

RUSHYDRO GROUP

**CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AND INDEPENDENT AUDITOR'S REPORT**

31 DECEMBER 2010



Independent Auditor's Report

To the Shareholders and Board of Directors of Open Joint Stock Company RusHydro (OJSC RusHydro):

- 1 We have audited the accompanying consolidated financial statements of OJSC RusHydro and its subsidiaries (the "Group") which comprise the consolidated Statement of Financial Position as at 31 December 2010, the consolidated Income Statement 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 and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

- 2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

- 3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
- 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit
27 April 2011

Moscow, Russian Federation

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RusHydro Group
Consolidated Statement of Financial Position as at 31 December 2010
(in millions of Russian Rubles unless noted otherwise)

	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	7	469,273	359,598
Investments in associates and jointly controlled entities	8	37,090	18,470
Available-for-sale financial assets	9	3,238	6,860
Other non-current assets	10	19,751	23,281
Total non-current assets		529,352	408,209
Current assets			
Cash and cash equivalents	11	19,090	52,443
Accounts receivable and prepayments	12	24,268	33,377
Inventories		1,180	1,271
Other current assets	13	21,921	11,566
Non-current assets and assets of disposal group classified as held for sale	14	55,193	-
Total current assets		121,652	98,657
TOTAL ASSETS		651,004	506,866
EQUITY AND LIABILITIES			
Equity			
Share capital	15	288,695	269,695
Treasury shares	15	(9,558)	(12,172)
Share premium	15	20,453	12,005
Retained earnings and other reserves		213,938	132,378
Equity attributable to the shareholders of OJSC RusHydro		513,528	401,906
Non-controlling interest		4,584	3,894
TOTAL EQUITY		518,112	405,800
Non-current liabilities			
Deferred income tax liabilities	16	42,126	32,618
Non-current debt	18	31,740	19,367
Other non-current liabilities	19	2,940	2,957
Total non-current liabilities		76,806	54,942
Current liabilities			
Current debt and current portion of non-current debt	18	8,332	5,072
Accounts payable and accruals	20	12,917	36,482
Current income tax payable		1,237	127
Other taxes payable	21	4,094	4,443
Liabilities of disposal group classified as held for sale	14	29,506	-
Total current liabilities		56,086	46,124
TOTAL LIABILITIES		132,892	101,066
TOTAL EQUITY AND LIABILITIES		651,004	506,866

Chairman of Management Board

E. V. Dod

Chief Accountant

D. V. Finkel



27 April 2011

RusHydro Group
Consolidated Income Statement for the year ended 31 December 2010
(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Revenue	22	418,003	338,460
Expenses	23	(367,782)	(297,784)
Impairment of property, plant and equipment	7	(24,293)	-
Operating profit		25,928	40,676
Finance income, net	24	84	136
Share of loss of associates and jointly controlled entities	8	(9,060)	(616)
Profit before income tax		16,952	40,196
Total income tax expense	16	(5,622)	(8,084)
Profit for the period		11,330	32,112
Attributable to:			
Shareholders of OJSC RusHydro		10,487	31,094
Non-controlling interest		843	1,018
Earnings per ordinary share for profit attributable to the shareholders of OJSC RusHydro – basic and diluted (in Russian Rubles per share)			
	25	0.0402	0.1246
Weighted average number of shares outstanding – basic and diluted (thousand of shares)			
	25	260,854,550	249,523,146

Chairman of Management Board

E. V. Dod

Chief Accountant

D. V. Finkel



27 April 2011

RusHydro Group

Consolidated Statement of Comprehensive Income for the year ended 31 December 2010

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Profit for the period		11,330	32,112
Other comprehensive income after income tax:			
Revaluation of property, plant and equipment, net of tax	7	75,740	-
Gains arising on available-for-sale financial assets classified as held for sale, net of tax	9	294	-
Gains arising on available-for-sale financial assets, net of tax	9	2,257	4,630
Share of other comprehensive income of associates and jointly controlled entities	8	464	9
Total comprehensive income for the period		90,085	36,751
Attributable to:			
Shareholders of OJSC RusHydro		89,096	35,762
Non-controlling interest		989	989

Chairman of Management Board

E. V. Dod

Chief Accountant

D. V. Finkel



27 April 2011

RusHydro Group**Consolidated Statement of Cash Flows for the year ended 31 December 2010**

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2010	Year ended 31 December 2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		16,952	40,196
Depreciation of property, plant and equipment	7, 23	11,354	12,275
Loss on disposal of property, plant and equipment	23	4,657	5,877
Impairment of property, plant and equipment	7	24,293	-
Share of loss of associates and jointly controlled entities	8	9,060	616
Finance income, net	24	(84)	(136)
Accrual of impairment of accounts receivable	23	464	2,832
Effect of Share Option Programme expenses	6	783	230
Pension expenses	17	164	130
Other (income) / expenses		(117)	21
Operating cash flows before working capital changes and income tax paid		67,526	62,041
Working capital changes:			
Increase in accounts receivable and prepayments		(16,303)	(12,281)
Increase in other current assets		-	(660)
Increase in inventories		(158)	(93)
Increase in other non-current assets		(2,611)	(2,427)
Increase in accounts payable and accruals		5,283	4,637
Increase in other taxes payable		1,130	605
Increase in other non-current liabilities		-	104
Income tax paid		(13,626)	(10,587)
Net cash generated by operating activities		41,241	41,339
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(61,277)	(32,522)
Proceeds from sale of property, plant and equipment		26	53
Purchase of promissory notes and other short-term investments		(36,683)	(7,304)
Proceeds from sale of promissory notes and other short-term investments		13,552	2,304
Proceeds from insurance indemnity	12	6,046	-
Purchase of subsidiaries from parties under common control, net of cash acquired	2	(8,300)	(908)
Purchase of subsidiaries from third parties, net of cash acquired		(1,256)	-
Additional contribution to jointly controlled entities	8	(1,151)	-
Settlement of derivative instruments		(1,656)	(211)
Interest received		2,409	3,824
Net cash used in investing activities		(88,290)	(34,764)

RusHydro Group
Consolidated Statement of Cash Flows for the year ended 31 December 2010

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2010	Year ended 31 December 2009
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term debt	18	1,966	7,606
Proceeds from long-term debt	18	20,000	-
Repayment of short-term debt	18	(4,119)	(6,300)
Interest paid		(1,730)	(2,824)
Dividends paid by the Group in favour of non-controlling interest holders		(1,572)	(1,168)
Proceeds from share issue	15, 20	6,284	19,032
Purchase of treasury shares	15	(254)	-
Proceeds from share issue in subsidiary	15, 20	812	2,380
Finance lease payments		(1,010)	(2,942)
Purchase of non-controlling interest	15	(748)	-
Net cash generated by financing activities		19,629	15,784
Foreign exchange losses on cash balances		(36)	(25)
(Decrease) / Increase in cash and cash equivalents		(27,456)	22,334
Cash and cash equivalents at the beginning of the period		52,443	30,109
Cash and cash equivalents at the end of the period	11	24,987	52,443

Chairman of Management Board

Chief Accountant



E. V. Dod

D. V. Finkel

27 April 2011

RusHydro Group
Consolidated Statement of Changes in Equity for the year ended 31 December 2010
(In millions of Russian Rubles unless noted otherwise)

	Note	Share capital	Treasury shares	Share premium	Merger reserve	Revaluation reserve	Available-for-sale financial assets	Retained earnings	Equity attributable to shareholders of OJSC RusHydro	Non-controlling interest	Total equity
As at 1 January 2010		269,695	(12,172)	12,005	(77,070)	147,630	4,659	57,159	401,906	3,894	405,800
Profit for the year		-	-	-	-	-	-	10,487	10,487	843	11,330
Other comprehensive income		-	-	-	-	75,594	2,551	464	78,609	146	78,755
Total comprehensive income		-	-	-	-	75,594	2,551	10,951	89,096	989	90,085
Share issue	15	19,000	(12,741)	2,850	-	-	-	-	9,109	-	9,109
Purchase of treasury shares	15	-	(254)	-	-	-	-	-	(254)	-	(254)
Effect of Share Option Programme	6	-	-	-	-	-	-	783	783	-	783
Effect of changes in non-controlling interest	15	-	-	-	-	-	-	4	4	1,634	1,638
Acquisition of subsidiaries from parties under common control	15	-	-	-	(8,300)	-	-	-	(8,300)	-	(8,300)
Effect of business combination	4	-	-	-	-	-	-	-	-	12	12
Transfer of revaluation reserve to retained earnings		-	-	-	-	(709)	-	709	-	-	-
Acquisition of associate	8, 15	-	15,609	5,598	-	-	-	-	21,207	-	21,207
Dividends	15	-	-	-	(23)	-	-	-	(23)	(1,945)	(1,968)
As at 31 December 2010		288,695	(9,558)	20,453	(85,393)	222,515	7,210	69,606	513,528	4,584	518,112

Note 1. The Group and its operations

Open Joint Stock Company RusHydro (OJSC RusHydro – hereinafter referred to as “the Company”) was incorporated as a wholly-owned subsidiary of the Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia (hereinafter referred to as “RAO UES”) on 26 December 2004, based on the Decision of the Board of Directors of RAO UES dated 24 December 2004 in accordance with the Resolution of the Russian Government No. 526 dated 11 July 2001 “On reforming the Russian Federation electric utilities industry” and Resolutions of the Russian Government No. 1254-r dated 1 September 2003 and No. 1367-r dated 25 October 2004.

On 1 July 2008 RAO UES ceased to exist and the Company became controlled by the Government (the Russian Federation).

As at 31 December 2010 RusHydro Group (hereinafter referred to as “the Group”) consists of the Company and its subsidiaries. The Group’s principal subsidiaries are presented in Note 4. The Company has 20 branches across the Russian Federation, including: Bureyskaya HPP, Volzhskaya HPP, Votkinskaya HPP, Dagestan branch, Zhigulevskaya HPP, Zagorskaya PSHPP, Zeyskaya HPP, Irganayskaya HPP, Kabardino-Balkarian branch, Kamskaya HPP, Karachaevo-Cherkessian branch, Cascade of Verkhnevolzhskie HPPs, Cascade of Kubanskiye HPPs, Corporate HydroPower University, Nizhegorodskaya HPP, Novosibirskaya HPP, Saratovskaya HPP, Sayano-Shushenskaya HPP named after P. S. Neporozhny, Northern Ossetian branch, Cheboksarskaya HPP.

The Group’s principal activities are the generation and sale of electricity and capacity on the Russian wholesale electricity market as well as the retail electricity market.

The Company’s registered office is located at 51, Respubliki Street, Krasnoyarsk, Krasnoyarsk region, the Russian Federation.

The ordinary shares of the Company are traded on the MICEX Stock Exchange and the Russian Trading System.

Starting from 2009, Global Depositary Receipts of the Company under Rule 144A (hereinafter referred to as “GDRs”) are traded on both the Main Market of London Stock Exchange and the PORTAL system, Level 1 American Depositary Receipts (hereinafter referred to as “ADRs”) are traded on both the Main Market of London Stock Exchange and on the over-the-counter market (starting from 2010 on the over-the-counter market of the highest level OTCQX) in the United States of America. Each GDR and ADR represents 100 ordinary shares of the Company.

The Group carries out its activities for the purposes of creating conditions which ensure the safety and reliability of hydropower facilities, implementing the Russian Government’s policy in the hydropower industry, creating conditions for effective functioning of the wholesale electricity and capacity market, implementation of effective utilisation and centralised technology control process of hydropower facilities, implementing investments and capital raising strategy for the purposes of development of the hydropower industry and realisation of scientific and technological policy and implementation of the new advanced equipment and technology, including exploration of renewable energy sources.

Operating environment of the Group. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010 the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Ruble against major foreign currencies, and increased liquidity levels in the banking sector.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management is unable to predict all developments which could have an impact on the Russian economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it takes all the necessary measures to support the sustainability and development of the Group’s business.

Relations with the Government and current regulation. As at 31 December 2010 the Russian Federation owned 57.97 percent of the total voting ordinary shares of the Company (31 December 2009: 60.38 percent).

The Group's major customer base and its contractors and suppliers include entities controlled by, or related to the Government, which provide the Group with electricity dispatch, transmission and distribution services (Note 6).

In addition, the Government affects the Group's operations through:

- participation of its representatives in the Company's Board of Directors;
- its tariff regulation within wholesale electricity and capacity as well as retail electricity market;
- agreement procedures for the Company's investment programme, volume and sources of their financing, control over its implementation;
- existing antimonopoly regulation.

The Russian Government's economic, social and other policies could have a material effect on the Group's operations.

Overview of the electricity and capacity market. The Russian electricity and capacity market consists of wholesale and retail markets. Capacity and electricity, while interrelated, are treated as separate economic products. The capacity market represents the obligation and ability to keep sufficient generation capability in reserve in order to satisfy a target level of potential demand, while the sale of electricity represents the actual delivery of electricity to the purchaser.

The Group's entities that are included in Generation segment are primarily participants of the wholesale market selling electricity and capacity to other participants of the market.

The Group's entities that are included in Retailing segment are primarily participants of both the wholesale market, where they purchase electricity and capacity, and the retail market where they sell electricity and capacity to the final consumers.

Wholesale market. A wholesale market for electricity and capacity functions on the territory of the regions, which are integrated in pricing areas. European Russia and Urals are included in the first pricing area, Siberia is included in the second pricing area. In non-pricing areas (Arkhangelsk and Kaliningrad regions, Komi Republic, regions of the Far East), where the competitive market relationships are not possible due to technological reasons, sales of electricity and capacity are carried out based on regulated tariffs.

The wholesale electricity market has been functioning from 1 September 2006 when, in accordance with the Resolution of the Russian Government No. 529 dated 31 August 2006 "On Improving the Procedure for the Functioning of the wholesale electricity (capacity) market", new rules governing the functioning of wholesale markets for electricity and capacity (hereinafter referred as "Regulations") came into force.

The period from 1 September 2006 to 31 December 2010 was a transitional period until the liberalisation of the wholesale electricity and capacity market was fully completed. At the beginning of the transitional period regulated contracts covered almost all volume of electricity and capacity produced and sold. According to the rules, the share of sales under regulated contracts was constantly declining:

- from 1 January 2010 – down to 35 – 40 percent,
- from 1 July 2010 – down to 15 – 20 percent.

The above mentioned Regulations were amended by the Resolution of the Russian Government No. 1172 dated 27 December 2010 "On Approving of the Rules of the wholesale market of electricity and capacity and on amendments to certain Acts of the Russian Government on functioning of the wholesale market of electricity and capacity", which came into force starting 1 January 2011.

According to the Regulations electricity is traded based on the following trading mechanisms:

- Regulated contracts (sales of predetermined volumes at tariffs approved by the Federal Service on Tariffs (hereinafter referred as "FST")). Starting from 1 January 2011 the target model of a competitive wholesale electricity and capacity market was completely formed: within pricing areas regulated contracts are traded only for volumes of electricity and capacity designated for delivery to population, groups of customers equivalent to population and guaranteeing suppliers controlled by Interregional Distribution Grid Company of Northern Caucasus;
- One-day-ahead market (spot market) (competitive trading of electricity planned for production and consumption under unregulated contracts and at unregulated prices);
- Balancing market (electricity trading on deviations of actual generated electricity from the planned

volumes based on competitive bids from market participants); and

- Unregulated bilateral contracts (electricity trading based on unregulated contracts at unregulated prices negotiated between customers and suppliers).

Capacity is sold separately from electricity. Capacity is a specific product, the purchase of which gives the participant of the wholesale market the right to claim from the seller of the capacity to maintain generation equipment in condition to provide the generation of electricity of certain quality and volume, which is necessary to meet the participant's demand for electricity. The purpose of treating capacity as a separate commodity is to improve the efficient operation and timely commissioning of generation facilities. From 1 June 2008 capacity is sold based on the competitive selection of bids by the System Operator (hereinafter referred to as "SO-CDU"). Customers are required to purchase all capacity from competitive selection of bids in their pricing area.

