ii) As at 31 December 2009 the Parent Company had a loan in the amount of RUR 2,000 million. The loan is to be repaid on 23 April 2010. The Parent Company pledged to JSC Sberbank property rights in respect of certain electricity sales contract with total value of USD 11.5 million.

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

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

The Group recognised a charge within interest expense in respect of the amortization of the prior period discounting for the Armenian loans considered above in the amount of EUR 781 thousand and EUR 682 thousand in the period ended 31 December 2009 and 31 December 2008, respectively.

(iv) As at 31 December 2009 the Parent Company had a loan in the amount of USD 163 million with an interest rate of LIBOR+6%, which was obtained for the purpose of financing the purchase of Freecom Trading Limited. The loan is to be repaid on 12 November 2013.

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

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

19 Loans and borrowings (continued)

(vi) On 29 October 2009 the Parent Company obtained a credit lines in the total amount of RUR 1,681 million with a fixed interest rate of 14.5% for the following finance purposes: issuance of loans (deposits) to third parties, investments in share capitals and purchases of shares on secondary market. The loan is to be repaid on 29 August 2014.

(vii) On 20 October 2009 the Parent Company obtained credit lines in the amount of RUR 850 million with a fixed interest rate of 14.5%. The loan is to be repaid on 20 October 2014.

(viii) In March 2009 the Parent Company obtained a loan in the amount of RUR 1,491 million and the total amount of credit limit of RUR 3.7 billion with a fixed interest rate equalled to 14% for the purposes of construction of second power generating block on Sochinskaya TPS, one of the Parent Company branches. The loan is to be repaid on 30 September 2018.

(ix) In June 2009 the Parent company obtained a loan in the amount of RUR 1.5 billion with a fixed interest rate equalled to 13.75% for the purposes of financing of current operating activities. The loan is to be repaid on 11 January 2011.

(x) On 24 November 2009 the Parent company obtained a credit in the amount RUR 1,228 million and total amount of credit limit of RUR 8 billion with a floating interest rate CBR+2.75% for the purpose of construction Urengoyskaya GES, one of the JSC OGK-1 branches (see Note 12).

(xi) As at 30 April 2009 one of the Group entities CJSC Elektricheskiye seti Armenii obtained a credit line of EUR 15.2 million and the total amount of credit limit of EUR 42 million with a interest rate equalled to EURIBOR+7% for the purposes of refinancing loan received from other bank and financing of current operating activities.

(xii) As at 31 August 2009 the Parent company obtained a credit line in the amount of RUR 10 billion with a fixed interest rate equalled to 15.4% for the purposes of refinancing loans received from other banks. The loan is to be repaid on 30 August 2014.

(xiii) The liability to CJSC Busines-Aliance in the amount of EUR 31,128 thousand represents finance lease liabilities for equipment for the second power generating block at Sochinskaya TPS, one of the Parent Company branches. The power generating block was set into operation at the end of 2009 financial year. Under the terms of the lease agreement the lessor imposes all the costs arising from the change in floating interest rate (EURIBOR) and/or currency rate (SEK/EUR and RUR/EUR) on the Parent company

Gross finance lease liabilities – minimum lease payments

	31 December 2009	31 December 2008
Less than one year	12,928	2,316
Between one and five years	25,627	224
After five years	4,969	-
	43,524	2,540
Future finance charges on finance leases	(12,212)	(50)
Present value of finance lease liabilities	**31,312**	**2,490**

The present value of finance lease liabilities is as follows:

	31 December 2009	31 December 2008
Less than one year	9,102	2,276
Between one and five years	17,603	214
After five years	4,607	-
	31,312	2,490

Maturity table:

	31 December 2009	31 December 2008
Due for repayment		
Between one and two years	69,819	93,584
Between two and five years	478,756	143,037
After five years	37,218	4,575
	585,793	241,196

19 Loans and borrowings (continued)

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.

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

	Effective interest rate	31 December 2009	31 December 2008
Current loans and borrowings	12.00%	15,211	181,641
Current portion of non-current loans and borrowings	3.5%-18.00%	97,203	19,835
Current portion of finance lease liability	10.58%-16.52%	9,102	2,276
Total		**121,516**	**203,752**

As at 31 December 2009 several bank loans are collateralised by properties with a carrying amount of EUR 3,087 thousand (31 December 2008: EUR 813 thousand) – see Note 7 (c). The amount of the loans as at 31 December 2009 is EUR 3,313 thousand (31 December 2008: EUR 3,526 thousand).

The Group has the following undrawn borrowing facilities:

	31 December 2009	31 December 2008
Floating rate:		
Expiring within one year	176,130	35,448
Expiring beyond one year	-	24,131
	176,130	*59,579*
Fixed rate:		
Expiring within one year	64,431	12,716
Expiring beyond one year	1	12,625
	64,432	*25,341*
Total	**240,562**	**84,920**

20 Accounts payable and accrued liabilities

	31 December 2009	31 December 2008
Financial liabilities		
Trade payables	108,438	96,831
Short-term derivative financial instruments	1,718	4,267
Other payables and accrued expenses	21,827	10,055
Total	**131,983**	**111,153**
Non-financial liabilities		
Advances received	7,129	11,405
Staff payables	7,920	8,747
Other payables	3,898	4,139
Total	**18,947**	**24,291**
	150,930	**135,444**

Short-term derivative financial instruments recognized as at 31 December 2009 in the amount of EUR 1,718 thousand represent the fair value of open electricity derivatives of RAO Nordic Oy for the purposes of hedging of future sales. Short-term derivative financial instruments recognized as at 31 December 2008 represent the fair value of open foreign currency forwards related to foreign currency sales of the Parent company in the amount of EUR 3,834 thousand and also represent the fair value of open electricity derivatives of RAO Nordic Oy in the amount of EUR 433 thousand.