According to Resolution of the Russian Government No 89, dated 24 February 2010 amendments to regulations of the capacity market providing for organisation of long-term capacity market were approved. Similar to sales of electricity, from 2011 capacity is traded through regulated contracts only for volumes designated for delivery to population and groups of customers equivalent to population, excluding capacity supplied to hydroelectric power plants located in the second pricing area. Hydroelectric power plants will supply capacity to the second pricing area at regulated prices in 2011.

For the long-term capacity market competitive selection will be conducted based on the forecast of demand for capacity for certain periods provided by SO-CDU. In case of excess of actual demand for capacity over the forecasted demand, adjusting competitive selection is conducted.

In the competitive selection of bids for the provisions of capacity under capacity supply contracts with heat power plants and under similar contracts with nuclear power plants and hydroelectric power plants is first selected. Capacity which is not selected as part of the competitive selection of bids is not paid for, other than when such capacity is provided by so-called forced generators, whose functioning is technologically required to maintain the energy system.

According to the Regulations, capacity is traded based on the following trading mechanisms:

- purchase / sale of capacity under capacity sales contracts, concluded as a result of capacity competitive selection of bids;
- purchase / sale of capacity under unregulated contracts, including concluded through the exchange;
- purchase / sale of capacity under contracts to provide capacity and under sale contracts of new nuclear power plants and hydroelectric power plants, similar to capacity sale contracts;
- purchase / sale of capacity produced by forced generators;
- purchase / sale of capacity under regulated contracts (within the volumes for delivery to population and groups of customers equivalent to population);
- purchase / sale of capacity of generating facilities selected by additional screening of investment projects performed when capacity selected through capacity competitive selection of bids in any area does not guarantee meeting of demand for capacity;
- purchase / sale of capacity of generating facilities determined upon the results of competitive selection of investment projects on developing the prospective technological capacity reserves.

In December 2010 first capacity sale contracts for new hydroelectric power plants and pump storage power plants were concluded. Under these contracts such power plants receive guaranteed payment for capacity for 20 years, providing for a return of capital expenditures and operating costs agreed upon.

Retail electricity market. The new retail market rules introduced by the Resolution of the Government No. 530 dated 31 August 2006 "On Approval of the Rules for the Operation of the Retail Electricity Markets" (amended on 31 December 2010) governed the interaction between wholesale and retail market participants of the utilities industry. The rules for retail market operation set out the pricing principles for the retail electricity market.

The main principles of the operation of the retail electricity market are:

- end-consumers have the right to decide from which retail company they buy electricity at unregulated prices;
- retail companies, which have guaranteeing supplier status, are obliged to enter into a contract upon the

request of any end-consumer;

- unregulated prices for end-consumers are set freely by all market participants, except for guaranteeing suppliers; and
- there should be competition between retail electricity producers.

Management believes that ultimately a stable regulatory regime and a competitive power market will be put in place so that the Group will be able to raise the necessary financing to sustain the business. However, there can be no assurance in this regard.

Seasonality of business. The Group's own electricity and capacity generation depends on water flow in the river systems and weather conditions. In spring and in summer (flood period) electricity production is significantly higher than in autumn and in winter. Demand for electricity and capacity also varies with seasons and weather conditions. The seasonal nature of electricity generation and demand has a significant influence on the volume of energy generated and purchased by the Group.

Reconstruction and recovery of Sayano-Shushenskaya HPP. As a result of the accident which occurred at Sayano-Shushenskaya HPP in August 2009, the majority of the technological systems of that station were flooded or significantly damaged. The total installed capacity of the damaged hydro turbine units was 6,400 MW.

During the year ended 31 December 2010 the Group continued restoration works at Sayano-Shushenskaya HPP in accordance with the restoration plan approved and supervised by the special Government commission. Hydro turbine units No. 6 (GA-6), No. 5 (GA-5), No. 4 (GA-4) and No. 3 (GA-3) were put back into production in February, March, August and December 2010 respectively.

In 2011 the second phase of reconstruction and recovery of the hydropower station has started. During the period 2011–2013 six hydro turbine units are planned to be installed, which are currently being manufactured by OJSC Power Machines. At the final reconstruction stage in 2013 – 2014 four hydro turbine units are planned to be replaced by new ones, also to be manufactured by OJSC Power Machines.

Note 2. Summary of significant accounting policies

Basis of preparation. These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS") under the historical cost convention, as modified by the revaluation of property, plant and equipment and available-for-sale financial assets. The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Each company of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with Russian standards of accounting (hereinafter referred to as "RSA"). The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications made for the purpose of fair presentation in accordance with IFRS.

Functional and presentation currency. The functional currency of the Company and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Rubles.

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis at the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an

interest in the acquiree held immediately before the acquisition date. Any negative amount (“negative goodwill”) is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between the Group’s entities 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.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group’s equity.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction directly in equity.

Purchases of subsidiaries from parties under common control. Purchases of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity’s carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary’s IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity’s original acquisitions is also recorded in these consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity’s goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to merger reserve within equity.

The prior period consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity are not the same as those previously presented due to the acquisition of businesses from parties under common control during the first half of 2010 that have been accounted for using the predecessor values method and retrospectively presented in all periods reported.

In the first half of 2010 the following entities were acquired from OJSC RAO Energy System of East and OJSC Lenenergo for a cash consideration of RR 7,832 million and RR 468 million respectively and were accounted for using predecessor values and retrospectively presented in all periods reported: OJSC Mosenergosbyt (with the following subsidiaries: OJSC ESCMO, LLC Integrator IT, LLC Mosenergosbyt – Domodedovo, LLC Mosenergosbyt – Egorievsk, LLC Mosenergosbyt – Naro-Fominsk, LLC Mosenergosbyt – Orekhovo-Zuevo, OJSC Mosenergosbyt – Pushkino, LLC Mosenergosbyt – Sergiev Posad, LLC Mosenergosbyt – Chekhov, LLC Mosenergosbyt – Shatura, LLC Mosenergosbyt – Electrostal), OJSC Saint Petersburg Sale Company (with the following subsidiaries: CJSC Petroelectrosbyt and LLC Energia Holding), OJSC Altayenergosbyt, OJSC Tambov Energy Retailing Company, OJSC Saratovenergo and OJSC United Energy Retailing Company.

	31 December 2008		31 December 2009	
	Before restatement	After restatement	Before restatement	After restatement
Total assets	426,371	445,181	483,255	506,866
Total liabilities	82,758	98,804	79,972	101,066
Non-controlling interest	976	2,738	2,194	3,894

RusHydro Group**Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2010**

(in millions of Russian Rubles unless noted otherwise)

	Year ended 31 December 2009	
	Before restatement	After restatement
Revenue	115,603	338,460
Profit for the period	31,184	32,112

Investments in associates and jointly controlled entities. Investments in associates and jointly controlled entities are accounted for using the equity method of accounting, based upon the percentage of ownership held by the Group. Associates are entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, and (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Jointly controlled entities are joint ventures that involve the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entities operate in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entities.

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 on jointly controlled entities and associates.

Unrealised gains on transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Available-for-sale financial assets. Available-for-sale financial assets are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale financial assets. 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 other comprehensive income to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. 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 or loss, the impairment loss is reversed through current period's profit or loss.

Derivative financial instruments. 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 Group's policy is to measure these instruments at fair value, with resultant gains or losses being reported within the consolidated income statement. Derivatives are not accounted for as hedges.

Foreign currency. Monetary assets and liabilities, which are held by the Group's entities and denominated in foreign currencies at the end of the reporting period, are translated into Russian Rubles at the exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

As at 31 December 2010, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between Russian Ruble and US Dollar (hereinafter referred to as "USD") was RR 30.48: USD 1.00 (31 December 2009: RR 30.24: USD 1.00), between Russian Ruble and Euro was RR 40.33: EUR 1.00 (31 December 2009: RR 43.39: EUR 1.00).

Property, plant and equipment. Starting from 1 January 2007 the Group changed its accounting policy for property, plant and equipment (except for assets under construction, office buildings and land) which are now stated at revalued cost. Management of the Group assumes that use of revaluation model of property, plant and equipment provides more relevant information.

Prior to 1 January 2007 property, plant and equipment were stated at depreciated cost less impairment. Property, plant and equipment transferred to the Group from the predecessor entities were recognised at the carrying value determined in accordance with IFRS at the date of their transfer. Deemed cost for the purposes of presenting IFRS financial statements for the first time by the predecessor was initially determined by a third party valuation as at 31 December 1997 and restated for the impact of inflation until 31 December 2002. Adjustments are made for additions, disposals and depreciation charges.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to other comprehensive income, unless there is a decrease of the reserve previously recognised in the income statement. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to the consolidated income statement as an impairment loss. Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the asset.

The revaluation surplus included in equity is transferred directly to retained earnings when revaluation surplus is realised on disposal of the asset.

The Group charges deferred tax liabilities directly to other comprehensive income in respect of revaluation of property, plant and equipment that are recorded directly in other comprehensive income.

Costs of minor repairs (that take less than 12 months) and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Gains and losses arising from the retirement of property, plant and equipment are

included in the consolidated income statement as incurred. Depreciation on the assets under reconstruction and modernisation ceases if reconstruction period is estimated to take more than one year.

Social assets are not capitalised as they are not expected to result in future economic benefits to the Group. Costs associated with fulfilling the Group's social responsibilities are expensed as incurred.

Depreciation. Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method over their estimated useful lives.

The useful lives of property, plant and equipment are subject to annual assessment by management and if expectations differ from previous estimates, the changes of useful lives are accounted for as a change in an accounting estimate prospectively.

The revised average useful lives of revalued assets by type of facility, in years, were as follows:

Type of facility	Revised average starting from 1 January 2011	Average used starting from 1 January 2010
Production buildings	25-80	30-80
Facilities	35-100	30-80
Plant and equipment	5-40	5-30
Other	3-30	3-30

Depreciation is charged once an asset is available for service.

Impairment of property, plant and equipment. Impairment of property, plant and equipment is calculated as the difference between the carrying values of the net assets of cash-generating units, including where appropriate, investments, and their recoverable amounts. The recoverable amount is defined as the higher of an asset's fair value less costs to sell and its estimated value in use at the date the impairment review is undertaken. Fair value less costs to sell represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the cash-generating unit.

Impairment reviews for property, plant and equipment are carried out when there is an indication that impairment may have occurred, or where it is otherwise required to ensure that property, plant and equipment are not carried above their estimated recoverable amounts (Note 7).

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred: (i) any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems; (ii) the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains; (iii) the counterparty considers bankruptcy or a financial reorganisation.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the

impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the consolidated statement of financial position as "non-current assets held for sale" if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (i) the assets are available for immediate sale in their present condition; (ii) the Group's management approved and initiated an active programme to locate a buyer; (iii) the assets are actively marketed for a sale at a reasonable price; (iv) the sale is expected within one year; and (v) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

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

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

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

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the end of the reporting period.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantially enacted at the end of the reporting period which are expected to apply to

the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred tax movements are recorded in the income statement except when they are related to the items directly charged to the shareholders' equity. In this case deferred taxes are recorded as part of the shareholders' equity.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries and jointly controlled entities or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

Debt. Debt is recognised initially at its fair value. 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 interest method; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated income statement as an interest expense over the period of the debt obligation.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that are not carried at fair value and that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

The commencement date for capitalisation is when (i) the Group incurs expenditures for the qualifying asset; (ii) it incurs borrowing costs; and (iii) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale. The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets.

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

Pension and post-employment benefits. In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in employee benefit expenses and payroll taxes in the consolidated income statement.

The Group also operates a defined benefit plan that covers the majority of its employees. Defined 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 defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the end of the reporting period together with adjustments for unrecognised actuarial gains or losses. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency 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.

The Group recognises past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognises past service cost immediately. Past service cost arises when the Group introduces a defined benefit plan or changes the benefits payable under an existing defined benefit plan. Such changes are in return for employee service over the period until the benefits concerned are vested. Therefore, past service cost is recognised over that period, regardless of the fact that the cost refers to employee service in previous periods. Past service cost is measured as the change in the liability resulting from the amendment.

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

Share-based payment transactions. The share option programme allows the Group's 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 formula.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risk and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Environmental liabilities. Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates exist.

Revenue recognition. Revenue is recognised on the delivery of electricity and capacity and on the dispatch of goods and non-utility services during the period. Revenue from retailing operations is recognised on delivery of electricity to the customer. Revenue amounts are presented exclusive of value added tax.

Earnings per share. The earnings per share are determined by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period, excluding the average number of treasury shares held by the Group.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Treasury shares. Treasury shares are stated at weighted average cost. Any gains or losses arising on the disposal of treasury shares are recorded directly in shareholders' 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 at the end of the reporting period. Dividends are disclosed when they are declared after the end of the reporting period, but before the consolidated financial statements are authorised for issue.

Social expenditure. To the extent that the Group's contributions to social programmes benefit the community at large without creating constructive obligations to provide such benefits in the future and are not restricted to the Group's employees, they are recognised in the income statement as incurred.

Financial guarantees. Financial guarantees are irrevocable contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition, and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Critical accounting estimates and judgments in applying accounting policies

The Group makes estimates and assumptions that affect the amounts recognised in the Consolidated Financial Statements and the carrying 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. Judgments that have the most significant effect on the amounts recognised in the Consolidated 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 of financial assets carried at amortised cost. Impairment is recognised as a result of the Group's assessment of whether the collectability of specific customer accounts deteriorated compared to prior estimates. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates.

The effect of these critical accounting estimates and assumptions is disclosed in Notes 10 and 12.

Impairment of non-financial assets. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the consolidated income statement to the extent it exceeds any previous revaluation surplus held in equity. An impairment loss recognised for an asset in prior years may be reversed if there has been a positive change in the estimates used to determine the asset's value in use or fair value less costs to sell (Note 3).

Accounting for impairment of non-financial assets includes impairment of property, plant and equipment and impairment of investments in associates.

The effect of these critical accounting estimates and assumptions is disclosed in Notes 7 and 8.

Provisions for liabilities and charges. The Group accrues a provision for legal and other charges when its assessments indicate that it is probable that a liability has been incurred and an amount can be reasonably estimated. The Group's estimates for provisions for liabilities and charges are based on currently available facts and the Group's estimates of the ultimate outcome or resolution of the liability in the future.

The effect of these critical accounting estimates and assumptions is disclosed in Note 28.

Tax contingencies. Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group's 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 accrued for in the Consolidated Financial Statements.

The effect of these critical accounting estimates and assumptions is disclosed in Note 28.

Recognition of deferred tax assets. At each reporting date management assesses recoverability of deferred tax assets arising from operating losses and asset impairments in the context of the current economic environment, particularly when current and expected future profits have been adversely affected by market conditions. Management considers first the future reversal of existing deferred tax liabilities and then considers future taxable profits when evaluating deferred tax assets. The assessment is made on a jurisdiction-by-jurisdiction basis.

The effect of these critical accounting estimates and assumptions is disclosed in Note 16.

Useful life 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 and other factors. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear, warranty terms as well as the environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates which can affect the reported income.

Recognition of revenue and expenses on free bilateral contracts. Under free bilateral contracts electricity and capacity supply trading is based on unregulated prices negotiated between customers and suppliers. The industry regulations oblige the seller under such contract to sell the equivalent volume on wholesale market and purchase it back from this market, the buyer similarly has to additionally purchase on wholesale market and sell back (additional turnover). Management of the Group has exercised critical

judgment in respect of transactions under free bilateral contracts to reflect their economic substance, thus additional turnover in the amount of RR 9,339 million for the year ended 31 December 2010 (for the year ended 31 December 2009: RR 4,746 million) is shown net for presentation purposes.

Assets held for sale and disposal groups. Management of the Group has exercised critical judgment in respect of certain available-for-sale financial assets (Note 9) and several Group's subsidiaries (Note 4) and reclassified them in accordance with IFRS 5, *Non-current assets held for sale and discontinued operations* (Note 14), due to the fact that the sale was highly probable as at 31 December 2010 (Note 33). The Group's subsidiaries, which are planned to be disposed of, relate to Retailing segment (Note 5). Management of the Group has plans for further development of the remaining part of the Retailing segment, and has therefore accounted for the part of its business that is held for sale as a disposal group, not a discontinued operation.

Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2010:

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interest") even if this results in the non-controlling interests having a deficit balance (the previous standard required 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. This is continued with the previous accounting policy of the Group. This standard 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 has to be measured at its fair value

Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets. The Group has applied the new accounting policies prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the 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). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the previous 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 has 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 for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are 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 following new standards, that became effective from 1 January 2010, are not relevant for the Group, except for amendments to IFRS 5:

- IFRIC 18, Transfers of Assets from Customers;
- IFRIC 17, Distribution of Non-Cash Assets to Owners;
- Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2;
- Share-based Payment, Eligible Hedged Items – Amendment to IAS 39, Financial instruments: Recognition and Measurement;
- IFRS 1, First-time Adoption of IFRS;
- Additional Exemptions for First-time Adopters – Amendment to IFRS 1, First-time Adoption of IFRS;

- Improvements to IFRS (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).

Note 3. New accounting pronouncements

The following new standards, interpretations and amendments to standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Group has not early adopted:

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, early 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.

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

Amendment to IAS 24, Related Party Disclosures (issued in November 2009; effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (i) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and (ii) providing a partial exemption from the disclosure requirements for government-related entities. The Group has early adopted partial exemption of IAS 24 regarding government related entities. The new requirement for government related entities is to disclose only individually significant transactions and transactions that may be collectively significant. Management decided to change presentation of the disclosure in order to meet the objectives of the amendment. New disclosure is intended to put users on notice that related party transactions have occurred and to give an indication of their extent.

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

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement.

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

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

Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010; effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group is currently assessing the impact of the amended standard on disclosures in its financial statements.

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010; effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets* which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, *Property, Plant and Equipment* was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The Group does not expect the amendments to have any material effect on its financial statements.

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010; effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position. The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes. The Group does not expect the amendments to have any effect on its financial statements.

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Note 4. Principal subsidiaries

The following are the principal subsidiaries which have been consolidated into these Consolidated Financial Statements. The majority of subsidiaries are incorporated and operate in the Russian Federation.

The list of the principal subsidiaries includes only significant entities:

	31 December 2010		31 December 2009	
	% of ownership	% of voting	% of ownership	% of voting
CJSC Boguchanskaya HPP Construction Organiser	51.00%	51.00%	51.00%	51.00%
CJSC Boguchansky Aluminium Plant Construction Customer	51.00%	51.00%	51.00%	51.00%
OJSC Chirkeigesstroy	100.00%	100.00%	75.00%- 1 share	75.00%- 1 share
OJSC Chuvashskaya energy retail company	100.00%	100.00%	100.00%	100.00%
OJSC Designing, Surveying and Research Institute Hydroproject	100.00%	100.00%	-	-
OJSC EI Verchne-Mutnovsky GeoPP*	86.18%	95.81%	86.18%	95.81%
OJSC Elektromont-VKK	100.00%	100.00%	100.00%	100.00%
OJSC ESC RusHydro	100.00%	100.00%	100.00%	100.00%
OJSC ESCO UES	100.00%	100.00%	100.00%	100.00%
OJSC Far East Wind Power Plant	100.00%	100.00%	100.00%	100.00%
OJSC Geotherm	79.84%	79.84%	79.84%	79.84%
OJSC Gidromont-VKK	100.00%	100.00%	100.00%	100.00%
LLC Gidroservice (former LLC Management on restoration and reconstruction of SShHPP)*	100.00%	-	100.00%	-
CJSC HydroEngineering Siberia	100.00%	100.00%	100.00%	100.00%
OJSC Hydrogeneration Company of Karachaevo-Cherkessia	100.00%	100.00%	100.00%	100.00%
OJSC HydroInvest	100.00%	100.00%	100.00%	100.00%
HydroOGK Aluminium Company Ltd	100.00%	100.00%	100.00%	100.00%
HydroOGK Power Company Ltd	100.00%	100.00%	100.00%	100.00%
LLC Index energetiki – HydroWGC*	100.00%	-	100.00%	-
OJSC Kolimaenergo	64.27%	64.27%	64.27%	64.27%
OJSC Krasnoyarskenergosbyt*	65.81%	69.40%	51.75%	66.33%
OJSC Lenhydroproject	100.00%	100.00%	100.00%	100.00%
OJSC Leningradskaya GAES (former OJSC Malaya Mezenskaya PES)	100.00%	100.00%	100.00%	100.00%
OJSC Mosoblgidroproekt	62.62%	62.62%	62.62%	62.62%
OJSC NIIES	100.00%	100.00%	100.00%	100.00%
OJSC Nizhne-Bureiskaya HPP	100.00%	100.00%	100.00%	100.00%
OJSC Nizhne-Kurejskaya HPP	100.00%	100.00%	100.00%	100.00%
OJSC Nizhne-Zeiskaya HPP	100.00%	100.00%	100.00%	100.00%
OJSC Pauzhetskaya GeoPP*	79.84%	100.00%	79.84%	100.00%
OJSC Renewable Energy Engineering Center	100.00%	100.00%	100.00%	100.00%
OJSC RusHydro MC	100.00%	100.00%	100.00%	100.00%
OJSC Ryazan Power Distributing Company	90.52%	90.52%	90.52%	90.52%
OJSC SSHPR	100.00%	100.00%	100.00%	100.00%
OJSC Sulak GidroKaskad	100.00%	100.00%	100.00%	100.00%
OJSC Turboremont-VKK	100.00%	100.00%	100.00%	100.00%
OJSC Ust'-Srednekangesstroy*	64.27%	100.00%	64.27%	100.00%
OJSC Ust'-Srednekanskaya HPP*	43.69%	62.79%	48.75%	72.82%
OJSC VNIIG	100.00%	100.00%	100.00%	100.00%
OJSC Yuzhno-Yakutsky HPC	100.00%	100.00%	100.00%	100.00%
OJSC Zagorskaya GAES-2	100.00%	100.00%	100.00%	100.00%
OJSC Zaramag HS	95.45%	95.45%	95.45%	95.45%
RusHydro International B. V.	100.00%	100.00%	-	-
RusHydro International AG	100.00%	100.00%	-	-
OJSC Altayenergosbyt**	100.00%	100.00%	100.00%	100.00%
OJSC Mosenergosbyt**	50.92%	50.92%	50.90%	50.90%
OJSC Saint Petersburg Sale Company**	61.52%	67.10%	61.51%	67.08%
OJSC Saratovenergo**	56.23%	56.97%	48.36%	49.00%
OJSC Tambov Energy Retailing Company**	59.38%	67.87%	49.01%	56.01%

* Differences between the ownership interest and voting interest represent the effect of preference shares and / or effects of indirect ownership, or non-corporate partnership (LLC).

** Subsidiaries acquired from parties under common control during the year ended 31 December 2010 and accounted for using the predecessor values method (Note 2) until 27 December 2010, when they were classified as a disposal group (Note 14).

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On 10 August 2010 the Company's Board of Directors approved the establishment of a new subsidiary, RusHydro International B. V., under legislation of the Netherlands with the share capital of 1,000,000 shares with a par value of EUR 1.00 per share.

On 22 December 2010 the Company's Board of Directors approved the establishment of a new subsidiary, RusHydro International AG, under legislation of Switzerland with the share capital of 1,000 shares with a par value of CHF 1,000 per share.

Information on acquisitions of non-controlling interests is disclosed in Note 15.

Business combination. On 21 October 2010 the Group acquired a 100 percent interest in OJSC Designing, Surveying and Research Institute Hydroproject named after S. Y. Zhuk (hereinafter referred to as "OJSC Institute Hydroproject") for a cash consideration of RR 1,468 million (Note 15).

In 2010 the Group completed independent appraisal of the net identifiable assets and liabilities acquired, which is presented below:

	Attributed fair value
Cash and cash equivalents	238
Available-for-sale financial assets	11
Other non-current assets	82
Property, plant and equipment	68
Inventories	240
Accounts receivable and prepayments	371
Deferred income tax assets	1
Accounts payable and accruals	(435)
Deferred income tax liabilities	(25)
Fair value of identifiable net assets of OJSC Institute Hydroproject	551
Less: non-controlling interest*	(12)
Goodwill arising on the acquisition	929
Total purchase consideration	1,468
Less: Cash and cash equivalents of subsidiary acquired	(238)
Outflow of cash and cash equivalents on acquisition	1,230

* Non-controlling interest represents non-controlling interest related to subsidiary of OJSC Institute Hydroproject.

The goodwill arising on acquisition of OJSC Institute Hydroproject is primarily attributable to the qualification of the staff and established customer's relationships of the acquired entity.

Note 5. Segment information

The Board of Directors generally analyses information by the groups of operations which are consolidated in the following separate reporting segments:

- Generation segment includes the Company and the Group's subsidiaries with production and sale of electricity and capacity operations.
- Retailing segment includes the Group's subsidiaries – participants of the electricity market where they buy electricity and capacity and resell it to final customers. Most of the entities included in this segment have the guaranteeing suppliers status and are obliged to sign contracts on supplies with all final customers of their region upon their request.
- Research and Development Institutes segment comprises the Group's subsidiaries primarily engaged in research and development related to the utilities industry and construction of hydropower facilities.
- Repairs segment includes the Group's subsidiaries engaged in repair, upgrade and reconstruction of equipment and hydropower facilities.
- Contractors segment includes the Group's subsidiaries engaged in hydropower stations construction.

All other segments include a number of minor segments which do not have similar economic characteristics.

Assets of all other segments include assets under construction which will be transferred to the Generation segment on their completion. Liabilities of all other segments consist primarily of intercompany current and non-current debt, accounts payable and accruals.

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Management reviews the segment financial information which is prepared in accordance with RSA. Such information differs in certain aspects from IFRS:

- changes in the fair values of available-for-sale financial assets that are reported within the segments' profits or losses rather than in comprehensive income;
- income taxes are not allocated to segments;
- liabilities for the Group's post-employment obligations are not recognised;
- provisions for accounts receivable are recognised based on management judgment and availability of information rather than based on the incurred loss model prescribed in IAS 39;
- investments in subsidiaries are not consolidated, investments in associates and jointly controlled entities are not accounted for using the equity method;
- other intercompany assets and liabilities balances are not eliminated.

Management believes that EBITDA represents the most useful means of assessing the performance of ongoing operating activities of the Company and the Group's subsidiaries, as it reflects the earnings trends without showing the impact of certain charges.

During 2010 there were significant changes in the Company's Management Board and Board of Directors structures. In 2010 the chief operating decision maker (CODM) analysed segment information as it is presented in this disclosure, but there may be changes in the presentation of segment information analysed by chief operating decision maker in 2011.

Segment information for the years ended 31 December 2010 and 31 December 2009 based on the amounts of the RSA business plans is presented below:

	Generation	Retailing	Research and Development Institutes	Repairs	Contractors	All other segments	Total Group
Year ended 31 December 2010							
Revenue from external customers	86,469	334,481	1,505	801	2,027	1,351	426,634
Intersegment revenue	4,450	2,325	2,520	3,818	10,999	2,625	26,737
Total revenue	90,919	336,806	4,025	4,619	13,026	3,976	453,371
EBITDA (RSA)*	52,227	15,379	424	423	533	404	69,390
Total reportable segment assets	574,207	45,503	3,761	1,609	6,828	174,279	806,187
Total reportable segment liabilities	53,111	32,026	2,455	1,198	5,503	111,206	205,499
Capital expenditure**	35,784	1,729	264	209	36	25,424	63,446
	Generation	Retailing	Research and Development Institutes	Repairs	Contractors	All other segments	Total Group
Year ended 31 December 2009							
Revenue from external customers	73,338	264,836	1,164	628	1,945	1,039	342,950
Intersegment revenue	7,577	836	1,190	2,740	5,052	1,713	19,108
Total revenue	80,915	265,672	2,354	3,368	6,997	2,752	362,058
EBITDA (RSA)*	50,838	4,862	209	235	215	467	56,826
Total reportable segment assets	498,684	34,237	1,435	1,120	5,079	90,816	631,371
Total reportable segment liabilities	36,951	24,396	816	900	4,014	68,825	135,902
Capital expenditure**	18,912	648	64	149	109	13,881	33,763

* EBITDA – earnings before interest, tax, depreciation and amortisation, calculated as gross profit under RSA before depreciation.

** Capital expenditure represents additions to property, plant and equipment under RSA, including advances to construction companies and suppliers of property, plant and equipment.

Included in Retailing segment are the Group's subsidiaries that are classified as a disposal group (Note 14).

A reconciliation of the reportable segments results to the Consolidated Financial Statements for the years

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ended 31 December 2010 and 31 December 2009 and as at these dates is presented below:

	Year ended 31 December 2010	Year ended 31 December 2009
Total revenue of reportable segments (RSA)	449,395	359,306
Revenue of all other segments	3,976	2,752
Differences in revenue recognition under IFRS	(8,591)	(3,996)
Elimination of intersegment revenues	(26,737)	(19,108)
Other	(40)	(494)
Total revenue (IFRS)	418,003	338,460

	Year ended 31 December 2010	Year ended 31 December 2009
EBITDA of reportable segments (RSA)	68,986	56,359
EBITDA of all other segments	404	467
Finance lease adjustment	1,223	1,218
Accrual of impairment of accounts receivable (Note 23)	(464)	(2,832)
Effect of Share Option Programmes (Note 6)	(783)	(230)
(Reversal) / accrual of insurance indemnity	(1,869)	2,113
Differences in expenses classification	(4,498)	(1,787)
Depreciation of property, plant and equipment (Note 23)	(11,354)	(12,275)
Impairment of property, plant and equipment (Note 7)	(24,293)	-
Other	(1,424)	(2,357)
Operating profit (IFRS)	25,928	40,676

Reportable segments' liabilities are reconciled to total liabilities as follows:

	31 December 2010	31 December 2009
Total reportable segment liabilities (RSA)	94,293	67,077
Liabilities of all other segments	111,206	68,825
Deferred tax	41,602	31,213
Pension adjustment	2,015	1,762
Finance lease adjustment	1,453	2,151
Adjustment on derivative financial instruments	25	1,180
Discounting of financial instruments	(2,178)	(2,254)
Elimination of intercompany balances	(116,541)	(68,226)
Other	1,017	(662)
Total liabilities (IFRS)	132,892	101,066

Reportable segments' assets are reconciled to total assets as follows:

	31 December 2010	31 December 2009
Total reportable segment assets (RSA)	631,908	540,555
Assets of all other segments	174,279	90,816
Property, plant and equipment adjustment	69,705	2,136
Adjustment on assets classified as held for sale and investments in associates and jointly controlled entities	8,995	5,113
Finance lease adjustment	2,138	2,194
Deferred tax	(799)	(1,559)
Unrealised profit adjustment	(2,067)	(1,530)
Reversal of interest expenses capitalised in RSA	(2,663)	(2,890)
Impairment of accounts receivable	(3,737)	(4,966)
Adjustment on fair value of available-for-sale financial assets	(5,380)	(535)
Treasury shares adjustment	(13,216)	(12,651)
Discounting of financial instruments	(21,417)	(4,693)
Elimination of investments in subsidiaries	(70,999)	(37,890)
Elimination of intercompany balances	(116,541)	(68,226)
Other	798	992
Total assets (IFRS)	651,004	506,866

Note 6. Related party transactions

Parties are generally considered to be related if they are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group's principal related parties for the year ended 31 December 2010 were jointly controlled entities, associates of the Group (Note 8) and government-related entities.

Jointly controlled entities

The Group had the following balances with its jointly controlled entities:

	Note	31 December 2010	31 December 2009
Promissory notes	10	4,737	9,592
Advances received	20	341	242

The total loss incurred on discounting of the promissory notes of jointly controlled entities for the year ended 31 December 2010 comprised RR 16,781 million (for the year ended 31 December 2009: RR 3,889 million) (Note 10). Out of the total loss RR 16,496 million was eliminated against the corresponding gain recognised on discounting in the jointly controlled entities (for the year ended 31 December 2009: RR 3,277 million) (Note 8).