21 Other non-current liabilities

	31 December 2009	31 December 2008
Financial liabilities		
Long-term accounts payable	-	609
Long-term derivative financial instruments - liabilities	76	-
Total financial liabilities	**76**	**609**
Non-financial liabilities		
Pensions liabilities	3,078	3,081
Direct financing	216,701	114,520
Government grants	6,279	3,914
Other long-term liabilities	1,416	-
Total non – financial liabilities	**227,474**	**121,515**
Total	**227,550**	**122,124**

Direct financing include financing from JSC "Mejregionenergostroy" in the amount of EUR 216,701 thousand (31 December 2008: 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, JSC "Mejregionenergostroy" will finance the capital expenditure through payments to a special bank account up to a limit of EUR 514,007 thousand. The Parent Company will receive remuneration in the amount limited to EUR 3,478 thousand (including VAT), as defined in the investment contract, in connection with management of the construction project. After construction is completed (expected in September 2011), the title of ownership will be transferred to JSC "Mejregionenergostroy". The balances related to the construction of the second power generating block at Kaliningradskaya TEC-2 are disclosed in Note 12.

Government grants originated from the low interest loan received from Governement of Armenia (see Note 19, (v)).

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 Statement of financial position:

	31 December 2009	31 December 2008
Present value of defined benefit obligations	4,918	4,047
Less: Fair value of plan assets	-	-
Deficit in plan	4,918	4,047
Net actuarial loss not recognised in the statement of financial position	(1,209)	(481)
Unrecognised past service costs	(631)	(485)
Pension liabilities in the statement of financial position	3,078	3,081

Amounts recognised in the Combined and consolidated Statement of comprehensive income:

	Year ended 31 December 2009	Year ended 31 December 2008
Current service cost	322	349
Interest cost	334	286
Recognised actuarial loss	14	34
Recognised past service cost	183	86
Total	853	755
Curtailment and settlement gain	(159)	(152)
Total	694	603

21 Other non-current liabilities (continued)

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

	31 December 2009	31 December 2008
Present value of defined benefit obligations as at the beginning of the period	4,047	4,525
Current service cost	322	349
Interest cost	334	286
Actuarial loss	893	(36)
Past service cost	347	-
Benefits paid	(561)	(119)
Other (Curtailment gain)	(300)	(340)
Translation difference	(164)	(618)
Present value of defined benefit obligations as at the end of the period	**4,918**	**4,047**

Plan assets

	31 December 2009	31 December 2008
Employer contributions	561	119
Benefits paid	(561)	(119)
Fair value of plan assets as at the end of the period	-	-

Changes in the pension liabilities are as follows:

	31 December 2009	31 December 2008
Pension liabilities at start of the year	3,081	3,062
Net expense recognised in the statement of operations	694	603
Benefits paid	(561)	(119)
Translation difference	(136)	(465)
Pension liabilities at end of period	**3,078**	**3,081**

Principal actuarial assumptions are as follows:

	31 December 2009	31 December 2008
Discount rate	9.00%	9.00%
Salary increase	8.00%	8.50%
Inflation	6.50%	7.00%
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:

	31 December 2009	31 December 2008
Defined benefit obligation	4,918	4,047
Plan assets	-	-
Deficit in plan	4,918	4,047
Experience adjustments on plan liabilities, loss	(1,017)	(361)
Experience adjustments on plan assets	-	-

22 Taxes payable

	31 December 2009	31 December 2008
Value added tax (including deferred)	7,548	8,494
Fines and interest	2,509	5,150
Property tax	2,461	2,889
Other taxes	3,132	4,251
	15,650	**20,784**

22 Taxes payable (continued)

Included in value added tax payable is EUR 3,669 thousand of deferred VAT which only becomes payable to the authorities when the underlying receivables balances are either recovered or written off (31 December 2008: EUR 4,015 thousand).

23 Revenue

	The year ended 31 December 2009	The year ended 31 December 2008
Electricity and capacity	1,530,652	1,657,064
Government Grants / Subsidies	1,238	100
Other revenue	11,523	14,373
	1,543,413	**1,671,537**

Electricity and capacity revenue includes EUR 247.7 million (2008: EUR 210.5 million) revenue from sales transactions through JSC CFR - the utility market intermediary in the Russian Federation and EUR 158 million (2008: EUR 162 million) revenue from sales to NordPool - the Nordic power exchange.