During the year ended 31 December 2010 the Group has continued to finance jointly controlled entities through the purchase of promissory notes, total cash contributions for 2010 comprised RR 13,077 million, RR 1,151 million of promissory notes were redeemed during the year (Note 10).

The Group had the following transactions with its jointly controlled entities:

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Other revenue	22	413	311

Associates

The Group had the following balances with its associates:

	Note	31 December 2010	31 December 2009
Trade and other receivables	12	10	117

The Group had the following transactions with its associates:

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Purchased electricity and capacity	23	69	3,790

Government-related entities

In the normal course of business the Group enters into transactions with the entities controlled by the Government. The Group had transactions during the years ended 31 December 2010 and 31 December 2009 and balances outstanding as at 31 December 2010 and 31 December 2009 with the following government-related banks: OJSC Sberbank of Russia, OJSC VTB Bank, CJSC VTB24, OJSC Gazprombank (Notes 10, 11, 13, 18). Loans are provided at market rates.

During the year ended 31 December 2010 the Company placed 1,664,372,670 shares each with a par value of RR 1.00 and with placement prices ranging from RR 1.15 to RR 1.61 (during the year ended 31 December 2009: 12,687,083,491 shares each with a par value and placement price of RR 1.00) in favour of the Russian Federation (Notes 15, 20).

The Group sells electricity and capacity to government-related entities. Prices for such electricity and capacity sales are based on tariffs set by FST and Regional Energy Commissions. The Group's sales to government-related entities comprised approximately 25 percent of total sales for the year ended 31 December 2010 (for the year ended 31 December 2009: 24 percent). The Group's purchases of electricity and capacity from government-related entities comprised approximately 35 percent of total expenses on purchased electricity and capacity for the year ended 31 December 2010 (for the year ended

31 December 2009: 54 percent).

Electricity distribution services provided to the Group by government-related entities comprised approximately 97 percent of total electricity distribution expenses for the year ended 31 December 2010 (for the year ended 31 December 2009: 86 percent). The distribution of electricity is subject to tariff regulations.

Key management of the Group. Compensation is paid to the members of the Management Board of the Company for their services in full time management positions. The compensation is made up of a contractual salary and performance bonus depending on the results of the work for the period based on key performance indicators. The compensation and key performance indicators are approved by the Board of Directors.

Fees, compensation or allowances to the members of the Board of Directors of the Company for their services in their capacity and for attending Board meetings are paid depending on the results for the year.

Total remuneration paid to the members of the Management Board and Board of Directors of the Company for the year ended 31 December 2010 was RR 148 million (for the year ended 31 December 2009: RR 115 million).

Employee's Share Option Programme 2007. In May 2007 the Company's Board of Directors approved the first Share Option Programme of the Company (hereinafter referred to as "Programme 2007"), according to which members of the Management Board and other key employees of the Group became its participants.

The Programme 2007 was operated by LLC ESOP which keeps 3,137,287,475 treasury shares of the Company (Note 15).

In accordance with the regulations of Programme 2007, its participants signed agreements to purchase the Company's shares under which the property title to the shares was transferred and payment was to be made after 3 years, starting from 3 September 2007. On 11 February 2010 the Company's Board of Directors approved amendments to the regulation of the Programme 2007, which extended the period during which the participants can exercise their options up to two years after 2 September 2010. Previously the Programme 2007 participants could exercise the share option within the month ended 2 September 2010.

The extension of the options execution period affected the fair value of the options granted. On 11 February 2010 the Group has determined (i) the fair value of options using existing terms and conditions, and (ii) the fair value of the options with the extended exercise period. The difference between the two fair values at the date of amendments was an incremental employee benefit. The incremental employee benefit was expensed over the period from 11 February 2010 to the vesting date in September 2010. The original grant date fair value continued to be amortised, using the original graded vesting schedule, over the period from the original 3 September 2007 grant date to the vesting date in September 2010.

The estimate of the fair value of the services received was measured based on the Black-Scholes model:

	Original value calculated as at 3 September 2007	Before modification measured as at the date of amendments	After modification measured as at the date of amendments
Share price (in RR)	1.73	1.19	1.19
Exercise price (in RR)	1.73	1.73	1.73
Expected volatility (%)	27.00	60.37	60.37
Option life (days)	1,096	203	934
Risk-free interest rate (%)	6.13	5.55	6.08
Fair value of the option at measurement date (in RR)	0.456	0.080	0.360

The increase in the fair value from RR 0.080 to RR 0.360 at the date of amendments to the Programme 2007 is explained by the increase in the expected volatility from 27 percent as at 3 September 2007 to 60.37 percent as at 11 February 2010 and the extension of the option execution period by two years. To determine volatility as at 3 September 2007 the Group used the historical volatility of the share prices of publicly traded shares of peer group companies; as at 11 February 2010 the Group used historical ordinary share prices of the Company traded on the Russian Trading System during the one year period before the date of the amendments to the Programme 2007, excluding the two weeks period after the accident at Sayano-Shushenskaya HPP (Note 1) to eliminate the impact of the extraordinary event.

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Changes in the amounts of options granted are described in the table below:

	All options granted under the Programme	Attributed to members of the Managements Board
Number of options as at 1 January 2009	2,757,728,249	698,046,459
Option agreements signed in 2009	118,335,752	-
Reclassification out of Management Board category	-	(487,109,677)
Options forfeited in 2009	(183,883,017)	(30,542,753)
Number of options as at 1 January 2010	2,692,180,984	180,394,029
Option agreements signed in 2010	332,522	-
Changes in members of the Management Board	-	(7,843,219)
Options forfeited in 2010	(109,461,694)	-
Number of options outstanding as at 31 December 2010	2,583,051,812	172,550,810

For the year ended 31 December 2010 the Group recognised an expense of RR 723 million within employee benefit expenses related to the fair value of the options under the Programme 2007 (for the year ended 31 December 2009: RR 230 million).

Employee's Share Option Programme 2010. On 22 December 2010 the Group approved the conditions of the second Share Option Programme (hereinafter referred to as "Programme 2010"). A total of up to 3,178,775,724 ordinary shares are planned to be allocated under Programme 2010. 65 percent of total number of shares under Programme 2010 were granted to the Management Board as at 22 December 2010. Information on Programme 2010 was communicated to other employees in 2011.

The operator of Programme 2010 is the Group's subsidiary OJSC HydroInvest.

The estimate of the fair value of the services received was measured based on the Black-Scholes model:

	Value calculated as at 22 December 2010
Share price (in RR)	1.66
Exercise price (in RR)	1.4967
Expected volatility (%)	32.74
Option life (days)	731
Risk-free interest rate (%)	6.17
Fair value of the option at measurement date (in RR)	0.448

For the year ended 31 December 2010 the Group recognised an expense of RR 61 million within employee benefit expenses related to the fair value of the options under the Programme 2010.

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Note 7. Property, plant and equipment

Cost	Production buildings	Facilities	Plant and equipment	Assets under construction	Other	Total
Opening balance as at 31 December 2009	41,766	202,943	95,319	105,592	4,049	449,669
Revaluation reserve (net)	7,456	90,180	(3,620)	-	659	94,675
Additions	152	7	605	59,300	1,255	61,319
Transfers	2,459	11,903	8,963	(23,590)	265	-
Disposals (Note 23)	(349)	(4,004)	(886)	(1,040)	(128)	(6,407)
Elimination of accumulated depreciation	(1,326)	(7,953)	(15,046)	-	(670)	(24,995)
Reclassification to disposal group (Note 14)	(3,418)	(22)	(2,048)	(675)	(742)	(6,905)
Closing balance as at 31 December 2010	46,740	293,054	83,287	139,587	4,688	567,356
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2009	(5,541)	(29,333)	(16,406)	(37,914)	(877)	(90,071)
Charge of impairment	(4,497)	(11,320)	(9,302)	(8,820)	(144)	(34,083)
Reversal of impairment	966	3,749	1,639	3,416	20	9,790
Charge for the period	(758)	(3,380)	(7,195)	-	(250)	(11,583)
Transfers	(381)	(3,505)	(1,958)	5,856	(12)	-
Disposals (Note 23)	172	1,051	318	75	108	1,724
Elimination of accumulated depreciation	1,326	7,953	15,046	-	670	24,995
Reclassification to disposal group (Note 14)	257	4	660	-	224	1,145
Closing balance as at 31 December 2010	(8,456)	(34,781)	(17,198)	(37,387)	(261)	(98,083)
Net book value as at 31 December 2010	38,284	258,273	66,089	102,200	4,427	469,273
Net book value as at 31 December 2009	36,225	173,610	78,913	67,678	3,172	359,598
Cost	Production buildings	Facilities	Plant and equipment	Assets under construction	Other	Total
Opening balance as at 31 December 2008	40,791	193,815	92,162	90,011	3,241	420,020
Additions	85	87	2,588	33,328	214	36,302
Transfers	1,584	9,586	5,625	(17,481)	686	-
Disposals (Note 23)	(694)	(545)	(5,056)	(266)	(92)	(6,653)
Closing balance as at 31 December 2009	41,766	202,943	95,319	105,592	4,049	449,669
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2008	(4,460)	(24,603)	(7,740)	(40,963)	(524)	(78,290)
Charge for the period	(743)	(3,364)	(7,921)	-	(393)	(12,421)
Transfers	(363)	(1,519)	(1,116)	2,998	-	-
Disposals (Note 23)	25	153	371	51	40	640
Closing balance as at 31 December 2009	(5,541)	(29,333)	(16,406)	(37,914)	(877)	(90,071)
Net book value as at 31 December 2009	36,225	173,610	78,913	67,678	3,172	359,598
Net book value as at 31 December 2008	36,331	169,212	84,422	49,048	2,717	341,730

Assets under construction represent the carrying amount of property, plant and equipment that has not yet been put into operation, including hydropower plants under construction, and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2010 such advances amounted to RR 26,661 million (31 December 2009: RR 11,777 million).

In May 2010 the Company acquired a 100 percent interest in CJSC Malaya Dmitrovka for a cash consideration of RR 2,055 million. The entity's main asset is an office building under construction in Moscow,

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Russia with the carrying value of RR 3,213 million. This transaction was accounted for as an acquisition of assets, not a business combination, as the acquiree was not a business.

Additions to assets under construction included capitalised borrowing costs of RR 131 million (for the year ended 31 December 2009: RR 16 million).

Additions to assets under construction included capitalised depreciation in the amount of RR 229 million (for the year ended 31 December 2009: RR 146 million).

Other property, plant and equipment include motor vehicles, land, computer equipment, office fixtures and other equipment.

Impairment as at 31 December 2010 and 31 December 2009. Management of the Company analysed the current economic situation and indicators of property, plant and equipment as at 31 December 2010 and 31 December 2009 and estimated the necessity of calculation of the recoverable amount of assets. For the purpose of calculation of the recoverable amount of property, plant and equipment value in use was determined based on future cash flows. Branches and subsidiaries were set as a cash generating units. The Company's branches and the Group's subsidiaries were considered to be separate cash-generating units.

The following key assumptions were used when the cash flow testing was performed for the years ended 31 December 2010 and 31 December 2009:

Key assumptions used in the cash flow testing	Year ended 31 December 2010	Year ended 31 December 2009
Information used	Actual operating results for the year and business plans for 2011 – 2015	Actual operating results for the year and business plans for 2010 – 2013
Forecast period*	10 years (2011 – 2020)	11 years (2010 – 2020)
Forecasted growth rates	2.6 percent	3.2 percent
Discount rate (weighted average cost of capital) (WACC)	12.0 percent	14.0 percent
Forecast of electricity and capacity prices	Based on the forecast prepared by reputable independent company CJSC Energy Forecasting Agency	
Forecast of capacity prices related to competitive capacity selection	For 2011 – based on the results of competitive capacity selection, except for stations, where regulated tariffs are used For 2012 – 2020 – adjusted on consumer index price	-
Forecast of electricity and capacity volumes	Based on the Company's management assessment of future trends in the business	
Forecast of capital expenditures	Based on the management valuation of capital expenditures on modernisation and reconstruction programme	Based on the Company's short-term investment programme for 2010 and medium-term investment programme for 2011 – 2015, and set at the amount equal to the depreciation charge for 2016 – 2020
	Taking into account investment uplift in tariff in the amount of investment required to finance capital expenditure approved for 2011	Taking into account investment uplift in tariff in the amount of investment required to finance capital expenditure approved for 2010 and planned to be received for 2011 – 2014

* Management considers that a forecast period greater than five years is appropriate as the wholesale electricity and capacity market is expected to change significantly over the forecast period and cash flow projections will be not stabilised within five years.

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

Due to the deterioration in expectations as regards the achievable sales prices and volumes in the new market conditions, for a number of cash-generating units (mainly located in the Far East region) an additional impairment loss was recognised in the amount of RR 24,293 million as at 31 December 2010 (31 December 2009: RR nil million).

However, the calculation of the recoverable amounts of cash-generating units is highly sensitive to the level of future electricity and capacity prices, forecasted weighted average cost of capital (WACC) and forecasted volumes of capital expenditures.

If the electricity and capacity prices were 10 percent lower in the forecasted period, there would be an impairment loss of RR 43,184 million recognised as at 31 December 2010.

If the discount rate (WACC) was 1 percent higher in the forecasted period, there would be an impairment loss of RR 32,033 million recognised as at 31 December 2010.

If the volumes of capital expenditures prices were 10 percent higher in the forecasted period, there would be an impairment loss of RR 29,799 million recognised as at 31 December 2010.

Revaluation as at 31 December 2010. As at 31 December 2010 the Group performed a revaluation of property, plant and equipment (31 December 2009: no revaluation was performed). The revaluation was performed by an independent appraiser.

As a result of the revaluation undertaken as at 31 December 2010, a number of the separately identified cash-generating units had revalued amounts in excess of the carrying value of the related property, plant and equipment, but below the recoverable amount when calculated using the discounted cash flows. For these assets, the revaluation surplus recognised as a result of the revaluation was restricted to that supported by the relevant discounted cash flow.

Where the recoverable value was lower than the carrying value of the property, plant and equipment after the revaluation performed as at 31 December 2010, but above the historic carrying value excluding the effect of past revaluations, the reduction in the carrying value was taken directly to equity and shown as a reduction in the revaluation surplus.

As a result of the revaluation the Group's equity increased by RR 75,740 million as at 31 December 2010, comprising an increase in the carrying value of property, plant and equipment of RR 94,675 million, net of a related deferred tax liability of RR 18,935 million.

The net increase in the carrying value of property, plant and equipment of RR 94,675 million resulted from increase in the revaluation reserve on property, plant and equipment of RR 146,993 million and the reversal of a previously recognised revaluation reserve of RR 52,318 million.

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

	Production buildings	Facilities	Plant and equipment	Assets under construction	Other	Total
Net book value as at 31 December 2010	13,498	74,278	40,884	102,200	2,348	233,208
Net book value as at 31 December 2009	18,503	77,623	46,482	67,679	1,795	212,082

Leased property, plant and equipment. The Group leases property, plant and equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. As at 31 December 2010 the net book value of leased property, plant and equipment was RR 5,185 million (31 December 2009: RR 5,781 million). The leased equipment is pledged as a security for the lease obligation.

Operating lease. The Group leases a number of land areas owned by local governments and production buildings under non-cancellable operating lease agreements. Land lease payments are determined by lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2010	31 December 2009
Less than one year	848	997
Between one and five years	1,865	2,849
After five years	12,444	12,609
Total	15,157	16,455

The land areas leased by the Group are the territories on which the Group's hydropower stations and other assets are located. According to the Land Code of the Russian Federation such land areas are limited in their alienability and cannot become private property. The Group's leases typically run for an initial period of

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5 – 49 years with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

Note 8. Investments in associates and jointly controlled entities

The tables below summarise the movements in the carrying value of the Group's interests in associates and jointly controlled entities:

	Carrying value as at 31 December 2009	Acquisition and additional contribution	Reclassification	Share of directly profit / (loss)	Charged directly to other comprehensive income	Carrying value as at 31 December 2010
Associates						
OJSC Krasnoyarskaya HPP (Note 15)	-	21,207	99	28	-	21,334
OJSC WGC-1 (Notes 9, 14)	11,737	-	(11,737)	-	-	-
Other	196	-	-	(103)	-	93
Jointly controlled entities						
BoGES Group*	6,450	-	-	6,702	465	13,617
BALP Group*	-	1,151	-	809	-	1,960
Other	87	-	-	-	(1)	86
Total investments in associates and jointly controlled entities	18,470	22,358	(11,638)	7,436	464	37,090

	Carrying value as at 31 December 2008	Share of profit / (loss)	Charged directly to other comprehensive income	Carrying value as at 31 December 2009
Associates				
OJSC WGC-1	11,110	622	5	11,737
Other	250	(54)	-	196
Jointly controlled entities				
BoGES Group*	4,271	2,179	-	6,450
BALP Group*	65	(65)	-	-
Other	104	(21)	4	87
Total investments in associates and jointly controlled entities	15,800	2,661	9	18,470

* BoGES Group consists of BoGES Ltd and OJSC Boguchanskaya HPP. BALP Group consists of BALP Ltd and CJSC Boguchansky Aluminium Plant.

As at 31 December 2009 the carrying value of the investment in BALP Group was nil, initial investment amounted to RR 766 million. The cumulative unrecognised share of losses of BALP Group for the year ended 31 December 2009 was RR 1,647 million. As at 31 December 2010 the carrying value of investment in BALP Group had recovered as a result of an additional contribution of RR 1,151 million made by the Group to the share capital and the recognition of the Group's share of BALP Group's profits for the year ended 31 December 2010 in the amount of RR 2,456 million.

The Group's share of the results, aggregated assets and liabilities of its associates and jointly controlled entities are as follows:

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31 December 2010	% held	Assets	Liabilities	Profit / (loss)	Elimination of loss on discounting (Note 6)	Resulting profit / (loss)
Associates						
OJSC Krasnoyarskaya HPP (Note 15)*	25.00 – 1 share	21,476	(142)	28	-	28
Other		221	(128)	(103)	-	(103)
Jointly controlled entities						
BoGES Group	50.00	22,308	(8,691)	6,702	(13,790)	(7,088)
BALP Group	50.00	3,902	(1,942)	809	(2,706)	(1,897)
Other		90	(4)	-	-	-
Total		47,997	(10,907)	7,436	(16,496)	(9,060)

31 December 2009	% held	Assets	Liabilities	Profit / (loss)	Elimination of loss on discounting (Note 6)	Resulting profit / (loss)
Associates						
OJSC WGC-1	22.69	16,695	(4,958)	622	-	622
Other		359	(163)	(54)	-	(54)
Jointly controlled entities						
BoGES Group	50.00	20,314	(13,864)	2,179	(3,277)	(1,098)
BALP Group	50.00	7,642	(9,289)	(65)	-	(65)
Other		95	(8)	(21)	-	(21)
Total		45,105	(28,282)	2,661	(3,277)	(616)

* Provisional recognised values of OJSC Krasnoyarskaya HPP; assets mainly consist of property, plant and equipment.

The Group's share of resulting loss of associates and jointly controlled entities for the year ended 31 December 2010 is primarily attributed to the impairment of property, plant and equipment of BoGES Group and the prior year cumulative unrecognised share of losses of BALP Group.

As at 31 December 2009 a 22.69 percent interest in OJSC WGC-1 was included in investments in associates and jointly controlled entities in the amount of RR 11,737 million. From 1 January 2010 the Group applied amendment to IFRS 5 by analogy and classified its interest in OJSC WGC-1 as held for sale (Note 2). Following the share issue of OJSC WGC-1 in favour of OJSC INTER RAO UES completed on 27 December 2010, the Group's interest in OJSC WGC-1 was diluted to 15.48 percent. As a result, on 27 December 2010 this investment was reclassified to available-for-sale financial assets; a RR 358 million gain was recognised as a result of the dilution (Note 23). Subsequently interest in OJSC WGC-1 was reclassified to available-for-sale financial assets classified as held for sale (Notes 9, 14).

On 8 December 2010 the Group acquired an interest in OJSC Krasnoyarskaya HPP. The acquisition was made through an exchange of treasury shares (Note 15). As a result, the Group's share in Krasnoyarskaya HPP comprised 25 percent minus 1 share (31 December 2009: 0.12 percent interest).

Note 9. Available-for-sale financial assets

As at 31 December 2009 LLC Index energetiki – HydroWGC had investments in various utilities companies which were classified as available-for-sale financial assets. On 27 December 2010, under the circumstances described in Note 14, these investments, except for interests in OJSC Interregional Distribution Grid Companies Holding and OJSC INTER RAO UES, were classified as held for sale.

On 27 December 2010 the Group's 15.48 percent investment in OJSC WGC-1 (Note 8), under the circumstances described in Note 14, was classified as held for sale.

The fair values of the available-for-sale financial assets were calculated based on the quoted market prices.

The analysis of trading volumes for the years ended 31 December 2010 and 31 December 2009 confirmed that there were no reductions in the trading activity or significant changes in the free float or other circumstances and therefore that an active market for available-for-sale financial assets existed.

Gains arising on available-for-sale financial assets, classified as held for sale as at 31 December 2010, totaled RR 294 million, net of tax, on other available-for-sale financial assets – RR 2,257 million, net of tax for the year ended 31 December 2010 and were recorded within other comprehensive income (for the year ended 31 December 2009: RR 4,630 million, net of tax).

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Note 10. Other non-current assets

	31 December 2010	31 December 2009
Long-term promissory notes and deposits (Net of discount of RR 21,048 million, effective interest rate: 9.75% – 13.50%, due 2012 – 2029 as at 31 December 2010 and RR 3,889 million, effective interest rate: 10.50% – 13.50%, due 2010 – 2014 as at 31 December 2009)	13,121	16,571
VAT recoverable	3,284	3,065
Goodwill (Notes 4, 14)	929	396
Long-term loans receivable (Net of discount of RR 45 million as at 31 December 2010 and RR 87 million as at 31 December 2009)	226	229
Other non-current assets (Net of provision for impairment of accounts receivable of RR nil million as at 31 December 2010 and RR 243 million as at 31 December 2009)	2,191	3,020
Total other non-current assets	19,751	23,281

Long-term promissory notes and deposits	Rating	Rating agency	Effective interest rate	Maturity date	31 December 2010	31 December 2009
Long-term promissory notes						
LLC Energo-finance	-	-	10.50%	2014	7,660	6,899
OJSC Boguchanskaya HPP	-	-	9.75%	2029	3,585	8,408
CJSC Boguchansky Aluminium Plant	-	-	10.00%	2024	1,152	1,184
OJSC Alfa Bank	Ba1	Moody's	10.00% – 11.00%	2015	420	-
Other					304	1
Long-term deposits						
OJSC Sberbank of Russia	Baa1	Moody's	11.90% – 13.50%	2011	-	79
Total long-term promissory notes and deposits					13,121	16,571

The Company together with RUSAL Group is involved in the construction of Boguchanskaya HPP and Boguchansky aluminium plant (hereinafter referred to as "BEMA project") (Note 27). In 2010 the BEMA project was financed through the purchase of interest-free promissory notes of OJSC Boguchanskaya HPP and CJSC Boguchansky Aluminium Plant.

On 22 October 2010 the Extraordinary General Meeting of shareholders of the Company approved financing of BEMA project through loan agreements between OJSC Boguchanskaya HPP and the State Corporation Vnesheconombank for RR 28,100 million and between CJSC Boguchansky Aluminium Plant and the State Corporation Vnesheconombank for RR 21,910 million (Note 28).

In accordance with the terms of these loan agreements the maturities of OJSC Boguchanskaya HPP and CJSC Boguchansky Aluminium Plant promissory notes were prolonged till 2029 and 2024 respectively.

As at 31 December 2010 the promissory notes of OJSC Boguchanskaya HPP and CJSC Boguchansky Aluminium Plant were recognised at their amortised cost net of discounts of RR 17,442 million and RR 3,228 million respectively (31 December 2009: RR 3,409 million and RR 480 million respectively) (Note 6).

Interest-bearing promissory notes of LLC Energo-finance, secured with a guarantee from Rusenergo Fund Limited, with a 13 percent annual interest rate payable on demand, but not earlier than 12 December 2014, were recognised as at 31 December 2010 at an amortised cost, including accrued interest, of RR 7,660 million (31 December 2009: RR 6,899 million).

Note 11. Cash and cash equivalents

	31 December 2010	31 December 2009
Cash at bank and in hand	10,209	8,748
Cash equivalents (contractual interest rate: 2.00% – 7.10%)	8,881	43,695
Total cash and cash equivalents	19,090	52,443

Cash equivalents held as at 31 December 2010 and 31 December 2009 comprised short-term bank deposits

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with original maturities of three months or less.

Cash and cash equivalents balances denominated in US Dollars as at 31 December 2010 were RR 83 million (31 December 2009: RR 320 million). Cash and cash equivalents balances denominated in Euros as at 31 December 2010 were RR 839 million (31 December 2009: RR 1,258 million). Cash and cash equivalents are deposited in several institutions as follows:

	Rating	Rating agency	31 December 2010	31 December 2009
Bank deposits				
OJSC Gazprombank	BB	Standard & Poor's	3,489	20,675
CJSC Peresvet	-	-	2,701	-
OJSC Nomos-Bank	BB-	Fitch Ratings	1,000	-
OJSC Sberbank of Russia	Baa1	Moody's	909	14,454
CJSC VTB24	Baa1	Moody's	-	5,660
CJSC Raiffeisenbank	BBB+	Fitch Ratings	-	1,171
OJSC Alfa-Bank	BB-	Standard & Poor's	-	578
Other			782	1,157
Total cash equivalents			8,881	43,695
Cash at banks				
OJSC Gazprombank	BB	Standard & Poor's	4,528	3,280
OJSC Sberbank of Russia	Baa1	Moody's	1,094	1,445
CJSC Raiffeisenbank	BBB+	Fitch Ratings	893	-
OJSC Rosbank	BBB+	Fitch Ratings	722	38
OJSC VTB Bank	BBB	Fitch Ratings	417	307
OJSC Alfa-Bank	BB-	Standard & Poor's	317	1,489
Other			2,238	2,189
Total cash at banks			10,209	8,748

The line Cash and cash equivalents as at 31 December 2010 in the Consolidated Statement of Cash Flows included RR 5,896 million of cash and cash equivalents held by the disposal group classified as held for sale (Note 14).

Note 12. Accounts receivable and prepayments

	31 December 2010	31 December 2009
Trade receivables	9,760	15,880
(Net of provision for impairment of accounts receivable of RR 2,944 million as at 31 December 2010 and RR 6,652 million as at 31 December 2009)		
VAT recoverable	9,737	5,167
Income tax receivable	2,436	2,185
Advances to suppliers and prepayments	1,015	1,144
(Net of provision for impairment of accounts receivable of RR 131 million as at 31 December 2010 and RR 173 million as at 31 December 2009)		
Other receivables	1,320	9,001
(Net of provision for impairment of accounts receivable of RR 10 million as at 31 December 2010 and RR 529 million as at 31 December 2009)		
Total accounts receivable and prepayments	24,268	33,377

As at 31 December 2010 RR 20,951 million of accounts receivable and prepayments are presented within assets of disposal group (Note 14).

The majority of customers, balances of which are included in trade receivables, comprise a single class, as they bear the same characteristics.

As at 31 December 2009 amount receivable under an insurance indemnity from OJSC IC ROSNO in connection with the accident at Sayano-Shushenskaya HPP (Note 1) was included in other receivables and comprised RR 6,046 million (Note 23). The final payment of the insurance indemnity was made in July 2010.

The provision for impairment of accounts receivable has been determined based on specific customer identification, customer payment trends, subsequent receipts and settlements and the analysis of expected

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future cashflows (Note 3). The Group believes that the Group's subsidiaries will be able to realise the net receivable amount through direct collections and other non-cash settlements, and the recorded value approximates their fair value.

Movements in the impairment provision for trade and other receivables are as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
As at 1 January	7,354	4,457
Charge for the year	3,735	4,955
Reversal of impairment	(3,096)	(1,534)
Trade receivables written-off as uncollectible	(826)	(524)
Reclassification to assets of disposal group (Note 14)	(4,082)	-
As at 31 December	3,085	7,354

As at 31 December 2010 the accounts receivable of RR 3,439 million (31 December 2009: RR 3,012 million) were past due but not impaired. These receivables relate to a number of independent customers without recent history of default. The ageing analysis of these trade receivables is as follows:

31 December 2010	Less than 3 months	Between 3 and 12 months	Beyond 12 months	Total
Accounts receivable past due, not impaired	730	1,731	978	3,439
% to total	21%	50%	29%	

31 December 2009	Less than 3 months	Between 3 and 12 months	Beyond 12 months	Total
Accounts receivable past due, not impaired	376	1,244	1,392	3,012
% to total	12%	42%	46%	

As at 31 December 2010 accounts receivable past due but not impaired related to assets of disposal group (Note 14) were as follows:

31 December 2010	Less than 3 months	Between 3 and 12 months	Beyond 12 months	Total
Accounts receivable past due, not impaired	2,377	3,190	554	6,121
% to total	39%	52%	9%	

The counterparties, balances of which fall into trade receivables and other receivables categories, and which are neither past due nor impaired, have approximately the same credit quality.

The Group does not hold any accounts receivable pledged as collateral.

Note 13. Other current assets

	31 December 2010	31 December 2009
Promissory notes and deposits	21,919	11,560
Other short-term investments	2	6
Total other current assets	21,921	11,566

Promissory notes and deposits	Rating	Rating agency	Effective interest rate	31 December 2010	31 December 2009
Promissory notes					
OJSC SO UES	-	-	8.80%	705	615
OJSC VTB Bank	BBB	Fitch Ratings	7.00% – 11.00%	145	6,408
Other promissory notes				409	40
Deposits					
OJSC Rosselkhozbank	BBB	Fitch Ratings	5.50% – 6.10%	6,550	-
OJSC Bank of Moscow	B+	Standard & Poor's	5.25% – 6.76%	4,825	-
OJSC Sberbank of Russia	Baa1	Moody's	2.90% – 4.10%	3,362	288
OJSC Nomos-Bank	BB-	Fitch Ratings	4.52% – 6.07%	3,325	-
OJSC Gazprombank	BB	Standard & Poor's	4.40%	1,550	-
OJSC KIT Finance	-	-	7.75%	-	2,517
Other deposits				1,048	1,692
Total promissory notes and deposits				21,919	11,560

Note 14. Non-current assets classified as held for sale and disposal group

In accordance with the decisions of the Russian Government defining the list of assets to be contributed in the course of additional share issue of OJSC INTER RAO UES, on the 27 December 2010, when completion of the transaction became highly probable, the Group has classified the following equity investments as non-current assets held for sale and disposal group:

Subsidiaries (disposal group): OJSC Mosenergosbyt (with the following subsidiaries: LLC Integrator IT, LLC Mosenergosbyt – Domodedovo, LLC Mosenergosbyt – Egorievsk, LLC Mosenergosbyt – Naro-Fominsk, LLC Mosenergosbyt – Orekhovo-Zuevo, OJSC Mosenergosbyt – Pushkino, LLC Mosenergosbyt – Sergiev Posad, LLC Mosenergosbyt – Chekhov, LLC Mosenergosbyt – Shatura, LLC Mosenergosbyt – Electrostal, LLC Mosenergosbyt – Ramenskoye, OJSC Mosenergosbyt – Serpukhov, LLC Mosenergosbyt – Lukhovitsy, OJSC Mosenergosbyt – Podolsk, OJSC Mosenergosbyt – Schelkovo, LLC Mosenergosbyt – Zhukovsky and LLC Mosenergosbyt – Noginsk, OJSC ESCMO, OJSC Korolevskaya Electricity Grid Company), OJSC Saint Petersburg Sale Company (with the following subsidiaries: CJSC Petroelectrosbyt and LLC Energia Holding), OJSC Altayenergosbyt, OJSC Tambov Energy Retailing Company, OJSC Saratovenergo, OJSC United Energy Retailing Company. All subsidiaries are included in Retailing segment (Note 5).