Other operating income

	For the year ended 31 December 2009	For the year ended 31 December 2008
Rent income	4,923	2,254
Electricity derivatives	4,483	18,233
Management fee (JSC OGK-1)	2,750	-
Gain on disposal of subsidiaries (Note 6)	814	-
Insurance compensation	684	8,741
Taxes reimbursement	-	6,475
Other	8,149	17,575
	21,803	**53,278**

24 Operating expenses

	The year ended 31 December 2009	The year ended 31 December 2008
Purchased electricity and capacity	777,627	892,461
Provision for impairment of property, plant and equipment	384,116	5,847
Fuel Expense	230,449	141,181
Employee benefit expenses and payroll taxes	131,134	104,704
Transmission fees	97,779	110,457
Depreciation of property, plan and equipment	77,268	89,760
Repairs and maintenance	35,646	36,426
Taxes other than on income	24,633	27,699
Provision for impairment of investment property	12,437	-
Consulting, legal and auditing services	9,874	9,076
Impairment of Goodwill - Charge (release)	7,862	-
Operating lease expenses	7,268	4,763
Insurance expenses	6,904	7,169
Provision for impairment of account receivables - charge (release)	6,825	1,740
Business trip and field travel expenses	6,760	7,233
Expenses from derivatives trading operations on the electricity market	6,324	12,552
Agency fees	5,800	13,817
Fees and penalties, other than tax	4,274	4,076
Bank services	4,270	4,769
Communication services	4,120	4,136
Other provisions - charge (release)	3,965	822
Charity donations	3,156	2,520
Security expenses	2,963	2,778
Material expenses (office maintenance)	2,590	2,497
Other materials for production purposes	2,276	3,355
Advertising	2,164	4,317
Loss/(gain) on sale or write-off of property, plant and equipment	1,741	(1,110)
Amortisation of Intangible assets	1,654	1,297
Representative expenses	1,242	915
Brokerage charges	1,142	1,564
Research and development	850	825
Social Expenditure	807	2,624
Management fee	664	-
Water rectification expenses	407	-
Depreciation of investment property	257	-
Custom taxes	343	502
Write off of bad debt which was not previously provided	(50)	67
Other operating expenses	22,827	25,294
	1,890,368	1,526,133

25 Finance income and expenses

Finance income	The year ended 31 December 2009	The year ended 31 December 2008
Interest income	21,551	10,169
Dividend income	-	3,233
	21,551	13,402

Finance expenses	The year ended 31 December 2009	The year ended 31 December 2008
Interest expense	73,106	29,381
Foreign exchange loss, net	53,894	32,783
	127,000	62,164

Included in foreign exchange loss for 2008 year is the net amount of fair value gains and losses on foreign currency forwards recognised in the combined and consolidated statement of comprehensive income during the current period. The gain arising from fair value forward contract related to a foreign currency loan recognised in the profit and loss in 2008 amounted to EUR 9,402 thousand (see Note 16). The loss recognised in the profit or loss in 2008 that arises from forward contracts related to foreign currency sales amounted to EUR 3,834 thousand (see Note 20).

26 Income tax expense

	The year ended 31 December 2009	The year ended 31 December 2008
Current tax expense	(19,075)	(31,706)
Deferred tax benefit / (expense)	71,927	(31,716)
Release / (accrual) of provision for income tax	7,013	(5,061)
	59,865	(68,483)

The Parent Company's applicable tax rate is the corporate income tax rate of 20% (2008: 24%). The income tax rate in Finland is 26% (2008: 26%), in Georgia is 15% (2008: 15%), in Lithuania is 20% (2008: 15%), in Armenia is 20% (2008: 20%) and in Kazakhstan is 20% (2008: 30%). 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.

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

	The year ended 31 December 2009	The year ended 31 December 2008
(Loss) / profit before profit tax	(342,121)	155,363
Theoretical profit tax charge at 20% (2008: 24%)	68,424	(37,287)
Effect from change in profit tax rate	-	(1,404)
Effect of different tax rates	(4,130)	(1,094)
Effect of different tax base (CJSC Moldavskaya GRES)	(11,636)	(4,587)
Non-recognised deferred tax assets movements and recognition of previously unrecognised tax benefits	(4,193)	(2,478)
Provision for income tax release/(accrual)	7,013	(5,061)
Effect from acquisitions	14,329	-
Tax effect of items which are not deductible or assessable for taxation purposes, net	(9,942)	(16,572)
	59,865	(68,483)

The tax system in Transnistria, Moldova, where CJSC Moldavskaya GRES operates, is based on revenue at a rate of 6.4% (for the year ended 31 December 2008: 8.2%).

27 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 2009	Loans and receivables	Derivatives used for hedging	Available for sale	Total
Assets as per Combined and consolidated Statement of financial position				
Available for sale financial assets	-	-	1,845	1,845
Derivative financial instruments	-	-	-	-
Trade and other receivables excluding prepayments	184,608	-	-	184,608
Restricted cash	6,180	-	-	6,180
Current portion of long-term deposits	691	-	-	691
Cash and cash equivalents	190,196	-	-	190,196
Total assets	**381,675**	-	**1,845**	**383,520**

31 December 2009	Liabilities at fair value through profit and loss	Other financial liabilities at amortised cost	Finance lease liabilities	Total
Liabilities as per Combined and consolidated Statement of financial position				
Borrowings (excluding finance lease liabilities)	-	675,997	-	675,997
Finance lease liabilities	-	-	31,312	31,312
Derivative financial instruments	1,794	-	-	1,794
Trade and other payables excluding taxes	-	130,265	-	130,265
Total liabilities	**1,794**	**806,262**	**31,312**	**839,368**