Available-for-sale financial assets: certain equity investments of LLC Index energetiki – HydroWGC and the Group's investment in OJSC WGC-1 (Note 9).

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Major classes of non-current assets classified as held for sale and assets of disposal group are as follows:

	Note	31 December 2010
Non-current assets		
Property, plant and equipment	7	5,760
Deferred income tax asset	16	304
Goodwill		396
Other non-current assets	10	1,850
Total non-current assets		8,310
Current assets		
Cash and cash equivalents	11	5,896
Trade receivables	12	18,195
Advances to suppliers and prepayments	12	386
Other receivables	12	2,370
Inventories		268
Other current assets	13	1,261
Total current assets		28,376
Available-for-sale financial assets classified as held for sale		18,507
Non-current assets and assets of disposal group classified as held for sale		55,193

Major classes of liabilities directly associated with disposal group are as follows:

	Note	31 December 2010
Non-current liabilities		
Deferred income tax liabilities	16	1,020
Other non-current liabilities	19	517
Total non-current liabilities		1,537
Current liabilities		
Current debt and current portion of non-current debt	18	1,429
Trade accounts payable	20	14,905
Advances received	20	7,673
Other payables	20	2,321
Current income tax payable		424
Other taxes payable	21	1,217
Total current liabilities		27,969
Liabilities of disposal group classified as held for sale		29,506

Revenue and expenses of retail subsidiaries classified as disposal group as at 31 December 2010 are as follows:

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Revenue	22	293,133	230,091
Expenses, including:	23	(279,609)	(223,050)
Purchased electricity and capacity		(153,038)	(119,369)
Electricity distribution expenses		(112,203)	(91,648)
Operating profit		13,524	7,041

Cumulative gains recognised in other comprehensive income relating to the available-for-sale financial assets classified as held for sale comprised RR 6,329 million.

The actual transfer of assets as contributions to the share capital of OJSC INTER RAO UES took place in 2011 (Note 33).

Note 15. Equity

	31 December 2010	31 December 2009
Number of issued ordinary shares	288,695,430,802	269,695,430,802
Par value (in RR)	1.00	1.00

Share issues. On 17 November 2008 the Extraordinary General Meeting of shareholders of the Company adopted a resolution to make two placements of ordinary shares, one for 10,000,000,000 and the other for 16,000,000,000, with a par value and placement price of RR 1.00 per share by open subscription with a cash consideration.

The share issue for 10,000,000,000 ordinary shares was registered with the Federal Service for Financial Markets of Russia (hereinafter referred to as "the FSFM") on 2 December 2008. Out of the total offering of 10,000,000,000 shares the company placed 9,999,959,476 ordinary shares. The Report on the share issue was registered with the FSFM on 19 March 2009.

On 14 May 2009 the share issue for 16,000,000,000 ordinary shares was registered with the FSFM. Out of the total offering of 16,000,000,000 shares the Company placed 14,681,412,135 ordinary shares. The Report on the share issue was registered with the FSFM on 24 September 2009.

On 10 June 2009 the Extraordinary General Meeting of shareholders of the Company adopted a resolution to make a placement of 19,000,000,000 ordinary shares, with a par value of RR 1.00 and placement price of RR 1.15 per share by open subscription with a cash consideration.

On 19 November 2009 the share issue for 19,000,000,000 ordinary shares was registered with the FSFM. Out of the total offering all of 19,000,000,000 shares were placed. The Report on the share issue was registered with the FSFM on 30 September 2010.

On 22 October 2010 the Extraordinary General Meeting of shareholders of the Company adopted a resolution to make a placement of 1,860,000,000 ordinary shares of the Company with a par value of RR 1.00 and placement price of RR 1.61 per share by open subscription with a cash consideration (Note 33).

Treasury shares. Treasury shares as at 31 December 2010 were represented by 8,011,595,276 ordinary shares in the amount of RR 9,558 million (31 December 2009: 9,882,055,277 ordinary shares in the amount of RR 12,172 million).

The number of treasury shares as at 31 December 2010 included 5,761,827,536 ordinary shares under the Share Option Programmes (31 December 2009: 3,137,287,475) (Note 6).

Treasury shares carry voting rights in the same proportion as other ordinary shares. Voting rights of ordinary shares of the Company held by entities within the Group are effectively controlled by management of the Group.

In 2009 the Group purchased 4,000,000,000 treasury shares in the course of the Company's share issue of 16,000,000,000 ordinary shares.

In 2010 the Group purchased 11,211,750,731 treasury shares, including 11,079,352,436 shares acquired by the Group's subsidiary OJSC HydroInvest in the course of the Company's share issue of 19,000,000,000 ordinary shares.

On 8 December 2010 the Group exchanged 13,082,804,094 treasury shares for 97,775,000 ordinary shares of OJSC Krasnoyarskaya HPP (Note 8). The difference between the fair value of the transferred treasury shares being RR 21,207 million and their weighted average cost being RR 15,609 million comprised RR 5,598 million and was recorded as a share premium.

Merger reserve. Based on the application of the predecessor values method of accounting in 2009 and 2010, the difference of RR 85,393 million as at 31 December 2010 (31 December 2009: RR 77,070 million) between the amount of consideration (including the nominal value of shares issued) and the IFRS carrying value of the purchased or contributed assets and non-controlling interest has been recorded as a merger reserve within equity.

Effect of changes in non-controlling interest of OJSC Ust'-Srednekanskaya HPP. In 2010 the Group's subsidiary OJSC Ust'-Srednekanskaya HPP issued 2,471,595,451 additional ordinary shares (2009: 4,995,810,158 ordinary shares) with a par value of RR 1.00 per share. 2,401,428,851 ordinary shares were bought by the Russian Federation, represented by the Federal Energy Agency, for cash (2009: 3,240,737,749 ordinary shares). The remaining 70,166,600 ordinary shares (2009: 1,755,072,409 ordinary shares) were bought by the Group for cash (2009: for cash and by means of contribution of property, plant and equipment). As a result of this issue the Group's interest in OJSC Ust'-Srednekanskaya HPP decreased

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by 10.12 percent. As the contribution made by the State as a non-controlling interest holder of OJSC Ust'-Srednekanskaya HPP was higher than the contribution made by the Group, the Group recognised a gain in the amount of RR 933 million in 2010 (2009: RR 1,367 million) in retained earnings in the Consolidated Statement of Changes in Equity resulting from the increased net assets of OJSC Ust'-Srednekanskaya HPP and the dilution of the Group's interest.

Additionally in 2010 the Group's subsidiary OJSC HydroInvest acquired a 5.06 percent interest in OJSC Ust'-Srednekanskaya HPP, which was previously accounted for as treasury shares of this entity. As the part of the respective increase of net assets of OJSC Ust'-Srednekanskaya HPP was attributed to non-controlling interest holders, the Group recognised a loss in the amount of RR 432 million as at 31 December 2010 in retained earnings in the Consolidated Statement of Changes in Equity.

As a result of the transactions occurred in 2010 the Group's share in OJSC Ust'-Srednekanskaya HPP decreased from 48.75 percent to 43.69 percent, non-controlling interest increased for RR 1,954 million (2009: from 51.86 percent to 48.75 percent).

In 2009 the Group has also recognised a gain of RR 915 million in retained earnings in the Consolidated Statement of Changes in Equity to account for the recovery of non-controlling holders' share of losses of OJSC Ust'-Srednekanskaya HPP that were previously absorbed by the shareholders of the Group. Respective increase of the non-controlling interest was reflected in the Consolidated Statement of Changes in Equity at the date of the additional share issue.

Effect of changes in non-controlling interest of other subsidiaries. In the second half of 2010 the Group increased its interest in certain retail companies through making mandatory offers to non-controlling interest holders. As a result, the Group's share in OJSC Mosenergosbyt increased from 50.90 percent to 50.92 percent, in OJSC Saint Petersburg Sale Company from 61.51 percent to 61.52 percent, in OJSC Saratovenergo from 48.36 percent to 56.23 percent and in OJSC Tambov Energy Retailing Company from 49.01 percent to 59.38 percent. The total purchase consideration under the offers amounted to RR 93 million.

In 2010 the Group acquired an additional 25 percent plus 1 share interest in OJSC Chirkeigesstroy for a consideration of RR 70 million. As a result the Group's share in OJSC Chirkeigesstroy increased from 75 percent minus 1 share to 100 percent. The acquisition reduced a non-controlling interest for RR 174 million.

In 2010 the Group acquired an additional 14.06 percent interest in OJSC Krasnoyarskenergosbyt for a consideration of RR 585 million. As a result the Group's share in OJSC Krasnoyarskenergosbyt increased from 51.75 percent to 65.81 percent. The acquisition reduced a non-controlling interest for RR 146 million.

Acquisition and disposal of subsidiaries. In 2009 the Group's subsidiary OJSC Geotherm acquired 32,389,530 ordinary shares of OJSC Pauzhetskaya GeoPP with a par value of RR 1.00 per share for RR 68 million from OJSC Kamchatskenergo, which represents a 100 percent interest in OJSC Pauzhetskaya GeoPP (Note 4). The Group accounted for this transaction as an acquisition from a party under common control (Note 3).

On 21 October 2010 the Group acquired 17,445,107 shares of OJSC Institute Hydroproject with a par value of RR 1.00 per share, which represent 100 percent of the share capital of the company, for a cash consideration of RR 1,468 million. The transaction was accounted for as a business combination (Note 4).

Dividends. In accordance with Russian legislation the Group distributes profits as dividends on the basis of financial statements prepared in accordance with RSA. No dividends were declared and paid by the Company relating to the year ended 31 December 2010. In the year ended 31 December 2010 the Group's subsidiaries accounted for under predecessor values method (Note 2) paid out dividends to their former owners in the amount of RR 23 million (in the year ended 31 December 2009: RR 435 million). Dividends in favour of non-controlling interest holders were declared by the Group's subsidiaries in the amount of RR 1,945 million for the year ended 31 December 2010 (for the year ended 31 December 2009: RR 656 million).

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Note 16. Income tax

Income tax expense is as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Current income tax expense	14,667	10,626
Deferred income tax benefit	(9,045)	(2,542)
Total income tax expense	5,622	8,084

The income tax rate applicable to the majority of the Group's entities for the year ended 31 December 2010 is 20 percent (for the year ended 31 December 2009: 20 percent).

A reconciliation between the expected and actual income tax expense is provided below:

	Year ended 31 December 2010	Year ended 31 December 2009
Profit before income tax	16,952	40,196
Theoretical tax charge at a statutory rate of 20 percent	(3,390)	(8,039)
Tax effect of items which are not deductible or assessable for taxation purposes	(1,589)	(1,185)
Unrecognised deferred tax liability in respect of jointly controlled entities (Note 8)	1,503	532
Current tax charge related to disposal of treasury shares	(1,164)	-
Deferred tax recognised in respect of disposal group	(267)	-
Recognition of previously unrecognised deferred tax assets related to available-for-sale financial assets	145	291
Other unrecognised deferred income tax asset movements	(859)	317
Total income tax expense	(5,622)	(8,084)

The total amount of deductible temporary differences for which deferred income tax assets have not been recognised by the Group as at 31 December 2010 comprised RR 22,199 million (31 December 2009: RR 18,762 million). These temporary differences mainly relate to accumulated impairment of property, plant and equipment of several Group's subsidiaries and impairment of available-for-sale financial assets.

Deferred income tax. Differences between IFRS and statutory taxation regulations in the Russian Federation give rise to temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20 percent (for the year ended 31 December 2009: 20 percent).

	31 December 2009	Charged / (credited) to the income statement	Charged directly to other comprehen- sive income	Reclassifi- cation (Note 14)	Business combinations	31 December 2010
Deferred income tax liabilities	43,508	(1,602)	19,265	(1,020)	20	60,171
Property, plant and equipment	41,666	(657)	18,935	(595)	3	59,352
Loans and borrowings	451	(1)	-	-	-	450
Other	1,391	(944)	330	(425)	17	369
Deferred income tax assets	(10,890)	(7,443)	-	304	(16)	(18,045)
Property, plant and equipment	(6,659)	(4,584)	-	8	-	(11,235)
Accounts receivable	(1,956)	(3,088)	-	223	(10)	(4,831)
Other	(2,275)	229	-	73	(6)	(1,979)
Deferred income tax liabilities, net	32,618	(9,045)	19,265	(716)	4	42,126

For the year ended 31 December 2010 a deferred income tax expense in the amount of RR 19,265 million was recorded directly in other comprehensive income in respect of the the revaluation of property, plant and

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equipment and gains arising on available-for-sale financial assets (for the year ended 31 December 2009: RR 291 million arising on available-for-sale financial assets) (Note 9).

	31 December 2008	Charged / (credited) to the income statement	Charged directly to other comprehensive income	31 December 2009
Deferred income tax liabilities	44,230	(1,013)	291	43,508
Property, plant and equipment	43,598	(1,932)	-	41,666
Loans and borrowings	458	(7)	-	451
Other	174	926	291	1,391
Deferred income tax assets	(9,361)	(1,529)	-	(10,890)
Property, plant and equipment	(6,462)	(197)	-	(6,659)
Accounts receivable	(670)	(1,286)	-	(1,956)
Other	(2,229)	(46)	-	(2,275)
Deferred income tax liabilities, net	34,869	(2,542)	291	32,618

In accordance with the tax legislation, tax losses and current income tax assets of different Group's entities may not be offset against current income tax liabilities and taxable profits of other Group's entities and, accordingly, taxes may be accrued even where there is a consolidated tax loss. Therefore, deferred income tax assets and liabilities are offset only when they relate to the same taxable entity.

The Group did not have significant unrecognised deferred tax liabilities in respect of taxable temporary differences associated with investments in subsidiaries as at 31 December 2010 and 31 December 2009.

Note 17. Pension benefit obligations

The tables below provide information about the benefit obligations and actuarial assumptions used for the years ended 31 December 2010 and 31 December 2009.

Amounts recognised in the Group's Consolidated Statement of Financial Position:

	31 December 2010	31 December 2009
Present value of defined benefit obligations	3,203	2,106
Present value of unfunded obligations	3,203	2,106
Unrecognised actuarial (losses) / gains	(179)	204
Unrecognised past service cost	(1,009)	(548)
Net liability	2,015	1,762

Amounts recognised in the Group's Consolidated Income Statement:

	Year ended 31 December 2010	Year ended 31 December 2009
Current service cost	120	87
Interest cost	236	183
Net actuarial loss	35	5
Past service cost	118	99
Termination benefits	76	64
Survivors lump-sum payments	-	40
Net expense	585	478

Changes in the present value of the Group's pension benefit obligation are as follows:

	31 December 2010	31 December 2009
Projected Benefit Obligation at the beginning of the year	2,106	2,187
Service cost	120	87
Interest cost	236	183
Actuarial loss	419	29
Past service cost / (income)	578	(107)
Benefits paid	(256)	(273)
Present value of pension benefit obligations at the end of the year	3,203	2,106

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Experience adjustment on benefit obligations is as follows:

	31 December 2010	31 December 2009
Defined benefit obligations	3,203	2,106
Plan assets	-	-
Deficit	3,203	2,106
Experience adjustments on plan liabilities	321	38
Experience adjustments on plan assets	-	-

The Group expects to contribute RR 309 million to the defined benefit plans in 2011.