31 December 2008	Loans and receivables	Assets at fair value through profit and loss	Available for sale	Total
Assets as per Combined and consolidated Statement of financial position				
Available for sale financial assets	-	-	5,650	5,650
Derivative financial instruments	-	9,402	-	9,402
Trade and other receivables excluding prepayments	145,667	-	-	145,667
Restricted cash	22,800	-	-	22,800
Deposits with maturity exceeding 12 months	724	-	-	724
Cash and cash equivalents	273,839	-	-	273,839
Total assets	**443,030**	**9,402**	**5,650**	**458,082**

27 Financial instruments and financial risk factors (continued)

31 December 2008	Liabilities at fair value through profit and loss	Other financial liabilities at amortised cost	Finance lease liabilities	Total
Liabilities as per Combined and consolidated Statement of financial position				
Borrowings (excluding finance lease liabilities)	-	442,458	-	442,458
Finance lease liabilities	-	-	2,490	2,490
Derivative financial instruments	4,267	-	-	4,267
Trade and other payables excluding taxes	-	107,495	-	107,495
Total liabilities	**4,267**	**549,953**	**2,490**	**556,710**

(a) Credit risk

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

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

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

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

31 December 2009

	Russia	Armenia	Georgia	Lithuania	Moldova	Finland	Other	Total
Restricted cash	-	2,715	-	29	-	3,426	10	**6,180**
Trade receivables	77,166	24,485	18,459	1,469	3,009	5,904	300	**130,792**
Other receivables	8,350	2,347	2,872	864	1,684	172	3,446	**19,735**
Non-current loans issued	28,303	-	-	7	-	-	-	**28,310**
Non-current receivables	3,661	25	2,085	-	-	-	-	**5,771**
Current portion of long-term deposits	691	-	-	-	-	-	-	**691**
Cash and cash equivalents	169,921	769	5,810	5,730	3,703	2,151	2,112	**190,196**
Total	**288,092**	**30,341**	**29,226**	**8,099**	**8,396**	**11,653**	**5,868**	**381,675**

27 Financial instruments and financial risk factors (continued)

31 January 2008

	Russia	Armenia	Georgia	Finland	Lithuania	Moldova	Other	Total
Derivative financial instruments	9,402	-	-	-	-	-	-	**9,402**
Restricted cash	20,526	-	-	2,224	40	-	10	**22,800**
Trade receivables	52,711	28,473	18,926	6,627	2,127	6,085	215	**115,164**
Other receivables	6,931	2,402	1,744	6,423	1,485	1,355	3,753	**24,093**
Non-current loans issued	8	-	-	-	17	-	-	**25**
Non-current receivables	4,447	46	1,272	-	580	-	40	**6,385**
Deposits with maturity exceeding 12 months	724	-	-	-	-	-	-	**724**
Cash and cash equivalents	250,684	608	3,950	5,806	9,093	3,140	558	**273,839**
Total	**345,433**	**31,529**	**25,892**	**21,080**	**13,342**	**10,580**	**4,576**	**452,432**

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 15) 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 2009 receivables potentially involving credit risks for the Group consisted mainly of trade receivables in the amount of EUR 133,610 thousand (31 December 2008: EUR 117,759 thousand), and other receivables in the amount of EUR 50,998 thousand (31 December 2008: EUR 27,908 thousand). The total sum of receivables as at 31 December 2009 was EUR 184,608 thousand (as at 31 December 2008: EUR 145,667 thousand).

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

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

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 2009	Nominal value	Provision for impairment of accounts receivable	Carrying amount	Share in total, %
A	73,797	(2)	73,795	40%
B'	54,922	(5,260)	49,662	27%
B''	24,869	(6,064)	18,805	10%
B'''	12,356	(6,718)	5,638	3%
C	56,650	(55,970)	680	0%
Other small debtors (A class)	422	-	422	0%
Loans issued to employees	7,921	(4,757)	3,164	2%
Related parties (A class)	32,503	(61)	32,442	18%
Total	**263,440**	**(78,832)**	**184,608**	**100%**

27 Financial instruments and financial risk factors (continued)

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

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

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.

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. Group entities also use a wide 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 (JSC OGK-1, Khramesi I and Khramesi II), debt of associate JSC Industrial Power Company 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 16 and 20).

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

27 Financial instruments and financial risk factors (continued)

At 31 December 2009	EUR	USD	Other	Total
Trade and other receivables (excluding prepayments)	54,311	203,396	1,949	**259,656**
Cash and cash equivalents	34,565	30,188	3,278	**68,031**
Restricted cash	2,715	-	-	**2,715**
Available - for - sale financial assets	-	3	13	**16**
Derivative financial instruments (assets)	-	-	-	**-**
Loans and borrowings (excluding finance lease liabilities)	(57,567)	(325,192)	(7,542)	**(390,301)**
Finance lease liabilities	(23,991)	-	-	**(23,991)**
Derivative financial instruments (liabilities)	-	(76)	-	**(76)**
Trade and other payables (excluding taxes)	(11,373)	(25,052)	(11,575)	**(48,000)**
Net foreign currency position	**(1,340)**	**(116,733)**	**(13,877)**	**(131,950)**

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

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 the year ended 31 December 2009 would have been an additional loss EUR 1,837 thousand or EUR 14,007 thousand in accordance with positive and negative scenario, respectively.

	USD /EUR	RUR /USD	RUR /EUR	AMD /USD	AMD /EUR	AMD /JPY	GEL /USD	GEL /EUR	GEL /AMD
Upper level	(12.6)%	9.0%	(6.0)%	1.8%	(11.3)%	(5.7)%	(1.2)%	(13.6)%	2.3%
Lower level	1.9%	(12.3)%	(11.8)%	12.9%	14.6%	18.7%	6.8%	8.8%	4.9%

The expected deviations were based on the calculation of possible changes 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 to confirmation by the Parent Company. Management applies the same policy in making decisions concerning the conditions of raising loans and borrowings subsidiaries.

27 Financial instruments and financial risk factors (continued)

As at 31 December 2009, the variable rate debt, represented by loans with LIBOR, EURIBOR linked interest rates, amounted to EUR 159,220 thousand (31 December 2008: EUR 316,048 thousand). If interest rates on that category of borrowings at that date had been 105 basis points per annum higher/lower, with all other variables held constant, the hypothetical effect on income for the year ended 31 December 2009 would have been a EUR 1,337 thousand loss/profit (for the year ended 31 December 2008: EUR 3,034 thousand loss/profit, with estimated LIBOR linked interest rate variance as 120 basis points per annum higher/lower).

As at 31 December 2009, the variable rate debt, represented by loans with CBR linked interest rates, amounted to EUR 28,339 thousand (31 December 2008: nil). If interest rates on that category of borrowings at that date had been 380 basis points per annum higher/lower, with all other variables held constant, the hypothetical effect on income for the year ended 31 December 2009 would have been a EUR 862 thousand loss/profit (for the year ended 31 December 2008: nil).

(c) Liquidity risk

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

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

	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	214,999	128,578	608,375	85,386	133,310	1,170,648
Trade and other payables	130,265	-	-	-	-	130,265
Finance lease payables	12,928	7,117	18,510	4,969	-	43,524
Derivative financial instruments obligations	1,718	-	76	-	-	1,794
Total at 31 December 2009	**359,910**	**135,695**	**626,961**	**90,355**	**133,310**	**1,346,321**

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 20 years	Over 20 years	Total
Loans and borrowings	268,043	156,234	170,255	33,892	149,615	778,039
Trade and other payables	104,825	245	99	-	-	105,169
Finance lease payables	2,316	198	26	-	-	2,540
Derivative financial instruments obligations	4,267	-	-	-	-	4,267
Total at 31 December 2008	379,451	156,677	170,380	33,892	149,615	890,015

(d) Capital management

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

The Group monitors capital on the basis of a number of ratios, including gearing ratio, based on the statutory financial statements of JSC "INTER RAO UES" and the management accounts of its subsidiaries prepared according to statutory requirements. As at 31 December 2009 the Group was in compliance with the gearing ratios imposed by loan agreements held with certain banks.

The Group is subject to the following externally imposed capital requirements that have been established for joint stock companies by the legislation of the Russian Federation:

- share capital cannot be lower than 1,000 minimum wages at the date of the company registration;
- if share capital is greater than statutory net assets of the entity, then the share capital must be reduced to a value not exceeding net assets;
- if the minimum allowed share capital is greater than statutory net assets, then it is necessary to enter liquidation.

As at 31 December 2009, the Group was in compliance with the above share capital requirements.

(e) Electricity derivatives

The Group is exposed to financial risk in relation to electricity derivative instruments traded on Nord Pool by RAO Nordic Oy. The company has a risk policy in place to ensure that gains and losses on those derivatives are within acceptable limits. The company accepts the risk related to open electricity derivatives with an aggregate amount of 80% the defined risk capital of EUR 5 million. The company operates "stop loss" and "take profit" positions to limit potential losses and gains to EUR 2 million and EUR 4 million. If the limits are reached, all open risk positions must be closed and the loss or profit will be realised. Other procedures applied within the risk management measures are the setting of maximum volume of open positions on electricity derivatives and the use of valuation techniques of trading portfolio such as stress-test, Value-at-Risk, etc.

(f) Fair values

Fair value has been determined either by reference to the market value at the end of the reporting period 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.

28 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 December 2009	31 December 2008
Less than one year	4,054	2,173
Between one and five years	3,961	1,573
Over five years	14,507	13,112
	22,522	16,858

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

The Group also has lease agreements which have indefinite periods and which are not included in the table above. Annual payments for 2010 year on such lease contracts are EUR 105 thousand.

During the year ended 31 December 2009 EUR 7,268 thousand (twelve month ended 31 December 2008: EUR 4,763 thousand) was recognised in the combined and consolidated statement of comprehensive income in respect of operating lease expenses.

29 Commitments

Investment commitments

In accordance with the memorandum signed between the Group and the Government of Georgia in June 2007, the Group has to invest during the period from 1 January 2007 till 31 December 2015 USD 56.3 million in realisation of projects aimed at the improvement of the electricity network which belongs to the Group entity JSC Telasi. The remaining investment commitments as at 31 December 2009 are as follows:

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

29 Commitments (continued)

As of 31 December 2009 management considers that realisation of investment commitments was in line with schedule for the year 2009.