Principal actuarial assumptions are as follows:

	31 December 2010	31 December 2009
Nominal discount rate	8.0%	9.0%
Wage growth rate	7.5%	8.0%
Inflation rate	6.0%	6.5%

Note 18. Current and non-current debt*Non-current debt*

	Currency	Effective interest rate	Due date	31 December 2010	31 December 2009
Eurobond issue (RusHydro Finance Ltd)	RR	7.875%	2015	20,000	-
Bonds issue (OJSC RusHydro MC)	RR	8.10%	2011	5,000	5,000
EBRD (tranche 1)	RR	MOSPRIME+3.65%	2020	1,789	2,045
EBRD (tranche 2)	RR	MOSPRIME+2.75%	2014	680	850
EBRD (tranche 3)	RR	MOSPRIME+3.05%	2016	2,700	3,150
Morgan Stanley Bank International Ltd	RR	8.75%	2013	2,769	3,000
CF Structured Products B. V.	USD	10.50%	2013	1,829	1,815
Morgan Stanley Bank International Ltd	RR	MOSPRIME+1.50%	2014	1,500	1,500
Municipal authority of Kamchatka region	USD	8.57%	2035	1,344	1,282
Other long-term debt	RR			184	268
Finance lease liabilities	RR	11.10% – 20.00%	-	1,513	2,270
Total				39,308	21,180
Less current portion of finance lease liabilities				(767)	(955)
Less current portion of non-current debt				(6,801)	(858)
Total non-current debt				31,740	19,367

Eurobond issue. In October 2010 the Group placed Ruble-denominated Loan Participation Notes issued by the special purpose vehicle RusHydro Finance Ltd. The proceeds from the Loan Participation Notes will be used to fund a loan facility for the Company to finance the Company's investment programme and operating activities. The volume of the issue was RR 20,000 million. The Loan Participation Notes mature in 5 years and have a coupon rate of 7.875 percent per annum. The consortium of underwriters and book runners included J. P. Morgan, OJSC Gazprombank, and CJSC IC Troika Dialog. The instrument is traded on London Stock Exchange under Reg S rule. Loan Participation Notes could have been partly purchased by government-related entities.

Bonds issue. In July 2006 the Group's subsidiary OJSC RusHydro MC issued bonds in a public offering on the MICEX Stock Exchange. The total value of bonds issue was RR 5,000 million. The bonds were sold at a par value of RR 1,000. Interest is payable every six months. The bonds are repayable in June 2011.

European Bank for Reconstruction and Development (hereinafter referred to as "EBRD"). In September 2006 the Group received a loan, in three tranches, of RR 6,300 million from EBRD. Tranche 1 is stated net of transaction costs incurred in the amount of RR 232 million as at 31 December 2010 (31 December 2009: RR 255 million). The funds are used to finance a programme of upgrading and re-

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equipment of HPPs of Volzhsko-Kamskiy Cascade. The loan is co-arranged by Standard Bank PLC, CJSC Bank Austria Creditanstalt AG and CJSC ING Bank (Eurasia). The lead arrangers are Calyon, Fortis SA/NV and CJSC Raiffeisenbank and the arrangers are CJSC Citibank, Credit Suisse and CJSC Banque Societe Generale Vostok. Interest is payable on a quarterly basis. The loan is scheduled for repayment through equal quarterly installments which started in the first quarter of 2010.

Morgan Stanley Bank International Ltd (hereinafter referred to as "Morgan Stanley"). In April 2007 the Group obtained a loan of RR 1,500 million from Morgan Stanley. The funds were used for financing capital expenditure projects in accordance with the Company's investment programme. The interest is payable on a semi-annual basis. The loan is scheduled for repayment in April 2014.

In December 2006 the Group obtained a loan of RR 3,000 million from Morgan Stanley. The funds were used for financing of the Company's investment programme. The interest is payable on a monthly basis. The loan is scheduled for repayment in December 2013.

Municipal authority of Kamchatka region. The loan was received for the purpose of financing the construction of Verhne-Mutnovskaya GeoPP. The debt is stated at amortised costs using the effective interest rate of 8.57 percent. The loan is scheduled for repayment by 1 January 2035 through annual payments.

CF Structured Products B. V. In February 2007 the Group obtained a loan from CF Structured Products B. V. in the amount of USD 60 million. The funds were obtained to finance the construction of Kaskad NChHPPs. The loan is scheduled for repayment in February 2013.

Current debt

	Currency	Effective interest rate	31 December 2010	31 December 2009
Current portion of non-current debt	RR	-	6,801	858
Current portion of finance lease liabilities	RR	11.10% – 20.00%	767	955
Interest payable	RR	-	651	456
OJSC Alfa-Bank	RR	5.00% – 9.20%	-	600
OJSC Sberbank of Russia	RR	9.48% – 11.45%	-	127
OJSC Nomos-Bank	RR	10.50% – 12.00%	-	355
Short-term derivative financial instruments – interest rate swaps	RR	-	25	285
OJSC VTB Bank	RR	4.80% – 5.50%	-	1,280
Other current debt	RR	-	88	156
Total current debt and current portion of non-current debt			8,332	5,072

Compliance with covenants. The Group is subject to certain covenants related primarily to its debt. The Group was in compliance with covenants as at 31 December 2010 and 31 December 2009.

Debt maturity (excluding finance lease liabilities)

	31 December 2010	31 December 2009
Between one and two years	1,049	5,949
Between two and three years	4,534	1,058
Between three and four years	2,373	5,677
Between four and five years	20,697	2,374
After five years	2,341	2,994
Total	30,994	18,052

Effective interest rate. The effective interest rate is the market interest rate applicable to the loans at the date of origination for fixed rate loans and the current market rate for floating rate loans. The Group has not entered into any hedging arrangements in respect of interest rate exposures.

Finance lease liabilities. Minimum lease payments under finance leases and their present values are as follows:

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	Due in 1 year	Due between 2 and 5 years	Due after 5 years	Total
Minimum lease payments as at 31 December 2010	818	973	13	1,804
Less future finance charges	(51)	(233)	(7)	(291)
Present value of minimum lease payments as at 31 December 2010	767	740	6	1,513
Minimum lease payments as at 31 December 2009	1,160	2,209	42	3,411
Less future finance charges	(205)	(911)	(25)	(1,141)
Present value of minimum lease payments as at 31 December 2009	955	1,298	17	2,270

Note 19. Other non-current liabilities

	31 December 2010	31 December 2009
Pension benefit obligations (Note 17)	1,768	1,762
Other non-current liabilities	1,172	1,195
Total other non-current liabilities	2,940	2,957

As at 31 December 2010 the amount of pension benefit obligations did not include liabilities of the disposal group in the amount of RR 247 million (Note 14).

Note 20. Accounts payable and accruals

	31 December 2010	31 December 2009
Trade payables	7,108	17,549
Settlements with personnel	1,562	1,219
Accounts payable in respect of share issue	1,500	4,330
Advances received	1,372	8,660
Dividends payable	26	35
Derivative financial instruments	-	1,164
Other accounts payable	1,349	3,525
Total accounts payable and accruals	12,917	36,482

As at 31 December 2010 RR 24,899 million of accounts payable and accruals were presented within liabilities of the disposal group (Note 14).

As at 31 December 2010 the Company had an obligation of RR 1,500 million to the Russian Federation, represented by the Federal Agency for State Property Management, in respect of an additional issue of ordinary shares in the amount of 1,860,000,000 approved by the Extraordinary General Meeting of shareholders of the Company on 22 October 2010 (Note 15). The results of the share issue had not been registered by the FSFM as at 31 December 2010 (Note 33).

As at 31 December 2009 the Company had an obligation of RR 4,330 million to the Russian Federation, represented by the Federal Agency for State Property Management, in respect of an additional issue of shares approved by the Extraordinary General Meeting of shareholders of the Company on 10 June 2009 for 19,000,000,000 ordinary shares. The results of the share issue were registered by the FSFM on 30 September 2010 (Note 15).

Total cash received by the Company from shareholders in respect of share issues for the year ended 31 December 2010 were RR 6,284 million (for the year ended 31 December 2009: RR 19,032 million).

As at 31 December 2009 the main part of the other accounts payable balance related to special-purpose financing to OJSC Ust'-Srednekanskaya HPP from the Russian Federation, represented by the Federal Energy Agency, in the amount of RR 1,590 million (31 December 2010: RR nil million).

All accounts payable and accruals are denominated in Russian Rubles.

Note 21. Other taxes payable

	31 December 2010	31 December 2009
VAT	2,203	2,468
Property tax	1,361	1,326
Insurance contributions (2009: unified social tax)	325	348
Other taxes	205	301
Total other taxes payable	4,094	4,443

Note 22. Revenue

	Year ended 31 December 2010	Year ended 31 December 2009
Sales of electricity	365,103	287,241
Sales of capacity	44,994	45,617
Other revenue	7,906	5,602
Total revenue	418,003	338,460

Other revenue includes revenue earned from rendering of construction, repairs and other services.

The Group sells electricity through the retail electricity market under electricity supply contracts to the end-consumers in accordance with the tariffs, approved by Regional Energy Commissions, as well as through the wholesale electricity and capacity market (hereinafter referred to as "WEM") under the regulated contracts with predetermined volumes and tariffs approved by FST and at competitive (unregulated) prices (Note 1).

Electricity and capacity are sold on WEM directly to retail companies or major industrial consumers. At the same time some of the transactions on WEM are conducted through commission agreements with CJSC Centre of Financial Settlements (hereinafter referred to as "CFS") (one-day-ahead market or balancing electricity market (Note 1)). CFS is the entity responsible for ensuring secure and timely financial settlements under all contract relationship between the WEM participants. Its principal function is to provide complex services on calculation of receivables and liabilities of the WEM participants and on the fulfillment of financial settlements between them.

Actual counterparties in transactions on WEM, conducted through CFS as a commissioner, may be presented by different retail companies, industrial customers or generating companies (purchasing electricity and capacity to secure their own supply under regulated contracts). Government-related entities may also act as counterparties. The current financial settlement system of CFS does not provide the final counterparty with automated information about the WEM participants' transactions / settlement balances. The financial settlement system of CFS is automated and does not allow for any adjusting of input and output data flows, settlement operations do not require the operator's influence. As a result it is not practicable currently to analyse the balances on settlement by the end-consumers of the Group's electricity and capacity.

The Group had the following significant balances with CFS:

	Note	31 December 2010	31 December 2009
Trade receivables	12	2,300	1,556
Accounts payable	20	3,790	1,867

The Group had the following significant transactions with CFS:

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Sales of electricity and capacity		38,122	28,202
Purchased electricity and capacity	23	97,513	23,945

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(in millions of Russian Rubles unless noted otherwise)

Note 23. Expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Purchased electricity and capacity	182,760	144,776
Electricity distribution expenses	125,043	102,321
Employee benefit expenses (including payroll taxes, Share Option Programmes expenses and pension benefit expenses)	17,466	13,747
Depreciation of property, plant and equipment	11,354	12,275
Taxes other than on income	5,708	5,512
Loss on disposal of property, plant and equipment, net	4,657	5,877
Other materials	3,193	1,784
Third parties services, including:		
Services of SO-CDU, NP Council Market, CFS	2,195	2,166
Repairs and maintenance	2,099	2,427
Rent	1,380	1,252
Agency expenses	1,309	1,254
Consulting, legal and information expenses	1,262	1,174
Security expenses	883	660
Services of subcontracting companies	813	1,041
Insurance cost	673	657
Transportation expenses	546	558
Other third parties services	2,150	1,346
Social charges	1,116	397
Water usage expenses	731	888
Accrual of impairment of accounts receivable	464	2,832
Insurance indemnity	(67)	(6,046)
Gain on dilution of interest in associate (Note 8)	(358)	-
Other expenses	2,405	886
Total expenses	367,782	297,784

The loss on disposal of property, plant and equipment is primarily related to the free of charge transfer of road infrastructure and other objects mainly to the local authorities in the amount of RR 3,762 million during the year ended 31 December 2010 and to the write-offs due to the accident at Sayano-Shushenskaya HPP in the amount of RR 5,604 million during the year ended 31 December 2009 (Notes 1, 7).

Property, plant and equipment damaged in the accident at Sayano-Shushenskaya HPP were insured under the insurance contract with OJSC IC ROSNO. The Group's losses were compensated in the amount of expenses required to restore the insured property to the condition it was in immediately prior to the insurance event, and any additional expenses of the Group in connection with the insurance event. In 2010 the Group received payment of the insurance indemnity in full (Note 12).

Note 24. Finance income, net

	Year ended 31 December 2010	Year ended 31 December 2009
Interest income	3,104	5,332
Income on discounting	69	20
Interest expense	(1,921)	(2,730)
Expense on discounting	(592)	(1,024)
Finance lease expense	(269)	(302)
Foreign exchange loss	(98)	(87)
Loss on derivative financial instruments	(61)	(1,266)
Other (costs) / income	(148)	193
Finance income, net	84	136

Note 25. Earnings per share

	Year ended 31 December 2010	Year ended 31 December 2009
Weighted average number of ordinary shares issued (thousand of shares)	260,854,550	249,523,146
Profit attributable to the shareholders of the Company	10,487	31,094
Weighted average earnings per share – basic and diluted* (in RR)	0.0402	0.1246

* The Share Option Programmes 2007 and 2010 have no dilutive effect for the periods presented (Note 6).

Note 26. Derivative financial instruments

To reduce the Group's interest rate risk exposure the Group entered into derivative financial instrument transactions on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in the market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values of foreign exchange forward contracts and interest rate swap contracts entered into by the Group:

	31 December 2010		31 December 2009	
	Assets	Liabilities	Assets	Liabilities
Fair value of foreign exchange forwards:				
- USD forwards	-	-	-	1,150
- CHF forwards	-	-	-	14
Interest rate swaps	171	25	-	285
Total	171	25	-	1,449
Less non-current portion of interest rate swaps	171	-	-	-
Current portion	-	25	-	1,449

The full fair value of interest rate swaps is classified as other non-current assets (Note 10) and current debt (Note 18). The full fair value of foreign exchange forwards is classified as accounts payable and accruals (Note 20).

Note 27. Commitments

Social commitments. The Group contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees, including contributions toward the development and maintenance of housing, hospitals, transport services, recreation and other social needs in the geographical areas in which it operates.

Capital commitments. In May 2006 the Company and RUSAL Group entered into an agreement for mutual financing, completion and subsequent operation of Boguchanskaya HPP, with an installed capacity of 2,997 MW, and Boguchansky aluminium plant, with a capacity of 597,000 tonnes of aluminium per annum. The Company and RUSAL Group agreed to finance the construction on a parity basis.

Boguchanskaya HPP is intended to be launched in stages, with an expected commissioning of six hydro turbine units with total installed capacity of 1,998 MW in 2012 and three hydro turbine units with total installed capacity of 999 MW in 2013.

Boguchanskaya HPP is intended to supply electricity to both Boguchansky aluminium plant and other consumers in Siberia, and it is expected to help cover any winter peak power deficit in Siberia.

Total investment contributed by the Group to BEMA project as at 31 December 2010 comprised RR 25,408 million (31 December 2009: RR 13,481 million). Further construction will be financed from funds borrowed from the State Corporation Vnesheconombank (Note 28).

Other future capital expenditures in accordance with the contractual obligations amounted to RR 88,684 million as at 31 December 2010 (31 December 2009: RR 64,983 million). The major part of future capital expenditures under contractual obligations as at 31 December 2010 are related to the following hydropower stations: Zagorskaya GAES-2 in the amount of RR 35,291 million, mainly due to the construction of the station, Sayano-Shushenskaya HPP in the amount of RR 15,180 million and Zhigulevskaya HPP in the amount of RR 11,714 million, mainly due to the reconstruction of equipment.

Note 28. Contingencies

Political environment. The operations and earnings of the Group's subsidiaries continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to the environmental protection, in the Russian Federation.

Insurance. The Group holds limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed for those risks for which it does not have insurance.

Legal proceedings. The Group's subsidiaries are parties to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the position of the Group.

In connection with the accident at Sayano-Shushenskaya HPP in August 2009 (Note 1), there is a possibility of a large number of claims in connection with the accident, which subject may include: compensation of damage caused to life and health, compensation of losses from termination of contracts, other proceedings. Moreover, the prosecutor's office and other oversight bodies are examining operations of the Company and this also may result in additional claims against the Company and its employees.

Tax contingencies. Russian tax, currency and customs legislation is subject to varying interpretation and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities, in particular, the way of accounting for tax purposes of some income and expenses of the Group as well as deductibility of input VAT from suppliers and contractors. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may arise. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances review may cover longer periods.

Due to the fact, that the tax and other legislation does not fully cover all the aspects of the Group's reorganisation, there might be respective legal and tax risks.

Management believes that as at 31 December 2010 its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in the Consolidated Financial Statements.

Environmental matters. The Group's subsidiaries and their predecessor entities have operated in the utilities industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group's subsidiaries 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.