According to the above memorandum the Parent company is also committed to finance the construction a hydroelectric power plant (or number of hydroelectric power plants) with total capacity of 100 MW in Georgia. The power plant (plants) is to be built no later than 1 September 2015. It was also determined that starting from 1 September 2015 JSC Telasi is obliged to purchase within next 7 years the entire volume of electricity provided by the newly constructed plant. Provided that the possible increase of electricity purchase tariff for JSC Telasi should not negatively influence consumer tariffs. In case the power plant (plants) will not be put into operation before 1 September 2015 JSC Telasi will be obliged to purchase within next 7 years (starting from 1 September 2015) at least 15% of its total annual electricity purchase from hydro power plants or other power stations working on renewable energy sources which were put into operation in Georgia after 20 June 2007.

In accordance with the privatization agreements, the shareholders of CJSC Moldavskaya GRES, a 100 percent-owned Group company acquired in 2005, have certain investment commitments. Fulfilment of these investment commitments in relation to CJSC Moldavskaya GRES are subject to annual approval by the authorised governmental body of Transnistria, Moldavia. The schedule of investing covers the period up to year 2011.

As of 31 December 2009, the Group is in compliance with the Moldavia investment program. The authorised body of Transnistria accepted the fulfilment of investment commitments for USD 122,402 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 38,428 thousand) are to be realised by May of 2011.

In accordance with agreements signed by the Group, investment commitments of the Group in relation to branches of the Parent company in the Russian Federation amounted to EUR 55,593 thousand (31 December 2008: EUR 177,440 thousand).

30 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.

Currently the same policy is in the process of being adopted by other entities of the Group. It is intended to introduce comprehensive insurance coverage on the Group's property and the Group's operations in the nearest future. Until the Group obtains full insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(c) Litigation

Legal proceedings

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

	31 December 2009	31 December 2008
Subcontractors claims	10,627	11,020
Customer's complaints	177	566
	10,804	11,586

30 Contingencies (continued)

The subcontractors claims consist of a claim from JSC "Ingenerniy Centre UES" to JSC "INTER RAO UES" (31 December 2009: EUR 10,627 thousand; 31 December 2008: EUR 10,300 thousand) with request to settle the liability against the construction works performed in 2003 and 2004. The Group believes that these liabilities were fully settled by JSC "Sochinskaya TPS" in 2003 and 2004 (all transactions were supported with proper documents). In January 2010 the arbitration court of Moscow has approved a settlement agreement confirming the absence of indebtedness of JSC "INTER RAO UES" in favour of the plaintiff. Therefore the claim is considered as not probable, and no provision is accrued.

In customer's complaints as at 31 December 2009 and 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.

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 combined and consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

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

The Group includes a number of operating and investment companies located in a number of tax jurisdictions across Europe and CIS. Those entities are subject to a complex variety of tax regimes and the nature of current and past trading and investment activities exposes them to areas of tax legislation involving considerable judgement and, consequently, uncertainty. The Group estimates that possible claims in respect of certain open tax positions of Group companies could amount to as much as EUR 5,522 thousand (31 December 2008: EUR 5,775 thousand) if the tax positions would be successfully challenged. In addition, the Group identified certain tax matters, which require estimates to be made of the amount of possible tax claims. The Group's best estimate of potential obligations relating to such additional exposures is EUR 19,097 thousand (31 December 2008: EUR 38,475 thousand).

Environmental matters

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

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

30 Contingencies (continued)

(e) Ownership of transmission lines

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

31 Related party transactions

(a) Parent company and control relationships

As at December 31, 2009 State Corporation Rosatom owned 57.34% of the voting shares of JSC INTER RAO UES. As at December 31, 2009 the State of Russian Federation owned 100% of State Corporation Rosatom. Information on transactions with entities of the State corporation Rosatom is presented below:

	The year ended 31 December 2009	The year ended 31 December 2008
Revenue:		
Electricity and capacity	12,322	17,770
Other revenues	24	21
	12,346	17,791

	The year ended 31 December 2009	The year ended 31 December 2008
Purchases:		
Purchased power and capacity	23,458	29,109
Other purchases	306	309
	23,764	29,418

Accounts receivable:	31 December 2009	31 December 2008
Advances issued	6	3

Accounts payable:	31 December 2009	31 December 2008
Trade accounts payable	55	9

(b) Transactions with key management personnel

The members of the Management Board own 0.022% of the ordinary shares of JSC INTER RAO UES and 10% of the ordinary shares of CJSC International Power Corporation, 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 24):

31 Related party transactions (continued)

	The year ended 31 December 2009	The year ended 31 December 2008
Salaries and bonuses	2,821	2,587
Employee's Share Option Programme	10,544	-
Termination benefits	-	344
	13,365	2,931

Employee's Share Option Programme. In June 2008 the Company's Board of Directors approved the creation of a Share Option Programme for the Company (hereinafter referred to as "the Programme") in which members of the Management Board and other key employees of the Group were to be participants (hereinafter referred to as "the Programme participants").

Participation in the Programme and the exact number of shares in the participants' individual share option agreements are determined by decision of Board of Directors of the Company. On 21 September 2009 the Company's Board of Directors approved the final form and conditions of the Share Option Programme. These stipulated exact number of shares to which participants in the programme were entitled and their exercise price. Corresponding agreements with determined share price and quantity were signed by Programme participants immediately after that date.

A total of up to 46,000,000,008 ordinary shares were allocated under the Programme. 23,000,000,004 ordinary shares were allocated for granting share options to the members of the Company's Management Board, the remaining - to other key employees of the Group. The ordinary shares ultimately allocated under the Programme were allocated from treasury shares obtained by JSC INTER RAO Capital (former JSC INTER RAO UES Baltic operator of the Programme, as a result of the Company's reorganization (for details see Note 17).

The Programme participants can exercise the share option at any time over the period from 23 June 2010 through 23 May 2011.

The fair value of services received in return for the share options granted to employees is measured by reference to the fair value of the share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model

Share price (in EUR)	0.000619847
Exercise price (in EUR)	0.000159453
Expected volatility	110.5%
Option life	608 days
Risk-free interest rate	10.05%
Graded vesting - cummulative percentage allocation to 24.06.2008 - 31.12.2009	89.91%
Fair value of the option at measurement date (in EUR)	0.000509874

To determine volatility the Group used the historical volatility of the share prices of its publicly traded shares. The measure of historical volatility used in the option pricing model is the annualised standard deviation of logarithms of daily changes in share price over a period of time comparable with expected lifetimes of the options granted under the Programme.For the year ended 31 December 2009 the Group recognised an expense of EUR 21,089 thousand within employee benefit expenses in the combined and consolidated statement of comprehensive income related to the fair value of the options (including EUR 10,544 thousand attributable to members of the Managements Board).

31 Related party transactions (continued)

(c) Transactions with associates and jointly controlled entities

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

The Group's associate entity is UAB Alproka (Lithuania) and in the year 2009 - JSC "TGK-11".

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

	The year ended 31 December 2009	The year ended 31 December 2008
Revenue:		
Jointly-controlled entities	182	6
Associate	199	6
Other operating income:		
Associate	2,662	-
Interest income:		
Jointly-controlled entity	11	-
Dividend income:		
Jointly-controlled entities	2,902	908
Associate	-	1,170
	5,956	2,090

	The year ended 31 December 2009	The year ended 31 December 2008
Purchased power:		
Jointly-controlled entities	305	-
Associate	561	-
	866	-

	31 December 2009	31 December 2008
Accounts receivable:		
Jointly-controlled entities	694	-
Associate	-	579
Loans issued:		
Jointly-controlled entities	130	142
	824	721

31 Related party transactions (continued)

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

	The year ended 31 December 2009	The year ended 31 December 2008
Revenue electricity and capacity	221,346	163,819

	The year ended 31 December 2009	The year ended 31 December 2008
Expenses:		
Purchased power and capacity	51,816	32,767
Transmission fees/Agency fees	64,968	42,773
Fuel Expense (Gas)	110,861	105,116
Other purchases	51,070	1,217
Other expenses	25	-
	278,740	181,873

	The year ended 31 December 2009	The year ended 31 December 2008
Capital expenditures	81,373	100,228

	The year ended 31 December 2009	The year ended 31 December 2008
Finance income and expenses:		
Interest income	(2,052)	(2,593)
Interest expenses	31,424	13,630
	29,372	11,037

	The year ended 31 December 2009	The year ended 31 December 2008
Accounts receivable:		
Trade receivables	10,077	6,371
Less impairment provision	(1,583)	(2,189)
Trade receivables - net	8,494	4,182
Advances issued	5,043	115,075
Advances issued for CAPEX	23,578	44,217
Other receivable	1,084	-
	38,199	163,474

	The year ended 31 December 2009	The year ended 31 December 2008
Investments to other non-current assets	147,395	-

	31 December 2009	31 December 2008
Other non-current assets	45,747	115,244

	31 December 2009	31 December 2008
Accounts payable:		
Trade accounts payable	7,509	6,480
AP for CAPEX	12,112	5,127
Other accounts payable	10,736	869
Advances received	28	55
Special-purpose financing (see Note 21)	216,701	114,520
	247,086	127,051

31 Related party transactions (continued)

	31 December 2009	31 December 2008
Loans and borrowings payable:		
Short-term loans	73,401	120,689
Long-term loans	411,495	219,690
Interest on loans	2,609	1,917
	487,505	**342,296**

Cash and cash equivalents:	31 December 2009	31 December 2008
Current accounts balances	63,002	48,469

	31 December 2009	31 December 2008
Other current assets	691	-

Financial transactions:	The year ended 31 December 2009	The year ended 31 December 2008
Loans and borrowings received	310,406	297,546
Loans and borrowings repaid	(130,618)	(109,118)

Commencing March 2009 the Company manages assets of JSC OGK-1 a state-controlled entity under agreements with JSC RusHydro and JSC FGC, the principal shareholders of JSC OGK-1 (see Note 32). Both JSC RusHydro and JSC FGC are state-controlled entities.

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

Prior to July 1, 2008 the sole shareholder of the Parent Company was RAO UES. After that date as a result of reorganisation process RAO UES ceased to exist as a 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 Russian Federation. Thus, details of operations with such entities for the year ended 31 December 2009 are provided in the note (d).