Guarantees. The Group has guaranteed the following obligations of CJSC Boguchansky Aluminium Plant:

Name of counterparty	31 December 2010	31 December 2009
Areva T&D S. A.	778	1,054
Solios Environnement S. A.	662	712
CJSC Commerzbank (Eurasia)	172	185
Barclays Bank PLC	-	7,864
Brochot S. A.	-	11
Societe des Technologies de l'Aluminium du Saguenay Inc.	-	20
Total guarantees issued	1,612	9,846

In March 2007 the Company issued a guarantee for 50 percent of a loan of USD 520 million raised by CJSC Boguchansky Aluminium Plant to finance BEMA project. The borrowings were used for the construction of Boguchansky aluminium plant and completion of construction of Boguchanskaya HPP. The guarantee was terminated due to the repayment of the loan and the accrued interest by CJSC Boguchansky Aluminium Plant on 15 March 2010.

The remaining guarantees for CJSC Boguchansky Aluminium Plant were issued to its suppliers for future equipment deliveries.

BEMA project financing scheme. In December 2010 OJSC Boguchanskaya HPP and CJSC Boguchansky Aluminium Plant concluded loan agreements with the State Corporation Vnesheconombank for financing of the BEMA project for the total amount of RR 50,010 million on the following terms:

OJSC Boguchanskaya HPP receives a loan of RR 28,100 million with a maturity of up to 20 December 2026 and fixed interest rate for the period up to 30 June 2012 equal to the Central Bank of the Russian Federation refinancing rate prevailing on the date of the credit agreement plus not more than two percent per annum; from 30 June 2012 – a floating interest rate equal to the Central Bank of the Russian Federation refinancing rate plus not more than two percent per annum. The rate will be set on 30 June 2012 and will be subject to change automatically at the date of the change of the Central Bank of the Russian Federation refinancing rate in the amount of this change (the rate is limited to the minimum of 9.5 percent per annum).

As at 31 December 2010 OJSC Boguchanskaya HPP received part of the loan in the amount of RR 630 million.

The loan was secured by the pledge of movable assets of OJSC Boguchanskaya HPP.

Additionally, the Group provided a pledge of 51 percent of the shares of CJSC Boguchanskaya HPP Construction Organiser and 49 percent of the shares of CJSC Boguchanskaya HPP Construction Customer.

CJSC Boguchansky Aluminium Plant receives a loan equivalent to RR 21,910 million denominated in USD at the rate of the Central Bank of the Russian Federation on the date of signing of the loan agreement with a maturity date of 20 December 2024 and interest rate not exceeding 10 percent per annum.

As at 31 December 2010 CJSC Boguchansky Aluminium Plant received part of the loan equivalent to RR 212 million denominated in USD.

The Group provided a pledge of 49 percent of the shares of CJSC Boguchansky Aluminium Plant Construction Organiser and 51 percent of the shares of CJSC Boguchansky Aluminium Plant Construction Customer.

Note 29. Financial risk management

The risk management function within the Group is carried out in respect of financial risks, which include market risks, credit risks and operational risks. Market risks comprise currency risk, interest rate risk, price risk and liquidity risk. The primary objectives of the financial risk management function are to provide reasonable assurance for achievement of the Group's objectives by establishing Group's overall framework, identifying, analyzing and evaluating risks, establishing risk limits, and then ensuring that exposure to risks stays within these limits and in case of exceeding these limits to impact on the risks. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

In order to optimise the Group's exposure to risks, the Company constantly works on their identification, assessment and monitoring, as well as the development and implementation of activities which impact on the risks, business continuity management and insurance, seeks to comply with international and national standards of advanced risk management (COSO ERM 2004, ISO 31000 and others), increases the culture of risk management and continuously improves risk management.

The Group is exposed to industry risks primarily due to ongoing changes in the utilities industry due to the liberalisation of the electricity and capacity markets. To manage the risk the Group seeks to establish favourable legal and regulatory framework for electricity and capacity markets. The Group has been actively involved in the preparation of regulations in the utilities industry, implemented by the Ministry of Energy of the Russian Federation, NP Council Market, FST.

Credit risk. Credit risk is the risk of financial loss for the Group in the case of non-fulfillment by the Contractor of the obligations on the financial instrument under the proper contract. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

There is no independent rating for the Group's customers and therefore the Group considers the credit

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quality of customers at the contract execution stage. The Group considers their financial position and credit history. The Group monitors the existing receivables on a continuous basis and takes actions regularly to ensure collection or to minimise losses.

To reduce the credit risk in the wholesale electricity and capacity markets the Group has introduced marketing policy and procedure to calculate internal ratings of counterparties in the unregulated market, based on the frequency of default, and to establish limits based on the rating of the customers' portfolio.

The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 12.

Cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening. The Group approved the list of banks for deposits, as well as rules for their placement. Moreover, the Group constantly evaluates the financial condition, ratings assigned by independent agencies, background and other factors of such banks.

The tables in Notes 10, 11 and 13 show deposits with banks and other financial institutions and their ratings at the end of the reporting period.

The Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the Consolidated Statement of Financial Position (Note 32).

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

The Group's maximum exposure to credit risk for off-balance sheet financial instruments is as follows:

	31 December 2010	31 December 2009
Financial guarantees – amount of guaranteed loans	1,612	9,966
Total off-balance sheet exposure	1,612	9,966

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (i) foreign currencies, (ii) interest bearing assets and liabilities, and (iii) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. Electricity and capacity produced by the Group is sold on the domestic market of the Russian Federation at the prices fixed in Russian Rubles. Hence, the Group does not have significant foreign currency exchange risk. The financial condition of the Group, its liquidity, financing sources and the results of operations do not considerably depend on currency rates as the Group operations are planned to be performed in such a way that its assets and liabilities are to be denominated in the national currency.

The table below summarises the Group's exposure to foreign currency exchange rate risk:

	31 December 2010			31 December 2009				
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
USD	83	(3,173)	-	(3,090)	320	(3,097)	(1,150)	(3,927)
EUR	872	-	-	872	1,258	(11)	-	1,247
Other	1	-	-	1	-	-	(14)	(14)
Total	956	(3,173)	-	(2,217)	1,578	(3,108)	(1,164)	(2,694)

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 26. The net total represents the fair value of the currency derivatives.

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The above analysis includes only monetary assets and liabilities. Equity investments and non-monetary assets are not considered to give rise to any material currency risk.

There is no significant effect of the changes of foreign currency rates on the Group's financial position.

Interest rate risk. The Group's operating profits and cash flows from operating activities are not dependent largely on the changes in the market interest rates. Borrowings issued at variable rates (Note 18) expose the Group to cash flow interest rate risk.

The Group obtains debt financing in Russian Rubles with floating rates, which are established on the basis of the MOSPRIME rate.

As at 31 December 2010, had interest rates at that date been 0.5 percent higher (31 December 2009: 0.5 percent higher), with all other variables held constant, profit would have been RR 39 million (31 December 2009: RR 56 million) lower, mainly as a result of higher interest expense on variable interest liabilities.

The Group monitors interest rates for its financial instruments. Effective interest rates at the end of the reporting period are disclosed in Note 18.

For the purpose of interest risk reduction the Group makes the following arrangements:

- credit market monitoring to identify favourable credit conditions,
- diversification of credit portfolio by raising of borrowings with fixed rates and floating rates.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities and the availability of funding from an adequate amount of committed credit facilities. The Group adheres to the balanced model of financing of working capital – both at the expense of short-term sources and long-term sources. Temporarily free funds are placed into short-term financial instruments, mainly bank deposits and short-term bank promissory notes. Current liabilities are represented mainly by the accounts payable to suppliers and contractors.

The Group has implemented a control system under its contract conclusion process by introducing and applying typical financial arrangements which include standardised payment structure, payment deadlines, percentage ratio between advance and final settlement, etc. In such a manner the Group controls capital maturity.

The table below shows liabilities as at 31 December 2010 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges). Such undiscounted cash flows differ from the amount included in the Consolidated Statement of Financial Position because this amount is based on the discounted cash flows.

The maturity analysis of financial liabilities as at 31 December 2010 is as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Liabilities				
Current and non-current debt (Note 18)	10,631	3,907	34,677	9,061
Trade payables (Note 20)	7,108	-	-	-
Financial guarantees (Note 28)	-	1,612	-	-
Dividends payable (Note 20)	26	-	-	-
Finance lease liabilities (Note 18)	818	404	569	13
Net settled derivatives (Note 26)	(25)	28	158	42
Total future net payments, including future principal and interest payments	18,558	5,951	35,404	9,116
Liabilities of disposal group classified as held for sale	16,748			

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The maturity analysis of financial liabilities as at 31 December 2009 is as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Liabilities				
Current and non-current debt (Note 18)	5,198	7,340	13,167	6,933
Trade payables (Note 20)	17,549	-	-	-
Financial guarantees (Note 28)	7,984	31	1,951	-
Dividends payable (Note 20)	35	-	-	-
Finance lease liabilities (Note 18)	1,160	914	1,295	42
Gross settled swaps and forwards (Note 26)				
- inflows	7,929	-	-	-
- outflows	(9,080)	-	-	-
Net settled derivatives (Note 26)	(291)	-	-	-
Total future net payments, including future principal and interest payments	31,635	8,285	16,413	6,975

Note 30. Management of capital

Compliance with Russian legislation requirements and policy of capital cost reduction are key objectives of the Group's capital risk management.

The following capital requirements have been established for joint stock companies by the legislation of the Russian Federation:

- share capital cannot be lower than 1,000 minimum shares on the date of the company's registration;
- if the share capital of the entity is more than the statutory net assets of the entity, such entity must decrease its share capital to the value not exceeding its net assets;
- if the minimum allowed share capital is more than the statutory net assets of the entity, such entity is subject to liquidation.

As at 31 December 2010 the Company was in compliance with the above share capital requirements.

The Group's objectives in respect of capital management are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The amount of capital that the Group managed as at 31 December 2010 was RR 518,112 million (31 December 2009: RR 405,800 million).

Consistent with others in the energy industry, the Group monitors capital on the basis of a gearing ratio, and ensures that the ratio is not more than 1.0. This ratio is calculated as the total debt divided by the total capital. Debt is calculated as a sum of non-current and current debt, as shown in the Consolidated Statement of Financial Position. Total capital is equal to the total equity, as shown in the Consolidated Statement of Financial Position. Gearing ratio was 0.08 as at 31 December 2010 (31 December 2009: 0.06).

Note 31. Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between knowledgeable willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sales transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Available-for-sale financial assets and financial derivatives are carried in the Consolidated Statement of Financial Position at their fair value that is measured on the basis of the quoted prices in an active market (Level 1 in the fair value hierarchy).

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Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

Carrying amounts of trade and other financial receivables approximate fair values (Note 12).

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The discount rates used ranged from 8.57 percent per annum to 13.90 percent per annum depending on the length and currency of the liability.

Note 32. Presentation of financial instruments by measurement category

The following table provides a reconciliation of classes of financial assets with the measurement categories of IAS 39, *Financial Instruments: Recognition and Measurement* and the Group's maximum exposure to credit risk by class of assets as at 31 December 2010:

	Loans and receivables	Available-for-sale financial assets	Total
Assets			
Other non-current assets (Note 10)	13,347	309	13,656
Promissory notes and deposits	13,121	-	13,121
Long-term loans receivable	226	-	226
Other financial assets	-	309	309
Available-for-sale financial assets (Note 9)	-	3,238	3,238
Trade and other receivables (Note 12)	10,331	-	10,331
Trade receivables	9,760	-	9,760
Promissory notes receivable	368	-	368
Other receivables	203	-	203
Other current assets (Note 13)	21,919	-	21,919
Promissory notes and deposits	21,919	-	21,919
Cash and cash equivalents (Note 11)	19,090	-	19,090
Total financial assets	64,687	3,547	68,234
Available-for-sale assets and financial assets of disposal group classified as held for sale	-	-	43,944
Non-financial assets	-	-	527,577
Non-financial assets of disposal group classified as held for sale	-	-	11,249
Total assets			651,004

All of the Group's financial liabilities except for derivatives are carried at amortised cost.

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The following table provides a reconciliation of financial assets with the measurement categories and the Group's maximum exposure to credit risk by class of assets as at 31 December 2009:

	Loans and receivables	Available-for-sale financial assets	Total
Assets			
Other non-current assets (Note 10)	16,800	138	16,938
Promissory notes and deposits	16,571	-	16,571
Long-term loans receivable	229	-	229
Other financial assets	-	138	138
Available-for-sale financial assets (Note 9)	-	6,860	6,860
Trade and other receivables (Note 12)	16,811	-	16,811
Trade receivables	15,880	-	15,880
Promissory notes receivable	383	-	383
Other receivables	548	-	548
Other current assets (Note 13)	11,560	-	11,560
Promissory notes and deposits	11,560	-	11,560
Cash and cash equivalents (Note 11)	52,443	-	52,443
Total financial assets	97,614	6,998	104,612
Non-financial assets	-	-	402,254
Total assets			506,866

Note 33. Subsequent events

Additional share issue. On 29 March 2011 the additional share issue of up to 1,860,000,000 ordinary shares (Note 15) was completed. 1,607,271,577 ordinary shares, representing 86.41 percent of the total additional share issue, were placed, including 931,677,018 ordinary shares acquired by the Russian Federation, represented by the Federal Agency for State Property Management, for a consideration of RR 1,500 million (Note 20). The Report on the share issue was registered with the FSFM on 21 April 2011.

Forthcoming additional share issue. According to the Resolution of the Russian Government dated 28 December 2010, a 40 percent interest in OJSC Irkutskenergo owned by the Government was contributed to the share capital of OJSC INTER RAO UES. Subsequently, this interest in OJSC Irkutskenergo will be contributed to the share capital of the Company in the course of the forthcoming additional share issue.

According to the Resolution of the Russian Government dated 29 December 2010, an asset complex comprising five dams, currently being rented by OJSC Irkutskenergo under long-term lease contracts, and shares of the following companies: OJSC Kolimaenergo, OJSC Geotherm, OJSC Boguchanskaya HPP, OJSC Zaramag HS, OJSC Ust'-Srednekanskaya HPP, OJSC Kamchatskiy Gazoenergeticheskiy Complex, OJSC Pavlodolskaya HPP, OJSC Trest Gidromontazh, will be contributed to the share capital of the Company in the course of the forthcoming additional share issue.

Acquisitions. On 4 March 2011 the Group's subsidiary OJSC HydroInvest acquired additional 456,270 shares of OJSC Krasnoyarskaya HPP, which comprises 0.11 percent interest of the company's share capital. Following the transaction, the Group's interest in the share capital of OJSC Krasnoyarskaya HPP reached 25.12 percent.

On 5 March 2011 the Group's subsidiary OJSC HydroInvest acquired a 25 percent plus 1 share interest in OJSC Bureyagesstroy from OJSC Interregional Distribution Grid Companies Holding. The consideration was determined by an independent appraiser and amounted to RR 200 million.

On 24 March 2011 the Group's subsidiary OJSC HydroInvest acquired a 90 percent interest in CJSC International Energy Corporation (IEC), the main asset of which is the Sevan-Hrazdan hydroelectric system in the Republic of Armenia. The consideration was determined by an independent appraiser and amounted to RR 170 million.

Contribution to the additional share issue of OJSC INTER RAO UES. The Company's Board of Directors and Management Board approved the share exchange transaction with OJSC INTER RAO UES for 494,532,591,150 shares in the course of additional share issue of OJSC INTER RAO UES. On 28 March 2011 the Group contributed the equity investments classified as non-current assets held for sale and disposal group to the share capital of OJSC INTER RAO UES (Note 14). As a result the Group received 471,103,569,902 shares of OJSC INTER RAO UES. The remaining part of shares is planned to be received

later in 2011 upon the completion of the additional share issue.

Bond issue. On 25 April 2011 the Company completed the placement of documentary non-convertible ten-year interest bearing bonds series 01 with the nominal amount of RR 10 billion and series 02 with the nominal amount of RR 5 billion. Redemption period is five years, coupon rate is 8 percent. The funds raised from the offer will be used for the investing activity of the Company and for the partial refinancing of bonds redeemable in June 2011 (Note 18).