	The year ended 31 December 2008
Revenue:	
Electricity and capacity	127,734

	The year ended 31 December 2008
Purchases:	
Purchased power and capacity	43,346
Transmission fees/Agency fees to RAO UES	37,330
Other purchases	453
	81,129

	The year ended 31 December 2008
Capital expenditures	7,950

(f) Transactions with the State of the Russian Federation

	The year ended 31 December 2009	The year ended 31 December 2008
Expenses:		
Current profit tax	3,962	14,443
Unified social tax	4,803	4,530
Taxes other than income	19,306	21,826
Interest on late payment of taxes accrued	1	14
Custom duties	1,338	-
	29,410	**40,813**

31 Related party transactions (continued)

	31 December 2009	31 December 2008
Accounts receivable:		
Value added tax recoverable	29,953	32,235
Value added tax prepaid	62,023	49,155
Income tax prepaid	7,462	11,409
Other taxes recoverable	431	694
	99,869	93,493

	31 December 2009	31 December 2008
Accounts payable:		
Value added tax payable	504	118
Income tax payable	2,486	82
Other taxes payable	1,313	2,336
	4,303	2,536

32 Entities under asset management

The entities under asset management are the hydro generation plants Khramesi I and II in Georgia, the CJSC Armenian nuclear power station and, starting from March 2009, in Russia: JSC OGK-1 with subsidiary LLC Niznevartovskaya GRES[1]. These entities were not consolidated in these financial statements. The Group's transactions with the entities under asset management are disclosed below.

	The year ended 31 December 2009	The year ended 31 December 2008
Revenue:		
Electricity and capacity	11,730	75
Other revenues:	3,495	-
	15,225	75

	The year ended 31 December 2009	The year ended 31 December 2008
Purchases:		
Purchased power and capacity	66,565	36,783
Other expenses	250	-
	66,815	36,783

	The year ended 31 December 2009	The year ended 31 December 2008
Finance income:		
Interest income	1,720	-

	31 December 2009	31 December 2008
Accounts receivable:		
Trade accounts receivable (no provisions accrued)	5,195	-
Advances issued	47	-
Loans issued	29,257	797
Other receivable	3,091	3,282
	37,590	4,079

	31 December 2009	31 December 2008
Accounts payable:		
Trade accounts payable	5,156	6,104
Loans received	-	600
	5,156	6,704

[1] Transactions and balances with JSC OGK-1 with subsidiary LLC Niznevartovskaya GRES for January-February 2009 are disclosed in Note 31 (d) and as at and for the year ended 31 December 2008 are disclosed in Note 31 (e).

33 Significant subsidiaries

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

	Country of incorporation	31 December 2009 Ownership/voting	31 December 2008 Ownership/voting
Distributing and trading entities			
RAO Nordic Oy[1]	Finland	100%	100%
JSC Telasi	Georgia	75%	75%
CJSC Elektricheskiye seti Armenii (Note 6)	Armenia	100%	67%
TGR Energji Elektrik Toptan Ticaret A.S.	Turkey	70%	70%
UAB INTER RAO Lietuva (Note 6)	Lithuania	51%	51%
LLP Kazenergoresurs (Note 6)	Kazakhstan	76%	-
Generating entities			
Mtkvari Energy LLC	Georgia	100%	100%
CJSC International Power Corporation	Armenia	90%	90%
CJSC Moldavskaya GRES	Moldova, Transnistria	100%	100%
JSC Ispytatelniy Stend Ivanovskoy GRES[2]	Russian Federation	82.84%	82.84%
Holding entities			
Interenergo B.V.	Netherlands	100%	66.67%
Silk Road Holdings B.V.	Netherlands	100%	100%
Gardabani Holdings B.V.	Netherlands	100%	100%
ES Georgia Holdings B.V.	Netherlands	100%	100%
SAINT-GUIDON INVEST N.V.	Belgium	100%	100%
Freecom Trading Limited	Cyprus	100%	100%
INTER RAO Holding B.V.	Netherlands	100%	100%
Service entities			
JSC INTER RAO UES Baltic	Russian Federation	100%	100%
Technoelectrika S.R.L. (Note 6)	Moldova	-	90%
JSC RAO UES INTERNATIONAL Ukraine (Note 6)	Ukraine	-	90%
Energospetsserviceobslyzhivanie	Moldova, Transnistria	80%	80%
LLP INTER RAO Central Asia	Kazakhstan	100%	100%
LLC INTER RAO SERVICE	Russian Federation	99.99%	-
Other entity			
LLC RAO UES INTERNATIONAL FINANCE	Russian Federation	100%	100%
JSC Eastern energy company[2]	Russian Federation	100%	100%
INTER RAO Trust B.V.	Netherlands	100%	100%
Asia Energy B.V.	Netherlands	100%	100%
Silverteria Holdings Limited	Cyprus	100%	-
CJSC Electrolutch (Note 6)	Russian Federation	97.78%	-
OrangeWings Limited	British Virgin Island	100%	-
LLC Inter RAO Invest	Russian Federation	100%	-
LLP Nedra Kazakhstana (Note 6)	Kazakhstan	74.48%	-

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